Childrens Place, Inc.
Form 10-Q
December 04, 2014

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 November 1, 2014

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, 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 December 2, 2014 was 21,196,547 shares.

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THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED NOVEMBER 1, 2014

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PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	November 1, 2014 (unaudited)	February 1, 2014	November 2, 2013 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$170,787	$173,997	$141,746
Short-term investments	39,000	62,500	52,500
Accounts receivable	28,126	25,960	26,267
Inventories	342,455	322,422	337,172
Prepaid expenses and other current assets	32,859	33,582	33,856
Deferred income taxes	16,564	10,859	14,642
Total current assets	629,791	629,320	606,183
Long-term assets:			
Property and equipment, net	318,871	312,149	318,021
Deferred income taxes	43,186	45,806	46,522
Other assets	3,573	3,355	3,991
Total assets	$995,421	$990,630	$974,717
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Current liabilities:			
Revolving loan	$19,100	$—	$—
Accounts payable	150,426	150,652	117,554
Income taxes payable	4,547	1,039	15,502
Accrued expenses and other current liabilities	123,062	119,658	118,832
Total current liabilities	297,135	271,349	251,888
Long-term liabilities:			
Deferred rent liabilities	83,667	88,563	90,438
Other tax liabilities	5,151	5,755	7,420
Other long-term liabilities	8,802	8,185	9,436
Total liabilities	394,755	373,852	359,182
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; 21,360, 22,230 and 22,321 issued; 21,316, 22,197 and 22,289 outstanding	2,136	2,223	2,232
Additional paid-in capital	228,552	226,521	223,117
Treasury stock, at cost (44, 33, 32 shares)	(2,123)	(1,575)	(1,513)
Deferred compensation	2,123	1,575	1,513
Accumulated other comprehensive income (loss)	(2,944)	(1,529)	7,335

Retained earnings	372,922	389,563	382,851
Total stockholders’ equity	600,666	616,778	615,535
Total liabilities and stockholders’ equity	$995,421	$990,630	$974,717

See accompanying notes to these condensed consolidated financial statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net sales	$487,304	$492,680	$1,282,081	$1,298,292
Cost of sales (exclusive of depreciation and amortization)	297,193	290,919	824,591	807,081
Gross profit	190,111	201,761	457,490	491,211
Selling, general and administrative expenses	116,120	123,521	346,951	366,937
Asset impairment charges	3,306	—	6,351	21,766
Other costs (income)	(286)	200	(153)	(762)
Depreciation and amortization	15,168	16,473	44,952	48,890
Operating income	55,803	61,567	59,389	54,380
Interest income (expense), net	(82)	82	(123)	142
Income before income taxes	55,721	61,649	59,266	54,522
Provision for income taxes	18,779	19,910	19,415	17,147
Net income	$36,942	$41,739	$39,851	$37,375
Earnings per common share				
Basic	$1.71	$1.87	$1.82	$1.65
Diluted	$1.70	$1.84	$1.81	$1.63
Cash dividends declared and paid per common share	$0.1325	—	$0.3975	—
Weighted average common shares outstanding				
Basic	21,541	22,337	21,843	22,632
Diluted	21,756	22,628	22,062	22,896

See accompanying notes to these condensed consolidated financial statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net income	$36,942	$41,739	$39,851	$37,375
Other Comprehensive Income:				
Foreign currency translation adjustment	(4,037)	(181)	(1,415)	(5,923)
Comprehensive income	$32,905	$41,558	$38,436	$31,452

See accompanying notes to these condensed consolidated financial statements.

