

Childrens Place, Inc.  
Form 10-Q  
December 04, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended November 1, 2014

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

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

Commission file number 0-23071

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THE CHILDREN'S PLACE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

31-1241495

(I.R.S. Employer  
Identification Number)

500 Plaza Drive

Secaucus, New Jersey

(Address of Principal Executive Offices)

07094

(Zip Code)

(201) 558-2400

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock with a par value of \$0.10 per share, as of December 2, 2014 was 21,196,547 shares.

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THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED NOVEMBER 1, 2014

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## PART I. FINANCIAL INFORMATION

## Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	November 1, 2014 (unaudited)	February 1, 2014	November 2, 2013 (unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 170,787	\$ 173,997	\$ 141,746
Short-term investments	39,000	62,500	52,500
Accounts receivable	28,126	25,960	26,267
Inventories	342,455	322,422	337,172
Prepaid expenses and other current assets	32,859	33,582	33,856
Deferred income taxes	16,564	10,859	14,642
Total current assets	629,791	629,320	606,183
Long-term assets:			
Property and equipment, net	318,871	312,149	318,021
Deferred income taxes	43,186	45,806	46,522
Other assets	3,573	3,355	3,991
Total assets	\$ 995,421	\$ 990,630	\$ 974,717
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Current liabilities:			
Revolving loan	\$ 19,100	\$—	\$—
Accounts payable	150,426	150,652	117,554
Income taxes payable	4,547	1,039	15,502
Accrued expenses and other current liabilities	123,062	119,658	118,832
Total current liabilities	297,135	271,349	251,888
Long-term liabilities:			
Deferred rent liabilities	83,667	88,563	90,438
Other tax liabilities	5,151	5,755	7,420
Other long-term liabilities	8,802	8,185	9,436
Total liabilities	394,755	373,852	359,182
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>STOCKHOLDERS' EQUITY:</b>			
Preferred stock, \$1.00 par value, 1,000 shares authorized, 0 shares issued and outstanding	—	—	—
Common stock, \$0.10 par value, 100,000 shares authorized; 21,360, 22,230 and 22,321 issued; 21,316, 22,197 and 22,289 outstanding	2,136	2,223	2,232
Additional paid-in capital	228,552	226,521	223,117
Treasury stock, at cost (44, 33, 32 shares)	(2,123	) (1,575	) (1,513
Deferred compensation	2,123	1,575	1,513
Accumulated other comprehensive income (loss)	(2,944	) (1,529	) 7,335

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Retained earnings	372,922	389,563	382,851
Total stockholders' equity	600,666	616,778	615,535
Total liabilities and stockholders' equity	\$995,421	\$990,630	\$974,717

See accompanying notes to these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net sales	\$487,304	\$492,680	\$1,282,081	\$1,298,292
Cost of sales (exclusive of depreciation and amortization)	297,193	290,919	824,591	807,081
Gross profit	190,111	201,761	457,490	491,211
Selling, general and administrative expenses	116,120	123,521	346,951	366,937
Asset impairment charges	3,306	—	6,351	21,766
Other costs (income)	(286	) 200	(153	) (762
Depreciation and amortization	15,168	16,473	44,952	48,890
Operating income	55,803	61,567	59,389	54,380
Interest income (expense), net	(82	) 82	(123	) 142
Income before income taxes	55,721	61,649	59,266	54,522
Provision for income taxes	18,779	19,910	19,415	17,147
Net income	\$36,942	\$41,739	\$39,851	\$37,375
Earnings per common share				
Basic	\$1.71	\$1.87	\$1.82	\$1.65
Diluted	\$1.70	\$1.84	\$1.81	\$1.63
Cash dividends declared and paid per common share	\$0.1325	—	\$0.3975	—
Weighted average common shares outstanding				
Basic	21,541	22,337	21,843	22,632
Diluted	21,756	22,628	22,062	22,896

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)  
 (In thousands)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net income	\$36,942	\$41,739	\$39,851	\$37,375
Other Comprehensive Income:				
Foreign currency translation adjustment	(4,037	) (181	) (1,415	) (5,923
Comprehensive income	\$32,905	\$41,558	\$38,436	\$31,452

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited) (In thousands)

	Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$39,851	\$37,375
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	44,952	48,890
Stock-based compensation	13,054	16,491
Excess tax benefits from stock-based compensation	(268)	(74)
Deferred taxes	(9,304)	(12,155)
Asset impairment charges	6,351	21,766
Deferred rent expense and lease incentives	(6,955)	(8,793)
Other	1,711	5,530
Changes in operating assets and liabilities:		
Inventories	(20,468)	(71,603)
Prepaid expenses and other assets	(2,746)	(6,858)
Income taxes payable, net of prepayments	10,868	22,784
Accounts payable and other current liabilities	(10,792)	42,796
Deferred rent and other liabilities	2,302	3,028
Total adjustments	28,705	61,802
Net cash provided by operating activities	68,556	99,177
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property and equipment purchases, lease acquisition and software costs	(44,637)	(57,158)
Purchase of short-term investments	(58,000)	(52,500)
Redemption of short-term investments	81,500	15,000
Change in company-owned life insurance policies	17	5
Net cash used in investing activities	(21,120)	(94,653)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase and retirement of common stock, including transaction costs	(59,965)	(54,846)
Cash dividends paid	(8,684)	—
Borrowings under revolving credit facility	265,653	120,537
Repayments under revolving credit facility	(246,553)	(120,537)
Exercise of stock options	55	1,414
Excess tax benefits from stock-based compensation	268	74
Deferred financing costs	(306)	—
Net cash used in financing activities	(49,532)	(53,358)
Effect of exchange rate changes on cash	(1,114)	(3,548)
Net decrease in cash and cash equivalents	(3,210)	(52,382)
Cash and cash equivalents, beginning of period	173,997	194,128
Cash and cash equivalents, end of period	\$170,787	\$141,746

See accompanying notes to these condensed consolidated financial statements.



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THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited) (In thousands)

	Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013
OTHER CASH FLOW INFORMATION:		
Net cash paid during the period for income taxes	\$18,102	\$6,368
Cash paid during the period for interest	676	383
Increase in accrued purchases of property and equipment	4,056	1,214

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of The Children's Place, Inc. (the "Company") as of November 1, 2014 and November 2, 2013 and the results of its consolidated operations and cash flows for the thirty-nine weeks ended November 1, 2014 and November 2, 2013. The consolidated financial position as of February 1, 2014 was derived from audited financial statements. Due to the seasonal nature of the Company's business, the results of operations for the thirty-nine weeks ended November 1, 2014 and November 2, 2013 are not necessarily indicative of operating results for a full fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

Terms that are commonly used in the Company's notes to condensed consolidated financial statements are defined as follows:

Third Quarter 2014 — The thirteen weeks ended November 1, 2014.

Third Quarter 2013 — The thirteen weeks ended November 2, 2013.

Year-To-Date 2014 — The thirty-nine weeks ended November 1, 2014.

Year-To-Date 2013 — The thirty-nine weeks ended November 2, 2013.

FASB — Financial Accounting Standards Board.

SEC — U.S. Securities and Exchange Commission.

U.S. GAAP — Generally Accepted Accounting Principles in the United States.

FASB ASC — FASB Accounting Standards Codification, which serves as the source for authoritative U.S. GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative U.S. GAAP for SEC registrants.

Short-term Investments

Short-term investments consist of investments which the Company expects to convert into cash within one year, including time deposits, which have original maturities greater than 90 days. The Company classifies its investments in securities at the time of purchase as held-to-maturity and reevaluates such classifications on a quarterly basis. Held-to-maturity investments consist of securities that the Company has the intent and ability to retain until maturity. These securities are recorded at cost and adjusted for the amortization of premiums and discounts, which approximates fair value. Cash inflows and outflows related to the sale and purchase of investments are classified as investing activities in the Company's consolidated statements of cash flows. All of the Company's short-term investments are U.S. dollar denominated time deposits with banking institutions in Hong Kong that have six month maturity dates.

Stock-based Compensation

The Company generally grants time vesting stock awards ("Deferred Awards") and performance-based stock awards ("Performance Awards") to employees at management levels. The Company also grants Deferred Awards to its non-employee directors. Deferred Awards are granted in the form of restricted stock units that require each recipient to complete a service period. Deferred Awards generally vest ratably over three years, except for those granted to non-employee directors, which generally vest over one year. Performance Awards are granted in the form of restricted

stock units which have performance criteria that must be achieved for the awards to vest in addition to a service period requirement. For Performance Awards issued during fiscal 2013 and to our CEO in fiscal 2014, each award has a defined number of shares that an employee can earn (the "Target Shares") and based on the adjusted operating income level achieved for the three-fiscal year period (one-fiscal year period in the case of the CEO's Performance Award), the employee can earn from 0% to 200% of their Target Shares. The fair value of these Performance Awards and all Deferred Awards granted is based on the closing price of our common stock on the grant date. For non-CEO Performance Awards issued during fiscal 2014 (the "2014 Performance Awards"), the Target Shares

