Thank you, John. Before Kathee and John provide their perspective on Target's second quarter performance, I want to take a few minutes and discuss why I made the decision to come to Target and outline my priorities over the next few months. Even before I accepted the offer to lead this company, I have known and admired Target for multiple perspectives throughout my career. As a vendor partner, I have known Target as a smart, savvy, innovative, ethical and guest focused merchandiser. As a competitor, I have known Target as a disciplined, tough, focused retailer. A company that redefined the discount space by delivering outstanding design, world-class fashion, innovative products, at amazing prices.

As a guest, my family and I have known Target as unique place that makes shopping fun, saves us time and offers a differentiated experience based on newness and discovery. And finally, as a member of the community, I have known and admired Target for its commitment to making the places where we live and work better, both through its corporate giving programs and the commitment, the voluntarism from our team members. With my appointment as Chairman and CEO, I now have the opportunity to learn about Target from the inside and I could not be more thrilled to have the opportunity to lead this great company.

In the weeks and months ahead, I am planning to spend a great deal of my time listening to the team here in the U.S. and Canada in both our stores and headquarter locations, hearing directly from them about what's working and importantly what we need to change. In fact, I just got back from a visit to Canada, where I spent time with the team to get a firsthand update on their review of strategy and operations. While that review is not yet complete, based on what they have learned already, the Canadian team is making broad changes as they focused on improving performance in time for the key holiday season.

In the U.S., I have been spending time with John, Kathee and others on the leadership team to understand in detail our plans for the remainder of the year. In those discussions, I am ensuring that this team is focused on execution across every aspect of our business, particularly in the holiday season. In addition, I am deepening my understanding of Target's pipeline of omni-channel innovation and I am focused on our opportunities going forward. While I am very impressed with the progress the team has made recently, including innovations on our mobile platform, subscription service, Cartwheel and flexible fulfillment, we need to continue to move faster and grow faster than the marketplace. We need to build capabilities focused on satisfying the wants and the needs of our guest and ensuring that our digital and store operations operate seamlessly to provide a single superior experience.

Finally, I am working with the leadership team to begin detailed planning of next year's strategy and financial results. I am impressed with the progress that John and the team made in the last three months, including a strategy review that is the most comprehensive effort I have seen in my career. Their foundational work is providing me with a fresh fact-based perspective on Target's strengths and opportunities serving as the foundation for next year's plan and beyond.

Now, before I turn the call over to Kathee, I want to thank Roxanne Austin and John for their commitment to Target and to the team, which they demonstrated through their willingness to serve as Interim Chair and CEO over the last three months. In addition to the critical strategy work they initiated, Roxanne, John and the leadership team moved forward confidently to make important changes to internal processes, removing roadblocks, empowering teams and accelerating the pace of decision-making. While there is a lot of work ahead, I have been blown away by the passion and commitment displayed by team members across the country. This team is focused on winning in the marketplace by better serving our guests in both stores and digital channels. I look forward to working with this team to harness their passion and develop the appropriate strategies that position Target for success both today and over time.

Now, I will turn the call over to Kathee and John for review of the quarter and our outlook for the rest of the year. Starting with Kathee who will provide detailed plan on our category performance, merchandising plans for the third quarter and beyond. Kathee?

Kathee Tesija - Chief Merchandising and Supply Chain Officer

Thanks, Brian. The second quarter marked a period of transition in both of our segments as the U.S. traffic trend improved over recent quarters and our monthly U.S. comps increased throughout the quarter. In Canada, Mark Schindele and the leadership team have been engaged in a comprehensive review of strategy and operations and are beginning to make changes to address their initial findings.

In our U.S. business, second quarter comparable sales were strongest in hard lines driven by both toys and electronics. Comparable sales were also positive in our less discretionary food, health and beauty categories, while they were down slightly in apparel and down low single-digit in home. In our digital channels, second quarter sales, including flexible fulfillment, grew most quickly in health and beauty hard lines and home. U.S. segment comparable transactions were down 1.3% completely offset by an increase in the average basket. While we are satisfied with the traffic decline, we are pleased that the U.S. traffic trend improved a full percentage point compared with the first quarter.

Our U.S. segment first quarter gross margin rate was down a full percentage point from last year driven by higher promotional intensity compared with the year ago. While the impact of promotions was a bit less than we experienced in the first quarter, it was more than we expected at the beginning of the quarter, reflecting a retail environment in which a broad set of competitors are leaning heavily on promotions and a consumer environment, in which shoppers are still cautious and focused on deals. However, while it's still early, we have been pleased with the results so far in the back-to-school and back-to-college season, in which we have seen improved sales trends from guests focused on the occasion rather than promotions.

Second quarter digital sales, including flexible fulfillment increased more than 30% over last year. This increase reflects a nearly 50% increase in visits to our mobile website, including iOS and Android apps, which more than offset a decline in visits to our conventional site. Importantly, conversion continues to improve rapidly on both our conventional site and mobile platforms driving a meaningful improvement in overall conversion despite the unfavorable mix shift between the migration to mobile.

To build on our momentum in digital, we have recently launched a new ad campaign focused on millennials that aims to expand the brand perception of Target from a brick-and-mortar destination to a total retailer experience. The campaign features three of our most prominent omni-channel initiatives, subscriptions, store pickup and Cartwheel. Market research indicates that these three solutions are among the most important to guests, because they help them save time, save money, and stay organized.

