

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended October 29, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-14970

**COST PLUS, INC.**

(Exact name of registrant as specified in its charter)

**California**  
(State or other jurisdiction of  
incorporation or organization)

**94-1067973**  
(I.R.S. Employer  
Identification No.)

**200 4th Street, Oakland, California**  
(Address of principal executive offices)

**94607**  
(Zip Code)

**Registrant's telephone number, including area code (510) 893-7300**

(Former name, former address and former fiscal year, if changed since last report)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of December 7, 2011, the number of shares of the registrant's Common Stock, \$0.01 par value, outstanding was 22,373,163.

**COST PLUS, INC.**  
**FORM 10-Q**  
**For the Quarter Ended October 29, 2011**  
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**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**COST PLUS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share amounts, unaudited)**

	<u>October 29, 2011</u>	<u>January 29, 2011</u>	<u>October 30, 2010</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,930	\$ 2,691	\$ 2,962
Merchandise inventories, net	255,875	181,853	249,725
Other current assets	<u>15,047</u>	<u>12,420</u>	<u>14,741</u>
Total current assets	273,852	196,964	267,428
Property and equipment, net	137,618	145,678	149,845
Other assets, net	<u>5,412</u>	<u>6,007</u>	<u>3,746</u>
<b>Total assets</b>	<b><u>\$ 416,882</u></b>	<b><u>\$ 348,649</u></b>	<b><u>\$ 421,019</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 98,028	\$ 55,822	\$ 82,393
Accrued compensation	17,830	17,516	17,632
Revolving line of credit and term loan	77,000	25,400	0
Accrued store closure and lease exit costs	3,719	6,575	7,103
Current portion of distribution center sale-leaseback obligations	914	885	886
Other current liabilities	<u>19,379</u>	<u>20,788</u>	<u>19,499</u>
Total current liabilities	216,870	126,986	127,513
Revolving line of credit	0	0	99,800
Capital lease obligations	5,442	6,029	6,256
Long-term distribution center sale-leaseback obligations	111,157	111,847	112,070
Other long-term obligations	22,448	25,422	25,893
Commitments and contingencies			
Shareholders' equity:			
Preferred stock, \$.01 par value: 5,000,000 shares authorized; none issued and outstanding	0	0	0
Common stock, \$.01 par value: 67,500,000 shares authorized; issued and outstanding 22,363,553; 22,087,113 and 22,087,113 shares	224	221	221
Additional paid-in capital	175,369	172,768	172,389
Accumulated deficit	<u>(114,628)</u>	<u>(94,624)</u>	<u>(123,123)</u>
Total shareholders' equity	60,965	78,365	49,487
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 416,882</u></b>	<b><u>\$ 348,649</u></b>	<b><u>\$ 421,019</u></b>

See notes to condensed consolidated financial statements.

**COST PLUS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts, unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Net sales	\$ 201,862	\$ 194,569	\$ 599,521	\$ 575,001
Cost of sales and occupancy	139,726	134,789	414,976	397,020
Gross profit	62,136	59,780	184,545	177,981
Selling, general and administrative expenses	67,282	64,407	195,034	190,763
Store closure costs/(income)	202	43	(186)	2,695
Store preopening expenses	176	142	176	248
Loss from continuing operations, before interest and taxes	(5,524)	(4,812)	(10,479)	(15,725)
Net interest expense	3,339	2,774	9,643	8,215
Loss from continuing operations before income taxes	(8,863)	(7,586)	(20,122)	(23,940)
Income tax (benefit)/expense	(617)	(189)	(1,079)	161
Net loss from continuing operations	(8,246)	(7,397)	(19,043)	(24,101)
Loss from discontinued operations	(345)	(948)	(960)	(1,538)
Net loss	<u>\$ (8,591)</u>	<u>\$ (8,345)</u>	<u>\$ (20,003)</u>	<u>\$ (25,639)</u>
Net loss per weighted-average share:				
Continuing operations				
Basic	\$ (0.37)	\$ (0.34)	\$ (0.86)	\$ (1.09)
Diluted	\$ (0.37)	\$ (0.34)	\$ (0.86)	\$ (1.09)
Discontinued operations				
Basic	\$ (0.02)	\$ (0.04)	\$ (0.04)	\$ (0.07)
Diluted	\$ (0.02)	\$ (0.04)	\$ (0.04)	\$ (0.07)
Total				
Basic	\$ (0.39)	\$ (0.38)	\$ (0.90)	\$ (1.16)
Diluted	\$ (0.39)	\$ (0.38)	\$ (0.90)	\$ (1.16)
Weighted-average shares outstanding:				
Basic	22,333	22,087	22,226	22,087
Diluted	22,333	22,087	22,226	22,087

See notes to condensed consolidated financial statements.

