

BIG LOTS INC
Form 10-Q
December 05, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 27, 2012
or

○ 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 1-8897

BIG LOTS, INC.

(Exact name of registrant as specified in its charter)

Ohio

06-1119097

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

300 Phillipi Road, P.O. Box 28512, Columbus, Ohio

43228-5311

(Address of principal executive offices)

(Zip Code)

(614) 278-6800

(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☐ No○

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 (§ 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☐ No○

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

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer 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 No

The number of the registrant’s common shares, \$0.01 par value, outstanding as of November 30, 2012, was 57,894,062.

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BIG LOTS, INC.
 FORM 10-Q
 FOR THE FISCAL QUARTER ENDED OCTOBER 27, 2012

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Part I. Financial Information

Item 1. Financial Statements

BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except per share amounts)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net sales	\$ 1,134,205	\$ 1,138,286	\$ 3,646,723	\$ 3,532,695
Cost of sales (exclusive of depreciation expense shown separately below)	701,615	693,926	2,223,850	2,133,670
Gross margin	432,590	444,360	1,422,873	1,399,025
Selling and administrative expenses	412,692	412,581	1,243,230	1,179,095
Depreciation expense	26,590	22,873	78,149	64,965
Operating profit (loss)	(6,692)	) 8,906	101,494	154,965
Interest expense	(1,491)	) (922)	(2,722)	) (2,757)
Other income (expense)	46	(219)	45	(53)
Income (loss) from continuing operations before income taxes	(8,137)	) 7,765	98,817	152,155
Income tax expense (benefit)	(2,149)	) 3,524	41,935	59,669
Income (loss) from continuing operations	(5,988)	) 4,241	56,882	92,486
Income (loss) from discontinued operations, net of tax expense (benefit) of \$0, \$(33), \$(32), and \$(93), respectively	1	(51)	(48)	) (142)
Net income (loss)	\$ (5,987)	) \$ 4,190	\$ 56,834	\$ 92,344
Earnings (loss) per common share - basic:				
Continuing operations	\$ (0.10)	) \$ 0.07	\$ 0.94	\$ 1.33
Discontinued operations	—	—	—	—
	\$ (0.10)	) \$ 0.06	\$ 0.94	\$ 1.32
Earnings (loss) per common share - diluted:				
Continuing operations	\$ (0.10)	) \$ 0.06	\$ 0.93	\$ 1.31
Discontinued operations	—	—	—	—
	\$ (0.10)	) \$ 0.06	\$ 0.92	\$ 1.30
Weighted-average common shares outstanding:				
Basic	57,756	64,949	60,780	69,708
Dilutive effect of share-based awards	—	982	698	1,058
Diluted	57,756	65,931	61,478	70,766

The accompanying notes are an integral part of these consolidated financial statements.

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BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net income (loss)	\$(5,987	)\$4,190	\$56,834	\$92,344
Other comprehensive income (loss):				
Foreign currency translation	(152	)(786	(407	)(831
Amortization of pension, net of tax benefit of \$(231), \$(175), \$(688), and \$(527), respectively	349	269	1,054	804
Valuation adjustment of pension, net of tax benefit of \$(2), \$(115), \$(104), and \$(115), respectively	4	176	160	176
Total other comprehensive income (loss)	201	(341	) 807	149
Comprehensive income (loss)	\$(5,786	)\$3,849	\$57,641	\$92,493

The accompanying notes are an integral part of these consolidated financial statements.

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BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except par value)

