Teavana Holdings Inc
Form 10-Q
December 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 28, 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: 001-35248

TEAVANA HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1946316**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**identification number)**

3630 Peachtree Rd. NE, Suite 1480

Atlanta, GA 30326

(Address of principal executive offices)

(404) 995-8200

(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 ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	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 x

The number of shares of the registrant s common stock, $0.00003 par value, outstanding as of December 5, 2012 was 38,784,893 shares.

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PART I Financial Information

Item 1. Financial Statements

TEAVANA HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	October 28, 2012 (unaudited)	January 29, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 908	$ 17,818
Prepaid expenses	6,099	3,995
Income tax receivable	2,211	
Inventory	34,627	25,676
Other current assets	3,592	2,175
Total current assets	47,437	49,664
Property and equipment, net	63,510	42,785
Intangible assets, net	1,183	
Goodwill	20,698	2,394
Other non-current assets	672	775
Total assets	$ 133,500	$ 95,618
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 8,261	$ 3,898
Income taxes payable		1,821
Other current liabilities	12,223	6,847
Total current liabilities	20,484	12,566
Long-term liabilities		
Deferred rent	16,835	12,905
Deferred tax liability, non-current	2,420	2,570
Long-term debt	19,627	
Other long-term liabilities	722	575
Total long-term liabilities	39,604	16,050
Total liabilities	60,088	28,616
Commitments and contingencies (Note 9)		
Stockholders equity		
Common stock, $0.00003 par value; 100,000,000 shares authorized as of October 28, 2012 and January 29, 2012; 38,685,783 shares and 38,281,836 shares issued and outstanding as of	1	1

October 28, 2012 and January 29, 2012, respectively				
Additional paid-in capital		280,611		276,782
Accumulated deficit		(207,852)		(209,792)
Accumulated other comprehensive income		652		11
Total stockholders equity		73,412		67,002
Total liabilities and stockholders equity	$	133,500	$	95,618

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

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TEAVANA HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME / (LOSS)

(unaudited)

(dollars in thousands, except per share data)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2012	October 30, 2011	October 28, 2012	October 30, 2011
Net sales	$ 46,037	$ 33,426	$ 133,436	$ 99,679
Cost of goods sold (exclusive of depreciation shown separately below)	20,320	12,749	54,089	37,386
Gross profit	25,717	20,677	79,347	62,293
Selling, general and administrative expense	25,349	17,511	69,158	47,636
Depreciation and amortization expense	2,585	1,554	6,530	4,257
Income / (loss) from operations	(2,217)	1,612	3,659	10,400
Interest expense, net	238	122	441	1,553
Income / (loss) before income taxes	(2,455)	1,490	3,218	8,847
Provision for / (benefit from) income taxes	(1,040)	554	1,278	3,556
Net income / (loss)	$ (1,415)	$ 936	$ 1,940	$ 5,291
Other comprehensive income				
Net gain on foreign currency translation	168		641	
Comprehensive income / (loss)	$ (1,247)	$ 936	$ 2,581	$ 5,291
Net income / (loss) per share:				
Basic	$ (0.04)	$ 0.02	$ 0.05	$ 0.14
Diluted	$ (0.04)	$ 0.02	$ 0.05	$ 0.14
Weighted average shares outstanding:				
Basic	38,632,149	38,138,070	38,496,953	37,216,444
Diluted	38,632,149	38,965,104	39,152,380	38,029,119

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

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TEAVANA HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN

STOCKHOLDERS EQUITY

(unaudited, unless specified audited)

(dollars in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance January 29, 2012 (audited)	38,281,836	$ 1	$ 276,782	$ (209,792)	$ 11	$ 67,002
Net income				1,940		1,940
Foreign currency translation adjustment					641	641
Stock-based compensation expense			863			863
Stock issued for stock option exercises	403,947		524			524
Excess tax benefit from stock option exercises			2,442			2,442
Balance October 28, 2012	38,685,783	$ 1	$ 280,611	$ (207,852)	$ 652	$ 73,412

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

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TEAVANA HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands, except per share data)

