# 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 April 29, 2017**

**OR**

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

**For the transition period from _________ to _________**

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

# Claire's Stores, Inc.
**(Exact name of registrant as specified in its charter)**

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

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

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

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

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

| | April 29, 2017 | January 28, 2017 |
|---|---|---|
| | (In thousands, except share and per share amounts) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 25,737 | $ 55,792 |
| Inventories | 140,938 | 130,239 |
| Prepaid expenses | 16,924 | 14,642 |
| Other current assets | 26,809 | 25,270 |
| Total current assets | 210,408 | 225,943 |
| Property and equipment: | | |
| Furniture, fixtures and equipment | 220,369 | 218,804 |
| Leasehold improvements | 297,681 | 297,636 |
| | 518,050 | 516,440 |
| Accumulated depreciation and amortization | (389,476) | (381,975) |
| | 128,574 | 134,465 |
| Leased property under capital lease: | | |
| Land and building | 18,055 | 18,055 |
| Accumulated depreciation and amortization | (6,539) | (6,313) |
| | 11,516 | 11,742 |
| Goodwill | 1,132,575 | 1,132,575 |
| Intangible assets, net of accumulated amortization of $81,640 and $80,502, respectively | 454,331 | 454,956 |
| Other assets | 41,052 | 40,525 |
| | 1,627,958 | 1,628,056 |
| Total assets | $ 1,978,456 | $ 2,000,206 |
| **LIABILITIES AND STOCKHOLDER'S DEFICIT** | | |
| Current liabilities: | | |
| Current portion of long-term debt, net | $ — | $ 18,405 |
| Trade accounts payable | 69,726 | 69,731 |
| Income taxes payable | 5,353 | 6,083 |
| Accrued interest payable | 24,003 | 53,266 |
| Accrued expenses and other current liabilities | 78,351 | 87,146 |
| Total current liabilities | 177,433 | 234,631 |
| Long-term debt, net | 2,115,167 | 2,118,653 |
| Revolving credit facility, net | 57,043 | 3,925 |
| Obligation under capital lease | 16,289 | 16,388 |
| Deferred tax liability | 91,900 | 99,255 |
| Deferred rent expense | 33,917 | 34,300 |
| Unfavorable lease obligations and other long-term liabilities | 8,800 | 10,376 |
| | 2,323,116 | 2,282,897 |
| Commitments and contingencies | | |
| Stockholder's deficit: | | |
| Common stock par value $0.001 per share; authorized 1,000 shares; issued and outstanding 100 shares | — | — |
| Additional paid-in capital | 630,558 | 630,496 |
| Accumulated other comprehensive loss, net of tax | (49,956) | (51,881) |
| Accumulated deficit | (1,102,695) | (1,095,937) |
| | (522,093) | (517,322) |
| Total liabilities and stockholder's deficit | $ 1,978,456 | $ 2,000,206 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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**CLAIRE'S STORES, INC. AND SUBSIDIARIES**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
(in thousands)

| | Three Months Ended April 29, 2017 | Three Months Ended April 30, 2016 |
|---|---|---|
| Net sales | $ 299,621 | $ 299,647 |
| Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below) | 151,788 | 158,353 |
| Gross profit | 147,833 | 141,294 |
| Other expenses: | | |
| Selling, general and administrative | 110,512 | 107,722 |
| Depreciation and amortization | 11,203 | 14,060 |
| Severance and transaction-related costs | 143 | 1,573 |
| Other (income) expense, net | (2,701) | 2,945 |
| | 119,157 | 126,300 |
| Operating income | 28,676 | 14,994 |
| Interest expense, net | 43,580 | 55,079 |
| Loss before income tax benefit | (14,904) | (40,085) |
| Income tax benefit | (8,146) | (1,327) |
| Net loss | $ (6,758) | $ (38,758) |
| Net loss | $ (6,758) | $ (38,758) |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 44 | 2,860 |
| Net gain on intra-entity foreign currency transactions, net of tax expense of $229 and $525 | 1,881 | 10,195 |
| Other comprehensive income | 1,925 | 13,055 |
| Comprehensive loss | $ (4,833) | $ (25,703) |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**CLAIRE'S STORES, INC. AND SUBSIDIARIES**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in thousands)

| | Three Months Ended April 29, 2017 | Three Months Ended April 30, 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (6,758) | $ (38,758) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 11,203 | 14,060 |
| Amortization of lease rights and other assets | 1,069 | 658 |
| Amortization of debt issuance costs | 2,187 | 2,102 |
| Accretion of debt premium | (721) | (662) |
| Net unfavorable accretion of lease obligations | (64) | (62) |
| Loss on sale/retirement of property and equipment, net | 118 | 102 |
| Stock-based compensation expense (benefit) | 62 | (33) |
| (Increase) decrease in: | | |
| Inventories | (9,694) | (7,187) |
| Prepaid expenses | (1,371) | (14,220) |
| Other assets | (1,434) | (1,478) |
| Increase (decrease) in: | | |
| Trade accounts payable | (1,069) | 1,134 |
| Income taxes payable | (962) | (1,009) |
| Accrued interest payable | (29,263) | (25,322) |
| Accrued expenses and other liabilities | (10,834) | (15,153) |
| Deferred income taxes | (7,597) | (355) |
| Deferred rent expense | (525) | (611) |
| Net cash used in operating activities | (55,653) | (86,794) |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (3,365) | (4,215) |
| Acquisition of intangible assets/lease rights | (28) | (91) |
| Net cash used in investing activities | (3,393) | (4,306) |
| Cash flows from financing activities: | | |
| Proceeds from revolving credit facilities | 69,000 | 116,864 |
| Payments on revolving credit facilities | (16,200) | — |
| Payments on short-term debt | (18,420) | — |
| Payments on long-term debt | (4,272) | — |
| Payment of debt issuance costs | (347) | (44) |
| Principal payments on capital lease | (76) | (58) |
| Net cash provided by financing activities | 29,685 | 116,762 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | (694) | 4,355 |
| Net increase (decrease) in cash and cash equivalents | (30,055) | 30,017 |
| Cash and cash equivalents, at beginning of period | 55,792 | 18,871 |
| Cash and cash equivalents, at end of period | $ 25,737 | $ 48,888 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ 71,159 | $ 78,940 |
| Income taxes paid | 1,642 | 1,132 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**CLAIRE'S STORES, INC. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### 1. Basis of Presentation

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

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

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

### 2. Recent Accounting Pronouncements

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

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

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

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

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

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): *Deferral of the Effective Date*, which delays the effective date of ASU 2014-09 by one year. FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in evaluating whether it controls the good or the service before it is transferred to the customer. The new revenue recognition standard will be effective for public entities for annual reporting periods beginning after December 15, 2017, and interim periods therein, that is, the first quarter of 2018. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). We currently do not plan to early adopt ASU 2014-09, and we have not determined which method to use when we adopt. We plan to have our preliminary assessment on the impact this guidance will have on our consolidated financial statements and related disclosures in mid Fiscal 2017.

**3. Fair Value Measurements**

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

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

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

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

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

Financial Instruments Not Measured at Fair Value

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

The Company considers all investments with a maturity of three months or less when acquired to be cash equivalents. The Company's cash equivalent instruments are valued using quoted market prices and are primarily U.S. Treasury securities. The revolving credit facilities approximate fair value due to the variable component of the interest rate. Excluding unamortized debt issuance costs, the estimated fair value of the Company's long-term debt was approximately $1.04 billion as of April 29, 2017, compared to a carrying value of $2.13 billion at that date. Excluding unamortized debt issuance costs, the estimated fair value of the Company's long-term debt (including current portion) was approximately $1.09 billion as of January 28, 2017, compared to a carrying value of $2.15 billion at that date. For publicly-traded debt, the fair value (estimated market value) is based on quoted market prices in less active markets. For non-publicly traded debt, fair value is estimated based on quoted prices for similar instruments. If measured at fair value in the financial statements, long-term debt excluding term loans would be classified as Level 2 in the fair value hierarchy, while term loans would be classified as Level 3 in the fair value hierarchy.

**4. Debt**

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

| | April 29, 2017 | January 28, 2017 |
|---|---|---|
| Current portion of long-term debt: | | |
| 10.5% Senior subordinated notes due 2017 | $ — | $ 18,420 |
| Unamortized debt issuance cost | — | (15) |
| Total current portion of long-term debt, net | $ — | $ 18,405 |
| Long-term debt: | | |
| Claire's Gibraltar unsecured term loan due 2019 | $ 40,000 | $ 40,000 |
| Claire's Gibraltar Intermediate secured term loan due 2019 | 50,000 | 50,000 |
| 9.0% Senior secured first lien notes due 2019 (1) | 1,130,898 | 1,131,619 |
| 8.875% Senior secured second lien notes due 2019 | 222,300 | 222,300 |
| 6.125% Senior secured first lien notes due 2020 | 210,000 | 210,000 |
| 7.75% Senior notes due 2020 | 216,742 | 216,742 |
| 9.0% Claire's Stores term loan due 2021 | 30,933 | 30,933 |
| 9.0% CLSIP term loan due 2021 | 100,525 | 100,525 |
| 9.0% Claire's Gibraltar term loans due 2021 | 46,394 | 46,394 |
| Adjustment to carrying value | 82,024 | 86,296 |
| Unamortized debt issuance cost | (14,649) | (16,156) |
| Total long-term debt, net | $ 2,115,167 | $ 2,118,653 |
| Revolving credit facility: | | |
| U.S. asset based lending credit facility due 2019 | $ 59,000 | $ 6,200 |
| Unamortized debt issuance cost | (1,957) | (2,275) |
| Total revolving credit facility, net | $ 57,043 | $ 3,925 |
| Obligation under capital lease (including current portion) | $ 16,635 | $ 16,712 |

(1) Amount includes unamortized premium of $5,898 and $6,619 as of April 29, 2017 and January 28, 2017, respectively.

**10.50% Senior Subordinated Notes**

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

**ABL Credit Facility**

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

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

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

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

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

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

As of April 29, 2017, we had $59.0 million of borrowings, which together with the $4.0 million of letters of credit outstanding, reduces the borrowing availability to $12.0 million.

**U.S. Revolving Credit Facility**

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

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

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

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

The U.S. Credit Facility contains customary provisions relating to mandatory prepayments, voluntary payments, payment of dividends, affirmative and negative covenants, and events of default; however, it does not contain any covenants that require the Company to maintain any particular financial ratio or other measure of financial performance except that so long as borrowings and letters of credit outstanding under the U.S. Credit Facility exceed $15 million, the Company is required to maintain, at each borrowing date measured at the end of the prior fiscal quarter (but reflecting borrowings and repayments under the U.S. Credit Facility through the measurement date) and at the end of each fiscal quarter, a maximum Total Net Secured Leverage Ratio of, for the fiscal quarters prior to the first fiscal quarter of 2018, 8.95:1.00, and for the fiscal quarters including and after the first fiscal quarter of 2018, 8.00:1.00, based upon the ratio of the Company's net senior secured first lien debt to adjusted earnings before interest, taxes, depreciation and amortization for the period of four consecutive fiscal quarters most recently ended. As of April 29, 2017, no borrowings were outstanding under the U.S. Credit Facility other than amounts outstanding under the ABL Credit Facility.

