

CLAIRE'S STORES INC  
Form 10-Q  
September 05, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the Quarterly Period Ended July 29, 2017**

**OR**

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

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

**Commission File Nos. 1-8899, 333-148108 and 333-175171**

**Claire's Stores, Inc.**

**(Exact name of registrant as specified in its charter)**

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

**59-0940416**  
**(I.R.S. Employer**  
**Identification No.)**

**2400 West Central Road,**  
**Hoffman Estates, Illinois**  
**(Address of principal executive offices)**  
**Registrant's telephone number, including area code: (847) 765-1100**

**60192**  
**(Zip 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 No

Explanatory Note: While registrant is not subject to the filing requirements of Section 13 or 15(d) of the Exchange Act, it has filed all reports pursuant to Section 13 or 15(d) of the Exchange Act during the preceding 12 months.

Indicate by check mark whether 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, smaller reporting company, or an emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 September 1, 2017, 100 shares of the Registrant's common stock, \$0.001 par value, were outstanding.



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**CLAIRE S STORES, INC. AND SUBSIDIARIES**

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**Table of Contents****PART I. FINANCIAL INFORMATION****CLAIRE S STORES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	July 29, 2017	January 28, 2017
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,189	\$ 55,792
Inventories	157,617	130,239
Prepaid expenses	18,772	14,642
Other current assets	25,136	25,270
Total current assets	232,714	225,943
Property and equipment:		
Furniture, fixtures and equipment	224,812	218,804
Leasehold improvements	304,130	297,636
	528,942	516,440
Accumulated depreciation and amortization	(402,795)	(381,975)
	126,147	134,465
Leased property under capital lease:		
Land and building	18,055	18,055
Accumulated depreciation and amortization	(6,765)	(6,313)
	11,290	11,742
Goodwill	1,132,575	1,132,575
Intangible assets, net of accumulated amortization of \$83,969 and \$80,502, respectively	456,657	454,956
Other assets	43,337	40,525
	1,632,569	1,628,056
Total assets	\$ 2,002,720	\$ 2,000,206
LIABILITIES AND STOCKHOLDER S DEFICIT		
Current liabilities:		
Current portion of long-term debt, net	\$	\$ 18,405
Trade accounts payable	71,017	69,731
Income taxes payable	5,117	6,083

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Accrued interest payable	53,111	53,266
Accrued expenses and other current liabilities	83,904	87,146
Total current liabilities	213,149	234,631
Long-term debt, net	2,116,949	2,118,653
Revolving credit facility, net	44,361	3,925
Obligation under capital lease	16,187	16,388
Deferred tax liability	99,488	99,255
Deferred rent expense	33,867	34,300
Unfavorable lease obligations and other long-term liabilities	9,090	10,376
	2,319,942	2,282,897
Commitments and contingencies		
Stockholder's deficit:		
Common stock par value \$0.001 per share; authorized 1,000 shares; issued and outstanding 100 shares		
Additional paid-in capital	630,652	630,496
Accumulated other comprehensive loss, net of tax	(37,840)	(51,881)
Accumulated deficit	(1,123,183)	(1,095,937)
	(530,371)	(517,322)
Total liabilities and stockholder's deficit	\$ 2,002,720	\$ 2,000,206

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****CLAIRE S STORES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE LOSS**

(in thousands)

	<b>Three Months Ended July 29, 2017</b>	<b>Three Months Ended July 30, 2016</b>	<b>Six Months Ended July 29, 2017</b>	<b>Six Months Ended July 30, 2016</b>
Net sales	\$ 316,637	\$ 317,172	\$ 616,258	\$ 616,819
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	161,583	170,683	313,371	329,036
Gross profit	155,054	146,489	302,887	287,783
Other expenses:				
Selling, general and administrative	112,774	112,372	223,286	220,094
Depreciation and amortization	10,890	13,796	22,093	27,856
Severance and transaction-related costs	389	125	532	1,698
Other income, net	(2,171)	(4,538)	(4,872)	(1,593)
	121,882	121,755	241,039	248,055
Operating income	33,172	24,734	61,848	39,728
Interest expense, net	43,394	55,623	86,974	110,702
Loss before income tax (benefit) expense	(10,222)	(30,889)	(25,126)	(70,974)
Income tax (benefit) expense	10,266	1,188	2,120	(139)
Net loss	\$ (20,488)	\$ (32,077)	\$ (27,246)	\$ (70,835)
Net loss	\$ (20,488)	\$ (32,077)	\$ (27,246)	\$ (70,835)
Other comprehensive income (loss):				
Foreign currency translation adjustments	4,523	(2,340)	4,567	520
Net gain (loss) on intra-entity foreign currency transactions, net of tax expense of \$714, \$209, \$944 and \$735	7,593	(6,385)	9,474	3,810
Other comprehensive income (loss)	12,116	(8,725)	14,041	4,330
Comprehensive loss	\$ (8,372)	\$ (40,802)	\$ (13,205)	\$ (66,505)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



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(in thousands)

	<b>Six Months Ended July 29, 2017</b>	<b>Six Months Ended July 30, 2016</b>
Cash flows from operating activities:		
Net loss	\$ (27,246)	\$ (70,835)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	22,093	27,856
Amortization of lease rights and other assets	1,862	1,371
Amortization of debt issuance costs	4,312	4,222
Accretion of debt premium	(1,457)	(1,339)
Non-cash pay-in-kind interest expense	750	9,156
Net unfavorable accretion of lease obligations	(55)	(126)
Loss on sale/retirement of property and equipment, net	128	170
Stock-based compensation expense (benefit)	156	(3)
(Increase) decrease in:		
Inventories	(22,083)	(1,143)
Prepaid expenses	(1,926)	(3,051)
Other assets	(75)	(281)
Increase (decrease) in:		
Trade accounts payable	(709)	(5,988)
Income taxes payable	(279)	(41)
Accrued interest payable	(155)	284
Accrued expenses and other liabilities	(6,994)	(11,997)
Deferred income taxes	(359)	(545)
Deferred rent expense	(1,196)	(1,213)
Net cash used in operating activities	(33,233)	(53,503)
Cash flows from investing activities:		
Acquisition of property and equipment	(8,101)	(8,523)
Acquisition of intangible assets/lease rights	(38)	(103)
Net cash used in investing activities	(8,139)	(8,626)
Cash flows from financing activities:		
Proceeds from revolving credit facilities	81,000	120,618
Payments on revolving credit facilities	(41,200)	
Payment on current portion of long-term debt	(18,420)	
Payments of unamortized interest related to long-term debt	(4,272)	
Payment of debt issuance costs	(386)	(79)

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Principal payments on capital lease	(156)	(116)
Net cash provided by financing activities	16,566	120,423
Effect of foreign currency exchange rate changes on cash and cash equivalents	203	(1,893)
Net (decrease) increase in cash and cash equivalents	(24,603)	56,401
Cash and cash equivalents, at beginning of period	55,792	18,871
Cash and cash equivalents, at end of period	\$ 31,189	\$ 75,272

Supplemental disclosure of cash flow information:

Interest paid	\$ 87,454	\$ 98,316
Income taxes paid	3,927	658

Non-cash supplemental financing activities:

Increase in term loans due 2021 from pay-in-kind interest	\$ 2,207	\$
Decrease in adjustment to carrying value	2,207	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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**CLAIRE S STORES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The accompanying Unaudited Condensed Consolidated Financial Statements of Claire s Stores, Inc. (the Company ) have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of the results for the interim periods presented have been included. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the year ended January 28, 2017 filed with the Securities and Exchange Commission, including Note 2 to the Consolidated Financial Statements included therein, which discusses principles of consolidation and summary of significant accounting policies.

The Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make certain estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures regarding contingent assets and liabilities and reported amounts of revenues and expenses. Such estimates include, but are not limited to, the value of inventories, goodwill, intangible assets and other long-lived assets, legal contingencies and assumptions used in the calculation of income taxes, stock-based compensation, residual values and other items. These estimates and assumptions are based on management s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity, foreign currency, and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates will be reflected in the financial statements in those future periods when the changes occur.

Due to the seasonal nature of the retail industry and the Company s business, the results of operations for interim periods of the year are not necessarily indicative of the results of operations for future quarters or on an annualized basis.

**2. Recent Accounting Pronouncements**

In January 2017, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2017-04, *Simplifying the Test for Goodwill Impairment*, which requires an entity to perform a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit s carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates Step 2 of the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit s goodwill with the carrying amount of that goodwill. The standard is effective January 1, 2020, with early adoption as of January 1, 2017 permitted. The Company does not expect adoption of ASU 2017-04 to have a material impact on the Company s financial position, results of operations or cash flows.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The update eliminates the exception for an intra-entity transfer of an asset other than inventory, which aligns the recognition of income tax consequences for inter-entity transfers of assets other than inventory by requiring the recognition of current and deferred income taxes resulting from an intra-entity transfer of such an asset when the transfer occurs rather than when it is sold to an external party. The new rules will be effective for the Company in the first quarter of 2018. The Company has not yet evaluated the impact that this standard will have on its consolidated financial position, results of operations, and cash flow.

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In August 26, 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*. The amendments in this update address how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This ASU is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect adoption of ASU 2016-15 to have a material impact on the Company's cash flows.

In March 2016, FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company recognizes all excess tax benefits and shortfalls as income tax expense or benefit in the income statement within the reporting period in which they occur. The requirements of the new standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods, which for the Company is the first quarter of Fiscal 2017. The Company did not have any excess tax benefits or shortfalls and elected to continue to account for forfeitures on an estimated basis, and accordingly, our adoption of this guidance on January 29, 2017 had no impact on the Company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-04, *Liabilities - Extinguishments of Liabilities (Subtopic 405-20), Recognition of Breakage for Certain Prepaid Stored-Value Products*. The new guidance addresses diversity in practice related to the derecognition of a prepaid stored-value product liability. ASU 2016-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The amended standard may be adopted on either a modified retrospective or a retrospective basis. The Company has not yet evaluated the impact that this standard will have on its consolidated financial position, results of operations, and cash flow.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for substantially all leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for years beginning after December 15, 2018, including interim periods within those years. The Company has not yet evaluated the impact that this standard will have on its consolidated financial position, results of operations, and cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delays the effective date of ASU 2014-09 by one year. FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in evaluating whether it controls the good or the service before it is transferred to the customer. The new revenue recognition standard will be effective for public entities for annual reporting periods beginning after December 15, 2017, and interim periods therein, that is, the first quarter of 2018. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method).



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The Company is in the process of evaluating the impact that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company's assessment efforts to date have included reviewing current accounting policies and arrangements to identify potential differences that could arise from the application of ASU 2014-09. Based on these efforts, the Company currently anticipates that the performance obligations created by transactions occurring at underlying company-owned stores, and the timing of recognition thereof, will remain substantially unchanged. While the Company's evaluation has not been completed, the Company has not identified any information that would indicate that the new guidance will have a material impact on its consolidated financial position, results of operations, and cash flows. While early adoption is permitted, the Company will adopt ASU 2014-09 in the first quarter of fiscal 2018 and continues to evaluate a method of adoption.

**3. Fair Value Measurements**

ASC 820, *Fair Value Measurement Disclosures*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Disclosures of the fair value of certain financial instruments are required, whether or not recognized in the Unaudited Condensed Consolidated Balance Sheets. Fair value is defined as 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 and in the principal or most advantageous market for that asset or liability. There is a three-level valuation hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability.

**Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The Company does not have any assets (liabilities) measured at fair value on a recurring basis.

