

CLAIRE'S STORES INC
Form 10-Q
December 13, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 29, 2016

OR

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

For the transition period from _____ to _____

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

Claire's Stores, Inc.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of incorporation or organization)

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

2400 West Central Road,

Hoffman Estates, Illinois
(Address of principal executive offices)

60192
(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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Smaller reporting company

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

As of December 1, 2016, 100 shares of the Registrant's common stock, \$0.001 par value, were outstanding.

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CLAIRE S STORES, INC. AND SUBSIDIARIES

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

	October 29, 2016	January 30, 2016
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 40,516	\$ 18,871
Inventories	151,713	151,954
Prepaid expenses	18,502	15,676
Other current assets	27,677	26,254
Total current assets	238,408	212,755
Property and equipment:		
Furniture, fixtures and equipment	240,079	245,954
Leasehold improvements	300,340	310,021
	540,419	555,975
Accumulated depreciation and amortization	(397,760)	(383,334)
	142,659	172,641
Leased property under capital lease:		
Land and building	18,055	18,055
Accumulated depreciation and amortization	(6,088)	(5,416)
	11,967	12,639
Goodwill	1,171,922	1,301,922
Intangible assets, net of accumulated amortization of \$79,016 and \$74,683, respectively	457,878	470,227
Other assets	42,483	43,371
	1,672,283	1,815,520
Total assets	\$ 2,065,317	\$ 2,213,555
LIABILITIES AND STOCKHOLDER S DEFICIT		
Current liabilities:		
Current revolving credit facility	\$ 48,327	\$ 41,059
Current portion of long-term debt	25,742	
Trade accounts payable	71,056	73,133

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Income taxes payable	7,819	6,165
Accrued interest payable	24,492	67,984
Accrued expenses and other current liabilities	76,547	85,225
Total current liabilities	253,983	273,566
Long-term debt	2,071,019	2,351,072
Revolving credit facility	67,871	
Obligation under capital lease	16,476	16,712
Deferred tax liability	101,206	103,309
Deferred rent expense	34,589	36,144
Unfavorable lease obligations and other long-term liabilities	10,643	12,996
	2,301,804	2,520,233
Commitments and contingencies		
Stockholder's deficit:		
Common stock par value \$0.001 per share; authorized 1,000 shares; issued and outstanding 100 shares		
Additional paid-in capital	630,370	618,831
Accumulated other comprehensive loss, net of tax	(50,747)	(49,239)
Accumulated deficit	(1,070,093)	(1,149,836)
	(490,470)	(580,244)
Total liabilities and stockholder's deficit	\$ 2,065,317	\$ 2,213,555

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(in thousands)

	Three Months Ended October 29, 2016	Three Months Ended October 31, 2015	Nine Months Ended October 29, 2016	Nine Months Ended October 31, 2015
Net sales	\$ 312,041	\$ 332,677	\$ 928,860	\$ 1,000,259
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	166,833	179,724	495,869	531,652
Gross profit	145,208	152,953	432,991	468,607
Other expenses:				
Selling, general and administrative	112,964	118,442	333,058	347,829
Depreciation and amortization	14,061	15,464	41,917	45,652
Impairment of assets	142,271		142,271	
Severance and transaction-related costs	205	200	1,903	1,027
Other income, net	(3,900)	(2,185)	(5,493)	(4,651)
	265,601	131,921	513,656	389,857
Operating (loss) income	(120,393)	21,032	(80,665)	78,750
Gain on early debt extinguishment	317,323		317,323	
Interest expense, net	47,101	55,296	157,803	164,760
Income (loss) before income tax (benefit) expense	149,829	(34,264)	78,855	(86,010)
Income tax (benefit) expense	(749)	1,675	(888)	4,216
Net income (loss)	\$ 150,578	\$ (35,939)	\$ 79,743	\$ (90,226)
Net income (loss)	\$ 150,578	\$ (35,939)	\$ 79,743	\$ (90,226)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(1,600)	94	(1,080)	(507)
Net gain (loss) on intra-entity foreign currency transactions, net of tax expense (benefit) of \$650, \$1,191, \$(84) and \$820	(4,238)	(928)	(428)	(3,926)
Other comprehensive loss	(5,838)	(834)	(1,508)	(4,433)

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Comprehensive income (loss)	\$ 144,740	\$ (36,773)	\$ 78,235	\$ (94,659)
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See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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(in thousands)

	Nine Months Ended October 29, 2016	Nine Months Ended October 31, 2015
Cash flows from operating activities:		
Net income (loss)	\$ 79,743	\$ (90,226)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	41,917	45,652
Impairment of assets	142,271	
Amortization of lease rights and other assets	2,054	2,534
Amortization of debt issuance costs	6,176	6,188
Accretion of debt premium	(2,029)	(1,864)
Non-cash in kind interest expense	9,156	
Net unfavorable accretion of lease obligations	(190)	(256)
Loss on sale/retirement of property and equipment, net	228	343
Gain on early debt extinguishment	(317,323)	
Gain on sale of intangible assets/lease rights	(303)	(2,475)
Stock-based compensation benefit	(11)	(502)
(Increase) decrease in:		
Inventories	(1,249)	(47,094)
Prepaid expenses	(4,960)	(13,536)
Other assets	(1,658)	(6,180)
Increase (decrease) in:		
Trade accounts payable	(1,353)	29,595
Income taxes payable	355	746
Accrued interest payable	(23,416)	(25,492)
Accrued expenses and other liabilities	(9,374)	(4,340)
Deferred income taxes	(2,377)	528
Deferred rent expense	(1,274)	2,927
Net cash used in operating activities	(83,617)	(103,452)
Cash flows from investing activities:		
Acquisition of property and equipment	(12,351)	(22,414)
Acquisition of intangible assets/lease rights	(110)	(140)
Proceeds from sale of intangible assets/lease rights	303	2,614
Net cash used in investing activities	(12,158)	(19,940)
Cash flows from financing activities:		

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Proceeds from revolving credit facilities	165,427	285,223
Payments on revolving credit facilities	(40,935)	(163,758)
Payment of debt issuance costs	(11,272)	(415)
Principal payments on capital lease	(176)	(123)
Capital contribution from Parent	11,550	
Net cash provided by financing activities	124,594	120,927
Effect of foreign currency exchange rate changes on cash and cash equivalents	(7,174)	(1,013)
Net increase (decrease) in cash and cash equivalents	21,645	(3,478)
Cash and cash equivalents, at beginning of period	18,871	27,386
Cash and cash equivalents, at end of period	\$ 40,516	\$ 23,908
Supplemental disclosure of cash flow information:		
Interest paid	\$ 167,819	\$ 185,815
Income taxes paid	1,425	2,932
Non-cash investing activities		
Restricted cash received in escrow (bank)		(2,029)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CLAIRE S STORES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements of Claire s Stores, Inc. (the Company) and its subsidiaries 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 30, 2016 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 August 26, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendments in this update address how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This ASU is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect adoption of ASU 2016-15 to have a material impact on the Company s cash flows.

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

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In March 2016, FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company will be required to recognize all excess tax benefits and shortfalls as income tax expense or benefit in the income statement within the reporting period in which they occur. The requirements of the new standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods, which for the Company is the first quarter of fiscal 2017. The Company has not yet evaluated the impact that this standard will have on its consolidated financial position, results of operations, and cash flows.

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, 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.

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The following tables summarize the Company's assets measured at fair value on a nonrecurring basis segregated among the appropriate levels within the fair value hierarchy (in thousands):

	Fair Value Measurements as of October 29, 2016 Using			Impairment Charges (Estimated) Three Months Ended October 29, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (1)(3)	
	Carrying Value (2)			
Intangible assets	\$ 406,000	\$	\$ 397,000	\$ 9,000

(1) See Note 4 Impairment Charges for discussion of the valuation techniques used to measure fair value, the description of the inputs and information used to develop those inputs.

(2) Carrying value comprised of tradenames relating to North America and Europe, \$257,000 and \$149,000, respectively.

(3) Fair Value comprised of tradenames relating to North America and Europe, \$253,000 and \$144,000, respectively.

During the three months ended October 29, 2016, tradenames with a carrying value of \$406.0 million were written down to their fair value of \$397.0 million, resulting in an impairment charge of \$9.0 million, which was included in Impairment of assets on the Consolidated Statement of Operations and Comprehensive Income (Loss). For goodwill, see Note 4 Impairment Charges and Note 5 Goodwill and Other Intangible Assets.

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.

The Company considers all investments with a maturity of three months or less when acquired to be cash equivalents. The Company's cash equivalent instruments are valued using quoted market prices and are primarily U.S. Treasury securities. The revolving credit facilities approximate fair value due to the variable component of the interest rate. Excluding unamortized debt issuance costs, the estimated fair value of the Company's long-term debt (including current portion) was approximately \$1.11 billion as of October 29, 2016, compared to a carrying value of \$2.11 billion at that date. Excluding unamortized debt issuance costs, the estimated fair value of the Company's long-term debt was approximately \$1.04 billion as of January 30, 2016, compared to a carrying value of \$2.37 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 excluding term loans would be classified as Level 2 in the fair value hierarchy.

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The Company recorded estimated non-cash impairment charges for the three months ended October 29, 2016. No impairment charges were recorded for the three months ended October 31, 2015 (in thousands):

	Three Months Ended October 29, 2016
Goodwill (estimated)	\$ 130,000
Tradenames (estimated)	9,000
Long-lived assets (estimated)	3,271
 Total impairment charges (estimated)	 \$ 142,271

The Company's principal indefinite-lived intangible assets, other than goodwill, include tradenames and lease rights which are not subject to amortization. Goodwill and other indefinite-lived intangible assets are tested for impairment annually or more frequently when events or circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. The Company performs annual impairment tests during the fourth quarter of its fiscal year.

The Company's principal definite-lived intangible assets include franchise agreements and lease rights which are subject to amortization and leases that existed at date of acquisition with terms that were favorable to market at that date. Definite-lived intangible assets are tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable.

Declines in customer traffic at shopping malls, where many of our stores are located, and inventory imbalances have adversely affected our results of operations. Generally, the Company tests assets for impairment annually as of the first day of the fourth quarter of its fiscal year. However, during the third quarter of Fiscal 2016, the Company considered the impact the economic conditions had on its business as an indicator under ASC Topic 350, *Intangibles Goodwill and Other*, that a reduction in its goodwill fair value may have occurred. Accordingly, the Company will perform its test for goodwill impairment following the two step process defined in ASC Topic 350. The first step in this process compares the fair value of the reporting unit to its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. This allocation is similar to a purchase price allocation performed in purchase accounting. If the carrying amount of the reporting unit goodwill exceeds the implied goodwill value, an impairment loss should be recognized in an amount equal to that excess. The Company has two reporting units as defined under ASC Topic 350. These reporting units are its North America segment and its Europe segment.