**Debt Covenants**

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

- incur additional indebtedness;
- pay dividends or distributions on our capital stock, repurchase or retire our capital stock and redeem, repurchase or defease any subordinated indebtedness;
- make certain investments;
- create or incur certain liens;
- create restrictions on the payment of dividends or other distributions to us from the Company's subsidiaries;
- transfer or sell assets;
- engage in certain transactions with its affiliates; and
- merge or consolidate with other companies or transfer all or substantially all of its assets.

Certain of these covenants in the indentures governing the 9.0% Senior Secured First Lien Notes due 2019 (the "9.0% Senior Secured First Lien Notes"), 6.125% Senior Secured First Lien Notes due 2020 (the "6.125% Senior Secured First Lien Notes" and collectively with the 9.0% Senior Secured First Lien Notes, the "Senior Secured First Lien Notes"), the 8.765% Senior Secured Second Lien Notes due 2019 (the "Second Lien Notes"), and the 7.750% Senior Notes due 2020 (the "Unsecured Notes") (collectively, the "Notes"), such as limitations on the Company's ability to make certain payments such as dividends, or incur debt, will no longer apply if the Notes have investment grade ratings from both of the rating agencies of Moody's Investor Services, Inc. ("Moody's") and Standard & Poor's Ratings Group ("S&P") and no event of default has occurred. Since the date of issuance of the Notes, the Notes have not received investment grade ratings from Moody's or S&P. Accordingly, all of the covenants under the Notes currently apply to the Company. None of the covenants under the Notes, however, require the Company to maintain any particular financial ratio or other measure of financial performance.

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

**Europe Credit Agreement**

The Europe Credit Agreement provides for a $50.0 million aggregate principal amount secured term loan that was made on January 5, 2017 and will mature on January 31, 2019. Interest accrues at 15% per annum during the first year (with 3% pay-in-kind) and 12% per annum during the second year. All obligations under the Europe Credit Agreement have been guaranteed by certain existing direct and indirect wholly-owned subsidiaries of Claire's (Gibraltar) Intermediate Holdings Limited ("Claire's Gibraltar Intermediate"), and secured by liens on the assets of Claire's Gibraltar Intermediate, the other borrower and the guarantors party thereto (the "Loan Parties") and by a pledge of the shares of Claire's Gibraltar Intermediate, in each case, subject to certain exceptions and limitations. Neither the Company nor any of its U.S. subsidiaries are party to, or guarantors of, the Europe Credit Agreement.

The Europe Credit Agreement contains customary affirmative and negative covenants applicable to the Loan Parties, events of default and provisions relating to mandatory and voluntary payments. These covenants restrict the Loan Parties' ability to incur indebtedness, grant liens and make investments, subject to the exceptions and conditions set forth therein. Claire's Gibraltar Intermediate is also restricted from making foreign cash transfers to the Company and its subsidiaries, subject to compliance with a leverage ratio test and to certain exceptions. Additionally, the Loan Parties must maintain specified minimum balances of cash and cash equivalents, measured as of the last day of any fiscal month, specified minimum collateral values, measured as of the last day of any fiscal quarter, and specified levels of Consolidated Total Assets and EBITDA, measured as of the last day of any fiscal quarter. As of April 29, 2017, the Company was in compliance with all covenants.

**Europe Bank Credit Facilities**

The Company's non-U.S. subsidiaries have bank credit facilities totaling approximately $1.9 million. The facilities are used for working capital requirements, letters of credit and various guarantees. These credit facilities have been arranged in accordance with customary lending practices in the respective country of operation. As of April 29, 2017, there was a reduction of $1.8 million for outstanding bank guarantees, which reduces the borrowing availability to $0.1 million as of that date.

## 5. Commitments and Contingencies

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

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

## 6. Accumulated Other Comprehensive 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):

| | Total (1) |
|---|---|
| Balance as of January 28, 2017 | $(51,881) |
| Other comprehensive income | 1,925 |
| Balance as of April 29, 2017 | $(49,956) |

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

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

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

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|---|---|---|---|
| Outstanding as of January 28, 2017 | 3,125,062 | $ 5.67 | |
| Options granted | 1,200 | $ 1.25 | |
| Options exercised | — | | |
| Options forfeited | (8,475) | $ 7.34 | |
| Options expired | (4,712) | $ 10.00 | |
| Outstanding as of April 29, 2017 | 3,113,075 | $ 5.66 | 4.5 |
| Options vested and expected to vest as of April 29, 2017 | 2,926,746 | $ 5.81 | 4.4 |
| Exercisable as of April 29, 2017 | 1,352,212 | $ 8.22 | 3.4 |

The weighted average grant date fair value of options granted during the three months ended April 29, 2017 and April 30, 2016 was $0.41 and $0.50, respectively.

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

**8. Income Taxes**

The effective income tax rate was 54.7% for the three months ended April 29, 2017. This effective income tax rate differed from the statutory federal income tax rate of 35% primarily from U.S. income recognition of foreign deemed dividend distributions and foreign tax rate differentials as compared to the U.S. statutory rate

The effective income tax rate was 3.3% for the three months ended April 30, 2016. This effective income tax rate differed from the statutory federal income tax rate of 35% primarily from foreign tax rate differentials as compared to the U.S. statutory rate.

**9. Related Party Transactions**

The Company, Parent, and affiliates have purchased and may, from time to time, purchase portions of the Company's indebtedness. All of these purchases have been open market transactions and any interest payments to Parent or affiliates made thereon are paid in accordance with the associated indenture. As of April 29, 2017 and January 28, 2017, Parent and affiliates held $60.6 million, respectively, of the Company's indebtedness. For the three months ended April 29, 2017 and April 30, 2016, the Company recognized interest expense related to the indebtedness held by Parent and affiliates of $0.0 million and $6.1 million, respectively. Interest on the debt held as of April 29, 2017 is payable in kind.

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**10. Segment Information**

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

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

| | Three Months Ended April 29, 2017 | Three Months Ended April 30, 2016 |
|---|---|---|
| Net sales: | | |
| North America | $ 195,960 | $ 199,306 |
| Europe | 103,661 | 100,341 |
| Total net sales | 299,621 | 299,647 |
| Depreciation and amortization: | | |
| North America | 7,102 | 9,095 |
| Europe | 4,101 | 4,965 |
| Total depreciation and amortization | 11,203 | 14,060 |
| Operating income (loss) for reportable segments: | | |
| North America | 25,710 | 24,571 |
| Europe | 3,109 | (8,004) |
| Total operating income for reportable segments | 28,819 | 16,567 |
| Severance and transaction-related costs | 143 | 1,573 |
| Consolidated operating income | 28,676 | 14,994 |
| Interest expense, net | 43,580 | 55,079 |
| Consolidated loss before income tax benefit | $ (14,904) | $ (40,085) |

Excluded from operating income for the North America segment are severance and transaction-related costs of approximately $0.0 million and $1.3 million for the three months ended April 29, 2017 and April 30, 2016, respectively.

Excluded from operating loss for the Europe segment are severance and transaction-related costs of approximately $0.1 million and $0.3 million for the three months ended April 29, 2017 and April 30, 2016, respectively.

**11. Supplemental Financial Information**

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

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

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**Condensed Consolidating Balance Sheet**
**April 29, 2017**
**(in thousands)**

| | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 4,173 | $ 3,938 | $ 17,626 | $ — | $ 25,737 |
| Inventories | — | 79,026 | 61,912 | — | 140,938 |
| Prepaid expenses | 1,314 | 1,255 | 14,355 | — | 16,924 |
| Other current assets | 83 | 15,367 | 11,359 | — | 26,809 |
| Total current assets | 5,570 | 99,586 | 105,252 | — | 210,408 |
| Property and equipment: | | | | | |
| Furniture, fixtures and equipment | 5,817 | 137,672 | 76,880 | — | 220,369 |
| Leasehold improvements | 1,315 | 183,698 | 112,668 | — | 297,681 |
| | 7,132 | 321,370 | 189,548 | — | 518,050 |
| Accumulated depreciation and amortization | (5,313) | (248,460) | (135,703) | — | (389,476) |
| | 1,819 | 72,910 | 53,845 | — | 128,574 |
| Leased property under capital lease: | | | | | |
| Land and building | — | 18,055 | — | — | 18,055 |
| Accumulated depreciation and amortization | — | (6,539) | — | — | (6,539) |
| | — | 11,516 | — | — | 11,516 |
| Intercompany receivables | — | 314,426 | 83,188 | (397,614) | — |
| Investment in subsidiaries | 1,583,925 | (42,638) | — | (1,541,287) | — |
| Goodwill | — | 987,517 | 145,058 | — | 1,132,575 |
| Intangible assets, net | 188,100 | 149,739 | 201,126 | (84,634) | 454,331 |
| Other assets | 1,144 | 4,240 | 35,668 | — | 41,052 |
| | 1,773,169 | 1,413,284 | 465,040 | (2,023,535) | 1,627,958 |
| Total assets | $ 1,780,558 | $1,597,296 | $ 624,137 | $(2,023,535) | $ 1,978,456 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)** | | | | | |
| Current liabilities: | | | | | |
| Trade accounts payable | $ 1,073 | $ 23,542 | $ 45,111 | $ — | $ 69,726 |
| Income taxes payable | — | 1,517 | 3,836 | — | 5,353 |
| Accrued interest payable | 23,322 | — | 681 | — | 24,003 |
| Accrued expenses and other current liabilities | 11,290 | 31,504 | 35,557 | — | 78,351 |
| Total current liabilities | 35,685 | 56,563 | 85,185 | — | 177,433 |
| Intercompany payables | 397,614 | — | — | (397,614) | — |
| Long-term debt, net | 1,812,309 | 146,887 | 155,971 | — | 2,115,167 |
| Revolving credit facility, net | 57,043 | — | — | — | 57,043 |
| Obligation under capital lease | — | 16,289 | — | — | 16,289 |
| Deferred tax liability | — | 93,554 | (1,654) | — | 91,900 |
| Deferred rent expense | — | 23,145 | 10,772 | — | 33,917 |
| Unfavorable lease obligations and other long-term liabilities | — | 8,800 | — | — | 8,800 |
| | 2,266,966 | 288,675 | 165,089 | (397,614) | 2,323,116 |
| Stockholder's equity (deficit): | | | | | |
| Common stock | — | 367 | 2 | (369) | — |
| Additional paid in capital | 630,558 | 1,520,543 | 766,992 | (2,287,535) | 630,558 |
| Accumulated other comprehensive income (loss), net of tax | (49,956) | (6,455) | (43,342) | 49,797 | (49,956) |
| Accumulated deficit | (1,102,695) | (262,397) | (349,789) | 612,186 | (1,102,695) |
| | (522,093) | 1,252,058 | 373,863 | (1,625,921) | (522,093) |
| Total liabilities and stockholder's equity (deficit) | $ 1,780,558 | $1,597,296 | $ 624,137 | $(2,023,535) | $ 1,978,456 |

