BANK OF MONTREAL /CAN/
Form 424B2
September 01, 2015

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Subject to Completion, dated September 1, 2015

Preliminary Pricing Supplement
(To the Prospectus dated June 27, 2014 and
the Prospectus Supplement dated June 27, 2014)

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Senior Medium-Term Notes, Series C
Raymond James Housing Opportunity Series 2 Equity Linked Notes – Notes Linked to a Fixed Basket of 13 Common Equity Securities, due September 30, 2016

· The notes will be linked to a basket of the common equity securities (each, a "Reference Share" and together, the "Basket") of 13 housing-related companies (each, a "Reference Share Issuer"). The Reference Shares were selected in August 2015 by Raymond James & Associates, Inc. ("Raymond James") as discussed in more detail below.

· You may lose all or a portion of the principal amount of your notes at maturity.

· The Reference Shares are: Apartment Investment & Management Company ("AIV"); American Home 4 Rent ("AMH"); American Residential Properties, Inc. ("ARPI"); Catchmark Timber Trust, Inc. ("CTT"); D.R. Horton, Inc. ("DHI"); St. Joe Company ("JOE"); Mohawk Industries, Inc. ("MHK"); Potlatch Corporation ("PCH"); PGT, Inc. ("PGTI"); Post Properties, Inc. ("PPS"); Toll Brothers, Inc. ("TOL"); WCI Communities, Inc. ("WCIC"); and Weyerhaeuser Company ("WY").

· The notes may pay interest on December 31, 2015, March 31, 2016, June 30, 2016 and the maturity date. The amount of any interest to be paid on the notes will not be fixed, and will depend upon the total dividends paid on the Reference Shares during the preceding quarter, as described in more detail below.

· On the maturity date, the amount that we will pay to you for each $1,000 in principal amount of the notes (the "Redemption Amount") will depend upon the performance of the Basket over the term of the notes. As described in more detail below, the Redemption Amount will be less than the price to the public set forth below if the "Basket Level Percentage" (as defined below) is not at least approximately 103.09%. We describe in more detail below how the payment at maturity will be determined.

· All payments on the notes are subject to our credit risk.

· The notes will not be listed on any securities exchange or quotation system.

· The CUSIP number of the notes is 06366RY25.

· Our subsidiary, BMO Capital Markets Corp. ("BMOCM"), is the agent for this offering. See "Supplemental Plan of Distribution—Conflicts of Interest" below.

Investing in the notes involves risks, including those described in the "Additional Risk Factors" section beginning on page PS-6 of this pricing supplement, and the "Risk Factors" sections beginning on page S-1 of the prospectus supplement and page 7 of the prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or passed upon the accuracy of this pricing supplement, the prospectus supplement or the prospectus. Any representation to the contrary is a criminal offense.

The notes will be our unsecured obligations and will not be savings accounts or deposits that are insured by the United States Federal Deposit Insurance Corporation, the Bank Insurance Fund, the Canada Deposit Insurance Corporation or any other governmental agency or instrumentality or other entity.

On the date of this preliminary pricing supplement, the estimated initial value of the notes is $965.30 per $1,000 in principal amount based on the terms set forth above. The estimated initial value of the notes on the pricing date may differ from this value but will not be less than $950.00 per $1,000 in principal amount. However, as discussed in more detail in this pricing supplement, the actual value of the notes at any time will reflect many factors and cannot be predicted with accuracy.

	Price to Public	Agent's Commission(1)(2)	Proceeds to Us
Per $1,000 of the Notes	US$1,000	US$20.00	US$980.00
Total	US$	US$0.00	US$

(1)$20.00 per $1,000 in principal amount per note will be received by Raymond James for its services acting as a dealer in connection with the distribution of the notes.

(2)Please see "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement.

BMO Capital Markets

KEY TERMS OF THE NOTES

This section summarizes the terms of the notes, and should be read together with the additional information in this pricing supplement, including the information set forth below under the captions "Additional Risk Factors" and "Description of the Notes."

Issue Date of the Notes:	September 25, 2015
Issue Price of the Notes:	$1,000 per $1,000 in principal amount of the notes.
Reference Shares:	The 13 Reference Shares set forth on the cover page of this pricing supplement. The Reference Shares are housing-related securities selected by the Equity Research Department of Raymond James based on its belief that certain U.S. companies may benefit from the continuing recovery in the U.S. housing sector, as discussed in the section below, "Description of the Reference Shares—Selection of the Basket."
Redemption Amount:	The amount that you will receive at maturity for each $1,000 in principal amount of the notes will depend upon the performance of the Basket. The Redemption Amount will equal (a) the product of (i) $1,000 and (ii) the Basket Level Percentage multiplied by (b) the Participation Rate. As discussed in more detail below, the Basket Level Percentage must exceed approximately 103.09% in order for you to receive a Redemption Amount per $1,000 in principal amount of the notes that exceeds the principal amount. In addition, the Redemption Amount could be substantially less than the principal amount of the notes.
Reference Share Weighting:	For each Reference Share, approximately 7.69%, except as described below, under "—Potential Unequal Weighting."
Reference Share Performance:	The Reference Share Performance will measure the change in value of each Reference Share over the term of the notes. For each Reference Share, the Reference Share Performance will equal (a) the applicable Adjusted Final Share Price divided by (b) the applicable Adjusted Initial Share Price, expressed as a percentage. See "Description of the Notes—Payment at Maturity."
Weighted Reference Share Performance:	For each Reference Share, the product of (a) its Reference Share Performance and (b) the Reference Share Weighting.
Participation Rate:	97.00%. Because the Participation Rate is less than 100%, the Basket Level Percentage must exceed approximately 103.09% in order for you to receive a Redemption Amount per $1,000 in principal amount of the notes that exceeds the principal amount of the notes. In addition, because the Participation Rate is less than 100%, the interest payments you receive on the notes will be less than the applicable Dividend Amounts.

Basket Level Percentage:	The sum of the Weighted Reference Share Performances.
Average Intra-day Price:	With respect to a Reference Share and any averaging date, the arithmetic mean of the prices at which we or any of our affiliates (which may include the calculation agent) acquires, establishes, reestablishes, substitutes, maintains, unwinds or disposes of, as the case may be, of any transactions or assets relating to that Reference Share as we deem necessary to hedge our obligations with respect to the notes.
Unadjusted Initial Share Price:	The arithmetic mean of the Average Intra-day Prices on each averaging date.
Adjusted Initial Share Price:	The Adjusted Initial Share Price of each Reference Share will be determined over three averaging dates occurring shortly before the issue date of the notes. For each Reference Share, the Adjusted Initial Share Price will equal the sum of (a) the Unadjusted Initial Share Price and (b) $0.01. The Adjusted Initial Share Price for each Reference Share will be set forth in the final pricing supplement relating to the notes.
Adjusted Final Share Price:	For one Reference Share, the arithmetic mean of the closing price on the valuation dates, minus $0.01.
Averaging Dates:	September 18, 2015, September 21, 2015 and September 22, 2015.
Valuation Dates:	The valuation dates will occur on three trading days occurring shortly before the maturity date. The scheduled valuation dates are: September 23, 2016, September 26, 2016 and September 27, 2016.
Maturity Date:	September 30, 2016