The fair value of each reporting unit determined under step 1 of the goodwill impairment test was based on a three-fourths weighting of a discounted cash flow analysis using forward-looking projections of estimated future operating results and a one-fourth weighting of a guideline company methodology under the market approach using revenue and earnings before interest, taxes, depreciation and amortization (EBITDA) multiples. Management's determination of the fair value of each reporting unit incorporates multiple assumptions, including future business growth, earnings projections and the weighted average cost of capital used for purposes of discounting. Decreases in business growth, decreases in earnings projections and increases in the weighted average cost of capital will all cause

the fair value of the reporting unit to decrease.

In the third quarter of Fiscal 2016, during testing under step 1, management determined the fair value of the Europe reporting unit was less than its carrying value. Given the timing of the Step 1 analysis and complexities inherent in the Step 2 calculation, management recorded a preliminary estimate of the

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goodwill impairment charge. Accordingly, management utilized step 1 of the test to determine the extent of the goodwill impairment and concluded the carrying value of the goodwill of the Europe reporting unit was impaired by \$130.0 million. As a result, the Company recorded a preliminary estimated non-cash impairment charge of \$130.0 million in the third quarter of 2016, which was included in Impairment of assets on the Company's Consolidated Statements of Operations and Comprehensive Income (Loss).

During the fourth quarter of Fiscal 2016, the Company will complete its step 2 testing and, accordingly, will adjust the preliminary estimated goodwill impairment charges recorded in the third quarter of Fiscal 2016.

The Company also performed similar impairment testing on its other indefinite-lived intangible assets during the third quarter of Fiscal 2016. The Company estimates the fair value of these intangible assets primarily utilizing a discounted cash flow model. The forecasted cash flows used in the model contain inherent uncertainties, including significant estimates and assumptions related to growth rates, margins and cost of capital. Changes in any of the assumptions utilized could affect the fair value of the intangible assets and result in an impairment triggering event.

In the third quarter of Fiscal 2016, the Company determined that the tradenames intangible assets in its Europe reporting unit and its North America reporting unit were impaired by \$5.0 million and \$4.0 million, respectively. As a result, the Company recorded a preliminary estimated non-cash impairment charge of \$9.0 million in the third quarter of Fiscal 2016, which was included in Impairment of assets on the Company's Consolidated Statements of Operations and Comprehensive Income (Loss).

In the third quarter of Fiscal 2016, the Company determined that the leasehold improvements in its Europe reporting unit were impaired by \$3.3 million. As a result, the Company recorded a preliminary estimated non-cash impairment charge of \$3.3 million in the third quarter of Fiscal 2016, which was included in Impairment of assets on the Company's Consolidated Statements of Operations and Comprehensive Income (Loss).

5. Goodwill and Other Intangible Assets

In connection with the Company's acquisition by Apollo Global Management, LLC, the Company recorded goodwill and other intangible assets at the date of acquisition. The Company's indefinite-lived intangible assets include tradenames and territory rights which are not subject to amortization. The Company's principal definite-lived intangible assets include lease rights, franchise agreements and leases that existed at date of acquisition with terms that were favorable to market at that date.

The carrying amount of goodwill as of October 29, 2016 by reporting unit are as follows (in thousands):

	North America	Europe	Total
Balance as of October 29, 2016:			
Goodwill	\$ 1,415,651	\$ 431,405	\$ 1,847,056
Accumulated impairment losses	(428,134)	(247,000)	(675,134)
	\$ 987,517	\$ 184,405	\$ 1,171,922

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Debt as of October 29, 2016 and January 30, 2016 included the following components (in thousands):

	October 29, 2016	January 30, 2016
Current revolving credit facilities:		
Europe unsecured revolving credit facility due 2017	\$ 49,219	\$
U.S. senior secured revolving credit facility due 2017		42,200
Unamortized debt issuance cost	(892)	(1,141)
Total current revolving credit facilities	\$ 48,327	\$ 41,059
Current portion of long-term debt:		
10.5% Senior subordinated notes due 2017	\$ 25,783	\$
Unamortized debt issuance cost	(41)	
Total current portion of long-term debt	\$ 25,742	\$
Long-term debt:		
10.5% Senior subordinated notes due 2017	\$	\$ 259,612
9.0% Senior secured first lien notes due 2019 ⁽¹⁾	1,132,325	1,134,354
8.875% Senior secured second lien notes due 2019	222,300	450,000
6.125% Senior secured first lien notes due 2020	210,000	210,000
7.75% Senior notes due 2020	216,742	320,000
9.0% Term loan due 2019	40,000	
9.0% Term loans due 2021	117,285	
9.0% Term loans due 2021PIK	60,567	
Adjustment to carrying value	86,296	
Unamortized debt issuance cost	(14,496)	(22,894)
Total long-term debt	\$ 2,071,019	\$ 2,351,072
Revolving credit facility:		
U.S. asset based lending credit facility due 2019	\$ 70,200	\$
Unamortized debt issuance cost	(2,329)	
Total revolving credit facility	\$ 67,871	\$
Obligation under capital lease (including current portion)	\$ 16,779	\$ 16,954

(1) Amount includes unamortized premium of \$7,325 and \$9,354 as of October 29, 2016 and January 30, 2016, respectively.

Exchange Offer

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On September 20, 2016, the Company, CLSIP LLC, a newly formed subsidiary designated as unrestricted under the Company's debt agreements (CLSIP) and Claire's (Gibraltar) Holdings Limited, the holding company of the Company's European operations (Claire's Gibraltar) and together with the Company and CLSIP, the Offerors) completed an offer to exchange (the Exchange Offer) any and all of the Company's issued and outstanding (i) 8.875% Senior Secured Second Lien Notes due 2019 (the Second Lien Notes), (ii) 7.750% Senior Notes due 2020 (the Unsecured Notes) and (iii) 10.500% Senior Subordinated Notes due 2017 (the Subordinated Notes, and together with the Second Lien Notes and the Unsecured Notes, the Notes), except for Subordinated Notes held by Claire's Inc., the parent of the Company (Parent), for (i) up to \$40.0 million of Senior Secured Term Loans maturing 2021 of the Company (Claire's Stores Term Loans), (ii) up to \$130.0 million of Senior Secured Term Loans maturing 2021 of CLSIP (CLSIP Term Loans) and (iii) up to \$60.0 million of Senior Term Loans maturing 2021 of Claire's Gibraltar (Claire's Gibraltar Term Loans) and together with the Claire's Stores Term Loans and the CLSIP Term Loans, the Term Loans).

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On September 20, 2016, the Offerors accepted from non-affiliate holders approximately \$227.7 million aggregate principal amount of Second Lien Notes, approximately \$103.3 million aggregate principal amount of Unsecured Notes and approximately \$0.7 million aggregate principal amount of Subordinated Notes validly tendered and not withdrawn in the Exchange Offer in exchange for approximately \$20.4 million aggregate principal amount of Claire's Stores Term Loans, approximately \$66.3 million aggregate principal amount of CLSIP Term Loans and approximately \$30.6 million aggregate principal amount of Claire's Gibraltar Term Loans and entered into the respective term loan agreements providing for each of the Term Loans.

Parent owned approximately \$58.7 million aggregate principal amount of the Subordinated Notes and certain funds managed by affiliates of Apollo Global Management, LLC (the Apollo Funds and, together with Parent, the Affiliated Holders) owned approximately \$183.6 million aggregate principal amount of the Company's 10.500% PIK Senior Subordinated Notes due 2017 (the PIK Subordinated Notes), in each case immediately prior to the completion of the Exchange Offer. No Affiliated Holder participated in the Exchange Offer. However, because the Exchange Offer was not fully subscribed, following the allocation of the maximum consideration offered in the Exchange Offer, on September 20, 2016, the Affiliated Holders effected a similar exchange of Subordinated Notes, in the case of Parent and PIK Subordinated Notes, in the case of the Apollo Funds, for Term Loans on the same economic terms offered in the Exchange Offer for the Unsecured Notes that were tendered prior to the Exchange Offer's Early Tender Time, including additional consideration paid to holders of Unsecured Notes as a result of the undersubscription (the Affiliated Holder Exchange). On September 20, 2016, the Offerors accepted from the Affiliated Holders all approximately \$58.7 million aggregate principal amount of Subordinated Notes and \$183.6 million aggregate principal amount of PIK Subordinated Notes pursuant to the Affiliated Holder Exchange in exchange for approximately \$10.5 million aggregate principal amount of Claire's Stores Term Loans, approximately \$34.2 million aggregate principal amount of CLSIP Term Loans and approximately \$15.8 million aggregate principal amount of CLSIP Term Loans. The interest payable on the Term Loans held by the Affiliated Holders or their affiliates will be pay-in-kind. See Note 11 Related Party Transactions.

The Company recorded a gain on early debt extinguishment related to the Exchange Offer and the Affiliated Holder Exchange in the three months ended October 29, 2016 as follows (in thousands):

Reduction in carrying value of debt exchange	\$ 396,090
Reduction of accrued interest associated with debt exchanged	20,066
Write-off of deferred financing costs, plus professional fees	(11,843)
Adjustment to carrying value of debt	(86,296)
Gain on early debt extinguishment	\$ 318,017

The adjustment to carrying value of debt represents the interest to be paid in cash on the term loans issued in the exchange through the maturity date of those term loans. This amount increases the Company's carrying value of debt as of October 29, 2016. Such amount should be reduced in the future years as scheduled interest is paid on those notes.

Term Loan Agreements*Claire's Stores Term Loan Agreement*

On September 20, 2016, the Company entered into the Term Loan Credit Agreement, among the Company, the lenders party thereto and Wilmington Trust, N.A., as Administrative Agent and Collateral Agent (the "Claire's Stores Term Loan Agreement"), providing for \$30.9 million aggregate principal amount of Claire's Stores Term Loans maturing on September 20, 2021. The Claire's Stores Term Loans bear interest at a rate of 9.0% per annum, payable semi-annually. Interest on the Claire's Stores Term Loans will be payable in cash; provided that, to the extent the Affiliated Holders or their affiliates hold Claire's Stores Term Loans, interest payable on such Term Loans to them will be pay-in-kind. The Claire's Stores Term Loans are guaranteed on a senior basis by each of the Company's present and future domestic

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subsidiaries, other than certain excluded subsidiaries (including CLSIP and CLSIP Holdings (as defined below)). The Claire's Stores Term Loans are secured on a *pari passu* basis with the Senior Secured First Lien Notes and the U.S. Credit Facility, subject to certain permitted liens, by (i) a first-priority lien on substantially all of the Company's and the guarantors' assets securing the Company's first-lien obligations other than certain collateral securing the ABL Credit Facility, as defined below (the Notes Priority Collateral) and (ii) a second-priority interest, junior to the liens on such other collateral securing the ABL Credit Facility (the ABL Priority Collateral). The Claire's Stores Term Loans contain customary provisions relating to mandatory prepayments, voluntary payments, affirmative and negative covenants and events of default.