	(Unaudited)	
	October 27, 2012	January 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$66,257	\$68,547
Inventories	1,190,749	825,195
Deferred income taxes	45,598	42,784
Other current assets	102,907	70,130
Total current assets	1,405,511	1,006,656
Property and equipment - net	601,943	572,767
Deferred income taxes	3,845	6,549
Goodwill	13,513	12,282
Other assets	40,090	43,056
Total assets	\$2,064,902	\$1,641,310
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$574,183	\$350,117
Property, payroll, and other taxes	81,275	74,396
Accrued operating expenses	68,628	56,088
Insurance reserves	36,784	35,159
KB bankruptcy lease obligation	3,069	3,115
Accrued salaries and wages	27,155	29,170
Income taxes payable	372	36,775
Total current liabilities	791,466	584,820
Long-term obligations	463,100	65,900
Deferred rent	72,491	59,320
Insurance reserves	50,702	49,794
Unrecognized tax benefits	15,799	18,681
Other liabilities	38,553	39,562
Shareholders' equity:		
Preferred shares - authorized 2,000 shares; \$0.01 par value; none issued	—	—
Common shares - authorized 298,000 shares; \$0.01 par value; issued 117,495 shares; outstanding 57,258 shares and 63,609 shares, respectively	1,175	1,175
Treasury shares - 60,237 shares and 53,886 shares, respectively, at cost	(1,677,911)	(1,423,524)
Additional paid-in capital	548,464	542,160
Retained earnings	1,775,775	1,718,941
Accumulated other comprehensive loss	(14,712)	(15,519)
Total shareholders' equity	632,791	823,233
Total liabilities and shareholders' equity	\$2,064,902	\$1,641,310

The accompanying notes are an integral part of these consolidated financial statements.

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BIG LOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity (Unaudited)

(In thousands)

	Common		Treasury		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance - January 29, 2011	73,894	\$ 1,175	43,601	\$(1,079,130)	\$523,341	\$ 1,511,877	\$(10,470)	\$946,793
Comprehensive income	—	—	—	—	—	92,344	149	92,493
Purchases of common shares	(9,806)	—	9,806	(317,721)	—	—	—	(317,721)
Exercise of stock options	334	—	(334)	8,429	(1,879)	—	—	6,550
Restricted shares vested	271	—	(271)	6,731	(6,731)	—	—	—
Tax benefit from share-based awards	—	—	—	—	2,257	—	—	2,257
Share activity related to deferred compensation plan	1	—	(1)	13	107	—	—	120
Share-based employee compensation expense	—	—	—	—	19,713	—	—	19,713
Balance - October 29, 2011	64,694	1,175	52,801	(1,381,678)	536,808	1,604,221	(10,321)	750,205
Comprehensive income	—	—	—	—	—	114,720	(5,198)	109,522
Purchases of common shares	(1,257)	—	1,257	(46,236)	—	—	—	(46,236)
Exercise of stock options	166	—	(166)	4,371	(512)	—	—	3,859
Restricted shares vested	—	—	—	—	—	—	—	—
Tax benefit from share-based awards	—	—	—	—	444	—	—	444
Share activity related to deferred compensation plan	6	—	(6)	19	140	—	—	159
Share-based employee compensation expense	—	—	—	—	5,280	—	—	5,280
Balance - January 28, 2012	63,609	1,175	53,886	(1,423,524)	542,160	1,718,941	(15,519)	823,233
Comprehensive income	—	—	—	—	—	56,834	807	57,641
Purchases of common shares	(8,232)	—	8,232	(304,038)	—	—	—	(304,038)
Exercise of stock options	1,395	—	(1,395)	36,965	(3,813)	—	—	33,152
Restricted shares vested	478	—	(478)	12,649	(12,649)	—	—	—
Tax benefit from share-based awards	—	—	—	—	8,088	—	—	8,088
Share activity related to deferred compensation plan	8	—	(8)	37	316	—	—	353
	—	—	—	—	14,362	—	—	14,362

Share-based employee
compensation expense
Balance - October 27,
2012

57,258 \$1,175 60,237 \$(1,677,911)\$548,464 \$1,775,775 \$(14,712)\$632,791

The accompanying notes are an integral part of these consolidated financial statements.