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**Condensed Consolidating Balance Sheet**
**January 28, 2017**
**(in thousands)**

| | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 3,038 | $ 3,005 | $ 49,749 | $ — | $ 55,792 |
| Inventories | — | 74,307 | 55,932 | — | 130,239 |
| Prepaid expenses | 463 | 1,397 | 12,782 | — | 14,642 |
| Other current assets | — | 14,281 | 10,989 | — | 25,270 |
| Total current assets | 3,501 | 92,990 | 129,452 | — | 225,943 |
| Property and equipment: | | | | | |
| Furniture, fixtures and equipment | 5,817 | 137,382 | 75,605 | — | 218,804 |
| Leasehold improvements | 1,315 | 183,910 | 112,411 | — | 297,636 |
| | 7,132 | 321,292 | 188,016 | — | 516,440 |
| Accumulated depreciation and amortization | (5,121) | (244,158) | (132,696) | — | (381,975) |
| | 2,011 | 77,134 | 55,320 | — | 134,465 |
| Leased property under capital lease: | | | | | |
| Land and building | — | 18,055 | — | — | 18,055 |
| Accumulated depreciation and amortization | — | (6,313) | — | — | (6,313) |
| | — | 11,742 | — | — | 11,742 |
| Intercompany receivables | — | 288,796 | 61,125 | (349,921) | — |
| Investment in subsidiaries | 1,541,321 | (43,213) | — | (1,498,108) | — |
| Goodwill | — | 987,517 | 145,058 | — | 1,132,575 |
| Intangible assets, net | 188,100 | 149,804 | 201,686 | (84,634) | 454,956 |
| Other assets | 1,066 | 4,342 | 35,117 | — | 40,525 |
| | 1,730,487 | 1,387,246 | 442,986 | (1,932,663) | 1,628,056 |
| Total assets | $ 1,735,999 | $1,569,112 | $ 627,758 | $(1,932,663) | $ 2,000,206 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)** | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt, net | $ 18,405 | $ — | $ — | $ — | $ 18,405 |
| Trade accounts payable | 1,719 | 21,048 | 46,964 | — | 69,731 |
| Income taxes payable | — | 1,160 | 4,923 | — | 6,083 |
| Accrued interest payable | 52,667 | — | 599 | — | 53,266 |
| Accrued expenses and other current liabilities | 14,474 | 33,517 | 39,155 | — | 87,146 |
| Total current liabilities | 87,265 | 55,725 | 91,641 | — | 234,631 |
| Intercompany payables | 349,923 | — | — | (349,923) | — |
| Long-term debt, net | 1,812,208 | 149,302 | 157,143 | — | 2,118,653 |
| Revolving credit facility, net | 3,925 | — | — | — | 3,925 |
| Obligation under capital lease | — | 16,388 | — | — | 16,388 |
| Deferred tax liability | — | 93,554 | 5,701 | — | 99,255 |
| Deferred rent expense | — | 23,424 | 10,876 | — | 34,300 |
| Unfavorable lease obligations and other long-term liabilities | — | 10,373 | 3 | — | 10,376 |
| | 2,166,056 | 293,041 | 173,723 | (349,923) | 2,282,897 |
| Stockholder's equity (deficit): | | | | | |
| Common stock | — | 367 | 2 | (369) | — |
| Additional paid in capital | 630,496 | 1,520,544 | 766,993 | (2,287,537) | 630,496 |
| Accumulated other comprehensive income (loss), net of tax | (51,881) | (5,187) | (47,062) | 52,249 | (51,881) |
| Accumulated deficit | (1,095,937) | (295,378) | (357,539) | 652,917 | (1,095,937) |
| | (517,322) | 1,220,346 | 362,394 | (1,582,740) | (517,322) |
| Total liabilities and stockholder's equity (deficit) | $ 1,735,999 | $1,569,112 | $ 627,758 | $(1,932,663) | $ 2,000,206 |

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

| | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ — | $ 182,070 | $ 117,551 | $ — | $ 299,621 |
| Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below) | 3,162 | 86,199 | 62,427 | — | 151,788 |
| Gross profit (deficit) | (3,162) | 95,871 | 55,124 | — | 147,833 |
| Other expenses: | | | | | |
| Selling, general and administrative | 5,753 | 57,285 | 47,474 | — | 110,512 |
| Depreciation and amortization | 191 | 6,326 | 4,686 | — | 11,203 |
| Severance and transaction-related costs | — | 57 | 86 | — | 143 |
| Other (income) expense | (1,937) | (192) | (572) | — | (2,701) |
| | 4,007 | 63,476 | 51,674 | — | 119,157 |
| Operating income (loss) | (7,169) | 32,395 | 3,450 | — | 28,676 |
| Interest expense, net | 40,270 | 526 | 2,784 | — | 43,580 |
| Income (loss) before income taxes | (47,439) | 31,869 | 666 | — | (14,904) |
| Income tax benefit | — | (1,064) | (7,082) | — | (8,146) |
| Income (loss) from continuing operations | (47,439) | 32,933 | 7,748 | — | (6,758) |
| Equity in earnings (loss) of subsidiaries | 40,681 | 46 | — | (40,727) | — |
| Net income (loss) | (6,758) | 32,979 | 7,748 | (40,727) | (6,758) |
| Foreign currency translation adjustments | 44 | (412) | 1,837 | (1,425) | 44 |
| Net gain (loss) on intra-entity foreign currency transactions, net of tax | 1,881 | (856) | 1,883 | (1,027) | 1,881 |
| Other comprehensive income (loss) | 1,925 | (1,268) | 3,720 | (2,452) | 1,925 |
| Comprehensive income (loss) | $ (4,833) | $ 31,711 | $ 11,468 | $ (43,179) | $ (4,833) |

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

| | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ — | $ 186,024 | $ 113,623 | $ — | $ 299,647 |
| Cost of sales, occupancy and buying expenses (exclusive of depreciation and amortization shown separately below) | 2,725 | 91,252 | 64,376 | — | 158,353 |
| Gross profit (deficit) | (2,725) | 94,772 | 49,247 | — | 141,294 |
| Other expenses: | | | | | |
| Selling, general and administrative | 4,771 | 55,413 | 47,538 | — | 107,722 |
| Depreciation and amortization | 237 | 8,314 | 5,509 | — | 14,060 |
| Severance and transaction-related costs | 1,348 | (3) | 228 | — | 1,573 |
| Other (income) expense | (1,411) | 16 | 4,340 | — | 2,945 |
| | 4,945 | 63,740 | 57,615 | — | 126,300 |
| Operating income (loss) | (7,670) | 31,032 | (8,368) | — | 14,994 |
| Interest expense, net | 54,269 | 540 | 270 | — | 55,079 |
| Income (loss) before income taxes | (61,939) | 30,492 | (8,638) | — | (40,085) |
| Income tax expense (benefit) | — | (1,339) | 12 | — | (1,327) |
| Income (loss) from continuing operations | (61,939) | 31,831 | (8,650) | — | (38,758) |
| Equity in earnings (loss) of subsidiaries | 23,181 | (1,664) | — | (21,517) | — |
| Net income (loss) | (38,758) | 30,167 | (8,650) | (21,517) | (38,758) |
| Foreign currency translation adjustments | 2,860 | 1,486 | (2,706) | 1,220 | 2,860 |
| Net gain (loss) on intra-entity foreign currency transactions, net of tax | 10,195 | 2,389 | 10,278 | (12,667) | 10,195 |
| Other comprehensive income (loss) | 13,055 | 3,875 | 7,572 | (11,447) | 13,055 |
| Comprehensive income (loss) | $(25,703) | $ 34,042 | $ (1,078) | $ (32,964) | $ (25,703) |

**Condensed Consolidating Statement of Cash Flows**
**Three Months Ended April 29, 2017**
**(in thousands)**

| | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ (6,758) | $ 32,979 | $ 7,748 | $ (40,727) | $ (6,758) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Loss (equity) in earnings of subsidiaries | (40,681) | (46) | — | 40,727 | — |
| Depreciation and amortization | 191 | 6,326 | 4,686 | — | 11,203 |
| Amortization of lease rights and other assets | — | — | 1,069 | — | 1,069 |
| Amortization of debt issuance costs | 1,899 | — | 288 | — | 2,187 |
| Accretion of debt premium | (721) | — | — | — | (721) |
| Net accretion of unfavorable lease obligations | — | (63) | (1) | — | (64) |
| Loss on sale/retirement of property and equipment, net | — | 118 | — | — | 118 |
| Stock-based compensation expense (benefit) | 58 | — | 4 | — | 62 |
| (Increase) decrease in: | | | | | |
| Inventories | — | (4,719) | (4,975) | — | (9,694) |
| Prepaid expenses | (850) | 142 | (663) | — | (1,371) |
| Other assets | (158) | (993) | (283) | — | (1,434) |
| Increase (decrease) in: | | | | | |
| Trade accounts payable | (646) | 2,380 | (2,803) | — | (1,069) |
| Income taxes payable | — | 367 | (1,329) | — | (962) |
| Accrued interest payable | (29,345) | — | 82 | — | (29,263) |
| Accrued expenses and other liabilities | (3,184) | (3,479) | (4,171) | — | (10,834) |
| Deferred income taxes | — | — | (7,597) | — | (7,597) |
| Deferred rent expense | — | (280) | (245) | — | (525) |
| Net cash provided by (used in) operating activities | (80,195) | 32,732 | (8,190) | — | (55,653) |
| Cash flows from investing activities: | | | | | |
| Acquisition of property and equipment | — | (1,855) | (1,510) | — | (3,365) |
| Acquisition of intangible assets/lease rights | — | (28) | — | — | (28) |
| Net cash used in investing activities | — | (1,883) | (1,510) | — | (3,393) |
| Cash flows from financing activities: | | | | | |
| Proceeds from revolving credit facilities | 69,000 | — | — | — | 69,000 |
| Payments on revolving credit facilities | (16,200) | — | — | — | (16,200) |
| Payments on short-term debt | (18,420) | — | — | — | (18,420) |
| Payments on long-term debt | (743) | (2,415) | (1,114) | — | (4,272) |
| Payment of debt issuance costs | — | — | (347) | — | (347) |
| Principal payments on capital lease | — | (76) | — | — | (76) |
| Intercompany activity, net | 47,693 | (25,629) | (22,064) | — | — |
| Net cash provided by (used in) financing activities | 81,330 | (28,120) | (23,525) | — | 29,685 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | — | (1,796) | 1,102 | — | (694) |
| Net increase in cash and cash equivalents | 1,135 | 933 | (32,123) | — | (30,055) |
| Cash and cash equivalents, at beginning of period | 3,038 | 3,005 | 49,749 | — | 55,792 |
| Cash and cash equivalents, at end of period | 4,173 | 3,938 | 17,626 | — | 25,737 |