**COST PLUS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands, unaudited)

	Nine Months Ended	
	October 29, 2011	October 30, 2010
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (20,003)	\$ (25,639)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14,547	17,641
Share-based compensation expense	2,060	1,084
Loss on asset disposal	281	83
Changes in assets and liabilities:		
Merchandise inventories	(74,022)	(72,522)
Income taxes	(1,845)	13,010
Other assets	(764)	4,526
Accounts payable	42,250	16,249
Other liabilities	(6,256)	(703)
Net cash used in operating activities	(43,752)	(46,271)
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	(6,840)	(3,419)
Proceeds from sale of property and equipment	55	63
Net cash used in investing activities	(6,785)	(3,356)
<b>Cash Flows From Financing Activities:</b>		
Borrowings under revolving line of credit	212,312	169,677
Payments under revolving line of credit	(160,712)	(118,377)
Principal payments on long-term distribution center sale-leaseback obligations	(661)	(653)
Debt issuance costs	(69)	0
Principal payments on capital lease obligations	(635)	(660)
Proceeds from the issuance of common stock	541	0
Net cash provided by financing activities	50,776	49,987
Net increase in cash and cash equivalents	239	360
<b>Cash and Cash Equivalents:</b>		
Beginning of period	2,691	2,602
End of period	\$ 2,930	\$ 2,962
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest	\$ 9,453	\$ 8,093
Cash paid/(received) for income taxes, net	\$ 769	\$ (12,867)

See notes to condensed consolidated financial statements.

**COST PLUS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months and Nine Months Ended October 29, 2011 and October 30, 2010**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared from the records of Cost Plus, Inc. (“Cost Plus World Market” or “the Company”) and, in the opinion of management, include all adjustments that are normal and recurring in nature necessary to present fairly the Company’s financial position at October 29, 2011 and October 30, 2010, and the interim results of operations for the three months and nine months ended October 29, 2011 and October 30, 2010, and cash flows for the nine months ended October 29, 2011 and October 30, 2010. The balance sheet at January 29, 2011, presented herein, has been derived from the audited financial statements of the Company for the fiscal year then ended. Unless otherwise indicated, information presented in the notes to the financial statements relates only to the Company’s continuing operations.

Accounting policies followed by the Company are described in Note 1 to the audited consolidated financial statements for the fiscal year ended January 29, 2011 in the Company’s Annual Report on Form 10-K. Certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted for purposes of presenting the interim condensed consolidated financial statements. Such statements should be read in conjunction with the audited consolidated financial statements, including notes thereto, for the fiscal year ended January 29, 2011.

Prior to achieving net income in fiscal 2010, we incurred net losses in each annual period since fiscal 2006. As of October 29, 2011, we had an accumulated deficit of \$114.6 million. For the nine months ended October 29, 2011, and for fiscal 2009 and fiscal 2008, we did not generate positive cash flows from operating activities. We are dependent upon our asset-based credit facility to fund operations and seasonal inventory purchases throughout the year. Access to our asset-based credit facility is dependent upon meeting our debt covenants and not exceeding the borrowing limit of the asset-based credit facility. There can be no assurance that we will achieve or sustain positive cash flows from operations or profitability. If we are unable to maintain adequate liquidity, it could have a material adverse affect on our financial condition and future operations may need to be scaled back or discontinued. However, based on our current business plan and revenue projections, we believe that our existing cash balance, our anticipated cash flows from operations and our available asset-based credit facility will be sufficient to meet our working capital and operating resource expenditure requirements for the next 12 months and the foreseeable future.

The results of operations for the three-month and nine-month periods ended October 29, 2011, presented herein, are not indicative of the results to be expected for the full year because of, among other things, seasonal factors in the retail business.

**2. ACCRUED STORE CLOSURE AND LEASE EXIT COSTS**

When stores under long-term leases close, the Company records a liability for the future minimum lease payments and related ancillary costs, net of estimated sublease income and discounted using a risk-adjusted rate of interest. This liability is recorded at the time the store is closed and at the end of each quarter, the Company adjusts the estimated liability balance based on actual sublease income and lease settlement agreements that occurred during the period. Accrued store closure and lease exit costs also include costs related to closing the stores and relocating and terminating employees. Additional charges or recoveries related to the planned disposition of stores may be incurred as a result of changes to management’s current estimates and assumptions. The timing of future transactions and charges related to these store closures are subject to significant uncertainty, including the variability in future vacancy periods, sublease income or negotiations with landlords regarding buy-out payments on leases.

Following is a year-to-date summary of the accrued store closure and lease exit costs as of the nine months ended October 29, 2011, the 12 months ended January 29, 2011 and the nine months ended October 30, 2010, respectively:

(In thousands)	October 29, 2011	January 29, 2011	October 30, 2010
Beginning Balance	\$ 6,575	\$ 10,220	\$ 10,220
Lease exit costs, net of estimated sublease income	1,113	4,245	3,707
Severance and closure costs	521	416	342
Payments for leases and settlements	(3,846)	(7,827)	(6,706)
Payments for severance and closure costs	(644)	(479)	(460)
Ending Balance <sup>1</sup>	<u>\$ 3,719</u>	<u>\$ 6,575</u>	<u>\$ 7,103</u>

1. At October 29, 2011, January 29, 2011 and October 30, 2010, the reserve for store closures includes \$0.7 million, \$1.6 million and \$1.7 million, respectively, for stores that are classified within continuing operations and includes \$3.0 million, \$5.0 million and \$5.4 million, respectively, for stores that are classified within discontinued operations.