	Thirty-Nine Weeks Ended	
	October 28, 2012	**October 30, 2011**
Cash flows from operating activities:		
Net income	$ 1,940	$ 5,291
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:		
Depreciation and amortization expense	6,530	4,257
Non-cash interest expense	69	1,304
Stock-based compensation expense	863	527
Excess tax benefit from stock option exercises	(2,442)	(2,577)
Other	(427)	150
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(1,467)	(417)
Income tax receivable	(2,211)	(6,004)
Inventory	(7,457)	(15,584)
Accounts payable	3,508	2,896
Income taxes payable	621	(2,232)
Deferred income taxes	(1,472)	1,892
Deferred rent	3,929	4,610
Accrued liabilities	5,427	1,829
Other liabilities	(792)	(859)
Net cash provided by / (used in) operating activities	6,619	(4,917)
Cash flows from investing activities:		
Cash paid for Teaopia Acquisition, net of cash acquired	(26,974)	
Purchase of property and equipment	(19,131)	(13,785)
Net cash used in investing activities	(46,105)	(13,785)
Cash flows from financing activities:		
Proceeds from revolving credit facility	151,055	113,152
Payments on revolving credit facility	(131,428)	(109,652)
Proceeds from initial public offering, net		15,322
Cash paid for financing costs	(15)	(433)
Proceeds from stock option exercises	524	552
Excess tax benefit from stock option exercises	2,442	2,577
Payment to redeem Series A redeemable preferred stock liability		(10,683)
Net cash provided by financing activities	22,578	10,835
Effect of exchange rates on cash and cash equivalents:	(2)	2
Net decrease in cash and cash equivalents	(16,910)	(7,865)
Cash and cash equivalents, beginning of fiscal period	17,818	7,901
Cash and cash equivalents, end of fiscal period	$ 908	$ 36

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 371	$ 217
Cash paid for income taxes	4,456	9,900
Non-cash change in fair value of Class B redeemable common stock	$	$ 172,546

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

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Notes to the Condensed Consolidated Financial Statements

(unaudited)

(dollars in thousands, except per share and store data)

1. Business and Summary of Significant Accounting Policies

Nature of Business

Teavana Holdings, Inc. (the Company or Teavana) is a specialty retailer offering more than 100 varieties of premium loose-leaf teas, authentic artisanal teawares and other tea-related merchandise. Teavana offers products through 301 company-owned stores in 41 states and Canada, 19 franchised stores primarily in Mexico, as well as through its website, www.teavana.com.

On June 11, 2012, the Company through its wholly owned subsidiary, Teavana Canada, Inc., completed the acquisition of Teaopia Limited (Teaopia) for a purchase price of approximately $26,974, net of cash acquired (the Teaopia Acquisition). Through the acquisition, the Company acquired substantially all of the assets of Teaopia, which operated 46 retail store locations in Canada that sold tea and tea-related merchandise.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and the Securities and Exchange Commission s (SEC) guidance for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the unaudited condensed consolidated financial statements have been recorded in the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and related notes thereto for the fiscal year ended January 29, 2012 included in the Company s Annual Report on Form 10-K (File No. 001-35248). The accompanying unaudited condensed consolidated financial statements present the results of operations for the thirteen weeks and thirty-nine weeks ended October 28, 2012 and October 30, 2011. These results are not necessarily indicative of the results that may be achieved for the fiscal year ending February 3, 2013 or for any other period.

Principles of Consolidation

The condensed consolidated financial statements include all the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The financial statements of any foreign subsidiaries have been translated into U.S. dollars in accordance with the Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) Topic No. 830-30-*Translation of Financial Statements* (ASC 830-30). Under ASC 830-30, the financial position and results of operations of the Company s foreign subsidiaries are measured using the subsidiary s local currency as the functional currency. Revenues and expenses have been translated into U.S. dollars at average exchange rates prevailing during the period, and assets and liabilities have been translated at the exchange rates as of the balance sheet date. The resulting translation gain and loss adjustments are recorded as an element of other comprehensive income in accordance with ASC Topic No. 220-*Comprehensive Income*.

Fiscal Year

The Company s fiscal year is 52 or 53 weeks ending on the Sunday nearest to January 31 of the following year. These condensed consolidated financial statements include thirteen and thirty-nine weeks in each of the periods ended October 28, 2012 and October 30, 2011.