Interest Payment Dates:	December 31, 2015, March 31, 2016, June 30, 2016 and September 30, 2016 (the maturity date).
Interest Calculation Dates:	December 28, 2015, March 28, 2016, June 27, 2016 and September 27, 2016 (the final valuation date).
Calculation of Interest Payments:	The amount of each interest payment, if any, will depend upon the amount of dividends paid on each Reference Share during the Interest Calculation Period preceding each interest payment date, and will equal, for each $1,000 in principal amount, (a) the sum of the Dividend Amounts for each of the Reference Shares multiplied by (b) the Participation Rate.
Interest Calculation Period:	The first Interest Calculation Period will commence on the second averaging date and end on the first Interest Calculation Date. Each subsequent Interest Calculation Period will begin on the trading day following an Interest Calculation Date and end on the next Interest Calculation Date. The final Interest Calculation Date will occur on the final valuation date.
Dividend Amount:	For each Reference Share, an amount in U.S. dollars equal to (a) $1,000 divided by the applicable Adjusted Initial Share Price multiplied by (b) the applicable Reference Share Weighting multiplied by (c) 100% of the gross cash distributions (including ordinary and extraordinary dividends) per Reference Share declared by the applicable Reference Share Issuer where the date that the applicable Reference Share has commenced trading ex-dividend on its primary U.S. securities exchange as to each relevant distribution occurs during the relevant Interest Calculation Period, determined as described in more detail in the section below, "Description of the Notes—Payment at Maturity."
Calculation Agent:	BMO Capital Markets Corp. ("BMOCM")
CUSIP:	06366RY25
Potential Unequal Weighting:	On the first Averaging Date, we may determine, in our sole discretion, that one or more of the Reference Shares has relatively lower liquidity than most or all of the other Reference Shares. In such circumstances, we reserve the right to assign a Reference Share Weighting for that Reference Share or those Reference Shares (each a "Lower Weight Reference Share") that is less than approximately 7.69%. For example: · If we assign a Reference Share Weighting of only 1% to one Lower Weight Reference Share, the other 12 Reference Shares will account for the remaining 99% of the Basket, and therefore, will each have a Reference Share Weighting of 8.25% (99% divided by 12), instead of approximately 7.69%.

· If we assign a Reference Share Weighting of 2% to one Lower Weight Reference Share and 3% to another Lower Weight Reference Share, the other 11 Reference Shares will account for the remaining 95% of the Basket, and therefore, will each have a Reference Share Weighting of approximately 8.64% (95% divided by 11, rounded to two decimal places), instead of approximately 7.69%.

· If we assign a Reference Share Weighting of 1% to three different Lower Weight Reference Shares, the other 10 Reference Shares will account for the remaining 97% of the Basket, and therefore, will each have a Reference Share Weighting of 9.70% (97% divided by 10), instead of approximately 7.69%.

The final pricing supplement will set forth whether or not there are any Lower Weight Reference Shares in the Basket, and the actual Reference Share Weighting of each Reference Share.

Distribution:	The notes are not intended for purchase by any investor that is not a United States person, as that term is defined for U.S. federal income tax purposes, and no dealer may make offers of the notes to any such investor.

Each averaging date and each valuation date for any Reference Share, as well as the maturity date, are subject to postponement in the event of a Market Disruption Event with respect to an applicable Reference Share, as described in the section "Description of the Notes – Market Disruption Events" in this pricing supplement.

The pricing date and the issue date of the notes are subject to change. The actual pricing date, issue date, averaging dates, interest payment and calculation dates, valuation dates and maturity date for the notes will be set forth in the final pricing supplement relating to the notes.

We may use this pricing supplement in the initial sale of the notes. In addition, BMOCM or another of our affiliates may use this pricing supplement in market-making transactions in any notes after their initial sale. Unless our agent or we inform you otherwise in the confirmation of sale, this pricing supplement is being used in a market-making transaction.

HYPOTHETICAL PAYMENTS ON THE NOTES AT MATURITY

The following hypothetical examples are provided for illustration purposes only and are hypothetical; they do not purport to be representative of every possible scenario concerning increases or decreases in the value of the Basket and the related effect on the Redemption Amount. The following hypothetical examples illustrate the payment you would receive on the maturity date if you purchased $1,000 in principal amount of the notes. Numbers appearing in the examples below have been rounded for ease of analysis. The examples below assume a Participation Rate of 97.00%. This table does not reflect any interest that may be paid on the notes.

Basket Level Percentage	Redemption Amount per $1,000 in Principal Amount	Percentage Gain (or Loss) per $1,000 in Principal Amount
140.00%	$1,358.00	35.80%
130.00%	$1,261.00	26.10%
120.00%	$1,164.00	16.40%
110.00%	$1,067.00	6.70%
103.09% (1)	$1,000.00	0.00%
100.00% (2)	$970.00	-3.00%
90.00%	$873.00	-12.70%
80.00%	$776.00	-22.40%
70.00%	$679.00	-32.10%
60.00%	$582.00	-41.80%

(1) For you to receive a Redemption Amount greater than the principal amount the notes, the Basket Level Percentage must be greater than approximately 103.09% due to the effect of the Participation Rate being only 97.00%.
(2) If the Basket Level Percentage is not at least approximately 103.09%, you will lose some or all of the principal amount of the notes.

Please see the sections below, “Additional Risk Factors—General Risks Relating to the Notes—Your investment may result in a loss” and “—The notes will not reflect the full performance of the Reference Shares, which may negatively impact your return on the notes.”

ADDITIONAL TERMS OF THE NOTES

You should read this pricing supplement together with the prospectus supplement dated June 27, 2014 and the prospectus dated June 27, 2014. This pricing supplement, together with the documents listed below, contains the terms of the notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours or the agent. You should carefully consider, among other things, the matters set forth in "Additional Risk Factors" in this pricing supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before you invest in the notes.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

- Prospectus supplement dated June 27, 2014: http://www.sec.gov/Archives/edgar/data/927971/000119312514254915/d750935d424b5.htm

- Prospectus dated June 27, 2014: http://www.sec.gov/Archives/edgar/data/927971/000119312514254905/d749601d424b2.htm

Our Central Index Key, or CIK, on the SEC website is 927971. As used in this pricing supplement, "we," "us" or "our" refers to Bank of Montreal.

ADDITIONAL RISK FACTORS

An investment in the notes involves risks. This section describes significant risks relating to the terms of the notes. The notes are a riskier investment than ordinary debt securities. In addition, the notes are not equivalent to investing directly in the Reference Shares. Before investing in the notes, you should read the following information about these risks, together with the other information contained in or incorporated by reference in the prospectus supplement and prospectus.