### 3. DISCONTINUED OPERATIONS

The Company did not have any operations which were discontinued during the year-to-date period of fiscal 2011. The loss from discontinued operations for the three-month and nine-month periods of fiscal 2011 primarily consists of the costs associated with the quarterly adjustments to the lease exit liabilities that were established for the stores that closed in prior years and that have leases which have not yet been exited. These lease exit costs were approximately \$0.9 million for the nine-month period ended October 29, 2011 and \$1.3 million for nine-month period ended October 30, 2010.

The recognition of the costs associated with closing the stores requires the Company to make judgments and estimates regarding the nature, timing, and costs, including estimated lease exit costs net of estimated sublease income, employee severance and various other costs related to the closure of stores. Additional charges or recoveries related to the planned disposition of stores may be incurred as a result of changes to management's current estimates and assumptions. The timing of future transactions and charges related to these store closures are subject to significant uncertainty, including the variability in future vacancy periods, and sublease income or negotiations with landlords regarding buy-out payments on leases.

Results from discontinued operations were as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Store sales	\$ 0	\$ 688	\$ 0	\$ 1,833
Costs and expenses:				
Cost of store sales and occupancy	0	536	0	1,413
Operating and administrative expenses	6	186	55	604
Lease exit costs, net of estimated sublease income	339	829	905	1,269
Severance benefits and other closure costs	0	85	0	85
Loss from discontinued operations, net of tax	<u>\$ (345)</u>	<u>\$ (948)</u>	<u>\$ (960)</u>	<u>\$ (1,538)</u>

#### 4. SHARE-BASED COMPENSATION

Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Currently, the Company's stock-based compensation relates to stock options and deferred stock units. The Company's deferred stock units are issued and measured at fair market value on the date of grant and fully vest on the one year anniversary from the date of grant.

The Company had share-based compensation expense of \$0.9 million for the three months ended October 29, 2011 compared to \$0.4 million for the three months ended October 30, 2010. Share-based compensation expense for the nine months ended October 29, 2011 and the nine months ended October 30, 2010 was \$2.1 million and \$1.1 million, respectively. Share-based compensation expense is recorded as a component of selling, general and administrative expenses. As of October 29, 2011, unrecognized compensation cost related to the unvested portion of the Company's stock option awards and deferred stock units was \$3.8 million, and \$0.3 million, respectively, which is expected to be recognized over a weighted-average period of 2.8 years and 0.8 years, respectively.

The Company granted 53,974 deferred stock units to its non-employee directors during the third quarter of fiscal 2011 compared to no deferred stock units granted during the third quarter of fiscal 2010. No stock options to purchase shares of the Company's common stock were granted during the third quarter of fiscal 2011 compared to 15,000 shares of common stock options granted to the Company's employees during the third quarter of fiscal 2010. The weighted-average fair value per stock option granted was \$7.13 during the nine-month period ended October 29, 2011 and \$2.80 and \$3.37 during the three-month and nine-month periods ended October 30, 2010, respectively. The following table presents the weighted-average assumptions used in the Black-Scholes-Merton option pricing model to value the stock options granted during the three-month and nine-month periods ended October 30, 2010 and the nine-month period ended October 29, 2011:

	<u>Three Months Ended</u>	<u>Nine Months Ended</u>	
	<u>October 30, 2010</u>	<u>October 29, 2011</u>	<u>October 30, 2010</u>
Expected dividend rate	0%	0%	0%
Expected volatility	94.6%	90.0%	94.1%
Risk-free interest rate	1.3%	2.0%	2.0%
Expected term (years)	4.5	4.5	4.5

## 5. RECONCILIATION OF BASIC SHARES TO DILUTED SHARES

Basic earnings (loss) per share (“EPS”) is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) by the weighted-average number of common shares and dilutive common stock equivalents outstanding during the period. Diluted EPS reflects the potential dilution that could occur if options to purchase common stock were exercised into common stock.

The following is a reconciliation of the weighted-average number of shares (in thousands) used in the Company’s basic and diluted earnings per share computations:

	Three Months Ended			Nine Months Ended		
	Basic EPS	Effect of Dilutive Stock Options (treasury stock method)	Diluted EPS	Basic EPS	Effect of Dilutive Stock Options (treasury stock method)	Diluted EPS
<b>October 29, 2011</b>						
Shares	22,333	0	22,333	22,226	0	22,226
Loss	\$ (0.39)	\$ 0.00	\$ (0.39)	\$ (0.90)	\$ 0.00	\$ (0.90)
<b>October 30, 2010</b>						
Shares	22,087	0	22,087	22,087	0	22,087
Loss	\$ (0.38)	\$ 0.00	\$ (0.38)	\$ (1.16)	\$ 0.00	\$ (1.16)

Certain options to purchase common stock were outstanding but were not included in the computation of diluted earnings per share because the effect would be anti-dilutive. For the three-month and nine-month periods ended October 29, 2011 and October 30, 2010, there were 3,982,310 and 3,765,115 anti-dilutive options, respectively.