This year's back-to-college assortment includes a set of unique own brand items that our own product design and development team developed in partnership with college students based on the challenges they faced when living with roommates in very small spaces. And since we are already planning for back-to-college 2015, we have recently partnered with Betterific, an open crowd sourcing community focused on innovation to help us think of other innovative products that could make life in a first apartment or dorm room even better. The community proposed hundreds of ideas. Then together Target and the community built on each other's ideas and voted on the best ones. Now, our team is using the ideas to identify unmet guest needs, determine if there are products that we can bring to market for back-to-college next year and uncover completely new industry-first products. Betterific is part of Target's larger guest-to-guest initiative that is working to connect guests to each other and to Target in meaningful ways.

Our first TargetExpress store opened in late July here in the Twin Cities right next to the University of Minnesota campus. This store looks great and we are excited about the insights we will gain from operating this new format over time. At approximately 20,000 square feet, 15% of a typical general merchandise store, TargetExpress is designed, so guests can get what they need and get out quickly. So far sales at the store have come in as expected and not surprisingly we are seeing much more traffic and a much smaller basket than our chain wide average.

Also as expected, sales have been heavy in food and essentials with the mix of own brand sales in those categories far outpacing the chain average. We are also seeing strong sales in mobile electronics, including accessories and in our fan central area, where we feature University of Minnesota clothing. We plan to expand our test of this new format to several additional locations outside the Twin Cities next year.

Cartwheel just celebrated its first birthday and we celebrated with the crowd sourced Cartwheel offer, a first for Target for a special limited time discount. The winning offer generated a high level of engagement during the promotion period more than doubling the typical rate of new users and activations. Also in July, we launched a proof-of-concept to integrate Target.com into Cartwheel with the goal of making it simple for guests to shop with Cartwheel across channels. In this test, guests can see online eligible offers in their Cartwheel app and are directed to the Target.com mobile website to add them to their Target.com cart. After testing these initial deals, we will expand the number of offers and we will begin promoting the functionality when the testing period is complete.

In June, we meaningfully simplified the Target.com shopping experience by rolling out free shipping on all orders over $50. We made this change because the research shows that the number one cause of abandoned carts is a surprise at checkout, including uncertain shipping charges. Since we made this change, we have already seen measurable improvements in digital conversion rates and sales. Of course, I should mention that Target card guests continue to receive free shipping on every order everyday.

In late July, for the first time, we ran a promotion on our store pickup program with the goal of raising awareness of the service, while testing systems and processes before the fourth quarter peak. The guest response to the offer was far ahead of our expectations at five times the volume of a regular week with a particularly strong response in mobile. The offer attracted many guests to use store pickup for the first time and some are even new to Target.com. Importantly, about one-fifth of those guests engaged in additional shopping in-store when they picked up their online purchases.

We are pleased with continued strong growth in the number of guests spending up for Target subscriptions. Among the nearly 4,000 eligible items, subscription orders account for more than 15% of digital sales. In the back half of 2014, we are focused on enhancing the guest experience, including continued assortment expansion, consolidating shipments, simplifying communication and rightsizing packaging. We are also developing an optimized mobile experience and moving to test in-store acquisition via mobile devices and we are exploring gifting subscriptions, which would allow guests to register for subscriptions that are easy for gift givers to fulfill.

We are pleased with results from our second quarter test of ship from store capability in the Boston, Miami and Minneapolis markets. As part of the test, some guests were offered the option of a $10 service to get same day delivery on Target.com orders placed before 1:30 PM. In the three test markets, the ability to leverage our stores crossover inventory has allowed us to capture more sales by meaningfully improving digital in-stocks. In addition, shipping from a store dramatically reduces shipping times without the need to rely on air freight. This fall when we rollout standard ship from store capabilities to 35 additional markets, we will be within 1 to 2-day ground transit of 91% of the U.S. population.

In Canada, second quarter sales accelerated meaningfully from the first quarter but fell somewhat short of our expectations. Gross margin was also lower than expected driven by elevated markdowns resulting from continued operational issues. As I mentioned earlier, the Target Canada team is engaged in a comprehensive review of strategy and operations, which incorporates feedback from guests, teams and business partners and the team is taking decisive steps to address our guest concerns head-on, including changes to address in-stocks, pricing and assortment. To address in-stocks, the team is taking action on four dimensions, better reporting to identify in-stock issues sooner, retraining our teams on best methods, developing new best methods tailored to Canadian segment systems and reconfiguring systems to work more effectively over the long run.

On pricing, while both our own studies and external surveys show that we are already priced very competitively, the team has made decisive changes to ensure we respond even more quickly to pricing dynamics in the Canadian marketplace, including comparison shopping our prices versus competitors on more items more frequently, implementing enhanced tracking of competitor promotions to ensure we react quickly, and implementing a price match policy, which includes online and local competition with a more flexible process for guests.

Regarding the Canadian assortment, we are adding product lines that our guests told us were missing from our everyday lineup. We are adding more newness to our stores and we are adding more exclusive items and designer partnerships what we are known for in both the U.S. and Canada. Putting all these changes together means that of the 70,000 items in a typical Canadian Target store, about 30,000 items will be new between now and the holiday season. We believe these changes will position the Canadian segment for improved performance in time for this holiday season and the Canada leadership team will look for additional opportunities as they continue their review.

