MICHAELS STORES INC
Form 10-Q
November 23, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 30, 2010

OR

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 001-09338

MICHAELS STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**75-1943604**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

8000 Bent Branch Drive

Irving, Texas 75063

(Address of principal executive offices, including zip code)

(972) 409-1300

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.* Yes o No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). * Yes o 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.

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

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

As of November 19, 2010, 118,929,218 shares of the Registrant s Common Stock were outstanding.

*The Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, but is not required to file such reports under such sections.

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MICHAELS STORES, INC.

Part I FINANCIAL INFORMATION

Item 1. Financial Statements.

MICHAELS STORES, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	October 30, 2010	January 30, 2010	October 31, 2009
ASSETS			
Current assets:			
Cash and equivalents	$ 115	$ 217	$ 49
Merchandise inventories	1,004	873	1,039
Prepaid expenses and other	78	72	83
Deferred income taxes	41	45	41
Income tax receivable	48		12
Total current assets	1,286	1,207	1,224
Property and equipment, at cost	1,304	1,257	1,236
Less accumulated depreciation	(1,002)	(940)	(911)
Property and equipment, net	302	317	325
Goodwill	95	94	94
Debt issuance costs, net of accumulated amortization of $57, $56, and $52, respectively	78	70	73
Deferred income taxes	8	1	16
Other assets	7	21	28
Total non-current assets	188	186	211
Total assets	$ 1,776	$ 1,710	$ 1,760
LIABILITIES AND STOCKHOLDERS DEFICIT			
Current liabilities:			
Accounts payable	$ 324	$ 231	$ 274
Accrued liabilities and other	361	355	353
Current portion of long-term debt	1	119	139
Income taxes payable	2	11	1
Current liabilities - discontinued operations		1	1
Total current liabilities	688	717	768
Long-term debt	3,764	3,684	3,772
Deferred income taxes	2		
Other long-term liabilities	86	80	78
Long-term liabilities - discontinued operations			1
Total long-term liabilities	3,852	3,764	3,851

Total liabilities		4,540		4,481		4,619
Commitments and contingencies						
Stockholders deficit:						
Common Stock, $0.10 par value, 220,000,000 shares authorized; 118,419,850 shares issued and outstanding at October 30, 2010; 118,387,229 shares issued and outstanding at January 30, 2010; 118,387,229 shares issued and outstanding at October 31, 2009		12		12		12
Additional paid-in capital		41		35		34
Accumulated deficit		(2,824)		(2,824)		(2,911)
Accumulated other comprehensive income		7		6		6
Total stockholders deficit		(2,764)		(2,771)		(2,859)
Total liabilities and stockholders deficit	$	1,776	$	1,710	$	1,760

See accompanying notes to consolidated financial statements.

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MICHAELS STORES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Net sales	$ 968	$ 929	$ 2,700	$ 2,588
Cost of sales and occupancy expense	592	582	1,659	1,640
Gross profit	376	347	1,041	948
Selling, general, and administrative expense	269	259	747	737
Related party expenses	3	4	10	11
Store pre-opening costs	2		3	2
Operating income	102	84	281	198
Interest expense	69	62	207	187
Loss on early extinguishment of debt	53		53	
Other (income) and expense, net	1	(1)	12	(21)
(Loss) income before income taxes	(21)	23	9	32
(Benefit) provision for income taxes	(9)	8	9	11
Net (loss) income	$ (12)	$ 15	$	$ 21

See accompanying notes to consolidated financial statements.