## 6. REVOLVING LINE OF CREDIT

On January 3, 2011, the Company entered into a secured five-year credit agreement with a group of banks and Bank of America, N.A. as the administrative agent, collateral agent, swing line lender, and letter of credit issuer (the “Credit Agreement”). The Credit Agreement amended and extended the previous \$200.0 million Credit Agreement dated as of June 25, 2007 which was due to expire on June 25, 2012. The Credit Agreement allows for cash borrowings under a revolving loan and letters of credit under a secured asset-based credit facility of up to \$190.0 million as well as a \$10.0 million term loan, which was drawn on the effective date. The amount available for borrowing at any time is limited by a stated percentage of the aggregate amount of the liquidated value of eligible inventory and the face amount of eligible credit card receivables. The Credit Agreement includes three options to increase the size of the asset-based credit facility by up to \$50.0 million in the aggregate. All borrowings and letters of credit under the Credit Agreement are collateralized by all assets presently owned or hereafter-acquired by the Company. Interest is paid in arrears monthly, quarterly, or over the applicable interest period as selected by the Company in the Revolving Loan Notice, with the entire balance payable on January 3, 2016. Borrowings pursuant to the asset-based credit facility bear interest, at the Company’s election, at a rate equal to either (i) the higher of Bank of America’s prime rate or the federal funds effective rate plus an applicable margin; or (ii) the LIBOR rate plus an applicable margin. The applicable margin is based on the Company’s Average Daily Availability (as defined in the Credit Agreement). In addition, the Company pays a commitment fee on the unused portion of the amount available for borrowing as described in the Credit Agreement. The Credit Agreement includes limitations on the ability of the Company to, among other things, incur debt, grant liens, make investments, enter into mergers and acquisitions, pay dividends, change its business, enter into transactions with affiliates, and dispose of assets. The events of default under the Credit Agreement include, among others, payment defaults, cross defaults with certain other indebtedness, breaches of covenants, loss of collateral, judgments, changes in control, and bankruptcy events. In the event of a default, the Credit Agreement requires the Company to pay incremental interest at the rate of 2.0% and the lenders may, among other remedies, foreclose on the security (which could include the sale of the Company’s inventory), eliminate their commitments to make credit available, declare due all unpaid principal amounts outstanding, and require cash collateral for any letter of credit obligations. In addition, in the event of a default or if the Company’s Availability (as defined in the Credit Agreement) is not equal to the greater of either \$20.0 million or 15% of the loan cap under the asset-based credit facility, the Company will be subject to additional restrictions, including specific restrictions with respect to its cash management procedures.

The Company uses the borrowings under the Credit Agreement for working capital, issuance of commercial and standby letters of credit, capital expenditures, and other general corporate purposes. As of October 29, 2011, the Company was in compliance with its loan covenant requirements, had \$77.0 million in borrowings (including the \$10.0 million term loan) and \$7.3 million in issued and outstanding letters of credit, and had remaining credit available under the Credit Agreement of \$115.7 million. Based on current projections, the Company expects to be in compliance with its loan covenant requirements throughout fiscal 2011. The Company's business is highly seasonal, reflecting the general pattern associated with the retail industry of peak sales and earnings during the fourth quarter holiday season, therefore borrowings under the line of credit often peak early in the fourth quarter of each fiscal year.

The borrowing base, based on inventory and accounts receivable value less certain reserves, at October 29, 2011, January 29, 2011 and October 30, 2010 consisted of the following (in millions):

	<u>October 29, 2011</u>	<u>January 29, 2011</u>	<u>October 30, 2010</u>
Account receivable availability	\$ 8.0	\$ 6.5	\$ 7.2
Inventory availability	207.8	132.9	193.2
Less: reserves	(8.1)	(10.4)	(10.3)
Total borrowing base <sup>1</sup>	<u>\$ 207.7</u>	<u>\$ 129.0</u>	<u>\$ 190.1</u>

The aggregate borrowing base is reduced by the following obligations:

Ending loan balance	\$ 77.0	\$ 25.4	\$ 99.8
Outstanding letters of credit	7.3	10.8	9.5
Total obligations	<u>\$ 84.3</u>	<u>\$ 36.2</u>	<u>\$ 109.3</u>

The availability at October 29, 2011, January 29, 2011 and October 30, 2010 was:

Total borrowing base <sup>1</sup>	\$ 200.0	\$ 129.0	\$ 190.1
Less: obligations	(84.3)	(36.2)	(109.3)
Total availability	<u>\$ 115.7</u>	<u>\$ 92.8</u>	<u>\$ 80.8</u>

1. Total borrowing base per the calculation above was \$207.7 million at October 29, 2011. However, the Credit Agreement limits the borrowing base to \$200.0 million. Therefore, \$200.0 million is the adjusted total borrowing base at October 29, 2011.