As we look ahead to the third quarter and beyond, we are excited about our plans to introduce new products, partnerships and capabilities in our stores and digital channels. We have been very pleased with early results from the back-to-school season, including the response to buy one, give one offers on our own up and up supplies, along with our exclusive line of colorful notebooks, pens and rulers from UB. Like our back-to-college assortment, many up and up back-to-college products were developed by our own design team in partnership with students and teachers who tested them and gave us report cards on how they could be improved. The guest response to the up and up school assortment has been phenomenal. Last year, comp sales in up and up school supplies were up more than 25% during the back-to-school season and we are planning another healthy increase this year.

Our back-to-college assortment highlights mix and match options for guys and gals to outfit their entire dorm in a stylish and affordable way. Some of our guest favorites are space saving, multiuse items like a storage mirror, a task lamp with iPhone and iPad storage, multifunctional and collapsible tables and desks, and innovative storage solutions designed to go over the bed or chair to hold laptops and mobile phones. This year’s addition of registry capability for college students has been outpacing expectations. On average, a student registers for 30 items totaling more than $1,000.

We are excited about our upcoming designer partnership, Altuzarra for Target, which will arrive on September 14. Designer and creative director, Joseph Altuzarra created a limited edition fall collection of women’s ready-to-wear lingerie, accessories, and shoes, which will be available at most Target stores in the U.S. and Canada as well as Target.com. In addition, an edited assortment of the collection will be available globally at Net-A-Porter.com.

In May 2013, Target entered into a partnership with Sam & Libby and it's been a huge hit with our guests who love classic styles like the original leather boat ballet at an unexpected value of $30. In September, we will be extending our Sam & Libby assortment with the launch of the exclusive Sam & Libby handbag line in over 1,000 stores throughout the U.S., with two fall collections featuring 20 styles in stores as an extended assortment on Target.com.

In women's apparel, the fall assortment will reflect the number one current trend we call neo-traditional with feminine menswear inspired looks in plaids and florals. This look will be most visible in Merona with hints in of our Xhilaration and Mossimo Supply Company lines. After rapid growth in 2013, we are expecting another big increase this fall in women's boots, including riding boots from Merona and lace-up ankle boots from Mossimo Supply Company.

Another hot trend is sport and this fall we will be riding the leisure trend in our juniors' assortment with leggings, sweatshirts, yoga pants, joggers and fashion athletic shoes. In denim, a huge category for back-to-college, we just launched a new improved shopping experience for our guests with improved navigation, new fits, a broader range of sizes, more stretch, and the most relevant washes and styling, all highlighted through compelling promotions.

In threshold, the fall season is all about natural materials, beautiful textures and warm metallics. With key solutions in entertaining, like our warm metallic bar cart, accessories, glassware and flatware and decorative items like lanterns, throws, toss pillows and perfect accent tables. In July, Target launched S Sport designed by Skechers partnering with one of the hottest footwear brands in the industry today. The S Sport label is a lifestyle brand targeted to appeal to the entire family with offerings in kids, men's and women's. The initial response has been overwhelming and we have seen styles performing at 4 to 8 times the average of our shoe category. S Sport shoes for men, women and children are available at all U.S. and Canadian stores and at Target.com ranging in price from $25 to $40.

In housewares in September, we will be featuring new products from some of the hottest national brands and small appliances with the introduction of the VertuoLine from Nespresso, single-serve blenders from Vitamix, and the new Keurig 2.0 line. In June, Target teamed up with the Honest Company to offer guests non-toxic eco-friendly products by co-designers, Jessica Alba and Christopher Gavigan featuring diapers, biodegradable wipes, organic bath and skincare and an expanded assortment on Target.com.

Based on the success of the collaboration, we recently expanded our Honest Company assortment to include a line of all-natural cleaning supplies. Like Honest Company, our Made to Matter collection was inspired by our guest desire for better for you natural and organic products. This unique collection differentiates Target in the marketplace and provides vendor partners a stage to innovate in support of their leadership positions in respective categories. The collection launched in April with an initial set of items and the guest response has been outstanding. So, we are excited about the upcoming launch in September of an expanded assortment of more than 100 Made to Matter products, including exclusive new to market items from Method, Seventh Generation and many others.

At CHEFS Catalog, which just celebrated its 35th anniversary, we are excited about our upcoming October collaboration with CHEFS and longtime host of Bizarre Foods, Andrew Zimmern. The partnership includes several products, which melds the design elements of Japanese, Chinese and French cutlery into items Andrew describes as one knife fits all pieces of kitchen magic. The collaboration also features spice blends with names like Flex Your Mex, Winner Winner Chicken Dinner, or Grill Buddy.

For Halloween, we are excited to be partnering once again with designer Chris March to offer a whimsical wig and accessory collection. This unique assortment reinforces both sides of our Expect More, Pay Less brand promise, with wigs that look like curlers or lobsters and the core items from candy bowls to hand towels, all priced at $20 or less. The collection available exclusively at Target stores in the U.S. and Canada and at Target.com will launch mid-September online and later that month in our stores.

In Canada, we just announced that we have extended our very successful beaver canoe collaboration with an expansion of home decor items, along with men’s and women’s sleepwear and slippers. Also in Canada, on September 7, we will be launching two new lines of cleaning products, Better Life, an all-natural line of cleaning products designed by two fathers with charismatic packaging designed to speak to younger generations and Ecover, a European brand recently merged with Method, which will re-launch with better formulations and modernized packaging.

