CLAIRES STORES INC
Form 10-Q
December 04, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 31, 2015

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	**59-0940416**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2400 West Central Road,	
Hoffman Estates, Illinois	**60192**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (847) 765-1100

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 x

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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

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

As of December 1, 2015, 100 shares of the Registrant s common stock, $0.001 par value, were outstanding.

CLAIRE S STORES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

CLAIRE S STORES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2015	January 31, 2015
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents and restricted cash of $0 and $2,029, respectively	$ 23,908	$ 29,415
Inventories	192,023	145,908
Prepaid expenses	31,183	17,349
Other current assets	32,104	27,474
Total current assets	279,218	220,146
Property and equipment:		
Furniture, fixtures and equipment	251,328	248,162
Leasehold improvements	321,839	324,306
	573,167	572,468
Accumulated depreciation and amortization	(386,919)	(365,036)
	186,248	207,432
Leased property under capital lease:		
Land and building	18,055	18,055
Accumulated depreciation and amortization	(5,191)	(4,514)
	12,864	13,541
Goodwill	1,426,899	1,426,899
Intangible assets, net of accumulated amortization of $73,834 and $70,374, respectively	501,420	510,362
Deferred financing costs, net of accumulated amortization of $31,655 and $25,465, respectively	26,673	32,525
Other assets	44,424	45,672
	1,999,416	2,015,458
Total assets	$ 2,477,746	$ 2,456,577

LIABILITIES AND STOCKHOLDER S DEFICIT

Current liabilities:		
Revolving credit facilities	$ 121,591	$
Trade accounts payable	98,632	69,826
Income taxes payable	2,505	1,780
Accrued interest payable	42,510	67,790
Accrued expenses and other current liabilities	86,953	93,505
Total current liabilities	352,191	232,901
Long-term debt	2,374,614	2,376,478
Obligation under capital lease	16,778	16,954
Deferred tax liability	112,718	113,215
Deferred rent expense	36,035	35,265
Unfavorable lease obligations and other long-term liabilities	12,345	13,538
	2,552,490	2,555,450
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	618,823	619,325
Accumulated other comprehensive loss, net of tax	(42,131)	(37,698)
Accumulated deficit	(1,003,627)	(913,401)
	(426,935)	(331,774)
Total liabilities and stockholder s deficit	$ 2,477,746	$ 2,456,577

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CLAIRE S STORES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands)

	Three Months Ended October 31, 2015	Three Months Ended November 1, 2014	Nine Months Ended October 31, 2015	Nine Months Ended November 1, 2014
Net sales	$ 332,677	$ 350,669	$ 1,000,259	$ 1,081,841
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	179,724	183,442	531,652	560,247
Gross profit	152,953	167,227	468,607	521,594
Other expenses:				
Selling, general and administrative	118,442	122,657	347,829	377,829
Depreciation and amortization	15,464	16,105	45,652	57,369
Severance and transaction-related costs	200	751	1,027	4,515
Other income, net	(2,185)	(1,472)	(4,651)	(2,287)
	131,921	138,041	389,857	437,426
Operating income	21,032	29,186	78,750	84,168
Interest expense, net	55,296	53,593	164,760	162,909
Loss before income tax expense	(34,264)	(24,407)	(86,010)	(78,741)
Income tax expense	1,675	2,415	4,216	6,792
Net loss	$ (35,939)	$ (26,822)	$ (90,226)	$ (85,533)
Net loss	$ (35,939)	$ (26,822)	$ (90,226)	$ (85,533)
Other comprehensive loss:				
Foreign currency translation adjustments	94	(3,304)	(507)	(3,123)
Net loss on intra-entity foreign currency transactions, net of tax expense (benefit) of $1,191, $(680), $820 and $(577)	(928)	(11,909)	(3,926)	(11,127)
Other comprehensive loss	(834)	(15,213)	(4,433)	(14,250)
Comprehensive loss	$ (36,773)	$ (42,035)	$ (94,659)	$ (99,783)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CLAIRE S STORES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended October 31, 2015	Nine Months Ended November 1, 2014
Cash flows from operating activities:		
Net loss	$ (90,226)	$ (85,533)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	45,652	57,369
Amortization of lease rights and other assets	2,534	2,949
Amortization of debt issuance costs	6,188	5,974
Accretion of debt premium	(1,864)	(1,712)
Net unfavorable accretion of lease obligations	(256)	(394)
Loss on sale/retirement of property and equipment, net	343	185
(Gain) loss on sale of intangible assets/lease rights	(2,475)	277
Stock-based compensation benefit	(502)	(211)
(Increase) decrease in:		
Inventories	(47,094)	(5,527)
Prepaid expenses	(13,536)	(4,822)
Other assets	(6,180)	(2,530)
Increase (decrease) in:		
Trade accounts payable	29,595	(1,163)
Income taxes payable	746	(2,959)
Accrued interest payable	(25,492)	(25,750)
Accrued expenses and other liabilities	(4,340)	(1,978)
Deferred income taxes	528	(160)
Deferred rent expense	2,927	3,113
Net cash used in operating activities	(103,452)	(62,872)
Cash flows from investing activities:		
Acquisition of property and equipment	(22,414)	(41,394)
Acquisition of intangible assets/lease rights	(140)	(478)
Proceeds from sale of intangible assets/lease rights	2,614	
Net cash used in investing activities	(19,940)	(41,872)
Cash flows from financing activities:		
Proceeds from revolving credit facilities	285,223	264,180
Payments on revolving credit facilities	(163,758)	(189,300)
Payment of debt issuance costs	(415)	(606)

Principal payments on capital lease		(123)		(77)
Net cash provided by financing activities		120,927		74,197
Effect of foreign currency exchange rate changes on cash and cash equivalents		(1,013)		80
Net decrease in cash and cash equivalents		(3,478)		(30,467)
Cash and cash equivalents, at beginning of period		27,386		58,343
Cash and cash equivalents, at end of period	$	23,908	$	27,876
Supplemental disclosure of cash flow information:				
Interest paid	$	185,815	$	184,232
Income taxes paid		2,932		10,591
Non-cash investing activities				
Restricted cash received in escrow (bank)		(2,029)		2,497

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 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 31, 2015 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 on an annualized basis.

2. Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-11, *Simplifying the Measurement of Inventory*. This ASU changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 eliminates the guidance that entities consider replacement cost or net realizable value less an approximately normal profit margin in the subsequent measurement of inventory when cost is determined on a first-in, first-out or average cost basis. The provisions of ASU 2015-11 are effective for public entities with fiscal years beginning after December 15, 2016. The Company does not expect adoption of ASU 2015-11 to have a material impact on the Company s financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30): *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, which permits an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. The Company does not expect adoption of ASU 2015-03 and ASU 2015-15 to have a material impact on the Company s financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance when it becomes effective. On August 12, 2015, the FASB issued ASU 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. The new standard is effective for the Company on January 1, 2018. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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, long-term debt and revolving credit facilities. Cash and cash equivalents, accounts receivable and current liabilities approximate fair market value due to the relatively short maturity of these financial instruments.

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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 their interest rate. The estimated fair value of the Company s long-term debt was approximately $1.52 billion as of October 31, 2015, compared to a carrying value of $2.37 billion at that date. The estimated fair value of the Company s long-term debt was approximately $1.90 billion as of January 31, 2015, compared to a carrying value of $2.38 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 measured at fair value in the financial statements, long-term debt would be classified as Level 2 in the fair value hierarchy.

