TASTY BAKING CO
Form 10-Q
May 07, 2008

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 thirteen weeks ended March 29, 2008

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 1-5084

TASTY BAKING COMPANY
(Exact name of Company as specified in its charter)

Pennsylvania	23-1145880
(State of Incorporation)	(IRS Employer Identification Number)

2801 Hunting Park Avenue, Philadelphia, Pennsylvania 19129
(Address of principal executive offices including Zip Code)

215-221-8500
(Company'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 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	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	x

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

There were 8,308,646 shares of Common Stock outstanding as of May 2, 2008.

TASTY BAKING COMPANY AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

TASTY BAKING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(000's)

	March 29, 2008	December 29, 2007
Assets		
Current assets:		
Cash	73	57
Receivables, less allowance of $2,321 and $2,608, respectively	20,242	19,358
Inventories	7,245	7,719
Deferred income taxes	1,547	1,547
Prepayments and other	2,930	2,303
Total current assets	32,037	30,984
Property, plant and equipment:		
Land	1,433	1,433
Buildings and improvements	49,963	49,874
Machinery and equipment	126,809	126,132
Construction in progress	17,723	9,425
	195,928	186,864
Less accumulated depreciation	115,792	112,774
	80,136	74,090
Other assets:		
Long-term receivables from independent sales distributors	9,968	9,889
Deferred income taxes	7,393	6,396
Other	3,347	3,162
	20,708	19,447
Total assets	132,881	124,521
Liabilities		
Current liabilities:		
Accounts payable	5,121	6,210
Accrued payroll and employee benefits	3,276	4,080
Cash overdraft	2,429	890
Current obligations under capital leases	431	431
Other accrued liabilities	4,664	5,343
Total current liabilities	15,921	16,954
Asset retirement obligation	6,768	6,676
Accrued pensions	16,301	16,502
Long-term obligations under capital leases, less current portion	895	1,003
Long-term debt	36,778	25,697
Other accrued liabilities	3,379	2,888
Postretirement benefits other than pensions	7,397	7,365
Total liabilities	87,439	77,085

Shareholders' equity				
Common stock, par value $0.50 per share and entitled to one vote per share: Authorized 30,000 shares, issued 9,116 shares		4,558		4,558
Capital in excess of par value of stock		28,882		28,683
Retained earnings		23,746		25,119
Accumulated other comprehensive income		174		634
Treasury stock, at cost		(11,918)		(11,558)
Total shareholders' equity		45,442		47,436
Total liabilities and shareholders' equity	$	132,881	$	124,521

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

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TASTY BAKING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(000's, except per share amounts)

	For the Thirteen Weeks Ended	
	March 29, 2008	March 31, 2007
Gross sales	$ 69,294	$ 70,381
Less discounts and allowances	(26,472)	(26,056)
Net sales	42,822	44,325
Costs and expenses:		
Cost of sales, exclusive of depreciation shown below	28,794	27,961
Depreciation	3,030	1,652
Selling, general and administrative	12,012	13,225
Interest expense	456	315
Other income, net	(199)	(230)
	44,093	42,923
Income (loss) before provision for income taxes	(1,271)	1,402
Provision (benefit) for income taxes	(312)	526
Net income (loss)	$ (959)	$ 876
Average common shares outstanding:		
Basic	8,034	8,033
Diluted	8,034	8,270
Per share of common stock:		
Net income (loss):		
Basic	$ (0.12)	$ 0.11
Diluted	$ (0.12)	$ 0.11
Cash dividend	$ 0.05	$ 0.05

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

TASTY BAKING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)
(000's)

	For the Thirteen Weeks Ended March 29, 2008	March 31, 2007
Cash flows from (used for) operating activities		
Net income (loss)	$ (959)	$ 876
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	3,030	1,652
Amortization	76	141
Asset retirement obligation interest	92	-
Loss on sale of routes	-	6
Defined benefit pension benefit	(146)	(46)
(Increase) decrease deferred taxes	(690)	186
Post retirement medical	(425)	(570)
Other	(261)	334
Changes in assets and liabilities:		
Increase in receivables	(836)	(3,507)
Decrease in inventories	474	95
Increase in prepayments and other	(704)	(777)
Increase in accrued taxes	207	341
Decrease in accounts payable, accrued payroll and other current liabilities	(2,779)	(1,053)
Net cash used for operating activities	(2,921)	(2,322)
Cash flows from (used for) investing activities		
Purchase of property, plant and equipment	(8,877)	(571)
Proceeds from independent sales distributor loan repayments	813	641
Loans to independent sales distributors	(989)	(639)
Other	(106)	(6)
Net cash used for investing activities	(9,159)	(575)
Cash flows from (used for) financing activities		
Dividends paid	(413)	(411)
Borrowings on long-term debt	39,790	3,004
Payment on long-term debt	(28,819)	-
Net increase in cash overdraft	1,538	304
Net cash from financing activities	12,096	2,897

Net increase in cash		16		-
Cash, beginning of year		57		12
Cash, end of period	$	73	$	12
Supplemental Cash Flow Information				
Cash paid during the period for:				
Interest	$	386	$	317
Income taxes	$	23	$	-

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

Notes to Condensed Consolidated Financial Statements
(000's, except share, per share and square footage amounts, unless otherwise noted)
All disclosures are pre-tax, unless otherwise noted.

1. Summary of Significant Accounting Policies

Nature of the Business
Tasty Baking Company (the "Company") is a leading producer of sweet baked goods and one of the nation's oldest and largest independent baking companies, in operation since 1914. It has two manufacturing facilities, one in Philadelphia, PA, and a second in Oxford, PA.

Fiscal Year
The Company and its subsidiaries operate on a 52-53 week fiscal year, ending on the last Saturday of December. Fiscal year 2008 is a 52-week year. Fiscal year 2007 was a 52-week year.

Basis of Presentation
The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal recurring items, which are necessary for a fair statement of the results of operations for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full year or for any future period.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to customer sales, discounts and allowances, long-lived asset impairment, pension and postretirement plan assumptions, workers' compensation expense and income taxes. Actual results may differ from these estimates.

Concentration of Credit
The Company encounters, in the normal course of business, exposure to concentrations of credit risk with respect to trade receivables. Ongoing credit evaluations of customers' financial conditions are performed and, generally, no collateral is required. The Company maintains reserves for potential credit losses and such losses have not exceeded management's expectations.

Revenue Recognition
Revenue is recognized when title and risk of loss pass, which is upon receipt of goods by the independent sales distributors, retailers or third-party distributors. For route area sales, the Company sells to independent sales distributors who, in turn, sell to retailers. Revenue for sales to independent sales distributors is recognized upon receipt of the product by the distributor. For sales made directly to a customer or a third-party distributor, revenue is recognized upon receipt of the products by the retailer or third-party distributor.

Sale of Routes

Sales distribution routes are primarily owned by independent sales distributors who purchase the exclusive right to sell and distribute Tastykake® products in defined geographical territories. When the Company sells routes to independent sales distributors, it recognizes a gain or loss on the sale. Routes sold by the Company are either existing routes that the Company has previously purchased from an independent sales distributor or newly established routes in new geographies. Any gain or loss recorded by the Company is based on the difference between the sales price and the carrying value of the route. Any potential impairment of net carrying value is reserved as identified. The Company recognizes gains or losses on sales of routes because all material services or conditions related to the sale have been substantially performed or satisfied by the Company as of the date of the sale. In most cases, the Company will finance a portion of the purchase price with interest bearing notes, which are required to be repaid in full. Interest rates on the notes are based on Treasury or LIBOR yields plus a spread. The Company has no obligation to later repurchase a route but may choose to do so to facilitate a change in route ownership.

Cash and Cash Equivalents

The Company considers all investments with an original maturity of three months or less on their acquisition date to be cash equivalents. Cash overdrafts are recorded within current liabilities. Cash flows associated with cash overdrafts are classified as financing activities.

Inventory Valuation

Inventories, which include material, labor and manufacturing overhead, are stated at the lower of cost or market, cost being determined using the first-in, first-out ("FIFO") method. Inventory balances for raw materials, work in progress and finished goods are regularly analyzed and provisions for excess and obsolete inventory are recorded, as necessary, based on the forecast of product demand and production requirements.

Property and Depreciation

Property, plant and equipment are carried at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Buildings and improvements, machinery and equipment, and vehicles are depreciated over thirty-nine years, seven to fifteen years, and five to ten years, respectively, except where a shorter useful life is necessitated by the Company's decision to relocate its Philadelphia operations. Spare parts are capitalized as part of machinery and equipment and are expensed as utilized or capitalized as part of the relevant fixed asset. Spare parts are valued using a moving average method and are reviewed for potential obsolescence on a regular basis. Reserves are established for all spare parts that are no longer usable and have no fair market value. Capitalized computer hardware and software is depreciated over five years.

Costs of major additions, replacements and betterments are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred. For significant projects, the Company capitalizes interest and labor costs associated with the construction and installation of plant and equipment and significant information technology development projects.

In accordance with Statement of Financial Accounting Standards No.144, long-lived assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In instances where the carrying amount may not be recoverable, the review for potential impairment utilizes estimates and assumptions of future cash flows directly related to the asset. For assets where there is no plan for future use, the review for impairment includes estimates and assumptions of the fair value of the asset, which is based on the best information available. These assets are recorded at the lower of their book value or fair value.

The Company has a conditional asset retirement obligation related to asbestos in its Philadelphia manufacturing facility. As a result of the Company's decision in May 2007 to relocate its Philadelphia operations, it was able to estimate a settlement date for the asset retirement obligation and in accordance with FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, recorded an obligation of $6.6 million which was the present value of the future obligation. This obligation will continue to accrete to the full value of the future obligation over the remaining period until settlement of the obligation which is expected to occur in June 2010, while the capitalized asset retirement cost is depreciated through December 2044, the remaining useful life of the Philadelphia manufacturing facility. During the quarter ended March 29, 2008, the Company recorded $0.1 million in interest associated with the asset retirement obligation and as of March 29, 2008 the asset retirement obligation totaled $6.8 million.

Grants

The Company receives grants from various government agencies for employee training purposes. Expenses for the training are recognized in the Company's income statement at the time the training takes place. When the proper approvals are given and funds are received from the government agencies, the Company records an offset to the training expense already recognized.

In 2007, in connection with the decision to relocate its Philadelphia manufacturing operations, the Company received a $600 grant from the Department of Community and Economic Development of the Commonwealth of Pennsylvania (“DCED”). The opportunity grant has certain spending, job retention and nondiscrimination conditions with which the Company must comply. The Company accounted for this grant under the deferred income approach and will amortize the deferred income over the same period as the useful life of the asset acquired with the grant. The asset acquired with the grant is expected to be placed into service when the new manufacturing facility becomes fully operational in 2010.

In addition, in 2006, in conjunction with The Reinvestment Funds, Allegheny West Foundation and the DCED, the Company activated Project Fresh Start (the "Project"). The Project is an entrepreneurial development program that provides an opportunity for qualified minority entrepreneurs to purchase routes from independent sales distributors. The source of grant monies for this program is the DCED. The grants are used by minority applicants to partially fund their purchase of an independent sales distribution route.

Because the Project's grant funds merely pass through the Company in its role as an intermediary, the Company records an offsetting asset and liability for the total amount of grants as they relate to the project. There is no Statement of Operations impact related to the establishment of, or subsequent change to, the asset and liability amounts.

Marketing Costs
The Company expenses marketing costs, which include advertising and consumer promotions, as incurred or as required in accordance with Statement of Position 93-7, Reporting on Advertising Costs. Marketing costs are included as a part of selling, general and administrative expense.

Computer Software Costs
The Company capitalizes certain costs, such as software coding, installation and testing that are incurred to purchase or create and implement internal use computer software in accordance with Statement of Position 98-1, Accounting for Costs of Computer Software Development or Obtained for Internal Use. The majority of the Company's capitalized software relates to the implementation of the enterprise resource planning and handheld computer systems.

Freight, Shipping and Handling Costs
Outbound freight, shipping and handling costs are included as a part of selling, general and administrative expense. Inbound freight, shipping and handling costs are capitalized with inventory and expensed with cost of sales.

Pension Plan
The Company's funding policy for the pension plan is to contribute amounts deductible for federal income tax purposes plus such additional amounts, if any, as the Company's actuarial consultants advise to be appropriate. In 1987 the Company elected to immediately recognize all gains and losses in excess of the pension corridor, which is equal to the greater of ten percent of the accumulated pension benefit obligation or ten percent or the market-related value of plan assets.

The Company accrues normal periodic pension expense or income during the year based upon certain assumptions and estimates from its actuarial consultants. These estimates and assumptions include discount rate, rate of return on plan assets, compensation increases, mortality and employee turnover. In addition, the rate of return on plan assets is directly related to changes in the equity and credit markets, which can be very volatile. The use of the above estimates and assumptions, market volatility and the Company's election to immediately recognize all gains and losses in excess of its pension corridor in the current year may cause the Company to experience significant changes in its pension expense or income from year to year. Expense or income that falls outside the corridor is recognized only in the fourth quarter of each year.

In accordance with Financial Accounting Standards Board ("FASB") Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, the Company maintains a liability on its balance sheet equal to the under-funded status of its defined benefit and other postretirement benefit plans.

Accounting for Derivative Instruments
The Company has entered into certain variable-to-fixed interest rate swap contracts to fix the interest rates on a portion of its variable interest rate debt. These contracts are accounted for as cash flow hedges in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("FAS 133"). Accordingly,

these derivatives are marked to market and the resulting gains or losses are recorded in other comprehensive income as an offset to the related hedged asset or liability. The actual interest expense incurred, inclusive of the effect of the hedge in the current period, is recorded in the Statement of Operations.

The Company has also entered into foreign currency forward contracts to hedge the future purchase of certain assets for its new facilities, which are denominated in Australian Dollars (AUD). These contracts are accounted for as fair value foreign currency hedges in accordance with FAS 133. Accordingly, the changes in fair value of both the commitment and the derivative instruments are recorded currently in the Statement of Operations, with the corresponding asset and liability recorded on the Balance Sheet.

Treasury Stock
Treasury stock is stated at cost. Cost is determined by the FIFO method.

Accounting for Income Taxes
The Company accounts for income taxes under the asset and liability method, in accordance with FASB Statement No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect when the differences are expected to be recovered or settled.

Net Income Per Common Share
Net income per common share is presented as basic and diluted earnings per share. Net income per common share – Basic is based on the weighted average number of common shares outstanding during the period. Net income per common share – Diluted is based on the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilution is the result of outstanding stock options and restricted shares. For the thirteen weeks ended March 29, 2008 and March 31, 2007, 575,928 and 383,646 options to purchase common stock and restricted shares, respectively, were excluded from the calculation, as they were anti-dilutive.

Share-based Compensation
The Company accounts for share-based compensation in accordance with FASB Statement No. 123(R), Share-Based Payment ("FAS 123(R)"). Share-based compensation expense recognized during the current period is based on the value of the portion of share-based payment awards that is ultimately expected to vest. The total value of compensation expense for restricted stock is equal to the closing market price of Tasty Baking Company shares on the date of grant. FAS 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The forfeiture rate is based on the Company's historical forfeiture experience. The Company calculated its historical pool of windfall tax benefits.

Recent Accounting Statements
In September 2006, the FASB issued Statement No. 157, Fair Value Measurements ("FAS 157"), which creates a single definition of fair value, along with a conceptual framework to measure fair value and to increase the consistency and the comparability in fair value measurements and in financial disclosure. The Company adopted the required provisions of FAS 157 for the quarter ended March 29, 2008. The required provisions did not have a material impact on the Company's financial statements. See Note 6 for additional information.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2. This FSP permits a delay in the effective date of FAS 157 to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the Board and constituents additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of FAS 157. The FASB also issued FSP FAS 157-1 to exclude SFAS 13, Accounting for Leases, and its related interpretive accounting pronouncements from the scope of FAS 157 in February 2008. The Company is currently assessing the potential impact that adoption of this statement would have on its financial statements.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115 ("FAS 159"). This statement permits, but does not require entities to measure certain financial instruments and other assets and liabilities at fair value on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the fair value option has been elected would be reported as a cumulative adjustment to beginning retained earnings. Unrealized gains and losses due to changes in their fair value must be recognized in earnings at each subsequent reporting date. This statement is effective for fiscal years beginning after November 15, 2007. Although FAS 159 was adopted in the quarter ended March 29, 2008, the Company has not yet elected the fair value option for any items permitted under FAS 159.

In December 2007, the FASB issued Statement No. 141 (Revised 2007), Business Combinations ("FAS 141(R)"). FAS 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, acquired contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under FAS 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the extent to which its current practices, financial statements and disclosures may change as a result of the adoption of FAS 141(R).

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51 ("FAS 160"), which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary, changes in a parent's ownership interest in a subsidiary and the deconsolidation of a subsidiary. FAS 160 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the extent to which its current practices, financial statements and disclosures may change as a result of the adoption of FAS 160.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 ("FAS 161"), Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133("FAS 161"). FAS 161 applies to all derivative instruments and related hedged items accounted for under FAS 133. It requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Because FAS 161 applies only to financial statement disclosures, it will not have a material impact on our consolidated financial position, results of operations or cash flows.

2. New Facilities

In May 2007, the Company announced that as part of its comprehensive operational review of strategic manufacturing alternatives, it entered into an agreement to relocate its Philadelphia operations to the Philadelphia Navy Yard. This agreement provides for a 26-year lease for a yet to be constructed 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres. Construction of the facility has begun and is expected to be completed by the end of 2009. The Company expects the new facility to be fully operational in 2010. The lease provides for no rent payments in the first year of occupancy. Rental payments increase from $3.5 million in the second year of occupancy to $7.2 million in the final year of the lease.

As part of this initiative, the Company also entered into a 16-year agreement for $9.5 million in financing at a fixed rate of 8.54% to be used for leasehold improvements. This agreement provides for no principal or interest payments in the first year of occupancy and then requires equal monthly payments of principal and interest aggregating to $1.2 million annually over the remainder of the term.

The Company also entered into an agreement to relocate its corporate headquarters to the Philadelphia Navy Yard. This lease agreement provides for not less than 35,000 square feet of office space that commences upon the later of substantial completion of the office space or April 2009, and which ends coterminous with the new bakery lease. The lease provides for no rent payments in the first six months of occupancy. Rental payments increase from approximately $0.9 million in the second year of occupancy to approximately $1.6 million in the final year of the lease.

In connection with these agreements, the Company has provided a $2.7 million letter of credit, which will increase to $8.1 million by the beginning of 2009. The outstanding amount of the letter of credit will be reduced starting in year 17 and will be eliminated by the end of the lease term.

In addition to the facility leases, the Company expects to purchase high-tech, modern baking equipment. This equipment is designed to increase product development flexibility and efficiency, while maintaining existing taste and quality standards. The investment for this project, in addition to any costs associated with the agreements described above, is projected to be approximately $75.0 million through 2010. In September 2007, the Company closed on a multi-bank credit facility and low-interest development loans provided in part by the Commonwealth of Pennsylvania and the Philadelphia Industrial Development Corporation to finance this investment and refinance the Company's existing revolving credit facilities, as well as to provide for financial flexibility in running the ongoing operations and working capital needs.

