CHILDRENS PLACE RETAIL STORES INC
Form 10-Q
September 04, 2009
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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 1, 2009

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)
915 Secaucus Road **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 o 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 definition of an accelerated filer, large 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 (Don t check if smaller reporting company)	Smaller reporting company o

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 31, 2009 was 27,355,204 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 1, 2009

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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 shares issued, authorized and outstanding)

	(unaudited) August 1, 2009	January 31, 2009	(unaudited) August 2, 2008
ASSETS			
Current assets:			
Cash and cash equivalents	$ 152,198	$ 226,206	$ 146,704
Accounts receivable	21,792	19,639	26,150
Inventories	262,986	211,227	219,100
Prepaid expenses and other current assets	52,236	42,674	78,167
Deferred income taxes	47,907	19,844	22,149
Restricted assets in bankruptcy estate of subsidiary			85,265
Total current assets	537,119	519,590	577,535
Long-term assets:			
Property and equipment, net	310,795	318,116	333,783
Deferred income taxes	69,753	96,104	91,163
Other assets	5,207	5,947	6,705
Total assets	$ 922,874	$ 939,757	$ 1,009,186
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES:			
Current liabilities:			
Revolving Loan	$	$	$
Short term portion of term loan	38,000	30,000	30,000
Accounts payable	89,249	73,333	80,287
Income taxes payable	3,869	3,166	5,526
Accrued expenses and other current liabilities	89,219	100,496	93,619
Liabilities in bankruptcy estate of subsidiary			108,409
Total current liabilities	220,337	206,995	317,841
Long-term liabilities:			
Deferred rent liabilities	104,043	105,565	105,016
Other tax liabilities	9,100	17,150	24,119
Long term portion of term loan		55,000	55,000
Other long-term liabilities	6,161	7,168	10,984
Total liabilities	339,641	391,878	512,960
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS EQUITY:			
Preferred stock, $1.00 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at August 1, 2009, January 31, 2009, and August 2, 2008			

Common stock, $0.10 par value, 100,000,000 shares authorized, 29,668,337, 29,465,065 and 29,337,505 issued and outstanding at August 1, 2009, January 31, 2009, and August 2, 2008, respectively		2,967		2,947		2,933
Additional paid-in capital		214,358		205,858		202,484
Accumulated other comprehensive income (loss)		7,283		(3,090)		11,486
Retained earnings		358,625		342,164		279,323
Total stockholders equity		583,233		547,879		496,226
Total liabilities and stockholders equity	$	922,874	$	939,757	$	1,009,186

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 1, 2009	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Net sales	$ 315,676	$ 338,029	$ 717,577	$ 738,241
Cost of sales	210,377	209,480	445,751	438,600
Gross profit	105,299	128,549	271,826	299,641
Selling, general and administrative expenses	106,093	105,793	217,986	225,203
Asset impairment charge	315	127	1,414	127
Depreciation and amortization	17,564	17,709	35,088	35,361
Operating income (loss)	(18,673)	4,920	17,338	38,950
Interest (expense), net	(1,462)	(398)	(4,730)	(891)
Income (loss) from continuing operations before income taxes	(20,135)	4,522	12,608	38,059
Provision (benefit) for income taxes	(12,906)	1,786	(3,904)	15,903
Income (loss) from continuing operations	(7,229)	2,736	16,512	22,156
Income (loss) from discontinued operations, net of income taxes	178	(2,725)	(51)	(2,627)
Net income (loss)	$ (7,051)	$ 11	$ 16,461	$ 19,529
Basic earnings (loss) per share amounts (1)				
Income (loss) from continuing operations	$ (0.24)	$ 0.09	$ 0.56	$ 0.76
Income (loss) from discontinued operations, net of income taxes	0.01	(0.09)	(0.00)	(0.09)
Net income (loss)	$ (0.24)	$ 0.00	$ 0.56	$ 0.67
Basic weighted average common shares outstanding	29,552	29,255	29,514	29,177
Diluted earnings (loss) per share amounts (1)				
Income (loss) from continuing operations	$ (0.24)	$ 0.09	$ 0.56	$ 0.75
Income (loss) from discontinued operations, net of income taxes	0.01	(0.09)	(0.00)	(0.09)
Net income (loss)	$ (0.24)	$ 0.00	$ 0.55	$ 0.66
Diluted weighted average common shares outstanding	29,552	29,599	29,746	29,395

