PiperJaffray

Company Note
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Reason for Report:
Company Update

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	$27.00
FY12E EPS	--	$0.45
FY13E EPS	--	$0.60
FY12E Rev (mil)	--	$165.3
FY13E Rev (mil)	--	$208.5

Price	$17.71
52 Week High	$29.35
52 Week Low	$14.28
12-Month Price Target	$27.00
35x FY14E EPS	
Shares Out (mil)	39.0
Market Cap. (mil)	$690.7
Avg Daily Vol (000)	261
Book Value/Share	$1.38
Net Cash Per Share	NM
Debt to Total Capital	8%
Div (ann)	$0.00
Est LT EPS Growth	35%
P/E to Est LT EPS Growth	0.8x
Fiscal Year End:	Jan

Rev (mil)	2011A	2012E	2013E
Apr	$25.8A	$34.9A	$45.4E
Jul	$23.0A	$31.3A	$38.7E
Oct	$24.8A	$33.4A	$41.1E
Jan	$51.2A	$65.6E	$83.3E
FY	$124.7A	$165.3E	$208.5E
CY	$165.3A	$208.5E	$261.8E
FY RM	5.5x	4.2x	3.3x
CY RM	4.2x	3.3x	2.6x

EPS	2011A	2012E	2013E
Apr	$0.05A	$0.09A	$0.12E
Jul	$0.02A	$0.03A	$0.04E
Oct	$0.01A	$0.02A	$0.03E
Jan	$0.24A	$0.31E	$0.41E
FY	$0.32A	$0.45E	$0.60E
CY	$0.45E	$0.60E	$0.79E
FY P/E	55.3x	39.4x	29.5x
CY P/E	39.4x	29.5x	22.4x

Teavana Holdings, Inc. (TEA – $17.71)
Overweight

Growth Is Our Cup Of TEA. Reiterating OW on TEA Shares Heading Into 2012

CONCLUSION:

We are reiterating our Overweight rating on TEA shares as we round into the new year and in view of the significant growth prospects ahead for this high-end purveyor of teas and tea-related gifts. We believe Santa hauled around tea from house to house this year and Teavana likely saw upside in their category--especially when cold-weather apparel and accessories likely failed to bring joy to their respective retailers. Longer-term, we believe Teavana is still in the early stages of its domestic store growth, and we are encouraged by continued e-commerce strength as well as Teavana's market entry into Canada.

- **Price Versus Transactions? That Is The (Investor) Question.** In the bulk of our note we have set aside five plausible reasons why Teavana's same-store sales have been largely price-driven as opposed to transaction-driven. Read on for the details, but we'll say this now: it is likely more about optics than about some fundamental flaw in their growth strategy. We believe Teavana is growing rapidly and expanding the high-end tea category in the process. Moreover, we believe their customer adopts into the brand and then either replenishes on line and/or replenishes in greater quantities on subsequent, but less frequent, visits. There's no shame in selling higher volumes of 90%+ margin goods (loose-tea blends).

- **Holiday Merchandise Assortment Strategy Likely Worked Well.** Taking hints from their innovative tea blends launch in FQ3, Teavana is likely to have posted a solid holiday selling seasons--particularly in view of the fact that non-cold weather apparel categories could have benefited from unexpected conversion in view of the lack of cold weather in which to sell such goods. This holiday at Teavana saw upgraded gift sets and more of them as the company was caught short of inventory last year. As a reminder, the holiday season is critically important to Teavana, and we expect FQ4 to account for slightly more than two thirds of annual EPS in FY12 and FY13.

- **ICR XChange Conference Appearance Slated For Wednesday January 11th.** We note that management is slated to present at the 14th Annual ICR XChange next week in Miami. This would be their first appearance post-holiday and we believe investors looking for outsized (unit and earnings) growth will be keen on their presentation.

INVESTMENT RECOMMENDATION:

We rate TEA shares Overweight with a $27 price target based on 35x FY14E EPS.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Macroeconomic pressures, risk to opening stores internationally and working with franchise partners, reliance on key top management, limited ability to hedge costs.

COMPANY DESCRIPTION:

Teavana is a specialty retailer of loose tea and related accessories operating approximately 196 stores.

Clearing the Air on a Common Investor Question

Heading into the annual ICR XChange Conference next week, where we anticipate seeing Teavana present on Wednesday January 11th, we thought it appropriate to address the single biggest question surrounding Teavana's investment thesis: why are same-store sales driven by price and not transaction? We aim to offer our insights and why we believe Teavana makes for a great growth story for 2012.