Increasingly, consumers expect everything they do to be personalized and this is particularly true of millennials, Target’s fastest growing guest segment. For the last six months, Target.com has been building an engine that will enable personalization across all of Target’s selling channels. Personalized product recommendations, the first iteration of this work will launch this fall at Target.com. When a guest shops our site, we will suggest products based on their store and digital purchase and browse history. This presents a significant opportunity to ensure guests see the products and offers most relevant to them both in-store and online and in turn generate additional sales.

We will continue improving the guest experience and we are working to extend the personalization to more guest experiences, including product content and offers in the future. We also continue to add mobile enhancements to drive additional traffic and conversion. Just today, we launched a new header to enhance navigation and the mobile landing page and we are streamlining mobile checkout to two clicks.

Also this year, we are overhauling our registry service with the new best-in-class experience that combines the power of online and mobile shopping together with in-store tools like new web-enabled smart scanners and iPad kiosks. Registry is already important for Target and the new experience puts us at the forefront of the industry by making the entire process easier, smarter and faster. Improvements include faster scanning and adding of products, easy addition of companion products, full product information, access to reviews and inspiration through collections and lists. And in our stores, we are pleased with results from our efforts to refresh the shopping experience in key categories, including baby, apparel and beauty.

In July, we added another 167 stores with the enhanced baby layout bringing the total number to more than 200. In apparel, we have about 50 stores today with an enhanced presentation, including manikins, and we are planning to expand this layout to another 600 stores by October. And in beauty, we continue to see strong results from this year's refresh of displays throughout the U.S. while featuring beauty concierge service in more than 400 stores. We are excited with our plans for the fall and believe we are taking the right steps to improve results in both the U.S. and Canada and we are encouraged that based on the changes we are making we have seen positive comps over the last six weeks in the U.S. We are working hard to ensure that teams in both countries are focused on execution during the upcoming holiday season and we look forward to working with Brian to map our vision for Target's future.

Now, I will turn it over to John who will share his insights on the second quarter financial performance and our third quarter and full year outlook. John?

John Mulligan - Chief Financial Officer

Thanks, Kathee. As I mentioned in today's press release, we are not satisfied with our second quarter results, but we are seeing early signs of progress. In the U.S., our second quarter traffic was notably better than the first quarter pace, enough to improve the traffic trends on a two-year basis.

However, the level of second quarter promotions in the U.S. remained elevated.

And looking ahead, we are working to moderate our promotional intensity to a level we believe is more appropriate in the long run. We are encouraged with the recently improved U.S. comparable sales trend. In particular, because our promotional intensity over this period was not as elevated as earlier in the year. In Canada, the team has been working hard to assess root causes for underperformance and implement changes to improve operations and the product assortment with the focus on improving results in time for the holiday season. However, we want to be clear that current financial performance in Canada remains unacceptable.

Our second quarter comp in the U.S. segment was flat largely in line with our guidance. As Kathee mentioned, digital sales, including flexible fulfillment, grew more than 30% compared with last year contributing about 60 basis points to comparable sales. While this demonstrates meaningful progress on our omni-channel journey, we will continue to invest in digital capabilities as the importance of this channel continues to grow.

Our second quarter U.S. segment EBITDA margin was lower than expected, about 80 basis points below last year driven by a lower than expected gross margin rate partially offset by better than expected SG&A expenses. Specifically, the U.S. segment gross margin rate was down about 100 basis points from last year somewhat better than our first quarter experience, but not where we expect to perform over the longer term. The U.S. segment's second quarter SG&A rate improved about 20 basis points versus last year, reflecting impressive discipline across the organization combined with the benefit of our expense optimization efforts.

In the U.S., second quarter sales penetration on REDcards was 28.8%, up more than two percentage points over last year. As I mentioned on the last call, we have seen a slower trend in debit card applications since the data breach, which is leading to slower growth in sales penetration. We have taken steps to reaccelerate growth in REDcard applications, including increased activity in our stores and we have begun to see improvement in REDcard issuance as a result, particularly in the last few weeks. However, given there is a lagged impact of applications on penetration, we expect penetration growth will continue to moderate in the third and fourth quarter, reflecting the slowdown in new REDcard accounts we have seen so far this year. Specifically, our current expectation is that U.S. REDcard penetration growth will be in the range of flat to up 1% in the third quarter and will reach a trough at around flat in the fourth quarter before reaccelerating into next year.

In the Canadian segment, second quarter sales were 63% higher than last year and about 14% above for the first quarter. For the first time, we began reporting comparable sales in Canada this quarter as 48 stores became mature at various points within the quarter. However, this metric is expected to be very noisy initially due to the strong and longer than normal grand opening sales surges we saw last year and the fact that we densified around these initial openers later in 2013. As a result, this quarter the Canadian comp was down more than 11%, reflecting these impacts and less than adequate progress in our efforts to grow sales in these stores.

On our Canadian sales, we are under gross margin rate of just over 18% in the second quarter, well below where we should operate in the long run. Both sales and gross margin rate continued to reflect operations that are not working optimally resulting in lumpy inventory. We continue to see inconsistent in-stock levels by item and location and we have excess inventory overall leading to elevated levels of clearance markdowns. This is why the Canadian leadership team has put its highest priority on implementing system and process changes designed to improve operations with the goal of improving performance in time for the holiday season.