CLSIP Term Loan Agreement

On September 20, 2016, CLSIP entered into the Term Loan Credit Agreement, among CLSIP, CLSIP's parent, CLSIP Holdings LLC, a newly formed Delaware limited liability company and a wholly-owned unrestricted subsidiary of the Company (CLSIP Holdings) and Wilmington Trust, N.A., as Administrative Agent and Collateral Agent (the CLSIP Term Loan Agreement), providing for \$100.5 million aggregate principal amount of CLSIP Term Loans maturing on September 20, 2021. The CLSIP Term Loans bear interest at a rate of 9.0% per annum, payable semi-annually. Interest on the CLSIP Term Loans will be payable in cash; provided that, to the extent the Affiliated Holders or their affiliates hold CLSIP Term Loans, interest payable on such Term Loans to them will be pay-in-kind. The CLSIP Term Loans are guaranteed by CLSIP Holdings. Each of the CLSIP and CLSIP Holdings are unrestricted subsidiaries under the Company's other debt agreements. The CLSIP Term Loans are not guaranteed by the Company or any of its other subsidiaries. The CLSIP Term Loans will be secured by a first-priority lien on (x) substantially all assets of CLSIP, which will consist of CLSIP's rights in certain intellectual property rights used by the Company and its subsidiaries in the conduct of their business and transferred to CLSIP immediately prior to the completion of the Exchange Offer (the Transferred IP) and CLSIP's rights under the Transferred IP Agreement (as described below) and (y) all equity interests of CLSIP held by CLSIP Holdings (together with the Transferred IP, the CLSIP Collateral). The CLSIP Term Loans contain customary provisions relating to mandatory prepayments, voluntary payments, affirmative and negative covenants and events of default.

The Transferred IP consists of (a) an undivided 17.5% interest (the US Claire's Marks Ownership Interest) in all (i) trademark registrations and applications for trademark registration issued by or filed with any federal government authority in the United States related to the *Claire's*® brand, (ii) common law trademark rights in and to the *Claire's*® brand in the United States, and (iii) the associated goodwill of the assets described in clauses (i) and (ii); in each case, whether in existence or later adopted, filed, or acquired (collectively, the US Claire's Marks); (b) all (i) trademark registrations and applications for trademark registration issued by or filed with any federal government authority in the United States related to the *Icing*® brand, (ii) common law trademark rights in and to the *Icing*® brand in the United States, and (iii) the associated goodwill of the assets described in clauses (i) and (ii); in each case, whether in existence or later adopted, filed, or acquired (collectively, the US Icing Marks); (c) certain internet domain names that incorporate, correspond with or are otherwise related to the *Claire's*® and *Icing*® brands (the Domain Names); and (d) a mobile application agreement pursuant to which the *Claire's*® mobile application is licensed from a third party (the Mobile Application Agreement).

In connection with the CLSIP Term Loans, on September 20, 2016, CLSIP entered into the Intellectual Property Agreement (the Transferred IP Agreement) with CBI Distributing Corp., a wholly owned subsidiary of the Company (CBI), the Company and certain of its other domestic subsidiaries (Claire's Parties), pursuant to which the Claire's Parties will pay to CLSIP an annual fee of \$12.0 million in exchange for (i) the exclusive right to use and exploit the US Icing Marks, the Domain Names and the Mobile Application Agreement, (ii) the exclusive right to use, exploit, register, enforce and defend the US Claire's Marks, and (iii) CLSIP's acknowledgment that it will not exercise any rights in or to the US Claire's Marks, either directly or indirectly, during the term of the Transferred IP Agreement.

without CBI's prior written consent; in each case, solely during the term of the Transferred IP Agreement and subject to the terms contained therein.

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Claire's Gibraltar Term Loan Agreement

On September 20, 2016, Claire's Gibraltar entered into the Term Loan Credit Agreement, among Claire's Gibraltar, the lenders party thereto and Wilmington Trust, N.A., as Administrative Agent (the Claire's Gibraltar Term Loan Agreement), providing for \$46.4 million aggregate principal amount of Claire's Gibraltar Term Loans maturing on September 20, 2021. The Claire's Gibraltar Term Loans bear interest at a rate of 9.0% per annum, payable semi-annually. Interest on the Claire's Gibraltar Term Loans will be payable in cash; provided that, to the extent the Affiliated Holders or their affiliates hold Claire's Gibraltar Term Loans, interest payable on such Term Loans to them will be pay-in-kind. The Claire's Gibraltar Term Loans are not guaranteed by the Company or any of its other subsidiaries and are unsecured. The Claire's Gibraltar Term Loans contain customary provisions relating to mandatory prepayments, voluntary payments, affirmative and negative covenants and events of default.

U.S. Revolving Credit Facility

Second Amended and Restated Credit Facility

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

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

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

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

The U.S. Credit Facility contains customary provisions relating to mandatory prepayments, voluntary payments, affirmative and negative covenants, and events of default; however, it does not contain any covenants that require the Company to maintain any particular financial ratio or other measure of financial performance except that so long as the revolving loans and letters of credit outstanding exceed \$15 million, the Company is required to maintain, at each borrowing date measured at the end of the prior fiscal quarter (but reflecting borrowings and repayments under the U.S. Credit Facility through the measurement date) and at the end of each fiscal quarter, a maximum Total Net Secured Leverage Ratio of, for the fiscal quarters prior to the first fiscal quarter of 2018, 8.95:1.00, and for the fiscal

quarters including and after the first fiscal quarter of 2018, 8.00:1.00, based upon the ratio of the Company's net senior secured first lien debt to adjusted earnings before interest, taxes, depreciation and amortization for the period of four consecutive fiscal quarters most recently ended.

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During the three months ended October 29, 2016, the Company recognized a \$0.7 million loss on early debt extinguishment attributed to the write-off of unamortized debt financing costs associated with the replacement of the former U.S. Credit Facility with the ABL Credit Facility.

As of October 29, 2016, no borrowings were outstanding under the U.S. Credit Facility.

ABL Credit Facility

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

Borrowings under the ABL Credit Facility bear interest at a rate equal to, at the Company's option, either (a) an alternate base rate determined by reference to the higher of (1) the prime rate in effect on such day, (2) the federal funds effective rate plus 0.50% and (3) the one-month LIBOR rate plus 1.00%, or (b) a LIBOR rate with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits in the London Interbank Market for the interest period relevant to such borrowing, adjusted for certain additional costs, in each case plus an applicable margin of 4.50% for LIBOR rate loans and 3.50% for alternate base rate loans.

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

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

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

As of October 29, 2016, we had \$70.2 million of borrowings, together with the \$4.7 million of letters of credit outstanding, reduces the borrowing availability to \$0.1 million.

Europe Revolving Credit Facility Amendment and Restatement

On September 20, 2016, Claire's (Gibraltar) Intermediate Holdings Limited (Claire's Intermediate Gibraltar), a newly formed subsidiary of Claire's Gibraltar and the holding company of the Company's European operations, and certain European operating subsidiaries entered into an amendment and restatement (the Europe Credit Facility Amendment and Restatement) of the \$50.0 million Multicurrency Revolving Facility Agreement, dated as of October 2, 2014, as amended, among Claire's Gibraltar, HSBC Bank PLC and the other parties named therein. Claire's Gibraltar is not a guarantor or obligor of the Europe Credit Facility Amendment and Restatement. The Europe Credit Facility Amendment and Restatement is secured by the equity interests in Claire's Intermediate Gibraltar and by equity interests in its direct and indirect subsidiaries and certain of their respective assets. The Europe Credit Facility Amendment and Restatement permits certain distributions of cash to the Company, amends certain of the covenants and provides for security to secure the obligations of Claire's Intermediate Gibraltar and the operating subsidiaries to

HSBC Bank PLC. The Europe Credit Facility Amendment and Restatement will terminate on August 20, 2017, but requires a pay down to zero by December 31, 2016

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and no borrowings are permitted thereafter unless certain conditions are met, some of which are to be determined by HSBC Bank PLC. No particular financial ratios are required to be maintained during the period beginning as of the effective date of the Europe Credit Facility Amendment and Restatement through December 31, 2016. Loans under the Europe Credit Facility bear interest at 4.50% 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. As of October 29, 2016, we had \$0.8 million of borrowing availability.

Claire's Gibraltar Credit Facility

On September 20, 2016, the \$40.0 million Credit Agreement, dated as of August 12, 2016, among Claire's Gibraltar, the lenders party thereto and Credit Suisse AG, Cayman's Islands Branch, as Administrative Agent (the Claire's Gibraltar Credit Facility) became effective. The Claire's Gibraltar Facility provides for a \$40.0 million term loan maturing February 4, 2019 (the proceeds of which were used to reduce outstanding amounts under the U.S. Credit Facility). Obligations under the Claire's Gibraltar Credit Facility will be unsecured and not guaranteed by any subsidiary of Claire's Gibraltar (or by Claire's Inc. or any of its other subsidiaries).

Borrowings under the Claire's Gibraltar Credit Facility will bear interest at a rate equal to, at Claire's Gibraltar's option, either (a) an alternate base rate determined by reference to the higher of (1) the prime rate in effect on such day, (2) the federal funds effective rate plus 0.50% and (3) the one-month LIBOR rate plus 1.00%, or (b) a LIBOR rate with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits in the London Interbank Market for the interest period relevant to such borrowing, adjusted for certain additional costs, in each case plus an applicable margin of 4.50% for LIBOR rate loans and 3.50% for alternate base rate loans.

The Claire's Gibraltar Credit Facility contains customary provisions relating to mandatory prepayments, voluntary payments, affirmative and negative covenants and events of default.

Note Covenants

The Subordinated Notes, the Second 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 collectively with the 9.0% Senior Secured First Lien Notes, the First Lien Notes), and the Unsecured Notes and 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;

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 respective dates 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.

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In addition to the other debt arrangements described above, 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 29, 2016, we had a reduction of \$1.8 million for outstanding bank guarantees, which reduces the borrowing availability to \$0.5 million as of that date.

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

7. 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.

8. Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Items	Derivative Instrument	Total
Balance as of January 30, 2016	\$ (54,971)	\$ 5,732	\$ (49,239)
Other comprehensive loss	(1,508)		(1,508)
Balance as of October 29, 2016	\$ (56,479)	\$ 5,732	\$ (50,747)

Table of Contents**9. 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 29, 2016:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)
Outstanding as of January 30, 2016	3,710,022	\$ 9.43	
Options granted	1,426,700	\$ 1.26	
Options exercised			
Options forfeited	(1,053,535)	\$ 9.02	
Options expired	(773,325)	\$ 9.92	
Outstanding as of October 29, 2016	3,309,862	\$ 5.92	4.7
Options vested and expected to vest as of October 29, 2016	3,054,488	\$ 6.10	4.6
Exercisable as of October 29, 2016	1,479,669	\$ 8.36	3.4

The weighted average grant date fair value of options granted during the nine months ended October 29, 2016 and October 31, 2015 was \$0.33 and \$0.51, respectively.