General Risks Relating to the Notes

Your investment in the notes may result in a loss. The notes do not guarantee any return of principal. The amount payable on the notes at maturity will depend on the performance of the Reference Shares and the applicable Dividend Amount and may be less, and possibly significantly less, than your initial investment. If the prices of the Reference Shares decrease, the payment at maturity may be less than the principal amount. In addition, because the Participation Rate is only 97.00%, the Basket Level Percentage must exceed approximately 103.09% in order for you to receive a Redemption Amount per $1,000 in principal amount of the notes that exceeds the principal amount. You may lose all or a substantial portion of the amount that you invested to purchase the notes. You may incur a loss, even if the Basket Level Percentage is positive (but less than approximately 103.09%). Please also see "—The notes will not reflect the full performance of the Reference Shares, which may negatively impact your return on the notes."

The notes may not pay interest and your return may be lower than the return on a conventional debt security of comparable maturity. There may be no periodic interest payments on the notes, and any such payments may be less than there would be on a conventional fixed-rate or floating-rate debt security having the same maturity. The amount of each interest payment, if any, will depend upon the amount of dividends paid on each Reference Share during the Interest Calculation Period preceding each interest payment date, as adjusted by the Participation Rate. The yield that you will receive on your notes, which could be negative, may be less than the yield you could earn if you purchased a standard senior debt security of Bank of Montreal with the same maturity date. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money.

Owning the notes is not the same as owning the Reference Shares or a security directly linked to the performance of the Reference Shares. The return on your notes will not reflect the return you would realize if you actually owned the Reference Shares or a security directly linked to the performance of the Reference Shares and held that investment for a similar period. Your notes may trade quite differently from the Reference Shares. Changes in the prices and dividend yields of the Reference Shares may not result in comparable changes in the market value of your notes. Even if the prices and dividend yields of the Reference Shares increase during the term of the notes, the market value of the notes prior to maturity may not increase to the same extent. It is also possible for the market value of the notes to decrease while the prices and dividend yields of the Reference Shares increase.

Our initial estimated value of the notes will be lower than the price to public. Our initial estimated value of the notes is only an estimate, and is based on a number of factors. The price to public of the notes will exceed our initial estimated value, because, among other things, costs associated with offering, structuring and hedging the notes are included in the price to public, but are not included in the estimated value. These costs include the agent's commission, and the profits that we and our affiliates expect to realize for assuming the risks in hedging our obligations under the notes and the estimated cost of hedging these obligations. The initial estimated value of the notes may be as low as the amount indicated on the cover page of this pricing supplement.

Our initial estimated value does not represent any future value of the notes, and may also differ from the estimated value of any other party. Our initial estimated value of the notes as of the date of this preliminary pricing supplement is, and our estimated value as determined on the pricing date will be, derived using our internal pricing models. This value is based on market conditions, interest rates, and other relevant factors. Different pricing models and assumptions could provide values for the notes that are greater than or less than our initial estimated value. In addition, market conditions and other relevant factors after the pricing date are expected to change, possibly rapidly, and our assumptions may prove to be incorrect. After the pricing date, the value of the notes could change dramatically due to changes in market conditions, our creditworthiness, and the other factors set forth in this pricing supplement. These changes are likely to impact the price, if any, at which we or BMOCM would be willing to purchase the notes from you in any secondary market transactions. Our initial estimated values do not represent a minimum price at which we or our affiliates would be willing to buy your notes in any secondary market at any time.

The terms of the notes are not determined by reference to the credit spreads for our conventional fixed-rate debt. To determine the terms of the notes, we will use an internal funding rate that represents a discount from the credit spreads for our conventional fixed-rate debt. As a result, the terms of the notes are less favorable to you than if we had used a higher funding rate.

Certain costs are likely to adversely affect the value of the notes. Absent any changes in market conditions, any secondary market prices of the notes will likely be lower than the price to public. This is because any secondary market prices will likely take into account our then-current market credit spreads, and because any secondary market prices are likely to exclude all or a portion of the agent's commission and the hedging profits and estimated hedging costs that are included in the price to public of the notes and that may be reflected on your account statements. In addition, any such price is also likely to reflect a discount to account for costs associated with establishing or unwinding any related hedge transaction, such as dealer discounts, mark-ups and other transaction costs. As a result, the price, if any, at which BMOCM or any other party may be willing to purchase the notes from you in secondary market transactions, if at all, will likely be lower than the price to public. Any sale that you make prior to the maturity date could result in a substantial loss to you.

Any increase in the price of one or more Reference Shares may be offset by decreases in the price of one or more other Reference Shares. The price of one or more of the Reference Shares may increase while the price of one or more of the other Reference Shares decreases. Therefore, in determining the value of the Basket at any time, increases in the price of one Reference Share may be moderated, or wholly offset, by decreases in the price of one or more other Reference Shares. In addition, if the final pricing supplement sets forth one or more Lower Weight Reference Shares, any increases in the value of any Lower Weight Reference Share will have a smaller impact on the payment of the notes than if that Lower Weight Reference Share had been assigned a Reference Share Weighting that was equal to that of the other Reference Shares. The positive performance of that Lower Weight Reference Share will offset to a lesser extent any decrease in value of any Reference Share with a higher weighting.

The notes may not have an active trading market. Your notes will not be listed on any securities exchange, and there may be little or no secondary market for your notes. Even if a secondary market for your notes develops, it may not provide significant liquidity. We expect that transaction costs in any secondary market would be high. As a result, the difference between bid and ask prices for your notes in any secondary market could be substantial. If you sell your notes before maturity, you may suffer substantial losses.

The notes will not reflect the full performance of the Reference Shares, which may negatively impact your return on the notes. Because (i) the calculation of the Redemption Amount includes a Participation Rate of less than 100%; (ii) the Adjusted Initial Share Price for each Reference Share will be increased by $0.01; and (iii) the Adjusted Final Share Price for each Reference Share will include a reduction of $0.01, the return, if any, on the notes will not reflect the full performance of the Reference Shares. Therefore, the yield to maturity based on the methodology for calculating the Redemption Amount will be less than the yield that would be produced if the Reference Shares were purchased and held for a similar period. For each $1,000 principal amount of the notes that you hold, the Basket Level Percentage must be at least approximately 103.09% for the Redemption Amount to exceed the principal amount. In addition, because the Participation Rate is less than 100%, the interest payments you receive on the notes will be less than the applicable Dividend Amounts.

The market value of your notes may be influenced by many unpredictable factors. The following factors, many of which are beyond our control, may influence the market value of your notes:

- the market prices of the Reference Shares;
- the dividend yields of the Reference Shares;
- economic, financial, political, military, regulatory, legal and other events that affect the securities markets generally and the U.S. markets in particular, and which may affect the values of the Reference Shares; and
- interest rates in the market.

These factors may influence the market value of your notes if you sell your notes before maturity. Our creditworthiness, as represented by our credit ratings or as otherwise perceived in the market will also affect the market value of your notes. If you sell your notes prior to maturity, you may receive less than your initial investment.

Payments on the notes are subject to our credit risk, and changes in our credit ratings may adversely affect the market value of the notes. The notes are our senior unsecured debt securities. The payment due on the maturity date and any interest payments are dependent upon our ability to repay our obligations at that time. This will be the case even if the values and dividend yields of the Reference Shares increase as of the interest calculation dates and the valuation dates. No assurance can be given as to what our financial condition will be at any time during the term of the notes.