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

	Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$39,851	$37,375
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	44,952	48,890
Stock-based compensation	13,054	16,491
Excess tax benefits from stock-based compensation	(268)	(74)
Deferred taxes	(9,304)	(12,155)
Asset impairment charges	6,351	21,766
Deferred rent expense and lease incentives	(6,955)	(8,793)
Other	1,711	5,530
Changes in operating assets and liabilities:		
Inventories	(20,468)	(71,603)
Prepaid expenses and other assets	(2,746)	(6,858)
Income taxes payable, net of prepayments	10,868	22,784
Accounts payable and other current liabilities	(10,792)	42,796
Deferred rent and other liabilities	2,302	3,028
Total adjustments	28,705	61,802
Net cash provided by operating activities	68,556	99,177
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment purchases, lease acquisition and software costs	(44,637)	(57,158)
Purchase of short-term investments	(58,000)	(52,500)
Redemption of short-term investments	81,500	15,000
Change in company-owned life insurance policies	17	5
Net cash used in investing activities	(21,120)	(94,653)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase and retirement of common stock, including transaction costs	(59,965)	(54,846)
Cash dividends paid	(8,684)	—
Borrowings under revolving credit facility	265,653	120,537
Repayments under revolving credit facility	(246,553)	(120,537)
Exercise of stock options	55	1,414
Excess tax benefits from stock-based compensation	268	74
Deferred financing costs	(306)	—
Net cash used in financing activities	(49,532)	(53,358)
Effect of exchange rate changes on cash	(1,114)	(3,548)
Net decrease in cash and cash equivalents	(3,210)	(52,382)
Cash and cash equivalents, beginning of period	173,997	194,128
Cash and cash equivalents, end of period	$170,787	$141,746

See accompanying notes to these condensed consolidated financial statements.

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

	Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013
OTHER CASH FLOW INFORMATION:		
Net cash paid during the period for income taxes	$18,102	$6,368
Cash paid during the period for interest	676	383
Increase in accrued purchases of property and equipment	4,056	1,214

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN’S PLACE, 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, Inc. (the “Company”) as of November 1, 2014 and November 2, 2013 and the results of its consolidated operations and cash flows for the thirty-nine weeks ended November 1, 2014 and November 2, 2013. The consolidated financial position as of February 1, 2014 was derived from audited financial statements. Due to the seasonal nature of the Company’s business, the results of operations for the thirty-nine weeks ended November 1, 2014 and November 2, 2013 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 1, 2014.

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:

- Third Quarter 2014 — The thirteen weeks ended November 1, 2014.
- Third Quarter 2013 — The thirteen weeks ended November 2, 2013.
- Year-To-Date 2014 — The thirty-nine weeks ended November 1, 2014.
- Year-To-Date 2013 — The thirty-nine weeks ended November 2, 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.

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. All of the Company's short-term investments are U.S. dollar denominated time deposits with banking institutions in Hong Kong that have six month maturity dates.

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 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. For Performance Awards issued during fiscal 2013 and to our CEO in fiscal 2014, each award has a defined number of shares that an employee can earn (the “Target Shares”) and based on the adjusted operating income level achieved for the three-fiscal year period (one-fiscal year period in the case of the CEO's Performance Award), the employee can earn from 0% to 200% of their Target Shares. The fair value of these Performance Awards and all Deferred Awards granted is based on the closing price of our common stock on the grant date. For non-CEO Performance Awards issued during fiscal 2014 (the “2014 Performance Awards”), the Target Shares

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earned can range from 0% to 300% and depend on the achievement of adjusted earnings per share for the three-fiscal year performance period and our total shareholder return ("TSR") relative to that of companies in our peer group. The 2014 Performance Awards cliff vest, if earned, after a three year service period. The 2014 Performance Awards grant date fair value was estimated using a Monte Carlo simulation covering the period from the valuation date through the end of the performance period using our simulated stock price as well as the TSR of companies in our peer group. 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 $0.5 million, $0.3 million, and $0.3 million at November 1, 2014, February 1, 2014 and November 2, 2013, respectively. The cash surrender value of the COLIs, at fair value, was approximately $0.3 million, $0.3 million and $0.7 million at November 1, 2014, February 1, 2014 and November 2, 2013, respectively. Company stock was $2.1 million, $1.6 million, and $1.5 million at November 1, 2014, February 1, 2014 and November 2, 2013, 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;
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- the plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date;
- 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 Company ceased operations at the West Coast DC in May 2012. The lease of the West Coast DC expires in March 2016 and the Company has subleased this facility through March 2016.
During the third quarter of fiscal 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 the Northeast DC expires in January 2021 and the Company has subleased this facility through January 2021.

The following table provides details of the remaining accruals for the West Coast DC and Northeast DC as of November 1, 2014, of which approximately $0.8 million was included in accrued expenses and other current liabilities and approximately $0.9 million was included in other long-term liabilities (dollars in thousands):

	Other Associated Costs	Lease Termination Costs	Total
Balance at February 1, 2014	$—	$2,679	$2,679
Restructuring costs	90	(243)	(153)
Payments and reductions	(90)	(729)	(819)
Balance at November 1, 2014	$—	$1,707	$1,707

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 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.