4. Debt

Debt as of October 31, 2015 and January 31, 2015 included the following components (in thousands):

	October 31, 2015		January 31, 2015	
Revolving credit facilities:				
U.S. senior secured revolving credit facility due 2017	$	111,300	$	
Europe unsecured revolving credit facility due 2017		10,291		
Total revolving credit facilities	$	121,591	$	
Long-term debt:				
10.5% Senior subordinated notes due 2017	$	259,612	$	259,612
9.0% Senior secured first lien notes due 2019 (1)		1,135,002		1,136,866
8.875% Senior secured second lien notes due 2019		450,000		450,000
6.125% Senior secured first lien notes due 2020		210,000		210,000
7.75% Senior notes due 2020		320,000		320,000
Total long-term debt	$	2,374,614	$	2,376,478
Obligation under capital lease (including current portion)	$	17,001	$	17,124

(1) Amounts include unamortized premium of $10,002 and $11,866 as of October 31, 2015 and January 31, 2015, respectively.

U.S. Revolving Credit Facility and Note Covenants

The Amended and Restated Credit Agreement with respect to the Company s senior secured revolving credit facility due 2017, as amended (the U.S. Credit Facility) in the amount of $115 million and our 10.5% Senior Subordinated Notes due 2017 (the Senior Subordinated Notes), 8.875% Senior Secured Second Lien Notes due 2019 (the Senior Secured Lien Notes), 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 7.75% Senior Notes due 2020 (the 7.75% Senior Notes) (collectively, the Notes) 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 our subsidiaries;

transfer or sell assets;

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engage in certain transactions with our affiliates; and

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

Certain of these covenants in the indentures governing 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.

The U.S. Credit Facility also contains customary provisions relating to mandatory prepayments, voluntary payments, affirmative and negative covenants, and events of default. In addition, so long as the revolving loans and letters of credit outstanding exceed $15.0 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 quarter, a maximum Total Net Secured Leverage Ratio based upon the ratio of its 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. Effective September 10, 2015, the Company amended the provisions in its U.S. Credit Facility to increase the maximum Total Net Secured Leverage Ratio. Commencing with the third quarter of Fiscal 2015, the maximum ratio is 6.75:1.0 for all quarters through the end of Fiscal 2016 except the fourth quarters of Fiscal 2015 and Fiscal 2016 when the ratio will be 6.35:1.0.

Europe Revolving Credit Facility

Certain of the Company s European subsidiaries are party to an unsecured multi-currency revolving credit facility, dated October 2, 2014, as amended on July 15, 2015 (as amended, the Europe Credit Facility) in the amount of $50 million that will terminate on August 20, 2017. Loans under the Europe Credit Facility bear interest at 2.50% per annum plus the Euro Interbank Offered Rate as in effect for interest periods of one, three or six months or any other period agreed upon. The Europe Credit Facility also provides for a facility fee of 0.875% per annum on the unused amount of the facility.

All obligations under the Europe Credit Facility are unconditionally and fully guaranteed by Claire s (Gibraltar) Holdings Limited (Claire s Gibraltar) and certain of its existing direct or indirect wholly-owned European subsidiaries, subject to certain exceptions and limitations.

The Europe Credit Facility contains customary affirmative and negative covenants applicable to Claire s Gibraltar and its subsidiaries, events of default and provisions relating to mandatory and voluntary payments, which include an annual requirement that for at least 5 successive Business Days in each year no loans under the Europe Credit Facility may be outstanding. The Europe Credit Facility also contains covenants that require Claire s Gibraltar to maintain particular financial ratios so long as any amounts are outstanding under the facility: a Fixed Charge Cover Ratio not lower than 1.5:1.0 based upon the ratio of adjusted earnings before interest, taxes, depreciation, amortization, and rent to net interest and rent for each period of four consecutive fiscal quarters and a Leverage Ratio not more than 1.5:1.0 based upon the ratio of net debt to adjusted earnings before interest, taxes, depreciation and amortization for each period of four consecutive fiscal quarters.

Europe Bank Credit Facilities

Our non-U.S. subsidiaries have bank credit facilities totaling $2.3 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 October 31, 2015, we had a reduction of $2.2 million for outstanding bank guarantees, which reduces the borrowing availability to $0.1 million as of that date.

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

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):

	Foreign Currency Items	Derivative Instrument	Total
Balance as of January 31, 2015	$ (43,430)	$ 5,732	$ (37,698)
Other comprehensive loss	(4,433)		(4,433)
Balance as of October 31, 2015	$ (47,863)	$ 5,732	$ (42,131)

7. Stock Options and Stock-Based Compensation

The following is a summary of activity in the Company s stock option plan for the nine months ended October 31, 2015:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding as of January 31, 2015	4,166,399	$ 10.00	
Options granted	682,325	$ 6.53	
Options exercised			
Options forfeited	(524,775)	$ 9.75	
Options expired	(427,980)	$ 10.00	
Outstanding as of October 31, 2015	3,895,969	$ 9.43	4.6
Options vested and expected to vest as of October 31, 2015	3,531,208	$ 9.52	4.5

Exercisable as of October 31, 2015	1,746,132	$	10.00	3.8

The weighted average grant date fair value of options granted during the nine months ended October 31, 2015 and November 1, 2014 was $0.51 and $0.04, respectively.

During the three and nine months ended October 31, 2015 and November 1, 2014, the Company recorded stock-based compensation expense (benefit) and additional paid-in capital relating to stock-based compensation of approximately $0.1 million, $0.2 million, $(0.5) million and $(0.2) million, respectively. During the three and nine months ended October 31, 2015, the Company recorded reversals of stock option expense of $0.1 million and $0.8 million, respectively, associated with the forfeitures of stock options. 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.

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8. Income Taxes

The effective income tax rate was (4.9)% for both the three and nine months ended October 31, 2015. This effective income tax rate differed from the statutory federal income tax rate of 35% primarily from increases in the valuation allowance recorded for additional deferred tax assets generated primarily from operating losses in the three and nine months ended October 31, 2015 by the Company s U.S. operations.

The effective income tax rate was (9.9)% and (8.6)% for the three and nine months ended November 1, 2014, respectively. This effective income tax rate differed from the statutory federal income tax rate of 35% primarily from increases in the valuation allowance recorded for additional deferred tax assets generated primarily from operating losses in the three and nine months ended November 1, 2014 by the Company s U.S. operations.

9. 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 nine months ended October 31, 2015 and November 1, 2014 are as follows (in thousands):

	Three Months Ended October 31, 2015	Three Months Ended November 1, 2014	Nine Months Ended October 31, 2015	Nine Months Ended November 1, 2014
Net sales:				
North America	$ 202,434	$ 206,072	$ 618,729	$ 632,728
Europe	130,243	144,597	381,530	449,113
Total net sales	332,677	350,669	1,000,259	1,081,841
Depreciation and amortization:				
North America	9,527	9,567	28,886	37,589
Europe	5,937	6,538	16,766	19,780
Total depreciation and amortization	15,464	16,105	45,652	57,369
Operating income for reportable segments:				
North America	14,672	18,969	59,127	50,834
Europe	6,560	10,968	20,650	37,849

Total operating income for reportable segments	21,232	29,937	79,777	88,683
Severance and transaction-related costs	200	751	1,027	4,515
Consolidated operating income	21,032	29,186	78,750	84,168
Interest expense, net	55,296	53,593	164,760	162,909
Consolidated loss before income tax expense	$ (34,264)	$ (24,407)	$ (86,010)	$ (78,741)

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Excluded from operating income for the North America segment are severance and transaction-related costs of approximately $0.1 million and $0.2 million for the three months ended October 31, 2015 and November 1, 2014, respectively, and $0.4 million and $2.0 million for the nine months ended October 31, 2015 and November 1, 2014, respectively.

Excluded from operating loss for the Europe segment are severance and transaction-related costs of approximately $0.1 million and $0.6 million for the three months ended October 31, 2015 and November 1, 2014, respectively, and $0.6 million and $2.5 million for the nine months ended October 31, 2015 and November 1, 2014, respectively.