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MICHAELS STORES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Operating activities:		
Net income	$	$ 21
Adjustments:		
Depreciation and amortization	77	86
Share-based compensation	6	6
Debt issuance costs amortization	14	13
Accretion of subordinated discount notes	37	33
Change in fair value of interest rate cap	15	(16)
Loss on early extinguishment of debt	53	
Changes in assets and liabilities:		
Merchandise inventories	(131)	(133)
Prepaid expenses and other	(6)	(14)
Deferred income taxes and other	(1)	(12)
Accounts payable	97	54
Accrued interest	(9)	33
Accrued liabilities and other	18	42
Income taxes receivable, net	(57)	(11)
Other long-term liabilities	2	4
Net cash provided by operating activities	115	106
Investing activities:		
Business acquisition	(2)	
Additions to property and equipment	(61)	(26)
Net cash used in investing activities	(63)	(26)
Financing activities:		
Issuance of senior notes due 2018	794	
Repayments on senior notes due 2014	(791)	
Repayments on senior secured term loan facility	(118)	(18)
Borrowings on asset-based revolving credit facility	13	621
Payments on asset-based revolving credit facility	(13)	(655)
Payment of debt issuance costs	(34)	
Change in cash overdraft	(4)	(12)
Other	(1)	
Net cash used in financing activities	(154)	(64)
(Decrease) increase in cash and equivalents	(102)	16
Cash and equivalents at beginning of period	217	33
Cash and equivalents at end of period	$ 115	$ 49
Supplemental Cash Flow Information:		
Cash paid for interest.	$ 164	$ 109

Cash paid for income taxes	$	64	$	22
Non-cash investing activity:				
Contingent consideration liability	$	4	$	

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended October 30, 2010

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Michaels Stores, Inc. and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. All expressions of the Company , us, we, our, and all similar expressions are references to Michaels Stores, Inc. and our consolidated, wholly-owned subsidiaries, unless otherwise expressly stated or the context otherwise requires.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

The balance sheet at January 30, 2010 has been derived from the audited financial statements at that date but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

In the opinion of management, all adjustments (consisting of normal recurring accruals and other items, as disclosed) considered necessary for a fair presentation have been included.

Because of the seasonal nature of our business, the results of operations for the three and nine months ended October 30, 2010 are not indicative of the results to be expected for the entire year.

We report on the basis of a 52 or 53-week fiscal year, which ends on the Saturday closest to January 31. All references herein to fiscal 2010 relate to the 52 weeks ending January 29, 2011, and all references to fiscal 2009 relate to the 52 weeks ended January 30, 2010. In addition, all references herein to the third quarter of fiscal 2010 relate to the 13 weeks ended October 30, 2010 and all references to the third quarter of fiscal

2009 relate to the 13 weeks ended October 31, 2009. Finally, all references to the nine months ended October 30, 2010 relate to the 39 weeks ended October 30, 2010, and the nine months ended October 31, 2009 relate to the 39 weeks ended October 31, 2009.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures About Fair Value Measurements* an amendment to Accounting Standards Codification (ASC) topic 820, *Fair Value Measurements and Disclosures.* ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) separately disclosing the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describing the reasons for the transfers and (ii) presenting separate information for Level 3 activity pertaining to gross purchases, sales, issuances, and settlements. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010. We adopted all requirements of ASU 2010-06 related to significant transfers in and out of Level 1 and Level 2 fair value measurements on January 31, 2010, with no material impact on our consolidated financial statements. See Note 6 for further information regarding fair value measurements. We will adopt the new disclosure requirements related to the Level 3 activity on January 30, 2011, with no material impact expected on our consolidated financial statements.

Note 2. Share-Based Compensation

The 2006 Equity Incentive Plan (2006 Plan) provides for the grant of share-based awards exercisable for up to 14.2 million shares of Common Stock. As of October 30, 2010, there were 9.9 million stock option awards outstanding. In addition, there were a total of 619,483 shares of restricted stock outstanding under the 2006 Plan, of which 110,115 are vested. 3.7 million shares of Common Stock remain available for grant under the 2006 Plan. The table below sets forth a summary of stock option activity:

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	Nine Months Ended October 30, 2010 (in millions)
Outstanding at beginning of period	9.5
Grants	1.3
Canceled/Forfeited	(0.9)
Outstanding at end of period	9.9

Generally, awards granted under the 2006 Plan vest ratably over five years and expire eight years from the grant date. The exercise prices of the options range from $7.50 per share to $22.50 per share, as determined by the Board of Directors. Share-based compensation expense associated with the stock options and the restricted stock was approximately $2 million for the third quarter of each of fiscal 2010 and fiscal 2009, and $6 million during each of the nine months ended October 30, 2010 and October 31, 2009.