And as Kathee outlined, the team is already making a host of changes based on findings from our operational review. Second quarter Canadian segment expense rates were better than last year, reflecting the startup nature of results a year ago. However, these rates will remain elevated until we gain more scale in this segment. REDcard penetration in Canada was 4.8% in the second quarter, more than double last year’s 2.3% as Canadian guests continue to respond to the value these cards provide. We expect to continue to see robust growth in penetration for quite sometime.

Beyond the operating results in the U.S. and Canada, our second quarter GAAP EPS reflected the impact of several items, not included in adjusted EPS. The largest adjustment was a $0.27 per share charge for the accounting loss associated with our second quarter early debt retirement. We funded this retirement along with a $1 billion maturity with the issuance of $2 billion of debt at very favorable rates in the quarter. Not reflected in this accounting loss is the fact that the early debt retirement has a positive net present value. Also in the quarter, we recognized data breach expenses of $148 million partially offset by the recognition of a $38 million insurance receivable.

In addition to legal, consulting and administrative fees, second quarter breach expenses included an additional accrual for estimated probable losses for what we believe to be the vast majority of actual and potential breach-related claims, including claims by payment card networks for fraud and administrative costs. This means that in total over the last few quarters, we have recognized an accumulated $236 million of gross expenses related to the breach offset by a $90 million insurance receivable for a net of $146 million. This number is dramatically lower than many external estimates at the time of the breach and it reflects the benefits of our efforts to rapidly notify both card networks and our guests when we learned of the breach enhancing the effectiveness of fraud prevention and detection.

Looking ahead, we will continue to incur legal, consulting and administrative costs related to the breach, but we don't expect those costs to be material in any period. And of course, it will take more time to resolve all breach-related claims. And while we don't believe it is probable, it is possible that we could incur material losses beyond the amounts we have already accrued. Beyond these two larger adjustments in the second quarter, we also recognized $0.01 each related to the impairment of some undeveloped land and the continued reduction in the beneficial interest asset associated with last year's credit card portfolio sales.

Turning to the consolidated metrics, second quarter interest expense was $282 million higher than last year due entirely to the loss on early debt retirement I covered earlier. We also paid $272 million in dividends this quarter, up 18% from $231 million last year. As expected, the Board approved a quarterly dividend increase during the quarter raising a 21% from $0.43 to $0.52. This increase builds on our company's track record of annual dividend increases, which have occurred every year since 1971.

Beyond the non-cash share settlement forward contracts related to our deferred compensation plans, we did not engage in any share repurchase in the second quarter and we don't expect to do so in the third quarter as well. While we continue to expect to return robust amounts of cash to share repurchase over time, our business performance is not where it needs to be to sustain our middle A credit ratings. As I have said previously, to resume share repurchase, two things need to happen. First, we need to have sufficient visibility into our potential liability for claims related to the data breach and second, we need to see sufficient improvement in our U.S. and Canadian operations to create a clear path for our credit metrics to return to acceptable levels in support of our single A rating. While this quarter's recognition of an additional breach related accrual reflects progress on the first condition, our current and expected operating performance does not meet the second. As a result, we expect to continue to suspend cash investments in share purchase until operating performance improves.

Now, let's turn to our outlook for the third quarter and full year. As I mentioned last quarter, in light of the environment and our performance so far this year, we will continue to maintain a cautious outlook for sales in both segments allowing us to plan inventory and expenses flexibly while maintaining contingency plans to flex higher when sales grow faster than expected. One note, consistent with guidance last quarter, our outlook does not include potential additional costs related to the data breach beyond what we have already recognized as they are not estimable.

With that, let's turn to our third quarter expectations. We are currently forecasting U.S. comparable sales will be flat to up 1% this quarter. And as Kathee mentioned, we are encouraged by the positive comps we have seen so far in August. On our sales, we expect to see an EBITDA margin rate of 8% or a bit better. This rate reflects continued expected pressure on the gross margin line, but we expect about half the pressure we experienced in the second quarter. Consistent with earlier in the year, our third quarter EBITDA performance will benefit from our ongoing expense optimization efforts.

In Canada, we expect sales growth of more than 50% above last year and more than 10% from the second quarter. This growth would lead to an expected positive single-digit comparable sales growth rate. EBITDA and EBIT margin rates are expected to improve compared with last year and be in line with or slightly better than the rates we saw in the second quarter. Altogether, these expectations would improve third quarter Canadian segment EBITDA by approximately $25 million compared with last year.

We expect third quarter consolidated interest expense to be approximately flat for last year and tax expense to be somewhat lower. Altogether, these expectations would generate adjusted EPS, reflecting results from both our U.S. and Canadian operations of $0.40 to $0.50, excluding $0.02 related to the reduction in the beneficial interest asset and any potential cost related to the data breach, which are not expected to be material.

For the full year, we now expect U.S. comparable sales in the range of flat to up 1%. In the U.S., we continue to expect an SG&A expense rate of about 20% for the full year and a gross margin rate between 29% and 30%. These expectations reflect year-to-date results along with anticipated year-over-year favorability in fourth quarter gross margin and SG&A expense rates as we annualized the impacts of the data breach in fourth quarter 2013.

