CHILDRENS PLACE RETAIL STORES INC
Form 10-Q
September 03, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 3, 2013

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-23071

THE CHILDREN'S PLACE RETAIL STORES, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	31-1241495 (I.R.S. employer identification number)
500 Plaza Drive Secaucus, New Jersey (Address of Principal Executive Offices)	 07094 (Zip Code)

(201) 558-2400
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The number of shares outstanding of the registrant’s common stock with a par value of $0.10 per share, as of August 29, 2013 was 22,310,377 shares.

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THE CHILDREN’S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED AUGUST 3, 2013

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PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

THE CHILDREN'S PLACE RETAIL STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	August 3, 2013 (unaudited)	February 2, 2013	July 28, 2012 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$149,675	$194,128	$158,621
Short-term investments	35,000	15,000	—
Accounts receivable	29,722	18,490	23,408
Inventories	325,695	266,976	265,708
Prepaid expenses and other current assets	39,508	40,927	45,899
Deferred income taxes	12,577	9,714	9,008
Total current assets	592,177	545,235	502,644
Long-term assets:			
Property and equipment, net	311,867	330,101	330,838
Deferred income taxes	49,722	43,678	47,606
Other assets	4,215	4,396	4,272
Total assets	$957,981	$923,410	$885,360
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Current liabilities:			
Accounts payable	$153,235	$87,461	$72,809
Income taxes payable	3,832	2,459	3,046
Accrued expenses and other current liabilities	120,022	101,586	91,637
Total current liabilities	277,089	191,506	167,492
Long-term liabilities:			
Deferred rent liabilities	88,723	92,598	96,115
Other tax liabilities	7,377	7,864	9,012
Other long-term liabilities	9,476	10,493	8,187
Total liabilities	382,665	302,461	280,806
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Preferred stock, $1.00 par value, 1,000 shares authorized, 0 shares issued and outstanding	—	—	—
Common stock, $0.10 par value, 100,000 shares authorized; 22,430, 23,179 and 24,147 issued; 22,399, 23,155 and 24,120 outstanding	2,243	2,318	2,415
Additional paid-in capital	218,807	215,691	211,952
Treasury stock, at cost (31, 24, 27 shares)	(1,451)	(1,119)	(1,211)
Deferred compensation	1,451	1,119	1,211
Accumulated other comprehensive income	7,516	13,258	12,585

Retained earnings	346,750	389,682	377,602
Total stockholders’ equity	575,316	620,949	604,554
Total liabilities and stockholders’ equity	$957,981	$923,410	$885,360

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN'S PLACE RETAIL STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Net sales	$382,448	$360,826	$805,612	$799,334
Cost of sales (exclusive of depreciation and amortization)	256,266	246,121	516,162	505,984
Gross profit	126,182	114,705	289,450	293,350
Selling, general and administrative expenses	124,408	120,671	243,416	242,954
Asset impairment charges	21,766	280	21,766	1,530
Other costs (income)	61	3,062	(962)	3,896
Depreciation and amortization	15,593	17,482	32,417	34,700
Operating income (loss)	(35,646)	(26,790)	(7,187)	10,270
Interest income (expense), net	—	(30)	60	(81)
Income (loss) before income taxes	(35,646)	(26,820)	(7,127)	10,189
Provision (benefit) for income taxes	(12,010)	(8,896)	(2,763)	3,379
Net income (loss)	$(23,636)	$(17,924)	$(4,364)	$6,810
Earnings (loss) per common share				
Basic	$(1.05)	$(0.74)	$(0.19)	$0.28
Diluted	$(1.05)	$(0.74)	$(0.19)	$0.28
Weighted average common shares outstanding				
Basic	22,514	24,249	22,779	24,392
Diluted	22,514	24,249	22,779	24,533

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN’S PLACE RETAIL STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Net income (loss)	$(23,636)	$(17,924)	$(4,364)	$6,810
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	(4,524)	(2,809)	(5,742)	(295)
Comprehensive income (loss)	$(28,160)	$(20,733)	$(10,106)	$6,515