During the three and nine months ended October 29, 2016 and October 31, 2015, the Company recorded stock-based compensation expense (benefit) and additional paid-in capital relating to stock-based compensation of approximately \$(0.0) million, \$0.1 million, \$(0.0) million and \$(0.5) million, respectively. During the three and nine months ended October 29, 2016, the Company recorded reversals of stock option expense of \$0.0 million and \$0.2 million, respectively, associated with the forfeitures of stock options, including \$0.0 million and \$0.1 million, respectively, for former executive officers. Stock-based compensation benefit is recorded in Selling, general and administrative expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss.

10. Income Taxes

The effective income tax rate was (0.5)% and (1.1)% for the three and nine months ended October 29, 2016. This effective income tax rate differed from the statutory federal income tax rate of 35% primarily from the exclusion from taxable income of the gain on extinguishment of debt and the increases in the valuation allowance recorded for additional deferred tax assets generated primarily from operating losses included in income in the three and nine months ended October 29, 2016 by the Company's U.S. operations. As a result of taxable income related to the gain on extinguishment of debt, the Company's net operating loss carryforwards will be fully utilized as of January 1, 2017.

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.

11. Related Party Transactions

The Company, Parent, and affiliates have purchased and may, from time to time, purchase portions of the Company's indebtedness. All of these purchases have been open market transactions and any interest payments to Parent or affiliates made thereon are paid in accordance with the associated indenture.

On September 20, 2016, pursuant to the Affiliated Holder Exchange, the Parent and affiliates exchanged all \$58.7 million aggregate principal amount of Subordinated Notes, and all \$183.6 million aggregate principal amount of PIK Subordinated Notes held by them for

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\$10.5 million aggregate principal amount of Claire's Stores Term Loans, \$34.2 million aggregate principal amount of CLSIP Term Loans and \$15.8 million aggregate principal amount of Claire's Gibraltar Term Loans.

As of October 29, 2016 and January 30, 2016, Parent and affiliates held \$60.6 million and \$233.0 million, respectively, of the Company's indebtedness and the Company had accrued interest payable associated with the indebtedness in the amounts of \$20.0 million and \$4.0 million, respectively. For the three and nine months ended October 29, 2016 and October 31, 2015, the Company recognized interest expense related to the indebtedness held by Parent and affiliates of \$3.6 million, \$16.0 million, \$5.8 million and \$17.1 million, respectively. On June 1, 2016, the Company issued an additional \$9.2 million aggregate principal amount of New PIK Subordinated Notes in payment of interest due June 1, 2016.

12. 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, impairment of assets and operating income for the three and nine months ended October 29, 2016 and October 31, 2015 are as follows (in thousands):

	Three Months Ended October 29, 2016	Three Months Ended October 31, 2015	Nine Months Ended October 29, 2016	Nine Months Ended October 31, 2015
Net sales:				
North America	\$ 192,885	\$ 202,434	\$ 586,965	\$ 618,729
Europe	119,156	130,243	341,895	381,530
Total net sales	312,041	332,677	928,860	1,000,259
Depreciation and amortization:				
North America	8,641	9,527	26,073	28,886
Europe	5,420	5,937	15,844	16,766
Total depreciation and amortization	14,061	15,464	41,917	45,652
Impairment of assets:				
North America	4,000		4,000	
Europe	138,271		138,271	

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Total impairment charges	142,271		142,271	
Operating income for reportable segments:				
North America	15,501	14,672	56,256	59,127
Europe	6,582	6,560	7,253	20,650
Total operating income for reportable segments	22,083	21,232	63,509	79,777
Impairment of assets	142,271		142,271	
Severance and transaction-related costs	205	200	1,903	1,027
Consolidated operating income	(120,393)	21,032	(80,665)	78,750
Gain on early debt extinguishment	317,323		317,323	
Interest expense, net	47,101	55,296	157,803	164,760
Consolidated income (loss) before income tax (benefit) expense	\$ 149,829	\$ (34,264)	\$ 78,855	\$ (86,010)

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Excluded from operating income for the North America segment are severance and transaction-related costs of approximately \$0.0 million and \$0.1 million for the three months ended October 29, 2016 and October 31, 2015, respectively, and \$1.3 million and \$0.4 million for the nine months ended October 29, 2016 and October 31, 2015, respectively.

Excluded from operating income for the Europe segment are severance and transaction-related costs of approximately \$0.2 million and \$0.1 million for the three months ended October 29, 2016 and October 31, 2015, respectively, and \$0.6 million and \$0.6 million for the nine months ended October 29, 2016 and October 31, 2015, respectively.

13. Supplemental Financial Information

On May 29, 2007, Claire's Stores, Inc. (referred to in this Note 13 as the Issuer), issued the Subordinated Notes. On March 4, 2011, the Issuer issued the Second Lien Notes. On February 28, 2012, March 12, 2012 and September 20, 2012, the Issuer issued the 9.0% Senior Secured First Lien Notes. On March 15, 2013, the Issuer issued the 6.125% Senior Secured First Lien Notes and on May 14, 2013, the Issuer issued the Unsecured Notes. The Subordinated Notes and the Second Lien Notes are irrevocably and unconditionally guaranteed, jointly and severally, by all wholly-owned domestic current and future subsidiaries of Claire's Stores, Inc. that guarantee the Company's ABL Credit Facility and U.S. Credit Facility. The First Lien Notes are unconditionally guaranteed, jointly and severally, by all wholly-owned domestic current and future subsidiaries of Claire's Stores, Inc. (subject to certain exceptions including CLSIP and CLSIP Holdings). As of October 29, 2016, Claire's Stores, Inc. owned 100% of its domestic subsidiaries that guarantee the Notes. All guarantors are collectively referred to as the Guarantors. The Company's other subsidiaries, principally its international subsidiaries including its European, Canadian and Asian subsidiaries (the Non-Guarantors), are not guarantors of these Notes.

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

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	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 15,540	\$ 3,806	\$ 21,170	\$	\$ 40,516
Inventories		88,360	63,353		151,713
Prepaid expenses	962	1,658	15,882		18,502
Other current assets		15,871	11,806		27,677
Total current assets	16,502	109,695	112,211		238,408
Property and equipment:					
Furniture, fixtures and equipment	6,117	159,129	74,833		240,079
Leasehold improvements	1,315	188,657	110,368		300,340
	7,432	347,786	185,201		540,419
Accumulated depreciation and amortization	(5,185)	(265,232)	(127,343)		(397,760)
	2,247	82,554	57,858		142,659
Leased property under capital lease:					
Land and building		18,055			18,055
Accumulated depreciation and amortization		(6,088)			(6,088)
		11,967			11,967
Intercompany receivables		322,773	55,193	(377,966)	
Investment in subsidiaries	1,622,492	(45,081)		(1,577,411)	
Goodwill		987,517	184,405		1,171,922
Intangible assets, net	188,100	149,893	204,519	(84,634)	457,878
Other assets	1,169	4,709	36,605		42,483
	1,811,761	1,419,811	480,722	(2,040,011)	1,672,283
Total assets	\$ 1,830,510	\$ 1,624,027	\$ 650,791	\$ (2,040,011)	\$ 2,065,317

LIABILITIES AND STOCKHOLDER'S EQUITY

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(DEFICIT)					
Current liabilities:					
Current revolving credit facility	\$	\$	\$ 48,327	\$	\$ 48,327
Current portion of long-term debt		25,742			25,742
Trade accounts payable		1,712	23,097	46,247	71,056
Income taxes payable			1,370	6,449	7,819
Accrued interest payable		24,203		289	24,492
Accrued expenses and other current liabilities		10,674	30,961	34,912	76,547
Total current liabilities		62,331	55,428	136,224	253,983
Intercompany payables		377,966		(377,966)	
Long-term debt		1,812,812	149,302	108,905	2,071,019
Revolving credit facility		67,871			67,871
Obligation under capital lease			16,476		16,476
Deferred tax liability			93,206	8,000	101,206
Deferred rent expense			23,903	10,686	34,589
Unfavorable lease obligations and other long-term liabilities			10,638	5	10,643
		2,258,649	293,525	127,596	(377,966)
					2,301,804
Stockholder's equity (deficit):					
Common stock			367	2	(369)
Additional paid in capital		630,370	1,520,543	766,993	(2,287,536)
Accumulated other comprehensive income (loss), net of tax		(50,747)	(5,587)	(45,187)	50,774
Accumulated deficit		(1,070,093)	(240,249)	(334,837)	575,086
		(490,470)	1,275,074	386,971	(1,662,045)
					(490,470)
Total liabilities and stockholder's equity (deficit)	\$	1,830,510	\$ 1,624,027	\$ 650,791	\$ (2,040,011)
					\$ 2,065,317

Table of Contents**Condensed Consolidating Balance Sheet****January 30, 2016****(in thousands)**

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,664	\$ 3,394	\$ 12,813	\$	\$ 18,871
Inventories		94,014	57,940		151,954
Prepaid expenses	344	1,485	13,847		15,676
Other current assets		16,023	10,231		26,254
Total current assets	3,008	114,916	94,831		212,755
Property and equipment:					
Furniture, fixtures and equipment	5,537	160,128	80,289		245,954
Leasehold improvements	1,315	191,085	117,621		310,021
	6,852	351,213	197,910		555,975
Accumulated depreciation and amortization	(4,455)	(252,181)	(126,698)		(383,334)
	2,397	99,032	71,212		172,641
Leased property under capital lease:					
Land and building		18,055			18,055
Accumulated depreciation and amortization		(5,416)			(5,416)
		12,639			12,639
Intercompany receivables		169,836	43,000	(212,836)	
Investment in subsidiaries	1,836,079	(43,436)		(1,792,643)	
Goodwill		987,517	314,405		1,301,922
Intangible assets, net	257,000	671	212,556		470,227
Other assets	486	3,507	39,378		43,371
	2,093,565	1,118,095	609,339	(2,005,479)	1,815,520
Total assets	\$ 2,098,970	\$ 1,344,682	\$ 775,382	\$ (2,005,479)	\$ 2,213,555

LIABILITIES AND STOCKHOLDER'S EQUITY

(DEFICIT)

Current liabilities:

Revolving credit facilities	\$ 41,059	\$	\$	\$	\$ 41,059
Trade accounts payable	642	27,930	44,561		73,133
Income taxes payable		228	5,937		6,165
Accrued interest payable	67,948		36		67,984
Accrued expenses and other current liabilities	5,657	39,834	39,734		85,225
Total current liabilities	115,306	67,992	90,268		273,566
Intercompany payables	212,836			(212,836)	
Long-term debt	2,351,072				2,351,072
Obligation under capital lease		16,712			16,712
Deferred tax liability		93,626	9,683		103,309
Deferred rent expense		24,815	11,329		36,144
Unfavorable lease obligations and other long-term liabilities		12,977	19		12,996
	2,563,908	148,130	21,031	(212,836)	2,520,233
Stockholder's equity (deficit):					
Common stock		367	2	(369)	
Additional paid in capital	618,831	1,435,909	797,656	(2,233,565)	618,831
Accumulated other comprehensive income (loss), net of tax	(49,239)	(7,390)	(41,341)	48,731	(49,239)
Accumulated deficit	(1,149,836)	(300,326)	(92,234)	392,560	(1,149,836)
	(580,244)	1,128,560	664,083	(1,792,643)	(580,244)
Total liabilities and stockholder's equity (deficit)	\$ 2,098,970	\$ 1,344,682	\$ 775,382	\$ (2,005,479)	\$ 2,213,555