10. Supplemental Financial Information

On May 29, 2007, Claire s Stores, Inc. (the Issuer), issued the Senior Subordinated Notes, (collectively, the 2007 Notes). On March 4, 2011, the Issuer issued the Senior Secured Second Lien Notes, (collectively, the 2011 Notes). On February 28, 2012, March 12, 2012 and September 20, 2012, the Issuer issued the 9.0% Senior Secured First Lien Notes (collectively, the 2012 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 7.75% Senior Notes (collectively, the 2013 Notes). The 2007 Notes and the 2011 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 U.S. Credit Facility. The 2012 Notes and the 2013 Notes are unconditionally guaranteed, jointly and severally, by all wholly-owned domestic current and future subsidiaries of Claire s Stores, Inc. As of October 31, 2015 Claire s Stores, Inc. owned 100% of its domestic subsidiaries that guarantee the 2007 Notes, 2011 Notes, 2012 Notes, and 2013 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.

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Condensed Consolidating Balance Sheet

October 31, 2015

(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,780	$ 4,254	$ 15,874	$	$ 23,908
Inventories		113,864	78,159		192,023
Prepaid expenses	782	13,502	16,899		31,183
Other current assets		20,696	11,408		32,104
Total current assets	4,562	152,316	122,340		279,218
Property and equipment:					
Furniture, fixtures and equipment	5,369	161,629	84,330		251,328
Leasehold improvements	1,335	193,638	126,866		321,839
	6,704	355,267	211,196		573,167
Accumulated depreciation and amortization	(4,280)	(250,208)	(132,431)		(386,919)
	2,424	105,059	78,765		186,248
Leased property under capital lease:					
Land and building		18,055			18,055
Accumulated depreciation and amortization		(5,191)			(5,191)
		12,864			12,864
Intercompany receivables		190,137	10,088	(200,225)	
Investment in subsidiaries	2,012,688	(46,809)		(1,965,879)	
Goodwill		1,112,494	314,405		1,426,899
Intangible assets, net	274,000	824	226,596		501,420
Deferred financing costs, net	26,048		625		26,673
Other assets	486	4,779	39,159		44,424
	2,313,222	1,261,425	590,873	(2,166,104)	1,999,416
Total assets	$ 2,320,208	$ 1,531,664	$ 791,978	$ (2,166,104)	$ 2,477,746

LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)					
Current liabilities:					
Revolving credit facilities	$ 111,300	$	$ 10,291	$	$ 121,591
Trade accounts payable	13,336	32,708	52,588		98,632
Income taxes payable		(234)	2,739		2,505
Accrued interest payable	42,502		8		42,510
Accrued expenses and other current liabilities	5,166	38,526	43,261		86,953
Total current liabilities	172,304	71,000	108,887		352,191
Intercompany payables	200,225			(200,225)	
Long-term debt	2,374,614				2,374,614
Obligation under capital lease		16,778			16,778
Deferred tax liability		102,578	10,140		112,718
Deferred rent expense		24,995	11,040		36,035
Unfavorable lease obligations and other long-term liabilities		12,310	35		12,345
	2,574,839	156,661	21,215	(200,225)	2,552,490
Stockholder s equity (deficit):					
Common stock		367	2	(369)	
Additional paid in capital	618,823	1,435,909	797,656	(2,233,565)	618,823
Accumulated other comprehensive loss, net of tax	(42,131)	(5,080)	(37,534)	42,614	(42,131)
Accumulated deficit	(1,003,627)	(127,193)	(98,248)	225,441	(1,003,627)
	(426,935)	1,304,003	661,876	(1,965,879)	(426,935)
Total liabilities and stockholder s equity (deficit)	$ 2,320,208	$ 1,531,664	$ 791,978	$ (2,166,104)	$ 2,477,746

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Condensed Consolidating Balance Sheet

January 31, 2015

(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents and restricted cash (1)	$ 3,480	$ 4,009	$ 21,926	$	$ 29,415
Inventories		82,949	62,959		145,908
Prepaid expenses	547	1,820	14,982		17,349
Other current assets		19,607	7,867		27,474
Total current assets	4,027	108,385	107,734		220,146
Property and equipment:					
Furniture, fixtures and equipment	4,624	160,263	83,275		248,162
Leasehold improvements	1,335	194,571	128,400		324,306
	5,959	354,834	211,675		572,468
Accumulated depreciation and amortization	(3,629)	(236,760)	(124,647)		(365,036)
	2,330	118,074	87,028		207,432
Leased property under capital lease:					
Land and building		18,055			18,055
Accumulated depreciation and amortization		(4,514)			(4,514)
		13,541			13,541
Intercompany receivables		157,508	46,000	(203,508)	
Investment in subsidiaries	2,011,504	(46,047)		(1,965,457)	
Goodwill		1,112,494	314,405		1,426,899
Intangible assets, net	274,000	1,391	234,971		510,362
Deferred financing costs, net	31,696		829		32,525
Other assets	453	4,010	41,208	1	45,672
	2,317,653	1,229,356	637,413	(2,168,964)	2,015,458
Total assets	$ 2,324,010	$ 1,469,356	$ 832,175	$ (2,168,964)	$ 2,456,577

LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)					
Current liabilities:					
Trade accounts payable	$ 1,385	$ 27,678	$ 40,763	$	$ 69,826
Income taxes payable		103	1,677		1,780
Accrued interest payable	67,765		25		67,790
Accrued expenses and other current liabilities	6,649	38,541	48,315		93,505
Total current liabilities	75,799	66,322	90,780		232,901
Intercompany payables	203,507			(203,507)	
Long-term debt	2,376,478				2,376,478
Obligation under capital lease		16,954			16,954
Deferred tax liability		102,550	10,665		113,215
Deferred rent expense		24,887	10,378		35,265
Unfavorable lease obligations and other long-term liabilities		13,454	84		13,538
	2,579,985	157,845	21,127	(203,507)	2,555,450
Stockholder s equity (deficit):					
Common stock		367	2	(369)	
Additional paid in capital	619,325	1,435,909	797,656	(2,233,565)	619,325
Accumulated other comprehensive loss, net of tax	(37,698)	(4,126)	(34,565)	38,691	(37,698)
Accumulated deficit	(913,401)	(186,961)	(42,825)	229,786	(913,401)
	(331,774)	1,245,189	720,268	(1,965,457)	(331,774)
Total liabilities and stockholder s equity (deficit)	$ 2,324,010	$ 1,469,356	$ 832,175	$ (2,168,964)	$ 2,456,577

(1) Cash and cash equivalents include restricted cash of $2,029 for Non-Guarantors .

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Condensed Consolidating Statement of Operations and Comprehensive Loss

For The Three Months Ended October 31, 2015

(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$	$ 186,370	$ 146,307	$	$ 332,677
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	40	101,685	77,999		179,724
Gross profit (deficit)	(40)	84,685	68,308		152,953
Other expenses:					
Selling, general and administrative	4,254	61,662	52,526		118,442
Depreciation and amortization	239	8,572	6,653		15,464
Severance and transaction-related costs	70		130		200
Other (income) expense	(1,726)	(1,043)	584		(2,185)
	2,837	69,191	59,893		131,921
Operating income (loss)	(2,877)	15,494	8,415		21,032
Interest expense, net	54,501	547	248		55,296
Income (loss) before income taxes	(57,378)	14,947	8,167		(34,264)
Income tax expense		462	1,213		1,675
Income (loss) from continuing operations	(57,378)	14,485	6,954		(35,939)
Equity in earnings of subsidiaries	21,439	11		(21,450)	
Net income (loss)	(35,939)	14,496	6,954	(21,450)	(35,939)
Foreign currency translation adjustments	94	14	37	(51)	94
Net gain (loss) on intra-entity foreign currency transactions, net of tax	(928)	27	(933)	906	(928)
Other comprehensive income (loss)	(834)	41	(896)	855	(834)
Comprehensive income (loss)	$ (36,773)	$ 14,537	$ 6,058	$ (20,595)	$ (36,773)