Question: Why are Teavana's same-store sales driven by price and not transactions?

Good question. We've been doing a great deal of thinking in and around this common question. To be clear, this dynamic in the same-store sales metric have been known since the time of the company's initial offering roadshow; so for those coming into the story now, know that this isn't "new." The spirit of the question is valid: in fact, we completely agree that early-stage brands/concepts should be more transactionally driven in their sales trends as opposed to price-driven. That said, we struggle to conclude (as some have done on the short side of this stock) that it is the definitive sign of a "fad" or "non-scalable concept."

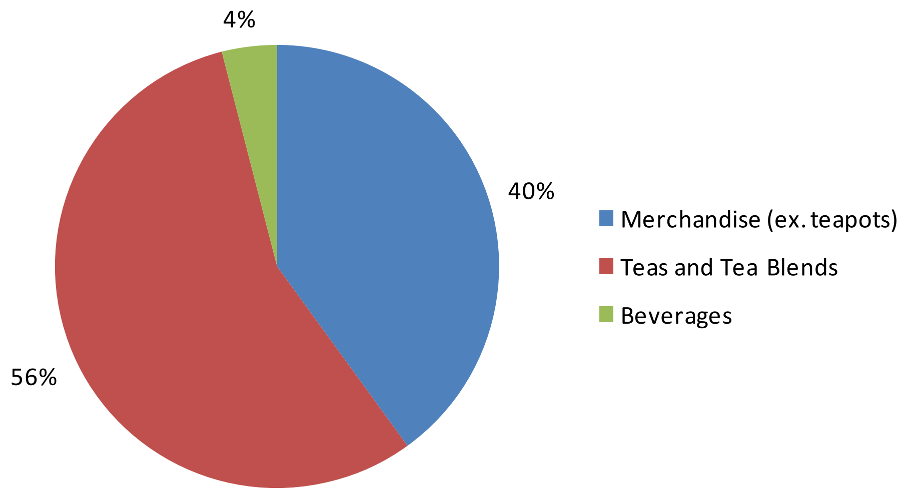
Here are some plausible reasons why Teavana's "comps" could be more price-driven than transactionally driven.

Plausible Answer #1: In-store beverages cloud the metric.

Teavana has historically sold prepared tea beverages in their store—almost, in our view, as a customer service as opposed to a full-fledged customer acquisition strategy. Though prepared beverages currently account for only about 4% of total sales, we believe they account for about 25% of the total transactions. As the company has continued to de-emphasize in-store prepared tea beverages, transactions have declined. We believe this dynamic is leveling off and will very likely become less relevant as a potential call-out in the same-store sales metrics as we head into the new year.

Exhibit 1

MERCHANDISE MIX (2010)



Source: Teavana

Plausible Answer #2: Marketing (aka "new customer acquisition") has not been a focus up until now. Customers are tripping into Teavana, not being "advertised" into Teavana.

Yes, you read that correctly; Teavana has not yet announced a head of marketing. We continue to be amazed that Teavana has found success thus far without one—likely a testament to the brand's inherent draw—but 2012 beckons a head of marketing to be installed in our view. The primary reason, we believe, is wrapped up in a more cogent new customer acquisition strategy—particularly in an as-of-yet-launched loyalty program. Some of the best retailers and brands have a successful loyalty program—one that helps recognize their best customers—driving frequency of visits (aka "traffic") to stores and higher average transaction values (aka "conversion and pricing"). Ironically, we believe tea drinkers are naturally loyal to the brew itself; thus we believe Teavana's launch of a loyalty program in 2012 would square well with this targeted customer base.

Plausible Answer #3: In-store training focuses on driving price, not transactions.