Seasonality

The Company s business is seasonal and has historically realized a higher portion of net sales, net income and operating cash flows in the fourth fiscal quarter due primarily to the holiday selling season. As a result, the Company s working capital requirements fluctuate during the year, increasing in the second and third fiscal quarters in anticipation of this peak selling season.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Goodwill

Goodwill is an asset representing future economic benefits from assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually in accordance with the provisions of ASC Topic No. 350-*Intangible: Goodwill and Other* (ASC 350). The Company does not amortize goodwill. Management reviews goodwill for impairment annually on October 1 or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In testing for impairment, management calculates the fair value of the reporting unit to which the goodwill relates based on the fair value of the Company as a whole. The fair value of the Company is the amount for which the Company could be sold in a current transaction between willing parties. If the reporting unit s carrying value exceeds its fair value, goodwill is written down to its implied fair value. The Company has concluded that there was no impairment losses during the thirty-nine weeks ended October 28, 2012.

Recently Adopted Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04-*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards* (IFRS) (ASU 2011-04), which amends ASC Topic No. 820-*Fair Value Measurements* (ASC 820). This update was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. This standard update also changes certain fair value measurement principles and enhances disclosure requirements particularly for Level 3 fair value measurements. The Company adopted ASU 2011-04 on January 30, 2012, and such adoption did not have a significant impact on the Company s results of operations, financial condition or disclosures.

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In June 2011, the FASB issued ASU No. 2011-05-*Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 eliminates the option to report other comprehensive income and its components only within the statement of changes in equity. Under ASU 2011-05, an entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. In addition, in December 2011, the FASB issued ASU No. 2011-12-*Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). ASU 2011-12 defers the requirement to present components of reclassifications of other comprehensive income by income statement line item on the statement of comprehensive income, with all other requirements of ASU 2011-05 unaffected. The Company adopted ASU 2011-05 and ASU 2011-12 beginning January 30, 2012 and has elected to present items of net income and other comprehensive income in one continuous statement at this time.

In September 2011, the FASB issued ASU No. 2011-08-*Intangibles: Goodwill and Other* (ASU 2011-08). ASU 2011-08 provides companies the option to perform a qualitative assessment to first evaluate whether the fair value of a reporting unit is less than its carrying value for purposes of the annual goodwill impairment test. If an entity determines it is more likely than not that the fair value of a reporting unit is less than the carrying value, then performing the two-step impairment test is necessary. The Company adopted ASU 2011-08 on January 30, 2012, and such adoption did not have a significant impact on the Company s results of operations, financial condition or disclosures.

Accounting pronouncements not yet adopted by the Company

In July 2012, the FASB issued ASU No. 2012-02-*Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). ASU 2012-02 amends existing guidance by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If this is the case, a more detailed fair value calculation will need to be performed to identify potential impairments and to subsequently measure the amount of impairment loss, if any. To perform a qualitative assessment, an entity must identify and evaluate changes in economic, industry and entity-specific events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. ASU 2012-02 is effective for annual and interim impairment tests performed by the Company for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company will adopt the provisions of ASU 2012-02 effective February 3, 2013 and has elected to not adopt this ASU early. The Company did not perform any impairment tests related to indefinite-lived intangible assets during the thirteen or thirty-nine week periods ended October 28, 2012, and does not expect that the adoption of ASU 2012-02 will have a material impact on the Company s future impairment tests or the results of operations, financial condition or disclosure.

The FASB issues ASUs to amend the authoritative literature in related ASCs. There have been a number of ASUs to date that amend the original text of related ASCs. Except for the ASUs listed above, those issued to date either (i) provide supplemental guidance, (ii) are technical corrections, or (iii) are not applicable to the Company. Additionally, there were various other accounting standards and interpretations issued during the thirteen weeks ended October 28, 2012 that the Company has not yet been required to adopt, none of which is expected to have a material impact on the Company s consolidated financial statements and the notes thereto going forward.

2. Property and Equipment

Property and equipment consists of the following:

	October 28, 2012	January 29, 2012
Leasehold improvements	$ 74,184	$ 52,872
Equipment	14,537	9,292
	88,721	62,164
Less - Accumulated depreciation	(25,211)	(19,379)
Property and equipment, net	$ 63,510	$ 42,785

Depreciation expense was $2,583 and $1,550 for the thirteen weeks ended October 28, 2012 and October 30, 2011, respectively, and $6,526 and $4,242 for the thirty-nine weeks ended October 28, 2012 and October 30, 2011, respectively.