Condensed Consolidating Statement of Operations and Comprehensive Loss

For The Three Months Ended November 1, 2014

(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$	$ 189,880	$ 160,789	$	$ 350,669
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	140	100,861	82,441		183,442
Gross profit	(140)	89,019	78,348		167,227
Other expenses:					
Selling, general and administrative	4,122	61,429	57,106		122,657
Depreciation and amortization	184	8,604	7,317		16,105
Severance and transaction-related costs	165		586		751
Other (income) expense, net	(2,231)	(132)	891		(1,472)
	2,240	69,901	65,900		138,041
Operating income (loss)	(2,380)	19,118	12,448		29,186
Interest expense, net	52,966	559	68		53,593
Income (loss) before income taxes	(55,346)	18,559	12,380		(24,407)
Income tax expense		553	1,862		2,415
Income (loss) from continuing operations	(55,346)	18,006	10,518		(26,822)
Equity in earnings (loss) of subsidiaries	28,524	(126)		(28,398)	
Net income (loss)	(26,822)	17,880	10,518	(28,398)	(26,822)
Foreign currency translation adjustments	(3,304)	(257)	(1,575)	1,832	(3,304)
Net loss on intra-entity foreign currency transactions, net of tax	(11,909)	(802)	(11,971)	12,773	(11,909)
Other comprehensive loss	(15,213)	(1,059)	(13,546)	14,605	(15,213)
Comprehensive income (loss)	$ (42,035)	$ 16,821	$ (3,028)	$ (13,793)	$ (42,035)

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Condensed Consolidating Statement of Operations and Comprehensive Loss

For The Nine Months Ended October 31, 2015

(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$	$ 573,567	$ 426,692	$	$ 1,000,259
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	122	304,686	226,844		531,652
Gross profit (deficit)	(122)	268,881	199,848		468,607
Other expenses:					
Selling, general and administrative	10,474	181,788	155,567		347,829
Depreciation and amortization	651	26,095	18,906		45,652
Severance and transaction-related costs	431	3	593		1,027
Other (income) expense	(2,744)	(1,658)	(249)		(4,651)
	8,812	206,228	174,817		389,857
Operating income (loss)	(8,934)	62,653	25,031		78,750
Interest expense, net	162,390	1,639	731		164,760
Income (loss) before income taxes	(171,324)	61,014	24,300		(86,010)
Income tax expense (benefit)		(33)	4,249		4,216
Income (loss) from continuing operations	(171,324)	61,047	20,051		(90,226)
Equity in earnings (loss) of subsidiaries	81,098	(1,278)		(79,820)	
Net income (loss)	(90,226)	59,769	20,051	(79,820)	(90,226)
Foreign currency translation adjustments	(507)	(273)	913	(640)	(507)
Net loss on intra-entity foreign currency transactions, net of tax	(3,926)	(681)	(3,882)	4,563	(3,926)
Other comprehensive loss	(4,433)	(954)	(2,969)	3,923	(4,433)
Comprehensive income (loss)	$ (94,659)	$ 58,815	$ 17,082	$ (75,897)	$ (94,659)

Condensed Consolidating Statement of Operations and Comprehensive Loss

For The Nine Months Ended November 1, 2014

(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$	$ 584,244	$ 497,597	$	$ 1,081,841
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	655	304,658	254,934		560,247
Gross profit (deficit)	(655)	279,586	242,663		521,594
Other expenses:					
Selling, general and administrative	11,638	187,230	178,961		377,829
Depreciation and amortization	2,183	30,162	25,024		57,369
Severance and transaction-related costs	1,862	1	2,652		4,515
Other (income) expense, net	(6,372)	(158)	4,243		(2,287)
	9,311	217,235	210,880		437,426
Operating income (loss)	(9,966)	62,351	31,783		84,168
Interest expense, net	161,192	1,656	61		162,909
Income (loss) before income taxes	(171,158)	60,695	31,722		(78,741)
Income tax expense (benefit)		(488)	7,280		6,792
Income (loss) from continuing operations	(171,158)	61,183	24,442		(85,533)
Equity in earnings (loss) of subsidiaries	85,625	(1,297)		(84,328)	
Net income (loss)	(85,533)	59,886	24,442	(84,328)	(85,533)
Foreign currency translation adjustments	(3,123)	38	(2,569)	2,531	(3,123)
Net loss on intra-entity foreign currency transactions, net of tax	(11,127)	(278)	(11,179)	11,457	(11,127)
Other comprehensive loss	(14,250)	(240)	(13,748)	13,988	(14,250)
Comprehensive income (loss)	$ (99,783)	$ 59,646	$ 10,694	$ (70,340)	$ (99,783)

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Condensed Consolidating Statement of Cash Flows

Nine Months Ended October 31, 2015

(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ (90,226)	$ 59,769	$ 20,051	$ (79,820)	$ (90,226)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity in earnings (loss) of subsidiaries	(81,098)	1,278		79,820	
Depreciation and amortization	651	26,095	18,906		45,652
Amortization of lease rights and other assets			2,534		2,534
Amortization of debt issuance costs	5,954		234		6,188
Accretion of debt premium	(1,864)				(1,864)
Net accretion of unfavorable lease obligations		(247)	(9)		(256)
Loss on sale/retirement of property and equipment, net		348	(5)		343
Gain on sale of intangible assets/lease rights			(2,475)		(2,475)
Stock-based compensation benefit	(453)		(49)		(502)
(Increase) decrease in:					
Inventories		(30,915)	(16,179)		(47,094)
Prepaid expenses	(234)	(11,682)	(1,620)		(13,536)
Other assets	(34)	(1,828)	(4,318)		(6,180)
Increase (decrease) in:					
Trade accounts payable	11,952	5,522	12,121		29,595
Income taxes payable		(337)	1,083		746
Accrued interest payable	(25,263)		(229)		(25,492)
Accrued expenses and other liabilities	(1,482)	(444)	(2,414)		(4,340)
Deferred income taxes			528		528
Deferred rent expense		108	2,819		2,927
Net cash provided by (used in) operating activities	(182,097)	47,667	30,978		(103,452)
Cash flows from investing activities:					
Acquisition of property and equipment	(745)	(13,162)	(8,507)		(22,414)
Acquisition of intangible assets/lease rights		(37)	(103)		(140)
			2,614		2,614

Proceeds from sale of intangible assets/lease rights				
Net cash used in investing activities	(745)	(13,199)	(5,996)	(19,940)
Cash flows from financing activities:				
Proceeds from revolving credit facilities	156,300		128,923	285,223
Payments on revolving credit facilities	(45,000)		(118,758)	(163,758)
Payment of debt issuance costs	(306)		(109)	(415)
Principal payments on capital lease		(123)		(123)
Intercompany activity, net	72,148	(32,631)	(39,517)	
Net cash provided by (used in) financing activities	183,142	(32,754)	(29,461)	120,927
Effect of foreign currency exchange rate changes on cash and cash equivalents		(1,469)	456	(1,013)
Net increase (decrease) in cash and cash equivalents	300	245	(4,023)	(3,478)
Cash and cash equivalents, at beginning of period	3,480	4,009	19,897	27,386
Cash and cash equivalents, at end of period	3,780	4,254	15,874	23,908

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Condensed Consolidating Statement of Cash Flows