## 7. DISTRIBUTION CENTER SALE-LEASEBACK OBLIGATIONS

The Company's distribution center sale-leaseback obligations as of October 29, 2011, January 29, 2011, and October 30, 2010 are summarized as follows:

<u>(In thousands)</u>	<u>October 29, 2011</u>	<u>January 29, 2011</u>	<u>October 30, 2010</u>
Obligations under sale and leaseback:			
California distribution centers	\$ 61,005	\$ 61,462	\$ 61,619
Virginia distribution center	51,066	51,270	51,337
Total distribution center sale-leaseback obligations	112,071	112,732	112,956
Less current portion	(914)	(885)	(886)
Long-term distribution center sale-leaseback obligations	<u>\$ 111,157</u>	<u>\$ 111,847</u>	<u>\$ 112,070</u>

The Company's distribution center lease obligations include financing obligations related to the sale-leaseback of its distribution centers in Stockton, California and Windsor, Virginia. The Company has accounted for the sale-leaseback transactions as financings whereby the net book value of the assets remain on the Company's condensed consolidated balance sheet. The Company also recorded a financing obligation, which is being amortized over the period of the leases (including option periods) and approximates the discounted value of minimum lease payments under the leases. The monthly lease payments are accounted for as principal and interest payments on the recorded obligations. For further details on the Company's obligations under the sale and leaseback of the distribution centers, see Note 7 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

## 8. INCOME TAXES

The Company's effective tax rate from continuing operations was a benefit of 5.0%, before discrete items, in the third quarter of fiscal 2011 compared to a provision of 0.9%, before discrete items, in the third quarter of fiscal 2010 primarily related to state income taxes. No provision or benefit was recorded in the third quarter of fiscal 2010 for federal income taxes due to the recent net operating losses incurred. The Company's business is highly seasonal, reflecting the general pattern associated with the retail industry of peak sales and earnings during the fourth quarter holiday selling season. The Company expects to have positive net income for fiscal year 2011, but due to the seasonality of its business, it had losses for the first three quarters of the year which resulted in recording a tax benefit for each of those quarters. Last year, the Company could not support net income for the year due to its recent history of recurring losses, and therefore did not recognize tax benefits on its quarterly losses through the third quarter because it did not expect to have enough net income to offset the year-to-date benefit that would have been recorded.

Income tax expense or benefit reflects the amount of taxes payable or refundable for the current year, the impact of deferred tax liabilities and deferred tax assets, accrued interest on tax deficiencies and refunds and accrued penalties on tax deficiencies. Deferred income taxes represent future net tax effects resulting from temporary differences between the financial statement and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded against deferred tax assets if there is doubt about the realization of such assets in the future. The Company has recorded a full valuation allowance as of October 29, 2011 and October 30, 2010.

At October 29, 2011, the Company had \$34,000 in unrecognized tax benefits and at January 29, 2011, the Company had \$1.4 million in unrecognized tax benefits; the recognition of both would both have an impact of \$282,000 on the Company's income tax provision. At the end of the third quarter of fiscal 2011, it is reasonably possible that the total amounts of unrecognized tax benefits could decrease by \$446,000 within the next 12 months due to the expiration of the statute of limitations.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. At October 29, 2011 and at October 30, 2010, the Company had accrued \$186,000 and \$196,000, respectively, for the potential payment of interest and penalties.

As of October 29, 2011, the Company is subject to U.S. federal income tax examinations for tax years 2004 and forward, and is subject to state and local tax examinations for tax years 2003 and forward.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto for the three-month and nine-month periods ended October 29, 2011 and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the year ended January 29, 2011. The results of operations for the three-month and nine-month periods ended October 29, 2011, presented herein, are not indicative of the results to be expected for the full year because of, among other things, seasonal factors in the retail business.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements reflect the Company's current beliefs and estimates with respect to future events and the Company's future financial performance, operations and competitive position, including statements regarding the repayment of our debt, and may be identified, without limitation, by use of the words "may," "should," "expects," "anticipates," "estimates," "believes," "looking ahead," "forecast," "projects," "continues," "intends," "likely," "plans" and similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statements, including those set forth in the Annual Report on Form 10-K for the fiscal year ended January 29, 2011 and elsewhere in this Quarterly Report on Form 10-Q. The reader should carefully consider, together with the other matters referred to herein, the risk factors set forth in the Annual Report on Form 10-K for the fiscal year ended January 29, 2011, which are incorporated by reference herein, as well as in other documents the Company files with the Securities and Exchange Commission (the "SEC"). The Company may from time to time make additional written and oral forward-looking statements, including statements contained in the Company's filings with the SEC. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

### **Overview**

Cost Plus, Inc. and its subsidiaries ("Cost Plus World Market" or "the Company") is a leading specialty retailer of casual home furnishings and entertaining products. The stores feature an ever-changing selection of casual home furnishings, housewares, gifts, decorative accessories, gourmet foods and beverages offered at competitive prices and imported from more than 50 countries. Many items are unique and exclusive to Cost Plus World Market. The value, breadth and continual refreshment of products invite customers to come back throughout a lifetime of changing home furnishings and entertaining needs.

The Company reported a net loss of \$8.6 million in the third quarter of fiscal 2011, or \$0.39 per diluted share, compared to a net loss of \$8.3 million, or \$0.38 per diluted share, for the third quarter of last year. The increase in the net loss for the quarter was primarily due to a \$2.9 million increase in selling, general and administrative expenses, offset by a \$2.4 million increase in gross profit. The increase in selling, general and administrative expenses is largely due to higher store payroll costs primarily related to store merchandise resets, which did not occur last year, as well as higher advertising expenses. The increase in gross profit is due to a 3.7% increase in net sales, offset by higher costs of sales due to a shift in the mix within the home division for the quarter.