(1) *Table may not add due to rounding*

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 1, 2009	August 2, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,461	$ 19,529
Less (loss) from discontinued operations	(51)	(2,627)
Income from continuing operations	16,512	22,156
Reconciliation of net income to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	35,088	35,361
Other amortization	2,140	232
(Gain) loss on disposal of property and equipment	493	(1,695)
Asset impairments	1,414	127
Stock-based compensation	4,539	2,780
Deferred taxes	(5,879)	37,186
Deferred rent expense and lease incentives	(8,361)	(7,849)
Changes in operating assets and liabilities:		
Accounts receivable	(1,901)	6,316
Inventories	(48,594)	(23,242)
Prepaid expenses and other assets	(3,851)	(1,097)
Accounts payable	14,977	51,349
Accrued expenses and other current liabilities	(12,306)	803
Intercompany (discontinued operations)		(17,995)
Income taxes payable, net of prepayments	(2,396)	(19,370)
Deferred rent and other liabilities	1,255	2,832
Total adjustments	(23,382)	65,738
Net cash provided by (used in) operating activities of continuing operations	(6,870)	87,894
Net cash provided by (used in) operating activities of discontinued operations	(51)	23,228
Net cash provided by (used in) operating activities	(6,921)	111,122
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment purchases, lease acquisition and software costs	(27,085)	(18,530)
Cash received for sale of store assets and leases		2,300
Net cash (used in) investing activities of continuing operations	(27,085)	(16,230)
Net cash (used in) investing activities of discontinued operations		(23,743)
Net cash (used in) investing activities	(27,085)	(39,973)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facilities	86,300	649,174
Repayments under revolving credit facilities	(86,300)	(718,735)
Borrowings (payments) on term loan	(47,000)	85,000
Purchase of common stock	(254)	
Exercise of stock options	1,840	3,695
Capital contribution to subsidiary in discontinued operations		(8,250)
Deferred financing costs		(3,839)
Net cash provided by (used in) financing activities of continuing operations	(45,414)	7,045
Net cash (used in) financing activities of discontinued operations		(11,878)
Net cash (used in) financing activities	(45,414)	(4,833)
Effect of exchange rate changes on cash of continuing operations	5,412	(987)

Effect of exchange rate changes on cash of discontinued operations				(251)
Effect of exchange rate changes on cash		5,412		(1,238)
Net increase (decrease) in cash and cash equivalents		(74,008)		65,078
Cash and cash equivalents, beginning of period		226,206		81,626
Cash and cash equivalents, end of period	$	152,198	$	146,704

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 1, 2009	**August 2, 2008**
OTHER CASH FLOW INFORMATION:		
Net cash paid (refunded) for income taxes	$ 7,446	$ (4,012)
Cash paid for interest	3,633	1,591
(Decrease) in accrued purchases of property and equipment, lease acquisition and software costs	(600)	(10,757)

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 (consisting only of normal recurring accruals) necessary to present fairly The Children s Place Retail Stores, Inc. s (the Company) consolidated financial position as of August 1, 2009, January 31, 2009 and August 2, 2008, the results of its consolidated operations for the thirteen weeks and twenty-six weeks ended August 1, 2009 and August 2, 2008, and its consolidated cash flows for the twenty-six weeks ended August 1, 2009 and August 2, 2008. Due to the seasonal nature of the Company s business, the results of operations for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008 are not necessarily indicative of operating results for a full fiscal year. The accompanying unaudited condensed consolidated financial statements have the Disney Store business classified as discontinued operations in accordance with U.S. GAAP, reflecting the Company s exit of the Disney Store business in the first quarter of fiscal 2008 (see Note 2-Discontinued Operations). 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 January 31, 2009.

Recently Adopted Accounting Pronouncements

On February 1, 2009, the first day of fiscal 2009, the Company adopted FSP 157-2 Effective Date of FASB Statement No. 157, which delayed the effective date of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, (SFAS 157) for all non-financial assets and non-financial liabilities until the beginning of the first quarter of fiscal 2009. This adoption did not have any impact on the Company s condensed consolidated financial statements.

In the second quarter of fiscal 2009, the Company adopted SFAS No. 165, Subsequent Events (SFAS 165). This statement establishes standards for accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued. In accordance with SFAS 165, the Company evaluates subsequent events through the date its financial statements are issued. For the quarter ended August 1, 2009, subsequent events have been evaluated through September 3, 2009. The adoption of SFAS 165 did not have any impact on the Company s condensed consolidated financial statements.