Note 3. Debt

Our outstanding debt is detailed in the table below. We were in compliance with the terms and conditions of all debt agreements for all periods presented.

	October 30, 2010	January 30, 2010 (in millions)	October 31, 2009
Senior secured term loan	$ 2,156	$ 2,274	$ 2,280
Senior notes	794	750	750
Senior subordinated notes	400	400	400
Subordinated discount notes	414	377	365
Asset-based revolving credit facility			114
Other	1	2	2
Total debt	3,765	3,803	3,911
Less current portion	1	119	139
Long-term debt	$ 3,764	$ 3,684	$ 3,772

10% Senior Notes due 2014

On October 6, 2010, we commenced a tender offer and consent solicitation related to our 10% Senior Notes due 2014 (2014 Senior Notes). Pursuant to the consent solicitation, we received tenders and consents from the holders of $658,593,000, or approximately 87.81%, of the 2014 Senior Notes before the consent payment deadline, October 20, 2010, at 5:00 p.m. Eastern time (the Consent Date). The consents received exceeded the number needed to approve the proposed amendments to the indenture governing the 2014 Senior Notes (the 2014 Senior Indenture). The amendments to the 2014 Senior Indenture eliminated substantially all of the affirmative and restrictive covenants contained in the 2014 Senior Indenture and the 2014 Senior Notes (other than, among other covenants, the covenant to pay interest and premium, if any, on, and principal of, the 2014 Senior Notes when due) and certain events of default, and modified or eliminated certain other provisions contained in the 2014 Senior Indenture and the 2014 Senior Notes.

Pursuant to the terms of the tender offer, we accepted for payment all 2014 Senior Notes tendered on or prior to the Consent Date, and holders who tendered such 2014 Senior Notes received $1,055.00 per $1,000 in principal amount of the 2014 Senior Notes validly tendered. On October 21, 2010, we also (i) instructed the trustee under the 2014 Senior Indenture (the 2014 Senior Notes Trustee) to deliver a notice of redemption to the holders of the remaining outstanding 2014 Senior Notes and (ii) deposited cash with the 2014 Senior Notes Trustee to satisfy and discharge the 2014 Senior Indenture and to fund the redemption of the remaining outstanding 2014 Senior Notes at a price equal to 105% plus the payment of accrued interest through the date of redemption, November 22, 2010. As a result, the 2014 Senior Indenture was discharged.

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In accordance with ASC 470, *Debt*, we recorded a loss of $53 million related to the early extinguishment of our 2014 Senior Notes. The $53 million loss is comprised of $41 million tender and call premiums and the write-off of $12 million for the remaining unamortized debt issuance costs.

7 ¾% Senior Notes due 2018

On October 21, 2010, we issued $800.0 million aggregate principal amount of 7 ¾% Senior Notes that mature on November 1, 2018 (the 2018 Senior Notes) and were sold at a discounted price of 99.262% of face value. The 2018 Senior Notes are guaranteed, jointly and severally, on an unsecured senior basis, by each of our subsidiaries that guarantee indebtedness under our amended and restated senior secured asset-based revolving facility and senior secured term loan facility (the Senior Secured Credit Facilities).

The 2018 Senior Notes and the guarantees thereof are our and the guarantors unsecured senior obligations and rank senior in right of payment to all of our and the guarantors existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the 2018 Senior Notes (including the senior subordinated notes due 2016 and the subordinated discount notes due 2016, as described in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010); rank equally in right of payment to all of our and the guarantors existing and future debt and other obligations that are not, by their terms, expressly subordinated in right of payment to the 2018 Senior Notes; and are effectively subordinated in right of payment to all of our and the guarantors existing and future secured debt (including obligations under the Senior Secured Credit Facilities), to the extent of the value of the assets securing such debt, and are structurally subordinated to all obligations of our subsidiaries that are not guarantors of the 2018 Senior Notes.