**Condensed Consolidating Statement of Cash Flows**
**Three Months Ended April 30, 2016**
**(in thousands)**

| | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ (38,758) | $ 30,167 | $ (8,650) | $ (21,517) | $ (38,758) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Loss (equity) in earnings of subsidiaries | (23,181) | 1,664 | — | 21,517 | — |
| Depreciation and amortization | 237 | 8,314 | 5,509 | — | 14,060 |
| Amortization of lease rights and other assets | — | — | 658 | — | 658 |
| Amortization of debt issuance costs | 2,013 | — | 89 | — | 2,102 |
| Accretion of debt premium | (662) | — | — | — | (662) |
| Net accretion of unfavorable lease obligations | — | (62) | — | — | (62) |
| Loss on sale/retirement of property and equipment, net | — | 98 | 4 | — | 102 |
| Stock-based compensation expense (benefit) | (44) | — | 11 | — | (33) |
| (Increase) decrease in: | | | | | |
| Inventories | — | (57) | (7,130) | — | (7,187) |
| Prepaid expenses | (704) | (12,043) | (1,473) | — | (14,220) |
| Other assets | 17 | (1,179) | (316) | — | (1,478) |
| Increase (decrease) in: | | | | | |
| Trade accounts payable | 47 | (5,165) | 6,252 | — | 1,134 |
| Income taxes payable | — | (161) | (848) | — | (1,009) |
| Accrued interest payable | (25,343) | — | 21 | — | (25,322) |
| Accrued expenses and other liabilities | (214) | (7,501) | (7,438) | — | (15,153) |
| Deferred income taxes | — | — | (355) | — | (355) |
| Deferred rent expense | — | (547) | (64) | — | (611) |
| Net cash provided by (used in) operating activities | (86,592) | 13,528 | (13,730) | — | (86,794) |
| Cash flows from investing activities: | | | | | |
| Acquisition of property and equipment | (170) | (2,769) | (1,276) | — | (4,215) |
| Acquisition of intangible assets/lease rights | — | (11) | (80) | — | (91) |
| Net cash used in investing activities | (170) | (2,780) | (1,356) | — | (4,306) |
| Cash flows from financing activities: | | | | | |
| Proceeds from revolving credit facilities | 68,000 | — | 48,864 | — | 116,864 |
| Payments on revolving credit facilities | — | — | — | — | — |
| Payment of debt issuance costs | — | — | (44) | — | (44) |
| Principal payments on capital lease | — | (58) | — | — | (58) |
| Intercompany activity, net | 33,867 | (15,895) | (17,972) | — | — |
| Net cash provided by (used in) financing activities | 101,867 | (15,953) | 30,848 | — | 116,762 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | — | 5,605 | (1,250) | — | 4,355 |
| Net increase in cash and cash equivalents | 15,105 | 400 | 14,512 | — | 30,017 |
| Cash and cash equivalents, at beginning of period | 2,664 | 3,394 | 12,813 | — | 18,871 |
| Cash and cash equivalents, at end of period | 17,769 | 3,794 | 27,325 | — | 48,888 |

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**12. Subsequent Events**

On June 6, 2017, the Company and Claire's Inc., the parent of the Company ("Parent") entered into an Amended and Restated Management Services Agreement (the "Management Services Agreement") with Apollo Management VI, L.P. (together with its affiliates, "Apollo"), Cowen & Co., LLC, as successor to Tri-Artisan Capital Partners, LLC ("TACP"), ("Cowen", and together with Apollo, the "Managers") and TACP Investments – Claire's LLC ("TACPI"). The Management Services Agreement supersedes, amends and entirely restates the Management Services Agreement, dated as of May 29, 2007 by and among the Company, Parent, Apollo, TACP and TACPI ("the Original Agreement"). Under the Management Service Agreement, the Managers have agreed to provide to the Company certain investment banking, management, consulting and financial planning services on an ongoing basis. The Managers will receive no fee for these services, but will be reimbursed by the Company for their out-of-pocket expenses. In addition, under the Management Services Agreement, the Managers have agreed to provide to the Company certain financial advisory and investment banking services from time-to-time in connection with major financial transactions that may be undertaken by the Company or its subsidiaries in exchange for normal and customary fees as agreed by the Managers (or their affiliates) and the Company and Parent, taking into consideration all relevant factors. Under the Management Services Agreement, the Company and Parent have also agreed to provide the Managers (and their affiliates) with customary indemnification. The Management Services Agreement will terminate upon the earliest to occur of May 29, 2025 or the occurrence of certain termination events specified therein.

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

**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 which significantly reduced the amount of our indebtedness, extended our maturities and improved liquidity through the reduction of cash interest expense. Nonetheless, as of April 29, 2017, we reported net debt (total debt less cash and cash equivalents) of approximately $2.2 billion. See Note 4 – Debt, in the Notes to the accompanying Condensed Consolidated Financial Statements for a summary of our outstanding indebtedness as of April 29, 2017, and Note 6 – Debt, in the Notes to Audited Consolidated Financial Statements for a description of our existing debt, debt agreements, and Exchange Offer.

**Results of Consolidated Operations**

**Management Overview**

We are one of the world's leading specialty retailers of fashionable jewelry and accessories for young women, teens, tweens, and kids. Our vision is to be the emporium of choice for all girls (in age or attitude) across the world. We deliver this by offering a range of innovative, fun and affordable products and services that cater to all of her activities, as she grows up, whenever and wherever. Our broad and dynamic selection of merchandise is unique. We are organized into two operating segments: North America and Europe. We identify our operating segments by how we manage and evaluate our business activities. As of April 29, 2017, we operated a total of 2,680 company-operated stores of which 1,630 were located in all 50 states of the United States, Puerto Rico, Canada and the U.S. Virgin Islands (North America segment) and 1,050 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 April 29, 2017, we also had a total of 901 concession stores, of which 333 were located in the United States and Canada (North America segment) and 568 stores were located in the United Kingdom, France, Spain, Austria, Germany, Italy, Portugal, Switzerland, Hungary and Poland (Europe segment).

As of April 29, 2017, we also franchised 647 stores in Japan, the Middle East, Greece, Guatemala, Malta, India, Dominican Republic, El Salvador, Panama, Indonesia, Costa Rica, Serbia, Romania, Martinique, Pakistan, Thailand, Southern Africa 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) expense, 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.

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

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

- Jewelry: Includes earrings as well as our ear 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 months ended April 29, 2017 includes the following:

- Net sales remained flat;
- Same store sales percentages;

| | **Three Months Ended April 29, 2017** |
|---|---|
| Consolidated | 4.4% |
| North America | 0.3% |
| Europe | 13.0% |

- Gross profit percentage increase of 210 basis points; and
- Operating income margin of 9.6 %.

Operational activity for the three months ended April 29, 2017 includes the following:

- Opened 7 concession stores;
- Opened 1 new company-operated store;
- Closed 31 company-operated stores due to underperformance or lease renewal terms that did not meet our criteria;
- Opened 2 new *Icing* ® franchise stores overseas.

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

| | Three Months Ended April 29, 2017 | Three Months Ended April 30, 2016 |
|---|---|---|
| Net sales | $ 299,621 | $ 299,647 |
| Increase (decrease) in same store sales | 4.4% | (5.1)% |
| Gross profit percentage | 49.3% | 47.2% |
| Selling, general and administrative expenses as a percentage of net sales | 36.9% | 35.9% |
| Depreciation and amortization as a percentage of net sales | 3.7% | 4.7% |
| Operating income | $ 28,676 | $ 14,994 |
| Net loss | $ (6,758) | $ (38,758) |
| Number of company-operated stores at the end of the period | 2,680 | 2,831 |
| Number of concession stores at the end of the period | 901 | 733 |

*Net sales*

Net sales for the three months ended April 29, 2017 remained flat as compared to the three months ended April 30, 2016. Net sales were affected by an increase in same store sales of $12.3 million and an increase in new concession store sales and new store sales of $5.5 million, offset by the effect of store closures of $9.7 million, an unfavorable foreign currency translation effect of our non-U.S. net sales of $7.1 million and decreased shipments to franchisees of $1.0 million. Net sales would have increased 2.4% excluding the impact of foreign currency exchange rate changes.

For the three months ended April 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 10.8%, partially offset by a decrease in average number of transactions per store of 3.5%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

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

| | Percentage of Total | |
|---|---|---|
| **Product Category** | **Three Months Ended April 29, 2017** | **Three Months Ended April 30, 2016** |
| Jewelry | 48.9 | 47.9 |
| Accessories | 51.1 | 52.1 |
| | 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 April 29, 2017, gross profit percentage increased 210 basis points to 49.3% compared to 47.2% during the three months ended April 30, 2016. The increase in gross profit percentage consisted of a 160 basis point decrease in occupancy costs and by a 60 basis point increase in merchandise margin, partially offset by a 10 basis point increase in buying and buying-related costs. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales. The increase in merchandise margin percentage resulted primarily from higher trade discounts.

*Selling, general and administrative expenses*

During the three months ended April 29, 2017, selling, general and administrative expenses increased $2.8 million, or 2.6%, compared to the three months ended April 30, 2016. As a percentage of net sales, selling, general and administrative expenses increased 100 basis points compared to the three months ended April 30, 2016. Excluding a favorable $3.0 million foreign currency translation effect, selling, general, and administrative expenses would have increased $5.8 million. Excluding the foreign currency translation effect, the increase was primarily due to increased compensation-related expense, including store incentive compensation, and concession store commission expense.

*Depreciation and amortization expense*

During the three months ended April 29, 2017, depreciation and amortization expense decreased $2.9 million to $11.2 million compared to $14.1 million for the three months ended April 30, 2016. Excluding a favorable $0.3 million foreign currency translation effect, the decrease in depreciation and amortization expense would have been $2.6 million.

*Other (income) expense, net*

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

| | Three Months Ended April 29, 2017 | Three Months Ended April 30, 2016 |
|---|---|---|
| Royalty income | $ (2,344) | $ (1,103) |
| Foreign currency exchange (gain) loss, net | (357) | 4,053 |
| Other income | — | (5) |
| | $ (2,701) | $ 2,945 |

*Interest expense, net*

During the three months ended April 29, 2017, net interest expense aggregated $43.6 million compared to $55.1 million for the three months ended April 30, 2016. The decrease is primarily due to decreased indebtedness as a result of the Exchange Offer consummated in September 2016 and the extinguishment of the 10.5% senior subordinated notes in the quarter ended April 29, 2017.

*Income taxes*

The effective income tax rate for the three months ended April 29, 2017 was 54.7% compared to 3.3% for the three months ended April 30, 2016. This effective income tax rate differed from the statutory federal income tax rate of 35% primarily from U.S. income recognition of foreign deemed dividend distributions and foreign tax rate differentials as compared to the U.S. statutory rate.

**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 April 29, 2017 | Three Months Ended April 30, 2016 |
|---|---|---|
| Net sales | $ 195,960 | $ 199,306 |
| Increase (decrease) in same store sales | 0.3% | (0.8)% |
| Gross profit percentage | 50.9% | 49.9% |
| Number of company-operated stores at the end of the period | 1,630 | 1,716 |
| Number of concession stores at the end of the period | 333 | 243 |

During the three months ended April 29, 2017, net sales in North America decreased $3.3 million, or 1.7%, from the three months ended April 30, 2016. The decrease was attributable to the effect of store closures of $6.9 million, decreased shipments to franchisees of $1.0 million and an unfavorable foreign currency translation effect of our non-U.S. net sales of $0.1 million, partially offset by an increase in new concession store sales and new store sales of $4.2 million and an increase in same store sales of $0.5 million. Sales would have decreased 1.7% excluding the impact from foreign currency exchange rate changes.