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN'S PLACE RETAIL STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Twenty-six Weeks Ended	
	August 3, 2013	July 28, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(4,364)	$6,810
Reconciliation of net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	32,417	34,700
Stock-based compensation	10,950	6,957
Excess tax benefits from stock-based compensation	(37)	—
Deferred taxes	(12,471)	324
Asset impairment charges	21,766	1,530
Deferred rent expense and lease incentives	(5,919)	(6,371)
Other	4,741	4,967
Changes in operating assets and liabilities:		
Inventories	(60,012)	(27,856)
Prepaid expenses and other assets	(10,299)	(7,291)
Income taxes payable, net of prepayments	4,935	5,765
Accounts payable and other current liabilities	84,135	32,806
Deferred rent and other liabilities	(1,686)	8,217
Total adjustments	68,520	53,748
Net cash provided by operating activities	64,156	60,558
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment purchases, lease acquisition and software costs	(38,670)	(44,237)
Purchase of short-term investments	(20,000)	—
Purchase of company-owned life insurance policies	(10)	(28)
Net cash used in investing activities	(58,680)	(44,265)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings for letters of credit under revolving credit facility	77,016	54,157
Repayments for letters of credit under revolving credit facility	(77,016)	(54,157)
Purchase and retirement of common stock, including transaction costs	(47,919)	(34,887)
Exercise of stock options	1,408	996
Excess tax benefits from stock-based compensation	37	—
Net cash used in financing activities	(46,474)	(33,891)
Effect of exchange rate changes on cash	(3,455)	(436)
Net decrease in cash and cash equivalents	(44,453)	(18,034)
Cash and cash equivalents, beginning of period	194,128	176,655
Cash and cash equivalents, end of period	$149,675	$158,621

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN’S PLACE RETAIL STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Twenty-six Weeks Ended	
	August 3, 2013	July 28, 2012
OTHER CASH FLOW INFORMATION:		
Net cash paid (refunded) during the period for income taxes	$5,106	$(2,704)
Cash paid during the period for interest	259	350
Increase (decrease) in accrued purchases of property and equipment	(827)	1,320

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN’S PLACE RETAIL STORES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of The Children’s Place Retail Stores, Inc. (the “Company”) as of August 3, 2013 and July 28, 2012 and the results of its consolidated operations and cash flows for the twenty-six weeks ended August 3, 2013 and July 28, 2012. The consolidated financial position as of February 2, 2013 was derived from audited financial statements. Due to the seasonal nature of the Company’s business, the results of operations for the twenty-six weeks ended August 3, 2013 and July 28, 2012 are not necessarily indicative of operating results for a full fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2013.

Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

Terms that are commonly used in the Company’s notes to condensed consolidated financial statements are defined as follows:

- Second Quarter 2013 — The thirteen weeks ended August 3, 2013.
- Second Quarter 2012 — The thirteen weeks ended July 28, 2012.
- Year-To-Date 2013 — The twenty-six weeks ended August 3, 2013.
- Year-To-Date 2012 — The twenty-six weeks ended July 28, 2012.
- First Quarter 2013 — The thirteen weeks ended May 4, 2013.
- FASB — Financial Accounting Standards Board.
- SEC — U.S. Securities and Exchange Commission.
- U.S. GAAP — Generally Accepted Accounting Principles in the United States.
- FASB ASC — FASB Accounting Standards Codification, which serves as the source for authoritative U.S. GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative U.S. GAAP for SEC registrants.

Changes in Accounting Principle

During the fourth quarter of fiscal 2012 the Company elected to change its method of accounting for inventories from the retail inventory method to an average cost method. In addition, the Company has elected to capitalize additional supply chain costs, which were previously expensed as incurred. The Company elected to make the changes because it believes they better reflect the value of its inventory as of the balance sheet dates, provide a better reflection of its periodic net income and improves comparability with its peers. In the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013, it applied the changes in the method of accounting for inventory retrospectively to all prior periods presented within the consolidated financial statements.

Short-term Investments

Short-term investments consist of investments which the Company expects to convert into cash within one year, including time deposits, which have original maturities greater than 90 days. The Company classifies its investments in securities at the time of purchase as held-to-maturity and reevaluates such classifications on a quarterly basis. Held-to-maturity investments consist of securities that the Company has the intent and ability to retain until maturity. These securities are recorded at cost and adjusted for the amortization of premiums and discounts, which approximates fair value. Cash inflows and outflows related to the sale and purchase of investments are classified as investing activities in the Company's consolidated statements of cash flows.