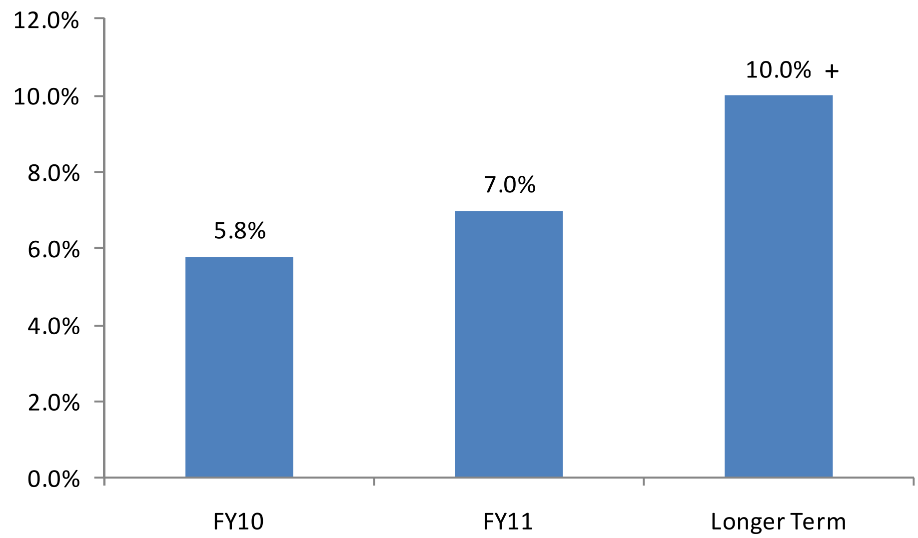
Personal story time. We recently visited a Teavana store to buy some Christmas-y tea. We intended to buy two ounces on our trip. By the time the transaction was over, the store associate had sold me a half-pound of tea—four times the amount we intended to buy. How did she do that? She suggested a blend of teas from the wall of 100 choices—which consisted of two teas at two ounces each and one tea at four ounces. Tack on the new tin I just purchased and voila we spent nearly $40. What just happened!? Now, it will technically take us four times the amount of time needed to consume the tea. We surmise that the store associate is trained and possibly paid for up selling each transaction. Should Teavana choose to emphasize "appetizers over entrees," frequency (traffic/transactions) could move higher.

Plausible Answer #4: E-commerce growing as a means to replenish tea purchasing.

Another good answer is wrapped up in the rapidly rising e-commerce channel: perhaps "she" is being introduced into the brand at retail and then replenishing in total or in part with her purchases online. Not that we recommend blending e-commerce transaction metrics into the retail transaction metrics, but we note there is a meaningful e-commerce growth rate afoot—and it has happened without the help of a marketing director.

Exhibit 2

E-COMMERCE PENETRATION



Source: Teavana, Piper Jaffray & Co.

E-commerce revenues have grown at a CAGR of 56% since FY08, and in FY11 the channel represented 7% of sales. Management expects to achieve 10% e-commerce penetration longer-term, and we believe this will likely occur in the next three to four years. The merchandise assortment and mix between loose tea and hard goods online is comparable to Teavana's brick and mortar locations, and we believe that a strong majority of Teavana's e-commerce customers are also brick and mortar customers. Growth of the e-commerce channel will likely stem from new customer acquisition as Teavana grows its store base towards 500 locations from its current total of 196.

We believe that e-commerce sales could potentially represent 12% to 15% of net sales over the next five to seven years as multi-channel customers increasingly migrate online and as customers utilize the website more and more as an educational tool. Teavana has highly functional mobile and tablet applications, including for the iPhone and iPad, which offer full purchasing functionality, suggestions of new blends to try, and even a "tea timer" that can tell customers when to stop steeping their tea depending on the type of tea and brewing method.

The growing penetration of Teavana's e-commerce business should be a natural lift to total company operating margin, as we believe the online channel is more profitable and requires minimal capital investment to support. We believe that the average order size through the e-commerce channel is approximately 20% higher than in stores (excluding prepared beverages sold through the company's stores). Furthermore, we believe that the recent launch of Teavana's auto-ship program for loose teas, which enables customers to receive periodic deliveries on any teas at the customers' discretion, will likely help to further increase the merchandise mix penetration of loose tea, which could have a significant positive impact on gross margin.

Plausible Answer #5: Teavana's retail footprint is growing faster than the market for specialty tea.

We expect Teavana to benefit from growth in overall U.S. tea consumption, as well as outperformance of high-end specialty tea brands relative to mass brands typically sold through the food, drug, and mass channel. A number of industry groups project U.S. tea consumption to increase at an 8% to 12% CAGR over the next four to five years, and we believe the domestic tea market is still very much in the early stages of the "high-end-ification" that has characterized previously homogeneous categories ranging from prepared coffee to athletic apparel to cupcakes to headphones. Whereas these categories had few high-end, niche, or differentiated offerings widely available to consumers as recently as five or ten years ago, we believe it is now considered commonplace among America's upper-middle class to pay $4 for a latte from Starbucks, a $100 for a pair of lululemon yoga pants, $5 for a Crumbs cupcake, or $70 for a pair of Skullcandy headphones.