3. Long-term Debt

On June 12, 2008, the Company established a three-year revolving credit facility by entering into a loan and security agreement (the Credit Agreement) with Fifth Third Bank. On April 22, 2011, the Company entered into an amendment to the Credit Agreement that, among other things, extended its term for five years through April 22, 2016. On October 6, 2011, the Company entered into a second amendment to the Credit Agreement that, among other things, permitted the creation of a foreign subsidiary and certain intercompany transfers. Additionally, on April 15, 2012, the Company entered into the third amendment (the Third Amendment) to the Credit Agreement. Among other things, the Third Amendment provided Fifth Third s consent to the transaction contemplated by the asset purchase agreement, dated April 15, 2012, relating to the Teaopia Acquisition. At the closing of the Teaopia Acquisition, which occurred on June 11, 2012, the Third Amendment also lowered the applicable margin for advances, permitted new store capital expenditures for the stores acquired in the Teaopia Acquisition and increased the Maximum Revolving Facility (as defined). The Third Amendment provides for a revolving credit facility up to $50,000 from the date of the closing of the Teaopia Acquisition through December 31, 2012 and $40,000 on and after January 1, 2013. On July 31, 2012, the Company and certain of its subsidiaries entered into Amendment No. 4 (the Fourth Amendment) to the Credit Agreement (as amended, the Amended Credit Agreement). The Fourth Amendment provides for the creation of a subsidiary (Teavana LuxCo, a Luxembourg *société à responsabilité limitée*), establishes a cap on investments that may be made into Teavana Canada, Inc., releases a pledge of 65% of the shares of Teavana Canada, Inc., grants a pledge of 65% of the shares of Teavana LuxCo and consents to certain transactions in connection with the formation of Teavana LuxCo. All other material terms of the Credit Agreement remain the same.

Under the revolving credit facility, the borrowing capacity is equal to (i) the lesser of the Maximum Revolving Facility, less the undrawn face amount of any letters of credit outstanding and (ii) the Borrowing Base (as defined). The Maximum Revolving Facility was $50,000 as of October 28, 2012. The Borrowing Base is defined as the sum of (i) 200% of Consolidated EBITDA (as defined) for the most recent twelve month trailing period for which financial statements are available, minus (ii) the aggregate undrawn face amount of any outstanding letters of credit at the time a drawdown on the revolving credit facility is made, minus (iii) such reserves as may be established by the lender in its Permitted Discretion (as defined), but not to exceed 35% of the Borrowing Base. The revolving credit facility includes a $5,000 sublimit for the issuance of letters of credit. The Amended Credit Agreement is secured by substantially all of the U.S. assets of the Company and 65% of the common stock of Teavana LuxCo. The revolving credit facility under the Amended Credit Agreement had $19,627 outstanding, undrawn face amounts on letters of credit of $646 and availability of $29,727 on October 28, 2012.

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Borrowings under the Amended Credit Agreement bear interest at either (i) LIBOR plus the applicable margin of 4.00% through the First Amendment Date (as defined), and rates that range from 3.00% to 4.50% thereafter based on the Company s Consolidated Leverage Ratio (as defined) or (ii) the lender s base commercial lending rate, plus the applicable margin of 1.0%. The balance outstanding under the revolving credit facility on October 28, 2012 was $19,627, bearing interest at 4.25% based upon the lender s base commercial lending rate option.

The Amended Credit Agreement specifies certain financial and non-financial covenants that the Company must meet. It is management s belief that the Company was in compliance with these covenants on all respective measurement dates. The Amended Credit Agreement does not permit the payment of any dividends, and thus 100% of the Company s net income is restricted for purposes of dividend payments. The restriction on the payment of dividends applies to the Company and all of its subsidiaries. The Amended Credit Agreement also restricts all of the subsidiaries of the Company from making loans or advances to the Company in excess of certain specified limits and also limits annual net capital expenditures incurred by the Company. The restricted net assets of the subsidiaries are substantially the same as the consolidated net assets, as presented in the accompanying condensed consolidated balance sheets. Teavana Holdings, Inc. has no operations or operating revenues, and the expenses of Teavana Holdings, Inc. are immaterial by virtue of the fact that the management and directors of the Company are compensated by its subsidiary, Teavana Corporation. Teavana Holdings, Inc. has no assets outside of its investments in subsidiaries, and no other material liabilities other than as a co-obligor under the Amended Credit Agreement.