Nine Months Ended November 1, 2014

(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ (85,533)	$ 59,886	$ 24,442	$ (84,328)	$ (85,533)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity in earnings (loss) of subsidiaries	(85,625)	1,297		84,328	
Depreciation and amortization	2,183	30,162	25,024		57,369
Amortization of lease rights and other assets			2,949		2,949
Amortization of debt issuance costs	5,974				5,974
Accretion of debt premium	(1,712)				(1,712)
Net accretion of unfavorable lease obligations		(367)	(27)		(394)
Loss on sale/retirement of property and equipment, net	52	130	3		185
Loss on sale of intangible assets/lease rights			277		277
Stock-based compensation (benefit) expense	(537)	146	180		(211)
(Increase) decrease in:					
Inventories		(5,115)	(412)		(5,527)
Prepaid expenses	(626)	(25)	(4,171)		(4,822)
Other assets	306	(2,069)	(767)		(2,530)
Increase (decrease) in:					
Trade accounts payable	(9,175)	(16)	8,028		(1,163)
Income taxes payable		(29)	(2,930)		(2,959)
Accrued interest payable	(25,828)		78		(25,750)
Accrued expenses and other liabilities	(2,117)	(54)	193		(1,978)
Deferred income taxes			(160)		(160)
Deferred rent expense		3,240	(127)		3,113
Net cash provided by (used in) operating activities	(202,638)	87,186	52,580		(62,872)
Cash flows from investing activities:					
Acquisition of property and equipment	(781)	(25,993)	(14,620)		(41,394)
Acquisition of intangible assets/lease rights		(85)	(393)		(478)

Net cash used in investing activities	(781)	(26,078)	(15,013)	(41,872)
Cash flows from financing activities:				
Proceeds from revolving credit facilities	224,000		40,180	264,180
Payments on revolving credit facilities	(189,300)			(189,300)
Payment of debt issuance costs	(165)		(441)	(606)
Principal payments on capital lease		(77)		(77)
Intercompany activity, net	160,933	(59,717)	(101,216)	
Net cash provided by (used in) financing activities	195,468	(59,794)	(61,477)	74,197
Effect of foreign currency exchange rate changes on cash and cash equivalents		(542)	622	80
Net increase (decrease) in cash and cash equivalents	(7,951)	772	(23,288)	(30,467)
Cash and cash equivalents, at beginning of period	9,911	4,055	44,377	58,343
Cash and cash equivalents, at end of period	1,960	4,827	21,089	27,876

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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.

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 October 31, 2015, we operated a total of 2,926 company-operated stores of which 1,793 were located in all 50 states of the United States, Puerto Rico, Canada and the U.S. Virgin Islands (North America segment) and 1,133 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*®. In January 2014, we made a decision to close our China stores and closed all of our 17 company-operated stores by May 4, 2014. We are currently studying reintroduction of our brand in China via alternative channels. As of October 31, 2015, we also had a total of 703 concession stores, of which 244 were located in the United States and Canada (North America segment) and 459 stores were located in the United Kingdom, Ireland, France, Spain, Austria, Germany, Italy, Portugal and Switzerland (Europe segment).

As of October 31, 2015, we also franchised 530 stores in Japan, the Middle East, Turkey, Greece, Guatemala, Malta, India, Dominican Republic, El Salvador, Venezuela, Panama, Indonesia, Philippines, Costa Rica, Serbia, Bulgaria, Sweden, Romania, Martinique, Pakistan, Thailand and South Africa. 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.

Claire s® is our primary global brand that we operate through company-operated, concession stores, or franchise stores. *Claire s*® 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*® has universal appeal to teens, pre-teens and kids. *Claire s*® 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.

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Icing® is our second brand which we currently operate in North America through company-operated stores and in Europe and the Middle East through franchised stores. *Icing®* offers an inspiring merchandise assortment of fashionable products that helps a young woman to say something about herself, whatever the occasion. Our *Icing®* 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 and nose piercing service, necklaces, bracelets, body jewelry and rings; and
- Accessories: Includes hairgoods; beauty products; personal, fashion, and seasonal accessories, including tech accessories such as phone cases, jewelry holders, stationery, key rings, DIY kits, attitude glasses, headwear, legwear, armwear, watches, 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®* and *Icing®* 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 nine months ended October 31, 2015 includes the following:

- Net sales decrease of 5.1% and decrease of 7.5%; respectively;
- Same store sales percentages;

	Three Months Ended October 31, 2015	**Nine Months Ended October 31, 2015**
Consolidated	(0.6)%	(1.6)%
North America	0.1%	(0.4)%
Europe	(1.6)%	(3.5)%

- Merchandise margin decreased 170 basis points and decreased 140 basis points, respectively;
- Operating income decreased of 27.9 % and decreased 6.4%, respectively; and
- Operating income margin of 6.3 % and 7.9%, respectively.

Operational activity for the three and nine months ended October 31, 2015 includes the following:

Opened 376 and 585 concession stores, respectively;

Opened 6 and 12 new company-operated stores, respectively;

Closed 34 and 84 company-operated stores, respectively, due to underperformance or lease renewal terms that did not meet our criteria; and

Closed 0 and 12 concession stores, respectively.

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A summary of our consolidated results of operations for the three and nine months ended October 31, 2015 and November 1, 2014 are as follows (dollars in thousands):

	Three Months Ended October 31, 2015	Three Months Ended November 1, 2014
Net sales	$ 332,677	$ 350,669
Decrease in same store sales	(0.6)%	(1.4)%
Gross profit percentage	46.0%	47.7%
Selling, general and administrative expenses as a percentage of net sales	35.6%	35.0%
Depreciation and amortization as a percentage of net sales	4.6%	4.6%
Operating income	$ 21,032	$ 29,186
Net loss	$ (35,939)	$ (26,822)
Number of company-operated stores at the end of the period	2,926	3,038
Number of concession stores at the end of the period	703	125

	Nine Months Ended October 31, 2015	Nine Months Ended November 1, 2014
Net sales	$ 1,000,259	$ 1,081,841
Decrease in same store sales	(1.6)%	(2.1)%
Gross profit percentage	46.8%	48.2%
Selling, general and administrative expenses as a percentage of net sales	34.8%	34.9%
Depreciation and amortization as a percentage of net sales	4.6%	5.3%
Operating income	$ 78,750	$ 84,168
Net loss	$ (90,226)	$ (85,533)
Number of company-operated stores at the end of the period	2,926	3,038
Number of concession stores at the end of the period	703	125

Net sales

Net sales for the three months ended October 31, 2015 decreased $18.0 million, or 5.1%, from the three months ended November 1, 2014. The decrease was attributable to an unfavorable foreign currency translation effect of our non-U.S. net sales of $17.5 million, the effect of store closures of $10.7 million, a decrease in same store sales of $1.8 million and decreased shipments to franchisees of $0.6 million, partially offset by concession and new store sales of $12.6 million. Net sales would have decreased 0.2% excluding the impact from foreign currency exchange rate changes.

Net sales for the nine months ended October 31, 2015 decreased $81.6 million, or 7.5%, from the nine months ended November 1, 2014. The decrease was attributable to an unfavorable foreign currency translation effect of our non-U.S. net sales of $67.4 million, the effect of store closures of $30.6 million and a decrease in same store sales of $15.4 million, partially offset by concession and new store sales of $31.0 million and increased shipments to franchisees of $0.8 million. Net sales would have decreased 1.4% excluding the impact from foreign currency exchange rate changes.

For the three months ended October 31, 2015, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 1.9%, partially offset by an increase of average transaction value of 1.6%.

For the nine months ended October 31, 2015, the decrease in same store sales was primarily attributable to a decrease in average transaction value of 0.7% and a decrease in average number of transactions per store of 0.5%.