What do these product categories all have in common? They all target an end-use that has widespread demographic appeal, and high-end offerings in each of these categories can easily be marketed to or perceived by customers as having a strong value proposition, either because of a low average ticket and opening price point (i.e. SBUX, CRMB), or because of a low "dollars per use" ratio (i.e. LULU, SKUL). We believe that tea could be undergoing a similar transformation, with high-end specialty brands likely to substantially outpace the overall category growth rate for the foreseeable future. In addition to widespread demographic appeal, we believe Teavana can easily communicate its value proposition to upper-income customers who see themselves as savvy, cost-conscious consumers. After all, two ounces of Teavana's basic loose teas cost under $4, and one could reasonably expect a $200 cast iron teapot to last for decades and sustain hundreds (or even thousands) of uses.

According to the Tea Association of the USA, specialty tea consumption at the wholesale level has grown at a CAGR of 17% per year over the past decade. Assuming a solid finish to the year, Teavana's sales have grown at a compound annual rate of 37% since 2006 (FY07).

Exhibit 3

SPECIALTY U.S. TEA GROWTH OUTPACING TRADITIONAL FDM MARKET (IN BILLIONS)

U.S. TEA INDUSTRY: ESTIMATED WHOLESALE VALUE	1990	2010	CAGR%
Traditional Market (FDM)	$0.87	$2.15	9%
Ready-To-Drink Market	0.20	3.30	32%
Foodservice Market	0.50	1.02	7%
Specialty Segment	0.27	1.30	17%
TOTAL	$1.84	$7.77	15%

Source: Tea Association of the United States (teausa.com), Piper Jaffray & Co.

So while we expect the market for tea consumption to grow and the market for high-end tea specialty stores (dominated by Teavana) to grow, we surmise that Teavana's unit growth rate might be slightly ahead of high-end tea consumption. The good news is that they stand to nearly, solely benefit from the "catch up" of the market for high-end tea. In the meantime, and in concert with the potential, plausible reasons enumerated above, TEA's same-store sales metrics may optically continue to be price-driven versus transaction count-driven. And we're okay with this dynamic.

Un-modeled Opportunity: CPG Business

Our published EPS estimates for Teavana call for a CAGR of approximately 35% over the next three years--well above the growth rates for most of its specialty retail peers. However, we believe much of TEA's incremental value lies beyond the scope of our model, which is based only on the company's existing brick and mortar and e-commerce channels. Longer-term, we believe that Teavana could launch a viable consumer packaged goods (CPG) line, which would leverage the company's supply-chain capabilities and likely entail minimal incremental overhead expense.

We believe Teavana is a strong candidate for a CPG line for several reasons. As is the case with the brick and mortar specialty channel, the competitive landscape for high-end teas in the domestic CPG market is highly fragmented and the larger players primarily focus on tea bags instead of loose tea. Teavana's price points and brand positioning would make it a strong partner, in our opinion, for high-end grocery or natural foods stores. Furthermore, with Teavana on a trajectory to exceed $100 million in revenue from loose tea sales alone next year, we believe Teavana's scale and sourcing efficiencies would enable it to offer high-end grocery stores a branded wholesale CPG offering at favorable economics relative to the grocer pursuing a private label offering.

In the exhibit below, we have illustrated what we believe the potential impact of a CPG business could be for Teavana. Given the high merchandise margins Teavana enjoys on its loose teas, we believe that even after taking into account packaging and other variable product costs, Teavana would likely achieve very high product margins on a CPG line. We believe that Teavana could likely add $0.09 to EPS longer-term, depending on its ability to secure distribution to a sufficient number of doors. To be clear, these projections are not incorporated in our earnings model and are intended only to give a sense of the potential longer-term profitability potential of a CPG line.

Exhibit 4

CONSUMER PACKAGED GOODS EARNINGS POTENTIAL

	Year 1	Year 2	Longer-Term
Total Number of Doors	150	250	400
Net Sales	$ 3.938	$ 6.563	$ 10.500
Incremental Overhead	$ 2.000	$ 2.250	$ 2.500
Incremental EBIT	$ 1.094	$ 2.906	$ 5.750
EBIT Contribution Margin	27.8%	44.3%	54.8%
Incremental EPS	$ 0.02	$ 0.04	$ 0.09

Source: Piper Jaffray & Co.