The Company anticipates that long-lived assets utilized in the Philadelphia operations with an aggregate net book value of approximately $20.0 million at June 30, 2007 would not be relocated to the new facilities or sold as a result of the relocation. The Company accounts for disposal and exit activities in accordance with FAS 146, Accounting for Costs Associated with Exit or Disposal Activities (“FAS 146”) and FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“FAS 144”). To date, the Company has not incurred any material obligations related to one-time termination benefits, contract termination costs or other associated costs as described in FAS 146.

The Company has re-evaluated the long-lived assets utilized in its Philadelphia operations for potential impairment or other treatment in accordance with FAS 144. Based on the commitment to the planned relocation, neither the assets to be relocated nor the assets to be left in place at the Philadelphia operations have suffered impairment. Therefore the estimated fair value of the asset groups continues to exceed the carrying amount of such asset groups. With respect to the group of assets not expected to be relocated or sold, certain of the assets included in the group had previously estimated useful lives that extended beyond the expected project completion in early 2010. As such, in the quarter ended June 29, 2007, the Company changed its estimate of the remaining useful lives of such assets to be consistent with the time remaining until the end of the project, and accounted for such change in estimate in accordance with FAS 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. For the thirteen week period ended March 29, 2008 the change in estimated useful lives of these assets resulted in incremental depreciation of $1.3 million. The after-tax impact of the incremental depreciation on net income, net income per common share-basic, and net income per common share-diluted was $0.8 million, $0.10 per share, and $0.10 per share, respectively, for the thirteen weeks ended March 29, 2008. The Company expects that the future pre-tax impact of incremental depreciation resulting from the change in useful lives will be approximately $1.3 million per quarter through June 2010, when the new bakery is expected to be fully operational.

As part of the relocation of its Philadelphia operations, the Company expects to eliminate approximately 215 positions. While the Company hopes to achieve this result through normal attrition and the reduction of contract labor, it is probable that the Company will incur obligations related to postemployment benefits accounted for under FAS 112, Employers' Accounting for Postemployment Benefits, an amendment of FASB Statements No. 5 and 43. Due to uncertainties regarding the extent to which the Company will be successful in managing the reductions through normal attrition and the reduction of contract labor, the Company cannot reasonably estimate the amount of such obligations or provide a meaningful range of loss with respect to such obligations at this time.

3. Inventories

Inventories are classified as follows:

	March 29, 2008	Dec. 29, 2007
Finished goods	$ 2,398	$ 2,852
Work in progress	188	161
Raw materials and supplies	4,659	4,706
	$ 7,245	$ 7,719

The inventory balance has been reduced by reserves for obsolete and slow-moving inventories of $56 and $95 as of March 29, 2008 and December 29, 2007, respectively.

4. Credit Facilities

On September 6, 2007, the Company entered into a 5 year, $100.0 million secured credit facility with 4 banks, consisting of a $55.0 million fixed asset line of credit, a $35.0 million working capital revolver and a $10.0 million low-interest loan from the agent bank with the Commonwealth of Pennsylvania (the “Bank Credit Facility”). The Bank Credit Facility is secured by a blanket lien on the Company’s assets and contains various non-financial and financial covenants, including a fixed charge coverage covenant, a funded debt covenant, a minimum liquidity ratio covenant and minimum level of earnings before interest, taxes, depreciation and amortization (“EBITDA”) covenant. Interest rates for the fixed asset line of credit and working capital revolver are indexed to LIBOR and include a spread above that index from 75 to 275 basis points based upon the Company's ratio of debt to EBITDA. The fixed asset line of credit and the working capital revolver include commitment fees from 20 to 50 basis points based upon the Company's ratio of debt to EBITDA. The $10.0 million low-interest loan bears interest at a fixed rate of 5.5% per annum.

On September 6, 2007, the Company entered into a 10 year, $12.0 million secured credit agreement with the PIDC Local Development Corporation ("PIDC Credit Facility"). This credit facility bears interest at a blended fixed rate of 4.5% per annum, participates in the blanket lien on the Company's assets and contains customary representations and warranties as well as customary affirmative and negative covenants essentially similar to those in the Bank Credit Facility. Negative covenants include, among others, limitations on incurrence of liens and secured indebtedness by the Company and/or its subsidiaries, other than in connection with the Bank Credit Facility and the MELF Loan, as defined below.

On September 6, 2007, the Company entered into a 10 year, $5.0 million Machinery and Equipment Loan Fund secured loan with the Commonwealth of Pennsylvania ("MELF Loan"). This loan bears interest at a fixed rate of 5.0% per annum, is secured by the Navy Yard machinery and equipment and contains customary representations and warranties as well as customary affirmative and negative covenants. Negative covenants include, among others, limitations on incurrence of liens and secured indebtedness by the Company, other than in connection with the Bank Credit Facility and the PIDC Credit Facility. Contemporaneously with the closing under the MELF Loan, the Company received a commitment from the Commonwealth of Pennsylvania Machinery and Equipment Loan Fund to extend a second $5.0 million loan to the Company. This second loan with the Machinery and Equipment Loan Fund is expected to close in September 2008, and be on substantially the same terms and conditions as the MELF Loan.

On September 6, 2007, the Company entered into an agreement which governs the shared collateral positions under the Bank Credit Facility, the PIDC Credit Facility, and the MELF Loan (the "Intercreditor Agreement"), and establishes the priorities and procedures that each lender has in enforcing the terms and conditions of each of their respective agreements. The Intercreditor Agreement permits the group of banks and their agent bank in the Bank Credit Facility to have the initial responsibility to enforce the terms and conditions of the various credit agreements, subject to certain specific limitations, and allows such bank group to negotiate amendments and waivers on behalf of all lenders, subject to the approval of each lender.

The Company used a portion of the proceeds received under the Bank Credit Facility to terminate and repay outstanding indebtedness. The Company also expects to utilize proceeds from the Bank Credit Facility, the PIDC Credit Facility and the MELF Loan to finance the Company's move of its Philadelphia manufacturing facility and corporate headquarters to new facilities to be constructed at the Philadelphia Navy Yard, along with working capital needs.

5. Derivative Instruments

In order to hedge a portion of the Company's exposure to changes in interest rates on debt associated with the Company's new manufacturing facilities, the Company entered into certain variable-to-fixed interest rate swap contracts to fix the interest rates on a portion of its variable interest rate debt. The interest rate swap contract has a notional value of $8.5 million as of January 31, 2008 that increases to $35.0 million by April 2010. The Company records as an asset or liability the cumulative change in the fair market value of the derivative instrument, and as of March 29, 2008, the Company had recorded a liability of $0.3 million. The swap has a fixed LIBOR rate of 3.835% and expires on September 5, 2012. The LIBOR rates are subject to an additional credit spread which could range from 75 basis points to 275 basis points and was equal to 175 basis points as of March 29, 2008.

During the third quarter of 2007, the Company entered into commitments to acquire assets denominated in a foreign currency. In order to hedge the Company's exposure to changes in foreign currency rates, the Company entered into foreign currency forward contracts with maturity dates ranging from July 2007 to April 2010. As of March 29, 2008 the notional principle of outstanding foreign currency forward contracts was $7.2 million Australian Dollar ($6.2 million USD). As of March 29, 2008 the change in fair value of both the commitment and the forward currency contracts was $0.5 million.

6. Fair Value Measurements

As described in Note 1, the Company adopted FAS 157 on December 30, 2007. FAS 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. FAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1.	Observable inputs such as quoted prices in active markets for identical assets or liabilities;
Level 2.	Inputs, other than quoted prices included within Level 1, that are observable either directly or indirectly; and
Level 3.	Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table presents assets / (liabilities) measured at fair value on a recurring basis at March 29, 2008:

Description	Balance as of March 29, 2008	Fair Value Measurement at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial instruments owned:				
Interest rate swaps	$ (322)	$ —	$ (322)	$ —
Foreign currency hedges	537	—	537	—
Total financial instruments owned	$ 215	$ —	$ 215	$ —

7. Defined Benefit Retirement Plans

The Company maintains a partially funded noncontributory Defined Benefit ("DB") Retirement Plan (the "DB Plan") providing retirement benefits. Benefits under this DB Plan generally are based on the employees' years of service and compensation during the years preceding retirement. In December 2004, the Company announced to its employees that it was amending the DB Plan to freeze benefit accruals effective March 26, 2005. The Company maintains a DB Supplemental Executive Retirement Plan ("SERP") for key employees designated by the Board of Directors, however, there are no current employees earning benefits under this plan. See Note 8 for more information. The Company also maintains a frozen unfunded Retirement Plan for Directors (the "Director Plan"). The benefit amount is the annual retainer in the year of retirement.

Effective February 15, 2007, benefit accruals under the Directors' Retirement Plan were frozen for current directors and future directors were precluded from participating in the plan. Participants are credited for service under the Director Retirement Plan after February 15, 2007 solely for vesting purposes. On February 15, 2007, the Board of Directors approved a Deferred Stock Unit Plan (the "DSU Plan"). The DSU Plan provides that for each fiscal quarter, the Company will credit DSUs to the director's account equivalent in value to $4 on the last day of such quarter, provided that he or she is a director on the last day of such quarter. Directors will be entitled to be paid in shares upon termination of Board service provided the director has at least five years of continuous service on the Board. The shares may be paid out in a lump sum or at the director's election, over a period of five years.

The components of the DB Plan, DB SERP, and DB Directors' Retirement Plan's costs are summarized as follows:

Thirteen Weeks Ended

	3/29/08	3/31/07
Service cost-benefits earned during the quarter	$ -	$ 5
Interest cost on projected benefit obligation	1,234	1,243
Expected return on plan assets	(1,301)	(1,306)
Prior service cost amortization	(4)	(4)
Actuarial loss recognition	16	16
Net DB pension amount credited to income	$ (55)	$ (46)

The Company made a $0.5 million voluntary cash contribution to the previously frozen DB Plan in July 2007. There is a minimum required cash contribution to the DB Plan in fiscal 2008 of $2.1 million.

8. Defined Contribution Retirement Plans

The Company maintains a funded Defined Contribution ("DC") Retirement Plan (the "DC Plan"), which replaced the benefits provided in the DB Plan. Under the DC Plan, the Company makes weekly cash contributions into individual accounts for all eligible employees. These contributions are based on employees' point values which are the sum of age and years of service as of January 1 each year. All employees receive contributions that range from 2% to 5% of covered compensation relative to their point totals. Employees at March 27, 2005, who had 20 years of service or 10 years of service and 60 points, received an additional "grandfathered" contribution of between 1.5% and 3.5% of salary. The "grandfathered" contribution percentage was fixed as of March 27, 2005, and is paid weekly with the regular contribution until those covered employees retire or separate from the Company. These "grandfathered" contributions are being made to compensate older employees for the shorter earnings period that their accounts will have to appreciate in value relative to their normal retirement dates.

The Company also maintains the Tasty Baking Company 401(k) and Company Funded Retirement Plan (the "Retirement Plan"). In the Retirement Plan, all participants receive a company match of 50% of their elective deferrals that do not exceed 4% of their compensation as defined in the Retirement Plan. Under the Retirement Plan, the waiting period for participation has been eliminated and participants are offered a broad array of investment choices.

The Company also maintains an unfunded defined contribution SERP ("DC SERP") for one eligible active employee.

Components of DC pension amounts charged to income:

	Thirteen Weeks Ended	
	3/29/08	3/31/07
Funded retirement plan	$ 482	$ 516
Defined contribution SERP	97	90
Net DC pension amount charged to income	$ 579	$ 606

9. Postretirement Benefits Other than Pensions

In addition to providing pension benefits, the Company also provides certain unfunded health care and life insurance programs for substantially all retired employees, or Other Postretirement Benefits ("OPEB"). These benefits are provided through contracts with insurance companies and health service providers. Coverage is maintained for all pre-65 retirees and for certain post-65 retirees who have qualifying dependents that are pre-65. Life insurance for incumbent retirees, as of January 1, 2006, at company group rates is capped at $20 of coverage. Incumbent retirees who purchase coverage in excess of $20 and all new retirees after January 1, 2006 pay age-based rates for their life insurance benefit.

Components of net periodic postretirement benefit cost / (benefit):

	Thirteen Weeks Ended	
	3/29/08	3/31/07
Service cost	$ 91	$ 67
Interest cost	116	92

Amortization of unrecognized prior service cost		(458)		(457)
Amortization of unrecognized gain		-		(29)
Total FAS 106 net postretirement benefit	$	(251)	$	(327)

Estimated company contributions for the thirteen weeks ended March 29, 2008 and March 31, 2007 were $175 and $151, respectively.

10. Stock Compensation

At the 2006 Annual Meeting of Shareholders of the Company held on May 11, 2006, the Company's shareholders approved the Tasty Baking Company 2006 Long-Term Incentive Plan (the "2006 Plan") as adopted by the Company's Board of Directors (the "Board") on March 24, 2006. The aggregate number of shares available for grant under the Plan is 200,500 shares of the Company's common stock as of March 29, 2008.

The 2006 Plan authorizes the Compensation Committee (the "Committee") of the Board to grant awards of stock options, stock appreciation rights, unrestricted stock, restricted stock (“RSA”) (including performance restricted stock) and performance shares to employees, directors and consultants or advisors of the Company. The option price is determined by the Committee and, in the case of incentive stock options, will be no less than the fair market value of the shares on the date of grant. Options lapse at the earlier of the expiration of the option term specified by the Committee (not more than ten years in the case of incentive stock options) or three months following the date on which employment with the Company terminates.

The Company also has active 2003 and 1997 Long-Term Incentive Plans. The aggregate number of shares available for grant under the 2003 plan is 40,400 and under the 1997 plan is 83,019 as of March 29, 2008. The terms and conditions of the 2003 and 1997 plans are generally the same as the 2006 plan. A notable difference is that the 1997 plan can award shares only to employees of the Company while the 2003 plan can only award shares to employees and directors of the Company. The Company also has options outstanding under the 1994 Long-Term Incentive Plan, the terms and conditions of which are similar to the 1997 Long-Term Incentive Plan.

Notwithstanding, the vesting and termination provisions described above, under the terms of the Change of Control Agreements and Employment Agreements that the Company entered into with certain executive officers, upon a change of control, the shares granted as RSAs vest and any restrictions on outstanding stock options lapse immediately. Additionally, under the terms of those agreements, in certain change of control circumstances, shares granted as RSAs may vest after termination of employment.

A summary of stock options as of March 29, 2008 is presented below:

	Shares (000’s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at Dec. 29, 2007	439	$ 10.44		
Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding at March 29, 2008	439	$ 10.44	4.67	$ 1,055
Options exercisable at March 29, 2008	439	$ 10.44	4.67	$ 1,055

As of March 29, 2008, there was no unrecognized compensation related to nonvested stock options, as all options are fully vested. For the thirteen weeks ended March 29, 2008, there were no options granted and there was no cash received from option exercises. There was no compensation expense recognized in the Condensed Consolidated Statements of Operations for stock options in the three month periods ended March 29, 2008 or March 31, 2007.

The Company recognizes expense for restricted stock using the straight-line method over the requisite service period. A summary of the restricted stock as of March 29, 2008 is presented below:

	Shares (000’s)	Weighted Average Fair Value

Nonvested at December 29, 2007	230	$	7.88
Granted	100		6.76
Forfeited	-		-
Exercised	-		-
Nonvested at March 29, 2008	330	$	7.54

As of March 29, 2008, there was $1.587 million of unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted average period of approximately 2.51 years.

11. Income Taxes

The Company's effective tax rate was 24.5 percent and 37.5 percent for the three months ended March 29, 2008 and March 31, 2007, respectively. The Company's effective tax rate can differ from the composite federal and state statutory tax rate due to certain expenses which are not deductible for income tax purposes and non-recurring discrete items. Non-deductible expense items and discrete items tend to increase the effective tax rate when pre-tax income is reported and tend to decrease the effective tax rate when a pre-tax loss is reported. For the quarter ended March 29, 2008, the Company recorded $0.2 million in non-recurring discrete expense items related to the write-off of charitable contribution carryforwards.

12. Accumulated Other Comprehensive Income / (Loss)

Total comprehensive income, net of taxes, is comprised as follows:

	Thirteen Weeks Ended	
	3/29/08	3/31/07
Net income / (loss)	$ (959)	$ 876
Other comprehensive income / (loss)		
Pension plan	7	7
Other postretirement benefits	(275)	(292)
Change in unrealized gain / (loss) on derivative instruments	(193)	(29)
Total other comprehensive income / (loss)	(461)	(314)
Total comprehensive income / (loss)	$ (1,420)	$ 562

The following table summarizes the components of accumulated other comprehensive income / (loss), net of tax:

	Mar. 29, 2008	Mar. 31, 2007
Pension Plan	$ (2,874)	$ (3,504)
Unrealized gain / (loss) on derivative instruments	(193)	55
Other postretirement benefits	3,241	5,131
Total comprehensive income	$ 174	$ 1,682

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation
(000's, except share, per share and square footage amounts, unless otherwise noted)
All disclosures are pre-tax, unless otherwise noted.

Results of Operations

For the Thirteen Weeks ended March 29, 2008

Overview

Net loss for the first quarter of 2008 was $1.0 million or $.12 per fully-diluted share. Net loss included $0.8 million, or $0.10 per common share, of incremental depreciation, after-tax, resulting from the change in the estimated useful lives of certain assets at the Company's Philadelphia operations in the second quarter of fiscal 2007. The change in estimated useful lives resulted from the Company's plans to move from its present Philadelphia facilities. Net income for the first quarter of 2007 was $0.9 million or $.11 per fully-diluted share.

Sales

Gross sales declined 1.5% in the first quarter of 2008 compared to the same period in the prior year due to a 4.3% decrease in volume, partially offset by higher average selling prices. The volume decline was partially attributable to the impact of the Easter holiday occurring during the first quarter in 2008 as compared to the second quarter in 2007. The Company typically experiences a slow down in sales volumes during this holiday as consumers' normal purchasing and consumption patterns change and they temporarily move away from baked snack goods. In addition, the Company had one less selling day in the quarter due to the holiday. The Company estimates this change in timing reduced Route net sales by approximately 3.0 to 3.5 percentage points in the first quarter of 2008 and resulted in a 2.8% decrease in Route net sales as compared to the same period year ago. Despite the negative impact of the holiday on total Route sales, Single Serve volumes showed positive growth in the first quarter of 2008 as compared to the same period a year ago. This growth was partially offset by declines in Family Pack sales and higher Route return expense, which were, in part, a result of the seasonality associated with Easter. Non-route net sales decreased 5.2% due to fewer promotional events with the Company's largest direct customer towards the end of the first quarter 2008 as compared to the same period in the prior year.