In the third quarter of fiscal 2011, the Company relocated one store to end the quarter with 258 stores in 30 states.

## Results of Operations

### The three and nine months ended October 29, 2011 as compared to the three and nine months ended October 30, 2010

**Net Sales** Net sales consists almost entirely of retail sales, but also includes direct-to-consumer sales and shipping revenue. Net sales increased \$7.3 million, or 3.7%, to \$201.9 million for the third quarter of fiscal 2011 from \$194.6 million for the third quarter of fiscal 2010. Year-to-date, net sales were \$599.5 million, a 4.3% increase compared to \$575.0 million for the same period last year. Comparable store sales increased 4.0% in the third quarter of fiscal 2011, compared to an increase of 8.8% in the third quarter of fiscal 2010. Year-to-date, comparable store sales increased 4.1% compared to an increase of 6.9% for the same period last year. The increase in same store sales for the third quarter was attributable to an increase in the average ticket per customer of 2.7% and an increase in customer count of 1.2%. As of October 29, 2011, the calculation of comparable store sales included a base of 257 stores. A store is included as comparable at the beginning of the fourteenth full fiscal month of sales with the exception of relocated stores, which remain comparable upon opening. At the end of the third quarter of fiscal 2011, the Company operated 258 stores in 30 states versus 263 stores in 30 states at the end of the third quarter of fiscal 2010.

The Company classifies its sales into home and consumables product lines. For the third quarter of fiscal 2011, home accounted for 63% of total sales versus 62% for the third quarter of last year, and consumables accounted for 37% of total sales versus 38% for the third quarter of last year.

**Cost of Sales and Occupancy** Cost of sales and occupancy, which consists of costs to acquire merchandise inventory and costs of freight and distribution, as well as certain facilities costs, increased \$4.9 million, or 3.7%, to \$139.7 million in the third quarter of fiscal 2011 as compared to the third quarter of last year. As a percentage of net sales, total cost of sales and occupancy decreased 10 basis points to 69.2% in the third quarter of fiscal 2011 compared to 69.3% in the third quarter of fiscal 2010. The 10 basis point decrease in cost of sales and occupancy as a percentage of net sales was primarily due to lower occupancy costs offset by a higher cost of sales. The increase in cost of sales as a percentage of net sales for the third quarter was primarily due to a shift within the home division towards higher dollar and lower merchandise margin furniture compared to last year. Year-to-date, total costs of sales and occupancy were \$415.0 million and increased \$18.0 million, or 4.5%, compared to the same period in fiscal 2010. As a percentage of net sales, total cost of sales and occupancy for the year-to-date period increased 20 basis points to 69.2% from 69.0% last year.

**Selling, General and Administrative (“SG&A”) Expenses** SG&A expenses for the third quarter of fiscal 2011 were \$67.3 million compared to \$64.4 million for the third quarter last year. As a percentage of net sales, SG&A expenses increased 20 basis points to 33.3% for the third quarter of fiscal 2011 from 33.1% for the third quarter last year. The increase in SG&A expenses as a percentage of net sales is largely due to higher store payroll costs primarily related to store merchandise resets, which did not occur last year, as well as higher advertising expenses. The Company expects to end the year with total advertising expense flat year-over-year. Year-to-date, as a percentage of net sales, SG&A expenses decreased 70 basis points to 32.5% from 33.2% for the same period last year primarily due to increased leverage from higher sales.

**Store Closure Costs/(Income)** The Company had store closure costs of \$0.2 million from continuing operations for the third quarter of fiscal 2011 compared to \$43,000 for the third quarter of fiscal 2010. Year-to-date, the Company had store closure income from continuing operations of \$0.2 million compared to costs of \$2.7 million for the same period last year. The store closure income for the year-to-date period was due to a payment received in the second quarter of fiscal 2011 from a landlord as the result of a successful early lease termination, partially offset by the costs of closing the store and other lease exit cost adjustments. Year-to-date, the Company closed five stores and relocated one store, as compared to closing six stores and relocating one store during the same period of fiscal 2010. All of the stores closed during the year-to-date period of fiscal 2011 and five of the six stores closed during the same period of fiscal 2010 are included in continuing operations. For the year-to-date period of fiscal 2011, the decrease in store closure costs compared to last year is due to the fact that four of the five continuing operations store closures had no lease exit costs because their leases had expired compared to only two of the five continuing operations store closures last year.

**Net interest expense** Net interest expense, which includes interest on capital leases and debt, net of interest earned on investments, was \$3.3 million for the third quarter of fiscal 2011 compared to \$2.8 million for the third quarter of fiscal 2010. Included in net interest expense is interest related to the distribution center sale-leaseback obligations of \$2.1 million for the third quarter of both fiscal 2011 and fiscal 2010. Year-to-date, net interest expense was \$9.6 million compared to \$8.2 million for the same period last year. The increase in net interest expense for the quarter and year-to-date periods was primarily due to a higher weighted-average interest rate on the Company's asset-based credit facility.