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BIG LOTS, INC. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows (Unaudited)
 (In thousands)

	Thirty-Nine Weeks Ended	
	October 27, 2012	October 29, 2011
Operating activities:		
Net income	\$56,834	\$92,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	70,691	55,905
Deferred income taxes	(1,043)	(3,972)
Loss on disposition of equipment	184	1,214
Non-cash share-based compensation expense	14,362	19,713
Excess tax benefit from share-based awards	(8,095)	(2,257)
Pension expense, net of contributions	2,742	1,316
Change in assets and liabilities, excluding effects of acquisition and foreign currency adjustments:		
Inventories	(365,637)	(330,419)
Accounts payable	224,194	230,778
Current income taxes	(52,301)	(48,601)
Other current assets	(11,189)	(15,053)
Other current liabilities	11,558	(4,976)
Other assets	(1,274)	(1,790)
Other liabilities	23,069	25,362
Net cash (used in) provided by operating activities	(35,905)	19,564
Investing activities:		
Capital expenditures	(100,382)	(102,319)
Cash proceeds from sale of property and equipment	787	645
Purchase of business, net of cash acquired	—	1,758
Return from restricted account	—	8,000
Other	(19)	1
Net cash used in investing activities	(99,614)	(91,915)
Financing activities:		
Net borrowings under bank credit facility	397,200	285,100
Payment of notes payable	—	(16,664)
Payment of capital lease obligations	(1,044)	(1,502)
Proceeds from the exercise of stock options	33,152	6,550
Excess tax benefit from share-based awards	8,095	2,257
Deferred bank credit facility fees paid	—	(2,970)
Payment for treasury shares acquired	(304,038)	(317,721)
Other	353	120
Net cash provided by (used in) financing activities	133,718	(44,830)
Impact of foreign currency on cash	(489)	(411)
Decrease in cash and cash equivalents	(2,290)	(117,592)
Cash and cash equivalents:		
Beginning of period	68,547	177,539
End of period	\$66,257	\$59,947

The accompanying notes are an integral part of these consolidated financial statements.

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BIG LOTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All references in this report to “we,” “us,” or “our” are to Big Lots, Inc. and its subsidiaries. We are North America’s largest broadband closeout retailer. At October 27, 2012, we operated 1,561 stores in two countries: the United States of America (“U.S.”) and Canada. We make available, free of charge, through the “Investor Relations” section of our website (www.biglots.com) under the “SEC Filings” caption, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). The contents of our websites are not part of this report.

The accompanying consolidated financial statements and these notes have been prepared in accordance with the rules and regulations of the SEC for interim financial information. The consolidated financial statements reflect all normal recurring adjustments which management believes are necessary to present fairly our financial condition, results of operations, and cash flows for all periods presented. These consolidated financial statements, however, do not include all information necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Interim results may not necessarily be indicative of results that may be expected for, or actually result during, any other interim period or for the year as a whole. We have historically experienced, and expect to continue to experience, seasonal fluctuations, with a larger percentage of our net sales and operating profit realized in our fourth fiscal quarter. The accompanying consolidated financial statements and these notes should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2012 (“2011 Form 10-K”).

Fiscal Periods

Our fiscal year ends on the Saturday nearest to January 31, which results in fiscal years consisting of 52 or 53 weeks. Unless otherwise stated, references to years in this report relate to fiscal years rather than calendar years. Fiscal year 2012 (“2012”) is comprised of the 53 weeks that began on January 29, 2012 and will end on February 2, 2013. Fiscal year 2011 (“2011”) was comprised of the 52 weeks that began on January 30, 2011 and ended on January 28, 2012. The fiscal quarters ended October 27, 2012 (“third quarter of 2012”) and October 29, 2011 (“third quarter of 2011”) were both comprised of 13 weeks. The year-to-date periods ended October 27, 2012 (“year-to-date 2012”) and October 29, 2011 (“year-to-date 2011”) were both comprised of 39 weeks.

Merchandise Inventories

We assign cost to merchandise inventories using the average cost retail inventory method. Under our previous inventory management system which was used through the end of 2011, we calculated average cost at the department level which constituted approximately 50 inventory cost pools. As previously disclosed, on January 29, 2012, the first day of 2012, we completed the implementation of our new inventory management systems, which has allowed us to more precisely determine our inventory cost under the retail method. We now calculate average cost at the class level which constitutes approximately 350 inventory cost pools.

This change in accounting principle, to include approximately 350 class inventory cost pools in the retail method calculation instead of approximately 50 departments in the calculation’s inventory cost pools, is preferable as it provides us with a more precise estimate of the average cost of our merchandise inventories.