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

Product Category	Percentage of Total Three Months Ended October 31, 2015	Percentage of Total Three Months Ended November 1, 2014	Percentage of Total Nine Months Ended October 31, 2015	Percentage of Total Nine Months Ended November 1, 2014
Jewelry	43.4	46.4	47.2	49.0
Accessories	56.6	53.6	52.8	51.0
	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 October 31, 2015, gross profit percentage decreased 170 basis points to 46.0% compared to 47.7% during the three months ended November 1, 2014. The decrease in gross profit percentage consisted of a decrease in merchandise margin of 220 basis points, partially offset by a 30 basis point decrease in buying and buying-related costs and by a 20 basis point decrease in occupancy costs. The decrease in merchandise margin percentage resulted primarily from unfavorable foreign exchange rates and an increase in 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 sales, was primarily caused by the leveraging effect of concession store sales, which do not have associated occupancy costs.

During the nine months ended October 31, 2015, gross profit percentage decreased 140 basis points to 46.8% compared to 48.2% during the nine months ended November 1, 2014. The decrease in gross profit percentage consisted of a decrease in merchandise margin of 190 basis points, partially offset by a 30 basis point decrease in buying and buying-related costs and by a 20 basis point decrease in occupancy costs. The decrease in merchandise margin percentage resulted primarily from unfavorable foreign exchange rates, increase in markdowns and higher freight costs. 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 sales, was primarily caused by the leveraging effect of concession store sales, which do not have associated occupancy costs, and the closure of our former China operations.

Selling, general and administrative expenses

During the three months ended October 31, 2015, selling, general and administrative expenses decreased $4.2 million, or 3.4%, compared to the three months ended November 1, 2014. As a percentage of net sales, selling, general and administrative expenses increased 60 basis points compared to the three months ended November 1, 2014. Excluding a favorable $6.1 million foreign currency translation effect, selling, general, and administrative expenses would have increased $1.9 million. Of the remainder, the increase was primarily due to increased concession store commission expense, partially offset by lower compensation and related expenses.

During the nine months ended October 31, 2015, selling, general and administrative expenses decreased $30.0 million, or 7.9%, compared to the nine months ended November 1, 2014. As a percentage of net sales, selling, general and administrative expenses decreased 10 basis points compared to the nine months ended November 1, 2014. Excluding a favorable $23.8 million foreign currency translation effect, selling, general, and administrative expenses would have decreased $6.2 million. Of the remainder, the decrease was primarily due to lower compensation and related expenses and closure of our former China operations, partially offset by increased concession store commission expense.

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Depreciation and amortization expense

During the three months ended October 31, 2015, depreciation and amortization expense decreased $0.6 million to $15.5 million compared to $16.1 million for the three months ended November 1, 2014. Excluding a favorable $0.8 million foreign currency translation effect, the increase in depreciation and amortization expense would have been $0.2 million.

During the nine months ended October 31, 2015, depreciation and amortization expense decreased $11.7 million to $45.7 million compared to $57.4 million for the nine months ended November 1, 2014. Excluding a favorable $2.9 million foreign currency translation effect, the decrease in depreciation and amortization expense would have been $8.9 million.

Other income, net

The following is a summary of other income activity for the three and nine months ended October 31, 2015 and November 1, 2014 (in thousands):

	Three Months Ended October 31, 2015	Three Months Ended November 1, 2014	Nine Months Ended October 31, 2015	Nine Months Ended November 1, 2014
Royalty income	$ (1,133)	$ (1,325)	$ (3,781)	$ (3,866)
Gain on sale of assets	(805)		(2,475)	
Foreign currency exchange (gain) loss, net	(237)	(129)	1,685	1,639
Other income	(10)	(18)	(80)	(60)
	$ (2,185)	$ (1,472)	$ (4,651)	$ (2,287)

Interest expense, net

During the three months ended October 31, 2015, net interest expense aggregated $55.3 million compared to $53.6 million for the three months ended November 1, 2014.

During the nine months ended October 31, 2015, net interest expense aggregated $164.8 million compared to $162.9 million for the nine months ended November 1, 2014.

Income taxes

The effective income tax rate for the three and nine months ended October 31, 2015 was (4.9)% and (4.9)% compared to (9.9)% and (8.6)% for the three and nine months ended November 1, 2014, respectively. These effective income tax rates differed from the statutory federal income tax rate of 35% primarily from increases in the valuation allowance recorded for additional deferred tax assets generated primarily from operating losses in the three and nine months ended October 31, 2015 and November 1, 2014, respectively, by our U.S. operations.

Segment Operations

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

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North America

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

	Three Months Ended October 31, 2015	Three Months Ended November 1, 2014	Nine Months Ended October 31, 2015	Nine Months Ended November 1, 2014
Net sales	$ 202,434	$ 206,072	$ 618,729	$ 632,728
Increase (decrease) in same store sales	0.1%	(1.6)%	(0.4)%	(3.4)%
Gross profit percentage	46.4%	47.2%	47.4%	47.7%
Number of company-operated stores at the end of the period	1,793	1,876	1,793	1,876
Number of concession stores at the end of the period	244	12	244	12

During the three months ended October 31, 2015, net sales in North America decreased $3.6 million, or 1.8%, from the three months ended November 1, 2014. The decrease was attributable to the effect of store closures of $6.7 million and an unfavorable foreign currency translation effect of our non-U.S. net sales of $2.6 million and decreased shipments to franchisees of $0.6 million, partially offset by concession and new store sales of $6.1 million and an increase in same store sales of $0.2 million. Sales would have decreased 0.5% excluding the impact from foreign currency exchange rate changes.

During the nine months ended October 31, 2015, net sales in North America decreased $14.0 million, or 2.2%, from the nine months ended November 1, 2014. The decrease was attributable to the effect of store closures of $19.3 million, an unfavorable foreign currency translation effect of our non-U.S. net sales of $6.6 million and a decrease in same store sales of $2.3 million, partially offset by concession and new store sales of $13.4 million and increased shipments to franchisees of $0.8 million. Sales would have decreased 1.2% excluding the impact from foreign currency exchange rate changes.

For the three months ended October 31, 2015, the increase in same store sales was primarily attributable to an increase in average number of transactions per store of 0.6%, partially offset by a decrease in average transaction value of 0.3%.

For the nine months ended October 31, 2015, the decrease in same store sales was primarily attributable to a decrease in average transaction value of 2.9%, partially offset by an increase in average number of transactions per store of 3.4%.

During the three months ended October 31, 2015, gross profit percentage decreased 80 basis points to 46.4% compared to 47.2% during the three months ended November 1, 2014. The decrease in gross profit percentage consisted of a 100 basis point decrease in merchandise margin, partially offset by a 20 basis point decrease in occupancy costs. The decrease in merchandise margin resulted primarily from an increase in 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 sales, was primarily caused by the leveraging effect of concession store sales, which do not have associated occupancy costs.

During the nine months ended October 31, 2015, gross profit percentage decreased 30 basis points to 47.4% compared to 47.7% during the nine months ended November 1, 2014. The decrease in gross profit percentage consisted of an 80 basis point decrease in merchandise margin, partially offset by a 30 basis point decrease in occupancy costs and a 20 basis point decrease in buying and buying-related costs. The decrease in merchandise margin resulted primarily from an increase in markdowns and higher freight costs. 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

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markdowns that would materially affect our merchandise margin. The decrease in occupancy costs, as a percentage of sales, was primarily caused by the leveraging effect of concession store sales, which do not have associated occupancy costs and the closure of our former China operations. The decrease in buying and buying-related costs, as a percentage of net sales, resulted primarily due to lower buying and buying-relating costs.