Stock-based Compensation

The Company generally grants time vesting stock awards ("Deferred Awards") and performance-based stock awards ("Performance Awards") to employees at management levels. The Company also grants Deferred Awards to its non-employee

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directors. Deferred Awards are granted in the form of restricted stock units that require each recipient to complete a service period. Deferred Awards generally vest ratably over three years except for those granted to non-employee directors, which generally vest over one year. Performance Awards are granted in the form of restricted stock units which have performance criteria that must be achieved for the awards to vest in addition to a service period requirement. Each Performance Award has a defined number of shares that an employee can earn ("Target Shares") and based on the performance level achieved, the number of shares earned can be anywhere from zero up to a maximum percentage of Target Shares, as defined in the award agreement, which generally has been 200%. Performance Awards have generally cliff vested after a three year service period, except those granted pursuant to a contract. The fair value of all awards issued prior to May 20, 2011 was based on the average of the high and low selling price of the Company's common stock on the grant date. Effective with the adoption of the Company's 2011 Equity Incentive Plan, the fair value of all awards granted on or after May 20, 2011 is based on the closing price of the Company's common stock on the grant date. Stock-based compensation expense is recognized ratably over the related service period reduced for estimated forfeitures of those awards not expected to vest due to employee turnover. Stock-based compensation expense, as it relates to Performance Awards, is also adjusted based on the Company's estimate of the percentage of the aggregate Target Shares expected to be earned.

Deferred Compensation Plan

The Company has a deferred compensation plan (the "Deferred Compensation Plan"), which is a nonqualified, unfunded plan, for eligible senior level employees. Under the plan, participants may elect to defer up to 80% of his or her base salary and/or up to 100% of his or her bonus to be earned for the year following the year in which the deferral election is made. The Deferred Compensation Plan also permits members of the Board of Directors to elect to defer payment of all or a portion of their retainer and other fees to be earned for the year following the year in which a deferral election is made. In addition, eligible employees and directors of the Company may also elect to defer payment of any shares of Company stock that is earned with respect to stock-based awards. Directors may elect to have all or a certain portion of their fees earned for their service on the Board invested in shares of the Company's common stock. Such elections are irrevocable. The Company is not required to contribute to the Deferred Compensation Plan, but at its sole discretion, can make additional contributions on behalf of the participants. Deferred amounts are not subject to forfeiture and are deemed invested among investment funds offered under the Deferred Compensation Plan, as directed by each participant. Payments of deferred amounts (as adjusted for earnings and losses) are payable following separation from service or at a date or dates elected by the participant at the time the deferral is elected. Payments of deferred amounts are generally made in either a lump sum or in annual installments over a period not exceeding 15 years. All deferred amounts are payable in the form in which they were made except for board fees invested in shares of the Company's common stock, which will be settled in shares of Company common stock. Earlier distributions are not permitted except in the case of an unforeseen hardship.

The Company has established a rabbi trust that serves as an investment to shadow the Deferred Compensation Plan liability. The assets of the rabbi trust are general assets of the Company and as such, would be subject to the claims of creditors in the event of bankruptcy or insolvency. The investments of the rabbi trust consist of company-owned life insurance policies ("COLIs") and Company common stock. The Deferred Compensation Plan liability, excluding Company common stock, is included in other long-term liabilities and changes in the balance, except those relating to payments, are recognized as compensation expense. The cash surrender values of the COLIs are included in other assets and related earnings and losses are recognized as investment income or loss, which is included in selling, general and administrative expenses. Company stock deferrals are included in the equity section of the Company's consolidated balance sheet as treasury stock and as a deferred compensation liability. Deferred stock is recorded at fair market value at the time of deferral and any subsequent changes in fair market value are not recognized.

The Deferred Compensation Plan liability, excluding Company stock, at fair value, was approximately $0.3 million, $0.7 million, and $0.6 million at August 3, 2013, February 2, 2013 and July 28, 2012, respectively. The cash surrender value of the COLIs, at fair value, was approximately $0.7 million at each of August 3, 2013, February 2, 2013 and July 28, 2012. Company stock was $1.5 million, $1.1 million, and $1.2 million at August 3, 2013, February 2, 2013 and July 28, 2012, respectively.