Accounting Standards Codification (“ASC”) 250, “Accounting Changes and Error Corrections” requires that unless it is impracticable to do so, the voluntary adoption of a new accounting principle should be done retrospectively. Prior to January 29, 2012, the date we completed our implementation of SAP® for Retail, our accounting systems did not capture merchandise inventory costs with class level detail needed for us to recognize, measure and disclose amounts for prior periods under the retrospective application. In particular, the previous inventory system did not track or reconcile stock ledger information by class, but rather by department. Specifically, key items such as freight and shrink costs were aggregated at the department level, with no data identifier to the class, which made it impractical to retrospectively account for the change. Therefore, we have adopted this change in accounting principle prospectively from the beginning of the current year, as we can determine the cumulative effect in inventory cost as of that date.

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As the impact of the accounting change in the beginning of the current year inventory is immaterial, we have recognized the cumulative effect of the change in accounting principle as a current year expense by recording a reduction in inventory and a corresponding increase to cost of sales of approximately \$5.6 million in the first quarter of 2012. This non-cash charge reduced the year-to-date 2012 income from continuing operations and net income by approximately \$3.4 million and reduced the year-to-date 2012 basic and diluted earnings per share from continuing operations by \$0.06.

Selling and Administrative Expenses

Selling and administrative expenses include store expenses (such as payroll and occupancy costs) and costs related to warehousing, distribution, outbound transportation to our stores, advertising, purchasing, insurance, non-income taxes, and overhead. Our selling and administrative expense rates may not be comparable to those of other retailers that include distribution and outbound transportation costs in cost of sales. Distribution and outbound transportation costs included in selling and administrative expenses were \$41.9 million and \$42.3 million for the third quarter of 2012 and the third quarter of 2011, respectively, and \$123.2 million and \$119.4 million for the year-to-date 2012 and the year-to-date 2011, respectively.

Advertising Expense

Advertising costs, which are expensed as incurred, consist primarily of television and print advertising, internet marketing and advertising, and in-store point-of-purchase presentations. Advertising expenses are included in selling and administrative expenses. Advertising expenses were \$16.2 million and \$19.8 million for the third quarter of 2012 and the third quarter of 2011, respectively, and \$62.3 million and \$58.0 million for the year-to-date 2012 and the year-to-date 2011, respectively.

Foreign Currency Translation

The functional currency of our international subsidiary is the local currency of the country in which the subsidiary is located. We have one foreign subsidiary domiciled and operating in Canada. Foreign currency denominated assets and liabilities are translated into U.S. Dollars using the exchange rate in effect at the consolidated balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders' equity in accumulated other comprehensive income (loss). Gains and losses from foreign currency transactions, which are included in other income (expense), were not material for all periods presented.

Supplemental Cash Flow Disclosures

The following table provides supplemental cash flow information for the year-to-date 2012 and 2011:

(in thousands)	Thirty-Nine Weeks Ended	
	October 27, 2012	October 29, 2011
Supplemental disclosure of cash flow information:		
Cash paid for interest, including capital leases	\$2,005	\$1,949
Cash paid for income taxes, excluding impact of refunds	\$95,190	\$111,934
Non-cash activity:		
Assets acquired under capital leases	\$392	\$2,925
Accrued property and equipment	\$17,004	\$15,275
Notes payable assumed in acquisition	\$—	\$16,664

During the year-to-date 2012, our gross proceeds from borrowings under the 2011 Credit Agreement (as defined in note 2) were \$1,161.1 million and our gross repayments of borrowings under the 2011 Credit Agreement were \$763.9 million.

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NOTE 2 – BANK CREDIT FACILITY