The Adjusted Initial Share Price for each Reference Share will be based on the Average Intra-day Prices for that Reference Share on each averaging date, which may adversely affect the return on the notes. The Adjusted Initial Share Price of each Reference Share, which is used to determine the related Reference Share Performance and therefore the Basket Level Percentage, will be based on the Average Intra-day Prices of that Reference Share on each averaging date. The Average Intra-day Price for a Reference Share on any averaging date is the arithmetic mean of the prices at which we, or one or more of our affiliates execute transactions with respect to such Reference Share on each averaging date in order to hedge our obligations under the notes.

As a result, the hedging activities relating to each Reference Share by us or any of our affiliates may affect the calculation agent's determination of the Adjusted Initial Share Price for each Reference Share; therefore, these hedging activities may adversely affect the payment at maturity, if any.

The Adjusted Initial Share Price for each Reference Share will not be known until after the pricing date of the notes. The Adjusted Initial Share Price of the Reference Shares will be determined over three averaging dates. We expect that the first averaging date will be the pricing date of the notes. As a result, the Adjusted Initial Share Price of one or more Reference Shares may be substantially higher or lower than its market price on the date that you make your investment decision to purchase the notes.

The effect of the Adjusted Initial Share Price and the Adjusted Final Share Price for each Reference Share may negatively impact the Redemption Amount. The Adjusted Initial Share Price for each Reference Share will include an upward adjustment equal to $0.01, and the Adjusted Final Share Price will include a downward adjustment equal to $0.01 for each Reference Share. These adjustments are intended to compensate us for costs relating to the hedging of our obligations under the notes. Therefore, for the Reference Share Performance to be greater than 100%, the average performance over the valuation dates for each Reference Share must exceed its Unadjusted Initial Share Price by more than $0.02.

Accordingly, in order for the Redemption Amount to exceed the issue price of the notes, the weighted average performance of the Reference Shares over the valuation dates must exceed the Unadjusted Initial Share Prices by a sufficient amount to surpass the effect of the Participation Rate, plus $0.02. Accordingly, you could lose a substantial portion of your initial principal investment even if the average performance of one or more of the Reference Shares increases in value over the valuation dates.

The Adjusted Final Share Price of each Reference Share is based on the arithmetic average of its closing prices on each valuation date and may be less than the closing prices of such Reference Share prior to such dates or on any valuation date individually. The Adjusted Final Share Price of each Reference Share will be calculated based on the closing prices of that Reference Share on each of the valuation dates specified above. The prices prior to those dates will not be used to determine the Redemption Amount. Therefore, no matter how high the prices of the relevant Reference Shares may be during the term of the notes, only the closing prices of the Reference Shares on each of the valuation dates will be used to calculate the applicable Adjusted Final Share Prices and the Redemption Amount payable to you at maturity. In addition, because each Adjusted Final Share Price is based on the arithmetic average of the closing prices of the relevant Reference Share on each valuation date, the Adjusted Final Share Price calculated in this manner may be lower than the price of the relevant Reference Share on any single valuation date. Accordingly, the averaging feature may decrease the Adjusted Final Share Price and therefore your return on the notes.

Correlation among the Reference Shares may affect the value of your notes. The Reference Shares may not represent a diversified portfolio of securities. To the extent that the Reference Shares move in the same direction (i.e., are highly correlated), you will lose some or all of the benefits that would ordinarily attend a diversified portfolio of securities. The Reference Shares may be concentrated in a limited number of industries. An investment in the notes might increase your exposure to fluctuations in any of the sectors represented by the Basket.

We will not hold shares of any Reference Share for your benefit. The indenture and the terms governing your notes do not contain any restriction on our ability or the ability of any of our affiliates to sell, pledge or otherwise convey all or any portion of Reference Shares that we or they may acquire. Neither we nor our affiliates will pledge or otherwise hold any assets for your benefit, including any Reference Shares. Consequently, in the event of our bankruptcy, insolvency or liquidation, any of those assets that we own will be subject to the claims of our creditors generally and will not be available for your benefit specifically.

You must rely on your own evaluation of the merits of an investment linked to the Reference Shares. In the ordinary course of their business, BMOCM, Raymond James and our respective affiliates may have expressed views on expected movements in any Reference Share, and may do so in the future. These views or reports may be communicated to our clients, Raymond James' clients, and clients of our respective affiliates. However, these views are subject to change from time to time. Moreover, other professionals who transact business in markets relating to any Reference Share may at any time have significantly different views from those of our respective affiliates. For these reasons, you are encouraged to derive information concerning the Reference Shares from multiple sources, and you should not rely solely on views expressed by us or our respective affiliates.

Our trading and other transactions relating to the Reference Shares, futures, options or other derivative products may adversely affect the market value of the notes. As described below under "Use of Proceeds and Hedging," we or our affiliates may hedge our obligations under the notes by purchasing or selling the Reference Shares, futures or options relating to the Reference Shares, or other derivative instruments with returns linked or related to changes in the performance of the Reference Shares. We may adjust these hedges by, among other things, purchasing or selling those assets at any time. Although they are not expected to do so, any of these hedging activities may adversely affect the prices of the Reference Shares, and therefore, the market value of the notes, and the amount payable at maturity. It is possible that we or one or more of our affiliates could receive substantial returns from these hedging activities, even though the market value of the notes decreases.

We, Raymond James, or one or more of our respective affiliates may also engage in trading relating to the Reference Shares on a regular basis as part of our general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for our customers, including block trades. Any of these activities could adversely affect the prices of the Reference Shares and, therefore, the market value of the notes. We, Raymond James, or one or more of our respective affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to changes in the performance of the Reference Shares. By introducing competing products into the marketplace in this manner, we or one or more of our affiliates could adversely affect the market value of the notes.

Our business activities and the business activities of our affiliates may create conflicts of interest. As noted above, we, Raymond James, or one or more of our respective affiliates expect to engage in trading activities related to the Reference Shares that are not for the account of holders of the notes or on their behalf. These trading activities may present a conflict between the holders' interests in the notes and the interests we and our affiliates will have in their proprietary accounts, in facilitating transactions, including options and other derivatives transactions, for their customers and in accounts under their management. These trading activities, if they influence the prices of the Reference Shares, could be adverse to the interests of the holders of the notes. We, Raymond James, or one or more of our respective affiliates may, at present or in the future, engage in business with the issuers of the Reference Shares, including making loans to or providing advisory services to those companies. These services could include investment banking and merger and acquisition advisory services. These activities may present a conflict between our or one or more of our affiliates' obligations and your interests as a holder of the notes. Moreover, we, Raymond James and our respective affiliates have published, and in the future expect to publish, research reports with respect to most or even all of the Reference Shares. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the notes. Even if our affiliates or Raymond James provides research that expresses a negative opinion about one or more of the Reference Shares, or if market conditions in housing-related sectors or other sectors change, the composition of the Basket will not change during the term of the notes (except under the limited circumstances described below). Any of these activities by us or one or more of our affiliates may affect the prices of the Reference Shares and, therefore, the market value of the notes.