Income Statement 1/4/2012
(Millions of Dollars, Except Per-Share Data)

	FY 2007	FY 2008	FY 2009	FY 2010	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
Net sales	33.760	47.200	63.860	90.260	25.770	22.980	24.750	51.200	124.700	34.939	31.313	33.426	65.613	165.291	45.362	38.690	41.114	83.329	208.495	261.811
% Change		*39.8%*	*35.3%*	*41.3%*	*43.2%*	*33.1%*	*32.4%*	*41.0%*	*38.2%*	*35.6%*	*36.3%*	*35.1%*	*28.2%*	*32.6%*	*29.8%*	*23.6%*	*23.0%*	*27.0%*	*26.1%*	*25.6%*
Cost of goods sold	15.930	19.970	27.190	36.430	10.020	9.460	10.240	16.560	46.280	12.451	12.186	12.749	21.849	59.235	15.922	15.515	16.404	27.498	75.340	93.529
% of Net sales	*47.2%*	*42.3%*	*42.6%*	*40.4%*	*38.9%*	*41.2%*	*41.4%*	*32.3%*	*37.1%*	*35.6%*	*38.9%*	*38.1%*	*33.3%*	*35.8%*	*35.1%*	*40.1%*	*39.9%*	*33.0%*	*36.1%*	*35.7%*
Gross profit	17.830	27.230	36.670	53.830	15.750	13.520	14.510	34.640	78.420	22.488	19.127	20.677	43.764	106.056	29.440	23.175	24.710	55.830	133.155	168.283
% Gross Margin	*52.8%*	*57.7%*	*57.4%*	*59.6%*	*61.1%*	*58.8%*	*58.6%*	*67.7%*	*62.9%*	*64.4%*	*61.1%*	*61.9%*	*66.7%*	*64.2%*	*64.9%*	*59.9%*	*60.1%*	*67.0%*	*63.9%*	*64.3%*
Selling, general, and administrative expenses	16.500	22.230	29.240	38.140	10.800	10.810	12.120	16.840	50.570	14.758	15.367	17.511	21.679	69.315	19.733	18.958	20.598	27.415	86.704	107.865
% of Net sales	*48.9%*	*47.1%*	*45.8%*	*42.3%*	*41.9%*	*47.0%*	*49.0%*	*32.9%*	*40.6%*	*42.2%*	*49.1%*	*52.4%*	*33.0%*	*41.9%*	*43.5%*	*49.0%*	*50.1%*	*32.9%*	*41.6%*	*41.2%*
EBITDA	1.330	5.000	7.430	15.690	4.950	2.710	2.390	17.800	27.850	7.730	3.760	3.166	22.085	36.741	9.707	4.217	4.111	28.415	46.451	60.418
EBITDA Margin	*3.9%*	*10.6%*	*11.6%*	*17.4%*	*19.2%*	*11.8%*	*9.7%*	*34.8%*	*22.3%*	*22.1%*	*12.0%*	*9.5%*	*33.7%*	*22.2%*	*21.4%*	*10.9%*	*10.0%*	*34.1%*	*22.3%*	*23.1%*
Depreciation & amortization	1.510	2.020	2.670	3.490	0.970	1.060	1.110	1.220	4.360	1.274	1.428	1.554	1.690	5.946	1.800	1.900	2.030	2.150	7.880	9.900
% of Net sales	*4.5%*	*4.3%*	*4.2%*	*3.9%*	*3.8%*	*4.6%*	*4.5%*	*2.4%*	*3.5%*	*3.6%*	*4.6%*	*4.6%*	*2.6%*	*3.6%*	*4.0%*	*4.9%*	*4.9%*	*2.6%*	*3.8%*	*3.8%*
Operating income	-0.180	2.980	4.760	12.200	3.980	1.650	1.280	16.580	23.490	6.456	2.332	1.612	20.395	30.795	7.907	2.317	2.081	26.265	38.571	50.518
% Operating Margin	*-0.5%*	*6.3%*	*7.5%*	*13.5%*	*15.4%*	*7.2%*	*5.2%*	*32.4%*	*18.8%*	*18.5%*	*7.4%*	*4.8%*	*31.1%*	*18.6%*	*17.4%*	*6.0%*	*5.1%*	*31.5%*	*18.5%*	*19.3%*
Interest expense	-1.270	-1.590	-2.060	-2.440	-0.620	-0.650	-0.690	-0.630	-2.590	-0.689	-0.742	-0.122	-0.060	-1.613	-0.060	-0.060	-0.060	-0.060	-0.240	-0.240
Pre-tax income	-1.450	1.390	2.700	9.760	3.360	1.000	0.590	15.950	20.900	5.767	1.590	1.490	20.335	29.182	7.847	2.257	2.021	26.205	38.331	50.278
Income Taxes	-0.100	1.010	1.500	4.470	1.430	0.430	0.250	6.800	8.910	2.444	0.559	0.554	8.338	11.895	3.123	0.898	0.805	10.430	15.256	20.011
Tax Rate	*6.9%*	*72.7%*	*55.6%*	*45.8%*	*42.6%*	*43.0%*	*42.4%*	*42.6%*	*42.6%*	*42.4%*	*35.2%*	*37.2%*	*41.0%*	*40.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*
Net income (GAAP)	-1.350	0.380	1.200	5.290	1.930	0.570	0.340	9.150	11.990	3.323	1.031	0.936	11.998	17.288	4.724	1.359	1.217	15.775	23.075	30.267
% Net Margin	*-4.0%*	*0.8%*	*1.9%*	*5.9%*	*7.5%*	*2.5%*	*1.4%*	*17.9%*	*9.6%*	*9.5%*	*3.3%*	*2.8%*	*18.3%*	*10.5%*	*10.4%*	*3.5%*	*3.0%*	*18.9%*	*11.1%*	*11.6%*
Net income per share (Basic)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.25	$ 0.33	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.46	$ 0.12	$ 0.03	$ 0.03	$ 0.41	$ 0.59	$ 0.78
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*77%*	*127%*	*72%*	*81%*	*165%*	*24%*	*41%*	*35%*	*25%*	*28%*	*31%*	*29%*	*31%*
Net income per share (Diluted)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.24	$ 0.32	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.45	$ 0.12	$ 0.04	$ 0.03	$ 0.41	$ 0.60	$ 0.79
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*75%*	*124%*	*71%*	*81%*	*167%*	*29%*	*42%*	*40%*	*30%*	*32%*	*31%*	*33%*	*31%*
Shares outstanding (Millions)																				
Basic	36.702	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.762	38.138	38.838	37.622	38.838	38.838	38.838	38.838	38.838	38.838
Diluted	36.702	36.751	37.095	37.322	37.472	37.725	37.725	37.725	37.725	37.729	37.802	38.965	38.315	38.203	38.315	38.315	38.315	38.315	38.315	38.315
Same-Store Sales (% Change)	**3.7%**	**8.4%**	**3.0%**	**6.9%**	**15.7%**	**6.9%**	**5.9%**	**7.5%**	**8.7%**	**6.0%**	**6.4%**	**6.0%**	**3.0%**	**5.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**