On July 22, 2011, we entered into a \$700 million five-year unsecured credit facility (“2011 Credit Agreement”), which replaced our previous \$500 million three-year unsecured credit facility. The 2011 Credit Agreement expires on July 22, 2016. In connection with our entry into the 2011 Credit Agreement, we paid bank fees and other expenses in the aggregate amount of \$3.0 million, which are being amortized over the term of the agreement. Borrowings under the 2011 Credit Agreement are available for general corporate purposes, working capital and to repay certain of our indebtedness. The 2011 Credit Agreement includes a \$10 million Canadian swing loan sublimit, a \$30 million U.S. swing loan sublimit, a \$150 million letter of credit sublimit and a \$200 million Canadian revolving credit loan subfacility. The interest rates, pricing and fees under the 2011 Credit Agreement fluctuate based on our debt rating. The 2011 Credit Agreement allows us to select our interest rate for each borrowing from multiple interest rate options. The interest rate options are generally derived from the prime rate, LIBOR or CDOR. We may prepay revolving loans made under the 2011 Credit Agreement. The 2011 Credit Agreement contains financial and other covenants, including, but not limited to, limitations on indebtedness, liens and investments, as well as the maintenance of two financial ratios – a leverage ratio and a fixed charge coverage ratio. A violation of any of the covenants could result in a default under the 2011 Credit Agreement that would permit the lenders to restrict our ability to further access the 2011 Credit Agreement for loans and letters of credit and require the immediate repayment of any outstanding loans under the 2011 Credit Agreement. At October 27, 2012, we had \$463.1 million borrowings outstanding under the 2011 Credit Agreement and \$65.1 million was committed to outstanding letters of credit, leaving \$171.8 million available under the 2011 Credit Agreement.

NOTE 3 – FAIR VALUE MEASUREMENTS

In connection with our nonqualified deferred compensation plan, we had mutual fund investments of \$19.4 million and \$19.6 million at October 27, 2012 and January 28, 2012, respectively, which were recorded in other assets. These investments were classified as trading securities and were recorded at their fair value. The fair values of mutual fund investments were Level 1 valuations under the fair value hierarchy because each fund’s quoted market value per share was available in an active market.

The fair values of our long-term obligations are estimated based on the quoted market prices for the same or similar issues and the current interest rates offered for similar instruments. These fair value measurements are classified as Level 2 within the fair value hierarchy. Given the variable rate features and relatively short maturity of the instruments underlying our long-term obligations, the carrying value of these instruments approximates the fair value.

The carrying value of accounts receivable, accounts payable, and accrued expenses approximates fair value because of the relatively short maturity of these items.

NOTE 4 – SHAREHOLDERS’ EQUITY

Earnings per Share

There were no adjustments required to be made to the weighted-average common shares outstanding for purposes of computing basic and diluted earnings per share and there were no securities outstanding at October 27, 2012 or October 29, 2011, which were excluded from the computation of earnings per share other than antidilutive stock options and restricted stock awards. For the third quarter of 2012 and the third quarter of 2011, 3.1 million and 1.8 million, respectively, of the stock options outstanding were antidilutive and excluded from the computation of diluted earnings per share. For the year-to-date 2012 and the year-to-date 2011, 1.9 million and 1.5 million, respectively, of the stock options outstanding were antidilutive and excluded from the computation of diluted earnings per share. Antidilutive stock options generally consist of outstanding stock options where the exercise price per share is greater than the weighted-average market price per share for our common shares for each period. For the third quarter of

2012, 0.8 million of the restricted stock awards outstanding were antidilutive and excluded from the computation of diluted earnings per share. For each of the third quarter of 2011, the year-to-date 2012 and the year-to-date 2011, the restricted stock awards that were antidilutive were immaterial. Antidilutive stock options and restricted stock awards are excluded from the calculation because they decrease the number of diluted shares outstanding under the treasury stock method. For the third quarter of 2012, stock options and restricted stock awards were excluded from the calculation of diluted earnings (loss) per share because we incurred a net loss from continuing operations and those options and awards would have an antidilutive effect on the computation of diluted earnings (loss) per share; therefore, diluted weighted-average common shares equal basic weighted-average common shares for the third quarter of 2012.

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Share Repurchase Programs

On May 25, 2011, our Board of Directors authorized a share repurchase program providing for the repurchase of \$400.0 million of our common shares (“2011 Repurchase Program”). On May 22, 2012, our Board of Directors authorized a share repurchase program providing for the repurchase of \$200.0 million of our common shares (“2012 Repurchase Program”).

Our authorization under the 2011 Repurchase Program was exhausted during the first quarter of 2012. During the third quarter of 2012, we acquired approximately 1.6 million of our outstanding common shares for \$51.3 million, under the 2012 Repurchase Program, which exhausted our authorization under the 2012 Repurchase Program.