As calculation agent, BMOCM will have the authority to make determinations that could affect the value of your notes and your payment at maturity. As calculation agent for your notes, BMOCM will have discretion in making various determinations that affect your notes, including determining the Adjusted Initial Share Prices, the Adjusted Final Share Prices, the Basket Level Percentage, the Redemption Amount, the amounts of any interest payments on the notes, and whether any market disruption event has occurred. The calculation agent also has discretion in making certain adjustments relating to mergers and certain other corporate transactions that a Reference Share Issuer may undertake. The exercise of this discretion by BMOCM could adversely affect the value of your notes and may present BMOCM, which is our wholly owned subsidiary, with a conflict of interest.

The historical performance of the Reference Shares should not be taken as an indication of their future performance. The Adjusted Final Share Prices of the Reference Shares will determine the Redemption Amount. The historical performance of the Reference Shares does not necessarily give an indication of their future performance. As a result, it is impossible to predict whether the prices of the Reference Shares will rise or fall during the term of the notes. The prices of the Reference Shares will be influenced by complex and interrelated political, economic, financial and other factors.

Holders of the Reference Shares are only entitled to receive those dividends as each issuer's board of directors may declare out of funds legally available. Although dividends and distributions on one or more of the Reference Shares may have historically been declared by the applicable board of directors, they are not required to do so and may reduce or eliminate those dividends in the future. The Dividend Amount of one or more of the Reference Shares during the term of the notes may be zero. If the dividends paid on the Reference Shares are not significant, any interest payments that you receive on the notes may not be sufficient to provide you with your desired return on the notes.

Significant aspects of the tax treatment of the notes are uncertain and may be less favorable than a direct investment in the Reference Shares. The tax treatment of the notes is uncertain. We do not plan to request a ruling from the Internal Revenue Service or from any Canadian authorities regarding the tax treatment of the notes, and the Internal Revenue Service or a court may not agree with the tax treatment described in this pricing supplement. Although the U.S. federal income tax treatment of the interest payments is uncertain, we intend to take the position that such interest payments constitute taxable ordinary income to a United States holder at the time received or accrued in accordance wt;">
616

Provision for income taxes
136

137

223

222

Net income
$
231

$
240

$
378

$
394

Net income per share:

Basic
$
1.05

$
1.01

$
1.71

$
1.64

Diluted
$
1.04

$
1.00

$
1.70

$
1.63

Dividends declared and paid per share

$
0.35

$

0.32

$
0.70

$
0.64

See accompanying Notes to Consolidated Financial Statements

KOHL'S CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In Millions)

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Net income	$231	$240	$378	$394
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments	—	(2)	4	—
Reclassification adjustment for interest expense on interest rate derivative included in net income	1	1	2	2
Other comprehensive income (loss)	1	(1)	6	2
Comprehensive income	$232	$239	$384	$396

See accompanying Notes to Consolidated Financial Statements

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KOHL'S CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In Millions, Except per Share Data)

	Common Stock		Paid-In	Treasury Stock		Accumulated Other Comprehensive	Retained	
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Total
Balance at February 2, 2013	360	$4	$2,454	(138)	$(7,243)	$(45)	$10,878	$6,048
Comprehensive income	—	—	—	—	—	6	378	384
Stock options and awards	2	—	74	—	—	—	—	74
Net income tax impact from stock-based compensation	—	—	(12)	—	—	—	—	(12)
Dividends paid ($0.70 per common share)	—	—	—	—	2	—	(153)	(151)
Treasury stock purchases	—	—	—	(6)	(290)	—	—	(290)
Balance at August 3, 2013	362	$4	$2,516	(144)	$(7,531)	$(39)	$11,103	$6,053

See accompanying Notes to Consolidated Financial Statements

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KOHL'S CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Millions)

	Six Months Ended	
	August 3, 2013	July 28, 2012
Operating activities		
Net income	$378	$394
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	439	411
Share-based compensation	27	24
Excess tax benefits from share-based compensation	(2)	(3)
Deferred income taxes	(12)	(13)
Other non-cash revenues and expenses	18	8
Changes in operating assets and liabilities:		
Merchandise inventories	(103)	(300)
Other current and long-term assets	22	40
Accounts payable	89	298
Accrued and other long-term liabilities	(20)	(166)
Income taxes	(74)	(111)
Net cash provided by operating activities	762	582
Investing activities		
Acquisition of property and equipment	(284)	(429)
Sales of investments in auction rate securities	1	51
Other	13	2
Net cash used in investing activities	(270)	(376)
Financing activities		
Treasury stock purchases	(279)	(623)
Dividends paid	(153)	(153)
Proceeds from financing obligations	—	4
Capital lease and financing obligation payments	(52)	(61)
Proceeds from stock option exercises	46	19
Excess tax benefits from share-based compensation	2	3
Deferred financing costs	(1)	—
Net cash used in financing activities	(437)	(811)
Net increase (decrease) in cash and cash equivalents	55	(605)
Cash and cash equivalents at beginning of period	537	1,205
Cash and cash equivalents at end of period	$592	$600
Supplemental information:		
Interest paid, net of capitalized interest	$162	$160
Income taxes paid	308	347
Non-Cash Investing and Financing Activities		
Property and equipment acquired through additional liabilities	$100	$42

See accompanying Notes to Consolidated Financial Statements

KOHL'S CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for fiscal year end financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and related footnotes included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013 (Commission File No. 1-11084) as filed with the Securities and Exchange Commission on March 22, 2013.

Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. In addition, quarterly results of operations may be impacted by the timing and amount of sales and costs associated with the opening of new stores.

We operate as a single business unit.

To conform to the current year presentations, we have corrected the presentation of $27 million of deferred revenues that were previously recorded as a reduction to merchandise inventory as of July 28, 2012.

2. Debt

Long-term debt consists of the following non-callable and unsecured senior debt:

Maturing	August 3, 2013 and February 2, 2013			July 28, 2012		
	Effective Rate		Out-standing	Effective Rate		Out-standing
	(Dollars in Millions)					
2017	6.31	%	$650	6.31	%	$650
2021	4.81	%	650	4.81	%	650
2023	3.25	%	350	—		—
2029	7.36	%	200	7.36	%	200
2033	6.05	%	300	6.05	%	300
2037	6.89	%	350	6.89	%	350
Total senior debt	5.63	%	2,500	6.01	%	2,150
Unamortized debt discount			(8)			(9)
Long-term debt			$2,492			$2,141

During the quarter, we amended the $1 billion revolving line of credit that we finalized in June 2011. The amendment extended the remaining term from June 2016 to June 2018 and changed the debt ratio covenant.

3. Fair Value Measurements

ASC No. 820, "Fair Value Measurements and Disclosures," requires fair value measurements be classified and disclosed in one of the following pricing categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2: Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly

	or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
Level 3:	Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

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KOHL'S CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes our financial instruments:

		August 3, 2013		February 2, 2013		July 28, 2012	
	Pricing Category	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
		(In Millions)					
Cash and cash equivalents	Level 1	$592	$592	$537	$537	$600	$600
Long-term investments	Level 3	83	58	84	53	142	102
Debt	Level 1	2,492	2,663	2,492	2,702	2,141	2,511

Our long-term investments consist primarily of investments in auction rate securities ("ARS"). The fair value for our ARS were based on third-party pricing models which utilized a discounted cash flow model for each of the securities as there was no recent activity in the secondary markets in these types of securities. This model used a combination of observable inputs which were developed using publicly available market data obtained from independent sources and unobservable inputs that reflect our own estimates of the assumptions that market participants would use in pricing the investments. Observable inputs include interest rate currently being paid, maturity and credit ratings.