For the three months ended April 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 8.9%, partially offset by a decrease in average number of transactions per store of 8.7%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

During the three months ended April 29, 2017, gross profit percentage increased 100 basis points to 50.9% compared to 49.9% during the three months ended April 30, 2016. The increase in gross profit percentage consisted of an increase in merchandise margin of 70 basis points and by a 60 basis point decrease in occupancy costs, partially offset by a 30 basis point increase in buying and buying-related costs. The increase in merchandise margin percentage resulted primarily from higher trade discounts. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales. The increase in buying and buying-related costs, as a percentage of net sales, resulted primarily from increased compensation costs and buying-relating costs.

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

| | Percentage of Total | |
|---|---|---|
| **Product Category** | **Three Months Ended April 29, 2017** | **Three Months Ended April 30, 2016** |
| Jewelry | 55.5 | 53.3 |
| Accessories | 44.5 | 46.7 |
| | 100.0 | 100.0 |

*Europe*

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

| | Three Months Ended April 29, 2017 | Three Months Ended April 30, 2016 |
|---|---|---|
| Net sales | $ 103,661 | $ 100,341 |
| Increase (decrease) in same store sales | 13.0% | (12.7)% |
| Gross profit percentage | 46.4% | 41.6% |
| Number of company-operated stores at the end of the period | 1,050 | 1,115 |
| Number of concession stores at the end of the period | 568 | 490 |

During the three months ended April 29, 2017, net sales in Europe increased $3.3 million, or 3.3%, from the three months ended April 30, 2016. The increase was attributable to an increase in same stores sales of $11.8 million and an increase in new concession store sales and new store sales of $1.3 million, partially offset by the effect of store closures of $2.8 million and an unfavorable foreign currency translation effect of our non-U.S. net sales of $7.0 million. Sales would have increased 11.0% excluding the impact from foreign currency exchange rate changes.

For the three months ended April 29, 2017, the increase in same store sales was primarily attributable to an increase in average transaction value of 20.8% and an increase in average number of transactions per store of 3.4%. The average transaction value and the average number of transactions are calculated on an average store basis rather than a same store basis.

During the three months ended April 29, 2017, gross profit percentage increased 480 basis points to 46.4% compared to 41.6% during the three months ended April 30, 2016. The increase in gross profit percentage consisted of a 410 basis point decrease in occupancy costs, a 50 basis point increase in merchandise margin and a 20 basis point decrease in buying and buying-related costs. The decrease in occupancy costs, as a percentage of net sales, resulted primarily from the leveraging effect of an increase in same store sales. The increase in merchandise margin percentage resulted primarily from higher trade discounts. The decrease in buying and buying-related costs, as a percentage of net sales, resulted primarily from decreased compensation costs and buying-relating costs.

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

| | Percentage of Total | |
|---|---|---|
| **Product Category** | **Three Months Ended April 29, 2017** | **Three Months Ended April 30, 2016** |
| Jewelry | 36.8 | 37.4 |
| Accessories | 63.2 | 62.6 |
| | 100.0 | 100.0 |

## Liquidity and Capital Resources

We are highly leveraged, with significant debt service obligations. As of April 29, 2017, we reported net debt (total debt less cash and cash equivalents) of approximately $2.2 billion with maturities ranging from 2019 through 2021

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

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

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

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

| | Three Months Ended April 29, 2017 | Three Months Ended April 30, 2016 |
|---|---|---|
| Operating activities | $ (55,653) | $ (86,794) |
| Investing activities | (3,393) | (4,306) |
| Financing activities | 29,685 | 116,762 |

*Cash flows from operating activities*

For the three months ended April 29, 2017, cash used in operations decreased $31.1 million compared to the prior year period. The primary reason for the decrease in cash used in operations was an increase in operating income and net other items of $18.6 million and a decrease in working capital of $12.5 million, excluding cash equivalents. For the three months ended April 30, 2016, cash used in operations increased $18.2 million compared to the prior year period. The primary reason for the increase was a decrease in operating income and net other items of $4.3 million and an increase in working capital of $13.9 million, excluding cash equivalents.

*Cash flows from investing activities*

For the three months ended April 29, 2017, cash used in investing activities was $3.4 million and consisted of $3.4 million for capital expenditures. During the remainder of Fiscal 2017, we expect to spend between $15.0 million and $20.0 million of capital expenditures.

*Cash flows from financing activities*

For the three months ended April 29, 2017, cash provided by financing activities was $29.7 million, which consisted primarily of net borrowings of $52.8 million under our ABL Credit Facility, partially offset by payment of $18.4 million for the extinguishment of the Senior Subordinated Notes, payment of $4.3 million for long-term debt, payment of $0.3 million in financing costs and payment of $0.1 million for capital lease. For the three months ended April 30, 2016, cash provided by financing activities was $116.8 million, which consisted primarily of net borrowings of $116.8 million under the revolving U.S. Credit Facility.

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

*Cash Position*

As of April 29, 2017, we had cash and cash equivalents of $25.7 million and all cash equivalents were maintained in one money market fund invested exclusively in U.S. Treasury Securities.

In addition, as of April 29, 2017, our foreign subsidiaries held cash and cash equivalents of $17.6 million. During the three months ended April 29, 2017, we transferred certain cash held by foreign subsidiaries to the U.S. to meet certain liquidity needs. During the remainder of Fiscal 2017, we expect a portion of our foreign subsidiaries' future cash flow generation to be repatriated to the U.S. to meet certain liquidity needs. We are currently accruing U.S. income taxes, net of any foreign tax credit benefit, on all foreign earnings deemed repatriated.

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

10.50% Senior Subordinated Notes

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

ABL Credit Facility

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

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

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

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

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

As of April 29, 2017, we had $59.0 million of borrowings, together with the $4.0 million of letters of credit outstanding, which reduced the borrowing availability to $12.0 million.

U.S. Revolving Credit Facility

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

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

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

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

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

As of April 29, 2017, no borrowings were outstanding under the U.S. Credit Facility other than amounts outstanding under the ABL Credit Facility.

*Debt Covenants*

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

- incur additional indebtedness;

- pay dividends or distributions on our capital stock, repurchase or retire our capital stock and redeem, repurchase or defease any subordinated indebtedness;
- make certain investments;
- create or incur certain liens;
- create restrictions on the payment of dividends or other distributions to us from our subsidiaries;
- transfer or sell assets;
- engage in certain transactions with our affiliates; and
- merge or consolidate with other companies or transfer all or substantially all of our assets.

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

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

*Europe Bank Credit Facilities*

Our non-U.S. subsidiaries have bank credit facilities totaling $1.9 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 April 29, 2017, we had a reduction of $1.8 million for outstanding bank guarantees, which reduces the borrowing availability to $0.1 million as of that date.

*Management Services Agreement*

On June 6, 2017, the Company and Claire's Inc., the parent of the Company ("Parent") entered into an Amended and Restated Management Services Agreement (the "Management Services Agreement") with Apollo Management VI, L.P. (together with its affiliates, "Apollo"), Cowen & Co., LLC, as successor to Tri-Artisan Capital Partners, LLC ("TACP"), ("Cowen", and together with Apollo, the "Managers") and TACP Investments – Claire's LLC ("TACPI"). The Management Services Agreement supersedes, amends and entirely restates the Management Services Agreement, dated as of May 29, 2007 by and among the Company, Parent, Apollo, TACP and TACPI ("the Original Agreement"). Under the Management Service Agreement, the Managers have agreed to provide to the Company certain investment banking, management, consulting and financial planning services on an ongoing basis. The Managers will receive no fee for these services, but will be reimbursed by the Company for their out-of-pocket expenses. In the prior Management Services Agreement, the Managers were paid a $3.0 million fee annually. In addition, under the Management Services Agreement, the Managers have agreed to provide to the Company certain financial advisory and investment banking services from time-to-time in connection with major financial transactions that may be undertaken by the Company or its subsidiaries in exchange for normal and customary fees as agreed by the Managers (or their affiliates) and the Company and Parent, taking into consideration all relevant factors. Under the Management Services Agreement, the Company and Parent have also agreed to provide the Managers (and their affiliates) with customary indemnification. The Management Services Agreement will terminate upon the earliest to occur of May 29, 2025 or the occurrence of certain termination events specified therein.

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

**Critical Accounting Policies and Estimates**

Our Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our Fiscal 2016 Annual Report on Form 10-K, filed on April 14, 2017, in the Notes to Consolidated Financial Statements, Note 2 – Summary of Significant Accounting Policies, and the Critical Accounting Policies and Estimates section contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations therein.

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

**Recent Accounting Pronouncements**

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

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

We and our representatives may from time to time make written or oral forward-looking statements, including statements contained in this and other filings with the Securities and Exchange Commission and in our press releases and reports we issue publicly. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to our future financial performance, business strategy, planned capital expenditures, ability to service our debt, and new store openings for future periods, are forward-looking statements. The forward-looking statements are and will be based on management's then current views and assumptions regarding future events and operating performance, and we assume no obligation to update any forward-looking statement. Forward-looking statements involve known or unknown risks, uncertainties and other factors, including changes in estimates and judgments discussed under "Critical Accounting Policies and Estimates" which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements may use the words "expect," "anticipate," "plan," "intend," "project," "may," "believe," "forecasts" and similar expressions. Some of these risks, uncertainties and other factors are as follows: our level of indebtedness; general economic conditions; changes in consumer preferences and consumer spending; unwillingness of vendors and service providers to supply goods or services pursuant to historical customary credit arrangements; competition; general political and social conditions such as war, political unrest and terrorism; natural disasters or severe weather events; currency fluctuations and exchange rate adjustments; failure to maintain our favorable brand recognition; failure to successfully market our products through other channels, such as e-commerce; uncertainties generally associated with the specialty retailing business, such as decreases in mall traffic; disruptions in our supply of inventory; inability to increase same store sales; inability to renew, replace or enter into new store leases on favorable terms; increase in our cost of merchandise; significant increases in our merchandise

markdowns or promotional sales; inability to grow our Company operated store base in North America and Europe, or expand our international store base through franchise or similar licensing arrangements, or expand our store base through concessions; inability to design and implement new information systems; data security breaches of confidential information or other cyber attacks; delays in anticipated store openings or renovations; results from any future asset impairment analysis; changes in applicable laws, rules and regulations, including changes in North America and Europe, or other international laws and regulations governing the sale of our products, particularly regulations relating to heavy metal and chemical content in our products; changes in anti-bribery laws; changes in employment laws, including laws relating to overtime pay, tax laws and import laws; product recalls; loss of key members of management; increase in the costs of healthcare for our employees; increases in the cost of labor; labor disputes; increases in the cost of borrowings; unavailability of additional debt or equity capital; and the impact of our substantial indebtedness on our operating income and our ability to grow. The Company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances. In addition, we typically earn a disproportionate share of our operating income in the fourth quarter due to seasonal buying patterns, which are difficult to forecast with certainty. Additional discussion of these and other risks and uncertainties is contained elsewhere in this Item 2, in Item 3, "Quantitative and Qualitative Disclosures About Market Risk" and in our Form 10-K for Fiscal 2016 under "Statement Regarding Forward-Looking Disclosures" and "Risk Factors."

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

*Cash and Cash Equivalents*

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

*Interest Rates*

As of April 29, 2017, we had fixed rate debt of $2,089.8 million and variable rate debt of $99.0 million. Based on our variable rate balance as of April 29, 2017, a 1% change in interest rates would increase or decrease our annual interest expense by approximately $1.0 million.