Table of Contents**Condensed Consolidating Statement of Operations and Comprehensive Loss****For The Three Months Ended October 29, 2016****(in thousands)**

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$	\$ 176,923	\$ 135,118	\$	\$ 312,041
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	3,163	92,929	70,741		166,833
Gross profit (deficit)	(3,163)	83,994	64,377		145,208
Other expenses:					
Selling, general and administrative	5,680	57,200	50,084		112,964
Depreciation and amortization	250	7,852	5,959		14,061
Impairment of assets	4,000		138,271		142,271
Severance and transaction-related costs	(7)	7	205		205
Other (income) expense	(2,305)	(1,380)	(215)		(3,900)
	7,618	63,679	194,304		265,601
Operating income (loss)	(10,781)	20,315	(129,927)		(120,393)
Gain on early debt extinguishment	317,323				317,323
Interest expense, net	45,796	548	757		47,101
Income (loss) before income taxes	260,746	19,767	(130,684)		149,829
Income tax expense (benefit)		(915)	166		(749)
Income (loss) from continuing operations	260,746	20,682	(130,850)		150,578
Equity in earnings (loss) of subsidiaries	(110,168)	595		109,573	
Net income (loss)	150,578	21,277	(130,850)	109,573	150,578
Foreign currency translation adjustments	(1,600)	(161)	(378)	539	(1,600)
Net gain (loss) on intra-entity foreign currency transactions, net of tax	(4,238)	(595)	(4,273)	4,868	(4,238)
Other comprehensive income (loss)	(5,838)	(756)	(4,651)	5,407	(5,838)
Comprehensive income (loss)	\$ 144,740	\$ 20,521	\$ (135,501)	\$ 114,980	\$ 144,740

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)

Table of Contents**Condensed Consolidating Statement of Operations and Comprehensive Loss****For The Nine Months Ended October 29, 2016****(in thousands)**

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$	\$ 542,722	\$ 386,138	\$	\$ 928,860
Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below)	8,749	278,426	208,694		495,869
Gross profit (deficit)	(8,749)	264,296	177,444		432,991
Other expenses:					
Selling, general and administrative	15,245	170,824	146,989		333,058
Depreciation and amortization	730	23,709	17,478		41,917
Impairment of assets	4,000		138,271		142,271
Severance and transaction-related costs	1,342	4	557		1,903
Other (income) expense	(5,818)	(966)	1,291		(5,493)
	15,499	193,571	304,586		513,656
Operating income (loss)	(24,248)	70,725	(127,142)		(80,665)
Gain on early debt extinguishment	317,323				317,323
Interest expense, net	154,782	1,641	1,380		157,803
Income (loss) before income taxes	138,293	69,084	(128,522)		78,855
Income tax expense (benefit)		(1,691)	803		(888)
Income (loss) from continuing operations	138,293	70,775	(129,325)		79,743
Equity in earnings (loss) of subsidiaries	(58,550)	(999)		59,549	
Net income (loss)	79,743	69,776	(129,325)	59,549	79,743
Foreign currency translation adjustments	(1,080)	777	(3,337)	2,560	(1,080)
Net gain on intra-entity foreign currency transactions, net of tax	(428)	1,026	(509)	(517)	(428)
Other comprehensive income (loss)	(1,508)	1,803	(3,846)	2,043	(1,508)
Comprehensive income (loss)	\$ 78,235	\$ 71,579	\$ (133,171)	\$ 61,592	\$ 78,235

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)

Table of Contents**Condensed Consolidating Statement of Cash Flows****Nine Months Ended October 29, 2016****(in thousands)**

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ 79,743	\$ 69,776	\$ (129,325)	\$ 59,549	\$ 79,743
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Loss (equity) in earnings of subsidiaries	58,550	999		(59,549)	
Depreciation and amortization	730	23,709	17,478		41,917
Impairment of assets	4,000		138,271		142,271
Amortization of lease rights and other assets			2,054		2,054
Amortization of debt issuance costs	5,874		302		6,176
Accretion of debt premium	(2,029)				(2,029)
Non-cash in kind interest expense	9,156				9,156
Net accretion of unfavorable lease obligations		(188)	(2)		(190)
Loss on sale/retirement of property and equipment, net		219	9		228
Gain on early debt extinguishment	(317,323)				(317,323)
Gain on sale of intangible assets/lease rights			(303)		(303)
Stock-based compensation expense (benefit)	(25)		14		(11)
(Increase) decrease in:					
Inventories		5,654	(6,903)		(1,249)
Prepaid expenses	(618)	(172)	(4,170)		(4,960)
Other assets	(1,389)	32	(301)		(1,658)
Increase (decrease) in:					
Trade accounts payable	1,070	(4,497)	2,074		(1,353)
Income taxes payable		1,136	(781)		355
Accrued interest payable	(23,679)		263		(23,416)
Accrued expenses and other liabilities	5,016	(10,817)	(3,573)		(9,374)
Deferred income taxes		(1,493)	(884)		(2,377)
Deferred rent expense		(912)	(362)		(1,274)
Net cash provided by (used in) operating activities	(180,924)	83,446	13,861		(83,617)

Cash flows from investing activities:

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Acquisition of property and equipment	(580)	(7,040)	(4,731)	(12,351)
Acquisition of intangible assets/lease rights		(30)	(80)	(110)
Proceeds from sale of intangible assets/lease rights			303	303
Net cash used in investing activities	(580)	(7,070)	(4,508)	(12,158)
Cash flows from financing activities:				
Proceeds from revolving credit facilities	68,000		97,427	165,427
Payments on revolving credit facilities			(40,935)	(40,935)
Payment of debt issuance costs	(10,541)		(731)	(11,272)
Principal payments on capital lease		(176)		(176)
Capital contribution received from parent	11,550			11,550
Intercompany activity, net	125,371	(78,237)	(47,134)	
Net cash provided by (used in) financing activities	194,380	(78,413)	8,627	124,594
Effect of foreign currency exchange rate changes on cash and cash equivalents		2,449	(9,623)	(7,174)
Net increase in cash and cash equivalents	12,876	412	8,357	21,645
Cash and cash equivalents, at beginning of period	2,664	3,394	12,813	18,871
Cash and cash equivalents, at end of period	\$ 15,540	\$ 3,806	\$ 21,170	\$ 40,516

Table of Contents**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

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

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

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

We are highly leveraged, with significant debt service obligations. On September 20, 2016, we completed the Exchange Offer (described below) which significantly reduced the amount of our indebtedness, extended our maturities and improved liquidity through the reduction of cash interest expense. Nonetheless, as of October 29, 2016, we reported net debt (total debt less cash and cash equivalents) of approximately \$2.2 billion.

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 29, 2016, we operated a total of 2,769 company-operated stores of which 1,688 were located in all 50 states of the United States, Puerto Rico, Canada and the U.S. Virgin Islands (North America segment) and 1,081 stores were located in the United Kingdom, Switzerland, Austria, Germany, France, Ireland, Spain, Portugal, Netherlands, Belgium, Poland, Czech Republic, Hungary, Italy and Luxembourg (Europe segment). We operate our stores under two brand names: *Claire's*[®] and *Icing*[®]. As of October 29, 2016, we also had a total of 935 concession stores, of which 333 were located in the United States and Canada (North America segment) and 602 stores were located in the United Kingdom, France, Spain, Austria, Germany, Italy, Portugal, Switzerland, Hungary and Poland (Europe segment).

As of October 29, 2016, we also franchised 598 stores in Japan, the Middle East, Greece, Guatemala, Malta, India, Dominican Republic, El Salvador, Panama, Indonesia, Philippines, Costa Rica, Serbia, Sweden, Romania, Martinique, Pakistan, Thailand, Southern Africa and Russia. 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 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 piercing service, necklaces, bracelets, body jewelry and rings; and

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

In North America, our stores are located primarily in shopping malls. The differentiation of our *Claire's*[®] 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 29, 2016 includes the following:

Net sales decrease of 6.2% and decrease of 7.1%; respectively;

Same store sales percentages;

	Three Months Ended October 29, 2016	Nine Months Ended October 29, 2016
Consolidated	(1.6)%	(4.2)%
North America	(1.0)%	(2.0)%
Europe	(2.5)%	(7.6)%

Merchandise margin increased 50 basis points and increased 10 basis points, respectively.
Operational activity for the three and nine months ended October 29, 2016 includes the following:

Opened 154 and 270 concession stores;

Opened five and seven new company-operated stores;

Closed 37 and 105 company-operated stores due to underperformance or lease renewal terms that did not meet our criteria;

Opened four and 10 new *Icing*[®] franchise stores overseas.

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A summary of our consolidated results of operations for the three and nine months ended October 29, 2016 and October 31, 2015 are as follows (dollars in thousands):

	Three Months Ended October 29, 2016	Three Months Ended October 31, 2015
Net sales	\$ 312,041	\$ 332,677
Decrease in same store sales	(1.6)%	(0.6)%
Gross profit percentage	46.5%	46.0%
Selling, general and administrative expenses as a percentage of net sales	36.2%	35.6%
Depreciation and amortization as a percentage of net sales	4.5%	4.6%
Impairment of assets	\$ 142,271	\$
Operating (loss) income	\$ (120,393)	\$ 21,032
Gain on early extinguishment of debt	\$ 317,323	\$
Net income (loss)	\$ 150,578	\$ (35,939)
Number of company-operated stores at the end of the period	2,769	2,926
Number of concession stores at the end of the period	935	703

	Nine Months Ended October 29, 2016	Nine Months Ended October 31, 2015
Net sales	\$ 928,860	\$ 1,000,259
Decrease in same store sales	(4.2)%	(1.6)%
Gross profit percentage	46.6%	46.8%
Selling, general and administrative expenses as a percentage of net sales	35.9%	34.8%
Depreciation and amortization as a percentage of net sales	4.5%	4.6%
Impairment of assets	\$ 142,271	\$
Operating (loss) income	\$ (80,665)	\$ 78,750
Gain on early extinguishment of debt	\$ 317,323	\$
Net income (loss)	\$ 79,743	\$ (90,226)
Number of company-operated stores at the end of the period	2,769	2,926
Number of concession stores at the end of the period	935	703

Net sales

Net sales for the three months ended October 29, 2016 decreased \$20.6 million, or 6.2%, from the three months ended October 31, 2015. The decrease was attributable to the effect of store closures of \$11.5 million, an unfavorable foreign currency translation effect of our non-U.S. net sales of \$7.5 million, a decrease in same store sales of \$4.9 million and decreased shipments to franchisees of \$2.0 million, partially offset by an increase in new concession store sales and new store sales of \$5.3 million. Net sales would have decreased 4.0% excluding the impact of foreign currency exchange rate changes.