Notes:
Current disclosure information for this company can be found at http://www.piperjaffray.com/researchdisclosures.

STORE ECONOMICS

	FY 2007	FY 2008	FY 2009	FY 2010	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
NET SALES																				
Stores				$ 85.025					$ 115.800											
% Change, year-over-year									*36.2%*											
E-Commerce				$ 5.235					$ 8.900											
% Change, year-over-year									*70.0%*											
% of total sales				*5.8%*					*7.0%*											
Total net sales	**$ 33.760**	**$ 47.200**	**$ 63.860**	**$ 90.260**	**$ 25.770**	**$ 22.980**	**$ 24.750**	**$ 51.200**	**$ 124.700**	**$ 34.939**	**$ 31.313**	**$ 33.426**	**$ 65.613**	**$ 165.291**	**$ 45.362**	**$ 38.690**	**$ 41.114**	**$ 83.329**	**$ 208.495**	**$ 261.811**
% Change, year-over-year		*39.8%*	*35.3%*	*41.3%*	*43.2%*	*33.1%*	*32.4%*	*41.0%*	*38.2%*	*35.6%*	*36.3%*	*35.1%*	*28.2%*	*32.6%*	*29.8%*	*23.6%*	*23.0%*	*27.0%*	*26.1%*	*25.6%*
% CHANGE SAME-STORE SALES	***3.7%***	***8.4%***	***3.0%***	***6.9%***	***15.7%***	***6.9%***	***5.9%***	***7.5%***	***8.7%***	***6.0%***	***6.4%***	***6.0%***	***3.0%***	***5.4%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***
NUMBER OF STORES	47	59	87	108	118	128	141	146	146	161	179	196	200	200	215	225	245	260	260	330
% Change, year-over-year		*25.5%*	*47.5%*	*24.1%*	*28.3%*	*26.7%*	*31.8%*	*35.2%*	*35.2%*	*36.4%*	*39.8%*	*39.0%*	*37.0%*	*37.0%*	*33.5%*	*25.7%*	*25.0%*	*30.0%*	*30.0%*	*26.9%*
Average number of stores (T4Q)																				
GROSS SQUARE FEET (Mil.)	43	54	77	95					130											
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*											
Average Square Footage (T4Q)																				