**Non-Financial Assets Measured at Fair Value on a Non-Recurring Basis**

The Company's non-financial assets, which include goodwill, intangible assets, and long-lived tangible assets, are not adjusted to fair value on a recurring basis. Fair value measures of non-financial assets are primarily used in the impairment analysis of these assets. Any resulting asset impairment would require that the non-financial asset be recorded at its fair value. The Company reviews goodwill and indefinite-lived intangible assets for impairment annually, during the fourth quarter of each fiscal year, or as circumstances indicate the possibility of impairment. The Company monitors the carrying value of definite-lived intangible assets and long-lived tangible assets for impairment whenever events or changes in circumstances indicate its carrying amount may not be recoverable.

**Financial Instruments Not Measured at Fair Value**

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, current liabilities and long-term debt. Cash and cash equivalents, accounts receivable and current liabilities approximate fair market value due to the relatively short maturity of these financial instruments.

The Company considers all investments with a maturity of three months or less when acquired to be cash equivalents. The Company's cash equivalent instruments are valued using quoted market prices and are primarily U.S. Treasury securities. The revolving credit facilities approximate fair value due to the variable component of the interest rate. Excluding unamortized debt issuance costs, the estimated fair value of the Company's long-term debt was

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approximately \$1.09 billion as of July 29, 2017, compared to a carrying value of \$2.13 billion at that date. Excluding unamortized debt issuance costs, the estimated fair value of the Company's long-term debt (including current portion) was approximately \$1.09 billion as of January 28, 2017, compared to a carrying value of \$2.15 billion at that date. For publicly-traded debt, the fair value (estimated market value) is based on quoted market prices in less active markets. For non-publicly traded debt, fair value is estimated based on quoted prices for similar instruments. If



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measured at fair value in the financial statements, long-term debt excluding term loans would be classified as Level 2 in the fair value hierarchy, while term loans would be classified as Level 3 in the fair value hierarchy.

**4. Debt**

Debt as of July 29, 2017 and January 28, 2017 included the following components (in thousands):

	<b>July 29, 2017</b>	<b>January 28, 2017</b>
Current portion of long-term debt:		
10.5% Senior subordinated notes due 2017	\$	\$ 18,420
Unamortized debt issuance cost		(15)
Total current portion of long-term debt, net	\$	\$ 18,405
Long-term debt:		
Claire's Gibraltar unsecured term loan due 2019	\$ 40,000	\$ 40,000
Claire's Gibraltar Intermediate secured term loan due 2019	50,750	50,000
9.0% Senior secured first lien notes due 2019 <sup>(1)</sup>	1,130,162	1,131,619
8.875% Senior secured second lien notes due 2019	222,300	222,300
6.125% Senior secured first lien notes due 2020	210,000	210,000
7.75% Senior notes due 2020	216,742	216,742
9.0% Claire's Stores term loan due 2021	31,317	30,933
9.0% CLSIP term loan due 2021	101,772	100,525
9.0% Claire's Gibraltar term loan due 2021	46,970	46,394
Adjustment to carrying value	79,817	86,296
Unamortized debt issuance cost	(12,881)	(16,156)
Total long-term debt, net	\$ 2,116,949	\$ 2,118,653
Revolving credit facility:		
U.S. asset based lending credit facility due 2019	\$ 46,000	\$ 6,200
Unamortized debt issuance cost	(1,639)	(2,275)
Total revolving credit facility, net	\$ 44,361	\$ 3,925
Obligation under capital lease (including current portion)	\$ 16,556	\$ 16,712

(1) Amount includes unamortized premium of \$5,162 and \$6,619 as of July 29, 2017 and January 28, 2017, respectively.

**10.50% Senior Subordinated Notes**

In March 2017, the Company paid an aggregate principal amount of \$18.4 million and, in addition, the related accrued interest associated with the extinguishment of the 10.50% Senior Subordinated Notes due 2017 (the "Senior Subordinated Notes"). As a result, the Company discharged all obligations with respect to the Company's remaining outstanding 10.50% Senior Subordinated Notes due 2017.

**ABL Credit Facility**

On September 20, 2016, the ABL Credit Facility, dated as of August 12, 2016, among the Company, Claire's Inc., the parent of the Company ("Parent"), the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (the "ABL Credit Facility") became effective. The ABL Credit Facility matures on February 4, 2019 and provides for revolving credit loans, subject to borrowing base availability, in an amount up to \$75.0 million less any amounts outstanding under the U.S. Credit Facility (as defined below).

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Borrowings under the ABL Credit Facility bear interest at a rate equal to, at the Company's option, either (a) an alternate base rate determined by reference to the higher of (1) the prime rate in effect on such day, (2) the federal funds effective rate plus 0.50% and (3) the one-month LIBOR rate plus 1.00%, or (b) a LIBOR rate with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits in the London Interbank Market for the interest period relevant to such borrowing, adjusted for certain additional costs, in each case plus an applicable margin of 4.50% for LIBOR rate loans and 3.50% for alternate base rate loans. The Company also pays a facility fee of 0.50% per annum of the committed amount of the ABL Credit Facility whether or not utilized, less amounts outstanding under the U.S. Credit Facility (as defined below).

All obligations under the ABL Credit Facility are unconditionally guaranteed by (i) Parent, prior to an initial public offering of the Company's stock, and (ii) the Company's existing and future direct or indirect wholly-owned domestic subsidiaries, subject to certain exceptions (including CLSIP LLC and CLSIP Holdings LLC).

All obligations under the ABL Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions and permitted liens, by (i) a first-priority security interest in the ABL Priority Collateral (as defined therein) and (ii) a second-priority security interest in the Notes Priority Collateral (as defined therein).

The ABL Credit Facility contains customary provisions relating to mandatory prepayments, voluntary payments, payment of dividends, affirmative and negative covenants, and events of default; however, it does not contain any covenants that require the Company to maintain any particular financial ratio or other measure of financial performance.

As of July 29, 2017, we had \$46.0 million of borrowings, which together with the \$4.0 million of letters of credit outstanding, reduces the borrowing availability to \$25.0 million.

**U.S. Revolving Credit Facility**

On September 20, 2016, the Second Amended and Restated Credit Facility, dated as of August 12, 2016, among the Company, Parent, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (the "U.S. Credit Facility") became effective. Pursuant to the U.S. Credit Facility, among other things, the availability under the U.S. Credit Facility reduced from \$115.0 million to an amount equal to \$75.0 million less any amounts outstanding under the ABL Credit Facility, the maturity was extended to February 4, 2019 and certain covenants were modified.

Borrowings under the U.S. Credit Facility bear interest at a rate equal to, at the Company's option, either (a) an alternate base rate determined by reference to the higher of (1) the prime rate in effect on such day, (2) the federal funds effective rate plus 0.50% and (3) the one-month LIBOR rate plus 1.00%, or (b) a LIBOR rate with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits in the London Interbank Market for the interest period relevant to such borrowing, adjusted for certain additional costs, in each case plus an applicable margin of 4.50% for LIBOR rate loans and 3.50% for alternate base rate loans. The Company also pays a facility fee of 0.50% per annum of the committed amount of the U.S. Credit Facility whether or not utilized, less amounts outstanding under the ABL Credit Facility.

All obligations under the U.S. Credit Facility are unconditionally guaranteed by (i) Parent, prior to an initial public offering of the Company's stock, and (ii) the Company's existing and future direct or indirect wholly-owned domestic subsidiaries, subject to certain exceptions (including CLSIP LLC and CLSIP Holdings LLC).

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All obligations under the U.S. Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions and permitted liens, on a *pari passu* basis with the 9% Claire's Stores Term Loans due 2021 and the Senior Secured First Lien Notes (as defined below) by (i) a first-priority lien on the Notes Priority Collateral (as defined therein) and (ii) a second-priority lien on the ABL Priority Collateral (as defined therein).

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The U.S. Credit Facility contains customary provisions relating to mandatory prepayments, voluntary payments, payment of dividends, affirmative and negative covenants, and events of default; however, it does not contain any covenants that require the Company to maintain any particular financial ratio or other measure of financial performance except that so long as borrowings and letters of credit outstanding under the U.S. Credit Facility exceed \$15 million, the Company is required to maintain, at each borrowing date measured at the end of the prior fiscal quarter (but reflecting borrowings and repayments under the U.S. Credit Facility through the measurement date) and at the end of each fiscal quarter, a maximum Total Net Secured Leverage Ratio of, for the fiscal quarters prior to the first fiscal quarter of 2018, 8.95:1.00, and for the fiscal quarters including and after the first fiscal quarter of 2018, 8.00:1.00, based upon the ratio of the Company's net senior secured first lien debt to adjusted earnings before interest, taxes, depreciation and amortization for the period of four consecutive fiscal quarters most recently ended.

As of July 29, 2017, no borrowings were outstanding under the U.S. Credit Facility.

## **Debt Covenants**

The Company's debt agreements contain certain covenants that, among other things, subject to certain exceptions and other basket amounts, restrict our ability and the ability of our subsidiaries to:

incur additional indebtedness;

pay dividends or distributions on our capital stock, repurchase or retire our capital stock and redeem, repurchase or defease any subordinated indebtedness;

make certain investments;

create or incur certain liens;

create restrictions on the payment of dividends or other distributions to us from the Company's subsidiaries;

transfer or sell assets;

engage in certain transactions with its affiliates; and

merge or consolidate with other companies or transfer all or substantially all of its assets.

Certain of these covenants in the indentures governing the 9.0% Senior Secured First Lien Notes due 2019 (the "9.0% Senior Secured First Lien Notes"), 6.125% Senior Secured First Lien Notes due 2020 (the "6.125% Senior Secured First Lien Notes") and collectively with the 9.0% Senior Secured First Lien Notes, the "Senior Secured First Lien Notes"), the 8.765% Senior Secured Second Lien Notes due 2019 (the "Second Lien Notes"), and the 7.750% Senior Notes due 2020 (the "Unsecured Notes") (collectively, the "Notes"), such as limitations on the Company's ability to make certain payments

such as dividends, or incur debt, will no longer apply if the Notes have investment grade ratings from both of the rating agencies of Moody's Investor Services, Inc. ( Moody's ) and Standard & Poor's Ratings Group ( S&P ) and no event of default has occurred. Since the date of issuance of the Notes, the Notes have not received investment grade ratings from Moody's or S&P. Accordingly, all of the covenants under the Notes currently apply to the Company. None of the covenants under the Notes, however, require the Company to maintain any particular financial ratio or other measure of financial performance.

See Note 3 Fair Value Measurements for related fair value disclosure on debt.

### **Europe Bank Credit Facilities**

The Company's non-U.S. subsidiaries have bank credit facilities totaling approximately \$2.0 million. The facilities are used for working capital requirements, letters of credit and various guarantees. These credit facilities have been arranged in accordance with customary lending practices in the respective country of operation. As of July 29, 2017, there was a reduction of \$1.8 million for outstanding bank guarantees, which reduces the borrowing availability to \$0.2 million as of that date.

**Table of Contents****5. Commitments and Contingencies**

The Company is, from time to time, involved in litigation incidental to the conduct of its business, including personal injury litigation, litigation regarding merchandise sold, including product and safety concerns regarding heavy metal and chemical content in merchandise, litigation with respect to various employment matters, including litigation with present and former employees, wage and hour litigation and litigation regarding intellectual property rights.

The Company believes that current pending litigation will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

**6. Accumulated Other Comprehensive Loss**

The following summary sets forth the components of accumulated other comprehensive loss, net of tax as follows (in thousands, net of tax):

	<b>Total <sup>(1)</sup></b>
Balance as of January 28, 2017	\$ (51,881)
Other comprehensive income	14,041
Balance as of July 29, 2017	\$ (37,840)

(1) Represents foreign currency items and \$5.7 million of other income associated with expired derivative instruments.