Cost of Sales

Cost of sales for the first quarter of 2008 increased 3.0% versus the first quarter of 2007. The increase in cost of sales resulted from an 11.2% increase in variable manufacturing expenses, which was primarily driven by the impact of industry-wide cost increases for certain key ingredients, including eggs, grains and oils. The increase in variable manufacturing expenses was partially offset by a 4.5% reduction in fixed manufacturing expense due primarily to lower compensation and other employee related costs.

Gross Margin

Gross margin decreased 7.5 percentage points to 25.7% of net sales in the first quarter of 2008 as compared to the first quarter of 2007. The decline in gross margin was partly attributable to $1.3 million in incremental depreciation resulting from a change in the estimated useful lives of certain assets that are not expected to move to the Company's new manufacturing facility. The incremental depreciation resulted in a 3.1 percentage point reduction in gross margin. In addition, the increased cost of ingredients and packaging accounted for a reduction of approximately 4.8 percentage points. Partially offsetting these declines were the benefits from lower fixed manufacturing expenses and product price increases.

Selling, General and Administrative Expenses

Selling, general and administrative expenses declined by $1.2 million in the first quarter of 2008 to 28.1% of net sales, compared to 29.8% of net sales in the first quarter of 2007. The decrease was driven by lower compensation and employee related costs, as well as by lower marketing expense resulting from a shift in the timing of advertising spending as compared to the same period a year ago.

Non-Operating Items

Interest expense increased by $141 to $456 in the first quarter of 2008 from $315 in the first quarter of 2007, primarily due to higher deferred financing fee amortization related to the Company's new debt facilities. The Company is exposed to market risk relative to its interest expense as certain of its notes payable and long-term debt have floating interest rates that vary with the conditions of the credit market.

Other income, net, decreased by approximately $31 in the first quarter of 2008 compared to the first quarter of 2007.

The effective income tax rate for state and federal taxes was 24.5% and 37.5% for the thirteen weeks ended March 29, 2008 and March 31, 2007, respectively. For the quarter ended March 29, 2008, the Company recorded $0.2 million in non-recurring discrete expense items related to the write-off of charitable contribution carryforwards.

Liquidity and Capital Resources

Current assets at March 29, 2008 were $32,037 compared to $30,984 at December 29, 2007, and current liabilities at March 29, 2008 were $15,921 compared to $16,954 at December 29, 2007. The increase in current assets was driven by an increase in accounts receivable of $0.9 million, resulting from higher sales as compared to the prior quarter. The $1.0 million decrease in current liabilities was primarily due to a reduction of $0.8 million in employee related costs.

On May 9, 2007, the Company announced that as part of its comprehensive operational review of strategic manufacturing alternatives, it entered into an agreement to relocate its Philadelphia operations to the Philadelphia Navy Yard. This agreement provides for a 26-year lease for a yet to be constructed 345,500 square foot bakery, warehouse and distribution center located on approximately 25 acres which the Company expects to be fully operational in 2010. The lease provides for no rent payments in the first year of occupancy. Rental payments increase from $3.5 million in the second year of occupancy to $7.2 million in the final year of the lease.

As part of this initiative, the Company also entered into a 16-year agreement for $9.5 million in financing at a fixed rate of 8.54% to be used for leasehold improvements. This agreement provides for no principal or interest payments in the first year of occupancy and then requires equal monthly payments of principal and interest aggregating $1.2 million annually over the remainder of the term.

The Company also entered into an agreement to relocate its corporate headquarters to the Philadelphia Navy Yard. This lease agreement provides for not less than 35,000 square feet of office space. The lease will commence upon the later of substantial completion of the office space or April 2009, and will end at the same time as the new bakery lease. The lease provides for no rent payment in the first six months of occupancy. Rental payments increase from approximately $0.9 million in the second year of occupancy to approximately $1.6 million in the final year of the lease.

In connection with these agreements, the Company provided a $2.7 million letter of credit, which will increase to $8.1 million by the beginning of 2009. The outstanding amount of the letter of credit will be reduced starting in 2026 and will be eliminated by the end of the lease term. As of March 29, 2008, the outstanding letter of credit under this arrangement totaled $2.7 million.

In addition to the facility leases, the Company expects to purchase high-tech, modern baking equipment. This equipment is designed to increase product development flexibility and efficiency, while maintaining existing taste and quality standards. The Company anticipates that this project, when completed, will generate approximately $13.0 to $15.0 million in pre-tax cash savings, after taking into account the impact of the new leases, but before any debt service requirements resulting from the investment in the project. The investment for this project, in addition to any costs associated with the agreements described above, is projected to be approximately $75.0 million through 2010. In September 2007, to finance this investment and refinance the Company's existing revolving credit facilities, as well as to provide for financial flexibility in running the ongoing operations and working capital needs, the Company closed on a multi-bank credit facility and low-interest development loans provided in part by the Commonwealth of Pennsylvania and the Philadelphia Industrial Development Corporation.

Cash and Cash Equivalents

Historically, the Company has been able to generate sufficient amounts of cash from operations. Bank borrowings are used to supplement cash flow from operations during periods of cyclical shortages. The Company maintains a Bank Credit Facility, a PIDC Credit Facility and MELF Loan, as defined below, and utilizes certain capital and operating leases.

Cash overdrafts are recorded within current liabilities. Cash flows associated with cash overdrafts are classified as financing activities.

On September 6, 2007, the Company entered into a 5 year, $100.0 million secured credit facility, consisting of a $55.0 million fixed asset line of credit, a $35.0 million working capital revolver and a $10.0 million low-interest loan from the agent bank in partnership with the Commonwealth of Pennsylvania (the “Bank Credit Facility”). The Bank Credit Facility is secured by a blanket lien on the Company’s assets and contains various non-financial and financial covenants, including a fixed charge coverage covenant, a funded debt covenant, a minimum liquidity ratio covenant and a minimum level of earnings before interest, taxes, depreciation and amortization (“EBITDA”) covenant. Interest rates for the fixed asset line of credit and working capital revolver are indexed to LIBOR and include a spread above that index from 75 to 275 basis points based upon the Company’s ratio of debt to EBITDA. The fixed asset line of credit and the working capital revolver include commitment fees from 20 to 50 basis points based upon the Company’s ratio of debt to EBITDA. The $10.0 million low-interest loan is at a fixed rate of 5.5% per annum.

On September 6, 2007, the Company entered into a 10 year, $12.0 million secured credit agreement with the PIDC Local Development Corporation (“PIDC Credit Facility”). The PIDC Credit Facility bears interest at a blended fixed rate of 4.5% per annum and contains customary representations and warranties as well as customary affirmative and negative covenants essentially similar to those in the Bank Credit Facility. Negative covenants include, among others, limitations on incurrence of liens and secured indebtedness by the Company and/or its subsidiaries, other than in connection with the Bank Credit Facility and the MELF Loan, as defined below.

On September 6, 2007, the Company entered into a 10 year, $5.0 million Machinery and Equipment Loan Fund secured loan with the Commonwealth of Pennsylvania (“MELF Loan”). This loan bears interest at a fixed rate of 5.0% per annum and contains customary representations and warranties as well as customary affirmative and negative covenants. Negative covenants include, among others, limitations on incurrence of liens and secured indebtedness by the Company, other than in connection with the Bank Credit Facility and the PIDC Credit Facility. Contemporaneously with the closing under the MELF Loan, the Company received a commitment from the Commonwealth of Pennsylvania Machinery and Equipment Loan Fund to extend a second $5.0 million loan to the Company. This second loan with the Machinery and Equipment Loan Fund is expected to close in September 2008, and be on substantially the same terms and conditions as the MELF Loan.

On September 6, 2007, the Company entered into an agreement which governs the shared collateral positions under the Bank Credit Facility, the PIDC Credit Facility, and the MELF Loan (the “Intercreditor Agreement”), and establishes the priorities and procedures that each lender has in enforcing the terms and conditions of each of their respective agreements. The Intercreditor Agreement permits the group of banks and their agent bank in the Bank Credit Facility to have the initial responsibility to enforce the terms and conditions of the various credit agreements, subject to certain specific limitations, and allows such bank group to negotiate amendments and waivers on behalf of all lenders, subject to the approval of each lender.

In order to hedge a portion of the Company’s exposure to changes in interest rates on debt associated with the Company’s new manufacturing facilities, the Company entered into certain variable-to-fixed interest rate swap contracts to fix the interest rates on a portion of its variable interest rate debt. The interest rate swap contract has a notional value of $8.5 million as of January 31, 2008 that increases to $35.0 million by April 2010. The Company records as an asset or liability the cumulative change in the fair market value of the derivative instrument, and as of March 29, 2008, the Company had recorded a liability of $0.3 million. The swap has a fixed LIBOR rate of 3.835% and expires on September 5, 2012. The LIBOR rates are subject to an additional credit spread which could range from 75 basis points to 275 basis points and was equal to 175 basis points as of March 29, 2008.

Net cash used for investing activities for the quarter ended March 29, 2008 was $9,159, primarily consisting of $8,877 for capital expenditures resulting primarily from the implementation of the Company’s new manufacturing strategy.

Net cash from financing activities for the quarter ended March 29, 2008 totaled $12,096, primarily driven by increased borrowings of long-term debt of $11.0 million primarily due to expenditures related to the Company's new manufacturing facility.

The Company anticipates that for the foreseeable future cash flow from operations, along with the continued availability under the Bank Credit Facility, the PIDC Credit Facility and the MELF Loan will provide sufficient cash to meet operating and financing requirements. The Company anticipates capital expenditures of approximately $32.0 million for fiscal 2008, $26.0 million of which are expenditures associated with the Company's new manufacturing facility.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on the condensed consolidated financial statements and accompanying notes that have been prepared in conformity with GAAP. The preparation of such condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Included in the Company's Annual Report on Form 10-K for fiscal 2007 are the significant accounting policies of the Company, which are described in Note 1 to the consolidated financial statements, and the critical accounting estimates, which are described in the Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2007 Form 10-K. Information concerning the Company's implementation and impact of new accounting standards is included in Note 1 of the condensed consolidated financial statements included herein. Otherwise, there were no changes in the Company's critical accounting policies and estimates in the first quarter of 2008 which had a material impact on the Company's financial condition, change in financial condition, liquidity or results of operations.

Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q, including but not limited to those under the headings "Risk Factors" and "Management's Discussion and Analysis," contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and are subject to the safe harbor created by that Act. Such forward-looking statements are based upon assumptions by management, as of the date of this Report, including assumptions about risks and uncertainties faced by the Company. These forward-looking statements can be identified by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "would," "is likely to," or "is expected to" and other similar terms. They may include comments about relocating operations and the funding thereof, legal proceedings, competition within the baking industry, concentration of customers, commodity prices, consumer preferences, long-term receivables, inability to develop brand recognition in the Company's expanded markets, production and inventory concerns, employee productivity, availability of capital, fluctuation in interest rates, pension expense and related assumptions, changes in long-term corporate bond rates or asset returns that could affect the pension corridor expense or income, governmental regulations, protection of the Company's intellectual property and trade secrets and other statements contained herein that are not historical facts.

Because such forward-looking statements involve risks and uncertainties, various factors could cause actual results to differ materially from those expressed or implied by such forward-looking statements, including, but not limited to, changes in general economic or business conditions nationally and in the Company's primary markets, the availability of capital upon terms acceptable to the Company, the availability and pricing of raw materials, the level of demand for the Company's products, the outcome of legal proceedings to which the Company is or may become a party, the actions of competitors within the packaged food industry, changes in consumer tastes or eating habits, the success of business strategies implemented by the Company to meet future challenges, the costs to lease and fit-out a new facility and relocate thereto, the costs and availability of capital to fund improvements or new facilities and equipment, the retention of key employees, and the ability to develop and market in a timely and efficient manner new products which are accepted by consumers. If any of our assumptions prove incorrect or should unanticipated circumstances arise, our actual results could differ materially from those anticipated by such forward-looking statements. The differences could be caused by a number of factors or combination of factors, including, but not limited to, those factors described in the Company's 2007Annual Report on Form 10-K ("2007 Form 10-K"), "Item 1A, Risk Factors." There can be no assurance that the new manufacturing facility described herein will be successful. The Company undertakes no obligation to publicly revise or update such forward-looking statements, except as required by law. Readers are advised, however, to consult any further public disclosures by the Company (such as in the Company's filings with the SEC or in Company press releases) on related subjects.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure at a reasonable assurance level that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management of the Company, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of March 29, 2008. Based upon the evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of March 29, 2008.

(b) Changes in Internal Control over Financial Reporting

During the thirteen weeks ended March 29, 2008, there have been no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

TASTY BAKING COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits:

Exhibit 31(a) – Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31(b) – Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 – Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

TASTY BAKING COMPANY AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TASTY BAKING COMPANY
(Company)

May 7, 2008	/s/ Paul D. Ridder
(Date)	PAUL D. RIDDER
	SENIOR VICE PRESIDENT
	AND
	CHIEF FINANCIAL OFFICER
	(Principal Financial Officer)

Times New Roman" SIZE="2">) 31,682

Interest expense, net

24,718 23,362 17,392

(Loss) income before income taxes	(149,863)	(25,275)	14,290
Income tax (benefit) expense	(31,487)	(10,825)	5,573
Net (loss) income	$(118,376)	$(14,450)	$8,717

Net income (loss) per common share attributable to common stockholders:

Basic and diluted (loss) income per share

$(19.64) $(2.40) $1.45

Basic and diluted weighted average common shares outstanding

6,025 6,010 6,013

See notes to consolidated financial statements.

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

(In thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance January 30, 2010	6,000,000	$ 60	12,708	$		$		$	$ 262,446	$ (173,520)	$ 88,986
Stock-based compensation expense									329		329
Net income										8,717	8,717
Balance January 29, 2011	6,000,000	60	12,708						262,775	(164,803)	98,032
Stock-based compensation expense									328		328
Conversion of Class A common stock to Class C common stock	(1,194,000)	(12)			1,194,000	12					
Stock repurchase			(4,064)						(54)		(54)
Issuance of preferred stock							4,806,000	16,529	(16,529)		
Transfer of state net-operating loss, net of federal tax expense									2,443		2,443
Net loss										(14,450)	(14,450)
Balance January 28, 2012	4,806,000	48	8,644		1,194,000	12	4,806,000	16,529	248,963	(179,253)	86,299
Stock-based compensation expense									1,467		1,467
Stock shares issued	24,147										
Net loss										(118,376)	(118,376)
Balance February 2, 2013	4,830,147	$ 48	8,644		1,194,000	$ 12	4,806,000	$ 16,529	$ 250,430	$ (297,629)	$ (30,610)

See notes to consolidated financial statements.

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

(In thousands)

	Fiscal Year		
	2012 53 Weeks	**2011 52 Weeks**	**2010 52 Weeks**
Cash flows from operating activities:			
Net (loss) income	$ (118,376)	$ (14,450)	$ 8,717
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	32,490	29,390	31,187
Amortization and write-off of deferred financing costs	4,262	2,332	1,170
Loss on disposal/sale of real property and equipment	1,121	18,093	633
Trade name and property and equipment impairment	111,073		
Stock-based compensation	1,467	328	329
Deferred income taxes	(28,556)	(17,350)	(6,721)
Deferred rent	1,398	2,036	(1,302)
Change in operating assets and liabilities:			
Merchandise inventories	(13,714)	14,379	(10,785)
Prepaid expenses and other assets	(6,073)	(95)	902
Merchandise payables	(6,597)	(915)	19,046
Accrued expenses and other liabilities	(8,012)	(1,855)	9,372
Net cash (used in) provided by operating activities	(29,517)	31,893	52,548
Cash flows from investing activities:			
Restricted cash	556		(556)
Purchases of property and equipment	(15,088)	(15,460)	(11,486)
Proceeds from sale of property and equipment	6,652	35,350	
Deposits from sale of real property	41,491	21,471	
Net cash provided by (used in) investing activities	33,611	41,361	(12,042)
Cash flows from financing activities:			
Borrowings on Senior Secured Credit Facility	70,500	58,650	48,300
Repayments on Senior Secured Credit Facility	(25,688)	(72,650)	(300)
Principal payments on Real Estate Term Loan	(27,878)	(22,122)	
Borrowings from Real Estate Term Loan			50,000
Principal payments on Commercial Mortgage-backed Loan			(120,000)
Principal payments on Senior Secured Term Loan	(10,646)	(35,900)	(2,000)
Payment for shares repurchased		(54)	
Payment of deferred financing costs	(2,338)	(3,482)	(4,152)
Payments of capital and financing lease obligations	(9,660)	(5,152)	(5,711)
Net cash used in financing activities	(5,710)	(80,710)	(33,863)
Net (decrease) increase in cash and cash equivalents	(1,616)	(7,456)	6,643
Cash and cash equivalents at beginning of period	8,148	15,604	8,961

Cash and cash equivalents at end of period	$ 6,532	$ 8,148	$ 15,604
Supplemental disclosures of cash flows information:			
Cash paid for interest	$ 20,423	$ 20,000	$ 16,421
Cash paid for income taxes	$ 2,503	$ 9,293	$ 16,651
Noncash investing and financing activities:			
Noncash property and equipment purchases	$ 7,873	$ 1,699	$ 1,137
Assets acquired through capital leases and financing lease obligations	$	$ 6,691	$ 3,073
Noncash conversion of accrued payment-in-kind interest to debt	$ 2,409	$	$

See notes to consolidated financial statements.

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

1. BASIS OF PRESENTATION

Orchard Supply Hardware Stores Corporation (the Company) operates neighborhood hardware and garden stores focused on paint, repair and the backyard. The Company was originally founded as a purchasing cooperative in San Jose, California in 1931. As of February 2, 2013, the Company operated 89 full-service home improvement stores in California.

The consolidated financial statements have been prepared from the records of the Company and its subsidiaries, Orchard Supply Hardware LLC and OSH Properties LLC. Unless otherwise specified, all references to the Company refer to Orchard Supply Hardware Stores Corporation and subsidiaries. The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany amounts and transactions have been eliminated in consolidation.

Spin-Off from Sears Holdings The distribution by Sears Holdings Corporation (Sears Holdings) to its stockholders (Spin-Off or Distribution) of all the shares of Class A Common Stock of the Company, par value $0.01 per share (the Class A Common Stock), and Series A Preferred Stock of the Company, par value $0.00001 per share (the Preferred Stock), became effective as of 11:59 p.m., New York City Time on December 30, 2011, which the Company refers to as the Distribution Date.