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

	Percentage of Total		Percentage of Total	
Product Category	**Three Months Ended October 31, 2015**	**Three Months Ended November 1, 2014**	**Nine Months Ended October 31, 2015**	**Nine Months Ended November 1, 2014**
Jewelry	50.4	52.0	54.0	54.3
Accessories	49.6	48.0	46.0	45.7
	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):

	Three Months Ended October 31, 2015	**Three Months Ended November 1, 2014**	**Nine Months Ended October 31, 2015**	**Nine Months Ended November 1, 2014**
Net sales	$ 130,243	$ 144,597	$ 381,530	$ 449,113
(Decrease) increase in same store sales	(1.6)%	(1.1)%	(3.5)%	(0.2)%
Gross profit percentage	45.3%	48.4%	46.0%	48.9%
Number of company-operated stores at the end of the period	1,133	1,162	1,133	1,162
Number of concession stores at the end of the period	459	113	459	113

During the three months ended October 31, 2015, net sales in Europe decreased $14.4 million, or 9.9%, from the three months ended November 1, 2014. The decrease was attributable to an unfavorable foreign currency translation effect of our non-U.S. net sales of $14.9 million, the effect of store closures of $4.0 million and a decrease in same stores sales of $2.0 million, partially offset by concession and new store sales of $6.5 million. Sales would have increased 0.4% excluding the impact from foreign currency exchange rate changes.

During the nine months ended October 31, 2015, net sales in Europe decreased $67.6 million, or 15.0%, from the nine months ended November 1, 2014. The decrease was attributable to an unfavorable foreign currency translation effect of our non-U.S. net sales of $60.8 million, a decrease in same stores sales of $13.1 million and the effect of store closures of $11.3 million, partially offset by concession and new store sales of $17.6 million. Sales would have decreased 1.8% excluding the impact from foreign currency exchange rate changes.

For the three months ended October 31, 2015, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 5.0%, partially offset by an increase in average transaction value of 3.9%.

For the nine months ended October 31, 2015, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 5.0%, partially offset by an increase in average transaction value of 1.2%.

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During the three months ended October 31, 2015, gross profit percentage decreased 310 basis points to 45.3% compared to 48.4% during the three months ended November 1, 2014. The decrease in gross profit percentage consisted of a 390 basis point decrease in merchandise margin, partially offset by a 70 basis point decrease in buying and buying-related costs and a 10 basis point decrease in occupancy costs. The decrease in merchandise margin percentage resulted primarily from increase in markdowns and unfavorable foreign currency exchange rates. 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 buying and buying-related costs, as a percentage of net sales, resulted primarily due to lower buying and buying-relating costs.

During the nine months ended October 31, 2015, gross profit percentage decreased 290 basis points to 46.0% compared to 48.9% during the nine months ended November 1, 2014. The decrease in gross profit percentage consisted of a 330 basis point decrease in merchandise margin, partially offset by a 40 basis point decrease in buying and buying-related costs. The decrease in merchandise margin percentage resulted primarily from unfavorable foreign currency exchange rates, increase in markdowns and higher freight costs. 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 buying and buying-related costs, as a percentage of net sales, resulted primarily due to lower buying and buying-relating costs.

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

	Percentage of Total		Percentage of Total	
Product Category	**Three Months Ended October 31, 2015**	**Three Months Ended November 1, 2014**	**Nine Months Ended October 31, 2015**	**Nine Months Ended November 1, 2014**
Jewelry	32.8	38.7	36.4	41.7
Accessories	67.2	61.3	63.6	58.3
	100.0	100.0	100.0	100.0

Liquidity and Capital Resources

We anticipate that cash generated from operations, borrowings under our $115.0 million U.S. Credit Facility and $50.0 million Europe Credit Facility, which we collectively refer to as the Credit Facilities , and future refinancings of our indebtedness will be sufficient to allow us to satisfy payments of interest and principal on our indebtedness as they become due, to fund new store expenditures, and future working capital requirements in both the next twelve months and over the longer term. Interest on the outstanding Notes (as described below) will be approximately $206.1 million in Fiscal 2015, and we expect to fund these interest payments through a combination of cash from operations and borrowings under our Credit Facilities. No principal is due on the Notes until Fiscal 2017, when our Senior Subordinated Notes will mature. We expect to pay the outstanding principal amount of these Notes at maturity through a combination of new indebtedness, cash from operations and other available sources. However, our ability to make interest payments and meet operational liquidity needs, as well as our ability to refinance the Senior Subordinated Notes when they mature in Fiscal 2017, will depend, in part, on our future operating performance. Our future operating performance and liquidity, as well as our ability to refinance our indebtedness, may also 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 31, 2015.

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A summary of cash flows provided by (used in) operating, investing and financing activities for the nine months ended October 31, 2015 and November 1, 2014 is outlined in the table below (in thousands):

	Nine Months Ended October 31, 2015	Nine Months Ended November 1, 2014
Operating activities	$ (103,452)	$ (62,872)
Investing activities	(19,940)	(41,872)
Financing activities	120,927	74,197

Cash flows from operating activities

For the nine months ended October 31, 2015, cash used in operations increased $40.6 million compared to the prior year period. The primary reason for the increase was an increase in working capital of $26.4 million and a net decrease in operating income adjusted for non-cash items and other items of $14.2 million, excluding cash equivalents. For the nine months ended November 1, 2014, cash used in operations decreased $39.7 million compared to the prior year period. The primary reason for the decrease was a decrease in working capital, excluding cash and cash equivalents, of $46.8 million, a decrease in tax payments and other items of $5.9 million, and a decrease in interest payments of $4.1 million, partially offset by a net decrease in operating income before depreciation and amortization expense and other non-cash items, of $17.1 million.

Cash flows from investing activities

For the nine months ended October 31, 2015, cash used in investing activities was $19.9 million and consisted of $22.5 million for capital expenditures, partially offset by proceeds of $2.6 million from the sale of intangible assets. For the nine months ended November 1, 2014, cash used in investing activities was $41.9 million and primarily consisted of $41.9 million for capital expenditures. During the remainder of Fiscal 2015, we expect to fund approximately $3.0 million of capital expenditures.

Cash flows from financing activities

For the nine months ended October 31, 2015, cash provided by financing activities was $120.9 million, which consisted primarily of net borrowings of $121.4 million under our Credit Facilities (as described below), partially offset by payment of $0.4 million in financing costs and payment of $0.1 million for capital lease. For the nine months ended November 1, 2014, cash provided by financing activities was $74.2 million, which consisted primarily of net borrowings of $74.9 million under our Credit Facilities (as described below), partially offset by payment of $0.6 million in financing costs.

We or our affiliates have purchased and may, from time to time, purchase portions of our indebtedness in privately-negotiated, open market transactions.

Cash Position

As of October 31, 2015, we had cash and cash equivalents of $23.9 million and all cash equivalents were maintained in one money market fund invested exclusively in U.S. Treasury Securities.

In addition, as of October 31, 2015, our foreign subsidiaries held cash and cash equivalents of $15.9 million. During the nine months ended October 31, 2015, we repatriated cash held by foreign subsidiaries but did not accrue U.S. income taxes since the amount of our remaining U.S. net operating loss carry forwards was sufficient to offset the associated income tax liability. During the remainder of Fiscal 2015, we expect a portion of our foreign subsidiaries future cash flow generation to be repatriated to the U.S. to meet certain liquidity needs. Based upon the amount of our remaining U.S. net operating loss carryforwards as of October 31, 2015, we do not expect to pay U.S. income tax on future Fiscal 2015 repatriations. When our U.S. net operating loss carryforwards are no longer available, we would be required to accrue and pay U.S. income taxes, net of any foreign tax credit benefit, on any such repatriation.

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We anticipate that cash generated from operations, borrowings under our Credit Facilities, and future refinancings of our indebtedness will be sufficient to allow us to satisfy payments of interest and principal on our indebtedness as they become due, to fund new store expenditures, and future working capital requirements in both the next twelve months and over the longer term. However, this will depend, in part, on our future operating performance. Our future operating performance and liquidity, as well as our ability to refinance our indebtedness, may be adversely affected by general economic, financial, 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 31, 2015.

U.S Revolving Credit Facility

We are party to an Amended and Restated Credit Agreement, dated as of September 20, 2012, by and among Claire s Inc. (Parent), the Company, Credit Suisse AG, as Administrative Agent, and the other Lenders named therein, as amended (as amended, the U.S. Credit Facility), which provides for a $115.0 million five-year senior secured revolving credit facility maturing September 20, 2017.