**7. Stock Options and Stock-Based Compensation**

The following is a summary of activity in the Company's stock option plan for the six months ended July 29, 2017:

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>
Outstanding as of January 28, 2017	3,125,062	\$ 5.67	
Options granted	32,400	\$ 1.25	
Options exercised			
Options forfeited	(33,163)	\$ 7.58	
Options expired	(10,962)	\$ 9.93	
Outstanding as of July 29, 2017	3,113,337	\$ 5.58	4.2

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Options vested and expected to vest as of July 29, 2017	2,955,514	\$	5.72	4.2
Exercisable as of July 29, 2017	1,705,111	\$	7.21	3.5

The weighted average grant date fair value of options granted during the six months ended July 29, 2017 and July 30, 2016 was \$0.39 and \$0.32, respectively.

Stock-based compensation expense (benefit) is recorded in Selling, general and administrative expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss.



**Table of Contents****8. Income Taxes**

The effective income tax rate was (100.4)% and (8.4)% for the three and six months ended July 29, 2017. This effective income tax rate differed from the statutory federal income tax rate of 35% primarily from foreign tax rate differentials as compared to the U.S. statutory rate, changes in the valuation allowance and the correction of an error associated with the prior quarter.

During the three months ended July 29, 2017, the Company identified an error in which the non-cash income tax benefit recorded for the three months ended April 29, 2017 was overstated by \$7.5 million. This error was corrected in the three months ended July 29, 2017. As a result, the non-cash income tax expense for the three months ended July 29, 2017 is overstated by \$7.5 million. The income tax expense for the six months ended July 29, 2017 is properly stated. The following is a summary of the income tax expense (benefit) both as reported and as if the error was corrected in the appropriate period.

	<b>Three Months Ended</b>	
	<b>July 29, 2017</b>	<b>April 29, 2017</b>
As reported	\$ 10.2 million	(\$ 8.1 million)
If corrected	\$ 2.7 million	(\$ 0.6 million)

The effective income tax rate was (3.8)% and 0.2% for the three and six months ended July 30, 2016. This effective income tax rate differed from the statutory federal income tax rate of 35% primarily from foreign tax rate differentials as compared to the U.S. statutory rate and changes in the valuation allowance.

**9. Related Party Transactions**

The Company, Parent, and affiliates have purchased and may, from time to time, purchase portions of the Company's indebtedness. All of these purchases have been open market transactions and any interest payments to Parent or affiliates made thereon are paid in accordance with the associated indenture or loan agreement. As of July 29, 2017 and January 28, 2017, Parent and affiliates held \$62.8 million and \$60.6 million, respectively, of the Company's indebtedness. For the three and six month ended July 29, 2017 and July 30, 2016, the Company recognized interest expense related to the indebtedness held by Parent and affiliates of \$0.0 million, \$0.0 million, \$6.3 million and \$12.4 million, respectively. Interest on the debt held as of July 29, 2017 is payable in kind.

***Management Services Agreement***

On June 6, 2017, the Company and Claire's Inc., the parent of the Company ( Parent ) entered into an Amended and Restated Management Services Agreement (the Management Services Agreement ) with Apollo Management VI, L.P. (together with its affiliates, Apollo ), Cowen & Co., LLC, as successor to Tri-Artisan Capital Partners, LLC ( TACP ), ( Cowen , and together with Apollo, the Managers ) and TACP Investments Claire's LLC ( TACPI ). The Management Services Agreement supersedes, amends and entirely restates the Management Services Agreement, dated as of May 29, 2007 by and among the Company, Parent, Apollo, TACP and TACPI ( the Original Agreement ). Under the Management Service Agreement, the Managers have agreed to provide to the Company certain investment banking, management, consulting and financial planning services on an ongoing basis. The Managers will receive no fee for these services, but will be reimbursed by the Company for their out-of-pocket expenses. In the prior Management Services Agreement, the Managers were paid a \$3.0 million fee annually. In addition, under the Management Services Agreement, the Managers have agreed to provide to the Company certain financial advisory and investment banking services from time-to-time in connection with major financial transactions that may be undertaken by the Company or

its subsidiaries in exchange for normal and customary fees as agreed by the Managers (or their affiliates) and the Company and Parent, taking into consideration all relevant factors. Under the Management Services Agreement, the Company and Parent have also agreed to provide the Managers (and their affiliates) with customary indemnification. The Management Services Agreement will terminate upon the earliest to occur of May 29, 2025 or the occurrence of certain termination events specified therein.

In addition, on June 6, 2017, the Company and Cowen entered into a letter agreement (the "Cowen Management Agreement") pursuant to which Cowen will provide the Company with certain financial advisory and investment banking services on a month-to-month basis. Cowen will receive as compensation for such services a monthly cash fee of \$32,000, payable at the beginning of each month, and in addition, will be reimbursed for all reasonable out-of-pocket expenses. The Company will provide Cowen (and its affiliates) with a customary indemnification. The Cowen Management Agreement may be terminated by either Cowen or the Company at any time on 30 days prior written notice. So long as the Cowen Management Agreement remains in effect, as between the Company and Parent, and Cowen, in the event of any conflict between the Cowen Management Agreement and the terms of the Management Services Agreement referred to above, the terms of the Cowen Management Agreement shall govern. On September 1, 2017, the Company elected to terminate the Cowen Management Agreement effective as of September 30, 2017.

**Table of Contents****10. Segment Information**

The Company is organized based on the geographic markets in which it operates. Under this structure, the Company currently has two reportable segments: North America and Europe. The Company accounts for the goods it sells to third parties under franchising and licensing agreements within Net sales and Cost of sales, occupancy and buying expenses in the Company's Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss within its North America segment. The franchise fees the Company charges under the franchising agreements are reported in Other income, net in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss within its Europe segment. Substantially all of the interest expense on the Company's outstanding debt is recorded in the Company's North America segment.

Net sales, depreciation and amortization and operating income for the three and six months ended July 29, 2017 and July 30, 2016 are as follows (in thousands):

	<b>Three Months Ended July 29, 2017</b>	<b>Three Months Ended July 30, 2016</b>	<b>Six Months Ended July 29, 2017</b>	<b>Six Months Ended July 30, 2016</b>
Net sales:				
North America	\$ 196,033	\$ 194,774	\$ 391,993	\$ 394,080
Europe	120,604	122,398	224,265	222,739
Total net sales	316,637	317,172	616,258	616,819
Depreciation and amortization:				
North America	7,028	8,337	14,130	17,432
Europe	3,862	5,459	7,963	10,424
Total depreciation and amortization	10,890	13,796	22,093	27,856
Operating income for reportable segments:				
North America	16,306	16,184	42,016	40,755
Europe	17,255	8,675	20,364	671
Total operating income for reportable segments	33,561	24,859	62,380	41,426
Severance and transaction-related costs	389	125	532	1,698
Consolidated operating income	33,172	24,734	61,848	39,728
Interest expense, net	43,394	55,623	86,974	110,702
Consolidated loss before income tax expense	\$ (10,222)	\$ (30,889)	\$ (25,126)	\$ (70,974)

Excluded from operating income for the North America segment are severance and transaction-related costs of approximately \$0.3 million and \$0.0 million for the three months ended July 29, 2017 and July 30, 2016, respectively,

and \$0.3 million and \$1.3 million for the six months ended July 29, 2017 and July 30, 2016, respectively.

Excluded from operating income for the Europe segment are severance and transaction-related costs of approximately \$0.1 million and \$0.1 million for the three months ended July 29, 2017 and July 30, 2016, respectively, and \$0.2 million and \$0.4 million for the six months ended July 29, 2017 and July 30, 2016, respectively.

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**11. Supplemental Financial Information**

On March 4, 2011, Claire's Stores, Inc. (referred to in this Note 11 as the "Issuer"), issued the Second Lien Notes. On February 28, 2012, March 12, 2012 and September 20, 2012, the Issuer issued the 9.0% Senior Secured First Lien Notes. On March 15, 2013, the Issuer issued the 6.125% Senior Secured First Lien Notes and on May 14, 2013, the Issuer issued the Unsecured Notes. The Second Lien Notes are irrevocably and unconditionally guaranteed, jointly and severally, by all wholly-owned domestic current and future subsidiaries of Claire's Stores, Inc. that guarantee the Company's ABL Credit Facility and U.S. Credit Facility. The First Lien Notes are unconditionally guaranteed, jointly and severally, by all wholly-owned domestic current and future subsidiaries of Claire's Stores, Inc. (subject to certain exceptions, including CLSIP LLC and CLSIP Holdings LLC). As of July 29, 2017, Claire's Stores, Inc. owned 100% of its domestic subsidiaries that guarantee the Notes. All guarantors are collectively referred to as the "Guarantors." The Company's other subsidiaries, principally its international subsidiaries including its European, Canadian and Asian subsidiaries (the "Non-Guarantors"), are not guarantors of these Notes.

The tables in the following pages present the condensed consolidating financial information for the Issuer, the Guarantors and the Non-Guarantors, together with eliminations, as of and for the periods indicated. The consolidating financial information may not necessarily be indicative of the financial position, results of operations or cash flows had the Issuer, Guarantors and Non-Guarantors operated as independent entities.

**Table of Contents****Condensed Consolidating Balance Sheet****July 29, 2017****(in thousands)**

	<b>Issuer</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 5,659	\$ 4,818	\$ 20,712	\$	\$ 31,189
Inventories		86,383	71,234		157,617
Prepaid expenses	1,138	1,482	16,152		18,772
Other current assets	193	14,331	10,612		25,136
Total current assets	6,990	107,014	118,710		232,714
Property and equipment:					
Furniture, fixtures and equipment	5,817	137,748	81,247		224,812
Leasehold improvements	1,315	183,548	119,267		304,130
	7,132	321,296	200,514		528,942
Accumulated depreciation and amortization	(5,493)	(251,837)	(145,465)		(402,795)
	1,639	69,459	55,049		126,147
Leased property under capital lease:					
Land and building		18,055			18,055
Accumulated depreciation and amortization		(6,765)			(6,765)
		11,290			11,290
Intercompany receivables		341,830	87,681	(429,511)	
Investment in subsidiaries	1,624,103	(46,286)		(1,577,817)	
Goodwill		987,517	145,058		1,132,575
Intangible assets, net	188,100	149,716	203,475	(84,634)	456,657
Other assets	1,146	4,305	37,886		43,337
	1,813,349	1,437,082	474,100	(2,091,962)	1,632,569
Total assets	\$ 1,821,978	\$ 1,624,845	\$ 647,859	\$ (2,091,962)	\$ 2,002,720

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**(DEFICIT)**

## Current liabilities:

Trade accounts payable	\$ 808	\$ 23,401	\$ 46,808	\$	\$ 71,017
Income taxes payable		183	4,934		5,117
Accrued interest payable	52,741		370		53,111
Accrued expenses and other current liabilities	11,791	34,350	37,763		83,904

Total current liabilities	65,340	57,934	89,875		213,149
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Intercompany payables	429,511			(429,511)	
Long-term debt, net	1,813,137	146,887	156,925		2,116,949
Revolving credit facility, net	44,361				44,361
Obligation under capital lease		16,187			16,187
Deferred tax liability		93,554	5,934		99,488
Deferred rent expense		22,712	11,155		33,867
Unfavorable lease obligations and other long-term liabilities		9,090			9,090

	2,287,009	288,430	174,014	(429,511)	2,319,942
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## Stockholder's equity (deficit):