On December 19, 2011, the Company entered into a distribution agreement (the Distribution Agreement) with Sears Holdings, which set forth the principal actions to be taken in connection with the Spin-Off. The Distribution Agreement governed certain aspects of the Company s ongoing relationship with Sears Holdings following the Spin-Off. In accordance with the Distribution Agreement the following occurred prior to the Spin-Off:

- A wholly owned subsidiary of the Company merged with and into the Company, and, through that merger, the Company s Amended and Restated Certificate of Incorporation became effective;
- The Company caused to become effective its Amended and Restated Bylaws;
- An Affiliate of Ares Corporate Opportunities Fund (ACOF) exchanged 1,194,000 shares of Class A Common Stock for an equal number of shares of Class C Common Stock;
- The Company filed a Certificate of Designation to create, and subsequently issued to Sears, Roebuck, the Preferred Stock; and
- Sears, Roebuck distributed to Sears Holdings all of the Company s Class A Common Stock and Preferred Stock that Sears, Roebuck owns.

All agreements, arrangements, commitments and understandings between the Company and its subsidiaries and other affiliates, on the one hand, and Sears Holdings and its other subsidiaries and other affiliates, on the other hand, terminated effective as of the Spin-Off, except certain agreements and arrangements between the Company and Sears Holdings. See Note 12 for the related-party agreements.

Transition Service Arrangements Effective with the Spin-Off, the Company entered into a transition service agreement (the Transition Services Agreement) whereby Sears Holdings continued to provide to the Company the same services provided prior to the Spin-Off and which enabled the Company to retain access to various other third-party services until the Company was able to set up its stand-alone corporate functions and/or contract with third-party service providers. In December 2011, the Company completed its transition of payroll and legal functions from Sears Holdings. The remaining miscellaneous accounting and tax support services were transitioned in fiscal 2012.

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

Prior to the Spin-Off, the Company entered into a series of annual shared services agreements (the Services Agreement) to provide the Company with certain corporate support services while the Company built its own stand-alone corporate support functions for legal, tax, and certain other corporate support functions. The costs and allocations charged to the Company by Sears Holdings may not necessarily have reflected the costs of obtaining the services from unaffiliated third parties, or if the Company had performed the applicable services itself. The methods by which Sears Holdings allocated its costs were based on a prorated estimate of costs expected to be incurred by Sears Holdings. The consolidated financial statements for fiscal periods prior to the Spin-Off contained herein may not be indicative of the Company s consolidated financial position, operating results and cash flows in the future, or what they would have been if it had been a stand-alone company during all periods presented. The Company has not included an estimate of what these costs would have been on a stand-alone basis because it is not practicable to do so. The Company does not expect the allocated expenses for these functions on a stand-alone basis to be materially different than what is reflected in its historical consolidated financial statements.

Fiscal Year The Company s fiscal year ends on the Saturday nearest to January 31. The fiscal year ended February 2, 2013 (fiscal 2012) consisted of 53 weeks and fiscal years ended January 28, 2012 (fiscal 2011) and January 29, 2011 (fiscal 2010) consisted of 52 weeks.

Segment Reporting The Company operates in one segment. The Company s operations include activities related to its stores, which are all located in California as of February 2, 2013. The Company s chief operating decision maker (the CODM), its Chief Executive Officer, manages the Company s operations on a consolidated basis for purposes of allocating resources. When evaluating the Company s financial performance, the CODM reviews separate revenues by categories information for the Company s repair and maintenance, backyard, and paint and home merchandise. The Company s repair and maintenance category consists of plumbing, electrical, tools, hardware, and industrial merchandise. The Company s backyard category consists of nursery, garden, outdoor power and seasonal merchandise. The Company s paint and home category consists mainly of paint, housewares and appliances merchandise. All other financial information is reviewed on a consolidated basis.

The following table presents the Company s net sales by merchandise categories for fiscal 2012, 2011 and 2010 (in millions):

	2012	2011	2010
Repair and maintenance	$ 261.7	$ 273.1	$ 271.1
Backyard	270.2	251.6	252.2
Paint and home	125.4	135.8	137.4
Net sales	$ 657.3	$ 660.5	$ 660.7

2. GOING CONCERN UNCERTAINTY

As of February 2, 2013, the Company had cash and cash equivalents of $6.5 million and total debt and capital lease obligations of $261.4 million, a net working capital deficit of $101.9 million, and an accumulated deficit of $297.6 million. As of April 22, 2013, the Company had $17.4 million (unaudited) available to borrow on its credit facility. The Company s liquidity is dependent upon its cash and cash equivalents, cash flows provided by operating activities and the continued availability of borrowings under its financing arrangements. The financing arrangements require the Company to maintain compliance with certain financial covenants including a leverage ratio covenant in its Senior Secured Term Loan.

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

In fiscal 2012, the Company s ability to comply with the leverage ratio covenants under its financial arrangements has been adversely impacted by, among other things: a decline in operating results during fiscal 2012, as the Company incurred a net loss of $118.4 million in fiscal 2012; increased costs associated with being a public company independent from Sears Holdings; the impact of paying rent on properties previously owned, but sold pursuant to multiple sale leaseback transactions; and continued economic weakness in the markets in which the Company operates. At the end of the second fiscal quarter on July 28, 2012, the Company would not have been in compliance with the leverage ratio covenant under its Senior Secured Term Loan agreement had it not completed a six-store sale leaseback transaction. At the end of the third fiscal quarter on October 27, 2012, the Company was not in compliance with the leverage ratio covenant under its Senior Secured Term Loan, but received a waiver of this covenant for that measurement date.

At the end of the 2012 fiscal year, the Company was not in compliance with the leverage ratio covenant under the Senior Secured Term Loan. On February 14, 2013, the lenders under the Senior Secured Term Loan waived compliance with the leverage ratio covenant with respect to the Company s quarter ended February 2, 2013, as well as for the first fiscal quarter of 2013 ending May 4, 2013, subject to its continued compliance with the terms and conditions of the waiver, including achieving a mutually acceptable agreement with the lenders by June 30, 2013, as described below. The Company s next applicable measurement date for the leverage ratio covenant compliance is August 3, 2013.

In connection with the waiver obtained on February 14, 2013, the Senior Secured Term Loan lenders imposed several requirements upon the Company, including achieving a mutually acceptable agreement with them by May 1, 2013 with regard to refinancing or modifications to the Company s capital structure. On April 26, 2013, the Senior Secured Term Loan lenders extended such date to June 30, 2013. The Company continues to explore all financial and strategic alternatives to maintain its business including, but not limited to, one or more transactions that may include a comprehensive financial reorganization of the Company or a transaction such as a sale or merger of the Company. The Company may also acquire funding through the issuance of debt, equity, additional real estate sale or sale leaseback transactions, or a combination of these items. Implementation of any of these strategies is likely to result in very significant dilution to the Company s stockholders or a complete loss of their investment. The Company cannot provide any assurances that any restructuring can be completed out-of-court.

Failure to comply with the terms and conditions of the waiver would cause a default and, as a result, the lenders under the Company s Senior Secured Term Loan could declare the outstanding indebtedness to be due and payable, in acceleration of the current maturity dates of December 21, 2013 ($54.8 million) and December 21, 2015 ($74.6 million). As a result of the cross-default provisions in the Company s debt agreements, a default under the Senior Secured Term Loan could result in a default under, and the acceleration of, payments in its Senior Secured Credit Facility of $78.8 million. In addition, the Company s lenders would be entitled to proceed against the collateral securing the indebtedness. If any of the Company s indebtedness were to be accelerated, it would adversely affect its ability to operate its business, which could prevent it from continuing its ongoing operations.

The accompanying fiscal 2012 consolidated financial statements have been prepared assuming the Company will continue as a going concern. There are significant uncertainties surrounding: the Company s recurring losses from operations, its negative working capital as of the end of fiscal 2012, the Company s inability to maintain compliance with the leverage ratio covenant under the Senior Secured Term Loan, its ability to comply with the terms and conditions of the waiver discussed above, noncompliance with which would cause a default and, as a result, the lenders under the Senior Secured Term Loan and Senior Secured Credit Facility could declare the outstanding indebtedness of $208.2 million as of February 2, 2013 to be due and payable, and the requirement to

ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

agree by June 30, 2013 upon a mutually acceptable refinancing or modifications to the Company s capital structure with the Senior Secured Term Loan lenders. These uncertainties raise substantial doubt as to the Company s ability to continue as a going concern. Management s plans concerning these matters are discussed above. The consolidated financial statements do not include any adjustments that might result from the outcome of this going concern uncertainty.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of net sales and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates are required as part of inventory valuation, reserves for sales returns and allowances, recoverability of long-lived assets, intangible asset valuation, lease accounting, valuation of store lease derivatives, and accruals for casualty insurance reserves.

Fair Value of Financial Instruments Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, (ASC 820) defines fair value, establishes a framework for measuring fair value in GAAP and requires certain disclosures about fair value measurements. Under ASC 820, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and

Level 3 Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Due to their short-term nature, the carrying value of the Company s cash and cash equivalents, restricted cash, other current assets, merchandise payables, accrued expenses, and other current liabilities approximate their fair value. Included in cash and cash equivalents are money market funds, which fair value was determined using Level 1 inputs. The fair value of the Senior Secured Term Loan is based on the trading value as of February 2, 2013 and January 28, 2012, respectively, which was determined using Level 1 inputs. The carrying value of the Company s debt obligations with respect to the Senior Secured Credit Facility approximated their fair value at February 2, 2013 and January 28, 2012, based on borrowing rates available to the Company, which are considered Level 2 inputs.

In connection with the Company s evaluation of long-lived assets for impairment, certain long-lived assets were measured at fair value on a non-recurring basis using Level 3 inputs. In the determination of impairment for operating stores, the Company determined the fair values of individual operating stores using an income approach, which required discounting projected future cash flows. When determining the projected future cash flows associated with an individual operating store, management made assumptions, incorporating local market conditions, about key store variables, including sales growth rates, gross margin and controllable expenses such as store payroll and occupancy expense. In order to calculate the present value of those future cash flows, the

Company discounted cash flow estimates at a rate commensurate with the risk used in determining the

ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

Company s cost of capital. In the determination of trade name impairment, the Company uses the relief from royalty method (which utilizes a discounted cash flow model) to determine the fair value of the trade names. The key assumptions utilized to determine such fair value consists of estimated future revenues and royalty rates. In order to calculate the present value of the future cash flows, the Company discounts such cash flow estimates at a rate commensurate with the risk used in determining the Company s cost of capital.

The Company measures store lease derivatives using Level 3 inputs. Certain of our store leases have future rent increases that are tied to an index of annual changes in the Consumer Price Index (CPI). The fair value of such derivatives is computed using the historical increases in CPI and the value calculated using the maximum rent escalation rate cap as defined by the leases. Derivative financial instruments embedded in leases are recorded at fair value in the consolidated balance sheets as capital lease assets if the lease is a capital lease or as other long-term assets if the lease is an operating lease. The assets are amortized over the life of the lease to depreciation and amortization expense. In addition, they are recorded in other long-term liabilities at fair value and any gain or loss on the derivative financial instruments is recorded in interest expense in the consolidated statements of operations.

In the determination of the impairment for assets held for sale, which consists of a real property associated with a relocation, the fair value was determined using a Level 2 quoted market price. The Company determined the estimated selling price by obtaining broker information on the specific property.

The Company was not required to measure any other significant non-financial assets and liabilities at fair value on a non-recurring basis as of February 2, 2013 and January 28, 2012.

Cash and Cash Equivalents Cash and cash equivalents consist of cash on hand and in banks as well as all highly liquid investments with a maturity date at purchase of three months or less. The Company also includes within cash equivalents deposits in transit from banks for payments related to third-party credit card and debit card transactions.

Restricted Cash As of January 28, 2012, the Company had restricted cash of $0.6 million to pay for maintenance costs related to owned properties. This restricted cash was established in connection with the Real Estate Term Loan, which was paid during fiscal 2012 (see Note 6).

Merchandise Inventories The Company s housewares, hardware and garden inventory are valued under the retail inventory method using a last-in, first-out (LIFO) cost flow assumption. To estimate the effects of changing prices in inventory the Company utilizes external price indices determined by an outside source, the Bureau of Labor Statistics. At February 2, 2013 and January 28, 2012 approximately $47.7 million and $47.3 million, respectively, of the Company s merchandise inventories were valued under LIFO. If the first-in, first-out method of inventory valuation had used instead of the LIFO method, merchandise inventories would have been $6.4 million and $4.0 million lower at February 2, 2013 and January 28, 2012, respectively. The LIFO layers were liquidated by $4.1 million in fiscal 2012. There were no liquidations of LIFO layers during fiscal 2011 and 2010.

Vendor Rebates and Allowances The Company receives various vendor-funded rebates and allowances through a variety of programs and arrangements intended to offset the Company s costs of promoting and selling certain vendor products. These vendor payments are recorded as a reduction to the cost of merchandise inventories when earned and, thereafter, as a reduction of cost of sales, as the merchandise is sold. Up-front consideration received from vendors linked to purchases or other commitments is deferred until performance of the specified activity is deemed to be complete. The Company earned vendor rebates and allowances of $30.1 million, $29.5 million and $30.3 million in fiscal 2012, 2011 and 2010, respectively. Vendor rebates and

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

allowances deferred at February 2, 2013 and January 28, 2012 were $8.5 million and $10.9 million, respectively, and are included as a reduction to merchandise inventories in the consolidated balance sheets.

Assets Held for Sale The Company classifies long-lived assets as held for sale when certain criteria are met, including management s commitment to a plan to sell the assets. Assets that have met the criteria to be classified as held for sale are recorded at fair value within prepaid expenses and other current assets within the consolidated balance sheets. Assets held for sale are recorded at market value based on estimated selling price, net of disposal cost. The Company had $1.8 million of assets held for sale at January 28, 2012. During fiscal 2011, the Company recognized a $0.8 million expense in trade names and property and equipment impairments in the consolidated statements of operations as a result of change in market value of assets held for sale.

Property and Equipment Property and equipment is stated at cost, less accumulated depreciation and amortization. Additions and substantial improvements are capitalized and include expenditures that materially extend the useful lives of existing facilities and equipment. Maintenance and repairs that do not materially improve or extend the lives of the respective assets are expensed as incurred. Certain real properties of the Company, including three owned store locations and six owned buildings, which are subject to ground lease, are collateral for a portion of the Company s outstanding debt (see Note 6).

Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of the related assets, which is generally between 3 to 10 years for furniture, fixtures, and equipment, and 15 to 50 years for buildings and improvements. Leasehold improvements are amortized over the shorter of the original lease term or estimated useful life of the improvement, which is between 1 and 21 years. Capital lease assets are amortized over the lesser of the term of the lease or the useful lives of the asset.

Accounting for the Impairment of Long-lived Assets Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. If the carrying value of the asset or asset group exceeds the expected future cash flows expected to result from the use of the asset, on an undiscounted basis, an impairment loss is recognized. The impairment loss recognized is the excess of the carrying value of the asset or asset group over its fair value. The fair market value of these assets or asset group is determined using the income approach and Level 3 inputs, which require management to make estimates about future cash flows. The Company estimates the amount and timing of future cash flows based on historical experience and knowledge of the retail market in which each store operates. The impairment charges are included in the trade names and property and equipment impairments in the consolidated statements of operations.

Intangible Assets The Company s trade name assets, *OSH* and *Orchard Supply Hardware*, are not subject to amortization. Trade names are tested for impairment annually (as of the last day of the Company s November accounting period) or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the trade names with their carrying amount. The Company uses the relief from royalty method (which utilizes a discounted cash flow model) to determine the fair value of the trade names. Potential impairment exists if the fair value of trade names is less than their carrying amount. The use of different assumptions, estimates or judgments in the trade name asset impairment testing process, such as the estimated future revenues, royalty rates, and the discount rate used to discount such cash flows, could significantly increase or decrease the estimated fair value of the assets, and therefore, impact the related impairment charge, if any.

The Company s definite-lived favorable leasehold rights are amortized over their useful lives. The Company tests its intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying value of those assets may not be recoverable. The assets are tested for impairment at the

ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

store level which represents the lowest level at which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the undiscounted future cash flows from the asset tested are less than the carrying value, a loss equal to the difference between the carrying value and the fair market value of the asset is recorded. Fair value is determined using discounted cash flow methods. The Company s analysis requires judgment with respect to many factors, including future cash flows, future revenue and expense growth rates, and success at executing its business strategy. It is possible that the Company s estimates of undiscounted cash flows may change in the future resulting in the need to reassess the carrying value of its intangible assets subject to amortization for impairment.

Deferred Financing Costs The Company amortizes deferred financing costs incurred in connection to the issuance of the Company s Senior Secured Credit Facility and Senior Secured Term Loan by using the straight-line method, which approximates the effective interest method, over the expected life of the associated financing agreements. Amortization and write-off of deferred financing costs was $4.3 million, $2.3 million and $1.2 million for fiscal 2012, 2011 and 2010, respectively.

Lease Accounting The Company leases its distribution center, certain stores, store support center, computers, and transportation equipment. The determination of operating and capital lease obligations is based upon the terms of the lease, estimated fair value of the leased assets, estimated life of the leased assets, and the contractual minimum lease payments as defined within the lease agreements. For certain store leases, amounts in excess of these minimum lease payments are payable based upon specified percentages of sales. Contingent rent is accrued during the period it becomes probable that a particular store will achieve a specified sales level thereby triggering a contingent rental obligation. Certain leases also include escalation clauses and renewal option clauses calling for increased rents. Where a lease contains an escalation clause or concession such as a rent holiday, rent expense is recognized using the straight-line method over the term of the lease.

Lease Financing Obligations In certain lease arrangements, the Company is involved with the construction of the building (generally on land owned by the landlord). If the Company concludes that it has substantively all of the risks of ownership during construction of a leased property and therefore is deemed the owner of the project for accounting purposes, it records an asset and related financing obligation for the amount of total project costs related to construction-in-progress and the pre-existing building. Once construction is complete, the Company considers the requirements for sale leaseback treatment, including the transfer back of all risks of ownership and whether the Company has any continuing involvement in the leased property. If the arrangement does not qualify for sale leaseback treatment, the building assets subject to these obligations remain on the Company s consolidated balance sheet at their historical costs and such assets continue to be depreciated over their remaining useful lives. The proceeds received by the Company from these transactions are recorded as lease financing obligations in other long-term liabilities and the lease payments are applied as payments of principal and interest. The selection of the interest rate on lease financing obligations is evaluated at inception of the lease based on the Company s incremental borrowing rate adjusted to the rate required to prevent recognition of a non-cash loss or negative amortization of the obligation through the end of the primary lease term. At February 2, 2013 and January 28, 2012, the Company has recorded $13.1 million and $5.3 million, respectively, in other long term liabilities for lease financing obligations.

Sale Leaseback Accounting The Company has entered into sale leaseback agreements to sell certain facilities owned by the Company and leased them back for use consistent with their current operational use. If the lease under a new agreement is determined to be a capital lease, any gain or loss on the sale is amortized in proportion to the amortization of the leased asset over the life of the lease. If the new lease is an operating lease, any gain is amortized in proportion to the gross rent charged to expense over the lease term and any loss on the sale of the asset would be recognized immediately.