During the year-to-date 2012, we have acquired approximately 8.1 million of our outstanding common shares for \$298.5 million.

NOTE 5 – SHARE-BASED PLANS

We have issued nonqualified stock options and restricted stock awards under our shareholder-approved equity compensation plans. Our restricted stock awards, as described below and in note 7 to the consolidated financial statements in our 2011 Form 10-K, are expensed and reported as nonvested shares. We recognized share-based compensation expense of \$(0.3) million and \$6.2 million in the third quarter of 2012 and the third quarter of 2011, respectively, and \$14.4 million and \$19.7 million for the year-to-date 2012 and the year-to-date 2011, respectively.

The weighted-average fair value of stock options granted and assumptions used in the model to estimate the fair value of stock options granted during each of the respective periods were as follows:

	Third Quarter		Year-to-Date			
	2012	2011	2012	2011		
Weighted-average fair value of stock options granted	\$ 11.67	\$ 10.92	\$ 14.16	\$ 14.44		
Risk-free interest rate	0.6	% 1.1	% 0.6	% 1.8		%
Expected life (years)	4.2	4.2	4.2	4.2		
Expected volatility	43.2	% 40.9	% 41.1	% 41.7		%
Expected annual forfeiture rate	3.0	% 1.5	% 3.0	% 1.5		%

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The following table summarizes stock option activity for the year-to-date 2012:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000's)
Outstanding stock options at January 28, 2012	3,676,423	\$ 28.36		
Granted	902,000	43.87		
Exercised	(1,345,525)	)23.97		
Forfeited	(67,325)	)37.06		
Outstanding stock options at April 28, 2012	3,165,573	\$ 34.46	5.2	\$ 17,625
Granted	48,750	37.59		
Exercised	(43,387)	)17.24		
Forfeited	(37,500)	)39.00		
Outstanding stock options at July 28, 2012	3,133,436	\$ 34.69	5.0	\$ 22,437
Granted	25,000	34.27		
Exercised	(6,550)	)23.45		
Forfeited	(66,250)	)43.51		
Outstanding stock options at October 27, 2012	3,085,636	\$ 34.53	4.7	\$ 8,090
Vested or expected to vest at October 27, 2012	2,911,921	\$ 34.34	4.7	\$ 7,834
Exercisable at October 27, 2012	1,061,322	\$ 26.54	3.3	\$ 5,863

The stock options granted in the year-to-date 2012 vest in equal amounts on the first four anniversaries of the grant date and have a contractual term of seven years. The number of stock options expected to vest was based on our annual forfeiture rate assumption.

The following table summarizes the nonvested restricted stock awards activity for the year-to-date 2012:

	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
Outstanding nonvested restricted stock at January 28, 2012	741,289	\$ 39.40
Granted	525,800	43.85
Vested	(454,800)	)38.79
Forfeited	(6,400)	)39.97
Outstanding nonvested restricted stock at April 28, 2012	805,889	\$ 42.65
Granted	41,859	37.08
Vested	(22,864)	)33.24
Forfeited	(3,000)	)42.03
Outstanding nonvested restricted stock at July 28, 2012	821,884	\$ 42.63
Granted	21,500	31.22
Vested	—	—
Forfeited	(55,000)	)43.45
Outstanding nonvested restricted stock at October 27, 2012	788,384	\$ 42.26

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The nonvested restricted stock awards granted to employees in the year-to-date 2012 (other than the award granted to our Chairman, CEO and President, Steven S. Fishman) vest if certain financial performance objectives are achieved. If we meet a threshold financial performance objective and the grantee remains employed by us, the restricted stock will vest on the opening of our first trading window five years after the grant date of the award. If we meet a higher financial performance objective and the grantee remains employed by us, the restricted stock will vest on the first trading day after we file our Annual Report on Form 10-K with the SEC for the fiscal year in which the higher objective is met. On the grant date, we estimated a three-year period for vesting of the nonvested restricted stock awards granted in 2012 based on the projected achievement of the higher financial performance objective.