Common stock		367	2	(369)	
Additional paid in capital	630,652	1,520,543	766,993	(2,287,536)	630,652
Accumulated other comprehensive income (loss), net of tax	(37,840)	(3,176)	(35,950)	39,126	(37,840)
Accumulated deficit	(1,123,183)	(239,253)	(347,075)	586,328	(1,123,183)
	(530,371)	1,278,481	383,970	(1,662,451)	(530,371)

Total liabilities and stockholder's equity (deficit)	\$ 1,821,978	\$ 1,624,845	\$ 647,859	\$ (2,091,962)	\$ 2,002,720
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**Table of Contents****Condensed Consolidating Balance Sheet****January 28, 2017****(in thousands)**

	<b>Issuer</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 3,038	\$ 3,005	\$ 49,749	\$	\$ 55,792
Inventories		74,307	55,932		130,239
Prepaid expenses	463	1,397	12,782		14,642
Other current assets		14,281	10,989		25,270
Total current assets	3,501	92,990	129,452		225,943
Property and equipment:					
Furniture, fixtures and equipment	5,817	137,382	75,605		218,804
Leasehold improvements	1,315	183,910	112,411		297,636
	7,132	321,292	188,016		516,440
Accumulated depreciation and amortization	(5,121)	(244,158)	(132,696)		(381,975)
	2,011	77,134	55,320		134,465
Leased property under capital lease:					
Land and building		18,055			18,055
Accumulated depreciation and amortization		(6,313)			(6,313)
		11,742			11,742
Intercompany receivables		288,796	61,125	(349,921)	
Investment in subsidiaries	1,541,321	(43,213)		(1,498,108)	
Goodwill		987,517	145,058		1,132,575
Intangible assets, net	188,100	149,804	201,686	(84,634)	454,956
Other assets	1,066	4,342	35,117		40,525
	1,730,487	1,387,246	442,986	(1,932,663)	1,628,056
Total assets	\$ 1,735,999	\$ 1,569,112	\$ 627,758	\$ (1,932,663)	\$ 2,000,206

**LIABILITIES AND STOCKHOLDER'S EQUITY**



**(DEFICIT)**

## Current liabilities:

Current portion of long-term debt, net	\$ 18,405	\$	\$	\$	\$ 18,405
Trade accounts payable	1,719	21,048	46,964		69,731
Income taxes payable		1,160	4,923		6,083
Accrued interest payable	52,667		599		53,266
Accrued expenses and other current liabilities	14,474	33,517	39,155		87,146
Total current liabilities	87,265	55,725	91,641		234,631
Intercompany payables	349,923			(349,923)	
Long-term debt, net	1,812,208	149,302	157,143		2,118,653
Revolving credit facility, net	3,925				3,925
Obligation under capital lease		16,388			16,388
Deferred tax liability		93,554	5,701		99,255
Deferred rent expense		23,424	10,876		34,300
Unfavorable lease obligations and other long-term liabilities		10,373	3		10,376
	2,166,056	293,041	173,723	(349,923)	2,282,897
Stockholder's equity (deficit):					
Common stock		367	2	(369)	
Additional paid in capital	630,496	1,520,544	766,993	(2,287,537)	630,496
Accumulated other comprehensive income (loss), net of tax	(51,881)	(5,187)	(47,062)	52,249	(51,881)
Accumulated deficit	(1,095,937)	(295,378)	(357,539)	652,917	(1,095,937)
	(517,322)	1,220,346	362,394	(1,582,740)	(517,322)
Total liabilities and stockholder's equity (deficit)	\$ 1,735,999	\$ 1,569,112	\$ 627,758	\$ (1,932,663)	\$ 2,000,206

**Table of Contents****Condensed Consolidating Statement of Operations and Comprehensive Loss****For The Three Months Ended July 29, 2017****(in thousands)**

	<b>Issuer</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 180,868	\$ 135,769	\$	\$ 316,637
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	3,017	89,864	68,702		161,583
Gross profit (deficit)	(3,017)	91,004	67,067		155,054
Other expenses:					
Selling, general and administrative	5,967	58,717	48,090		112,774
Depreciation and amortization	181	6,379	4,330		10,890
Severance and transaction-related costs	234	16	139		389
Other income, net	(918)	(112)	(1,141)		(2,171)
	5,464	65,000	51,418		121,882
Operating income (loss)	(8,481)	26,004	15,649		33,172
Interest expense, net	40,071	535	2,788		43,394
Income (loss) before income taxes	(48,552)	25,469	12,861		(10,222)
Income tax expense (benefit)		121	10,145		10,266
Income (loss) from continuing operations	(48,552)	25,348	2,716		(20,488)
Equity in earnings (loss) of subsidiaries	28,064	(2,203)		(25,861)	
Net income (loss)	(20,488)	23,145	2,716	(25,861)	(20,488)
Foreign currency translation adjustments	4,523	1,080	(196)	(884)	4,523
Net gain (loss) on intra-entity foreign currency transactions, net of tax	7,593	2,199	7,588	(9,787)	7,593
Other comprehensive income (loss)	12,116	3,279	7,392	(10,671)	12,116
Comprehensive income (loss)	\$ (8,372)	\$ 26,424	\$ 10,108	\$ (36,532)	\$ (8,372)

**Condensed Consolidating Statement of Operations and Comprehensive Loss****For The Three Months Ended July 30, 2016****(in thousands)**

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$	\$ 179,775	\$ 137,397	\$	\$ 317,172
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	2,861	94,245	73,577		170,683
Gross profit (deficit)	(2,861)	85,530	63,820		146,489
Other expenses:					
Selling, general and administrative	4,794	58,211	49,367		112,372
Depreciation and amortization	243	7,543	6,010		13,796
Severance and transaction-related costs	1		124		125
Other (income) expense	(2,102)	398	(2,834)		(4,538)
	2,936	66,152	52,667		121,755
Operating income (loss)	(5,797)	19,378	11,153		24,734
Interest expense, net	54,717	553	353		55,623
Income (loss) before income taxes	(60,514)	18,825	10,800		(30,889)
Income tax expense (benefit)		563	625		1,188
Income (loss) from continuing operations	(60,514)	18,262	10,175		(32,077)
Equity in earnings (loss) of subsidiaries	28,437	70		(28,507)	
Net income (loss)	(32,077)	18,332	10,175	(28,507)	(32,077)
Foreign currency translation adjustments	(2,340)	(548)	(253)	801	(2,340)
Net gain (loss) on intra-entity foreign currency transactions, net of tax	(6,385)	(768)	(6,514)	7,282	(6,385)
Other comprehensive income (loss)	(8,725)	(1,316)	(6,767)	8,083	(8,725)
Comprehensive income (loss)	\$ (40,802)	\$ 17,016	\$ 3,408	\$ (20,424)	\$ (40,802)

**Table of Contents****Condensed Consolidating Statement of Operations and Comprehensive Loss****For The Six Months Ended July 29, 2017****(in thousands)**

	<b>Issuer</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 362,938	\$ 253,320	\$	\$ 616,258
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	6,179	176,063	131,129		313,371
Gross profit (deficit)	(6,179)	186,875	122,191		302,887
Other expenses:					
Selling, general and administrative	11,720	116,002	95,564		223,286
Depreciation and amortization	372	12,705	9,016		22,093
Severance and transaction-related costs	234	73	225		532
Other income, net	(2,855)	(304)	(1,713)		(4,872)
	9,471	128,476	103,092		241,039
Operating income (loss)	(15,650)	58,399	19,099		61,848
Interest expense, net	80,341	1,061	5,572		86,974
Income (loss) before income taxes	(95,991)	57,338	13,527		(25,126)
Income tax expense (benefit)		(943)	3,063		2,120
Income (loss) from continuing operations	(95,991)	58,281	10,464		(27,246)
Equity in earnings (loss) of subsidiaries	68,745	(2,157)		(66,588)	
Net income (loss)	(27,246)	56,124	10,464	(66,588)	(27,246)
Foreign currency translation adjustments	4,567	668	1,641	(2,309)	4,567
Net gain (loss) on intra-entity foreign currency transactions, net of tax	9,474	1,343	9,471	(10,814)	9,474
Other comprehensive income (loss)	14,041	2,011	11,112	(13,123)	14,041
Comprehensive income (loss)	\$ (13,205)	\$ 58,135	\$ 21,576	\$ (79,711)	\$ (13,205)

**Condensed Consolidating Statement of Operations and Comprehensive Loss****For The Six Months Ended July 30, 2016****(in thousands)**

	<b>Issuer</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 365,799	\$ 251,020	\$	\$ 616,819
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	5,586	185,497	137,953		329,036
Gross profit (deficit)	(5,586)	180,302	113,067		287,783
Other expenses:					
Selling, general and administrative	9,565	113,624	96,905		220,094
Depreciation and amortization	480	15,857	11,519		27,856
Severance and transaction-related costs	1,349	(3)	352		1,698
Other (income) expense	(3,513)	414	1,506		(1,593)
	7,881	129,892	110,282		248,055
Operating income (loss)	(13,467)	50,410	2,785		39,728
Interest expense, net	108,986	1,093	623		110,702
Income (loss) before income taxes	(122,453)	49,317	2,162		(70,974)
Income tax expense (benefit)		(776)	637		(139)
Income (loss) from continuing operations	(122,453)	50,093	1,525		(70,835)
Equity in earnings (loss) of subsidiaries	51,618	(1,594)		(50,024)	
Net income (loss)	(70,835)	48,499	1,525	(50,024)	(70,835)
Foreign currency translation adjustments	520	938	(2,959)	2,021	520
Net gain on intra-entity foreign currency transactions, net of tax	3,810	1,621	3,764	(5,385)	3,810
Other comprehensive income (loss)	4,330	2,559	805	(3,364)	4,330
Comprehensive income (loss)	\$ (66,505)	\$ 51,058	\$ 2,330	\$ (53,388)	\$ (66,505)

**Table of Contents****Condensed Consolidating Statement of Cash Flows****Six Months Ended July 29, 2017****(in thousands)**

	<b>Issuer</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ (27,246)	\$ 56,124	\$ 10,464	\$ (66,588)	\$ (27,246)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Loss (equity) in earnings of subsidiaries	(68,745)	2,157		66,588	
Depreciation and amortization	372	12,705	9,016		22,093
Amortization of lease rights and other assets			1,862		1,862
Amortization of debt issuance costs	3,781		531		4,312
Accretion of debt premium	(1,457)				(1,457)
Non-cash pay-in-kind interest expense			750		750
Net accretion of unfavorable lease obligations		(56)	1		(55)
Loss on sale/retirement of property and equipment, net		126	2		128
Stock-based compensation expense (benefit)	139		17		156
(Increase) decrease in:					
Inventories		(12,077)	(10,006)		(22,083)
Prepaid expenses	(675)	(84)	(1,167)		(1,926)
Other assets	(268)	(23)	216		(75)
Increase (decrease) in:					
Trade accounts payable	(912)	2,811	(2,608)		(709)
Income taxes payable		(967)	688		(279)
Accrued interest payable	73		(228)		(155)
Accrued expenses and other liabilities	(2,683)	(365)	(3,946)		(6,994)
Deferred income taxes			(359)		(359)
Deferred rent expense		(712)	(484)		(1,196)
Net cash provided by (used in) operating activities	(97,621)	59,639	4,749		(33,233)
<b>Cash flows from investing activities:</b>					
Acquisition of property and equipment		(5,111)	(2,990)		(8,101)
Acquisition of intangible assets/lease rights		(38)			(38)