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Net sales for the nine months ended October 29, 2016 decreased \$71.4 million, or 7.1%, from the nine months ended October 31, 2015. The decrease was attributable to a decrease in same store sales of \$38.6 million, the effect of store closures of \$34.1 million, an unfavorable foreign currency translation effect of our non-U.S. net sales of \$14.5 million and decreased shipments to franchisees of \$6.7 million, partially offset by an increase in new concession store sales and new store sales of \$22.5 million. Net sales would have decreased 5.8% excluding the impact of foreign currency exchange rate changes.

For the three months ended October 29, 2016, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 15.6%, partially offset by an increase in average transaction value of 16.4%.

For the nine months ended October 29, 2016, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 17.5%, partially offset by an increase in average transaction value of 15.8%.

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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		Percentage of Total	
	Three Months	Three Months	Nine Months	Nine Months
	Ended	Ended	Ended	Ended
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Jewelry	46.5	43.4	47.5	47.2
Accessories	53.5	56.6	52.5	52.8
	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 29, 2016, gross profit percentage increased 50 basis points to 46.5% compared to 46.0% during the three months ended October 31, 2015. The increase in gross profit percentage consisted of an increase in merchandise margin of 50 basis points and by a 10 basis point decrease in buying and buying-related costs, partially offset by a 10 basis point increase in occupancy costs. The increase in merchandise margin percentage resulted primarily from lower freight costs and favorable foreign currency exchange rates, partially offset by sales mix. The increase in occupancy costs, as a percentage of sales, resulted primarily from the deleveraging effect from a decrease in same store sales.

During the nine months ended October 29, 2016, gross profit percentage decreased 20 basis points to 46.6% compared to 46.8% during the nine months ended October 31, 2015. The decrease in gross profit percentage consisted of a 40 basis point increase in occupancy costs partially offset by an increase in merchandise margin of 10 basis points and by a 10 basis point decrease in buying and buying-related costs. The increase in occupancy costs, as a percentage of sales, resulted primarily from the deleveraging effect from a decrease in same store sales.

Selling, general and administrative expenses

During the three months ended October 29, 2016, selling, general and administrative expenses decreased \$5.5 million, or 4.6%, compared to the three months ended October 31, 2015. As a percentage of net sales, selling, general and administrative expenses increased 60 basis points compared to the three months ended October 31, 2015. Excluding a favorable \$2.7 million foreign currency translation effect, selling, general, and administrative expenses would have decreased \$2.8 million. Besides the foreign currency translation effect, the remainder of the decrease was primarily due to lower compensation and related expenses, partially offset by increased concession store commission expense.

During the nine months ended October 29, 2016, selling, general and administrative expenses decreased \$14.8 million, or 4.2%, compared to the nine months ended October 31, 2015. As a percentage of net sales, selling, general and administrative expenses increased 110 basis points compared to the nine months ended October 31, 2015. Excluding a favorable \$5.2 million foreign currency translation effect, selling, general, and administrative expenses

would have decreased \$9.6 million. Besides the foreign currency translation effect, the remainder of the decrease was primarily due to lower compensation and related expenses, partially offset by increased concession store commission expense.

Depreciation and amortization expense

During the three months ended October 29, 2016, depreciation and amortization expense decreased \$1.4 million to \$14.1 million compared to \$15.5 million for the three months ended October 31, 2015.

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Excluding a favorable \$0.3 million foreign currency translation effect, the decrease in depreciation and amortization expense would have been \$1.1 million.

During the nine months ended October 29, 2016, depreciation and amortization expense decreased \$3.7 million to \$41.9 million compared to \$45.7 million for the nine months ended October 31, 2015. Excluding a favorable \$0.5 million foreign currency translation effect, the decrease in depreciation and amortization expense would have been \$3.2 million.

Impairment charges

Declines in customer traffic at shopping malls, where many of our stores are located, and inventory imbalances have adversely affected our results of operations. We performed our tests for goodwill, intangible assets, property and equipment and other asset impairment following relevant accounting standards pertaining to the particular assets being tested. The impairment test conducted in the third quarter of Fiscal 2016 resulted in the recognition of preliminary estimated non-cash impairment charges of \$130.0 million, \$9.0 million and \$3.3 million, relating to goodwill, intangible assets and long-lived assets, respectively. See Note 4 Impairment Charges in the Notes to Consolidated Financial Statements for further discussion of the impairment charges.

Gain on early debt extinguishment

The Company recorded a gain on early extinguishment of debt related to the Exchange Offer in the three months ended October 29, 2016 as follows (in thousands):

Reduction in carrying value of debt exchange	\$ 396,090
Reduction of accrued interest associated with debt exchanged	20,066
Write-off of deferred financing costs, plus professional fees	(11,843)
Adjustment to carrying value of debt	(86,296)
	\$ 318,017

During the three months ended October 29, 2016, the Company recognized a \$694 loss on early debt extinguishment attributed to the write-off of unamortized debt financing costs associated with the replacement of the former U.S. Credit Facility with the ABL Credit Facility.

Other income, net

The following is a summary of other income activity for the three and nine months ended October 29, 2016 and October 31, 2015 (in thousands):

	Three Months Ended October 29, 2016	Three Months Ended October 31, 2015	Nine Months Ended October 29, 2016	Nine Months Ended October 31, 2015
Royalty income	\$ (2,576)	\$ (1,133)	\$ (5,208)	\$ (3,781)
	(1,021)	(237)	23	1,685

Foreign currency exchange (gain) loss, net				
Gain on sale of assets	(303)	(805)	(303)	(2,475)
Other income		(10)	(5)	(80)
	\$ (3,900)	\$ (2,185)	\$ (5,493)	\$ (4,651)

Interest expense, net

During the three months ended October 29, 2016, net interest expense aggregated \$47.1 million compared to \$55.3 million for the three months ended October 31, 2015. The decrease is primarily due to decreased indebtedness as a result of the Exchange Offer.

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During the nine months ended October 29, 2016, net interest expense aggregated \$157.8 million compared to \$164.8 million for the nine months ended October 31, 2015. The decrease is primarily due to decreased indebtedness as a result of the Exchange Offer.

Income taxes

The effective income tax rate for the three and nine months ended October 29, 2016 was (0.5)% and (1.1)% compared to (4.9)% for the three and nine months ended October 31, 2015. These effective income tax rates differed from the statutory federal income tax rate of 35% primarily from the exclusion from taxable income of the gain on extinguishment of debt and the increases in the valuation allowance recorded for additional deferred tax assets generated primarily from operating losses in the three and nine months ended October 29, 2016 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.

North America

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

	Three Months Ended October 29, 2016	Three Months Ended October 31, 2015	Nine Months Ended October 29, 2016	Nine Months Ended October 31, 2015
Net sales	\$ 192,885	\$ 202,434	\$ 586,965	\$ 618,729
(Decrease) increase in same store sales	(1.0)%	0.1%	(2.0)%	(0.4)%
Gross profit percentage	46.3%	46.4%	47.5%	47.4%
Number of company-operated stores at the end of the period	1,688	1,793	1,688	1,793
Number of concession stores at the end of the period	333	244	333	244

During the three months ended October 29, 2016, net sales in North America decreased \$9.5 million, or 4.7%, from the three months ended October 31, 2015. The decrease was attributable to the effect of store closures of \$8.1 million, decreased shipments to franchisees of \$2.0 million and a decrease in same store sales of \$1.9 million, partially offset by an increase in new concession store sales and new store sales of \$2.4 million and a favorable foreign currency translation effect of our non-U.S. net sales of \$0.1 million. Sales would have decreased 4.8% excluding the impact from foreign currency exchange rate changes.

During the nine months ended October 29, 2016, net sales in North America decreased \$31.8 million, or 5.1%, from the nine months ended October 31, 2015. The decrease was attributable to the effect of store closures of \$24.0 million, a decrease in same store sales of \$11.8 million, decreased shipments to franchisees of \$6.7 million and an unfavorable foreign currency translation effect of our non-U.S. net sales of \$1.3 million, partially offset by an increase in new concession store sales and new store sales of \$12.0 million. Sales would have decreased 4.9% excluding the impact from foreign currency exchange rate changes.

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For the three months ended October 29, 2016, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 17.6%, partially offset by an increase in average transaction value of 18.9%.

For the nine months ended October 29, 2016, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 18.6%, partially offset by an increase in average transaction value of 19.6%.

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During the three months ended October 29, 2016, gross profit percentage decreased 10 basis points to 46.3% compared to 46.4% during the three months ended October 31, 2015. The decrease in gross profit percentage consisted of a 70 basis point increase in occupancy, partially offset by an increase in merchandise margin of 60 basis points. The increase in occupancy costs, as a percentage of sales, resulted primarily from the deleveraging effect from a decrease in same store sales. The increase in merchandise margin resulted primarily from lower freight costs and higher initial markups, partially offset by higher 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.

During the nine months ended October 29, 2016, gross profit percentage increased 10 basis points to 47.5% compared to 47.4% during the nine months ended October 31, 2015. The increase in gross profit percentage consisted of an increase in merchandise margin of 70 basis points, partially offset by a 50 basis point increase in occupancy costs and by a 10 basis point increase in buying and buying-related costs. The increase in merchandise margin resulted primarily from lower freight costs and higher initial markups, partially offset by higher markdowns. The increase in occupancy costs, as a percentage of sales, resulted primarily from the deleveraging effect from a decrease in same store sales.

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

Product Category	Percentage of Total		Percentage of Total	
	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Jewelry	52.7	50.4	53.3	54.0
Accessories	47.3	49.6	46.7	46.0
	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	Three Months Ended	Nine Months Ended	Nine Months Ended
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net sales	\$ 119,156	\$ 130,243	\$ 341,895	\$ 381,530
Decrease in same store sales	(2.5)%	(1.6)%	(7.6)%	(3.5)%
Gross profit percentage	47.0%	45.3%	45.2%	46.0%
Number of company-operated stores at the end of the period	1,081	1,133	1,081	1,133
Number of concession stores at the end of the period	602	459	602	459

During the three months ended October 29, 2016, net sales in Europe decreased \$11.1 million, or 8.5%, from the three months ended October 31, 2015. The decrease was attributable to an unfavorable foreign currency translation effect of our non-U.S. net sales of \$7.6 million, the effect of store closures of \$3.4 million and a decrease in same stores sales

of \$3.0 million, partially offset by an increase in new concession store sales and new store sales of \$2.9 million. Sales would have decreased 2.8% excluding the impact from foreign currency exchange rate changes.

During the nine months ended October 29, 2016, net sales in Europe decreased \$39.6 million, or 10.4%, from the nine months ended October 31, 2015. The decrease was attributable to a decrease in same stores sales of \$26.8 million, an unfavorable foreign currency translation effect of our non-U.S. net sales of \$13.2 million and the effect of store closures of \$10.1 million, partially offset by an increase in new concession store sales and new store sales of \$10.5 million. Sales would have decreased 7.1% excluding the impact from foreign currency exchange rate changes.

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For the three months ended October 29, 2016, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 13.5%, partially offset by an increase in average transaction value of 13.9%.