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The Company evaluates sales of properties which occur in sale leaseback transactions to determine the proper accounting for the proceeds of such sale transactions either as a sale or a deposit. This evaluation requires certain judgments in determining whether all considerations have been exchanged and whether there is continuing involvement with respect to the property. For transactions that have not yet met the sale criteria, the Company accounts for the proceeds as deposits from sale leaseback of real property and offsets rent payments against these deposits. Once all conditions of the sale have been met, a sale is recognized, as appropriate. As of February 2, 2013 and January 28, 2012, the Company had $39.8 million and $21.5 million of deposits from unconsummated sale leaseback transactions of real property in the consolidated balance sheets, respectively.

Self Insurance The Company has insurance contracts with third-party insurance companies for exposures for a number of casualty risks including workers compensation and general liability claims. The Company records reserves for uninsured claims based on the expected ultimate settlement value of claims filed and claims incurred but not yet reported. The Company s estimated claim amounts are discounted using a risk-free rate based on the duration that approximates the expected period to settle such claims. The discount rate used was 2% in fiscal 2012 and 4% each in fiscal 2011 and 2010. In estimating this liability, the Company utilized loss trend factors based on Company-specific data to project the future loss rate. Loss estimates are adjusted based upon actual claims settlements and reported claims. In estimating this liability, the Company utilized loss trend factors based on company-specific data to project the future loss rate. These projections are subject to a high degree of variability based upon future inflation rates, litigation trends, legal interpretations, benefit level changes, and claim settlement patterns.

Changes in the Company s self insurance reserves for fiscal 2012, 2011, and 2010 are as follows (in millions):

	2012	2011	2010
Self insurance reserves beginning of period	$ 7.0	$ 5.9	$ 4.7
Claim expenses (including change in discount rate in 2012)	2.3	3.2	2.3
Claim payments	(2.4)	(2.1)	(1.1)
Self insurance reserves end of period	$ 6.9	$ 7.0	$ 5.9
Total undiscounted self insurance reserves end of period	$ 7.2	$ 8.1	$ 6.8

The Company s casualty insurance reserves reflected in other current liabilities and other long-term liabilities in the consolidated balance sheets represent an estimate of the ultimate cost of claims incurred as of the consolidated balance sheet date. Although the Company does not expect the amounts ultimately paid to differ significantly from its estimates, insurance reserves could be affected if future claim experience differs significantly from the historical trends and the actuarial assumptions.

Revenue Recognition The Company recognizes revenues from merchandise sales at the later of point of sale or delivery of goods to customers, including merchandise sales commission income and delivery income. Merchandise sales are reported net of estimated returns and allowances, and customer rebates, and exclude sales taxes. Net sales are presented net of any taxes collected from customers and remitted to governmental authorities.

Reserve for Sales Returns and Allowances The Company calculates a reserve for returns and allowances as a percentage of sales based on historical return percentages, which is included in accrued expenses in the consolidated balance sheets. The reserve for sales returns and allowances consists of the following (in millions):

Year Ended:	Additions	Returns

	Beginning Balance			Ending Balance
February 2, 2013	$ 0.6	$ 24.6	$ (24.5)	$ 0.7
January 28, 2012	0.6	24.6	(24.6)	0.6
January 29, 2011	0.6	24.1	(24.1)	0.6

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Gift Cards and Gift Card Breakage Proceeds from the sale of gift cards are recorded as a liability and are recognized as revenue from merchandise sales when the cards are redeemed. The Company s gift cards do not have an expiration date. Prior to the third quarter of fiscal 2012, all unredeemed gift card proceeds were reflected as a current liability, and the Company did not recognize any income from unredeemed gift cards. On October 26, 2012, the Company entered into an agreement with an unrelated third party who became the issuer of the Company s gift cards going forward and also assumed the existing liability for unredeemed gift cards for which there were no currently existing claims under unclaimed property statutes. The Company is no longer the primary obligor for the third party issued gift cards and is therefore not subject to claims under unclaimed property statutes, as the agreement effectively transfers the ownership of such unredeemed gift cards and the related future escheatment liability, if any, to the third party. Accordingly, gift card breakage income of $1.4 million was recognized in fiscal 2012 for such unredeemed gift cards.

Cost of Sales Cost of sales includes the merchandise cost as well as distribution, warehousing, delivery and store occupancy costs, offset by vendor allowances and rebates received by the Company. The Company s cost of sales exclude depreciation and amortization of leased properties and the distribution center.

Selling and Administrative Expenses Selling and administrative expenses primarily include selling and support payroll, advertising, and other administrative expenses.

Store Pre-Opening Costs Store pre-opening costs, including store set-up, advertising and training expenses, incurred prior to the opening of new stores are expensed as incurred and are included in cost of sales in the accompanying consolidated statements of operations.

Advertising Costs for newspaper, television, radio, and other media advertising are expensed in the period the advertising occurs. The cost of advertising charged to selling and administrative expenses was $21.2 million, $21.7 million and $22.9 million for fiscal 2012, 2011 and 2010, respectively.

Rent Expense Minimum rental expense is recognized over the term of the lease. The Company recognizes minimum rent starting when possession of the property is taken from the landlord, which normally includes a construction period prior to store opening. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as a deferred rent liability. The Company also receives tenant allowances, which are amortized as a reduction to rent expense in the consolidated statements of operations over the term of the lease. Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable (see Note 8).

Interest Expense Interest expense includes interest on our borrowings, amortization of deferred financing costs, commitment fees and other debt related costs, interest on capital leases and other miscellaneous interest incurred.

Income Taxes The Company records deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based on currently enacted tax laws. The tax balances and income tax expense recognized by the Company are based on management s interpretation of the tax laws of multiple jurisdictions. Income tax expense also reflects the Company s best estimates and assumptions regarding, among other things, the level of future taxable income,

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interpretation of the tax laws, and tax planning. Future changes in tax laws, changes in projected levels of taxable income, and tax planning could affect the effective tax rate and tax balances recorded by the Company.

Tax positions are recognized when they are more likely than not to be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is more likely than not of being realized upon settlement. The Company is subject to periodic audits by the Internal Revenue Service and other state and local taxing authorities. These audits may challenge certain of the Company s tax positions such as the timing and amount of income and deductions and the allocation of taxable income to various tax jurisdictions. The Company evaluates its tax positions and establishes liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. These tax uncertainties are reviewed as facts and circumstances change and are adjusted accordingly. This requires significant management judgment in estimating final outcomes. Actual results could materially differ from these estimates and could significantly affect the Company s effective tax rate and cash flows in future years. Interest and penalties are classified as income tax expense in the consolidated statements of operations (see Note 11).

Comprehensive Income (Loss) Comprehensive income (loss) encompasses all changes in equity other than those arising from transactions with stockholders. Comprehensive income (loss) was equal to net income (loss) for all periods presented. The Company had no items of other comprehensive income (loss) in any period presented.

Earnings Per Share (EPS) The Company computes and reports both basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the sum of the weighted average number of common shares and dilutive common stock equivalents outstanding during the period. Diluted EPS reflects the total potential dilution that could occur from outstanding equity plan awards, including unexercised stock options. There are no dilutive common stock equivalents, and therefore basic and dilutive EPS are the same for all periods presented.

Stock-Based Compensation The Company recognizes as expense the fair value of all stock-based compensation awards, including stock options. The Company recognizes compensation expense as awards vest on a straight-line basis over the requisite service period of the award.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Company s financial instruments as measured at fair value on a recurring basis as of February 2, 2013 and January 28, 2012:

	Fair Value Measurements as of February 2, 2013		
(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Other Unobservable Inputs (Level 3)**
Assets:			
Money market funds	$ 0.1	$	$
Liabilities:			
Store lease liabilities	$	$	$ 3.6

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	Fair Value Measurements as of January 28, 2012		
(In millions)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Other Unobservable Inputs (Level 3)**
Assets:			
Money market funds	$ 3.0	$	$
Liabilities:			
Store lease liabilities	$	$	$ 2.3

The estimated fair value of the Company s financial instruments were as follows:

	February 2, 2013		January 28, 2012	
(In millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Current and long-term debt:				
Senior Secured Term Loan	$ 129.4	$ 105.5	$ 137.6	$ 100.7
Senior Secured Credit Facility	$ 78.8	$ 78.8	$ 34.0	$ 34.0

5. BALANCE SHEET COMPONENTS

Property and Equipment Property and equipment at February 2, 2013 and January 28, 2012, consist of the following (in millions):

	2012	**2011**
Land	$ 41.9	$ 64.2
Buildings and improvements	112.0	126.3
Furniture, fixtures and equipment	81.5	79.3
Construction in progress	10.8	4.4
Capitalized leases	60.0	66.7
Total property and equipment	306.2	340.9
Less accumulated depreciation and amortization	(137.9)	(130.5)
Total property and equipment, net	$ 168.3	$ 210.4

The Company recorded depreciation expense of $21.5 million, $20.5 million and $22.6 million for fiscal 2012, 2011 and 2010, respectively. Accumulated amortization of capitalized lease assets was $28.9 million and $24.0 million at February 2, 2013 and January 28, 2012, respectively.

The Company recorded $15.0 million, $3.5 million and $0.3 million of asset impairment charges in connection with store assets for fiscal 2012, 2011 and 2010, respectively.

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Intangible Assets

Intangible assets as of February 2, 2013 and January 28, 2012, include the following (in millions):

	February 2, 2013			
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Charge	Net Carrying Amount
Indefinite-lived trade names	$ 107.6	$	$ (96.1)	$ 11.5
Favorable leases	94.9	(72.0)	(4.7)	18.2
Total intangible assets	$ 202.5	$ (72.0)	$ (100.8)	$ 29.7

	January 28, 2012			
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Charge	Net Carrying Amount
Indefinite-lived trade names	$ 107.6	$	$	$ 107.6
Favorable leases	94.9	(65.9)	(2.7)	26.3
Total intangible assets	$ 202.5	$ (65.9)	$ (2.7)	$ 133.9

As of October 27, 2012, the Company tested its trade names for possible impairment, due to the decline in its market capitalization, the decline in revenues during the 13 weeks ended October 27, 2012, and lowered forecasted future revenues (compared to a forecast prepared in the fourth quarter of fiscal 2011). This analysis, which included a reduced royalty rate, resulted in a fair value of trade names of $47.3 million, and, accordingly, the Company recognized trade name impairment of $60.3 million in the 13 weeks ended October 27, 2012.

As of February 2, 2013, the Company again tested its trade names for possible impairment, due to the continued significant decline in its market capitalization, lowered forecasted future revenues, its difficulties in meeting its loan agreement covenants and financing needs, its recurring losses from operations, its negative working capital position, and the substantial doubt about the Company s ability to continue as a going concern. This analysis, which included a reduced royalty rate, resulted in a fair value of trade names of $11.5 million, and, accordingly, the Company recognized additional trade name impairment of $35.8 million in the 14 weeks ended February 2, 2013.

The Company recorded intangible amortization expense for its favorable leasehold rights of $6.1 million, $8.8 million and $8.6 million in the consolidated statements of operations during fiscal 2012, fiscal 2011 and fiscal 2010, respectively. Intangible amortization expense for the next five fiscal years based on the intangible asset balances as of February 2, 2013, is expected to be $5.1 million, $4.2 million, $2.4 million, $1.5 million, and $1.3 million, respectively.

The Company recorded favorable lease impairment charges of $2.0 million and $2.7 million in fiscal 2012 and 2011, respectively. No impairment for favorable leases was recorded in fiscal 2010.

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Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at February 2, 2013 and January 28, 2012, consist of the following (in millions):

	2012	2011
Accrued expenses	$ 17.4	$ 15.2
Sales and other taxes	6.3	10.4
Non-merchandise payable	6.6	7.2
Payroll and related items	7.2	8.5
Self insurance reserves	2.2	2.4
Income tax payable		0.8
Total accrued expenses and other liabilities	$ 39.7	$ 44.5

6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The components of the Company s debt and capital lease obligations as of February 2, 2013 and January 28, 2012 are as follows (in millions):

	2012	2011
Senior Secured Term Loan	$ 129.4	$ 137.6
Senior Secured Credit Facility	78.8	34.0
Real Estate Term Loan		27.9
Capital lease obligations	53.3	62.9
Total debt and capital lease obligations	261.4	262.4
Less portion to be paid within one year:		
Senior Secured Term Loan	(129.4)	(1.8)
Senior Secured Credit Facility	(78.8)	
Real Estate Term Loan		(0.5)
Capital lease obligations	(6.3)	(5.9)
Total long-term debt and capital lease obligations	$ 46.9	$ 254.2

Senior Secured Term Loan On December 22, 2011, the Company amended, restated and extended its Senior Secured Term Loan. The amendment and restatement split the facility into two tranches. The first tranche was with lenders who elected not to extend the maturity beyond December 21, 2013 (non-extended lenders), of which $54.8 million was outstanding as of February 2, 2013. The second tranche was with lenders who elected to extend the maturity date to December 21, 2015 (extended lenders), of which $74.6 million (of principal and accrued PIK) was outstanding as of February 2, 2013. The Senior Secured Term Loan is secured by the Company s excess inventory and trademarks.

Eurodollar loans owing to non-extended lenders bear interest at LIBOR, plus the Eurodollar applicable rate which ranges between 4.50% and 4.75%. As of February 2, 2013, the Company s interest rate under the Senior Secured Term Loan for non-extended loans was 5.5%.

Eurodollar loans owing to extended lenders have both cash and PIK interest components. Such loans bear interest at LIBOR (which shall be deemed to be equal to at least 1.25%), plus 5.75%. As of February 2, 2013, the

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Company s interest rate under the Senior Secured Term Loan for extended loans was 7.0%. In addition, the Company s extended loans bear a PIK interest due at the end of the term at a rate equal to 3.00% or 4.00% per annum, with such interest automatically increasing the principal amount of the extended term loans on an annual basis. When the Company s credit rating falls below B3 by Moody s or B- by S&P, the PIK interest rate increases to 4.00%. On October 24, 2012, Moody s cut the Company s credit rating to Caa1 from B3. As of February 2, 2013, the Company s PIK interest rate was 4.50% based on its credit rating. Additional interest rate increases may also apply as a result of entering into the Waiver and Amendment No. 1 due to the Company s noncompliance with its maximum adjusted leverage ratio covenant as of the October 27, 2012 measurement date, as discussed below.

In addition to the required quarterly principal payments of $0.4 million, the Company has to make periodic repayments on the Senior Secured Term Loan equal to a defined percentage rate (determined based on the Company s leverage ratio and ratings) of excess cash flows, which ranges between 25% and 100%. The Company did not make any such prepayments during fiscal 2012.

In the event of a sale of a property owned by the Company, the Company is required to make repayments on the Senior Secured Term Loan equal to 75% of the proceeds, net of fees, cash tax, and other mandatory debt repayments. Pursuant to the sale leaseback of the six collateralized stores properties, the Company made a $7.6 million prepayment under this requirement on August 24, 2012. Pursuant to the sale leaseback of the collateralized store located in San Lorenzo, California, the Company made $1.2 million in prepayments under this requirement on May 18, 2012.

The maximum adjusted leverage ratio covenant (as defined in the Senior Secured Term Loan) is calculated on the last day of each fiscal quarter as (a) consolidated total funded debt on such date minus unrestricted cash over $3 million (as defined in the Senior Secured Term Loan) to (b) trailing four fiscal quarters Adjusted EBITDA (as defined in the Senior Secured Term Loan). The following table provides the Company s maximum adjusted leverage ratio from October 27, 2012, the date of the first lender waived event of default, and through the remaining term of the Senior Secured Term Loan:

Fiscal Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2012			5.75:1	5.75:1
2013	5.75:1	5.25:1	5.25:1	5.25:1
2014	5.25:1	5.00:1	5.00:1	5.00:1
2015	5.00:1	4.75:1	4.75:1	

As of October 27, 2012, the Company s maximum adjusted leverage ratio was 7.64:1, which was not in compliance with the covenant above. As a result of this non-compliance we entered into Waiver and Amendment No. 1 to the Senior Secured Term Loan whereby the lenders waived the Company s non-compliance in exchange for our agreement to (a) reduce the outstanding balances owed to the non-extended lenders and the extended lenders prior to January 31, 2013, or, if such balances were not paid down (b) pay an additional 50 basis point in PIK interest to the non-extended lenders and the extended lenders, as applicable, until such time as the balances have been appropriately reduced. As of January 31, 2013, the balances owed to non-extended lenders and extended lenders had not been reduced and, as a result, the Company now pays an additional 50 basis points of PIK interest to both the non-extended lenders and the extended lenders, as reflected above.

As of February 2, 2013, the Company s maximum adjusted leverage ratio was 13.48:1, which was not in compliance with the Senior Secured Term Loan covenants enumerated above. As a result of this noncompliance,

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on February 14, 2013 we entered into a waiver which required the Company s continued compliance with the terms and conditions set forth therein, including achievement of a mutually acceptable agreement with the Term Loan lenders by May 1, 2013 relating to refinancing or modifications to the Company s capital structure in a way that serves the best interests of all of the Company s stakeholders. On April 26, 2013, the lenders extended such date to June 30, 2013.

Change in Control The Senior Secured Credit Facility and the Senior Secured Term Loan both contain an event of default resulting from a change of control, which includes the following: (i) certain mergers, consolidations, sales or transfers of all or substantially all of the assets of the Company and subsidiaries to persons other than ACOF, ESL Investments, Inc. (ESL) and Sears Holdings; (ii) adoption of a plan of liquidation of Orchard Supply Hardware LLC; (iii) a person or group, other than Sears Holdings, ESL and ACOF, collectively holding directly or indirectly at least 40% of the total voting power of all shares of voting capital stock of the Company or Orchard Supply Hardware LLC and Sears Holdings, ESL and ACOF collectively holding less than such person or group; and (iv) the Company s Board of Directors not consisting of continuing directors. An event of default could trigger certain acceleration clauses and cause those and the Company s other obligations to become immediately due and payable and the Company may not have sufficient cash funds available to repay its debt obligations upon such a Change in Control.

Senior Secured Credit Facility On October 17, 2012, the Company amended and restated its Senior Secured Credit Facility to increase the credit facility s revolving loan facility from $100.0 million to $120.0 million, decrease the interest rate margins on which interest rates are calculated on the revolving loan facility and added a FILO term facility of $7.5 million. The Senior Secured Credit Facility matures on the earlier to occur of 90 days prior to the maturity of any portion of the Senior Secured Term Loan on October 17, 2017. Unless the non-extended lenders under the Senior Secured Term Loan are repaid, or the maturity of such loan is extended, the Senior Secured Credit Facility will mature on September 23, 2013. The credit facility is used for general corporate purposes and is secured by the Company s inventory. As of February 2, 2013, there was $78.8 million outstanding under the credit facility and the Company had $29.1 million available to borrow on its credit facility. The amended credit facility contains provisions that allow the Company to request an expansion of the facility by up to $50.0 million and the addition of a last-in-last-out term loan tranche, in each case subject to certain conditions such as no default having occurred, and in each case subject to lenders election to participate. On February 11, 2013, the Company further amended the Senior Secured Credit Facility to, among other things, extend certain financial accommodations to the Company to increase the size of the credit facility by up to $17.5 million through the addition of a Supplemental Term Loan, increasing total borrowing capacity to $145.0 million.