*Foreign Currency*

We are exposed to market risk from foreign currency exchange rate fluctuations on the United States dollar ("USD" or "dollar") value of foreign currency denominated transactions and our investments in foreign subsidiaries. We manage this exposure to market risk through our regular operating and financing activities, and may from time to time, use foreign currency options. Exposure to market risk for changes in foreign currency exchange rates relates primarily to our foreign operations' buying, selling, and financing activities in currencies other than local currencies and to the carrying value of our net investments in foreign subsidiaries. As of April 29, 2017, we maintained no foreign currency options. We generally do not hedge the translation exposure related to our net investment in foreign subsidiaries. Included in "Comprehensive loss" are $1.9 million and $13.1 million, net of tax, reflecting the unrealized gain on foreign currency translations and intra-entity foreign currency transactions during the three months ended April 29, 2017 and April 30, 2016, respectively.

Certain of our subsidiaries make significant USD purchases from Asian suppliers, particularly in China. Until July 2005, the Chinese government pegged its currency, the yuan renminbi ("RMB"), to the USD, adjusting the relative value only slightly and on infrequent occasion. Many people viewed this practice as leading to a substantial undervaluation of the RMB relative to the USD and other major currencies, providing China with a competitive advantage in international trade. China now allows the RMB to float to a limited degree against a basket of major international currencies, including the USD, the euro and the Japanese yen. The official exchange rate has historically remained stable; however, there are no assurances that this currency exchange rate will continue to be as stable in the future due to the Chinese

government's adoption of a floating rate with respect to the value of the RMB against foreign currencies. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on China to adopt an even more flexible and more market-oriented currency policy that allows a greater fluctuation in the exchange rate between the RMB and the USD. This floating exchange rate, and any appreciation of the RMB that may result from such rate, could have various effects on our business, which include making our purchases of Chinese products more expensive. If we are unable to negotiate commensurate price decreases from our Chinese suppliers, these higher prices would eventually translate into higher costs of sales, which could have a material adverse effect on our results of operations.

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

*General Market Risk*

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

**Item 4. Controls and Procedures**

*Disclosure Controls and Procedures*

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

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

*Changes in Internal Controls over Financial Reporting*

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. The Company did not design and maintain effective controls over the quarterly income tax provision analysis, including controls over the review of the accuracy of certain data used to calculate the income tax provision. This material weakness resulted in a material misstatement that overstated the income tax payable and deferred tax liabilities and understated the non-cash income tax benefit financial statement line item. This misstatement was not identified or corrected timely because the precision at which the related review control was designed was not appropriate. This misstatement was corrected prior to the issuance of the financial statements contained in this Quarterly Report on Form 10-Q.

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

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

## Item 5. Other Information

### Management Services Agreements

For a description of the Management Services Agreement entered into between the Company, Parent, Apollo, Cowen and TACPI, and for a description of the Cowen Management Agreement entered into between the Company and Cowen, see Note 12 – Subsequent Events, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

**Retention Bonus Agreements**

On June 6, 2017, the Compensation Committee of the Company approved retention bonus arrangements for certain employees, including Scott Huckins, Chief Financial Officer, pursuant to letter agreements the form of which is being filed as an exhibit to the Quarterly Report on Form 10-Q (the "Retention Bonus Agreement"). Under the terms of the Retention Bonus Agreement, Mr. Huckins will be entitled to a onetime cash payment of $500,000 within 30 days of March 31, 2019, or if earlier, the date of the occurrence of a Change in Control (as defined in the Retention Bonus Agreement) provided he remains employed by the Company through such date, the Company is not at the time of payment in default under any of its debt agreements and the Company's internal projections at the time of payment show sufficient cash to meet liquidity needs for the succeeding 12 months. The foregoing description is qualified in all respects by reference to the provisions of the form of Retention Bonus Agreement.

A copy of the Retention Bonus Agreement has been filed as an Exhibit to this Quarterly Report on Form 10-Q and the description above is qualified in all respects by reference to the text of such agreement.

**Chief Executive Officer Incentive Arrangements**

On June 8, 2017, the Compensation Committee approved the grant to Ron Marshall, Chief Executive Officer, of an option to acquire 6,000,000 shares of the common stock of Claire's Inc. (the "Equity Award") at a price per share of not less than the fair market value per share on the date of grant, and otherwise under the terms of the Claire's Inc. Amended and Restated Stock Incentive Plan (the "Plan"). The Committee also approved an amendment to the Plan to increase the available shares to allow for the Equity Award. The Equity Award will vest on the earliest to occur of March 31, 2019 or the occurrence of a Change in Control or a Qualified IPO (each, as defined in the Plan). The Equity Award will terminate on the seventh anniversary of the grant. On any termination of employment, the Equity Award, if not then vested, will immediately terminate, and if then vested, will terminate on the earliest of (a) a termination for Cause (as defined in the Plan), (b) the date Mr. Marshall engages in Specified Conduct (as defined in the Plan), (c) 90 days following Mr. Marshall's voluntary resignation, (d) 18 months following Mr. Marshall's termination of employment other than by the Company for Cause or voluntarily by Mr. Marshall, and (e) the seventh anniversary of the grant. Any shares acquired upon exercise of the Equity Award will be subject to the repurchase rights set forth in the Plan.

In addition, the Committee approved a bonus arrangement whereby Mr. Marshall would be entitled to a cash bonus payment from the Company (a "Transaction Fee Award") in an amount equal to 10% of the amount of any fee paid to Apollo and/or Cowen for Major Transaction Services as defined in and pursuant to the Management Services Agreement (or any successor agreement). In order to receive payment of any Transaction Fee Award, Mr. Marshall must remain employed through the date that Apollo and/or Cowen receive their corresponding fee. Upon termination of employment for any reason, any right to the Transaction Fee Award will be forfeited.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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

### Item 6. Exhibits

| | |
|---|---|
| 10.1 | Amended and Restated Management Services Agreement of Claire's Stores, Inc. and Claire's Inc. with Apollo Management VI, L.P. , Cowen & Co., LLC, and TACP Investments – Claire's LLC. (1) |
| 10.2 | Management Agreement of Claire's Stores, Inc. with Cowen & Co., LLC. (1) |
| 10.3 | Standard Form of Retention Bonus Agreement. (1) |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). (1) |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). (1) |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1) |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1) |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

| | |
|---|---|
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Filed herewith.

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

Table of Contents

## 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. |
|---|---|
| June 9, 2017 | By: /s/ Ron Marshall<br>Ron Marshall, Chief Executive Officer (principal executive officer) |
| June 9, 2017 | By: /s/ Scott Huckins<br>Scott Huckins, Executive Vice President and Chief Financial Officer (principal financial officer) |

## INDEX TO EXHIBITS

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**Exhibit 10.1**

EXECUTION VERSION

**AMENDED AND RESTATED**
**MANAGEMENT SERVICES AGREEMENT**

AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT (this "Agreement"), executed as of June 6, 2017 but effective from and as of May 29, 2017 (the "Effective Date"), among Claire's Stores, Inc., a Florida corporation ("Claire's"), Claire's Inc., a Delaware corporation f/k/a Bauble Holdings Corp. ("Holdings", and together with Claire's, the "Companies"), Apollo Management VI, L.P., a Delaware limited partnership (together with its affiliates, "Apollo"), Cowen and Company, LLC, a Delaware limited liability company ("Cowen", and together with Apollo, the "Managers") and TACP Investments — Claire's LLC, a Delaware limited liability company ("TACPI"). This Agreement supersedes, amends and entirely restates the Management Services Agreement, dated as of May 29, 2007 (the "Original Commencement Date"), by and among the Companies, Apollo, Tri-Artisan Capital Partners, LLC, a Delaware limited liability company ("TACP") and TACPI (the "Original Agreement").

WHEREAS, the parties described above previously entered into the Original Agreement;

WHEREAS, effective as of September 2, 2016, TACP assigned its rights, obligations and interests under the Original Agreement from and after such date to Cowen;

WHEREAS, pursuant to Section 6.9 of the Original Agreement, the Original Agreement may be amended by a written agreement signed by each of the parties thereto;

WHEREAS, the Companies, the Managers and TACPI desire to amend and restate the Original Agreement as set forth herein with effect as of the Effective Date; and

WHEREAS, the Companies have obtained and desire to continue to obtain from the Managers, and the Managers have provided and desire to continue to provide to the Companies, certain investment banking, management, consulting and financial planning services on an ongoing basis and certain financial advisory and investment banking services in connection with major financial transactions that may be undertaken by the Companies or their subsidiaries from time to time in the future.

NOW, THEREFORE, in consideration of their mutual promises made herein, and for other good and valuable consideration, receipt of which is hereby acknowledged by each party, the parties, intending to be legally bound, hereby agree as follows:

1. Retention of Services

1.1 General Services. Subject to the terms and conditions hereof, each of the Managers hereby agrees, at the Companies' request, to provide investment banking, management, consulting and financial planning services to the Companies on an ongoing basis in connection with the operation and growth of the Companies and their subsidiaries in the ordinary course of their businesses during the term of this Agreement (the "General Services"). The scope of the General Services to be provided by each Manager shall be such as reasonably requested by the Companies and agreed to by such Manager from time to time.

1.2 Major Transaction Services. Subject to the terms and conditions hereof, each of the Managers hereby agrees, at the Companies' request, to provide financial advisory and investment banking services to the Companies in connection with major financial transactions that may be undertaken by the Companies or their subsidiaries from time to time in the future (the "Major Transaction Services"). The scope of the Major Transaction Services shall be such as reasonably requested by the Companies and agreed to by the Managers from time to time. Nothing to the contrary herein withstanding, either Manager, at its respective election, may instead procure that one or more affiliates of such Manager provide such Major Transaction Services in lieu of, or in addition to, such Manager. For greater certainty, but without limitation, in the case of Apollo, such affiliate may include Apollo Global Securities, LLC.

2. Compensation.

2.1 General Services Fee. From and after the Effective Date, no fee shall be owing or payable to the Managers in consideration of the performance of the General Services.

2.2 Major Transaction Services Fee. In consideration of any Major Transaction Services provided by the Managers (or their affiliates) from time to time, the Companies shall pay the Managers (or their affiliates) normal and customary fees for services of like kind as agreed by such Managers (or their affiliates) and the Companies, taking into consideration all relevant factors, including but not limited to, the size and complexity of the subject transaction, the time devoted to providing such services and the value of the Managers' (or their affiliates') financial advisory and/or investment banking expertise and relationships within the business and financial community.

2.3 [Reserved.]

2.4 Expenses. The Companies shall pay to, or on behalf of, each Manager, promptly as billed, an amount equal to all out-of-pocket expenses incurred by such Manager in connection with the services requested by the Companies to be provided by such Manager pursuant to the terms of this Agreement. Such expenses may include, among other things, fees and disbursements of counsel, travel expenses, word processing charges, messenger and duplicating services, telephone and facsimile expenses and other customary expenditures.

3. Term.

3.1 Termination. This Agreement commenced on, and shall be effective from, the Original Commencement Date, and shall terminate upon the earliest to occur of (i) the Termination Date (as defined below), (ii) a Termination Event (as defined below) and (iii) the written agreement by each of the Companies and the Managers to such effect.