At any time prior to November 1, 2014, we may redeem all or a part of the 2018 Senior Notes at a redemption price equal to 100% of the principal amount of the 2018 Senior Notes redeemed plus the Applicable Premium (as defined in the indenture governing the 2018 Senior Notes (the 2018 Senior Indenture)) and accrued and unpaid interest and Additional Interest (as defined in the 2018 Senior Indenture), if any, to the date of redemption, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date.

On and after November 1, 2014, the Company may redeem the 2018 Senior Notes, in whole or in part, upon notice, at the redemption prices (expressed as percentages of principal amount of the 2018 Senior Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon and Additional Interest, if any, to the applicable date of redemption if redeemed during the twelve-month period beginning on November 1 of each of the years indicated below:

Year	**Percentage**
2014	103.875%
2015	101.938%
2016 and thereafter	100.000%

In addition, until November 1, 2013 we may, at our option, on one or more occasions redeem up to 35% of the aggregate principal amount of the 2018 Senior Notes (including the aggregate principal amount of the 2018 Senior Notes issued after the issue date) at a redemption price equal to 107.750% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon and Additional Interest, if any, to the applicable date of redemption, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds of one or more Equity Offerings (as defined in the 2018 Senior Indenture); *provided* that at least 50% of the sum of the aggregate principal amount of the 2018 Senior Notes originally issued under the 2018 Senior Indenture and any 2018 Senior Notes that are issued under the 2018 Senior Indenture after the issue date remains outstanding immediately after the occurrence of each such redemption; *provided further* that each such redemption occurs within 90 days of the date of closing of each such Equity Offering.

Upon a change in control we are required to offer to purchase all of the 2018 Senior Notes at a price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest.

The 2018 Senior Notes Indenture contains covenants limiting, among other things, the Company s ability and the ability of the Company s restricted subsidiaries to:

- incur additional debt;
- pay dividends or distributions on the Company s capital stock or repurchase the Company s capital stock;
- issue stock of subsidiaries;

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- make certain investments;
- create liens on the Company s assets to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- sell or otherwise transfer assets.

The 2018 Senior Indenture also provides for events of default, which, if certain of them occur, would permit the trustee under the 2018 Senior Indenture or holders of at least 25% in principal amount of the then outstanding 2018 Senior Notes to declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding 2018 Senior Notes to be due and payable immediately.

In accordance with ASC 470, we recorded $15 million in debt issuance costs that will be amortized as interest expense over the life of the 2018 Senior Notes.

Asset-based revolving credit facility

On February 18, 2010, we entered into an agreement to amend and restate various terms of the then existing asset-based revolving credit facility dated as of October 31, 2006 (the Amended Asset-based revolving credit facility).

The Amended Asset-based revolving credit facility extended an aggregate amount of $850 million of the tranche A commitments and $50 million of the FILO (as defined below) commitments, with respect to certain lenders (the Extending Lenders), from October 31, 2011 to the earlier of April 15, 2014, or 45 days prior to the maturity date of any class of term loans in the Company s senior secured term loan facility (the Extended Maturity Date). The remaining $202 million of commitments from the other lenders under the existing asset-based revolving credit facility (the Non-Extending Lenders) shall terminate on October 31, 2011. Simultaneously with entering into the Amended Asset-based revolving credit facility, the Company exercised its ability to increase tranche A commitments in the aggregate amount of $152 million.

On October 1, 2010, we elected to permanently terminate the $202 million of commitments from the Non-Extending Lenders. The $850 million of the tranche A commitments and $50 million of the FILO commitments remain unaffected.