Interest rates on borrowings under the revolving credit facility are either base rate (BR) loans or Eurodollar loans, at the Company s discretion. BR loans bear interest at the greatest of (a) the prime rate as publicly announced by Wells Fargo Bank, N.A., or (b) the federal funds rate plus 0.5%, plus the BR applicable margin, which ranges between 0.50% and 1.00%. Eurodollar loans bear interest at LIBOR plus the LIBOR applicable margin, which ranges between 1.50% and 2.00%. At February 2, 2013, the Company s interest rate was 2.0%. The interest rate spreads applicable to the Company s borrowings fluctuate based upon the average excess availability as defined by the agreement.

Interest rate on the FILO term facility is at the Company s option, either (a) the BR interest plus 1.75% or (b) LIBOR plus 2.75%.

The Senior Secured Credit Facility subjects the Company to certain restrictive covenants, including, but not limited to compliance with the leverage ratio covenant contained in the Senior Secured Term Loan, as described

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above and an excess availability covenant which requires us to maintain excess availability of at least the greater of (i) 13.3% of Maximum Revolving Availability and (ii) $16,000,000, which reduces our ability to borrow under the Senior Secured Credit Facility. As a result of the cross-default provisions, a default under the Senior Secured Term Loan could result in a default under, and an acceleration of payments in the Senior Secured Credit Facility.

Real Estate Secured Term Loan In October 2010, the Company entered into a $50.0 million real estate secured term loan. On July 27, 2012 the Company completed a sale leaseback transaction for six properties. Proceeds of $25.2 million from the sale leaseback transaction were used to pay-off the Real Estate Secured Term Loan in its entirety as of July 28, 2012.

Current Liability Presentation As discussed above in Note 2, as of February 2, 2013, the Company was not in compliance with the maximum adjusted leverage ratio covenant under the Senior Secured Term Loan. Non-compliance with the maximum adjusted leverage ratio covenant as of the next measurement date would cause a default under the financing arrangements if the Company is unable to otherwise restructure or repay the term loan or otherwise obtain a waiver from the term loan holders at that time. A default could result in the Company s lenders under the Senior Secured Term Loan declaring the outstanding indebtedness ($129.4 million as of February 2, 2013) to be due and payable. As a result of the cross-default provisions of the Company s debt agreements, a default under the Senior Secured Term Loan would result in a default under, and the acceleration of payments in, the Company s Senior Secured Credit Facility. A default could result in the Company s lenders under the Senior Secured Credit Facility declaring the outstanding indebtedness ($78.8 million as of February 2, 2013) to be due and payable. In addition, the Company s lenders would be entitled to proceed against the collateral securing the indebtedness. As a result, the amounts owed under the Senior Secured Term Loan and the Senior Secured Credit Facility are presented as current liabilities in the consolidated balance sheet as of February 2, 2013.

7. SALE LEASEBACK TRANSACTIONS

The Company evaluates sales of properties which occur in sale leaseback transactions to determine the proper accounting for the proceeds of such sales transactions either as a sale or a deposit. This evaluation requires certain judgments in determining whether all considerations have been exchanged and whether there is continuing involvement with respect to the property. For transactions that have not yet met the sale criteria, the Company accounts for the proceeds as deposits from the sale leaseback of real properties and offsets rent payments against the deposits. Once all conditions of the sale have been met, a sale is recorded, as appropriate.

In the third quarter of fiscal 2011, the Company sold for $21.3 million, all of its interest in its distribution center located in Tracy, California and entered into a leaseback agreement with respect to the sale. The commencement date of the lease was October 28, 2011. The lease is a 20-year lease and provides for three five-year extension options.

In the fourth quarter of fiscal 2011, the Company sold all of its interest in four store properties located in Hollywood, Pismo Beach, and San Jose, California and entered into leaseback agreements with respect to all four stores. The term of the Hollywood lease is from December 12, 2011 to June 30, 2014 and may be terminated on January 1, 2014, upon six months notice by the Company. The lease may also terminate upon two months notice from the landlord at any time except during February through June of each year. The term of the Pismo Beach store lease is 16 years, and the two stores in San Jose are 18 years, beginning on December 20, 2011 and include renewal option periods. The Company expects to continue to operate the facilities consistent with their existing use throughout their lease terms, with the exception of the Hollywood store, which the Company seeks to relocate.

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The aggregate gross purchase price received from these five properties, net of fees, was approximately $56.5 million. In connection with the transactions, the Company repaid $21.6 million of the Real Estate Secured Term Loan and removed the properties from the loan collateral. For accounting purposes, the sale of the distribution center and the Hollywood store were consummated and the Company recorded a $14.8 million loss on the transaction in fiscal 2011.

The leaseback agreements of the remaining three stores include provisions for the remodeling of the stores for which the landlord will reimburse the Company for the costs of Tenant Improvements (TI) up to an agreed upon amount. Due to the Company s continuing involvement during the remodeling period, as the leases provide for the Company to assume substantially all of the construction period risk, the sale leaseback was not consummated until the TI were complete, and amounts spent were fully reimbursed to the Company by the landlord. Accordingly the sales of the three stores did not qualify for a sale leaseback accounting treatment as of January 28, 2012. The carrying value of these properties of approximately $25.4 million remained on the consolidated balance sheet at January 28, 2012 and no sales were recognized. Instead, the net cash received from the sale of these properties of $21.5 million was recorded as a deposit from sale leaseback of real property in the consolidated balance sheet. The Company recorded an impairment charge of $1.0 million related to the sale of these properties in the consolidated statement of operations for fiscal 2011. Upon completion of the TI in the fourth quarter of fiscal 2012, within the defined terms of the agreement, the sales transactions were determined to be consummated and the Company accounted for these transactions as a sale leaseback. The Company recorded an approximate $1.0 million loss as a result of consummating these sale transactions in the fourth quarter of fiscal 2012.

In the first quarter of fiscal 2012, the Company sold all of its interest in a store property located in San Lorenzo, California and entered into a leaseback agreement with respect to the store. The term of the lease is from April 2012 to November 2013 and may be terminated after November 2012 with 30 days notice. The aggregate gross purchase price received from this property was approximately $6.6 million. For accounting purposes, the sale of the store was consummated and the Company recorded a $0.7 million gain on the transaction during the quarter ended April 28, 2012.

In the second quarter of fiscal 2012, the Company sold all of its interest in six store properties located in San Jose, Van Nuys, Pinole, Chico, and Clovis, California and entered into a master leaseback agreement with respect to those stores. In conjunction with the sale leaseback, the Company entered into a lease agreement allowing the Company to continue to operate the stores in a manner consistent with their existing use throughout the lease term. The initial lease term of the lease is from July 27, 2012 to July 27, 2030 with three 5-year renewal options. The aggregate gross purchase price received from these properties was approximately $42.8 million. The master leaseback agreement of these six stores includes provisions for the remodeling of four of the stores for which the landlord will reimburse the Company for the costs of TI up to an agreed upon amount. Due to the Company s continuing involvement during the remodeling period, as the leases provide for the Company to assume substantially all of the construction period risk, the sale will not be consummated until the TI are complete and amounts spent are fully reimbursed to the Company by the landlord. Accordingly, the sale of these six stores did not qualify for sale leaseback accounting treatment at February 2, 2013. The carrying value of these properties of approximately $43.9 million remained on our consolidated balance sheet at February 2, 2013 and no sales were recognized. Instead, the net cash received from the sale of these properties of $41.4 million was recorded as a deposit from sale leaseback of real property in the consolidated balance sheet as of February 2, 2013. The Company recorded an impairment charge of $5.9 million related to the sale of these properties in the consolidated statement of operations for fiscal 2012. Upon completion of the TI, within the defined terms of the agreement, and when the sales transactions are determined to be consummated, the Company expects to account

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for these transactions as a leaseback. Failure to complete the agreed upon improvements could allow the landlord to require the Company to repurchase the property and improvements in accordance with the repurchase terms specified in the lease.

In certain lease arrangements the Company is involved with the construction of the building (generally on land owned by the landlord). If the Company concludes that it has substantively all of the risks of ownership during construction of a leased property and therefore is deemed the owner of the project for accounting purposes, it records an asset and related financing obligation for the amount of total project costs related to construction-in-progress and the pre-existing building. Once construction is complete, the Company considers the requirements for sale leaseback treatment, including the transfer back of all risks of ownership and whether the Company has any continuing involvement in the leased property. If the arrangement does not qualify for sale leaseback treatment, the building assets subject to these obligations remain on the Company s consolidated balance sheet at their historical costs and such assets continue to be depreciated over their remaining useful lives. The proceeds received by the Company from these transactions are recorded as lease financing obligations and are included in other long-term liabilities in the consolidated balance sheet, and the lease payments are applied against these lease financing obligations as payments of principal and interest. The selection of the interest rate on the lease financing obligations is evaluated at inception of the lease based on the Company s incremental borrowing rate adjusted to the rate required to prevent recognition of a non-cash loss or negative amortization of the obligation through the end of the primary lease term. Five of the Company s stores are being accounted for under this method. Payments under these leases are applied as payments of imputed interest and deemed principal on the underlying financing obligations.

At February 2, 2013, future payments required on lease financing obligations were as follows (in millions):

Fiscal Year	Lease Financing Obligations
2013	$ 2.1
2014	2.2
2015	2.3
2016	2.3
2017	2.4
Thereafter	27.9
Total minimum payments	39.2
Less: imputed interest	(26.1)
Lease financing obligations	$ 13.1

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8. COMMITMENTS AND CONTINGENCIES

Leases

The Company s future minimum lease payments obligations required under non-cancelable capital leases and operating leases in excess of one year and rent payments on unconsummated sale leaseback transactions as of February 2, 2013 are as follows (in millions):

Fiscal Year	Capital Leases	Operating Leases	Rent payments on unconsummated sale leaseback transactions
2013	$ 11.9	$ 34.3	$ 3.5
2014	11.7	31.5	3.6
2015	11.5	27.5	3.6
2016	11.0	24.3	3.6
2017	9.1	20.9	3.7
Thereafter	48.2	159.0	52.5
Total minimum payments	103.4	$ 297.5	$ 70.5
Less: imputed interest	(50.1)		
Present value of minimum lease payments	53.3		
Less current portion of capital lease obligations	(6.4)		
Long-term capital lease obligations	$ 46.9		

Lease payments with respect to sale leaseback agreements that have not met the criteria for sale leaseback accounting reduces deposits received for the sale.

Total rent expense under operating leases, including equipment leases, was approximately $48.3 million, $43.6 million and $39.7 million during fiscal 2012, 2011 and 2010, respectively, including executory costs such as real estate taxes, insurance and common area maintenance costs of approximately $12.3 million, $11.5 million and $11.4 million, respectively, and contingent rent expense of approximately $0.7 million, $0.6 million and $0.3 million, respectively.

Litigation

The Company is a defendant in various other legal proceedings arising in the ordinary course of our business. Based on the information currently available, the Company is not currently a party to any legal proceeding that management believes would have a material adverse effect on the Company s consolidated financial position or results of operations.

Purchase Commitments

At February 2, 2013 and January 28, 2012 the Company had non-cancelable commitments of $2.0 million and $0.4 million, respectively. In addition, at February 2, 2013 and January 28, 2012, the Company had non-cancelable merchandise purchase obligations of $26.4 million and $48.8 million, respectively.

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9. STOCKHOLDERS EQUITY

Common Stock

Voting Rights Subject to the discussions below with respect to the election of Directors, holders of Class A Common Stock are entitled to one vote per share, holders of Class B Common Stock are entitled to one-tenth of one vote per share and holders of Class C Common Stock are entitled to one vote per share. All actions submitted to a vote of shareholders are voted on by holders of the Common Stock voting together as a separate class with any one or more classes or series of capital stock of the Company entitled to vote thereon, except for the election of Directors, certain amendments to the terms of the Preferred Stock and as otherwise required by law. The Company s Amended and Restated Certificate of Incorporation does not provide for cumulative voting.

Conversion The Class A Common Stock has no conversion features. The Class B Common Stock may be converted into Class A Common Stock on the basis of one share of Class A Common Stock for each share of Class B Common Stock only upon the approval of the Company s Board of Directors and subsequent approval of the Company s shareholders voting together as a single class although there currently is no proposal to do so. The Class C Common Stock may be converted into Class A Common Stock on the basis of one share of Class A Common Stock for each share of Class C Common Stock upon the approval of the Company s Board of Directors and subsequent approval of (i) the Company s shareholders voting as a separate class and (ii) the holders of a majority of the voting power of the Class C Common Stock voting as a separate class, although there currently is no proposal to do so. In addition, shares of Class C Common Stock are automatically converted on the basis of one share of Class A Common Stock for each share of Class C Common Stock upon the occurrence of (i) a transfer of such shares of Class C Common Stock to any person or entity other than to certain permitted transferees of ACOF or (ii) ACOF owning a number of shares of Class B Common Stock and Class C Common Stock representing in the aggregate a percentage of the Company s outstanding common stock that is less than 5%.

Dividends The Certificate of Designation of the Preferred Stock (Certificate of Designation) provides that dividends and other distributions may not be paid on all or substantially all of the shares of the Company s capital stock until all outstanding shares of the Preferred Stock have been redeemed in accordance with the terms of the Certificate of Designation or otherwise repurchased unless such dividend or distribution (i) has been unanimously approved by the Company s Board of Directors, (ii) relates to a poison pill stockholder rights plan or (iii) is a distribution of cash in lieu of fractional shares made in connection with the Spin-Off. After all outstanding shares of the Preferred Stock have been repurchased or redeemed in accordance with the terms of the Certificate of Designation, dividends and other distributions may be declared and paid on the Common Stock as and when determined by the Company s Board of Directors and subject to any preferential dividend or other rights of any then outstanding preferred stock. Without the affirmative vote of the holders of a majority of the outstanding Class A Common Stock, voting as a separate class, Class B Common Stock, voting as a separate class and Class C Common Stock, voting as a separate class, the Company may not declare or pay any dividends or other distributions with respect to any class of Common Stock unless (i) at the same time the Company makes ratable, equal and substantially identical dividend or distribution with respect to each outstanding share of Common Stock, regardless of class or (ii) such dividend or distribution is pursuant to a poison pill stockholder rights plan. The Company does not expect to pay dividends on any shares of the Company s capital stock for the foreseeable future as our current debt precludes dividends.

Redemption The Certificate of Designation provides that no shares of the Company s capital stock, other than the Company s Preferred Stock, may be redeemed, repurchased or otherwise acquired until all outstanding shares of the Preferred Stock have been redeemed in accordance with the terms of the Certificate of Designation

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or otherwise repurchased unless such redemption or repurchase (i) is made in connection with an employee incentive or benefit plan or other compensatory arrangement, (ii) has been unanimously approved by the Company s Board of Directors, (iii) relates to a poison pill stockholder rights plan or (iv) is a distribution of cash in lieu of fractional shares made in connection with the Spin-Off.

Liquidation Upon the dissolution or liquidation of the Company, whether voluntary or involuntary, holders of Common Stock will be entitled to share ratably, and receive equal and substantially identical distributions of, all assets of the Company available for distribution to its stockholders, subject to any preferential or other rights of any then outstanding preferred stock, including the Preferred Stock.

Preferred Stock

The Company s Amended and Restated Certificate of Incorporation authorized the Company s Board of Directors to designate and issue from time to time one or more series of preferred stock without shareholder approval. The Company s Board of Directors may fix and determine the preferences, limitations and relative rights of each series of preferred stock. There are no present plans to issue any shares of preferred stock other than the Preferred Stock that was distributed in the Spin-Off.

Voting Rights Preferred Stock are nonvoting.

Conversion The Preferred Stock is not convertible into shares of Common Stock or any other security of Orchard.

Dividends The terms of the Preferred Stock do not entitle the holders thereof to any dividends.

Redemption All, but not less than all, of the then-outstanding shares of Preferred Stock may be redeemed at a redemption price per share of Preferred Stock in cash equal to the Preferred Stock Per Share Liquidation Preference upon a date and time, or the happening of an event, determined by the affirmative vote of a majority of the Company s Board of Directors and, (i) for so long as ACOF, together with its affiliates and permitted transferees, holds shares of Class B Common Stock and Class C Common Stock representing at least 15% of the Company s total common stock outstanding (calculated without reference to any shares of the Company s capital stock issued after the Spin-Off), such vote must include the vote of at least Class B/C Director and, (ii) for so long as ESL holds more shares of the Company s common stock than ACOF, such vote must include at least one non-management Class A Director designated by the majority vote of the Class A Directors.

Liquidation In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, before any payment or distribution of the Company s assets (whether capital or surplus) shall be made to or set apart for the holders of Common Stock, but after any payments or distributions are made on, or set apart for, any of the Company s indebtedness and to holders of any stock then outstanding that ranks senior to the Preferred Stock, holders of the Preferred Stock shall be entitled to receive an amount per share equal to the Preferred Stock Per Share Liquidation Preference of $4.16 per preferred share, or approximately $20.0 million as of February 2, 2013, but shall not be entitled to any further payment or other participation in any distribution of the assets of Orchard.

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10. STOCK-BASED COMPENSATION

Stock Incentive Plans

2010 Stock Incentive Plan

In May 2010, the Board of Directors approved the 2010 Stock Incentive Plan (2010 Plan). The 2010 Plan provides for grants of stock awards, incentive stock options, nonqualified stock options, restricted stock, performance awards, or any combination of the forgoing to selected nonemployee directors, officers, consultants, and employees of the Company. Additionally, the Company canceled the 2005 Plan and all outstanding 2005 Awards thereunder in connection with its adoption of the 2010 Plan and issued new option grants under the 2010 Plan in consideration for the cancellation of the 2005 Awards. During fiscal 2012, all nonqualified options outstanding under the 2010 Plan were cancelled.

2011 Equity Incentive Plan

In December 2011, the Company s Board of Directors and stockholders approved the adoption of the 2011 Equity Incentive Plan (2011 Plan). The 2011 Plan provides for the issuance of a maximum of 1,000,000 shares of the Company s Class A Common Stock in connection with the grant of stock options, stock appreciation rights (SARs), restricted stock awards, restricted stock units, stock bonus awards, dividend equivalents, performance compensation awards (including cash bonus awards) or any combination of the foregoing. No participant may be granted awards of stock options or SARs with respect to more than 250,000 shares of the Company s Class A Common Stock in any one year. No more than 250,000 shares of the Company s Class A Common Stock may be earned under the 2011 Plan by any participant during any single year with respect to performance compensation awards in any one performance period. The 2011 Plan has a term of ten years and no further awards may be granted under the 2011 Plan after the expiration of the term.