In the second quarter of fiscal 2009, the Company adopted FSP 157-4 Determining Whether a Market Is Not Active and a Transaction Is Not Distressed, which provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157. FSP

157-4 provides additional authoritative guidance in determining whether a market is active or inactive, and whether a transaction is distressed and is applicable to all assets and liabilities (i.e. financial and non-financial) and requires enhanced disclosures. The adoption of FSP 157-4 did not have any impact on the Company s condensed consolidated financial statements.

In the second quarter of fiscal 2009, the Company adopted FSP 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which amends SFAS 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. The adoption of the provisions of FSP 107-1 and APB 28-1 did not have any impact on the Company s condensed consolidated financial statements, but did require additional disclosures, which are provided below- Fair Value Measurement and Financial Instruments.

Fair Value Measurement and Financial Instruments

Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, 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.

SFAS No. 157 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. SFAS No. 157 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, accounts receivable, accounts payable, credit facilities and certain other short-term financial instruments are all short-term in nature. As such, their carrying amounts approximate fair value. The Company s term loan had a carrying value of $38.0 million as of August 1, 2009, which approximated fair value, based on its payment in full on August 3, 2009.

2. DISCONTINUED OPERATIONS

During the first quarter of fiscal 2008, after a thorough review of the Disney Store business, its potential earnings growth, its capital needs and its ability to fund such needs from its own resources, the Company decided to exit the Disney Store business. The Company s subsidiaries that operated the Disney Store business are referred to herein interchangeably and collectively as Hoop.

After assessing the above factors and considering Hoop s liquidity, Hoop s Board of Directors determined that the best way to complete an orderly wind-down of Hoop s affairs was for Hoop to seek relief under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code). On March 26, 2008, Hoop Holdings, LLC, Hoop Retail Stores, LLC and Hoop Canada Holdings, Inc. each filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the U.S. Bankruptcy Court) (Case Nos. 08-10544, 08-10545, and 08-10546, respectively, the Cases). On March 27, 2008, Hoop Canada, Inc. filed for protection pursuant to the Companies Creditors Arrangement Act (the CCAA) in the Ontario Superior Court of Justice (Commercial List) (Canadian Bankruptcy Court) (Court File No. 08-CL-7453, and together with the Cases, the Filings). Each of the foregoing Hoop entities are referred to collectively herein as the Hoop Entities.

After receiving the approval of the U.S. Bankruptcy Court and the Canadian Bankruptcy Court, on April 30, 2008, Hoop transferred the Disney Store business in the U.S. and Canada and a substantial portion of the Disney Store assets to affiliates of the Walt Disney Company (Disney) in an asset sale, pursuant to an asset purchase agreement dated as of April 3, 2008 among the Hoop Entities and Disney (the Sale Agreement) and section 363 of the Bankruptcy Code (and a similar provision under the CCAA). Upon closing, affiliates of Disney paid approximately $61.6 million, including certain post-closing adjustments, for the acquired assets of the Disney Store business. The proceeds received from the asset sale are included in the assets of the Hoop Entities for distribution to their creditors pursuant to the plan of reorganization that was approved by the U.S. Bankruptcy Court on December 15, 2008 (the Plan). A similar plan was approved by the Canadian Bankruptcy Court.

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According to the terms of the asset sale, Hoop transferred 217 Disney Stores to affiliates of Disney and granted such affiliates the right to operate and wind-down the affairs of the remaining stores. The lease obligations associated with the stores that were not sold were rejected and resulting damage claims were administered pursuant to the Plan.

In April 2008, the Company entered into a settlement and release of claims agreement with Hoop and the official committee of unsecured creditors in the Cases (the Settlement Agreement), which was approved by the U.S. Bankruptcy Court on April 29, 2008. Under the Settlement Agreement, the Company agreed to provide transitional services and to forgive all pre- and post-bankruptcy petition claims against the Hoop Entities. Such claims included intercompany charges for shared services of approximately $24.9 million, a capital contribution made on March 18, 2008 of approximately $8.3 million, payment of severance and other employee costs for the Company s employees servicing Hoop of approximately $7.7 million, and $6.8 million of professional fees and other costs the Company has incurred during the Cases, as well as claims that might be asserted against the Company in the Cases. As of August 1, 2009, the Company has paid approximately $45.5 million related to the Settlement Agreement, and has remaining accruals of $2.1 million, primarily for legal claims and related costs, and severance.