Exit or Disposal Cost Obligations

In accordance with the "Exit or Disposal Cost Obligations" topic of the FASB ASC, the Company records its exit and disposal costs at fair value to terminate an operating lease or contract when termination occurs before the end of its term and without future economic benefit to the Company. In cases of employee termination benefits, the Company recognizes an obligation only when all of the following criteria are met:

- management, having the authority to approve the action, commits to a plan of termination;
- the plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date;

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- the plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated; and
- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

During the first quarter of fiscal 2012, management approved a plan to exit its distribution center in Ontario, California (the "West Coast DC") and move the operations to its distribution center in Fort Payne, Alabama (the "Southeast DC"). The lease of the West Coast DC expires in March 2016 and the Company ceased using the facility in May 2012. During fiscal 2012, the Company recognized approximately $4.2 million of costs in exiting the West Coast DC, which primarily included lease termination costs (net of anticipated sublease income), asset disposal costs, and severance to affected employees. These costs are included in other costs in the accompanying condensed consolidated statements of operations. Remaining costs associated with the exit of the West Coast DC are not expected to be material.

In August 2012, management approved a plan to close the Company's distribution center in Dayton, New Jersey ("Northeast DC") and move the operations to its Southeast DC. The Company ceased operations in the Northeast DC during the fourth quarter of fiscal 2012. The lease of its Northeast DC expires in January 2021 and the Company ceased using the facility in May 2013. During fiscal 2012, the Company recognized approximately $6.8 million of costs in exiting the Northeast DC, which primarily included lease termination costs (net of anticipated sublease income), accelerated depreciation, and severance to affected employees. During the Second Quarter 2013, the Company executed a sublet arrangement for this facility. As a result of higher than anticipated sublease income, the Company reduced the Northeast DC accrual by $1.5 million during Year-To-Date 2013. These costs are included in other costs in the accompanying condensed consolidated statements of operations. Remaining costs associated with the exit of the Northeast DC are not expected to be material.

At July 28, 2012, the Company had a remaining accrual of $2.5 million related to the West Coast DC lease termination costs, of which $0.7 million was included in accrued expenses and other current liabilities and $1.8 million was included in other long-term liabilities. The following table provides details of the remaining accruals for the West Coast DC and Northeast DC as of August 3, 2013, of which approximately $2.1 million was included in accrued expenses and other current liabilities and approximately $2.3 million was included in other long-term liabilities (dollars in thousands):

	Other Associated Costs	Lease Termination Costs	Total
Balance at February 2, 2013	$—	$8,376	$8,376
Restructuring costs	236	(1,198)	(962)
Payments and reductions	(236)	(2,755)	(2,991)
Balance at August 3, 2013	$—	$4,423	$4,423

Retained Earnings

The Company is currently restricted from paying dividends in cash under its credit facility agreement (see Note 6). There are no other restrictions on the Company's retained earnings.

Fair Value Measurement and Financial Instruments

The “Fair Value Measurements and Disclosure” topic of the FASB ASC provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities.

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities

- Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

The Company’s cash and cash equivalents, short-term investments, accounts receivable, accounts payable and credit facility are all short-term in nature. As such, their carrying amounts approximate fair value and fall within Level 1 of the fair

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value hierarchy. The underlying assets and liabilities of the Company's Deferred Compensation Plan, excluding Company stock, fall within Level 1 of the fair value hierarchy. The Company stock that is included in the Deferred Compensation Plan is not subject to fair value measurement.

Recently Adopted Accounting Updates

In February 2013, the FASB issued guidance finalizing the reporting of amounts reclassified out of accumulated other comprehensive income. The new standard requires the registrant to disclose either in a single note or parenthetically on the face of the financial statements the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. The guidance is effective for annual reporting periods and interim periods within those years beginning after December 15, 2012. In the first quarter of 2013, the Company adopted the guidance and determined that there were no significant amounts reclassified in the period that would require enhanced disclosure.

2. STOCKHOLDERS' EQUITY

On March 3, 2011 the Company's Board of Directors authorized a share repurchase program in the amount of $100 million (the “2011 Share Repurchase Program”), on March 7, 2012, a share repurchase program in the amount of $50 million (the "2012 $50 million Share Repurchase Program") and on November 26, 2012 a share repurchase program in the amount of $100 million (the "2012 Share Repurchase Program"). The 2012 $50 million Share Repurchase Program and the 2011 Share Repurchase Program have been completed. At August 3, 2013, there was approximately $32.6 million remaining on the 2012 Share Repurchase Program. Under the 2012 Share Repurchase Program, the Company may repurchase shares in the open market at current market prices at the time of purchase or in privately negotiated transactions. The timing and actual number of shares repurchased under the program will depend on a variety of factors including price, corporate and regulatory requirements, and other market and business conditions. The Company may suspend or discontinue the program at any time, and may thereafter reinstitute purchases, all without prior announcement.