Unobservable inputs include expected redemption date and discount rate. We assumed a seven-year redemption period in valuing our ARS. We intend to hold our ARS until maturity or until we can liquidate them at par value. Based on our other sources of income, we do not believe we will be required to sell them before recovery of par value. In some cases, holding the security until recovery may mean until maturity, which ranges from 2037 to 2039. The discount rate was calculated using the closest match available for other insured asset backed securities. Discount rates ranged from 6.57% to 9.47%. The weighted-average discount rate was 7.64%. A market failure scenario was employed as recent successful auctions of these securities were very limited. Assuming a longer redemption period and a higher discount rate would result in a lower fair market value. Similarly, assuming a shorter redemption period and a lower discount rate would result in a higher fair market value.

The following table presents a rollforward of our long-term investments:

	Six Months Ended	
	August 3, 2013	July 28, 2012
	(In Millions)	
Balance at beginning of year	$53	$153
Sales	(1)	(51)
Unrealized gains	6	—
Balance at end of period	$58	$102

4. Stock-Based Compensation

The following table summarizes our stock-based compensation expense:

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
	(In Millions)			
Stock options	$6	$5	$9	$10
Restricted shares	12	7	18	14
Total stock-based compensation expense	$18	$12	$27	$24

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KOHL'S CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes stock-based compensation grants:

	Six Months Ended	
	August 3, 2013	July 28, 2012
	(In Thousands)	
Stock options granted	489	1,135
Restricted shares, excluding shares earned in lieu of cash dividends, granted	859	799
Total stock-based compensation grants	1,348	1,934
Weighted average fair value at grant date:		
Stock options	$10.37	$11.64
Restricted shares	$47.91	$48.36

5. Contingencies

We are subject to certain legal proceedings and claims arising out of the conduct of our business. In the opinion of management, the outcome of these proceedings and litigation will not have a material adverse impact on our consolidated financial statements.

6. Net Income Per Share

The following table summarizes our basic and diluted net income per share calculations:

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
	(In Millions)			
Numerator—Net income	$231	$240	$378	$394
Denominator—Weighted average shares:				
Basic	220	238	221	240
Impact of dilutive employee stock options	2	1	1	2
Diluted	222	239	222	242
Antidilutive shares	9	13	12	13

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For purposes of the following discussion, all references to "the quarter" and "the second quarter" are for the 13-week fiscal periods ended August 3, 2013 and July 28, 2012 and all references to "year to date" are for the 26-week fiscal periods ended August 3, 2013 and July 28, 2012.
The following discussion should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this report, as well as the financial and other information included in our 2012 Annual Report on Form 10-K (our "2012 Form 10-K"). The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed elsewhere in this report and in our 2012 Form 10-K (particularly in "Risk Factors").

Executive Summary

As of August 3, 2013, we operated 1,155 family-oriented department stores and a website (www.Kohls.com) that sell moderately priced apparel, footwear and accessories for women, men and children; soft home products such as sheets and pillows; and housewares. Our product offerings include quality private and exclusive brands which are found "Only at Kohl's" as well as national brands which appeal to classic, modern classic and contemporary customers. Our stores generally carry a consistent merchandise assortment with some differences attributable to regional preferences. Our website includes merchandise which is available in our stores, as well as merchandise which is available only on-line.
The following table summarizes our results for the quarter and year to date:

	Quarter	Year to Date
	(Dollars in Millions)	
Net sales	$4,289	$8,488
Net sales increase	2.0 %	0.5 %
Comparable store sales increase (decrease)	0.9 %	(0.5)%
Gross margin as a percent of net sales	39.1 %	37.7 %
Selling, general and administrative expenses	$1,000	$1,997
Net income	$231	$378
Net earnings per diluted share	$1.04	$1.70
Shares repurchased (In Millions)	3.4	5.5
Treasury stock purchases	$170	$279

Our main business objective is to profitably increase sales. In order to increase sales, we believe that we need to continue to improve the quality of our merchandise and to offer items at great value. We are pleased with the progress we have made in these areas, but believe that we need to continue to progress in order to increase transactions per store, which is our primary sales driver.

After a successful pilot in Texas during the second quarter, we expect to expand our loyalty program to California in the third quarter. The loyalty program allows enrolled customers to earn various rewards or discounts based upon the volume of their purchases. We continue to review the results of these pilots and modify earning thresholds, redemption time frames, in-store communication and other elements of the program. We believe that over the long-term the loyalty program could be a powerful tool to increase customer traffic and sales.

Our marketing remains focused on the great values that Kohl's offers, but also has an increased emphasis on the various brands that we offer. This includes both our "Only-at-Kohl's" brands and our national brands. This marketing message had a positive impact on our national brands - especially our largest brands - in the quarter.

We remain committed to meeting the changing shopping needs of our customer, to strengthening our omni-channel experience and to investing in our future in a strategic and profitable manner. During the quarter, we successfully replaced our E-Commerce platform. The replatform occurred in stages throughout the quarter. We also invested in several IT projects which will provide the infrastructure and other tools necessary to support our omni-channel strategy.

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Results of Operations

Net sales.

Net sales increased $84 million, or 2.0%, to $4.3 billion in the second quarter of 2013. Year to date, net sales increased $41 million, or 0.5%, to $8.5 billion. On a comparable store basis, sales increased 0.9% for the quarter and decreased 0.5% year to date. We define comparable store sales as sales from stores (including relocated and remodeled stores) open throughout the full current and prior fiscal periods and from E-Commerce.

The following table summarizes the changes in sales:

	Quarter		Year to Date	
	$	%	$	%
	(Dollars in Millions)			
Comparable store sales:				
Stores	$(28)	(0.7)%	$(188)	(2.4)%
E-Commerce	66	27.9	144	29.6
Total	38	0.9	(44)	(0.5)
New stores and other revenues	46	—	85	—
Increase in net sales	$84	2.0 %	$41	0.5 %

Drivers of the changes in comparable store sales were as follows:

	Quarter	Year to Date
Selling price per unit	(3.6)%	(2.4)%
Units per transaction	4.8	3.6
Average transaction value	1.2	1.2
Number of transactions	(0.3)	(1.7)
Comparable store sales	0.9 %	(0.5)%

The decrease in selling price per unit was due to lower prices and higher penetration of clearance merchandise, partially offset by higher selling prices on regular-priced merchandise. Units per transaction increased as customers purchased more items in response to the lower prices. Increases in the number of E-Commerce transactions were more than offset by decreases in our stores. Year-to-date transactions were also negatively impacted by an unseasonably cold spring which reduced customer visits early in the year.

All of our warmer weather regions - the West, South Central and Southeast - reported higher comparable store sales for the quarter. Year to date, the West region reported the highest increase in comparable store sales. The Midwest and Northeast reported lower comparable store sales for the quarter. The Mid-Atlantic region was the poorest performing region in both the quarter and year to date.