The nonvested restricted stock award granted to Mr. Fishman in the first quarter of 2012 vests if we achieve a corporate financial goal for 2012 and he is employed by us on March 31, 2013. If either of the conditions is not achieved, the nonvested restricted stock award is forfeited. If both of the conditions are achieved, Mr. Fishman's 2012 nonvested restricted stock award will vest on the later of (1) the first trading day after we file with the SEC our Annual Report on Form 10-K for 2012 or (2) March 31, 2013. During the third quarter of 2012, we changed our estimate from probable to remote on the achievement of the corporate financial goal for Mr. Fishman's 2012 nonvested restricted stock award. Therefore, the year-to-date share-based compensation expense associated with this award was reversed during the third quarter of 2012.

In the second quarter of 2012, 22,864 common shares underlying the restricted stock awards granted in 2011 to the non-employee members of our Board of Directors vested on the trading day immediately preceding our 2012 Annual Meeting of Shareholders. These awards were part of the annual compensation granted in 2011 to the non-employee members of the Board of Directors. Additionally, in the second quarter of 2012, each non-employee elected to our Board of Directors at our 2012 Annual Meeting of Shareholders received an annual restricted stock award having a grant date fair value of approximately \$95,000. The 2012 restricted stock awards will vest on the earlier of (1) the trading day immediately preceding our 2013 Annual Meeting of Shareholders, or (2) the non-employee director's death or disability. However, the restricted stock award will not vest if the non-employee director ceases to serve on our Board of Directors before either vesting event occurs.

The following activity occurred under our share-based plans during the respective periods shown:

(in thousands)	Third Quarter		Year-to-Date	
	2012	2011	2012	2011
Total intrinsic value of stock options exercised	\$96	\$574	\$29,171	\$6,119
Total fair value of restricted stock vested	—	—	21,907	11,618

The total unearned compensation cost related to all share-based awards outstanding at October 27, 2012 was approximately \$33.2 million. This compensation cost is expected to be recognized through September 2016 based on existing vesting terms with the weighted-average remaining expense recognition period being approximately 1.9 years from October 27, 2012.

NOTE 6 – EMPLOYEE BENEFIT PLANS

We maintain a qualified defined benefit pension plan and a nonqualified supplemental defined benefit pension plan covering certain employees whose hire date occurred before April 1, 1994.

The weighted-average assumptions used to determine net periodic pension cost for our plans were as follows:

	2012	2011	
Discount rate	5.0	%5.7	%
Rate of increase in compensation levels	3.5	%3.9	%
Expected long-term rate of return	5.5	%8.0	%

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The components of combined net periodic pension cost were as follows:

(in thousands)	Third Quarter		Year-to-Date	
	2012	2011	2012	2011
Service cost - benefits earned in the period	\$543	\$552	\$1,628	\$1,658
Interest cost on projected benefit obligation	823	874	2,469	2,622
Expected investment return on plan assets	(772	)(1,157	) (2,317	)(3,470
Amortization of actuarial loss	587	449	1,759	1,347
Amortization of prior service cost	(9	)(9	) (26	)(26
Amortization of transition obligation	3	4	10	10
Settlement loss	6	291	264	291
Net periodic pension cost	\$1,181	\$1,004	\$3,787	\$2,432

We currently expect no required contributions to the qualified defined benefit pension plan during 2012. We will contribute to the nonqualified supplemental defined benefit pension plan as benefits are paid to plan participants, if any, because the nonqualified plan is not a funded plan.

NOTE 7 – INCOME TAXES

Based on an evaluation of currently available information, we have fully reduced the amount of net deferred income tax assets (including a net operating loss carryforward) of our Canadian segment, as well as the deferred tax benefit of the loss generated by our Canadian segment since the acquisition, by a valuation allowance.

We have estimated the reasonably possible expected net change in unrecognized tax benefits through November 2, 2013, based on (1) expected cash and noncash settlements or payments of uncertain tax positions, and (2) lapses of the applicable statutes of limitations for unrecognized tax benefits. The estimated net decrease in unrecognized tax benefits for the next 12 months is approximately \$4.0 million. Actual results may differ materially from this estimate.