Pursuant to restrictions imposed by the Company's insider trading policy during black-out periods, the Company withholds and retires shares of vesting stock awards in exchange for payments to satisfy the withholding tax requirements of certain recipients. The Company's payment of the withholding taxes in exchange for the shares constitutes a purchase of its common stock. The Company also acquires shares of its common stock in conjunction with liabilities owed under the Company's Deferred Compensation Plan, which are held in treasury.

The following table summarizes the Company's share repurchases (in thousands):

	Twenty-six Weeks Ended			
	August 3, 2013		July 28, 2012	
	Shares	Value	Shares	Value
Shares repurchases related to:				
2011 Share buyback program	—	$—	377.2	$19,245
2012 $50 million Share buyback program	—	—	335.6	15,604
2012 Share buyback program (1)	968.4	47,802	—	—
Withholding taxes	1.5	117	0.8	38
Shares acquired and held in treasury	6.5	$332	12.6	$613

(1) Subsequent to August 3, 2013 and through August 29, 2013, the Company repurchased approximately 0.1 million shares for approximately $4.7 million.

In accordance with the “Equity” topic of the FASB ASC, the par value of the shares retired is charged against common stock and the remaining purchase price is allocated between additional paid-in capital and retained earnings. The portion charged against additional paid-in capital is done using a pro rata allocation based on total shares outstanding. Related to all shares retired during Year-To-Date 2013 and Year-To-Date 2012, approximately $38.6 million and $28.7 million, respectively, were charged to retained earnings.

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3. STOCK-BASED COMPENSATION

The following table summarizes the Company's stock-based compensation expense (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Deferred Awards	$3,311	$3,224	$6,842	$5,601
Performance Awards	2,207	736	4,108	1,356
Total stock-based compensation expense (1)	$5,518	$3,960	$10,950	$6,957

(1) During the Second Quarter 2013 and the Second Quarter 2012, approximately $0.9 million and $0.5 million, respectively, were included in cost of sales. During Year-To-Date 2013 and Year-To-Date 2012, approximately $1.6 million and $0.8 million, respectively, were included in cost of sales. All other stock-based compensation is included in selling, general & administrative expenses.

The Company recognized a tax benefit related to stock-based compensation expense of approximately $4.3 million and $2.7 million for Year-To-Date 2013 and Year-To-Date 2012, respectively.

Awards Granted During Year-To-Date 2013

The Company granted Deferred Awards and Performance Awards to various executives and members of our Board of Directors during Year-To-Date 2013. Awards were issued in connection with annual performance reviews, new hires and contractual obligations. Generally, the Deferred Awards have a three year vesting period with one third of the award vesting annually. Deferred Awards granted to the Board of Directors vest after one year. In general, the Performance Awards have three annual performance periods and one three-year cumulative performance period and, if earned, vest upon completion of the three year performance period. As required by her employment contract, the Performance Award granted to the Company's Chief Executive Officer and President, if earned, has a one year vest period. Depending on the final adjusted operating income for the Company's performance periods, the percentage of Target Shares earned can be 0% and range up to 200%.

Unfavorable weather conditions across the country resulted in the Company achieving revenues which were well below operating plan for the First Quarter 2013. As a result, prior to the end of the First Quarter 2013, the Board of Directors chose to revise the operating plan for the 2013 fiscal year. The Board revised the plan in a manner which will require management to reverse the first quarter trends and to achieve results for the remainder of fiscal 2013 which exceed the results attained during the comparable period in fiscal 2012. Following the Board action, the Compensation Committee revised the performance target (and related threshold and maximum) for purposes of the Company's Performance Awards granted during the First Quarter 2013 to bring them in line with the revised operating plan. However, in order to take into account the First Quarter 2013 results, the revised threshold, target and maximum levels were set such that achievement of the revised performance target for fiscal 2013 will result in less than the number of Target Shares being earned. The revisions to Performance Award targets did not have a material effect on the Company's Year-To-Date 2013 financial statements.

Changes in the Company's Unvested Stock Awards during Year-To-Date 2013

Deferred Awards

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested Deferred Awards, beginning of period	560	$49.53
Granted	370	48.59
Vested	(171)	49.16
Forfeited	(27)	49.75

Unvested Deferred Awards, end of period	732	$49.13

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated $28.6 million as of August 3, 2013, which will be recognized over a weighted average period of approximately 2.6 years.

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Performance Awards

	Number of Shares (1)	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested Performance Awards, beginning of period	172	$48.59
Granted	204	47.89
Vested	(2	