The borrowing base on the Amended Asset-based revolving credit facility equals the sum of (i) 90% of eligible credit card receivables and debit card receivables; (ii) between 85% and 87.5% of the appraised net orderly liquidation value of eligible inventory and of eligible letters of credit; (iii) a percentage of eligible in-transit inventory, less certain reserves; and (iv) the sum of an additional 5% of the appraised net orderly liquidation value of eligible inventory and of eligible letters of credit plus an additional 5% of eligible credit card receivables and debit card receivables under a last out tranche (the first in last out tranche FILO).

The Amended Asset-based revolving credit facility provides us with the right to request up to $200 million of additional commitments under this facility, of which $48 million remains available, prior to October 31, 2011. The lenders under this facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to customary conditions precedent. If we were to request any such additional commitments, and the existing lenders or new lenders were to agree to provide such commitments on or after October 31, 2011, the tranche A commitments under the Amended Asset-based revolving credit facility could be increased to up to $1.2 billion less the FILO commitments. However, our ability to borrow under this facility would still be limited by the amount of the borrowing base.

Borrowings under the Amended Asset-based revolving credit facility bear interest at a rate per annum equal to, at our option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR rate subject to certain adjustments plus 1.00% or (b) a LIBOR rate subject to certain adjustments, in each case plus an applicable margin. The initial applicable margin is (a) 2.50% for non-FILO base rate borrowings and 3.50% for non-FILO LIBOR borrowings and (b) 4.50% for FILO base rate borrowings and 5.50% for FILO LIBOR borrowings. The applicable margin is subject to adjustment each fiscal quarter based on the excess availability under the Amended Asset-based revolving credit facility. Same-day borrowings bear interest at a rate per annum equal to a base rate determined by reference to the highest of (a) the prime rate of Bank of America, N.A., (b) the federal funds effective rate plus 0.50% and (c) a LIBOR rate subject to certain adjustments plus 1.00%, in each case, plus an applicable margin. The initial applicable margin with respect to same-day borrowings is 2.50%.

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We are required to pay a commitment fee of 0.625% per annum on the unutilized commitments under the Amended Asset-based revolving credit facility. We must also pay customary letter of credit fees and agency fees.

If, at any time, the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the Amended Asset-based revolving credit facility exceeds the lesser of (i) the commitment amount or (ii) the borrowing base, we will be required to repay outstanding loans and cash collateralize letters of credit in an aggregate amount equal to such excess, with no reduction of the commitment amount. If the amount available under the Amended Asset-based revolving credit facility is less than $75 million at any time, or for five consecutive business days is less than the greater of $100 million and 15% of the lesser of the (i) then borrowing base and (ii) Revolving Credit Ceiling (as defined below), or if certain events of default have occurred, we will be required to repay outstanding loans and cash collateralize letters of credit with the cash we are required to deposit daily in a collection account maintained with the agent under the Amended Asset-based revolving credit facility. We may voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans at any time without premium or penalty other than customary breakage costs with respect to LIBOR loans. There is no scheduled amortization under the Amended Asset-based revolving credit facility; the principal amount of the loans outstanding is due and payable in full on the Extended Maturity Date.

We must not permit excess availability at any time to be less than the greater of (a) $75 million and (b) 10% of the lesser of (1) the then borrowing base under the Amended Asset-based revolving credit facility or (2) $900 million (as reduced or increased in accordance with the terms of the Amended Asset-based credit facility, the Revolving Credit Ceiling). In addition, (a) for the period of thirty consecutive days preceding our termination of the tranche A commitments of the Non-Extending Lenders and (b) on a projected pro forma basis, giving effect to such termination of commitments, for the six-month period following such termination of commitments, we must not permit excess availability at any time to be less than $125 million. Excess availability under the Amended Asset-based revolving credit facility means the lesser of (a) the Revolving Credit Ceiling minus the outstanding credit extensions and (b) the then borrowing base minus the outstanding credit extensions.