E-Commerce revenues totaled $303 million for the quarter and $632 million year to date. E-Commerce sales increased in both periods primarily due to more transactions which were the result of investments in this business, including digital marketing to drive traffic to the site, and increases in the number of merchandise offerings which are available only on-line.

For the quarter, Children's was the strongest line of business. Footwear and Men's also outperformed the Company. The Home business reported higher comparable store sales, but was slightly below the Company average. Notable Home categories included luggage, bedding and electrics. In Women's, active/fitness and national branded bottoms reported the highest sales increases. In Accessories, bath and beauty was the strongest category.

Year to date, Children's reported the highest sales increases. Footwear and Home outperformed the Company average. Sales in the Men's, Women's and Accessories businesses all decreased slightly. Notable sales increases were reported in Men's basics, Women's active/fitness, bath and beauty Accessories and athletic Footwear. In the Home business, electrics and luggage reported the highest sales increases.

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Gross margin.

Gross margin includes the total cost of products sold, including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs; inventory shrink; markdowns; freight expenses associated with moving merchandise from our vendors to our distribution centers; shipping and handling expenses of E-Commerce sales; and terms cash discount. Our gross margin may not be comparable with that of other retailers because we include distribution center costs in selling, general and administrative expenses while other retailers may include these expenses in cost of merchandise sold.

The following table summarizes gross margin as a percent of sales:

	Quarter			Year to Date		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Merchandise margin	39.7 %	39.6 %	6 bp	38.3 %	38.1 %	34 bp
Shipping impact	(0.6)	(0.6)	(4)	(0.6)	(0.6)	(7)
Gross margin	39.1 %	39.0 %	2 bp	37.7 %	37.5 %	27 bp

The increases in merchandise margin reflect lower markdowns and reduced inventory shortage. The decrease in gross margin attributable to shipping is due to growth in our E-Commerce business, partially offset by lower shipping losses.

E-Commerce decreased our gross margin rate by approximately 80 basis points for both the quarter and year to date. Our E-Commerce business currently has a lower gross margin than our stores due to the mix of products sold on-line and free or related shipping promotions. As our E-Commerce business has grown, it has had a more significant impact on our overall gross margin results.

Selling, general and administrative expenses.

	Quarter				Year to Date			
			Increase				Increase	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in Millions)							
Selling, general and administrative expenses	$1,000	$975	$25	3 %	$1,997	$1,977	$20	1 %
As a percent of net sales	23.3 %	23.2 %			23.5 %	23.4 %		

Selling, general and administrative expenses ("SG&A") include compensation and benefit costs (including stores, headquarters, buying and merchandising and distribution centers); occupancy and operating costs of our retail, distribution and corporate facilities; freight expenses associated with moving merchandise from our distribution centers to our retail stores and among distribution and retail facilities; marketing expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs; net revenues from our Kohl's credit card operations; and other administrative revenues and expenses. SG&A also includes the costs incurred prior to new store openings, such as advertising, hiring and training costs for new employees, processing and transporting initial merchandise, and rent expense. We do not include depreciation and amortization in SG&A. The classification of these expenses varies across the retail industry.

The following table summarizes the changes in SG&A by expense type:

	Quarter	Year to Date
	(In Millions)	
Store expenses	$23	$24
Marketing costs, excluding credit card operations	5	(8)
Corporate expenses	2	16

Distribution costs	2	6
Net revenues from credit card operations	(7)	(18)
Increase in SG&A	$25	$20

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Many of our expenses, including store payroll and distribution costs, are variable in nature. These costs generally increase as sales increase and decrease as sales decrease. We measure both the change in these variable expenses and the expense as a percent of sales. If the expense as a percent of sales decreased from the prior year, the expense “leveraged” and indicates that the expense was well-managed or effectively generated additional sales. If the expense as a percent of sales increased over the prior year, the expense "deleveraged" and indicates that sales growth was less than expense growth. SG&A as a percent of sales increased, or "deleveraged," by approximately 10 basis points for both the quarter and year to date.

The increases in store expenses are the result of higher store payroll to support the higher sales, higher rent-related expenses due to new stores, and higher controllable expenses including repairs and maintenance and expenses associated with rolling out our merchandise location system. Year to date, these increases were partially offset by lower remodel costs.

Marketing costs deleveraged for the quarter as we increased our spending in digital and broadcast and added Texas to our loyalty program pilot. Year to date, advertising leveraged approximately 10 basis points.

Corporate expenses leveraged as savings in payroll and benefits, including incentive compensation, were partially offset by increased IT spending related to growth and infrastructure investments related to our omni-channel strategy.

Distribution costs deleveraged in both the quarter and year to date. We continue to improve our efficiency in E-Commerce fulfillment, however, which reported significant leverage as a percent of E-Commerce sales.

The increases in net revenues from credit card operations are the result of higher finance charge revenues and late fees due to growth in the portfolio. Partially offsetting these increases were higher bad debt expenses and other operational costs. Year-to-date expenses are also higher as a result of the new credit card servicing platform which was implemented in the first quarter of 2012.

Other Expenses.

	Quarter				Year to Date			
			Increase (Decrease)				Increase (Decrease)	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in Millions)							
Depreciation and amortization	$225	$210	$15	7%	$439	$411	$28	7%
Interest expense, net	84	80	4	5%	167	162	5	3%
Provision for income taxes	136	137	(1)	(1)%	223	222	1	—%
Effective tax rate	37.1%	36.3%			37.1%	36.0%		

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The increases in depreciation and amortization are primarily due to technology investments across the company. The increases in interest expense are primarily due to the September 2012 debt issuance. The increase in the effective tax rate for the quarter was primarily due to favorable settlements of state tax audits in 2012.

Seasonality and Inflation

Our business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the second half of each fiscal year, which includes the back-to-school and holiday seasons. Approximately 15% of annual sales typically occur during the back-to-school season and 30% during the holiday season. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Revenues and expenses associated with the opening of new stores may also effect our quarterly results.

Although we expect that our operations will be influenced by general economic conditions, including rising food, fuel and energy prices, we do not believe that inflation has had a material effect on our results of operations. However, there can be no assurance that our business will not be affected by such factors in the future. In 2012, we saw modest increases in apparel costs in the first six months and mid-single-digit decreases in the last six months of the year. In 2013, we have seen decreases in apparel costs.

Financial Condition and Liquidity

Our primary ongoing cash requirements are for capital expenditures for new stores, remodels and IT spending and for seasonal and new store inventory purchases. Share repurchases and dividend payments to shareholders are currently other

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significant usages of cash. These payments are discretionary and can be discontinued at any time should we require cash for other uses. Our primary sources of funds are cash flows provided by operations, short-term trade credit and our lines of credit. Short-term trade credit, in the form of extended payment terms for inventory purchases, often represents a significant source of financing for merchandise inventories. We may from time to time issue new debt. The amount of new debt issued, if any, will depend on prevailing market conditions, our cash needs and our capital structure. Seasonal cash needs may be met by cash on hand and/or the line of credit available under our revolving credit facility. Our working capital and inventory levels typically build throughout the fall, peaking during the November and December holiday selling season.