Deferred financing costs totaling $15 and $433 were incurred in connection with the Amendments to the Credit Agreement during the thirty-nine weeks ended October 28, 2012 and October 30, 2011, respectively. These costs will be amortized to interest expense over the remaining term of the revolving credit facility using the straight-line method. The unamortized loan costs from the original Credit Agreement will also continue to be amortized over the remaining term of the revolving credit facility. Interest expense relating to deferred financing costs and interest incurred on borrowings under the revolving credit facility totaled $238 and $122 for the thirteen weeks ended October 28, 2012 and October 30, 2011, respectively, and $441 and $327 for the thirty-nine weeks ended October 28, 2012 and October 30, 2011, respectively.

4. Net income per share

The following table sets forth the computation of basic and diluted net income per share in accordance with ASC 260-*Earnings per Share*. Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding plus potentially dilutive common shares, primarily consisting of the Company s non-qualified stock options, outstanding during the period. The treasury stock method was used to determine the dilutive effect of the stock options. The following table details the calculation of basic and diluted net income per share:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2012	October 30, 2011	October 28, 2012	October 30, 2011
Numerator:				
Net income / (loss)	$ (1,415)	$ 936	$ 1,940	$ 5,291
Denominator:				
For basic net income / (loss) per share - weighted average shares basis	38,632,149	38,138,070	38,496,953	37,216,444
Effect of dilutive stock options		827,034	655,427	812,675
For diluted net income / (loss) per share - adjusted weighted average shares basis	38,632,149	38,965,104	39,152,380	38,029,119
Net income / (loss) per share:				
Basic	$ (0.04)	$ 0.02	$ 0.05	$ 0.14
Diluted	$ (0.04)	$ 0.02	$ 0.05	$ 0.14

As of October 28, 2012, the Company had 38,685,783 shares of common stock outstanding. As of October 30, 2011, the Company had 38,226,327 shares of common stock outstanding. Anti-dilutive common stock options totaling 534,679 were excluded from the weighted average number of common shares outstanding plus potentially dilutive common shares for the diluted net income per share calculation as of October 28, 2012. There were no anti-dilutive securities as of October 30, 2011.

5. Leases

The Company has entered into operating leases for its stores, distribution center and store support center. Initial lease terms for stores are generally ten years with rent escalations and no renewal options. Rent expense for leases with rent escalations is recognized on a straight-line basis over the term of occupancy of the lease. The leases are net leases under which the Company pays the taxes, insurance and common area maintenance costs. The leases may also provide for both minimum rent payments and contingent rental based on a percentage of sales in excess of specified amounts. In certain leases, the landlord also charges the Company a portion of its marketing expense.

Total minimum and contingent rent expense for the thirteen and thirty-nine weeks ended October 28, 2012 and October 30, 2011, respectively, were as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2012	**October 30, 2011**	**October 28, 2012**	**October 30, 2011**
Minimum rentals	$ 5,523	$ 3,569	$ 14,520	$ 10,188
Contingent rentals	117	59	345	199
Total	$ 5,640	$ 3,628	$ 14,865	$ 10,387

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Future minimum lease payments for non-cancelable operating leases with an initial term of one year or more were as follows as of October 28, 2012:

Fiscal Year	Amount
2012 (remainder of fiscal year)	$ 3,644
2013	22,939
2014	23,601
2015	23,488
2016	22,227
Thereafter	89,367
Total	$ 185,266

6. Stock-Based Compensation

Under the Company s 2004 Management Incentive Plan (the 2004 Plan), adopted on December 15, 2004, up to 1,851,471 stock options may be granted to certain employees and outside directors or advisors to purchase an equal number of shares of common stock at prices not less than 100% of the estimated fair market value at the date of grant. All stock-based awards issued under the plan are non-qualified stock options. On July 18, 2011, the Board of Directors and stockholders authorized the establishment of the Teavana 2011 Equity Incentive Plan (the 2011 Plan), effective immediately after the SEC s declaration of effectiveness of the Registration Statement on Form S-1 (File No. 333-173775) and immediately prior to the pricing of the initial public offering (the Offering), both of which took place on July 27, 2011. Under the 2011 Plan, up to 750,000 shares of the Company s common stock have been reserved for issuance pursuant to the grant to certain employees and outside directors of equity awards, including stock options, stock appreciation rights, restricted or unrestricted stock awards, restricted stock units, performance awards or other stock-based awards at prices not less than 100% of the estimated fair market value of the common stock at the date of grant. Share options forfeited or cancelled under both plans are eligible for reissuance under the 2011 Plan.