Recipients of stock options are eligible to purchase the Company s common stock at exercise prices that may not be less than 100% of the fair market value of such stock on the date of grant, except in the case of grants of an incentive stock option to a recipient that possesses more than 10% of the voting power of all classes of stock of the Company, in which case the exercise price may not be less than 110% of the fair market value of such stock on the date of grant. The maximum term of options granted under the 2011 Plan is 10 years, except in the case of the grant of an incentive stock option to a recipient who possesses more than 10% of the voting power of all classes of stock of the Company where the maximum term is five years. The Company may grant awards that are exercisable immediately regardless of the vesting status of the award.

Methodology Assumptions The Company s uses the Black-Scholes option-pricing model to value its options. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of the stock option awards, which are generally subject to vesting over five years, is expensed on a straight-line basis over the vesting period of the stock options. Due to the short time the Company has been a public company, the expected volatility assumption is based on similar companies volatility over the expected term of the option granted. The expected term of stock option assumption incorporates the contractual term of an option grant, which is ten years, as well as the vesting period of an award, which is generally over 5 years. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

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Summary of Assumptions The weighted average assumptions relating to the valuation of the Company s stock options for fiscal 2012, 2011 and 2010 were as follows:

	2012	2011[(1)]	2010
Weighted average fair value of grants	$ 11.35		$ 7.84
Expected dividend rate	0.0%	%	0.0%
Volatility	75.0%	%	75.0%
Risk-free interest rate	1.1%	%	2.4%
Expected term (in years)	6.5		6.25

(1) No stock options were granted during fiscal 2011.

Aggregate Stock Option Activity

As of February 2, 2013, 413,032 nonqualified options are outstanding at a weighted average exercise price of $20.00 per share and approximately 329,000 shares remain available for future grants of either stock options, stock appreciation rights, restricted stock awards, restricted stock units, stock bonus awards, dividend equivalents, performance compensation awards (including cash bonus awards) or any combination of the foregoing.

Stock option activity for fiscal 2012 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Balance at January 28, 2012	206,928	$ 33.33	8.50	$ 0.1
Granted	481,358	$ 20.00		
Canceled or expired	(275,254)	$ 30.02		
Balance at February 2, 2013	413,032	$ 20.00	8.54	$ 0.0
Vested and expected to vest as of February 2, 2013	354,041	$ 20.00	8.56	$ 0.0
Exercisable as of February 2, 2013	11,416	$ 20.00	7.99	$ 0.0

All options outstanding as of February 2, 2013 had exercise prices in excess of the Company s market price as of February 2, 2013 and as such the intrinsic value was zero.

Restricted Stock Activity

During fiscal 2012, the Company granted 290,551 of performance-based restricted stock unit awards to certain employees. Under the terms of the performance-based restricted stock unit awards granted, certain employees are eligible to receive restricted stock unit awards, contingent upon the achievement of certain Company-specific performance goals. Any stock unit awards earned as a result of the achievement of such goals vest at a rate of 8.33% in each subsequent fiscal quarter when the Company achieves the certain Company-specific performance goals during any of the trailing four fiscal quarters during the Performance Period . The Performance Period commences on the first day of the second fiscal quarter of 2012 and ends on the last day of

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the third fiscal quarter of 2018. Any stock units earned as a result of the achievement of such goals will vest in full over 6.75 years from the date of grant. No compensation expense with respect to performance-based stock unit awards has been recognized because the achievement of the performance goals was not probable.

In fiscal 2012, the Company granted to Board members 24,147 restricted stock awards that generally vested anywhere from immediately and up to twelve months from the date of grant.

The Company recorded $1.5 million, $0.3 million and $0.3 million in stock-based compensation expense for fiscal 2012, 2011 and 2010, respectively, which is included in selling and administrative expenses in the consolidated statements of operations. As of February 2, 2013, the unrecognized stock-based compensation balance related to non-vested awards was $3.0 million and is expected to be recognized over the next four years. As of February 2, 2013, the Company had reserved 646,583 shares of Class A common stock for issuance, and approximately 329,270 shares remain available for future grants, under the 2011 Plan.

11. INCOME TAXES

Since 2005, the Company has filed its own federal consolidated tax returns separate from Sears Holdings. For California franchise tax purposes, the Company continued to be a member of the Sears Holdings combined filing group (the Combined Group) until the Spin-Off, which occurred on December 30, 2011. For the one month period following the Spin-Off and fiscal years thereafter, the Company will file its own California franchise tax return. Prior to the Spin-Off, the Company was allocated a share of the Combined Group annual state tax liability, which was based on stand-alone California taxable income and adjusted for any tax credits.

The Company had a tax-sharing agreement (the Tax Agreement) with Sears Holdings, which governed the rights and obligations of the parties with respect to tax matters for periods in which the Company was a member of any Sears Holdings consolidated or combined income tax return group. Under the Tax Agreement, Sears Holdings was responsible for any federal or state income tax liability relating to tax periods ending on or before the Recapitalization. Prior to the Spin-Off, the Company was responsible for any federal or state tax liability, regardless of whether the Company was required to file as part of the Combined Group. Current income taxes payable for any federal or state income tax returns is reported in the period incurred. As of January 28, 2012 state income tax payables of $2.4 million were recorded in other accrued liabilities in the consolidated balance sheet.

The provision for income tax (benefit) expense for fiscal 2012, 2011 and 2010, consists of the following (in millions):

	2012	2011	2010
Current:			
Federal	$ (3.0)	$ 4.9	$ 9.5
State	0.1	1.6	2.8
Total	(2.9)	6.5	12.3
Deferred:			
Federal	(26.9)	(13.0)	(5.2)
State	(1.7)	(4.3)	(1.5)
Total	(28.6)	(17.3)	(6.7)
Income tax (benefit) expense	$ (31.5)	$ (10.8)	$ 5.6

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The provision for income taxes for financial reporting purposes is different from the tax provision computed by applying the statutory federal income tax rate. Differences for fiscal 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Federal tax rate provision (benefit)	(35.0)%	(35.0)%	35.0%
State income tax, net of federal benefit	2.0	(5.5)	7.5
Tax credits	(0.1)	(0.5)	(1.8)
Change in valuation allowance	11.2		
Other	0.9	(1.9)	(1.7)
Effective tax rate provision (benefit)	(21.0)%	(42.9)%	39.0%

The major components of deferred tax assets and liabilities as of February 2, 2013 and January 28, 2012 are as follows (in millions):

	2012	2011
Deferred tax assets:		
Inventory	$ 0.7	$ 3.1
Property and equipment	11.3	
State income taxes		2.8
Capital leases	9.7	10.2
Employee compensation	1.7	
Rent equalization	4.6	3.7
Insurance reserves	3.0	3.1
California net operating loss	6.1	4.6
Other	3.1	5.3
Total deferred tax assets	40.2	32.8
Valuation allowance	(29.1)	
Net deferred tax assets	11.1	32.8
Deferred tax liabilities:		
Property and equipment		(4.7)
Favorable leasehold rights	(7.8)	(13.3)
State income taxes	(1.7)	
Intangible assets	(4.9)	(47.2)
Federal benefit of state net operating loss	(2.1)	(1.6)
Total deferred tax liabilities	(16.5)	(66.8)
Net deferred tax liability	$ (5.4)	$ (34.0)

The Company regularly assesses the need for a valuation allowance against its deferred tax assets. In making that assessment, the Company considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, if it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating whether to record a valuation allowance, the applicable accounting standards deem that the existence of cumulative losses in recent years is a significant piece of objectively verifiable evidence that must be overcome by objectively verifiable positive evidence to avoid the need to record a valuation allowance.

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The Company assessed the relevant positive and negative evidence during the fiscal year ended February 2,2013. As a result of this assessment, the Company concluded that, from an accounting perspective, the negative evidence now outweighed the positive evidence. In accordance with that conclusion, the Company recorded a non-cash charge for the year, to income tax expense in the amount of $29.1 million by establishing a valuation allowance against its deferred tax assets. In determining the appropriate amount of the valuation allowance, the Company considered the timing of future reversal of its taxable temporary differences and available tax strategies that, if implemented, would result in realization of deferred tax assets. Due to the accumulated negative evidence, the Company is no longer allowed under those accounting standards to consider future income projections exclusive of the reversing temporary differences. This accounting treatment has no effect on the ability of the Company to use loss carryforwards and tax credits in the future to reduce cash tax payments.

The Company is currently under audit for fiscal 2011 for Federal purposes. There are no other audits that are open. The Company is subject to income taxes in the Federal and California jurisdictions only.

During fiscal 2011, the California net operating loss was transferred to the Company as part of the Spin-Off, and the Company recorded a $2.4 million deferred operating loss tax benefit, net of federal tax expense, as an increase to additional paid in capital in fiscal 2011. As of February 2, 2013, the California net operating loss carryforward, for tax purposes, was approximately $69.0 million. The state net operating loss carryforwards will expire starting in 2028 through 2031, if not utilized.

The following table summarizes the activity related to unrecognized tax benefits (in millions):

	2012	2011	2010
Unrecognized benefit beginning of period	$ 1.7	$ 1.7	$ 1.3
Gross increases (decreases) prior period tax positions	(1.7)		
Gross increases (decreases) current period tax positions			0.4
Unrecognized benefit end of period	$	$ 1.7	$ 1.7

There was interest and penalties recognized in the consolidated statements of operations in fiscal 2012 of $0.2 million and zero for fiscal 2011 and 2010. The unrecognized tax benefits included various federal issues dealing with the timing of when the Company should claim a deduction or recognize a component of income. The Company s open tax years are fiscal 2009 through fiscal 2012 for federal income tax returns and fiscal 2008 through fiscal 2012 for state income tax returns.

12. RELATED-PARTY AGREEMENTS

Sears Holdings

On December 30, 2011, Sears Holdings, the Company s former majority stockholder, distributed its 100% stake in the Company s Class A common stock to its stockholders as part of the Company s Spin-off from Sears Holdings. For further discussion of this Spin-off, see Note 1. Until this Spin-off, Sears Holding was considered a related party due to its 80% ownership interest in the Company s common stock.

The Company engages in various transactions, arrangements and agreements with Sears Holdings, which are described below. The Company negotiated each of the following transactions, arrangements and agreements with Sears Holdings on the basis of what the Company believes to be competitive market practices.

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For fiscal 2012, 2011, and 2010, the Company purchased approximately $0.1 million, $11.1 million and $12.2 million, respectively, of merchandise directly from Sears Holdings.

Appliances Agreement The Appliances Agreement was entered into with a subsidiary of Sears Holdings during October 2011 pursuant to which Sears Holdings has authorized the Company to sell certain of Sears Holdings branded appliances products (Products) and related protection agreements on a consignment basis as a distributor through its designated retail locations on a commissions basis. Commissions for Products varies by Product category and Sears Holdings may in its sole discretion modify from time to time the commission rate for each category of Product as defined in the agreement. The products include specified categories of Kenmore, Bosch, Electrolux, GE, LG, Samsung and Whirlpool branded appliances. Under the Appliances Agreement, the Company transferred to Sears Holdings its entire inventory of major appliances purchased from Sears Holdings for $1.9 million in cash on October 27, 2011, which approximated the Company s cost of the purchased appliances.

The Appliances Agreement was amended on March 22, 2012 (the Amended Appliances Agreement). Under the Amended Appliances Agreement, the Company may close up to 14 currently identified retail locations that carry appliances (the Appliance Centers) at specified times through August 2013 and close the remaining 13 Appliance Centers on January 31, 2015. The Amended Appliances Agreement has a term of five years. The Company exercised its right to close six Appliance Centers in specified stores and the closing of these appliance centers has been completed as of the end of fiscal 2012.

The Appliances Agreement, as amended, also provides that for two years following the end of the term, the Company will not be able to operate a business that competes with Sears Holdings Businesses at, or within ten miles of its retail locations that sold Products at any time during the term.

Brand Sales Agreement Sears Holdings had previously granted the Company the right to purchase from Sears Holdings and its approved vendors, as well as to sell certain additional products, which include products marketed under Sears Holdings exclusive brands, such as Craftsman, Easy Living and Weatherbeater (the Additional Products). The price paid by the Company for the Additional Products purchased from Sears Holdings equals Sears Holdings cost for such Products. The agreement was terminated on the Distribution Date, when the Company entered into new brands license agreements (the Brands Agreements) with a subsidiary of Sears Holdings pursuant to which Sears Holdings allowed the Company to purchase a limited assortment of Craftsman products, Easy Living and Weatherbeater paints, Kenmore-branded water heaters and consumer household products directly from vendors. Under the Brands Agreements, the Company pays specified license fees to Sears Holdings. Each of the Brands Agreements has a three-year term and may be extended subject to the mutual agreement of the parties. If the aggregate of the Company s Craftsman product sales over any 12-month period falls by more than 25% below the preceding 12-month period following the second anniversary of the Distribution, Sears Holdings will be permitted to terminate that Brands Agreement in its sole discretion with 60 days notice.

License fees related to the Brands Agreement for fiscal 2012, 2011 and 2010 was approximately $2.2 million, $1.1 million and $1.2 million, respectively.

The Company has a net payable to Sears Holdings of $0.6 million and $2.9 million as of February 2, 2013 and January 28, 2012, respectively.

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

Named Stockholders

Subsequent to the Spin-Off on December 30, 2011, ACOF, ESL, Edward S. Lampert (Lampert) and William C. Crowley (Crowley and, such parties collectively, the Named Stockholders) are considered related parties based on their ability to exercise significant influence over the operating and financial policies of the Company. The Stockholders Agreement was effective immediately following the Spin-Off and provides certain rights and obligations to the parties thereto, which includes the Named Stockholders. The Stockholders Agreement includes the following:

Consent Rights. The Stockholders Agreement provides the Class B/C Directors with consent rights, so long as ACOF, together with its affiliates and permitted transferees, beneficially owns shares of Class B Common Stock and/or Class C Common Stock representing at least 15% of the total Class A Common Stock, Class B Common Stock and Class C Common Stock (together, the Common Stock) (calculated without reference to any shares of capital stock issued or issuable after the Spin-Off) over certain corporate activities, including any change in control of the Company, certain changes in the number of Directors constituting the Company s Board of Directors, the consummation of the first public offering after the Spin-Off, any redemption of the Company s Series A Preferred Stock, certain changes to the Company s Amended and Restated Certificate of Incorporation or the Company s Amended and Restated Bylaws, entry into certain affiliate arrangements, the taking of any action that would not be consistent with certain Company representations made in connection with the IRS Ruling, the issuance by the Company of any capital stock (other than in connection with stock plans or similar arrangements), and the Company s engaging in any rights offering and any liquidation of corporate assets.

The Stockholders Agreement provides that for so long as ESL holds more shares of the Company s common stock than ACOF, that a non-management Class A Director designated by a majority vote of our Class A Directors will have a consent right over certain corporate activities, including any redemption of our Series A Preferred Stock, the taking of any action that would not be consistent with certain Company representations made in connection with the IRS Ruling, the issuance by the Company of any capital stock (other than in connection with stock plans or similar arrangements) and the Company s engaging in any rights offering.

Voting Rights. The Stockholders Agreement grants certain stockholders certain rights with respect to the election of Directors to the Company s Board of Directors.

Transfers. The Stockholders Agreement includes certain transfer restrictions and provides tag-along rights and drag-along rights in certain circumstances. In addition, each of the Named Stockholders are granted a right of first offer on shares of Common Stock that any party to the Stockholders Agreement proposes to transfer to a third party that are not a permitted transferee.

Preemptive Rights. The Stockholders Agreement provides that prior to any issuance by the Company or any of our subsidiaries of any securities or certain debt (other than issuances (i) in an underwritten public offering registered under the Securities Act; (ii) pursuant to any stock option, stock purchase plan or agreement or other benefit plans approved by the Company s Board of Directors; (iii) in connection with a recapitalization of the Company; (iv) in a rights offering; or (v) in connection with any acquisition that has been approved by the unanimous consent of the Company s Board of Directors), the Company will give written notice (the Preemptive Notice) to ACOF and ACOF will be entitled to elect to purchase up to ACOF s preemptive portion (with such preemptive portion being a fraction, the numerator of which is the number of shares of our common stock owned by ACOF and the denominator of which is the number of shares of the Company s common stock owned by ACOF, ESL, Lampert and Crowley) of the securities proposed to be issued by the Company or any of the Company s subsidiaries.

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

Registration Rights. Pursuant to the Stockholders Agreement the Company agreed to prepare and file a shelf registration statement under the Securities Act to effect the registration under the Securities Act of resales to be made, on a delayed or continuous basis, of all shares of Class A Common Stock issuable upon conversion of the Class C Common Stock, promptly upon obtaining eligibility for use of Form S-3. The Stockholders Agreement also provides to each of ACOF and ESL four demand registrations at any time, unless the Company is eligible to register the Company s shares using Form S-3 (or any successor to Form S-3), then each of ACOF and ESL may make an unlimited number of demand registrations (an S-3 Demand Registration), provided that the Company will not be required to effect an S-3 Demand Registration more than twice in any 12-month period. In addition, parties to the Stockholders Agreement also have customary piggyback registration rights in the event of registration of any of the Company s Common Stock, subject to certain limitations, including as determined by the underwriters. In connection with such registration of the Company s securities pursuant to the terms of the Stockholders Agreement, the Company will indemnify the stockholders party thereto, their affiliates and each of their respective Directors, officers, employees, members, partners and control persons.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table contains selected unaudited quarterly financial data for fiscal 2012 and fiscal 2011 (in millions except per share amounts):.

		13 Weeks Ended		14 Weeks Ended
	April 28, 2012	July 28, 2012	October 27, 2012	February 2, 2013
NET SALES	$ 155.0	$ 194.1	$ 155.2	$ 153.0
COST OF SALES AND EXPENSES:				
Cost of sales (excluding depreciation and amortization)	102.9	129.6	110.2	108.1
Selling and administrative	45.9	57.5	45.5	46.5
Depreciation and amortization	7.8	7.5	8.6	8.6
Trade name and property and equipment impairment			65.1	38.3
Loss (gain) on sale of real property	(0.6)			1.0
Total costs of sales and expenses	156.0	194.6	229.4	202.5
OPERATING LOSS	(1.0)	(0.5)	(74.2)	(49.5)
INTEREST EXPENSE, NET	6.5	7.8	4.0	6.3
INCOME TAX EXPENSE (BENEFIT)	(3.0)	18.4	(24.6)	(22.2)
NET LOSS	$ (4.5)	$ (26.7)	$ (53.6)	$ (33.6)
NET LOSS PER COMMON SHARE:				
Basic and diluted loss per share	$ (0.75)	$ (4.44)	$ (8.88)	$ (5.59)
Basic and diluted weighted average common shares outstanding	6.0	6.0	6.0	6.0

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ORCHARD SUPPLY HARDWARE STORES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEARS ENDED FEBRUARY 2, 2013, JANUARY 28, 2012 AND JANUARY 29, 2011

	13 Weeks Ended			
	April 30, 2011	July 30, 2011	October 29, 2011	January 28, 2012
NET SALES	$ 163.8	$ 196.4	$ 158.7	$ 141.6
COST OF SALES AND EXPENSES:				
Cost of sales (excluding depreciation and amortization)	108.6	130.6	107.2	94.6
Selling and administrative	44.0	46.2	40.8	46.1
Loss on sale of real property			14.3	0.5
Depreciation and amortization	7.2	7.5	7.7	7.0
Total costs of sales and expenses	159.8	184.3	170.0	148.2
OPERATING INCOME (LOSS)	4.0	12.1	(11.3)	(6.6)
INTEREST EXPENSE, NET	5.6	5.5	5.7	6.6
INCOME TAX (BENEFIT) EXPENSE	(0.6)	2.7	(6.9)	(5.9)
NET (LOSS) INCOME	$ (1.0)	$ 3.9	$ (10.1)	$ (7.3)
NET INCOME (LOSS) PER COMMON SHARE:				
Basic and diluted income (loss) per share	$ (0.17)	$ 0.65	$ (1.68)	$ (1.21)
Basic and diluted weighted average common shares outstanding	6.0	6.0	6.0	6.0

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities and Exchange Act of 1934, as amended (the Exchange Act) are controls and procedures that are designed to provide reasonable assurance that the information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms.