Although the Amended Asset-based revolving credit facility does not require us to comply with any financial ratio maintenance covenants, it does contain a number of covenants that, among other things and subject to certain exceptions, restrict the Company s ability and the ability of its subsidiaries to:

- incur additional indebtedness;
- pay dividends on the Company s capital stock or redeem, repurchase or retire the Company s capital stock or its other indebtedness;
- make investments, loans, advances and acquisitions;
- create restrictions on the payment of dividends or other amounts to the Company from its restricted subsidiaries;
- engage in transactions with affiliates of the Company;
- sell assets, including capital stock of the Company s subsidiaries;
- consolidate or merge; and
- create liens.

The covenants limiting dividends and other restricted payments; investments, loans, advances and acquisitions; and prepayments or redemptions of indebtedness, each permit the restricted actions in an unlimited amount, subject to the satisfaction of certain payment conditions, principally that we must meet certain specified excess availability requirements and minimum consolidated fixed charge coverage ratios, to be tested on a pro forma and 12 months projected basis. Adjusted EBITDA is used in the calculation of the consolidated fixed charge coverage ratios. The Amended Asset-based revolving credit facility also contains certain customary affirmative covenants and events of default.

In the first quarter of fiscal 2010, we recorded $19 million in debt issuance costs related to the amendment to the asset-based revolving credit facility that is being amortized as interest expense over the life of the Amended Asset-based revolving credit facility in accordance with ASC 470. In addition, we are amortizing $5 million of the unamortized debt issuance costs related to the asset-based revolving credit facility over the revised life.

As of October 30, 2010, the borrowing base was $845 million, of which we had no outstanding borrowings, $50 million of outstanding letters of credit, and $795 million of excess availability.

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Note 4. Comprehensive (Loss) Income

Our comprehensive (loss) income, net of related tax, is as follows:

	Quarter Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
	(in millions)			
Net (loss) income	$ (12)	$ 15	$	$ 21
Other comprehensive (loss) income:				
Derivative loss		(1)		(4)
Foreign currency translation adjustment and other			1	5
Comprehensive (loss) income	$ (12)	$ 14	$ 1	$ 22

Accumulated other comprehensive (loss) income, net of tax, is reflected in the Consolidated Balance Sheets as follows:

(in millions)	Foreign Currency Translation and Other
Balance at January 30, 2010	$ 6
Foreign currency translation adjustment	1
Balance at October 30, 2010	$ 7

Note 5. Derivative Instruments

We are exposed to fluctuations in interest rates on our Senior secured term loan. During the first quarter of fiscal 2009, we purchased an interest rate derivative with the objective to cap our exposure to interest rate increases on our Senior secured term loan that result from fluctuations in the three-month LIBOR rate. The cap limits our interest exposure on a notional value of $2.0 billion to the lesser of the three-month LIBOR rate or 7.0%. The term of the cap extends to the first quarter of fiscal 2015. The interest rate cap does not qualify for hedge accounting under ASC 815, *Derivatives and Hedging*. The fair value of the cap as of October 30, 2010, January 30, 2010 and October 31, 2009 was $3 million, $18 million and $25 million, respectively, and is included in Other assets on the Consolidated Balance Sheets. The change in fair value of the cap for the quarter and nine months ended October 30, 2010, resulted in a loss of $2 million and $15 million, respectively. The change in fair value of the cap for the quarter and nine months ended October 31, 2009, resulted in a gain of $1 million and $16 million, respectively. These amounts are recorded in Other (income) and expense, net in the Consolidated Statements of Operations.

Note 6. Fair Value Measurements

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level valuation hierarchy for fair value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 Quoted prices for *identical* instruments in active markets;
- Level 2 Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and
- Level 3 Instruments whose significant inputs are *unobservable.*

The following table presents net financial assets (liabilities) accounted for at fair value on a recurring basis as of October 30, 2010 (in millions):

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	Level 1	Level 2	Level 3	Total
Interest rate cap	$	$ 3	$	