In our Canadian segment, we continue to expect full year sales of about $2 billion. However, given our recent experience and moderated expectations for gross margin in the near-term, we now expect an EBITDA margin rate near minus 25% for the full year. Altogether, these updated expectations would put our full year adjusted EPS in the range of $3.10 to $3.30 below the range we provided a quarter ago. These expected results are clearly not where we expect to perform over time. Over the last 90 days, Kathee and I have worked with a leadership team to take visible steps to continue healing our U.S. business by removing unnecessary bureaucracy to speed up decision-making, devoting resources to drive increased newness and innovation in our merchandise assortments and store presentation, and investing in our digital transformation.

While there is a lot more work to do, I am encouraged with our quarter-over-quarter improvement in U.S. traffic and our sales experience so far in July and August, particularly because this improvement has not been driven by intense promotions. In Canada, Mark and the team are making meaningful changes to operations, pricing and assortment as they focus on improving performance in the upcoming holiday season.

Finally, as Brian mentioned earlier, over the last three months, partnership with Interim Chair, Roxanne Austin. The leadership team has conducted an in-depth review of our strategy, our brand, our guest and our capabilities in both the U.S. and Canada. Since Brian arrived, we have spent a great deal of time with him sharing insights from this review. And we believe this work will provide the foundation from which we can build a longer term vision for our strategy and financial model. We are so excited to welcome Brian to the team and committed to working with him to move this company forward. And like Brian, we believe the best days for Target lie ahead.

With that, we will conclude today’s prepared remarks. Now, Brian, Kathee and I will be happy to respond to your questions.

Question-and-Answer Session

Operator

(Operator Instructions) Our first question will come from the line of Wayne Hood with BMO Capital. Please go ahead.

Wayne Hood - BMO Capital

Good morning, Brian and everyone. Brian, I had a question for you and then one for Kathee, when you arrived, the role of President was left open. And I was curious whether or not you anticipate filling that role and any organizational structures that you might contemplate to speed the company to getting to market? And then Kathee, if you could just peel back the onion around why the UPT was down 1.7%, you made good progress in transactions, but you took a step back in UPT. And I am just wondering why and what you expect for those metrics into the third and fourth quarter? Thank you.

Brian Cornell

Wayne, let me start by answering your first question. My focus right now is to really understand the business in both the U.S. and Canada and I am spending a lot of time with John and Kathee and the team to understand the guest perspective on Target, how we improve our traffic, how we enhance our performance in Canada, and how we continue to build-out and rapidly build-out our omni-channel capabilities. So, I am very focused on making sure that we are going to make progress against those key three initiatives as I continue to look at the broader and longer term strategic options. So, my focus is really understanding the business today and strategy before we have any discussions around organization modifications going forward.

Kathee Tesija

And then Wayne in terms of unit per transaction, most of that was driven by higher dollar items that we were selling, things in electronics and in entertainment, so you see the healthy selling prices you mentioned, but fewer units. On the other portion of that, that I would say is that we are seeing really good momentum in our trade-up strategies. So, we are selling in some cases fewer units, but higher price points in other categories across the company, but it's predominantly electronics and entertainment.

Wayne Hood - BMO Capital

Alright, thank you.

Operator

Your next question will come from the line of David Strasser with Janney. Please go ahead.

David Strasser - Janney

Thank you very much. I just wanted to step back a little bit and look you talked about even gross margins for this year to 29% to 30% range is a pretty wide range. And as you think about a world, an e-commerce world and how things are changing fairly rapidly out there. I am just trying to get a sense if you think over time that the gross margins are within that range, lower end of that range and sort of how you are thinking about that competitive landscape. I mean, you talked a lot about a lot of new merchandising initiatives and stuff, which can help offset some of that, but at the same time as every company that we have seen kind of get more focused and driven around e-commerce seems to see their gross margins lower by the nature of what that business is. So, I would love to hear a little bit about your thought process there? Thank you.

Kathee Tesija

Yes, David, there is no doubt with e-commerce being as immature as it is. There is some pressure on gross margin. We are committed to going where our guests go and they want to be able to shop online and we are going to make sure that we have got all the right products for them both online and in our stores. So that does give us a little headwind on the gross margin, but as you pointed out, all of the newness that we are bringing in, the things that our guests love most about Target that helps to offset it. So, we don't have a number to share with you today, but we are very focused on driving sales, going where the guest is and offering them those products that delight them.

David Strasser - Janney

So, I mean, I guess just as a follow-up to that, I mean, if the guest does go more rapidly towards .com, are you willing to accept lower gross margins to do that? And then just I guess sort of a related question to that too as you know, you talked about opening stores for greater hours, is there an SG&A investment as well that would be related to e-com – aside from just the build-out of e-commerce that you think that you need to add to the stores once again as this world is shifting? Thank you very much.

John Mulligan

On the gross margin rate, I think Kathee said it really well. We are going to go where the guest is and meet them, provide the product they want, where they want it, when they want it, how they want it, but there is a lot of tools in our toolkit to manage gross margin rate. There is certainly the product that Kathee talked about emphasizing the style categories with newness and differentiation. Beyond that there is the flexible fulfillment options, where we lowered shipping expense by moving the product closer to our guests and also ultimately balancing inventories better across the entire network and reducing markdowns that we incur today. So, there are lots of puts and takes. And like Kathee said, we don't have it all sorted out today. We will provide more information as we do, but I think there are lots of puts and takes as we think about gross margin rate more broadly.