As of the end of the period covered by this report, an evaluation was carried out, under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and CFO concluded that, as of February 2, 2013, our disclosure controls and procedures were not effective because of the material weaknesses in our internal control over financial reporting as discussed below.

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP).

No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of February 2, 2013 as required by Exchange Act Rule 13a-15(c). In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company s annual or interim financial statements will not be prevented or detected on a timely basis.

In connection with our assessment of the Company s internal control over financial reporting described above, we have identified the following design and operating deficiencies which represent material weaknesses in the Company s internal control over financial reporting as of February 2, 2013:

Accounting Policies and Procedures The Company did not maintain a comprehensive and formalized process for monitoring the application of our accounting policies and procedures, and for updating and consistently communicating our accounting policies and procedures within the organization.

Application of GAAP The Company did not maintain effective internal controls relating to the application of GAAP, including the proper recording for lease accounting, certain accruals, contingencies, use of appropriate models to evaluate potential impairment of intangible assets and store assets, and the proper classification of certain balance sheet accounts.

Accounting for Income Taxes The Company s processes, procedures and controls related to the preparation and review of the annual tax provision were not effective to ensure that amounts related to the income tax provision and related current or deferred income tax asset and liability accounts were accurate, recorded in the proper period and determined in accordance with GAAP. Specifically, we had insufficient personnel with appropriate qualifications and training in accounting for income taxes.

Financial Reporting Process The Company did not maintain an effective financial reporting process to prepare financial statements in accordance with GAAP. Specifically, controls were not effective to ensure that timely, detailed reviews of journal entries, account reconciliations, financial statement amounts and footnote disclosures, were performed by competent and trained accounting staff.

Spreadsheets The Company did not maintain effectively designed controls to ensure that critical spreadsheets were identified, access to these spreadsheets was restricted to appropriate personnel, changes to data or formulas were authorized and appropriate, or that the spreadsheets were adequately reviewed by someone other than the preparer.

Based on management s assessment, management concluded that internal controls over financial reporting were not effective as of February 2, 2013, due to the material weaknesses described above. This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting, pursuant to the exemption offered to emerging growth companies as defined by the Jumpstart Our Business Startups Act, or the JOBS Act.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Continuing Remediation

Remediation activities related to the material weaknesses in internal control over financial reporting as of February 2, 2013 include:

Accounting Policies and Procedures We have begun to formalize our accounting policies in conjunction with our documentation of internal control processes and procedures including implementing a journal entry policy and account reconciliation policy. We have also increased the frequency of training for our accounting staff to reinforce communication of our policies.

Application of GAAP We have implemented procedures to address lease accounting and impairment models for intangible assets and store assets. To address accruals, contingencies and balance sheet classification issues, we have enhanced our close processes and procedures as described in the financial reporting process remediation activities below.

Accounting for Income Taxes In fiscal 2012, we engaged an external provider of tax services to assist in our accounting for income taxes. We continue to evaluate our tax process and tax resource requirements and will enhance procedures and controls regarding income tax accounting.

Financial Reporting Process We implemented an account reconciliation policy to provide guidelines for account reconciliation and enhancing documentation to support sub-ledger and account reconciliations. We are continuing to evaluate the reconciliation process related to accounts based on

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risk and controls over journal entries. We enhanced monthly close procedures to include variance analysis of financial statement fluctuations and enhanced budget to actual reviews.

Spreadsheets We are in the process of designing and implementing procedures to inventory, assess the risk of, and rank our critical financial reporting spreadsheets that have a material impact on our financial reporting. In addition, management intends to establish procedures for benchmarking critical spreadsheets to ensure that formulas are appropriate and protected, and that the logic and design of the spreadsheets is appropriate and consistent. Management is also implementing enhanced review procedures.

We believe the measures described above will facilitate remediation of the material weaknesses we have identified and will continue to strengthen our internal control over financial reporting. We are committed to continually improving our internal control processes and will diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may decide that additional measures are necessary to address control deficiencies. Moreover, we may determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

Item 9B. Other Information

On May 2, 2013, Matthew D. Cwiertnia and Ravi Y. Sarin, Board members previously elected by the holders of the Company s Class B Common Stock and Class C Common Stock, voting as a single class, resigned as Class B/C Directors of the Company, and Bryant W. Scott, a Board member previously elected by the holders of the Company s Class A Common Stock, voting as a separate class, resigned as a Class A Director of the Company. On the same day, as part of a transition of Mark R. Baker and Steven L. Mahurin to Class B/C Directors, Messrs. Baker and Mahurin each resigned as Class A Directors, and each were immediately appointed as Class B/C Directors of the Board by the holders of the Company s Class B Common Stock and Class C Common Stock, voting as a single class.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding the Directors of the Company is incorporated herein by reference from the Company s 2013 Proxy Statement to Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company s 2012 fiscal year or will be included in an amendment to this Annual Report on Form 10-K filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Information regarding the Executive Officers of the Company is contained in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference from the Company s 2013 Proxy Statement to Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company s 2012 fiscal year or will be included in an amendment to this Annual Report on Form 10-K filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated herein by reference from the Company s 2013 Proxy Statement to Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company s 2012 fiscal year or will be included in an amendment to this Annual Report on Form 10-K filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated herein by reference from the Company s 2013 Proxy Statement to Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company s 2012 fiscal year or will be included in an amendment to this Annual Report on Form 10-K filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated herein by reference from the Company s 2013 Proxy Statement to Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company s 2012 fiscal year or will be included in an amendment to this Annual Report on Form 10-K filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements

See Index to Consolidated Financial Statements at Item 8 herein.

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2. Financial Statement Schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes herein.

3. Exhibits

See the INDEX TO EXHIBITS immediately following the signature page of this Annual Report on Form 10-K.

The exhibits listed below are filed or incorporated by reference as part of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California, on the 3rd day of May 2013.

ORCHARD SUPPLY HARDWARE STORES CORPORATION

By: /s/ Mark R. Baker
Mark R. Baker
President and Chief Executive Officer

POWER OF ATTORNEY

We the undersigned officers and Directors of Orchard Supply Hardware Stores Corporation hereby severally constitute and appoint Mark R. Baker and Chris D. Newman, or either of them, his or her attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	*Title*	*Date*
/s/ Mark R. Baker **Mark R. Baker**	President, Chief Executive Officer and Director (Principal Executive Officer)	May 3, 2013
/s/ Chris D. Newman **Chris D. Newman**	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	May 3, 2013
/s/ William C. Crowley **William C. Crowley**	Chairman of the Board	May 3, 2013
/s/ Kevin R. Czinger **Kevin R. Czinger**	Director	May 3, 2013
/s/ Susan L. Healy **Susan L. Healy**	Director	May 3, 2013
/s/ Steven L. Mahurin **Steven L. Mahurin**	Director	May 3, 2013
/s/ Karen M. Rose	Director	May 3, 2013

Karen M. Rose

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INDEX TO EXHIBITS

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
2.1	Distribution Agreement between Sears Holdings Corporation and Orchard Supply Hardware Stores Corporation, dated December 19, 2011.	10-Q	001-11679	2.1	December 22, 2011	
3.1(a)	Amended and Restated Certificate of Incorporation of Orchard Supply Hardware Stores Corporation.	8-K	001-11679	3.1	January 5, 2012	
3.1(b)	Amended and Restated Bylaws of Orchard Supply Hardware Stores Corporation.	8-K	001-11679	3.2	January 5, 2012	
3.2	Certificate of Designation for the Series A Preferred Stock of Orchard Supply Hardware Stores Corporation.	8-K	001-11679	4.2	January 5, 2012	
4.1	Second Amended and Restated Stockholders Agreement among ESL Investments, Inc., Edward S. Lampert, William C. Crowley, ACOF I LLC and Orchard Supply Hardware Stores Corporation.	8-K	001-11679	4.1	January 5, 2012	
4.2	Specimen Class A Common Stock Certificate of Orchard Supply Hardware Stores Corporation.	S-1/A	333-175105	4.2	December 5, 2011	
10.1	Form of Transition Services Agreement between Sears Holdings Management Corporation and Orchard Supply Hardware Stores Corporation.	S-1/A	333-175105	10.1	December 5, 2011	
10.2	Tax Sharing Agreement between Sears Holdings Corporation and Orchard Supply Hardware Stores Corporation, dated November 23, 2005.	S-1	333-175105	10.2	June 23, 2011	
10.3	Second Amended and Restated Senior Secured Credit Agreement, dated as of January 29, 2010, among Orchard Supply Hardware LLC, as Borrower, Orchard Supply Hardware Stores Corporation, those certain Subsidiaries of the Borrower parties thereto, the Lenders from time to time party thereto, Wells Fargo Retail Finance, LLC, as ABL Administrative Agent and Collateral Agent for the Lenders.	S-1/A	333-175105	10.3	November 17, 2011	

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Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.4(a)	Senior Secured Term Loan Agreement, dated as of December 21, 2006, by and among Orchard Supply Hardware LLC, as Borrower, Orchard Supply Hardware Stores Corporation, certain other Subsidiaries of Orchard Supply Hardware Stores Corporation, the Lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent for the Term Lenders.	S-1/A	333-175105	10.4(a)	November 17, 2011	
10.4(b)	Amendment No. 1, dated as of January 28, 2011, to the Senior Secured Term Loan Agreement, dated as of December 21, 2006, by and among Orchard Supply Hardware LLC, as Borrower, Orchard Supply Hardware Stores Corporation, certain other Subsidiaries of Orchard Supply Hardware Stores Corporation, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent for the Term Lenders.	S-1/A	333-175105	10.4(b)	September 9, 2011	
10.5	Loan Agreement, dated as of October 27, 2010, among OSH Properties LLC, each Lender from time to time party thereto, and Wells Fargo Bank, N.A., as Administrative Agent for the Lenders thereunder.	S-1/A	333-175105	10.5	September 9, 2011	
10.6	Offer Letter by and between Orchard Supply Hardware Stores Corporation and Mark R. Baker, dated March 7, 2011.	S-1/A	333-175105	10.6	September 9, 2011	
10.7	Offer Letter by and between Orchard Supply Hardware Stores Corporation and Steven L. Mahurin, dated April 15, 2011.	S-1/A	333-175105	10.10	September 9, 2011	
10.8	Offer Letter by and between Orchard Supply Hardware Stores Corporation and Mark Bussard, dated June 1, 2011.	S-1/A	333-175105	10.11	September 9, 2011	

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Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.9	Offer Letter by and between Orchard Supply Hardware Stores Corporation and David I. Bogage, dated April 4, 2011.	S-1/A	333-175105	10.12	September 9, 2011	
10.10	Offer Letter by and between Orchard Supply Hardware Stores Corporation and Michael W. Fox, dated September 9, 2011.	S-1/A	333-175105	10.14	November 17, 2011	
10.11	Offer Letter by and between Orchard Supply Hardware Stores Corporation and Chris D. Newman, dated December 19, 2011.	10-Q	001-11679	10.15	December 22, 2011	
10.12	Severance Agreement by and between Orchard Supply Hardware Stores Corporation and Mark R. Baker, dated March 7, 2011.	S-1/A	333-175105	10.14	September 9, 2011	
10.13	Severance Agreement by and between Orchard Supply Hardware Stores Corporation and Steven L. Mahurin, dated November 3, 2011.	S-1/A	333-175105	10.18	November 17, 2011	
10.14	Severance Agreement by and between Orchard Supply Hardware Stores Corporation and David I. Bogage, dated April 11, 2011.	S-1/A	333-175105	10.19	September 9, 2011	
10.15	Severance Agreement by and between Orchard Supply Hardware Stores Corporation and Mark A. Bussard, dated June 13, 2011.	S-1/A	333-175105	10.22	November 17, 2011	
10.16	Severance Agreement by and between Orchard Supply Hardware Stores Corporation and Michael W. Fox, dated October 3, 2011.	S-1/A	333-175105	10.24	November 17, 2011	
10.17	Severance Agreement by and between Orchard Supply Hardware Stores Corporation and Allen R. Ravas, dated February 7, 2011.	S-1/A	333-175105	10.23	September 9, 2011	
10.18	2010 Stock Incentive Plan of Orchard Supply Hardware Stores Corporation and related agreements.	S-1/A	333-175105	10.25	September 9, 2011	
10.19	Non-Employee Director Compensation Policy of Orchard Supply Hardware Stores Corporation.	S-1/A	333-175105	10.29	December 9, 2011	

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Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.20	Form of Indemnification Agreement between Orchard Supply Hardware Stores Corporation and certain officers and Directors.	S-1/A	333-175105	10.30	November 17, 2011	
10.21	Purchase and Sale Agreement between OSH Properties LLC and LBA Realty LLC, dated October 24, 2011.	S-1/A	333-175105	10.31	November 17, 2011	
10.22	Single-Tenant Commercial/Industrial Lease by and between LBA RIV-Company XVII, LLC and Orchard Supply Hardware LLC, dated October 28, 2011.	S-1/A	333-175105	10.32	November 17, 2011	
10.23	2011 Equity Incentive Plan of Orchard Supply Hardware Stores Corporation and related agreements.	10-Q	001-11679	10.33	December 22, 2011	
10.24	Severance Agreement by and between Orchard Supply Hardware Stores Corporation and Chris D. Newman, dated December 19, 2011.	10-Q	001-11679	10.34	December 22, 2011	
10.25	Amendment No. 1 to Loan Agreement dated as of December 19, 2011 by and among OSH PROPERTIES LLC, a Delaware limited liability company, each Lender referenced thereto and WELLS FARGO BANK, N.A., a national banking association, as administrative agent for Lenders.	10-Q	001-11679	10.35	December 22, 2011	
10.26	Amendment and Restatement Agreement, to the Senior Secured Term Loan Agreement, dated as of December 21, 2006 and amended as of January 28, 2011, by and among Orchard Supply Hardware LLC, as Borrower, Orchard Supply Hardware Stores Corporation, as Holdings, certain other Subsidiaries of Holdings, the Term Lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as Term Administrative Agent for the Term Lenders, dated as of December 22, 2011.	8-K	001-11679	10.1	December 29, 2011	

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Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.27	Consent and First Amendment to Second Amended and Restated Credit Agreement, dated as of January 29, 2010, among Orchard Supply Hardware LLC, as Borrower, Orchard Supply Hardware Stores Corporation, those certain Subsidiaries of the Borrower parties thereto, the Lenders from time to time party thereto and Wells Fargo Retail Finance, LLC, as ABL Administrative Agent and Collateral Agent for the Lenders, effective as of December 22, 2011.	8-K	001-11679	10.2	December 29, 2011	
10.28	Amendment No. 2 to Loan Agreement, dated as of October 27, 2010, as amended on December 19, 2011, among OSH Properties LLC, each Lender from time to time party thereto, and Wells Fargo Bank, N.A., as Administrative Agent for the Lenders thereunder, dated as of December 27, 2011.	8-K	001-11679	10.3	December 29, 2011	
10.29	Lease, dated as of October 27, 2010, as amended on February 17, 2011, among OSH Properties LLC, as Landlord, and Orchard Supply Hardware LLC, as Tenant.	8-K	001-11679	10.4	December 29, 2011	
10.30	Amendment No. 2 to Lease, dated as of October 27, 2010, as amended on February 17, 2011, among OSH Properties LLC, as Landlord, and Orchard Supply Hardware LLC, as Tenant, dated as of December 27, 2011.	8-K	001-11679	10.5	December 29, 2011	
10.31	Severance Agreement and General Release dated January 30, 2012 between Orchard Supply Hardware LLC and Thomas J. Carey.	8-K	001-11679	10.1	January 31, 2012	
10.32	Form of Restricted Stock Units agreement under the Orchard Supply Hardware Stores Corporation 2011 Equity Incentive Plan.	8-K	001-11679	10.1	May 23, 2012	
10.33	Form of Option Agreement under the Orchard Supply Hardware Stores Corporation 2011 Equity Incentive Plan.	8-K	001-11679	10.2	May 23, 2012	

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Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.34	Form of Restricted Stock Agreement under the Orchard Supply Hardware Stores Corporation 2011 Equity Incentive Plan.	8-K	001-11679	10.3	May 23, 2012	
10.35	Orchard Supply Hardware Stores Corporation Annual Incentive Plan.	8-K	001-11679	10.1	June 26, 2012	
10.36	Orchard Supply Hardware Stores Corporation Director Compensation Policy, as amended June 25, 2012.	8-K	001-11679	10.2	June 26, 2012	
10.37	Third Amended and Restated Senior Secured Credit Agreement, dated as of October 17, 2012, among Orchard Supply Hardware LLC, as Borrower, Orchard Supply Hardware Stores Corporation, those certain Subsidiaries of the Borrower parties thereto, the Lenders from time to time party thereto, Wells Fargo Bank, National Association, as ABL Administrative Agent and Collateral Agent for the Lenders, Bank of America, N.A., as Syndication Agent and Wells Fargo Capital Finance, LLC and Merrill Lynch, Pierce Fenner & Smith Incorporated as Joint Lead Arrangers and Joint Bookrunners.	8-K	001-11679	10.1	October 23, 2012	
10.38	Waiver and Amendment No. 1, effective October 26, 2012, to the Amended and Restated Senior Secured Term Loan Agreement.	8-K	001-11679	10.1	October 31, 2012	
10.39	Severance Agreement and General Release dated December 21, 2012 by and between Stephen W. Olsen and Orchard Supply Hardware Stores Corporation.	8-K	001-11679	10.1	December 21, 2012	
21.1	List of Subsidiaries of Orchard Supply Hardware Stores Corporation.					X
23.1	Consent of Independent Registered Public Accounting Firm.					X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X

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Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS*	XBRL Instance Document					
101.SCH*	XBRL Taxonomy Extension Schema Document					
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					

Management contract, or compensatory plan or arrangement.

* XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.