The Company accounts for stock-based awards in accordance with ASC Topic No. 718-*Compensation: Stock Compensation* (ASC 718). ASC 718 requires measurement of compensation cost for all stock-based awards at fair value on the grant date (or measurement date, if different) and recognition of compensation expense, net of forfeitures, over the requisite service period for awards expected to vest. Stock-based compensation expense was $342 and $464 for the thirteen weeks ended October 28, 2012 and October 30, 2011, respectively and $863 and $527 for the thirty-nine weeks ended October 28, 2012 and October 30, 2011, respectively.

The fair values of stock options granted under the 2004 and 2011 Plans are estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options. Stock option pricing models require the input of highly subjective assumptions, including the expected volatility of the stock price. The Company s stock has been publicly traded since July 28, 2011; therefore, changes in these subjective input assumptions may affect the grant date fair value estimates. The assumptions used are based on management s best estimate and available information at the time of grant. The Company estimated the fair value of options granted during the thirty-nine weeks ended October 28, 2012 under the 2011 Plan using the following assumptions:

	October 28, 2012
Expected life (years) (1)	6.25 Years
Risk-free interest rate (2)	0.93% - 1.03%
Volatility (3)	54.0%
Dividend yield (4)	0%

1) Represents the period of time stock options are expected to remain outstanding. As the Company has only awarded plain vanilla options as described in ASC 718-10-S99, *Compensation-Stock Compensation: Overall: SEC Materials*, the Company used the simplified method for determining the expected life of the options granted. The simplified method calculates the expected term as the sum of the vesting term

and the original contract term divided by two. The Company will continue to use the simplified method until such time that it has sufficient historical data for options to accurately estimate the expected term of stock-based awards.

2) Based on the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected life of stock options.

3) Expected stock price volatility incorporated historical and implied volatility of similar entities whose share prices are publicly available. The Company plans to use peer company volatility for the foreseeable future until sufficient historical data are available.

4) The Company has not paid regular dividends on its common stock and does not expect to pay dividends on its common stock in the foreseeable future.

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The following table represents stock options granted, exercised or forfeited under the 2004 Plan and the 2011 Plan during the thirty-nine weeks ended October 28, 2012:

	Stock Options	Weighted Average Exercise Price
Outstanding at January 29, 2012	1,907,305	$ 5.77
Granted	73,000	12.97
Exercised	(403,947)	1.29
Forfeited	(43,125)	17.00
Expired	(1,877)	17.00
Outstanding at October 28, 2012	1,531,356	$ 6.97

Under the 2004 Plan and the 2011 Plan, options generally become exercisable over a four-year period and expire ten years from the date of grant. Additionally, stock option grants generally vest 25% on each anniversary of the grant date, commencing with the first anniversary of the grant date (in the case of the 580,500 options granted under the 2011 Plan concurrent with the pricing of the Offering, commencing with the first anniversary of the closing of the transaction on August 2, 2011). As of October 28, 2012, there was $3,266 of total unrecognized compensation cost related to non-vested stock option awards expected to vest. This compensation cost is expected to be recognized through fiscal 2016 based on existing vesting terms, with the weighted average remaining expense recognition period being approximately 1.91 years.

The options outstanding as of October 28, 2012, by exercise price, are summarized below:

Number of Stock Options Outstanding	Stock Options Exercisable	Exercise Price	Average Remaining Contractual Life (in Years)
651,153	651,153	$ 1.12	2.80
21,218	21,218	1.35	3.76
169,147	169,147	1.62	4.07
14,812	14,812	1.76	4.38
107,026	107,026	2.43	2.55
55,000		12.91	9.91
8,000		13.04	9.59
10,000		13.26	9.69
5,000	1,250	15.11	9.13
490,000	126,250	17.00	8.28
1,531,356	1,090,856		6.75

There were 1,090,856 options exercisable as of October 28, 2012 with a weighted average exercise price of $3.19 per share and intrinsic value of $9,155. Additionally, 403,947 options were exercised during the thirty