Borrowings under the U.S. Credit Facility bear interest at a rate equal to, at our 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. We also pay a facility fee of 0.50% per annum of the committed amount of the U.S. Credit Facility whether or not utilized.

All obligations under the U.S. Credit Facility are unconditionally guaranteed by (i) Claire s Inc., our parent corporation, prior to an initial public offering of our stock, and (ii) our existing and future direct or indirect wholly-owned domestic subsidiaries, subject to certain exceptions.

All obligations under the U.S. Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions and permitted liens, by a first priority lien on, (i) all of our capital stock, prior to an initial public offering of our stock, and (ii) substantially all of our material owned assets and the material owned assets of subsidiary guarantors, limited in the case of equity interests held by us or any subsidiary guarantor in a foreign subsidiary, to 100% of the non-voting equity interests and 65% of the voting equity interests of such foreign subsidiary held directly by us or a subsidiary guarantor. The liens securing the U.S. Credit Facility rank equally to the liens securing the 6.125% Senior Secured First Lien Notes and the 9.0% Senior Secured First Lien Notes due 2019 (the 9.0% Senior Secured First Lien Notes).

The U.S. Credit Facility contains customary provisions relating to mandatory prepayments, voluntary payments, affirmative and negative covenants, and events of default. In addition, so long as the revolving loans and letters of credit outstanding exceed $15 million, we are 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 based upon the ratio of our 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. Effective September 10, 2015, we amended the provisions in our U.S. Credit Facility to increase the maximum Total Net Secured Leverage Ratio. Commencing with the third quarter of Fiscal 2015, the maximum ratio is 6.75:1.0 for all quarters through the end of Fiscal 2016 except the fourth quarters of Fiscal 2015 and Fiscal 2016 when the ratio will be 6.35:1.0. As of October 31, 2015, our revolving loans and letters of credit outstanding exceeded $15.0 million, and our Total Net Secured Leverage Ratio was 6.5:1.0.

The U.S. Credit Facility also contains 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 or issue certain preferred shares;

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- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

A breach of any of these covenants could result in an event of default. Upon the occurrence of an event of default, the Lenders could elect to declare all amounts outstanding under the U.S. Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those Lenders could cause cross defaults under our other indebtedness. If we were unable to repay those amounts, the Lenders under the U.S. Credit Facility could proceed against the collateral granted to them to secure that indebtedness. As of October 31, 2015, we were in compliance with the covenants.

As of October 31, 2015, we had $111.3 million of borrowings and $3.6 million of letters of credit outstanding, which reduces the borrowing availability under the U.S. Credit Facility to $0.1 million as of that date.

Note Covenants

Our Senior Subordinated Notes, Senior Secured Second Lien Notes, 9.0% Senior Secured First Lien Notes, 6.125% Senior Secured First Lien Notes, and 7.75% Senior Notes (collectively, the Notes) 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.

Certain of these covenants, such as limitations on our 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 us. None of these Note covenants, however, require us to maintain any particular financial ratio or other measure of financial performance. As of October 31, 2015, we were in compliance with the covenants under the Notes.

Europe Revolving Credit Facility

Certain of our European subsidiaries are party to the Europe Credit Facility, entered into in October 2014. In July 2015, we amended the Europe Credit Facility to increase the size from Euro 35 million to USD 50 million. The Europe Credit Facility will terminate on August 20, 2017. Loans under the Europe Credit Facility bear interest at 2.50% per annum plus the Euro Interbank Offered Rate as in effect for interest periods of one, three or six months or any other period agreed upon. The Europe Credit Facility also provides for a facility fee of 0.875% per annum on the unused amount of the facility.

All obligations under the Europe Credit Facility are unconditionally and fully guaranteed by Claire s Gibraltar and certain of its existing direct or indirect wholly-owned European subsidiaries, subject to certain exceptions and limitations.

The Europe Credit Facility contains customary affirmative and negative covenants applicable to Claire s Gibraltar and its subsidiaries, events of default and provisions relating to mandatory and voluntary payments, which include an annual requirement that for at least 5 successive Business Days in each year no loans under the Europe Credit Facility may be outstanding. The Europe Credit Facility also contains covenants that require Claire s Gibraltar to maintain particular financial ratios so long as any amounts are outstanding under the facility: a Fixed Charge Cover Ratio not lower than 1.5:1.0 based upon the ratio of adjusted earnings before interest, taxes, depreciation, amortization, and rent to net interest and rent for each period of four consecutive fiscal quarters and a Leverage Ratio not more than 1.5:1.0 based upon the ratio of net debt to adjusted earnings before interest, taxes, depreciation and amortization for each period of four consecutive fiscal quarters. As of October 31, 2015, we had $10.3 million of borrowings, which reduces the borrowing availability under the Europe Credit Facility to $39.7 million as of that date.

Europe Bank Credit Facilities

In addition to the Europe Credit Facility, our non-U.S. subsidiaries have bank credit facilities totaling $2.3 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 October 31, 2015, we had a reduction of $2.2 million for outstanding bank guarantees, which reduces the borrowing availability to $0.1 million as of that date.

Parent Company Registration Statement Filing

On May 3, 2013, Claire s Inc., our Parent, filed a registration statement with the Securities and Exchange Commission for an initial public offering of Claire s Inc. s common stock.

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 2014 Annual Report on Form 10-K, filed on April 8, 2015, 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.

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 annual impairment testing for Fiscal 2014 resulted in a recognition of non-cash impairment charges of $123.2 million and $12.0 million related to goodwill and intangible assets, respectively. We expect to next perform our annual impairment analysis during the fourth fiscal quarter of Fiscal 2015, 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

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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, forecasts and simil 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 2014 under Statement Regarding Forward-Looking Disclosures and Risk Factors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Cash and Cash Equivalents

We have significant amounts of cash and cash equivalents, excluding restricted cash, at financial institutions that are in excess of federally insured limits. With the current financial environment, 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 by maintaining bank accounts with a group of credit worthy financial institutions. As of October 31, 2015, all cash equivalents were maintained in one money market fund that was invested exclusively in U.S. Treasury securities and our restricted cash was deposited with a significant and credit worthy financial institution.

Interest Rates

As of October 31, 2015, we had fixed rate debt of $2,374.6 million and variable rate debt of $121.6 million. Based on our variable rate balance as of October 31, 2015, a 1% change in interest rates would increase or decrease our annual interest expense by approximately $1.2 million.

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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 October 31, 2015, 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 ($4.4) million and ($14.3) million, net of tax, reflecting the unrealized gain (loss) on foreign currency translations and intra-entity foreign currency transactions during the nine months ended October 31, 2015 and November 1, 2014, 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.

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, sustained 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.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company s management, including its Chief Executive Officer and its Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) as of October 31, 2015. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act has been appropriately recorded, processed, summarized, and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon that evaluation, the Company s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company s disclosure controls and procedures were not effective as of October 31, 2015 because of a previously identified material weakness in the Company s internal control over financial reporting as with respect to annual indefinite-lived intangible asset impairment analysis, which we are currently addressing.

As of the end of the period covered by this Quarterly Report, we have not fully remediated this material weakness identified above. We expect this material weakness to be remediated by January 30, 2016, the end of our fiscal year.

Changes in Internal Controls over Financial Reporting

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.

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 31, 2015.

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Item 6. Exhibits

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
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

(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.
December 4, 2015	By: /s/Beatrice Lafon Beatrice Lafon, Chief Executive Officer (principal executive officer)
December 4, 2015	By: /s/J. Per Brodin J. Per Brodin, Executive Vice President and Chief Financial Officer (principal financial and accounting officer)

INDEX TO EXHIBITS

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