On the store, hourly payroll, first on the extended hours, the investment there was immaterial to the quarter. Again, that was about half the stores adding one hour of operation, so not significant investment there, but with Tina Schiel, our Head of Stores, we continually talk about ensuring that we are striking the right balance between productivity in those stores and we are having great guest service results. And what we see today, our guest surveys, of course, are as high as they have ever been and the team continues to drive really strong expense control. So, we feel good about where we are today, but we constantly evaluate that.

David Strasser - Janney

Thank you very much. I appreciate the answers.

Operator

Your next question will come from the line of Matthew Fassler with Goldman Sachs. Please go ahead.

Matthew Fassler - Goldman Sachs

Thanks a lot. Good morning. Brian, I would like to start out by asking you for your long-term perspective of threshold for Canada is related to time and financial performance, obviously that business today is performing at a materially lower level than was originally conceived when it was opened and presumably well below it's cost of capital. What would you want to see over time to keep that business running and what kind of timeframe do you have in mind for a same material improvement in that business?

Brian Cornell

Yes. Well, Matthew as I mentioned earlier, I spent time just last week with the Canadian team and I am certainly aware that the expansion has been challenging. And from a Target standpoint, we have disappointed many of our Canadian guests. And Kathee has already referenced the fact that we are conducting an in-depth evaluation of our Canadian business that began several months ago. And we are certainly looking to make material improvements in that business. Right now, short-term, the focus is on improving in-stock conditions, our pricing and assortment and really ensuring that we have got plans in place to improve our performance in the holiday upcoming. So, you can expect me to be spending quite a bit of time with the Canadian team along with Kathee to make sure we understand the opportunities, we understand the challenges that we have to address, and we are focused on improving in-stocks, our value position, and an assortment as we go forward. So, I am going to spend clearly the balance of the year working very closely with that team to make sure we have got plans in place to improve performance as we go into the holiday season.

Matthew Fassler - Goldman Sachs

Thanks for that. And just a quick follow-up on the U.S. business in the market for buy online, pickup in stores more mature, how additive do you find that is either to online sales or to the business overall? I know that for some retailers, it can be as much as 30% or 40% of the overall online sales number. So, where you have seen – where you have the most track record behind if you will what's your sense of how additive that can be?

Kathee Tesija

Well, we did add it to the chain all at the same time. So, we don’t have any markets that are more mature. We did do a little testing with the team members in Minneapolis before we rolled that, but basically we rolled it all around November 1 of last year to all stores. And we have been very pleased with the results from buy online, pickup in store and about 14% of our digital sales today are being picked up in-store and then when they go to store to pickup those orders, we are seeing about 20% of those guests shop in the store to pickup additional items and there is a very healthy basket with that as well, so still early, but very, very promising. We think it saves guest time, it saves them money, and it allows them to consolidate their shopping.

Matthew Fassler - Goldman Sachs

Thanks for that clarity.

Operator

Your next question will come from the line of Greg Melich with ISI Group. Please go ahead.

Greg Melich - ISI Group

Hi, thanks. John, I want to follow-up a bit on the gross margins down 100 bps in the quarter, if I remember correctly, you had a goal for $600 million of cost reduction this year, roughly a third of it in cost of goods sold. Could you give us an update as to where we are on that and how much that may have helped the quarter in terms of U.S. margins?

John Mulligan

Yes, sure. You are right. It was – the goal for expense optimization about $650 million incremental to last year, which gets us to $850 million in total. Of the $650 million this year, just rough numbers, about $200 million of that was on the gross margin line coming out of cost of goods, more of that back-weighted than front-weighted. We are probably about a little bit more than a third of the way through that, probably a little bit more than that, maybe half of the way through that. So, there was definitely some benefit in the quarter from expense optimization. That was also true in the first quarter. Both quarters have benefited, but later in the year, we will see more benefit as we continue to grow those savings.

Greg Melich - ISI Group

And the same with the SG&A out of that $650 million, it's more back end?

John Mulligan

Yes, it builds as the year goes on. We are annualizing on the roughly $200 million we saved last year. That was primarily SG&A. So, there is probably a little bit more good news in SG&A right now, but that will continue to build as well as we go throughout the year.

Greg Melich - ISI Group

Great. And if I could Brian, thanks a lot and welcome back to retail.

Brian Cornell

Thank you, Greg.

Greg Melich - ISI Group

For your opening comments, how long do you think it will take for you to sort of get to understand the business in the customers and actually come up with a plan, is it something we should expect by year end or early next year or can you give us any time horizon on that?

Brian Cornell

Well, Greg, I am going to quickly immerse myself in the details of the business, both here in the U.S. and Canada. And John and Kathee and the leadership team have already spent hours with me walking through a lot of the strategic work that they have been doing over the last 90 days. As I said earlier, during my very first week, I visited the Canadian market to spend time with that team. And I want to be a good student of the business, but clearly we have to have a sense of urgency here and a sense of pace. And while I want to study the business and certainly and listen and learn from our team, no one is happy with our current performance. And our focus right now is to make sure we have got plans in place in the short-term to improve traffic, we have got plans in place to improve our performance in Canada, and we have got to continue to move faster from a digital and mobile standpoint to meet the needs of our guest. So, you can expect a clear sense of urgency, but I certainly want to make sure I give myself the time to listen, learn, understand, the business both from our team standpoint, but also from the eyes of the target guest. And you can expect me to dive in very quickly to understand the business, to look for the opportunities and to work with the leadership team to develop very focused priorities as we go forward into 2015 and beyond.