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Net cash used in investing activities		(5,149)	(2,990)	(8,139)
Cash flows from financing activities:				
Proceeds from revolving credit facilities	81,000			81,000
Payments on revolving credit facilities	(41,200)			(41,200)
Payment on current portion of long-term debt	(18,420)			(18,420)
Payments of unamortized interest related to long-term debt	(743)	(2,415)	(1,114)	(4,272)
Payment of debt issuance costs			(386)	(386)
Principal payments on capital lease		(156)		(156)
Intercompany activity, net	79,605	(53,034)	(26,571)	
Net cash provided by (used in) financing activities	100,242	(55,605)	(28,071)	16,566
Effect of foreign currency exchange rate changes on cash and cash equivalents		2,928	(2,725)	203
Net increase (decrease) in cash and cash equivalents	2,621	1,813	(29,037)	(24,603)
Cash and cash equivalents, at beginning of period	3,038	3,005	49,749	55,792
Cash and cash equivalents, at end of period	\$ 5,659	\$ 4,818	\$ 20,712	\$ 31,189

**Table of Contents****Condensed Consolidating Statement of Cash Flows****Six Months Ended July 30, 2016****(in thousands)**

	<b>Issuer</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ (70,835)	\$ 48,499	\$ 1,525	\$ (50,024)	\$ (70,835)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>					
Loss (equity) in earnings of subsidiaries	(51,618)	1,594		50,024	
Depreciation and amortization	480	15,857	11,519		27,856
Amortization of lease rights and other assets			1,371		1,371
Amortization of debt issuance costs	4,052		170		4,222
Accretion of debt premium	(1,339)				(1,339)
Non-cash pay-in-kind interest expense	9,156				9,156
Net accretion of unfavorable lease obligations		(125)	(1)		(126)
Loss on sale/retirement of property and equipment, net		165	5		170
Stock-based compensation expense (benefit)	(13)		10		(3)
<b>(Increase) decrease in:</b>					
Inventories		5,002	(6,145)		(1,143)
Prepaid expenses	(839)	(166)	(2,046)		(3,051)
Other assets	17	105	(403)		(281)
<b>Increase (decrease) in:</b>					
Trade accounts payable	(1,054)	(5,703)	769		(5,988)
Income taxes payable		(264)	223		(41)
Accrued interest payable	262		22		284
Accrued expenses and other liabilities	(124)	(6,524)	(5,349)		(11,997)
Deferred income taxes			(545)		(545)
Deferred rent expense		(973)	(240)		(1,213)
<b>Net cash provided by (used in) operating activities</b>	<b>(111,855)</b>	<b>57,467</b>	<b>885</b>		<b>(53,503)</b>
<b>Cash flows from investing activities:</b>					
Acquisition of property and equipment	(389)	(5,058)	(3,076)		(8,523)
Acquisition of intangible assets/lease rights		(23)	(80)		(103)



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Net cash used in investing activities	(389)	(5,081)	(3,156)	(8,626)
Cash flows from financing activities:				
Proceeds from revolving credit facilities	68,000		52,618	120,618
Payments on revolving credit facilities				
Payment of debt issuance costs	(25)		(54)	(79)
Principal payments on capital lease		(116)		(116)
Intercompany activity, net	74,903	(54,661)	(20,242)	
Net cash provided by (used in) financing activities	142,878	(54,777)	32,322	120,423
Effect of foreign currency exchange rate changes on cash and cash equivalents		3,641	(5,534)	(1,893)
Net increase in cash and cash equivalents	30,634	1,250	24,517	56,401
Cash and cash equivalents, at beginning of period	2,664	3,394	12,813	18,871
Cash and cash equivalents, at end of period	\$ 33,298	\$ 4,644	\$ 37,330	\$ 75,272

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to provide the reader of the financial statements with a narrative on our results of operations, financial position and liquidity, risk management activities, and significant accounting policies and critical estimates. Management's Discussion and Analysis should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and related notes thereto contained elsewhere in this document.

We include a store in the calculation of same store sales once it has been in operation sixty weeks after its initial opening and, we include sales from e-commerce. A store which is temporarily closed, such as for remodeling, is removed from the same store sales computation if it is closed for one week or more. The removal is effective prospectively upon the completion of the first fiscal week of closure. A store which is closed permanently, such as upon termination of the lease, is immediately removed from the same store sales computation. We compute same store sales on a local currency basis, which eliminates any impact for changes in foreign currency rates.

We are highly leveraged, with significant debt service obligations. On September 20, 2016, we completed an exchange offer which significantly reduced the amount of our indebtedness, extended our maturities and improved liquidity through the reduction of cash interest expense (the Exchange Offer). Nonetheless, as of July 29, 2017, we reported net debt (total debt less cash and cash equivalents) of approximately \$2.1 billion. See Note 4 Debt, in the Notes to the accompanying Unaudited Condensed Consolidated Financial Statements for a summary of our outstanding indebtedness as of July 29, 2017, and Note 6 Debt, in the Notes to Audited Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended January 28, 2017 filed with the Securities and Exchange Commission, for a description of our existing debt, debt agreements, and Exchange Offer.

**Results of Consolidated Operations**

**Management Overview**

We are one of the world's leading specialty retailers of fashionable jewelry and accessories for young women, teens, tweens, and kids. Our vision is to be the emporium of choice for all girls (in age or attitude) across the world. We deliver this by offering a range of innovative, fun and affordable products and services that cater to all of her activities, as she grows up, whenever and wherever. Our broad and dynamic selection of merchandise is unique. We are organized into two operating segments: North America and Europe. We identify our operating segments by how we manage and evaluate our business activities. As of July 29, 2017, we operated a total of 2,660 company-operated stores of which 1,614 were located in all 50 states of the United States, Puerto Rico, Canada and the U.S. Virgin Islands (North America segment) and 1,046 stores were located in the United Kingdom, Switzerland, Austria, Germany, France, Ireland, Spain, Portugal, Netherlands, Belgium, Poland, Czech Republic, Hungary, Italy and Luxembourg (Europe segment). We operate our stores under two brand names: *Claire's*® and *Icing*®. As of July 29, 2017, we also had a total of 860 concession stores, of which 333 were located in the United States and Canada (North America segment) and 527 stores were located in the United Kingdom, France, Spain, Austria, Germany, Italy, Portugal, Switzerland, Hungary and Poland (Europe segment).

As of July 29, 2017, we also franchised 650 stores in Japan, the Middle East, Greece, Guatemala, Malta, India, Dominican Republic, El Salvador, Panama, Indonesia, Costa Rica, Serbia, Romania, Martinique, Pakistan, Thailand, Southern Africa, Russia and Ecuador. We account for the goods we sell to third parties under franchising agreements within Net sales and Cost of sales, occupancy and buying expenses (North America segment) in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss. The franchise fees we charge under the franchising agreements are reported in Other income, net (North America segment) in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss.



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*Claire s*<sup>®</sup> is our primary global brand that we operate through company-operated, concession stores, or franchise stores. *Claire s*<sup>®</sup> offers a differentiated and fun store experience with a treasure hunt setting that encourages our customer to visit often to explore and find merchandise that appeals to her. We believe by maintaining a highly relevant merchandise assortment and offering a compelling value proposition, *Claire s*<sup>®</sup> has universal appeal to teens, pre-teens and kids. *Claire s*<sup>®</sup> target customer is a girl between 3-18 years old for whom we create three distinct ranges: 3 to 6, 6 to 12 and 12 to 18.

*Icing*<sup>®</sup> is our second brand which we currently operate in North America through company-operated stores and in the Middle East through franchised stores. *Icing*<sup>®</sup> offers an inspiring merchandise assortment of fashionable products that helps a young woman to say something about herself, whatever the occasion. Our *Icing*<sup>®</sup> brand targets a young woman in the 18-35 year age group with a focus on our core 21-25 year olds who have recently entered the workforce. This customer is independent, fashion-conscious, and has enhanced spending ability.

We provide our target customer groups with a significant selection of fashionable merchandise across a wide range of categories, all with a compelling value proposition. Our major categories of business are:

Jewelry: Includes earrings as well as our ear piercing service, necklaces, bracelets, body jewelry and rings; and

Accessories: Includes hairgoods; beauty products; room decor; personal, fashion, and seasonal accessories, including tech accessories such as phone cases, jewelry holders, stationery, key rings, attitude glasses, headwear, legwear, armwear, and sunglasses; and handbags and small leather goods.

In North America, our stores are located primarily in shopping malls. The differentiation of our *Claire s*<sup>®</sup> and *Icing*<sup>®</sup> brands allows us to operate multiple stores within a single location. In Europe, our stores are located primarily on high streets, in shopping malls and in high traffic urban areas.

**Financial activity for the three and six months ended July 29, 2017 includes the following:**

Net sales approximately flat year-over-year for both periods; respectively;

Same store sales percentages;

	<b>Three Months Ended July 29, 2017</b>	<b>Six Months Ended July 29, 2017</b>
Consolidated	2.8%	3.6%
North America	2.6%	1.4%
Europe	3.2%	7.5%
Gross profit percentage increase	280 basis points	240 basis points
Operating income margin	10.5%	10.0%

**Operational activity for the three and six months ended July 29, 2017 includes the following:**

Store Activity Openings (Closings):	Three Months Ended		Six Months Ended	
	July 29, 2017		July 29, 2017	
	Opened	Closed <sup>(1)</sup>	Opened	Closed <sup>(1)</sup>
Company-operated		20	1	51
Concession	1	42	8	81
Franchise	13	10	76	29
Total	14	72	85	161

(1) Due to underperformance or lease renewal terms that did not meet our criteria

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A summary of our consolidated results of operations for the three and six months ended July 29, 2017 and July 30, 2016 are as follows (dollars in thousands):

	<b>Three Months Ended July 29, 2017</b>	<b>Three Months Ended July 30, 2016</b>
Net sales	\$ 316,637	\$ 317,172
Increase (decrease) in same store sales	2.8%	(5.7)%
Gross profit percentage	49.0%	46.2%
Selling, general and administrative expenses as a percentage of net sales	35.6%	35.4%
Depreciation and amortization as a percentage of net sales	3.4%	4.3%
Operating income	\$ 33,172	\$ 24,734
Net loss	\$ (20,488)	\$ (32,077)
Number of company-operated stores at the end of the period	2,660	2,801
Number of concession stores at the end of the period	860	806

	<b>Six Months Ended July 29, 2017</b>	<b>Six Months Ended July 30, 2016</b>
Net sales	\$ 616,258	\$ 616,819
Increase (decrease) in same store sales	3.6%	(5.4)%
Gross profit percentage	49.1%	46.7%
Selling, general and administrative expenses as a percentage of net sales	36.2%	35.7%
Depreciation and amortization as a percentage of net sales	3.6%	4.5%
Operating income	\$ 61,848	\$ 39,728
Net loss	\$ (27,246)	\$ (70,835)
Number of company-operated stores at the end of the period	2,660	2,801
Number of concession stores at the end of the period	860	806

*Net sales*

Net sales for the three months ended July 29, 2017 decreased \$0.5 million, or 0.2%, from the three months ended July 30, 2016. The decrease was attributable to the effect of store closures of \$9.7 million, an unfavorable foreign currency translation effect of our non-U.S. net sales of \$2.3 million and decreased sales to franchisees of \$0.4 million, partially offset by an increase in same store sales of \$8.5 million and an increase in new concession store sales and new store sales of \$3.4 million. Sales would have increased 0.5% excluding the impact from foreign currency exchange rate changes.