On December 15, 2008, the U.S. Bankruptcy Court approved the Plan, pursuant to which the Hoop Entities that were U.S. debtors were dissolved and all assets and liabilities, including their investment in Hoop Canada, Inc., were transferred to a trust (the Trust), which is overseen by a trustee appointed by the U.S. Bankruptcy Court under the Plan and a trust oversight committee.

Upon effectiveness of the Plan in December 2008, the Company deconsolidated all Hoop Entities. As a result, all intercompany balances, including investments in subsidiaries, have been eliminated, and the net liabilities in excess of assets transferred resulted in a $25.5 million gain on the relief of indebtedness of discontinued operations in the fourth quarter of fiscal 2008. The Company continues to incur charges related to the wind-down of the Hoop Entities and such costs are expensed through discontinued operations as incurred.

For the twenty-six weeks ended August 1, 2009, loss from discontinued operations, net of taxes, is comprised primarily of professional fees associated with the wind-down of the Hoop Entities. For the twenty-six weeks ended August 2, 2008, loss from discontinued operations, net of income taxes is comprised of the following items:

- $10.6 million, pretax, of losses from the operation of the Disney Store business, including $129.2 million of net sales;

- $16.0 million, pretax, of professional, restructuring and severance expenses associated with the Hoop bankruptcy filings;

- a pretax gain on the disposal of the Disney Store business of approximately $23.1 million;

- pretax interest expense of $0.8 million; and

- the net tax benefit on the above items was approximately $1.6 million.

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3. STOCK-BASED COMPENSATION

The following tables summarize the Company s stock-based compensation expense (in thousands):

	Thirteen Weeks Ended August 1, 2009			
	Cost of Sales	Selling, General & Administrative	Discontinued Operations	Total
Stock option expense	$	$ 94	$	$ 94
Deferred stock expense	296	817		1,113
Restricted stock expense		253		253
Performance award expense		206		206
Total stock-based compensation expense	$ 296	$ 1,370	$	$ 1,666

	Twenty-six Weeks Ended August 1, 2009			
	Cost of Sales	Selling, General & Administrative	Discontinued Operations	Total
Stock option expense	$	$ 146	$	$ 146
Deferred stock expense	592	2,404		2,996
Restricted stock expense		432		432
Performance award expense		965		965
Total stock-based compensation expense	$ 592	$ 3,947	$	$ 4,539

	Thirteen Weeks Ended August 2, 2008			
	Cost of Sales	Selling, General & Administrative	Discontinued Operations	Total
Stock option expense	$	$ 209	$ 108	$ 317
Deferred stock expense	115	986		1,101
Restricted stock expense		155		155
Performance award expense		290		290
Total stock-based compensation expense	$ 115	$ 1,640	$ 108	$ 1,863

	Twenty-six Weeks Ended August 2, 2008			
	Cost of Sales	Selling, General & Administrative	Discontinued Operations	Total
Stock option expense	$	$ 299	$ 196	$ 495
Deferred stock expense	247	1,507	242	1,996
Restricted stock expense		266		266
Performance award expense		461		461
Total stock-based compensation expense	$ 247	$ 2,533	$ 438	$ 3,218

The Company recognized a tax benefit related to stock-based compensation expense of $1.8 million and $1.3 million for the twenty-six weeks ended August 1, 2009 and August 2, 2008, respectively.

The 2008 Long Term Incentive Plan (the LTIP) provides for the issuance of deferred stock awards and performance awards to key members of management (the Participants). The awards are based on salary level and the fair market value of the Company s common stock on the grant date. The deferred stock awards vest over three years and have a service requirement only. Key features of the performance awards are as follows:

- Each performance award has a defined number of shares that a Participant can earn (the Target Shares). Based on performance levels, Participants can earn up to 200% of their Target Shares.

- The awards have a service requirement and performance criteria that must be achieved for the awards to vest.

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• The performance criteria are based on the Company s achievement of operating income levels in each of the fiscal years 2008, 2009 and 2010, as well as in the aggregate.

• Awards may be earned in each of the fiscal years based upon meeting the established performance criteria for that year, however, except in certain circumstances, the Participants must be employed by the Company at the end of the three year performance period or their awards are forfeited.

On March 6, 2008, the Compensation Committee approved the performance criteria and thus established a grant date for accounting purposes.