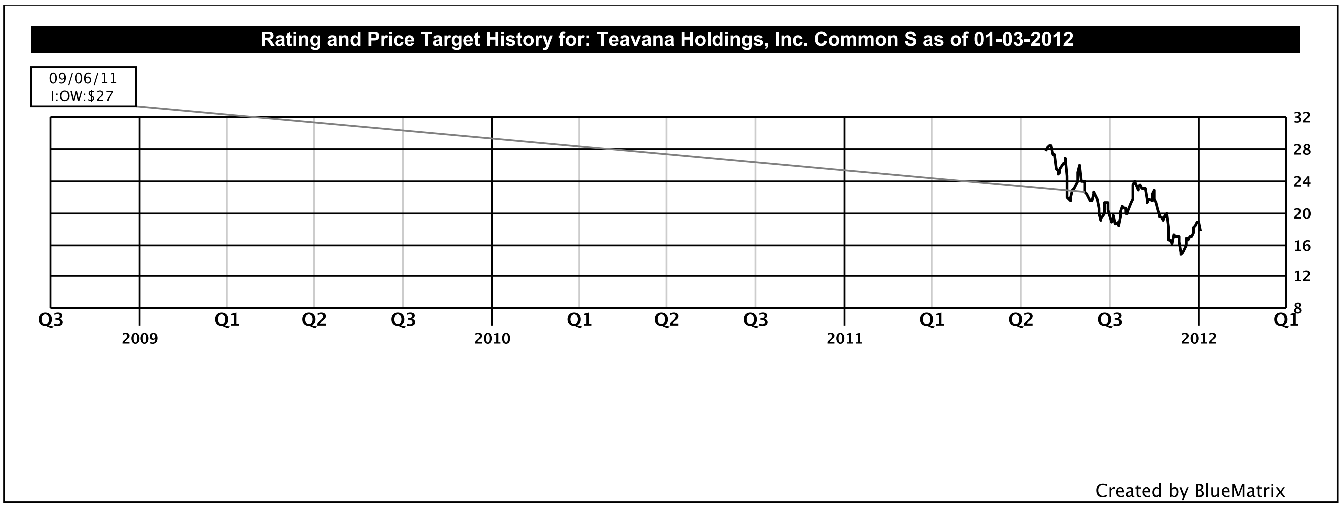
Consolidated Balance Sheet
(Millions of Dollars)

	FY 2010	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11
CURRENT ASSETS:									
Cash and cash equivalents	$1.314				$7.901	$7.901	$3.740	$1.623	$0.036
Accounts reveivable	0.284				0.292	0.292			
Prepaid expenses and other assets	1.003				2.041	2.041			4.082
Prepaid rent	1.061				1.400	1.400			
Inventory	11.615			18.000	16.928	16.928	18.286	22.720	32.512
Deferred tax asset and other	0.772				1.629	1.629	5.827	11.647	8.106
Total current assets	**16.049**	**0.000**	**0.000**	**18.000**	**30.191**	**30.191**	**27.853**	**35.990**	**44.736**
Property & equipment, net	22.513				31.028	31.028	34.795	38.000	40.669
Goodwill	2.394				2.394	2.394	2.394	2.394	2.394
Deferred tax asset, non-curret	0.184				0.000	-			
Other non-current assets	0.627				0.513	0.513	0.760	0.693	0.673
Total assets	**$41.767**	**$0.000**	**$0.000**	**$18.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**	**$88.472**
CURRENT LIABILITIES									
Accounts payable	$2.564				$3.631	$3.631	$2.112	$5.751	$6.770
Income taxes payable	$3.994				4.809	$4.809			
Deferred revenue	$1.083				1.344	$1.344			
Note payable	$0.250				-	$0.000			
Series A redeemable preferred stock	$0.000				12.992	$12.992	13.591	14.217	
Other current liabilities	$3.395				5.539	$5.539	9.659	6.865	8.116
Total current liabilities	**11.286**	**$0.000**	**$0.000**	**$0.000**	**$28.315**	**28.315**	**$25.362**	**$26.833**	**$14.886**
Deferred franchise income	0.600				0.525	0.525			
Deferred tax liability, non-current	-				0.420	0.420			2.547
Deferred rent	3.851				7.524	7.524	8.943	11.139	12.134
Long-term debt	1.000				1.000	1.000	1.000	5.359	4.501
Series A redeemable preferred stock	10.848				-	-			
Other long-term liabilities							0.870	2.997	0.575
Total liabilities	**27.585**	**0.000**	**0.000**	**0.000**	**37.784**	**37.784**	**36.175**	**46.328**	**34.643**
Stockholders' equity (deficit)									
Total stockholders' equity (deficit)	**14.182**				**26.342**	**26.342**	**29.627**	**30.749**	**53.829**
Total liabilities and stockholders' equity	**$41.767**	**$0.000**	**$0.000**	**$0.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**	**$88.472**