For the nine months ended October 29, 2016, the decrease in same store sales was primarily attributable to a decrease in average number of transactions per store of 16.0%, partially offset by an increase in average transaction value of 10.7%.

During the three months ended October 29, 2016, gross profit percentage increased 170 basis points to 47.0% compared to 45.3% during the three months ended October 31, 2015. The increase in gross profit percentage consisted of a 100 basis point decrease in occupancy costs, a 30 basis point increase in merchandise margin and a 40 basis point decrease in buying and buying-related costs. 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. The increase in merchandise margin resulted primarily from favorable foreign currency exchange rates, higher trade discounts and lower freight costs, partially offset by sales mix. The decrease in buying and buying-related costs, as a percentage of net sales, resulted primarily from lower compensation costs and buying-relating costs.

During the nine months ended October 29, 2016, gross profit percentage decreased 80 basis points to 45.2% compared to 46.0% during the nine months ended October 31, 2015. The decrease in gross profit percentage consisted of a 70 basis point decrease in merchandise margin and a 60 basis point increase in occupancy costs, partially offset by a 50 basis point decrease in buying and buying-related costs. The decrease in merchandise margin resulted primarily from sales mix and unfavorable foreign currency exchange rates, partially offset by higher trade discounts and lower freight costs. The increase in occupancy costs, as a percentage of sales, resulted primarily from the deleveraging effect from a decrease in same store sales. The decrease in buying and buying-related costs, as a percentage of net sales, resulted primarily from lower compensation costs and buying-relating costs.

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

Product Category	Percentage of Total		Percentage of Total	
	Three Months	Three Months	Nine Months	Nine Months
	Ended	Ended	Ended	Ended
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Jewelry	36.6	32.8	37.7	36.4
Accessories	63.4	67.2	62.3	63.6
	100.0	100.0	100.0	100.0

Liquidity and Capital Resources

We are highly leveraged, with significant debt service obligations. As of October 29, 2016, we reported net debt (total debt less cash and cash equivalents) of approximately \$2.2 billion with maturities ranging from 2017 through 2021. Our revolving credit facilities were fully drawn. See Note 6 Debt, in the Notes to the accompanying Unaudited Condensed Consolidated Financial Statements for a summary of our outstanding indebtedness as of October 29, 2016.

We completed the Exchange Offer described below to reduce our outstanding indebtedness and improve liquidity through the reduction of cash interest expense. The Company's outstanding debt was reduced by approximately \$396

million, debt maturities were extended, and the Company estimates it will realize annual cash interest savings of approximately \$24 million.

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We currently anticipate that cash on hand and cash generated from operations will be sufficient to allow us to satisfy payments of interest on our indebtedness, to fund new store expenditures, and meet working capital requirements over the near-term. However, this will depend, to a large degree, on our operating performance, which may be adversely affected by general economic, political and financial conditions, foreign currency exchange exposures, and other factors beyond our control, including those disclosed in Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

As a result of the Exchange Offer, all of our debt maturities have been extended to beyond Fiscal 2017, except for the \$50 million Amended and Restated Europe Credit Facility and approximately \$26 million of Subordinated Notes. We expect that repayment of our debt as it matures will require refinancing, and we cannot make assurances that we will have the financial resources required to obtain, or that the conditions of the capital markets will support, any future refinancing, replacement or restructuring of our indebtedness.

A summary of cash flows provided by (used in) operating, investing and financing activities for the nine months ended October 29, 2016 and October 31, 2015 is outlined in the table below (in thousands):

	Nine Months Ended October 29, 2016	Nine Months Ended October 31, 2015
Operating activities	\$ (83,617)	\$ (103,452)
Investing activities	(12,158)	(19,940)
Financing activities	124,594	120,927

Cash flows from operating activities

For the nine months ended October 29, 2016, cash used in operations decreased \$19.8 million compared to the prior year period. The primary reason for the decrease was a decrease in working capital of \$27.8 million, partially offset by a decrease in operating income and net other items of \$8.0 million, excluding cash equivalents. 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.

Cash flows from investing activities

For the nine months ended October 29, 2016, cash used in investing activities was \$12.2 million and consisted of \$12.5 million for capital expenditures, partially offset by proceeds of \$0.3 million from the sale of intangible assets. 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. During the remainder of Fiscal 2016, we expect to spend approximately \$4.4 million of capital expenditures.

Cash flows from financing activities

For the nine months ended October 29, 2016, cash provided by financing activities was \$124.6 million, which consisted primarily of net borrowings of \$124.5 million under the revolving credit facilities, capital contributions received from parent of \$11.6 million, partially offset by payment of \$11.3 million in financing costs and payment of \$0.2 million for capital lease. 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 the revolving credit facilities,

partially offset by payment of \$0.4 million in financing costs and payment of \$0.1 million for capital lease.

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

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As of October 29, 2016, we had cash and cash equivalents of \$40.5 million and all cash equivalents were maintained in one money market fund invested exclusively in U.S. Treasury Securities.

As of October 29, 2016, our foreign subsidiaries held cash and cash equivalents of \$21.2 million. During the nine months ended October 29, 2016, 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 carryforwards was sufficient to offset the associated income tax liability. During the remainder of 2016, 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 29, 2016, we do not expect to pay U.S. income tax on future 2016 repatriations. However, as a result of taxable income related to the gain on extinguishment, the Company's net operating loss carryforwards will be fully utilized as of January 1, 2017. At that time, we will be required to accrue and pay U.S. income taxes, net of any foreign tax credit benefit, on any such repatriation.

Exchange Offer

On September 20, 2016, the Company, CLSIP LLC, a newly formed subsidiary designated as unrestricted under the Company's debt agreements (CLSIP) and Claire's (Gibraltar) Holdings Limited, the holding company of the Company's European operations (Claire's Gibraltar and together with the Company and CLSIP, the Offerors) completed an offer to exchange (the Exchange Offer) any and all of the Company's issued and outstanding (i) 8.875% Senior Secured Second Lien Notes due 2019 (the Second Lien Notes), (ii) 7.750% Senior Notes due 2020 (the Unsecured Notes) and (iii) 10.500% Senior Subordinated Notes due 2017 (the Subordinated Notes , and together with the Second Lien Notes and the Unsecured Notes, the Notes), except for Subordinated Notes held by Claire's Inc., the parent of the Company (Parent), for (i) up to \$40.0 million of Senior Secured Term Loans maturing 2021 of the Company (Claire's Stores Term Loans), (ii) up to \$130.0 million of Senior Secured Term Loans maturing 2021 of CLSIP (CLSIP Term Loans) and (iii) up to \$60.0 million of Senior Term Loans maturing 2021 of Claire's Gibraltar (Claire's Gibraltar Term Loans and together with the Claire's Stores Term Loans and the CLSIP Term Loans, the Term Loans).

On September 20, 2016, the Offerors accepted from non-affiliate holders approximately \$227.7 million aggregate principal amount of Second Lien Notes, approximately \$103.3 million aggregate principal amount of Unsecured Notes and approximately \$0.7 million aggregate principal amount of Subordinated Notes validly tendered and not withdrawn in the Exchange Offer in exchange for approximately \$20.4 million aggregate principal amount of Claire's Stores Term Loans, approximately \$66.3 million aggregate principal amount of CLSIP Term Loans and approximately \$30.6 million aggregate principal amount of Claire's Gibraltar Term Loans and entered into the respective term loan agreements providing for each of the Term Loans.

Parent owned approximately \$58.7 million aggregate principal amount of the Subordinated Notes and certain funds managed by affiliates of Apollo Global Management, LLC (the Apollo Funds and, together with Parent, the Affiliated Holders) owned approximately \$183.6 million aggregate principal amount of the Company's 10.500% PIK Senior Subordinated Notes due 2017 (the PIK Subordinated Notes), in each case immediately prior to the completion of the Exchange Offer. No Affiliated Holder participated in the Exchange Offer. However, because the Exchange Offer was not fully subscribed, following the allocation of the maximum consideration offered in the Exchange Offer, on September 20, 2016, the Affiliated Holders effected a similar exchange of Subordinated Notes, in the case of Parent and PIK Subordinated Notes, in the case of the Apollo Funds, for Term Loans on the same economic terms offered in the Exchange Offer for the Unsecured Notes that were tendered prior to the Exchange Offer's Early Tender Time , including additional consideration paid to holders of Unsecured Notes as a result of

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the undersubscription (the Affiliated Holder Exchange). On September 20, 2016, the Offerors accepted from the Affiliated Holders all approximately \$58.7 million aggregate principal amount of Subordinated Notes and \$183.6 million aggregate principal amount of PIK Subordinated Notes pursuant to the Affiliated Holder Exchange in exchange for approximately \$10.5 million aggregate principal amount of Claire's Stores Term Loans, approximately \$34.2 million aggregate principal amount of CLSIP Term Loans and approximately \$15.8 million aggregate principal amount of CLSIP Term Loans. The interest payable on the Term Loans held by the Affiliated Holders or their affiliates will be pay-in-kind.

As part of the transaction, we recorded an adjustment to carrying value for the debt issued in the Exchange Offer. The adjustment to carrying value of debt represents the interest to be paid in cash on the notes issued in the exchange through the maturity date of those notes. This amount increases the company's carrying value of debt by \$86.3 million as of October 29, 2016. Such amount will be reduced in the future years as scheduled interest is paid on those notes.

Indebtedness

For a description of our existing debt and debt agreements see Note 6 Debt, in the Notes to Unaudited Condensed Consolidated Financial Statements. As of October 29, 2016, we were in compliance with the covenants under all existing debt agreements.

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 2015 Annual Report on Form 10-K, filed on April 26, 2016, 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.

Long-Lived Assets Impairment

We evaluate the carrying value of long-lived assets whenever events or changes in circumstances indicate that a potential impairment has occurred. A potential impairment has occurred if the projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of the asset in operations. When a potential impairment has occurred, an impairment charge is recorded if the carrying value of the long-lived asset exceeds its fair value. Fair value is measured based on a projected discounted cash flow model using a discount rate we feel is commensurate with the risk inherent in our business. A prolonged decrease in consumer spending would require us to modify our models and cash flow estimates, and could create a risk of an impairment triggering event in the future. Our impairment analyses contain estimates due to the inherently judgmental nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. Actual results may differ from those estimates, which could materially impact our impairment assessment. During the third quarter of Fiscal 2016 impairment testing, we recognized a preliminary estimated non-cash impairment charge of \$3.3 million relating to our Europe reporting unit.