	2013	2012	Increase in Cash $	%
Net cash provided by (used in):	(Dollars in Millions)			
Operating activities	$762	$582	$180	31%
Investing activities	(270)	(376)	106	28%
Financing activities	(437)	(811)	374	46%

Operating Activities. Operating activities generated $762 million of cash in 2013, compared to $582 million in 2012. Merchandise inventory, excluding E-Commerce, increased 6% over July 28, 2012 to $3.2 million per store as we increased inventory during 2013 to more normalized levels. Accounts payable as a percent of inventory was 36.2% at August 3, 2013, compared to 43.5% at July 28, 2012. The decrease is primarily due to reducing our second quarter inventory receipts to manage our inventory levels as well as slower inventory turnover.

Investing Activities. Net cash used in investing activities reflects a $145 million decrease in capital spending primarily due to fewer remodels and new stores as well as lower spending on E-Commerce fulfillment centers, partially offset by higher technology spending.

Financing Activities. Financing activities used cash of $437 million in 2013 and $811 million in 2012.

We paid cash for treasury stock purchases of $279 million in 2013 and $623 million in 2012. Share repurchases are discretionary in nature. The timing and amount of repurchases is based upon available cash balances, our stock price and other factors. We paid cash dividends of $153 million in both 2013 and 2012. On August 13, 2013, our board of directors declared a quarterly cash dividend of $0.35 per common share. The dividend is payable September 25, 2013 to shareholders of record at the close of business on September 11, 2013.

Free Cash Flow. We generated free cash flow of $426 million in the first six months of 2013, more than four times higher than the first six months of 2012. The increase is primarily due to higher cash from operating activities and lower capital expenditures, as discussed in more detail above. Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities and proceeds from financing obligations (which generally represent landlord reimbursements of construction costs) less capital expenditures and capital lease and financing obligations. Free cash flow should be evaluated in addition to, and not considered a substitute for, other financial measures such as net income and cash flow provided by operations. We believe that free cash flow represents our ability to generate excess cash flow from our business operations.

The following table reconciles net cash provided by operating activities (a GAAP measure) to free cash flow (a non-GAAP measure).

	2013	2012	Increase (Decrease)
	(In Millions)		
Net cash provided by operating activities	$762	$582	$180
Acquisition of property & equipment	(284)	(429)	145
Capital lease & financing obligation payments	(52)	(61)	9
Proceeds from financing obligations	—	4	(4)
Free cash flow	$426	$96	$330

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Key financial ratios. Key financial ratios that provide certain measures of our liquidity are as follows:

	August 3, 2013	July 28, 2012
Liquidity Ratios:		
Working capital (In Millions)	$2,199	$1,840
Current ratio	1.82	1.69
Debt/capitalization	43.1 %	40.6 %

The increases in working capital and the current ratio as of August 3, 2013 compared to July 28, 2012 are due to higher inventory levels and lower accounts payable, partially offset by leases and other accrued liabilities. The increase in the debt/capitalization ratio reflects the issuance of $350 million of debt in September 2012 and lower capitalization, primarily due to share repurchases.

Debt Covenant Compliance. As of August 3, 2013, we were in compliance with all debt covenants and expect to remain in compliance during fiscal 2013. During the quarter, we amended the $1 billion revolving line of credit that we finalized in June 2011. The amendment extended the remaining term from June 2016 to June 2018 and changed the required debt covenant.

	(Dollars in Millions)
Included Indebtedness	
Total debt	$ 4,595
Permitted exclusions	(8)
Subtotal	4,587
Rent x 8	2,160
Included Indebtedness	$ 6,747
Rolling 12-month EBITDAR	
Net income	$ 971
Rent expense	270
Depreciation and amortization	862
Net interest	332
Provision for income taxes	576
Stock based compensation	54
Other non-cash revenues and expenses	18
Rolling 12-month EBITDAR	$ 3,083
Debt Ratio (a)	2.19
Maximum permitted Debt Ratio	3.75

(a) Included indebtedness divided by Rolling 12-month EBITDAR

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Contractual Obligations

There have been no significant changes in the contractual obligations disclosed in our 2012 Form 10-K.

Off-Balance Sheet Arrangements

We have not provided any financial guarantees as of August 3, 2013. We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of capital resources.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts. Management has discussed the development, selection and disclosure of its estimates and assumptions with the Audit Committee of our Board of Directors. There have been no significant changes in the critical accounting policies and estimates discussed in our 2012 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the market risks described in our 2012 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (the “Evaluation”) at a reasonable assurance level as of the last day of the period covered by this Report.

Based upon the Evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level. Disclosure controls and procedures are defined by Rules 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act") as controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions, regardless of how remote.

(b) Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended August 3, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no significant changes in our risk factors from those described in our 2012 Form 10-K.

Forward-looking Statements

This report contains statements that may constitute forward-looking statements within the meaning of the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Those statements relate to developments, results, conditions or other events we expect or anticipate will occur in the future.

Words such as “believes,” “anticipates,” “plans,” “expects” and similar expressions are intended to identify forward-looking statements. Without limiting the foregoing, these statements may relate to future outlook, revenues, earnings, store openings, planned capital expenditures, market conditions, new strategies and the competitive environment. Forward-looking statements are based

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on our management's then current views and assumptions and, as a result, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Any such forward-looking statements are qualified by the important risk factors, described in Item 1A of our 2012 Form 10-K, that could cause actual results to differ materially from those predicted by the forward-looking statements. Forward-looking statements relate to the date initially made, and we undertake no obligation to update them. An investment in our common stock or other securities carries certain risks. Investors should carefully consider the risks as stated in our 2012 Form 10-K and other risks which may be disclosed from time to time in our filings with the SEC before investing in our securities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We did not sell any securities during the quarter ended August 3, 2013 which were not registered under the Securities Act.

The following table contains information for shares repurchased and shares acquired from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employees' restricted stock during the three fiscal months ended August 3, 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				(In Millions)
May 5 – June 1, 2013	232,880	$50.23	227,300	$ 3,006
June 2 – July 6, 2013	2,161,970	51.42	2,105,827	2,898
July 7 – August 3, 2013	1,024,896	53.25	1,016,920	2,844
Total	3,419,746	$51.89	3,350,047	$ 2,844

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Exhibit Number	Description
4.1	Credit Agreement Amendment dated as of June 21, 2013 by and among the Company, the Lenders party thereto, Bank of America, N.A., as the Administrative Agent and as a Continuing Lender and as an Issuing Bank and a Swing Line Lender, U.S Bank National Association, as a Continuing Lender, an Issuing Bank, and a Swing Line Lender, and Wells Fargo Bank, National Association, as a Continuing Lender, an Issuing Bank, and a Swing Line Lender.
12.1	Ratio of Earnings to Fixed Charges.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kohl’s Corporation
(Registrant)

Date: September 4, 2013

/s/ Wesley S. McDonald
Wesley S. McDonald
On behalf of the Registrant and as Senior Executive Vice President and Chief Financial Officer
(Principal Financial and Chief Accounting Officer)

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