Condensed Statement of Cash Flows
(Millions of Dollars)

	FY 2010	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	FY 2011	Q1 Apr-11	Q2 Jul-11
Operating activities:								
Net Income	**$5.291**	**$1.927**	**$2.506**		**$12.003**	**$12.003**	**$3.323**	**$4.354**
Adjustments to reconcile net income to net cash:	0.000							
Depreciation and amortization	3.489	0.973	2.033		4.361	4.361	1.274	2.703
Non-cash interest expense	1.925	0.570	1.140		2.279	2.279	0.633	1.282
Deferred income taxes	0.532				(0.253)	(0.253)		
Stock based compensation	0.169	0.034	0.068		0.157	0.157	0.037	0.063
Other		-			0.130	0.130	0.140	0.099
Change in assets and liabilities:								
Inventory	(3.646)	(0.571)	(0.875)		(5.313)	(5.313)	(1.359)	(5.792)
Other current assets	(0.230)	0.181	0.021		(1.452)	(1.452)	(0.081)	(5.874)
Income taxes payable	2.772	(4.205)	(5.973)		0.815	0.815	(2.696)	(4.809)
Deferred rent	1.124	0.457	0.996		3.673	3.673	1.419	3.615
Accounts payable			(0.524)					1.164
Other current assets			0.130					1.866
Other accrued liabilities	(0.355)	0.305	(0.209)		2.997	2.997	(1.548)	1.018
Net cash (used in) provided by operating activities	**11.071**	**(0.329)**	**(0.687)**	**-**	**19.397**	**19.397**	**1.142**	**(0.311)**
Investing activities:								
Capital Expenditures	(6.640)	(2.346)	(5.038)		(12.560)	(12.560)	(5.056)	(8.848)
Net cash used in investing activities	**(6.640)**	**(2.346)**	**(5.038)**	**-**	**(12.560)**	**(12.560)**	**(5.056)**	**(8.848)**
	0.000							
Financing activities:	0.000							
Proceeds from revolving credit facility	93.980	29.815	56.489		132.239	132.239	35.510	74.338
Payments on revolving credit facility	(98.265)	(27.303)	(52.078)		(132.239)	(132.239)	(35.510)	(69.979)
Payment on note payable					(0.250)	(0.250)		
Payments on term loan								
Cash paid for financing costs								(0.433)
Payment of initial public offering costs		-					(0.247)	(1.110)
Other								0.065
Net cash used in financing activities	**(4.285)**	**2.512**	**4.411**		**(0.250)**	**(0.250)**	**(0.247)**	**2.881**
Net increase (decrease) in cash and cash equivalent	0.146	(0.163)	(1.314)		6.587	6.587	(4.161)	(6.278)
Cash and cash equivalents, beginning of period	1.168	1.314	1.314		1.314	1.314	7.901	7.901
Cash and cash equivalents, end of period	**$1.314**	**$1.151**	**($0.000)**		**$7.901**	**$7.901**	**$3.740**	**$1.623**

Important Research Disclosures



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

Legend:

I: Initiating Coverage

R: Resuming Coverage

T: Transferring Coverage

D: Discontinuing Coverage

S: Suspending Coverage

OW: Overweight

N: Neutral

UW: Underweight

B: Buy (Piper Jaffray discontinued use of the B, N, and S ratings on June 30, 2009)

N: Neutral

S: Sell

AL On/AL Off: Placed on/removed from the Alpha List maintained by Piper Jaffray (AL use discontinued March 2010)

NA: Not Available

UR: Under Review

Distribution of Ratings/IB Services
Piper Jaffray

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	346	53.80	61	17.63
HOLD [N]	262	40.70	22	8.40
SELL [UW]	35	5.40	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

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Other Important Information