**Income Taxes** The Company's effective tax rate from continuing operations was a benefit of 5.0%, before discrete items, in the third quarter of fiscal 2011 compared to a provision of 0.9%, before discrete items, in the third quarter of fiscal 2010 primarily related to state income taxes. No provision or benefit was recorded in the third quarter of fiscal 2010 for federal income taxes due to the recent net operating losses incurred. The Company's business is highly seasonal, reflecting the general pattern associated with the retail industry of peak sales and earnings during the fourth quarter holiday selling season. The Company expects to have positive net income for fiscal year 2011, but due to the seasonality of its business, it had losses for the first three quarters of the year which resulted in recording a tax benefit for each of those quarters. Last year, the Company could not support net income for the year due to its recent history of recurring losses, and therefore did not recognize tax benefits on its quarterly losses through the third quarter because it did not expect to have enough net income to offset the year-to-date benefit that would have been recorded.

#### **Liquidity and Capital Resources**

The Company's cash and cash equivalents balance was \$2.9 million at October 29, 2011 and \$3.0 million at October 30, 2010. The Company met its short-term liquidity needs and its capital requirements for the nine-month period ended October 29, 2011 with existing cash and cash provided from financing activities.

Prior to achieving net income in fiscal 2010, the Company incurred net losses in each annual period since fiscal 2006. As of October 29, 2011, the Company had an accumulated deficit of \$114.6 million. For the nine months ended October 29, 2011, and for fiscal 2009 and fiscal 2008, the Company did not generate positive cash flows from operating activities. The Company is dependent upon its asset-based credit facility to fund operations and seasonal inventory purchases throughout the year. Access to its asset-based credit facility is dependent upon meeting its debt covenants and not exceeding the borrowing limit of the asset-based credit facility. There can be no assurance that the Company will achieve or sustain positive cash flows from operations or profitability. If the Company is unable to maintain adequate liquidity, it could have a material adverse affect on its financial condition and future operations may need to be scaled back or discontinued. However, based on the Company's current business plan and revenue projections, the Company believes that its existing cash balance, its anticipated cash flows from operations and its available asset-based credit facility will be sufficient to meet its working capital and operating resource expenditure requirements for the next 12 months and the foreseeable future.

**Cash Flows From Operating Activities** Net cash used in operating activities totaled \$43.8 million year-to-date compared to \$46.3 million in the same period last year, a decrease of \$2.5 million. The \$2.5 million decrease in net cash used in operating activities is largely due to the \$5.6 million year-over-year improvement in net loss as well as other working capital improvements, offset by the \$13.0 million tax refund that was received in the first quarter of fiscal 2010 that was not repeated in the first quarter of fiscal 2011.

**Cash Flows From Investing Activities** Net cash used in investing activities totaled \$6.8 million year-to-date compared to \$3.4 million for the same period last year. For the year-to-date period of fiscal 2011, there were increases in spending related to store projects, information systems and visual merchandise compared to the same period of fiscal 2010.

The Company estimates that fiscal 2011 capital expenditures will be approximately \$10.0 million; including approximately \$4.6 million for management information systems and distribution center projects and \$5.4 million for investments in existing stores and various other corporate projects.

**Cash Flows From Financing Activities** Net cash provided by financing activities was \$50.8 million year-to-date compared to \$50.0 million for the same period last year. Borrowings, net of payments, under the Company's asset-based credit facility were \$51.6 million for the nine-month period ended October 29, 2011 compared to \$51.3 million for the same period last year. Additionally, proceeds from the issuance of common stock were \$0.5 million for the nine-month period of fiscal 2011 compared to no proceeds during the same period last year.

**Revolving Line of Credit** On January 3, 2011, the Company entered into a secured five-year credit agreement with a group of banks and Bank of America, N.A. as the administrative agent, collateral agent, swing line lender, and letter of credit issuer (the "Credit Agreement"). The Credit Agreement amended and extended the previous \$200.0 million Credit Agreement dated as of June 25, 2007 which was due to expire on June 25, 2012. The Credit Agreement allows for cash borrowings under a revolving loan and letters of credit under a secured asset-based credit facility of up to \$190.0 million as well as a \$10.0 million term loan, which was drawn on the effective date. The amount available for borrowing at any time is limited by a stated percentage of the aggregate amount of the liquidated value of eligible inventory and the face amount of eligible credit card receivables. The Credit Agreement includes three options to increase the size of the asset-based credit facility by up to \$50.0 million in the aggregate. All borrowings and letters of credit under the Credit Agreement are collateralized by all assets presently owned or hereafter-acquired by the Company. Interest is paid in arrears monthly, quarterly, or over the applicable interest period as selected by the Company in the Revolving Loan Notice, with the entire balance payable on January 3, 2016. Borrowings pursuant to the asset-based credit facility bear interest, at the Company's election, at a rate equal to either (i) the higher of Bank of America's prime rate or the federal funds effective rate plus an applicable margin; or (ii) the LIBOR rate plus an applicable margin. The applicable margin is based on the Company's Average Daily Availability (as defined in the Credit Agreement). In addition, the Company pays a commitment fee on the unused portion of the amount available for borrowing as described in the Credit Agreement. The Credit Agreement includes limitations on the ability of the Company to, among other things, incur debt, grant liens, make investments, enter into mergers and acquisitions, pay dividends, change its business, enter into transactions with affiliates, and dispose of assets. The events of default under the Credit Agreement include, among others, payment defaults, cross defaults with certain other indebtedness, breaches of covenants, loss of collateral, judgments, changes in control, and bankruptcy events. In the event of a default, the Credit Agreement requires the Company to pay incremental interest at the rate of 2.0% and the lenders may, among other remedies, foreclose on the security (which could include the sale of the Company's inventory), eliminate their commitments to make credit available, declare due all unpaid principal amounts outstanding, and require cash collateral for any letter of credit obligations. In addition, in the event of a default or if the Company's Availability (as defined in the Credit Agreement) is not equal to the greater of either \$20.0 million or 15% of the loan cap under the asset-based credit facility, the Company will be subject to additional restrictions, including specific restrictions with respect to its cash management procedures.