Net sales for the six months ended July 29, 2017 decreased \$0.6 million, or 0.1%, from the six months ended July 30, 2016. The decrease was attributable to the effect of store closures of \$19.4 million, an unfavorable foreign currency translation effect of our non-U.S. net sales of \$9.5 million and decreased sales to franchisees of \$1.4 million, partially offset by an increase in same store sales of \$20.8 million and an increase in new concession store sales and new store sales of \$8.9 million. Sales would have increased 1.4% excluding the impact from foreign currency exchange rate changes.

For the three months ended July 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 8.7%, partially offset by a decrease in average number of transactions per store of 4.5%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

For the six months ended July 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 8.3%, partially offset by a decrease in average number of transactions per store of 3.6%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

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The following table compares our sales of each product category for each of the periods presented:

<b>Product Category</b>	<b>Percentage of Total Three Months Ended</b>		<b>Percentage of Total Six Months Ended</b>	
	<b>July 29, 2017</b>	<b>July 30, 2016</b>	<b>July 29, 2017</b>	<b>July 30, 2016</b>
Jewelry	48.5	48.1	48.7	48.0
Accessories	51.5	51.9	51.3	52.0
	100.0	100.0	100.0	100.0

*Gross profit*

In calculating gross profit and gross profit percentages, we exclude the costs related to our distribution center and depreciation and amortization expense. These costs are included instead in Selling, general and administrative expenses in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss. Other retail companies may include these costs in cost of sales, so our gross profit percentages may not be comparable to those retailers.

During the three months ended July 29, 2017, gross profit percentage increased 280 basis points to 49.0% compared to 46.2% during the three months ended July 30, 2016. The increase in gross profit percentage consisted of a 170 basis point increase in merchandise margin and a 110 basis point decrease in occupancy. The increase in merchandise margin percentage resulted primarily from higher initial markup and lower markdowns. Markdowns fluctuate based upon many factors, including the amount of inventory purchased versus the rate of sale and promotional activity. We do not anticipate a significant change in the level of markdowns that would materially affect our merchandise margin. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales.

During the six months ended July 29, 2017, gross profit percentage increased 240 basis points to 49.1% compared to 46.7% during the six months ended July 30, 2016. The increase in gross profit percentage consisted of a 130 basis point decrease in occupancy costs and by a 120 basis point increase in merchandise margin, partially offset by a 10 basis point increase in buying and buying-related costs. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales. The increase in merchandise margin percentage resulted primarily from higher initial markup and higher trade discounts.

*Selling, general and administrative expenses*

During the three months ended July 29, 2017, selling, general and administrative expenses increased \$0.4 million, or 0.4%, compared to the three months ended July 30, 2016. As a percentage of net sales, selling, general and administrative expenses increased 20 basis points compared to the three months ended July 30, 2016. Excluding a favorable \$1.0 million foreign currency translation effect, selling, general, and administrative expenses would have increased \$1.4 million. Excluding the foreign currency translation effect, the increase was primarily due to increased compensation-related expense, including concession store commission expense and store incentive compensation.



During the six months ended July 29, 2017, selling, general and administrative expenses increased \$3.2 million, or 1.5%, compared to the six months ended July 30, 2016. As a percentage of net sales, selling, general and administrative expenses increased 50 basis points compared to the six months ended July 30, 2016. Excluding a favorable \$4.0 million foreign currency translation effect, selling, general, and administrative expenses would have increased \$7.2 million. Excluding the foreign currency translation effect, the increase was primarily due to increased compensation-related expense, including concession store commission expense and store incentive compensation.

**Table of Contents***Depreciation and amortization expense*

During the three months ended July 29, 2017, depreciation and amortization expense decreased \$2.9 million to \$10.9 million compared to \$13.8 million for the three months ended July 30, 2016. Excluding a favorable \$0.1 million foreign currency translation effect, the decrease in depreciation and amortization expense would have been \$2.8 million.

During the six months ended July 29, 2017, depreciation and amortization expense decreased \$5.8 million to \$22.1 million compared to \$27.9 million for the six months ended July 30, 2016. Excluding a favorable \$0.4 million foreign currency translation effect, the decrease in depreciation and amortization expense would have been \$5.4 million.

*Other income, net*

The following is a summary of other income activity for the three and six months ended July 29, 2017 and July 30, 2016 (in thousands):

	<b>Three Months Ended July 29, 2017</b>	<b>Three Months Ended July 30, 2016</b>	<b>Six Months Ended July 29, 2017</b>	<b>Six Months Ended July 30, 2016</b>
Foreign currency exchange loss (gain), net	\$ 768	\$ (3,009)	\$ 411	\$ 1,044
Other income	(5)	(5)	(5)	(5)
Royalty income	(2,934)	(1,529)	(5,278)	(2,632)
	\$ (2,171)	\$ (4,538)	\$ (4,872)	\$ (1,593)

*Interest expense, net*

During the three months ended July 29, 2017, net interest expense aggregated \$43.4 million compared to \$55.6 million for the three months ended July 30, 2016. The decrease is primarily due to decreased indebtedness as a result of the Exchange Offer consummated in September 2016 and the extinguishment of the 10.5% Senior Subordinated Notes in the quarter ended April 29, 2017.

During the six months ended July 29, 2017, net interest expense aggregated \$87.0 million compared to \$110.7 million for the six months ended July 30, 2016. The decrease is primarily due to decreased indebtedness as a result of the Exchange Offer consummated in September 2016 and the extinguishment of the 10.5% Senior Subordinated Notes in the quarter ended April 29, 2017.

*Income taxes*

The effective income tax rate for the three and six months ended July 29, 2017 was (100.4)% and (8.4)% compared to (3.8)% and 0.2% for the three and six months ended July 30, 2016. These effective income tax rates differed from the statutory federal income tax rate of 35% primarily from foreign tax rate differentials as compared to the U.S. statutory rate, changes in the valuation allowance and the correction of an error associated with the prior quarter as discussed

below.

During the three months ended July 29, 2017, the Company identified an error in which the non-cash income tax benefit recorded for the three months ended April 29, 2017 was overstated by \$7.5 million. This error was corrected in the three months ended July 29, 2017. As a result, the non-cash income tax expense for the three months ended July 29, 2017 is overstated by \$7.5 million. The income tax expense for the six months ended July 29, 2017 is properly stated. The following is a summary of the income tax expense (benefit) both as reported and as if the error was corrected in the appropriate period.

	<b>Three Months Ended</b>	
	<b>July 29, 2017</b>	<b>April 29, 2017</b>
As reported	\$ 10.2 million	(\$ 8.1 million)
If corrected	\$ 2.7 million	(\$ 0.6 million)
<b>Segment Operations</b>		

We have two reportable segments North America and Europe. The following is a discussion of results of operations by reportable segment.

**Table of Contents***North America*

Key statistics and results of operations for our North America segment are as follows (dollars in thousands):

	<b>Three Months Ended July 29, 2017</b>	<b>Three Months Ended July 30, 2016</b>	<b>Six Months Ended July 29, 2017</b>	<b>Six Months Ended July 30, 2016</b>
Net sales	\$ 196,033	\$ 194,774	\$ 391,993	\$ 394,080
Increase (decrease) in same store sales	2.6%	(4.4)%	1.4%	(2.6)%
Gross profit percentage	48.9%	46.1%	49.9%	48.0%
Number of company-operated stores at the end of the period	1,614	1,699	1,614	1,699
Number of concession stores at the end of the period	333	244	333	244

During the three months ended July 29, 2017, net sales in North America increased \$1.3 million, or 0.6%, from the three months ended July 30, 2016. The increase was attributable to an increase in same stores sales of \$4.8 million and an increase in new concession store sales and new store sales of \$3.1 million, partially offset by the effect of store closures of \$6.0 million, decreased sales to franchisees of \$0.4 million and an unfavorable foreign currency translation effect of our non-U.S. net sales of \$0.2 million. Sales would have increased 0.8% excluding the impact from foreign currency exchange rate changes.

During the six months ended July 29, 2017, net sales in North America decreased \$2.1 million, or 0.5%, from the six months ended July 30, 2016. The decrease was attributable to the effect of store closures of \$12.9 million, decreased sales to franchisees of \$1.4 million and an unfavorable foreign currency translation effect of our non-U.S. net sales of \$0.4 million, partially offset by an increase in new concession store sales and new store sales of \$7.3 million and an increase in same store sales of \$5.3 million. Sales would have decreased 0.5% excluding the impact from foreign currency exchange rate changes.

For the three months ended July 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 9.2%, partially offset by a decrease in average number of transactions per store of 5.5%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

For the six months ended July 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 8.3%, partially offset by a decrease in average number of transactions per store of 6.2%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

During the three months ended July 29, 2017, gross profit percentage increased 280 basis points to 48.9% compared to 46.1% during the three months ended July 30, 2016. The increase in gross profit percentage consisted of an increase in merchandise margin of 180 basis points and by a 110 basis point decrease in occupancy costs, partially offset by a 10 basis point increase in buying and buying-related costs. The increase in merchandise margin percentage resulted primarily from lower markdowns, higher trade discounts, partially offset by sales mix. Markdowns fluctuate based upon many factors, including the amount of inventory purchased versus the rate of sale and promotional activity. We

do not anticipate a significant change in the level of markdowns that would materially affect our merchandise margin. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales.

During the six months ended July 29, 2017, gross profit percentage increased 190 basis points to 49.9% compared to 48.0% during the six months ended July 30, 2016. The increase in gross profit percentage consisted of an increase in merchandise margin of 120 basis points and by a 90 basis point decrease in

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occupancy costs, partially offset by a 20 basis point increase in buying and buying-related costs. The increase in merchandise margin percentage resulted primarily from lower markdowns, higher trade discounts, partially offset by sales mix. Markdowns fluctuate based upon many factors, including the amount of inventory purchased versus the rate of sale and promotional activity. We do not anticipate a significant change in the level of markdowns that would materially affect our merchandise margin. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales. The increase in buying and buying-related costs, as a percentage of net sales, resulted primarily from increased compensation costs and buying related costs.

The following table compares our sales of each product category in North America for each of the periods presented:

<b>Product Category</b>	<b>Percentage of Total Three Months Ended</b>		<b>Percentage of Total Six Months Ended</b>	
	<b>July 29, 2017</b>	<b>July 30, 2016</b>	<b>July 29, 2017</b>	<b>July 30, 2016</b>
Jewelry	54.8	53.9	55.1	53.6
Accessories	45.2	46.1	44.9	46.4
	100.0	100.0	100.0	100.0

*Europe*

Key statistics and results of operations for our Europe segment are as follows (dollars in thousands):

	<b>Three Months Ended July 29, 2017</b>	<b>Three Months Ended July 30, 2016</b>	<b>Six Months Ended July 29, 2017</b>	<b>Six Months Ended July 30, 2016</b>
Net sales	\$ 120,604	\$ 122,398	\$ 224,265	\$ 222,739
Increase (decrease) in same store sales	3.2%	(7.8)%	7.5%	(10.1)%
Gross profit percentage	49.0%	46.3%	47.8%	44.2%
Number of company-operated stores at the end of the period	1,046	1,102	1,046	1,102
Number of concession stores at the end of the period	527	562	527	562

During the three months ended July 29, 2017, net sales in Europe decreased \$1.8 million, or 1.5%, from the three months ended July 30, 2016. The decrease was attributable to the effect of store closures of \$3.7 million and an unfavorable foreign currency translation effect of our non-U.S. net sales of \$2.1 million, partially offset by an increase in same store sales of \$3.7 million and an increase in new concession store sales and new store sales of \$0.3 million. Sales would have increased 0.2% excluding the impact from foreign currency exchange rate changes.