The Company’s assets measured at fair value on a nonrecurring basis include long-lived assets. The Company reviews the carrying amounts of such assets when events indicate that their carrying amounts may not be recoverable. Any resulting asset impairment would require that the asset be recorded at its fair value. The resulting fair value measurements of the assets are considered to be Level 3 inputs.

Recently Adopted Accounting Standards

In May 2014, the FASB issued guidance relating to revenue recognition from contracts with customers. This guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently reviewing the potential impact of this standard.

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2. STOCKHOLDERS' EQUITY

The Company's Board of Directors has authorized the following share repurchase programs: (1) $100 million on November 26, 2012 (the "2012 Share Repurchase Program") and (2) $100 million on March 4, 2014 (the "2014 Share Repurchase Program"). The 2012 Share Repurchase Program was completed during the first quarter of the Company's 2014 fiscal year. At November 1, 2014, there was approximately $56.0 million remaining on the 2014 Share Repurchase Program. Under the 2014 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 and makes payments to satisfy the withholding tax requirements of certain recipients. The Company's payment of the withholding taxes in exchange for the retired 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):

	Thirty-nine Weeks Ended			
	November 1, 2014		November 2, 2013	
	Shares	Value	Shares	Value
Shares repurchases related to:				
2012 Share Repurchase Program	281.6	$14,671	1,097.1	$54,714
2014 Share Repurchase Program [(1)]	896.4	44,037	—	—
Withholding taxes	24.7	1,257	1.8	132
Shares acquired and held in treasury	10.8	$548	7.6	$394

(1) Subsequent to November 1, 2014 and through December 2, 2014, the Company repurchased 0.1 million shares for approximately $6.2 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 2014 and Year-To-Date 2013, approximately $47.4 million and $44.2 million, respectively, were charged to retained earnings.

In the Third Quarter 2014 the Company's Board of Directors authorized a quarterly cash dividend. The Third Quarter 2014 dividend of $0.1325 per share was declared on August 7, 2014 and was payable to shareholders of record on the close of business on September 26, 2014 and was paid on October 17, 2014. Related to the fiscal 2014 dividends, $9.1 million was charged to retained earnings, of which $8.7 million related to cash dividends paid and $0.4 million related to dividend share equivalents on unvested Deferred Awards and Performance Awards. On November 4, 2014, the Company's Board of Directors declared a quarterly cash dividend of $0.1325 per share to be paid on January 16, 2015 to shareholders of record on the close of business on December 26, 2014. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by the Company's Board of Directors based on a number of factors, including business and market conditions, the Company's future financial performance and other investment priorities.

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3. STOCK-BASED COMPENSATION

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Deferred Awards	$2,856	$3,243	$8,615	$10,085
Performance Awards	1,825	2,298	4,439	6,406
Total stock-based compensation expense [1]	$4,681	$5,541	$13,054	$16,491

(1) During the Third Quarter 2014 and the Third Quarter 2013, approximately $1.0 million and $0.3 million, respectively, were included in cost of sales. During Year-To-Date 2014 and Year-To-Date 2013, approximately $2.5 million and $1.9 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 $5.1 million and $6.5 million for Year-To-Date 2014 and Year-To-Date 2013, respectively.

Awards Granted During Year-To-Date 2014

The Company granted Deferred Awards and Performance Awards to various executives and members of our Board of Directors during Year-To-Date 2014. Awards were also granted in connection with 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 granted to executives other than our CEO have a three-year performance period, and, if earned, vest upon completion of the three-year performance period. Depending on the final adjusted earnings per share achieved for the three-year performance period and the Company's total shareholder return ("TSR") relative to that of the Company's peer group, the percentage of Target Shares earned can be 0% and range up to 300% for non-CEO Performance Awards. The Performance Award granted to our CEO, if earned, has a one year performance and vest period. Depending on the final adjusted operating income for the one-year performance period, the percentage of Target Shares earned can be 0% and range up to 200%.

Changes in the Company’s Unvested Stock Awards during Year-To-Date 2014

Deferred Awards

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested Deferred Awards, beginning of period	691	$49.27
Granted	260	48.29
Vested	(220)	48.92
Forfeited	(64)	49.33
Unvested Deferred Awards, end of period	667	$49.00

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated $20.9 million as of November 1, 2014, which will be recognized over a weighted average period of approximately 2.4 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	267	$