Greg Melich - ISI Group

Thanks a lot.

Brian Cornell

Thank you, Greg.

Operator

Your next question will come from the line of Matt Nemer with Wells Fargo Securities. Please go ahead.

Matt Nemer - Wells Fargo Securities

Thanks a lot and good morning. I was hoping to get some more detail on the improved performance in July and August. And I am wondering if you have a sense from your guest surveys, how much of that change is driven by price investments efforts to improve the presentation or it maybe a change in the broader environment?

Kathee Tesija

Yes. Matt, I think it's more about product and the newness that we have on the floor. For back-to-school, back-to-college, we have seen both of those start off really strong. Even in their peak weeks, those stores are doing better that week after their peak. So, we are seeing it stronger in the peak and then get even stronger after that. So, I think it's really product-related and newness. Certainly, we have had promotions. Most of them are devoted to those core categories like apparel, some of the back-to-college items, but the guest right now is more focused on the occasion than they are under the promotion. So, that is very encouraging to us and I think its product driven.

Brian Cornell

Matt, if I could just early days, but the current performance on back-to-school and the way Kathee and the team, have put back-to-school together at Target has been very impressive to me. And I think it's a great example of getting the product right, the right balance of newness and innovation, great advertising communication that really captures the guest attention and very strong in-store and online execution. So, I think that's one of the great examples that we are going to continue to build from as we go forward, but I think Kathee and the entire team have brought back-to-school to life, back-to-college to life with the right products, the right newness and innovation, great advertising communication to support it, and then very strong in-store and online execution.

Matt Nemer - Wells Fargo Securities

That’s very helpful. And then one housekeeping follow-up if I may, your Canada comp transactions were only down about 2%, which frankly was a little bit surprising against the grand opening halo, I am wondering why UPT was down so much, I think it was down over 8%?

John Mulligan

UPT down 8% in Canada, Matt, I think a lot of that – what I would tell you is a lot of noise going on in the Canada comp overall. So much of the surge last year we saw very different types of transactions, then we saw once we moved past that as we opened stores, we saw that in each cycle, very different behavior for those I don’t know four to six weeks when we had the surge period. And then as the business settled down and got into a more normal state, we saw more routine transaction counts and baskets. What I would tell you is we are going to continue to see this. It’s going to be noisy in Q3. And really it won’t be till we get to Q4 when we have cycled past all the opening cycles, all the densification that we get a real read on what’s going on, on a comparable basis from the business year-over-year.

Matt Nemer - Wells Fargo Securities

Okay, thanks so much and good luck.

John Mulligan

Thanks.

Brian Cornell

Thank you.

Operator

Your next question will come from the line of Matt McClintock with Barclays. Please go ahead.

Matt McClintock - Barclays

Hi, yes, good morning and welcome Brian.

Brian Cornell

Thanks, Matt.

Matt McClintock - Barclays

Kathee, my question was actually for you, you talk a lot about product freshness and newness and I was just wondering as you look to the fall merchandise plan, how far can you push freshness and newness into that plan? What inning would you say that represents overall relative to what you consider to be more optimal level and when can we realistically expect you to reach that more optimal level? Thank you.

Kathee Tesija

Well, haven't thought about it in terms of innings, Matt, but we are excited about what we have coming for the fall season. I highlighted a lot of things that are coming in September and October, but then moving on to the fourth quarter, which we won't be specific about today, but we are excited about what that brings as well. We have about 85,000 items in our assortment and we will have 35,000 new items this fall season. So, I do feel pretty optimistic about the contents, the quality, the trend, the presentation, but clearly, in spring I think you will see that will be a full cycle out and we will have much more to come as we turned the corner into the spring season.

Matt McClintock - Barclays

Thank you.

John Hulbert

Matt, thank you. Operator, I think we have got time for one last question.

Operator

Our final question will come from the line of Simeon Gutman with Morgan Stanley. Please go ahead.

Simeon Gutman - Morgan Stanley

Thanks. Good morning and welcome Brian. Quick one for Kathee, we talked in New York about a month ago about traffic trips and I understand we are still intact from the customer, but you had lost 1 out of 10 and that maybe e-commerce was the angle of you to get that back. My question is how confident and I don't know if you have any early indications from your own data that when that customer does shop online with you that either they are not going to visit the store less or that they will not maintain the same level of purchasing?

Kathee Tesija

Yes. The guest that shops Target online is absolutely our best guest. They shop both online and in-stores. It's really all about what's convenient for them and sometimes it's just easier to knocking item off your list by buying it on your mobile device. Sometimes, you want to purchase it online by pick it up in store to do the rest, but this is absolutely our best guest and one we will not see. So, we will go after being a seamless omni-channel retailer with confidence knowing that it's the best thing for our guest and best thing for our business. And I do think that, that when we think about the last guest, they are basically backed and so traffic changes are more about consolidated trips and trips shifting online. So, it's an important part for us to own it, which is why you see all of the efforts in our omni-channel capabilities and strategies with subscriptions and with personalization and with ship from store and buy online, pickup in stores, there is a lot of things that we are putting effort into that will help drive that momentum.