During the six months ended July 29, 2017, net sales in Europe increased \$1.5 million, or 0.7%, from the six months ended July 30, 2016. The increase was attributable to an increase in same stores sales of \$15.5 million and an increase

in new concession store sales and new store sales of \$1.6 million, partially offset an unfavorable foreign currency translation effect of our non-U.S. net sales of \$9.1 million and by the effect of store closures of \$6.5 million. Sales would have increased 4.9% excluding the impact from foreign currency exchange rate changes.

For the three months ended July 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 8.3%, partially offset by a decrease in average number of transactions per store of 3.2%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

For the six months ended July 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 9.8%, partially offset by a decrease in average number of transactions per store of 0.3%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

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During the three months ended July 29, 2017, gross profit percentage increased 270 basis points to 49.0% compared to 46.3% during the three months ended July 30, 2016. The increase in gross profit percentage consisted of a 150 basis point increase in merchandise margin and a 120 basis point decrease in occupancy costs. The increase in merchandise margin percentage resulted primarily from higher initial markup, partially offset by an increase in markdowns and unfavorable foreign currency exchange rates. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales.

During the six months ended July 29, 2017, gross profit percentage increased 360 basis points to 47.8% compared to 44.2% during the six months ended July 30, 2016. The increase in gross profit percentage consisted of a 240 basis point decrease in occupancy costs, a 110 basis point increase in merchandise margin and a 10 basis point decrease in buying and buying-related costs. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales. The increase in merchandise margin percentage resulted primarily from higher initial markup, partially offset by an increase in markdowns.

The following table compares our sales of each product category in Europe for each of the periods presented:

<b>Product Category</b>	<b>Percentage of Total Three Months Ended</b>		<b>Percentage of Total Six Months Ended</b>	
	<b>July 29, 2017</b>	<b>July 30, 2016</b>	<b>July 29, 2017</b>	<b>July 30, 2016</b>
Jewelry	38.4	39.1	37.7	38.4
Accessories	61.6	60.9	62.3	61.6
	100.0	100.0	100.0	100.0

**Liquidity and Capital Resources**

We are highly leveraged, with significant debt service obligations. As of July 29, 2017, we reported net debt (total debt less cash and cash equivalents) of approximately \$2.1 billion with maturities ranging from 2019 through 2021.

We completed the Exchange Offer to reduce our outstanding indebtedness and improve liquidity through the reduction of cash interest expense. After the Exchange Offer, the Company's outstanding debt was reduced by approximately \$396 million, debt maturities were extended, and the Company estimates it will realize annual cash interest savings of approximately \$24 million.

We currently anticipate that cash on hand, cash generated from operations and borrowings under our ABL Credit Facility and U.S. Credit Facility will be sufficient to allow us to satisfy payments of interest on our indebtedness, to fund new store expenditures, and meet working capital requirements over the near-term. However, this will depend, to a large degree, on our operating performance, which may be adversely affected by general economic, political and financial conditions, foreign currency exchange exposures, and other factors beyond our control, including those disclosed in "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

Repayment of our debt as it matures will require refinancing, and we cannot make assurances that we will have the financial resources required to obtain, or that the conditions of the capital markets will support, any future refinancing, replacement or restructuring of our indebtedness.





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A summary of cash flows provided by (used in) operating, investing and financing activities for the six months ended July 29, 2017 and July 30, 2016 is outlined in the table below (in thousands):

	<b>Six Months Ended July 29, 2017</b>	<b>Six Months Ended July 30, 2016</b>
Operating activities	\$ (33,233)	\$ (53,503)
Investing activities	(8,139)	(8,626)
Financing activities	16,566	120,423

*Cash flows from operating activities*

For the six months ended July 29, 2017, cash used in operations decreased \$20.3 million compared to the prior year period. The primary reason for the decrease in cash used in operations was an increase in operating income and net other items of \$28.8 million, offset by an increase in working capital of \$8.5 million, excluding cash equivalents. For the six months ended July 30, 2016, cash used in operations increased \$10.7 million compared to the prior year period. The primary reason for the increase was a decrease in operating income and net other items of \$10.2 million and an increase in working capital of \$0.5 million, excluding cash equivalents.

*Cash flows from investing activities*

For the six months ended July 29, 2017, cash used in investing activities was \$8.1 million and consisted of \$8.1 million for capital expenditures. For the six months ended July 30, 2016, cash used in investing activities was \$8.6 million and consisted of \$8.6 million for capital expenditures. During the remainder of Fiscal 2017, we expect to spend approximately \$13.0 million of capital expenditures.

*Cash flows from financing activities*

For the six months ended July 29, 2017, cash provided by financing activities was \$16.6 million, which consisted primarily of net borrowings of \$39.8 million under our ABL Credit Facility, partially offset by payment of \$18.4 million for the extinguishment of the Senior Subordinated Notes, payment of \$4.3 million for unamortized interest related to long-term debt, payment of \$0.4 million in financing costs and payment of \$0.1 million for capital lease. For the six months ended July 30, 2016, cash provided by financing activities was \$120.4 million, which consisted primarily of net borrowings of \$120.6 million under the revolving credit facilities, partially offset by payment of \$0.1 million in financing costs and payment of \$0.1 million for capital lease.

We or our affiliates have purchased and may, from time to time, purchase portions of our indebtedness. All of our purchases have been open market transactions.

*Cash Position*

As of July 29, 2017, we had cash and cash equivalents of \$31.2 million and all cash equivalents were maintained in one money market fund invested exclusively in U.S. Treasury Securities.

In addition, as of July 29, 2017, our foreign subsidiaries held cash and cash equivalents of \$20.7 million. During the six months ended July 29, 2017, we transferred certain cash held by foreign subsidiaries to the U.S. to meet certain liquidity needs. During the remainder of Fiscal 2017, we expect a portion of our foreign subsidiaries' future cash flow

generation to be repatriated to the U.S. to meet certain liquidity needs. We are currently accruing U.S. income taxes, net of any foreign tax credit benefit, on all foreign earnings deemed repatriated.

We currently anticipate that cash on hand, cash generated from operations and borrowings under our ABL Credit Facility and U.S. Credit Facility will be sufficient to allow us to satisfy payments of interest on our indebtedness, to fund new store expenditures, and meet working capital requirements over the near-term. However, this will depend, to a large degree, on our operating performance, which may be adversely affected by general economic, political and financial conditions, foreign currency exchange exposures, and other factors beyond our control, including those disclosed in **Risk Factors** in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

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**10.50% Senior Subordinated Notes**

In March 2017, we paid an aggregate principal amount of \$18.4 million and, in addition, the related accrued interest associated with the extinguishment of the Senior Subordinated Notes. As a result, we discharged all obligations with respect to the Company's remaining outstanding Senior Subordinated Notes.

**ABL Credit Facility**

On September 20, 2016, the ABL Credit Facility, dated as of August 12, 2016, among the Company, Parent, the lenders part thereto and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (the "ABL Credit Facility") became effective. The ABL Credit Facility matures on February 4, 2019 and provides for revolving credit loans, subject to borrowing base availability, in an amount up to \$75.0 million less any amounts outstanding under the U.S. Credit Facility (as defined below).

Borrowings under the ABL Credit Facility bear interest at a rate equal to, at the Company's option, either (a) an alternate base rate determined by reference to the higher of (1) the prime rate in effect on such day, (2) the federal funds effective rate plus 0.50% and (3) the one-month LIBOR rate plus 1.00%, or (b) a LIBOR rate with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits in the London Interbank Market for the interest period relevant to such borrowing, adjusted for certain additional costs, in each case plus an applicable margin of 4.50% for LIBOR rate loans and 3.50% for alternate base rate loans. The Company also pays a facility fee of 0.50% per annum of the committed amount of the ABL Credit Facility whether or not utilized, less amounts outstanding under the U.S. Credit Facility.

All obligations under the ABL Credit Facility are unconditionally guaranteed by (i) Parent, prior to an initial public offering of the Company's stock, and (ii) the Company's existing and future direct or indirect wholly-owned domestic subsidiaries, subject to certain exceptions (including CLSIP LLC and CLSIP Holdings LLC).

All obligations under the ABL Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions and permitted liens, by (i) a first-priority security interest in the ABL Priority Collateral (as defined therein) and (ii) a second-priority security interest in the Notes Priority Collateral (as defined therein).

The ABL Credit Facility contains customary provisions relating to mandatory prepayments, voluntary payments, payment of dividends, affirmative and negative covenants, and events of default; however, it does not contain any covenants that require the Company to maintain any particular financial ratio or other measure of financial performance.

As of July 29, 2017, we had \$46.0 million of borrowings, together with the \$4.0 million of letters of credit outstanding, which reduced the borrowing availability to \$25.0 million.

**U.S. Revolving Credit Facility**

On September 20, 2016, the Second Amended and Restated Credit Facility, dated as of August 12, 2016, among the Company, Parent, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (the "U.S. Credit Facility") became effective. Pursuant to the U.S. Credit Facility, among other things, the availability under the U.S. Credit Facility reduced from \$115.0 million to an amount equal to \$75.0 million less any amounts outstanding under the ABL Credit Facility, the maturity was extended to February 4, 2019 and certain covenants were modified.

Borrowings under the U.S. Credit Facility bear interest at a rate equal to, at the Company's option, either (a) an alternate base rate determined by reference to the higher of (1) the prime rate in effect on such day, (2) the federal funds effective rate plus 0.50% and (3) the one-month LIBOR rate plus 1.00%, or (b) a LIBOR rate with respect to any Eurodollar borrowing, determined by reference to the costs of funds for

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U.S. dollar deposits in the London Interbank Market for the interest period relevant to such borrowing, adjusted for certain additional costs, in each case plus an applicable margin of 4.50% for LIBOR rate loans and 3.50% for alternate base rate loans. The Company also pays a facility fee of 0.50% per annum of the committed amount of the U.S. Credit Facility whether or not utilized, less amounts outstanding under the ABL Credit Facility.

All obligations under the U.S. Credit Facility are unconditionally guaranteed by (i) Parent, prior to an initial public offering of the Company's stock, and (ii) the Company's existing and future direct or indirect wholly-owned domestic subsidiaries, subject to certain exceptions (including CLSIP LLC and CLSIP Holdings LLC).

All obligations under the U.S. Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions and permitted liens, on a *pari passu* basis with the 9% Claire's Stores Term Loans due 2021 and the Senior Secured First Lien Notes by (i) a first-priority lien on the Notes Priority Collateral (as defined therein) and (ii) a second-priority lien on the ABL Priority Collateral (as defined therein).

The U.S. Credit Facility contains customary provisions relating to mandatory prepayments, voluntary payments, payments of dividends, affirmative and negative covenants, and events of default; however, it does not contain any covenants that require the Company to maintain any particular financial ratio or other measure of financial performance except that so long as the revolving loans and letters of credit outstanding under the U.S. Credit Facility exceed \$15 million, the Company is required to maintain, at each borrowing date measured at the end of the prior fiscal quarter (but reflecting borrowings and repayments under the U.S. Credit Facility through the measurement date) and at the end of each fiscal quarter, a maximum Total Net Secured Leverage Ratio of, for the fiscal quarters prior to the first fiscal quarter of 2018, 8.95:1.00, and for the fiscal quarters including and after the first fiscal quarter of 2018, 8.00:1.00, based upon the ratio of the Company's net senior secured first lien debt to adjusted earnings before interest, taxes, depreciation and amortization for the period of four consecutive fiscal quarters most recently ended.

As of July 29, 2017, no borrowings were outstanding under the U.S. Credit Facility.