Goodwill Impairment

We continually evaluate whether events and changes in circumstances warrant recognition of an impairment of goodwill. The conditions that would trigger an impairment assessment of goodwill include a significant, sustained negative trend in our operating results or cash flows, a decrease in demand for our products, a change in the competitive environment, and other industry and economic factors. We conduct

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our annual impairment test to determine whether an impairment of the value of goodwill has occurred in accordance with the guidance set forth in Accounting Standards Codification (ASC) Topic 350, *Intangibles - Goodwill and Other*. ASC Topic 350 has a two-step process for determining goodwill impairment. In accordance with ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350)*, we have the option of performing a qualitative assessment before calculating the fair value of our reporting units or bypassing the qualitative assessment for any reporting unit for any period and proceeding directly to the first step of the two-step goodwill impairment test. If we determine, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, then performing the two-step impairment test would be unnecessary. We opted to bypass the qualitative assessment and proceeded directly to the first step of the two-step goodwill impairment test. The first step in this process compares the fair value of the reporting unit to its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. This allocation is similar to a purchase price allocation performed in purchase accounting. If the carrying amount of the reporting unit's goodwill exceeds the implied goodwill value, an impairment loss is recognized in an amount equal to that excess. We have two reporting units as defined under ASC Topic 350. These reporting units are our North America segment and our Europe segment.

Fair value is determined using appropriate valuation techniques. All valuation methodologies applied in a valuation of any form of property can be broadly classified into one of three approaches: the asset approach, the market approach and the income approach. We rely on the income approach using discounted cash flows and market approach using comparable public company entities in deriving the fair values of our reporting units. The asset approach is not used as our reporting units have significant intangible assets, the value of which is dependent on cash flow.

The fair value of each reporting unit determined under Step 1 of the goodwill impairment test was based on a three-fourths weighting of a discounted cash flow analysis under the income approach using forward-looking projections of estimated future operating results and a one-fourth weighting of a guideline company methodology under the market approach using earnings before interest, taxes, depreciation and amortization (EBITDA) multiples. Our determination of the fair value of each reporting unit incorporates multiple assumptions and contains inherent uncertainties, including significant estimates relating to future business growth, earnings projections, and the weighted average cost of capital used for purposes of discounting. Decreases in revenue growth, decreases in earnings projections and increases in the weighted average cost of capital will all cause the fair value of the reporting unit to decrease, which could require us to modify future models and cash flow estimates, and could result in an impairment triggering event in the future.

We have weighted the valuation of our reporting units at three-fourths using the income approach and one-fourth using the market based approach. We believe that this weighting is appropriate since it is difficult to find other comparable publicly traded companies that are similar to our reporting units' heavy penetration of jewelry and accessories sales and margin structure. It is our view that the future discounted cash flows are more reflective of the value of the reporting units.

The projected cash flows used in the income approach cover the periods consisting of the fourth quarter Fiscal 2016 and Fiscal 2017 through 2026. Beyond Fiscal 2026, a terminal value was calculated using the Gordon Growth Model. We developed the projected cash flows based on estimates of forecasted same store sales, new store openings and closures, operating margins and capital expenditures. Due to the inherent judgment involved in making these estimates and assumptions, actual results could differ from those estimates. The projected cash flows reflect projected same store sales increases representative of our expected future growth rates.

A weighted average cost of capital reflecting the risk associated with the projected cash flows was calculated for each reporting unit and used to discount each reporting unit's projected cash flows and terminal value. Key assumptions made in calculating a weighted average cost of capital include the risk-free rate, market risk premium, volatility relative to the market, cost of debt, specific company premium, small company premium, tax rate and debt-to-equity ratio.

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The calculation of fair value is significantly impacted by each reporting unit's projected cash flows and the discount interest rates used. Accordingly, any sustained volatility in the economic environment could impact these assumptions and make it reasonably possible that another impairment charge could be recorded some time in the future. However, since the terminal value is a significant portion of each reporting unit's fair value, the impact of any such near-term volatility on our fair value would be lessened.

During the third quarter of Fiscal 2016 impairment testing, we recognized a preliminary estimated non-cash impairment charge on goodwill of \$130.0 million relating to our Europe reporting unit. In addition, in connection with our third quarter Fiscal 2016 impairment testing, we noted our other reporting unit, North America, had \$987.5 million of goodwill as of October 29, 2016 and fair value in excess of its carrying value of net assets of approximately 9%. While the reporting unit passed the first step of the impairment test, if the reporting unit's operating income or another valuation assumption were to deteriorate significantly in the future, it could adversely affect the estimated fair value. If we are unsuccessful in our plans to increase the profitability of this reporting unit, the estimated fair value could decline and lead to a goodwill impairment charge in the future.

Intangible Assets Impairment

Intangible assets include tradenames, franchise agreements, lease rights, territory rights and leases that existed at the date of acquisition with terms that were favorable to market at that date. We continually evaluate whether events and changes in circumstances warrant revised estimates of the useful lives, residual values or recognition of an impairment loss for intangible assets. Future adverse changes in market and legal conditions or poor operating results of underlying assets could result in losses or an inability to recover the carrying value of the intangible asset, thereby possibly requiring an impairment charge in the future.

We evaluate the market value of the intangible assets periodically and record an impairment charge when we believe the carrying amount of the asset is not recoverable. Indefinite-lived intangible assets are tested for impairment annually or more frequently when events or circumstances indicate that impairment may have occurred. Definite-lived intangible assets are tested for impairment when events or circumstances indicate that the carrying amount may not be recoverable. We estimate the fair value of these intangible assets primarily utilizing a discounted cash flow model. The forecasted cash flows used in the model contain inherent uncertainties, including significant estimates and assumptions related to growth rates, margins and cost of capital. Changes in any of the assumptions utilized could affect the fair value of the intangible assets and result in an impairment triggering event. A prolonged decrease in consumer spending would require us to modify our models and cash flow estimates, with the risk of an impairment triggering event in the future. During the third quarter of Fiscal 2016 impairment testing, we recognized a preliminary estimated non-cash impairment charge on intangible assets of \$9.0 million relating to our tradenames.

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 similar. 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 2015 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, 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 29, 2016, all cash equivalents were maintained in one money market fund that was invested exclusively in U.S. Treasury securities.

Interest Rates

As of October 29, 2016, we had fixed rate debt of \$2,111.3 million and variable rate debt of \$119.4 million. Based on our variable rate balance as of October 29, 2016, a 1% change in interest rates would increase or decrease our annual

interest expense by approximately \$1.2 million.

Foreign Currency

We are exposed to market risk from foreign currency exchange rate fluctuations on the United States dollar (USD or dollar) value of foreign currency denominated transactions and our investments in foreign

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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 29, 2016, 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 (\$1.5) million and (\$4.4) 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 29, 2016 and October 31, 2015, 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 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

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

Changes in Internal Controls over Financial Reporting

No changes in our internal control over financial reporting have been made during the quarter ended October 29, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**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 30, 2016.

Item 6. Exhibits

- 10.1 Amended and Restated Multicurrency Revolving Facility Agreement, dated as of September 20, 2016, among Claire's (Gibraltar) intermediate holdings Limited, HSBC Bank PLC and other parties named therein (1)
- 10.2 Term Loan Credit Agreement, dated September 20, 2016, among Claire's Stores, the lenders party thereto and Wilmington Trust, N.A., as Administrative Agent and Collateral Agent (1)
- 10.3 Guarantee and Collateral Agreement, dated September 20, 2016, among Claire's Stores, Inc., Claire's Inc., the Guarantors party thereto, and Wilmington Trust, N.A., as Administrative Agent and Collateral Agent (1)
- 10.4 Term Loan Credit Agreement, dated September 20, 2016, among CLSIP LLC, CLSIP Holdings LLC, the lenders party thereto and Wilmington Trust, N.A., as Administrative Agent and Collateral Agent (1)
- 10.5 Guarantee and Collateral Agreement, dated September 20, 2016, among CLSIP LLC, CLSIP Holdings LLC, and Wilmington Trust, N.A., as Administrative Agent and Collateral Agent (1)
- 10.6 Term Loan Credit Agreement, dated September 20, 2016, among Claire's (Gibraltar) Holdings Limited, the lenders party thereto and Wilmington Trust, N.A., as Administrative Agent (1)
- 10.7 Intellectual Property Agreement, dated September 20, 2016, among CLSIP LLC, CBI Distributing Corp., Claire's Stores, Inc. and the other parties named therein (1)
- 10.8 Exchange Agreement, dated September 20, 2016, among Claire's Stores, Inc., CLSIP LLC, Claire's (Gibraltar) Holdings Limited, Claire's Inc. and the funds managed by affiliates of Apollo Global Management, LLC named therein (1)

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- 10.9 Second Amended and Restated Credit Facility, dated August 12, 2016, among Claire's Stores, Inc, Claire's Inc., Credit Suisse AG, Cayman Islands Branch as Administrative Agent, and the lenders named therein (1)
- 10.10 Amended and Restated Guarantee and Collateral Agreement, dated September 20, 2016, among Claire's Stores, Inc., Claire's Inc., the Guarantors party thereto, and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and Collateral Agent (1)
- 10.11 Credit Facility, dated August 12, 2016, among Claire's (Gibraltar) Holdings Limited, Credit Suisse AG, Cayman Islands Branch, as Administrative Agent, the lenders named therein (1)

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10.12	ABL Credit Facility, dated August 12, 2016, among Claire's Stores, Inc, Claire's Inc. Claire's Inc., Credit Suisse AG, Cayman Islands Branch as Administrative Agent and the lenders named therein (1)
10.13	Guarantee and Collateral Agreement, dated September 20, 2016, among Claire's Stores, Inc., Claire's Inc., the Guarantors party thereto, and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and Collateral Agent (1)
10.14	Intercreditor Agreement, dated September 20, 2016, among Credit Suisse AG, Cayman Islands Branch, as ABL Credit Facility Agent, and the other collateral agents party thereto (1)
10.15	Intellectual Property Assignment Agreement, dated September 20, 2016, among Claire's Stores, Inc., CBI Distributing Corp. and CLSIP Holdings LLC (1)
10.16	Intellectual Property Assignment Agreement, dated September 20, 2016, among CLSIP Holdings LLC and CLSIP LLC (1)
10.17	Amendment No. 3, dated as of August 12, 2016 to the Amended and Restated Credit Agreement, dated as of September 20, 2012 among Claire's Stores, Inc., Credit Suisse AG, Cayman Islands Branch, as Administrative Agent, and the other lenders named therein (2)
10.17.1	Supplement No. 1, dated as of September 9, 2016, to Amendment No. 3, dated as of August 12, 2016 to the Amended and Restated Credit Agreement, dated as of September 20, 2012 among Claire's Stores, Inc., Credit Suisse AG, Cayman Islands Branch, as Administrative Agent, and the other lenders named therein (3)
10.17.2	Supplement No. 2, dated as of September 15, 2016, to Amendment No. 3, dated as of August 12, 2016 to the Amended and Restated Credit Agreement, dated as of September 20, 2012 among Claire's Stores, Inc., Claire's Inc., the subsidiaries party thereto, Credit Suisse AG, Cayman Islands Branch, as Administrative Agent, and the other lenders named therein (4)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). (5)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). (5)
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. (5)
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. (5)
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) Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 26, 2016

(2)

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Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 15, 2016

- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 15, 2016

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- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 20, 2016
- (5) 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 13, 2016

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

December 13, 2016

By: /s/ Scott Huckins
Scott Huckins, Chief Financial Officer (principal financial officer)

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INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
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