During the twenty-six weeks ended August 1, 2009, the Company granted its annual deferred stock awards to its non-employee directors which provide for the issuance of an aggregate of 36,778 shares of common stock and an award to a then newly appointed non-employee director which provides for the issuance of 4,663 shares of common stock. These awards fully vest on the first anniversary of the date of grant. The Company also granted employee deferred stock awards of 2,500 shares, which vest equally over three years.

In February 2009, in conjunction with the amendment to the interim CEO s employment agreement, the Company awarded him 55,401 shares of restricted stock, of which 41,551 shares were immediately granted and vest ratably on a monthly basis over three years. The remaining 13,850 shares were contingent upon the Company s election to continue his employment as interim CEO beyond August 31, 2009, in accordance with the terms of the employment agreement. This election was made on July 31, 2009. These shares will vest 7/36 on September 1, 2009 and the remaining balance will vest 1/36 each month thereafter.

During the twenty-six weeks ended August 2, 2008, the Company awarded to key members of management: (a) 42,645 deferred stock awards; and (b) performance awards that provide for 42,645 Target Shares (assuming they are earned at 100%).

Deferred and Restricted Stock (Deferred Awards)

Changes in the Company s unvested deferred awards for the twenty-six weeks ended August 1, 2009 were as follows:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested deferred awards beginning of period	463	$ 32.84
Granted	99	20.63
Vested (1)	(121)	32.95
Forfeited	(19)	33.01

Unvested deferred awards, end of period	422	$	29.93

(1) The Company withheld approximately 10,196 shares from those that vested to satisfy withholding tax requirements, which were then retired.

Total unrecognized equity compensation expense related to unvested deferred awards approximated $10.0 million as of August 1, 2009, which will be recognized over a weighted average period of approximately 1.8 years.

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Performance Awards

Changes in the Company s unvested Performance Awards for the twenty-six weeks ended August 1, 2009 were as follows:

	Number of Performance Shares (1) (in thousands)	Weighted Average Grant Date Fair Value
Unvested performance shares, beginning of period	141	$ 24.28
Granted		
Vested		
Forfeited		
Unvested performance shares, end of period	141	$ 24.28

(1) The number of unvested performance shares is based on the Participants earning their Target Shares at 100%. As of August 1, 2009, the Company estimates that Participants will earn 167% of their Target Shares. The cumulative expense recognized reflects changes in estimates as they occur.

Total unrecognized equity compensation expense related to unvested performance awards approximated $2.8 million as of August 1, 2009, which will be recognized over a weighted average period of approximately 1.5 years.

Stock Option Plans

The Company estimates the fair value of issued stock options using the Black-Scholes option pricing model using certain assumptions for stock price volatility, risk-free interest rates, and the expected life of the options as of each grant date. In fiscal 2008, the Company ceased issuing stock options in favor of deferred and restricted awards, hence, no stock options were granted during the twenty-six weeks ended August 1, 2009. During the twenty-six weeks ended August 2, 2008, 30,000 options were granted to two then newly appointed members of the Company s Board of Directors and the following assumptions were used:

	August 2, 2008
Dividend yield	0%
Volatility factor (1)	45.6%
Weighted average risk-free interest rate (2)	3.2%
Expected life of options (3)	5.1 years
Weighted average fair value on grant date	$12.81 per share

(1) Expected volatility is based on a 50:50 blend of the historical and implied volatility with a two-year look back on the date of each grant.

(2) The risk-free interest rate is based on the risk-free rate corresponding to the grant date and expected term.

(3) The expected life used in the Black-Scholes calculation is based on a Monte Carlo simulation incorporating a forward-looking stock price model and a historical model of employee exercise and post-vest forfeiture behavior.

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Changes in the Company s stock options for the twenty-six weeks ended August 1, 2009 were as follows:

	Number of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 31, 2009	1,187	$ 31.73	4.6	$ 499
Granted				
Exercised	(93)	19.89	N/A	1,200
Forfeited	(40)	38.10	N/A	
Options outstanding at August 1, 2009	1,054	$ 32.53	4.2	$ 5,147
Options exercisable at August 1, 2009	994	$ 32.98	3.9	$ 4,682

Changes in the Company s unvested stock options for the thirteen weeks ended August 1, 2009 were as follows:

	Number of Options (in thousands)	Weighted Average Grant Date Fair Value
Unvested stock options, beginning of period	82	$ 10.87
Granted		