The Company uses the borrowings under the Credit Agreement for working capital, issuance of commercial and standby letters of credit, capital expenditures, and other general corporate purposes. As of October 29, 2011, the Company was in compliance with its loan covenant requirements, had \$77.0 million in borrowings (including the \$10.0 million term loan) and \$7.3 million in issued and outstanding letters of credit, and had remaining credit available under the Credit Agreement of \$115.7 million. Based on current projections, the Company expects to be in compliance with its loan covenant requirements throughout fiscal 2011. The Company's business is highly seasonal, reflecting the general pattern associated with the retail industry of peak sales and earnings during the fourth quarter holiday season, therefore borrowings under the line of credit often peak early in the fourth quarter of each fiscal year. The Company expects to pay off its asset-based credit facility in its entirety before the end of the fiscal year.

#### **Summary Disclosure about Contractual Obligations and Commercial Commitments**

The Company does not believe there were any significant changes to its contractual obligations that were not in the ordinary course of business, from those reported on its Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

### **Off Balance Sheet Arrangements**

Other than operating leases and letters of credit, the Company has no financial arrangements involving special-purpose entities or lease agreements, commonly described as synthetic leases, or any off-balance sheet arrangements that have a material current effect, or that are reasonably likely to have a material future effect, on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Critical Accounting Policies**

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our Annual Report on Form 10-K for the fiscal year ended January 29, 2011, in the Notes to the Consolidated Financial Statements (Note 1) and the Critical Accounting Policies and Estimates section in Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Seasonality**

The Company's business is highly seasonal, reflecting the general pattern associated with the retail industry of peak sales and earnings during the fourth quarter holiday selling season. Due to the importance of the holiday selling season, the fourth quarter of each fiscal year has historically contributed, and the Company expects it will continue to contribute, a disproportionate percentage of its net sales and most of its net income, if any, for the entire fiscal year. The Company believes this is the general pattern associated with the retail industry.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to the Company's market risk from those disclosed in the Company's Form 10-K filed for the fiscal year ended January 29, 2011.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

The Company's management evaluated, with the participation of its principal executive officer and its principal financial officer, the effectiveness of its disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The Company maintains disclosure controls and procedures that are designed to ensure that the information disclosed in the reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of October 29, 2011, the Company's management, including its principal executive officer and principal financial officer, concluded that its disclosure controls and procedures are effective. This conclusion is based on management's evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures.

### **Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended October 29, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended January 29, 2011, which we hereby incorporate by reference into this Quarterly Report on Form 10-Q, and which could materially affect our business, financial condition or operating results and cause the market price of our stock to decline, perhaps significantly. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### ITEM 6. EXHIBITS

The following Exhibits have been filed with, or incorporated by reference into, this Report:

(a) Exhibits

31.1	Certification of the Chief Executive Officer of the Registration pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of the Registration pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and Chief Financial Officer of the Registration pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

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† The financial information contained in these XBRL documents is unaudited and is furnished, not filed with the Securities and Exchange Commission.

**SIGNATURE**

Pursuant to the requirements 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.

COST PLUS, INC.

Registrant

Date: December 7, 2011

By: /s/ Jane L. Baughman

Jane L. Baughman

Executive Vice President,

Chief Financial Officer

(Principal Financial & Accounting Officer)

## INDEX TO EXHIBITS

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**CERTIFICATIONS**

I, Barry J. Feld, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cost Plus, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 7, 2011

/s/ Barry J. Feld

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Barry J. Feld  
Chief Executive Officer, President  
(Principal Executive Officer)

**CERTIFICATIONS**

I, Jane L. Baughman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cost Plus, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 7, 2011

/s/ Jane L. Baughman

Jane L. Baughman

Executive Vice President,

Chief Financial Officer

(Principal Financial & Accounting Officer)

**Certification of the Chief Executive Officer  
and the Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Cost Plus, Inc. (the "Company") on Form 10-Q for the period ended October 29, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Barry J. Feld, Chief Executive Officer and President, and Jane L. Baughman, Executive Vice President and Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barry J. Feld

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**Barry J. Feld**  
**Chief Executive Officer and President**  
**(Principal Executive Officer)**

December 7, 2011

/s/ Jane L. Baughman

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**Jane L. Baughman**  
**Executive Vice President,**  
**Chief Financial Officer**  
**(Principal Financial & Accounting Officer)**

December 7, 2011