3.2 "Termination Date" means the date that is the eight year anniversary of the Effective Date; provided, that, on each of the eight year and nine year anniversaries of the Effective Date, the Termination Date shall be automatically extended by one successive twelve month period absent contrary notice by either party given not less than thirty (30) days prior to such anniversary date. For the avoidance of doubt, in no event shall the Termination Date occur later than the ten year anniversary of the Effective Date.

3.3 "Termination Event" means the consummation of any transaction or series of transactions (including any merger, consolidation, disposition, recapitalization or issuance or sale of assets or equity interests, whether pursuant to one or more underwritten offerings, private sales or otherwise), whether or not related, as a result of which New Holders (as defined below) become the beneficial owner, directly or indirectly, of more than 90% of the equity and voting securities of Holdings. "New Holders" means one or more persons that are not Initial Holders; "Initial Holders" means (A) holders of equity interests of Holdings as of the Effective Date, or any affiliates of the foregoing and/or (B) any directors, officers, employees and/or other members of management of Holdings and/or its subsidiaries who acquire or receive equity interests of Holdings at any time in their capacities as such.

3.4 Survival of Certain Obligations. Notwithstanding any other provision hereof, the obligations of the Companies to pay amounts due with respect to periods prior to the termination hereof pursuant to Section 2 hereof and the provisions of Sections 4 and 5 hereof shall survive any termination of this Agreement.

4. Decisions and Authority of Managers.

4.1 Limitation on the Managers' Liability. The Companies reserve the right to make all decisions with regard to any matter upon which the Managers have rendered advice and consultation, and there shall be no liability of any Manager for any such advice accepted by the Companies pursuant to the provisions of this Agreement.

4.2 Independent Contractor. Each Manager shall act solely as an independent contractor and shall have complete charge of its respective personnel engaged in the performance of the services under this Agreement. As an independent contractor, each Manager shall have authority only to act as an advisor to the Companies and shall have no authority to enter into any agreement or to make any representation, commitment or warranty binding upon the Companies or the other Manager or to obtain or incur any right, obligation or liability on behalf of the Companies or the other Manager. Nothing contained in this Agreement shall result in any Manager or any of its partners or members or any of their affiliates, investment managers, investment advisors or partners being a partner of or joint venturer with the Companies or the other Manager.

5. Indemnification.

5.1 Indemnification/Reimbursement of Expenses. The Companies shall (i) indemnify each Manager and each of their respective partners and members and their respective affiliates, investment managers, investment advisors and their respective affiliates, and the partners, directors, officers, employees, agents and controlling persons of such Manager and its partners and its affiliates (collectively, the "Indemnified Parties"), to the fullest extent permitted by law, from and against any and all losses, claims, damages and liabilities, joint or several, to which any Indemnified Party may become subject, directly or indirectly caused by, related to or arising out of the services or any other advice or services contemplated by this Agreement or the engagement of such Manager pursuant to, and the performance by such Manager of the services contemplated by, this Agreement, and (ii) promptly reimburse each Indemnified Party for all costs and expenses (including reasonable and documented attorneys' fees and expenses), as incurred, in connection with the investigation of, preparation for or defense of any pending or threatened claim or any action or proceeding arising therefrom, whether or not such Indemnified Party is a party and whether or not such claim, action or proceeding is initiated or brought by or on behalf of the Companies and whether or not resulting in any liability.

5.2 Limited Liability. The Companies shall not be liable under the indemnification contained in Section 5.1 hereof with respect to any Manager and its Indemnified Parties to the extent that such loss, claim, damage, liability, cost or expense is found in a final non-appealable judgment by a court of competent jurisdiction to have resulted directly from such Manager's willful misconduct or gross negligence. The Companies further agree that no Indemnified Party shall have any liability (whether direct or indirect, in contract, tort or otherwise) to the Companies, holders of their securities or their creditors related to or arising out of the engagement of the Managers pursuant to, or the performance by any Manager of the services contemplated by, this Agreement.

6. Miscellaneous.

6.1 Assignment. None of the parties hereto shall assign this Agreement or the rights and obligations hereunder, in whole or in part, without the prior written consent of Apollo; provided, however, that, without obtaining such consent, Apollo may assign this Agreement or its rights and obligations hereunder to (i) any of its partners or members or their affiliates or any person who controls Apollo; or (ii) any investment fund, investment account or investment entity whose investment manager, investment advisor or partner, or any principal or beneficial owner of any of the foregoing, is any person identified in clause (i) above. Subject to the foregoing, this Agreement will be binding upon and inure solely to the benefit of the parties hereto and their respective successors and assigns, and no other person shall acquire or have any right hereunder or by virtue hereof.

6.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts made and performed within the State of Delaware without regard to principles of conflict of laws.

6.3 Joint and Several Obligations. The obligations of the Companies under this Agreement are the joint and several obligations of Holdings and Claire's. The obligations of the Managers are several and not joint.

6.4 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any such terms, provisions, covenants and restrictions which may be hereafter declared invalid, illegal, void or unenforceable.

6.5 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all written or verbal representations, warranties, commitments and other understandings with respect to the subject matter of this Agreement prior to the date of this Agreement, including the Original Agreement.

6.6 Further Assurances. Each party hereto agrees to use all reasonable efforts to obtain all consents and approvals and to do all other things necessary to consummate the transactions contemplated by this Agreement. The parties agree to take such further action and to deliver or cause to be delivered any additional agreements or instruments as any of them may reasonably request for the purpose of carrying out this Agreement and the agreements and transactions contemplated hereby.

6.7 Attorneys' Fees. In any action or proceeding brought to enforce any provision of this Agreement, or where any provision hereof is validly asserted as a defense, the prevailing party, as determined by a court of competent jurisdiction, shall be entitled to recover reasonable and documented attorneys' fees in addition to any other available remedy.

6.8 Headings. The headings in this Agreement are for convenience and reference only and shall not limit or otherwise affect the meaning hereof.

6.9 Amendment and Waiver. This Agreement may be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may be given, provided that the same are in writing and signed by each of the parties hereto.

6.10 Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

* * * * *

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

**CLAIRE'S INC.**

By: /s/ Stephen Sernett
Name: Stephen Sernett
Title: General Counsel

**CLAIRE'S STORES, INC.**

By: /s/ Stephen Sernett
Name: Stephen Sernett
Title: General Counsel

**APOLLO MANAGEMENT VI, L.P.**

By: AIF VI Management, LLC, its General Partner

By: /s/ Laurie D. Medley
Name: Laurie D. Medley
Title: Vice President

Signature Page to Claire's A/R Management Services Agreement

**COWEN AND COMPANY, LLC**

By: /s/ John Holmes
Name: John Holmes
Title: Managing Director and COO

**TACP INVESTMENTS – CLAIRE'S LLC**

By: /s/ Rohit Manocha
Name: Rohit Manocha
Title: Managing Director

Signature Page to Claire's A/R Management Services Agreement

**Exhibit 10.2**

June 6, 2017

Claire's Stores, Inc.
2400 West Central Road
Hoffman Estates, Illinois 60192
U.S.A.

Attention: Steve Sernett
SVP and General Counsel

Ladies and Gentlemen:

This letter will confirm our understanding that Cowen and Company, LLC ("Cowen") has been engaged to act as financial advisor to Claire's Stores, Inc. ("Claire's" and together with its subsidiaries, the "Company"), in connection with strategic advisory services.

1. **Financial Advisory Services**

In its capacity as financial advisor, Cowen will perform the following financial advisory and investment banking services as deemed necessary and appropriate and to be performed at the Company's direction:

a. assist the Company in analyzing its business, operations, properties, financial condition and prospects;

b. assist and advise the Company as requested in developing strategy; and

c. render such other financial advisory and investment banking services as may from time to time be agreed upon by Cowen and the Company.

It is expressly understood and agreed that Cowen is not undertaking to provide any advice relating to legal, regulatory, accounting or tax matters. In furtherance thereof, the Company acknowledges and agrees that (a) it and its subsidiaries have relied and will continue to rely on the advice of its own legal, tax and accounting advisors for all of such matters and (b) neither it, nor any of its affiliates, has received, or has relied upon, the advice of Cowen or any of its affiliates regarding matters of law, taxation or accounting.

Cowen may not enter into any agreements on behalf of or purport to bind the Company, or represent to any person that Cowen has the power to create any obligation, express or implied, on behalf of the Company without the Company's express prior written consent.

Cowen Group, Inc. (the parent company of Cowen) and its subsidiaries and affiliates (collectively, the "Cowen Group") is a full service securities firm engaged in various activities including securities trading, principal investing, investment management, financing, brokerage activities and financial advisory services. In addition, members of the Cowen Group may invest

**Cowen and Company, LLC**
599 Lexington Avenue
New York, NY 10022
TEL 1 646 562 1000
www.cowen.com

and actively trade the equity and debt securities or other financial instruments (or related derivative instruments) of the Company, or other parties which may be the subject of the engagement contemplated by this Agreement for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities or instruments. Cowen recognizes its obligations under applicable securities laws in connection with the purchase or sale of such securities or instruments. The interests of the parties described in this paragraph may conflict with yours.

2. **Term**

The term on this agreement shall be on a month to month basis from the date hereof, renewing automatically at the end of each month. Either Cowen or the Company may terminate this Agreement at any time on 30 days prior written notice.

3. **Fees**

The Company agrees to pay Cowen as compensation for its services under this engagement a monthly cash fee of $32,000, or the applicable pro-rated portion thereof, payable at the beginning of each month commencing upon the execution of this agreement.

4. **Out-of-Pocket Expenses**

The Company shall, upon request and from time to time, reimburse Cowen for travel and all other reasonable out-of-pocket expenses incurred in connection with the engagement; provided, however, that such expenses shall not exceed in the aggregate $25,000, without the Company’s consent, which consent shall not be unreasonably withheld. The Company acknowledges that such expense cap shall not include any expenses, including legal fees, for which Cowen may be entitled to indemnification pursuant to Schedule I of this Agreement. The Company acknowledges that Cowen may invoice the Company on a monthly basis for such reimbursable out-of-pocket expenses and the Company agrees to promptly remit payment to Cowen upon receipt of such invoice.

5. **Information**

It is understood that Cowen will be entitled to rely on and use the information provided by the Company and other information that is publicly available without independent verification, and will not be responsible in any respect for the accuracy, completeness or reasonableness of all such Information or to conduct any independent verification or any appraisal or physical inspection of properties or assets.

Cowen will not disclose to any third party nonpublic information concerning the Company provided to Cowen in connection with this agreement as long as it remains nonpublic, except (i) as otherwise required by subpoena or court order and for private disclosure to financial regulatory authorities (in which case Cowen will give the Company reasonable advance notice intended to inform the Company and will cooperate in the Company’s to prevent or limit such disclosure), and (ii) Cowen may provide nonpublic information to such parties as may be contemplated by this agreement, subject to the Company’s consent, and, at the Company’s request, the prior execution by such parties to a customary non-disclosure agreement in form and substance agreeable to the

Company. This paragraph shall survive the termination of this agreement. In addition, in the event disclosure is required by subpoena or court order, Cowen will provide the Company reasonable advance notice and permit Cowen to comment on the form and content of the disclosure.