### *Debt Covenants*

Our debt agreements also contain various covenants that limit our ability to engage in specified types of transactions. These covenants, subject to certain exceptions and other basket amounts, limit our and our subsidiaries' ability to, among other things:

incur additional indebtedness;

pay dividends or distributions on our capital stock, repurchase or retire our capital stock and redeem, repurchase or defease any subordinated indebtedness;

make certain investments;

create or incur certain liens;

create restrictions on the payment of dividends or other distributions to us from our subsidiaries;

transfer or sell assets;

engage in certain transactions with our affiliates; and

merge or consolidate with other companies or transfer all or substantially all of our assets.

For a description of our existing debt and debt agreements, see Note 4 Debt, in the Unaudited Condensed Consolidated Financial Statements. As of July 29, 2017, we were in compliance with the covenants under all existing debt agreements.

See Note 3 Fair Value Measurements for related fair value disclosure on debt.

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*Europe Bank Credit Facilities*

Our non-U.S. subsidiaries have bank credit facilities totaling \$2.0 million. These facilities are used for working capital requirements, letters of credit and various guarantees. These credit facilities have been arranged in accordance with customary lending practices in their respective countries of operation. As of July 29, 2017, we had a reduction of \$1.8 million for outstanding bank guarantees, which reduces the borrowing availability to \$0.2 million as of that date.

*Management Services Agreement*

See Note 9- Related Party Transactions, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

**Critical Accounting Policies and Estimates**

Our Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles. 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 Fiscal 2016 Annual Report on Form 10-K, filed on April 14, 2017, in the Notes to Consolidated Financial Statements, Note 2 – Summary of Significant Accounting Policies, and the Critical Accounting Policies and Estimates section contained in the Management’s Discussion and Analysis of Financial Condition and Results of Operations therein.



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Goodwill and indefinite-lived intangible assets are subject to impairment assessments at least annually (or more frequently when events or circumstances indicate that an impairment may have occurred) by applying a fair-value test. These fair value estimates require significant management judgment and are based on the best information available at the time of the analysis. Our principal intangible assets, other than goodwill, are tradenames, franchise agreements, and leases that existed as of the date that the Company was acquired in May 2007, which had terms that were favorable to market at that date. Our impairment testing for Fiscal 2016 resulted in the recognition of non-cash impairment charges of \$169.3 million, \$9.0 million and \$3.3 million, relating to goodwill, intangible assets and long-lived assets, respectively. We expect to next perform our annual impairment analysis during the fourth fiscal quarter of Fiscal 2017, and we may be required to recognize additional impairment charges at that time or in the future.

**Recent Accounting Pronouncements**

See Note 2 Recent Accounting Pronouncements, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

**Cautionary Note Regarding Forward-Looking Statements and Risk Factors**

We and our representatives may from time to time make written or oral forward-looking statements, including statements contained in this and other filings with the Securities and Exchange Commission and in our press releases and reports we issue publicly. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to our future financial performance, business strategy, planned capital expenditures, ability to service our debt, and new store openings for future periods, are forward-looking statements. The forward-looking statements are and will be based on management's then current views and assumptions regarding future events and operating performance, and we assume no obligation to update any forward-looking statement. Forward-looking statements involve known or unknown risks, uncertainties and other factors, including changes in estimates and judgments discussed under Critical Accounting Policies and Estimates which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements may use the words expect, anticipate, plan, intend, project, may, believe, similar expressions. Some of these risks, uncertainties and other factors are as follows: our level of indebtedness; general economic conditions; changes in consumer preferences and consumer spending; unwillingness of vendors and service providers to supply goods or services pursuant to historical customary credit arrangements; competition; general political and social conditions such as war, political unrest and terrorism; natural disasters or severe weather events; currency fluctuations and exchange rate adjustments; failure to maintain our favorable brand recognition; failure to successfully market our products through other channels, such as e-commerce; uncertainties generally associated with the specialty retailing business, such as decreases in mall traffic; disruptions in our supply of inventory; inability to increase same store sales; inability to renew, replace or enter into new store leases on favorable terms; increase in our cost of merchandise; significant increases in our merchandise markdowns or promotional sales; inability to grow our Company operated store base in North America and Europe, or expand our international store base through franchise or similar licensing arrangements, or expand our store base through concessions; inability to design and implement new information systems; data security breaches of confidential information or other cyber attacks; delays in anticipated store openings or renovations; results from any future asset impairment analysis; changes in applicable laws, rules and regulations, including changes in North America and Europe, or other international laws and regulations governing the sale of our products, particularly regulations relating to heavy metal and chemical content in our products; changes in anti-bribery laws; changes in employment laws, including laws relating to overtime pay, tax laws and import laws; product recalls; loss of key members of management; increase in the costs of healthcare for our employees; increases in the cost of labor; labor disputes; increases in the cost of borrowings;

unavailability of additional debt or equity capital; and the impact of our substantial indebtedness on our operating income and our ability to grow. The Company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances. In addition, we typically earn a disproportionate share of our operating income in the fourth quarter due to seasonal buying patterns, which are difficult to forecast with certainty. Additional discussion of these and other risks and uncertainties is contained elsewhere in this Item 2, in Item 3,

Quantitative and Qualitative Disclosures About Market Risk and in our Form 10-K for Fiscal 2016 under Statement Regarding Forward-Looking Disclosures and Risk Factors.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

*Cash and Cash Equivalents*

We have significant amounts of cash and cash equivalents at financial institutions that are in excess of federally insured limits. We cannot be assured that we will not experience losses on our deposits. We mitigate this risk by investing in money market funds that are invested exclusively in U.S. Treasury securities and maintaining bank accounts with a group of credit worthy financial institutions.

*Interest Rates*

As of July 29, 2017, we had fixed rate debt of \$2,084.7 million and variable rate debt of \$86.0 million. Based on our variable rate balance as of July 29, 2017, a 1% change in interest rates would increase or decrease our annual interest expense by approximately \$0.9 million.

*Foreign Currency*

We are exposed to market risk from foreign currency exchange rate fluctuations on the United States dollar ( USD or dollar ) value of foreign currency denominated transactions and our investments in foreign subsidiaries. We manage this exposure to market risk through our regular operating and financing activities, and may from time to time, use foreign currency options. Exposure to market risk for changes in foreign currency exchange rates relates primarily to our foreign operations buying, selling, and financing activities in currencies other than local currencies and to the carrying value of our net investments in foreign subsidiaries. As of July 29, 2017, we maintained no foreign currency options. We generally do not hedge the translation exposure related to our net investment in foreign subsidiaries. Included in Comprehensive loss are \$14.0 million and \$4.3 million, net of tax, reflecting the unrealized gain on foreign currency translations and intra-entity foreign currency transactions during the six months ended July 29, 2017 and July 30, 2016, respectively.

Certain of our subsidiaries make significant USD purchases from Asian suppliers, particularly in China. Until July 2005, the Chinese government pegged its currency, the yuan renminbi ( RMB ), to the USD, adjusting the relative value only slightly and on infrequent occasion. Many people viewed this practice as leading to a substantial undervaluation of the RMB relative to the USD and other major currencies, providing China with a competitive advantage in international trade. China now allows the RMB to float to a limited degree against a basket of major international currencies, including the USD, the euro and the Japanese yen. The official exchange rate has historically remained stable; however, there are no assurances that this currency exchange rate will continue to be as stable in the future due to the Chinese government's adoption of a floating rate with respect to the value of the RMB against foreign currencies. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on China to adopt an even more flexible and more market-oriented currency policy that allows a greater fluctuation in the exchange rate between the RMB and the USD. This floating exchange rate, and any appreciation of the RMB that may result from such rate, could have various effects on our business, which include making our purchases of Chinese products more expensive. If we are unable to negotiate commensurate price decreases from our Chinese suppliers, these higher prices would eventually translate into higher costs of sales, which could have a material adverse effect on our results of operations.

The results of operations of our foreign subsidiaries, when translated into U.S. dollars, reflect the average foreign currency exchange rates for the months that comprise the periods presented. As a result, if foreign currency exchange rates fluctuate significantly from one period to the next, results in local currency can vary significantly upon translation into U.S. dollars. Accordingly, fluctuations in foreign currency exchange rates, most notably the strengthening of the dollar against the euro, could have a material impact on our revenue growth in future periods.



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*General Market Risk*

Our competitors include department stores, specialty stores, mass merchandisers, discount stores and other retail and internet channels. Our operations are impacted by consumer spending levels, which are affected by general economic conditions, consumer confidence, employment levels, availability of consumer credit and interest rates on credit, consumer debt levels, consumption of consumer staples including food and energy, consumption of other goods, adverse weather conditions and other factors over which we have little or no control. The increase in costs of such staple items has reduced the amount of discretionary funds that consumers are willing and able to spend for other goods, including our merchandise. Should there be continued volatility in food and energy costs, recession in the United States and Europe, rising unemployment and continued declines in discretionary income, our revenue and margins could be significantly affected in the future. We cannot predict whether, when or the manner in which the economic conditions described above will change. See also Cautionary Note Regarding Forward Looking Statements and Risk Factors.

**Item 4. Controls and Procedures**

***Disclosure Controls and Procedures***

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this Quarterly Report our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including each of such officers as appropriate to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were not effective because of a material weakness in the company's internal control over financial reporting as described below.

***Changes in Internal Controls over Financial Reporting***

Based on our evaluation under the framework in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, our management concluded that our internal control over financial reporting was not effective as of July 29, 2017 because of the existence of the material weakness described below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. The Company did not design and maintain effective controls over the quarterly income tax provision analysis, including controls over the review of the accuracy of certain data used to calculate the income tax provision.

Management believes the material weakness referred to above will be remediated by designing additional review procedures which include a more detailed review of the accuracy of inputs included in the calculations used in the Company's quarterly assessment of its income tax provision.

Other than the identification of the material weakness described above and initial steps to remediate the same, there have been no changes in the Company's internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are, from time to time, involved in routine litigation incidental to the conduct of our business, including litigation instituted by persons injured upon premises under our control; litigation regarding the merchandise that we sell, including product and safety concerns regarding content in our merchandise; litigation with respect to various employment matters, including wage and hour litigation; litigation with present and former employees; and litigation regarding intellectual property rights. Although litigation is routine and incidental to the conduct of our business, like any business of our size which employs a significant number of employees and sells a significant amount of merchandise, such litigation can result in large monetary awards when judges, juries or other finders of facts do not agree with management's evaluation of possible liability or outcome of litigation. Accordingly, the consequences of these matters cannot be finally determined by management. However, in the opinion of management, we believe that current pending litigation will not have a material adverse effect on our financial results.

### **Item 1A. Risk Factors**

There have been no material changes in our risk factors disclosed in our Annual Report on Form 10-K for the year ended January 28, 2017.

### **Item 5. Other Information**

#### **Management Services Agreements**

For a description of the termination of the Management Services Agreement entered into between the Company and Cowen, see Note 9 – Related Party Transactions, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

### **Item 6. Exhibits**

10.1	Ron Marshall Transaction Fee Award. (1)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). (1)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). (1)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)
101.INS	XBRL Instance Document

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101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document



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101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed herewith.

**Items 2, 3, 4 and 5 of Part II are not applicable and have been omitted.**

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**SIGNATURES**

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.

CLAIRE S STORES, INC.

September 5, 2017

By: /s/ Ron Marshall  
Ron Marshall, Chief Executive Officer (principal executive officer)

September 5, 2017

By: /s/ Scott Huckins  
Scott Huckins, Executive Vice President and Chief Financial Officer (principal financial officer)

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**INDEX TO EXHIBITS**

**EXHIBIT**

<b>NO.</b>	<b>DESCRIPTION</b>
10.1	<u>Ron Marshall Transaction Fee Award.</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document