6. **Disclosure**

The Company agrees that no such advice shall be used for any other purpose or be disclosed, reproduced, disseminated, quoted or referred to at any time, in any manner or for any purpose, nor shall any public references to Cowen be made by or on behalf of the Company, in each case without Cowen's prior written consent, which consent shall not be unreasonably withheld, except as may be required by subpoena or court order or compelled by law.

7. **No Third Party Beneficiaries**

The Company acknowledges and agrees that Cowen has been retained to act as financial advisor to the Company, and not as an advisor to or agent of any other person, and that the Company's engagement of Cowen is not intended to confer rights upon any person not a party to this Agreement (including shareholders, employees or creditors of the Company) as against Cowen or its affiliates, or their respective directors, officers, employees or agents.

8. **Independent Contractor**

Cowen shall act as an independent contractor under this Agreement, and any duties arising out of its engagement shall be owed solely to the Company. It is understood that Cowen's responsibility to the Company is solely contractual in nature and Cowen does not owe the Company, or any other party, any fiduciary or agency duty as a result of this Agreement.

9. **Indemnification**

The Company and Cowen agree to the provisions with respect to the Company's indemnity of Cowen and other matters set forth in Schedule I, the terms of which are incorporated herein in their entirety.

10. **Amendments and Successors**

This Agreement may not be waived, amended, modified or assigned, in any way, in whole or in part, including by operation of law, without the prior written consent of the Company and Cowen. The provisions of this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company and Cowen.

11. **Entire Agreement**

This Agreement constitutes the entire agreement between Cowen and the Company, and supersedes any prior agreements and understandings, with respect to the subject matter of this Agreement. The Company acknowledges that the execution of this Agreement or any act of Cowen under this Agreement does not constitute a commitment by Cowen or any of its affiliates to provide any type of financing or to purchase any type of securities.

12. **No Brokers**

The Company acknowledges and agrees that there are no brokers, agents, representatives or other parties that have an interest in compensation paid or payable to Cowen hereunder.

13. **Partial Unenforceability**

In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

14. **Termination & Expiration**

Upon termination or expiration, this Agreement shall have no further force or effect, except that the provisions concerning the Company's obligations to Cowen and certain related persons provided in Schedule I hereof, Cowen's obligation to the Company set forth in paragraphs 5 and 6 hereof, the Company's obligation to pay Cowen fees and expenses as described in this Agreement, the status of Cowen as an independent contractor, publicity, the limitation on to whom Cowen shall owe any duties, governing law, choice of forum, partial unenforceability, successors and assigns, attorneys' fees, and waiver of the right to trial by jury shall survive any such termination or expiration of this Agreement.

15. **Notice**

All statements, requests, notices and agreements under this Agreement shall be in writing, and shall be delivered or sent by mail, telex, facsimile transmission or email:

(a) if to Cowen, to Cowen and Company, LLC, 599 Lexington Avenue, New York, NY 10022, Attention: General Counsel, Fax: 646-562-1861; and

(b) if to the Company, Claire's Stores, Inc., 2400 West Central Road, Hoffman Estates, IL, 60192, U.S.A., Attention: Steve Sernett, Phone: 847-765-4319

16. **Attorneys' Fees**

In the event of any dispute or litigation or other proceeding between the parties with respect to any provision of this Agreement or arising from the engagement contemplated under this Agreement, the prevailing party shall be entitled to recover from the non-prevailing party any and all of the reasonable fees and disbursements of the prevailing party's attorney to the extent that they relate to such dispute, litigation, or other proceeding.

17. **Governing Law and Jurisdiction**

This letter and any claim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Agreement, directly or indirectly (including any claim concerning advice provided pursuant to this Agreement), shall be governed by and construed in accordance with the laws of the State of New York. No such claim or dispute may be commenced, presented or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have exclusive jurisdiction over the adjudication of such matters, and the Company and Cowen consent to the jurisdiction of such courts and personal service. **Any rights to trial by jury with respect to any claim or proceeding related to, or arising out of, this Agreement are waived by Cowen and the Company.**

18. **Conflict**

So long as this Agreement is in effect, the terms and provisions of this Agreement shall govern and control in the event of any conflict between the terms and provisions of this Agreement and the terms and provision of that certain Amended and Restated Management Services Agreement dated June 6, 2017 among Company, Claire's Inc., Apollo Management VI, L.P., Cowen, and TACP Investments – Claire's LLC.

*(Signature page follows)*

We are pleased to accept this engagement and look forward to working with the Company. Please confirm that the foregoing is in accordance with your understanding by signing and returning to us the enclosed duplicate of this letter, which shall thereupon constitute a binding Agreement.

Very truly yours,

**COWEN AND COMPANY, LLC**

By: /s/ Rohit Manocha
Name: Rohit Manocha
Title: Managing Director

Agreed as of the date hereof

**CLAIRE’S STORES, INC.**

By: /s/ Steve Sernett
Name: Steve Sernett
Title: SVP and General Counsel

**Schedule I**

*The Company agrees to indemnify Cowen, each controlling person and each of their respective directors, officers, employees, agents, affiliates and representatives (each of the foregoing, an "Indemnified Party") and hold each of them harmless against any and all losses, claims, damages, expenses, liabilities, joint or several (collectively, "Liabilities") to which the Indemnified Parties may become subject arising in any manner out of or in connection with the letter agreement to which this Schedule I is attached (the "Letter Agreement") or otherwise in connection with any services rendered by Cowen whether before or after the date of this Letter Agreement, unless it is finally judicially determined that the Liabilities resulted primarily from the bad faith, gross negligence or willful misconduct of Cowen. The Company further agrees to reimburse each Indemnified Party immediately upon request for all reasonable out-of-pocket expenses (including attorneys' fees and expenses) as they are incurred in connection with the investigation of, preparation for, defense of, or providing evidence in, any commenced or threatened action, claim, proceeding or investigation (including, without limitation, usual and customary per diem compensation for any Indemnified Party's involvement in discovery proceedings or testimony), in connection with or as a result of either Cowen's engagement or any matter referred to in the Letter Agreement whether or not Cowen is a party to such proceeding. The Company also agrees that no Indemnified Party shall have any liability (whether direct or indirect, in contract or tort or otherwise) to the Company or its securityholders or creditors related to or arising out of the engagement of Cowen pursuant to, or the performance by Cowen of the services contemplated by, the Letter Agreement, unless it is finally judicially determined that such liability resulted primarily from the bad faith gross negligence or willful misconduct of Cowen. The Company and Cowen will promptly notify the other party in writing of the assertion against it or any other person of any claim or the commencement of any action, proceeding or investigation relating to or arising out of any matter referred to in the Letter Agreement, including an Indemnified Party's services thereunder; provided that Cowen's failure to notify will not affect the Indemnified Parties' right to indemnification except to the extent the Company is materially prejudiced thereby.*

*The Company agrees that, without an Indemnified Party's prior written consent, which consent shall not be unreasonably withheld, it will not settle, compromise or consent to the entry of any judgment in any commenced or threatened claim, action, proceeding or investigation in respect of which indemnification could be sought under the indemnification provisions of the Letter Agreement (whether or not Cowen or any other Indemnified Party is an actual or potential party to such claim, action, proceeding or investigation).*

*The Company and Cowen agree that if any indemnification or reimbursement sought pursuant to the preceding paragraph is for any reason unavailable or insufficient to hold it harmless (except by reason of the gross negligence or willful misconduct of Cowen) then, whether or not Cowen is the person entitled to indemnification or reimbursement, the Company and Cowen shall contribute to the Liabilities for which such indemnification or reimbursement is held unavailable.*

**Exhibit 10.3**

June __, 2017

VIA HAND AND EMAIL

Name
Address

Re: Retention Bonus Opportunity

Dear ______:

We are pleased to inform you that, in recognition of your contributions to Claire’s Stores, Inc. (the “Company”), you are being offered the opportunity to receive a retention bonus (the “Retention Bonus”) on the following terms and conditions:

1. Payment of Retention Bonus. Subject to satisfaction of the conditions set forth below, you will be paid a Retention Bonus in the amount of $______, payable in a lump sum within thirty (30) days following the earlier of March 31, 2019 or the date of a Change in Control, as defined in your stock option grant letter, dated _________ (such earlier date, the “Vesting Date”).

2. Conditions to Payment. In order to receive the Retention Bonus, all of the following conditions must be satisfied:

(a) You must remain employed by the Company or its subsidiaries through the Vesting Date.

(b) You must execute and not revoke a release of claims through the Vesting Date in favor of the Company and its affiliates in such form as is presented by the Company.

(c) At the time of payment, the Company must not be in default, and would not be in default by reason of the Retention Bonus (as well as similar payments made to other executives), under any debt agreement of the Company.

(d) At the time of payment, the Company’s internal projections must show that there will be sufficient cash available to meet liquidity needs for the succeeding 12 months, after taking into account the Retention Bonus (as well as similar payments made to other executives).

3. Termination of Employment. If your employment with the Company and its subsidiaries terminates for any reason prior to the Vesting Date (or any other condition set forth in paragraph 2 above is not satisfied), your right to payment of the Retention Bonus will be forfeited in its entirety.

4. Tax Withholding. Payment of the Retention Bonus will be subject to applicable federal, state and local tax withholding.

5. Effect on Other Benefits. You acknowledge that payment of the Retention Bonus is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits, matching contributions or similar payments.

6. Assignment. The obligation to pay the Retention Bonus is solely that of the Company, provided that the Company may assign its obligations to any entity that succeeds to the Company's business. You may not assign your right to receive the Retention Bonus.

7. No Right to Continued Employment. The grant of this Retention Bonus opportunity does not give you any right to continue your employment relationship with the Company or its subsidiaries, and you shall remain subject to discharge to the same extent as if this opportunity were not granted to you.

8. Governing Law. Any dispute arising under this letter shall be decided by applying the laws of the State of Illinois, without regard to conflicts of law principles.

We hope that this arrangement encourages your continued commitment to the Company. Please acknowledge your agreement to the terms of this letter by countersigning it in the space below and returning it to me.

Sincerely,

CLAIRE'S STORES, INC.

By: ______________________________
Name:
Title:

ACKNOWLEDGED AND AGREED TO
THIS __ DAY OF June, 2017

______________________________

Exhibit 31.1

CERTIFICATE PURSUANT TO
RULES 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ron Marshall, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Claire's Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f))) for the registrant and we have:

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

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

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

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

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

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

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

June 9, 2017

/s/ Ron Marshall
Ron Marshall
Chief Executive Officer

Exhibit 31.2

CERTIFICATE PURSUANT TO
RULES 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott Huckins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Claire's Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f))) for the registrant and we have:

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

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

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

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

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

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

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

June 9, 2017

/s/ Scott Huckins
Scott Huckins
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 USC. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report on Form 10-Q of Claire's Stores, Inc. (the "Company") for the quarterly period ended April 29, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ron Marshall, Chief Executive Officer of the Company, hereby certify, pursuant to 18 USC. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ron Marshall
Ron Marshall
Chief Executive Officer
June 9, 2017

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 USC. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report on Form 10-Q of Claire's Stores, Inc. (the "Company") for the quarterly period ended April 29, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Huckins, Chief Financial Officer of the Company, hereby certify, pursuant to 18 USC. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Scott Huckins

Scott Huckins
Chief Financial Officer
June 9, 2017