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earned can range from 0% to 300% and depend on the achievement of adjusted earnings per share for the three-fiscal year performance period and our total shareholder return (“TSR”) relative to that of companies in our peer group. The 2014 Performance Awards cliff vest, if earned, after a three year service period. The 2014 Performance Awards grant date fair value was estimated using a Monte Carlo simulation covering the period from the valuation date through the end of the performance period using our simulated stock price as well as the TSR of companies in our peer group. Stock-based compensation expense is recognized ratably over the related service period reduced for estimated forfeitures of those awards not expected to vest due to employee turnover. Stock-based compensation expense, as it relates to Performance Awards, is also adjusted based on the Company's estimate of the percentage of the aggregate Target Shares expected to be earned.

**Deferred Compensation Plan**

The Company has a deferred compensation plan (the “Deferred Compensation Plan”), which is a nonqualified, unfunded plan, for eligible senior level employees. Under the plan, participants may elect to defer up to 80% of his or her base salary and/or up to 100% of his or her bonus to be earned for the year following the year in which the deferral election is made. The Deferred Compensation Plan also permits members of the Board of Directors to elect to defer payment of all or a portion of their retainer and other fees to be earned for the year following the year in which a deferral election is made. In addition, eligible employees and directors of the Company may also elect to defer payment of any shares of Company stock that is earned with respect to stock-based awards. Directors may elect to have all or a certain portion of their fees earned for their service on the Board invested in shares of the Company's common stock. Such elections are irrevocable. The Company is not required to contribute to the Deferred Compensation Plan, but at its sole discretion, can make additional contributions on behalf of the participants. Deferred amounts are not subject to forfeiture and are deemed invested among investment funds offered under the Deferred Compensation Plan, as directed by each participant. Payments of deferred amounts (as adjusted for earnings and losses) are payable following separation from service or at a date or dates elected by the participant at the time the deferral is elected. Payments of deferred amounts are generally made in either a lump sum or in annual installments over a period not exceeding 15 years. All deferred amounts are payable in the form in which they were made except for board fees invested in shares of the Company's common stock, which will be settled in shares of Company common stock. Earlier distributions are not permitted except in the case of an unforeseen hardship.

The Company has established a rabbi trust that serves as an investment to shadow the Deferred Compensation Plan liability. The assets of the rabbi trust are general assets of the Company and as such, would be subject to the claims of creditors in the event of bankruptcy or insolvency. The investments of the rabbi trust consist of company-owned life insurance policies (“COLIs”) and Company common stock. The Deferred Compensation Plan liability, excluding Company common stock, is included in other long-term liabilities and changes in the balance, except those relating to payments, are recognized as compensation expense. The cash surrender values of the COLIs are included in other assets and related earnings and losses are recognized as investment income or loss, which is included in selling, general and administrative expenses. Company stock deferrals are included in the equity section of the Company's consolidated balance sheet as treasury stock and as a deferred compensation liability. Deferred stock is recorded at fair market value at the time of deferral and any subsequent changes in fair market value are not recognized.

The Deferred Compensation Plan liability, excluding Company stock, at fair value, was approximately \$0.5 million, \$0.3 million, and \$0.3 million at November 1, 2014, February 1, 2014 and November 2, 2013, respectively. The cash surrender value of the COLIs, at fair value, was approximately \$0.3 million, \$0.3 million and \$0.7 million at November 1, 2014, February 1, 2014 and November 2, 2013, respectively. Company stock was \$2.1 million, \$1.6 million, and \$1.5 million at November 1, 2014, February 1, 2014 and November 2, 2013, respectively.

**Exit or Disposal Cost Obligations**

In accordance with the “Exit or Disposal Cost Obligations” topic of the FASB ASC, the Company records its exit and disposal costs at fair value to terminate an operating lease or contract when termination occurs before the end of its term and without future economic benefit to the Company. In cases of employee termination benefits, the Company recognizes an obligation only when all of the following criteria are met:

- management, having the authority to approve the action, commits to a plan of termination;

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the plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date;

the plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated; and

actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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During the first quarter of fiscal 2012, management approved a plan to exit its distribution center in Ontario, California (the "West Coast DC") and move the operations to its distribution center in Fort Payne, Alabama (the "Southeast DC"). The Company ceased operations at the West Coast DC in May 2012. The lease of the West Coast DC expires in March 2016 and the Company has subleased this facility through March 2016.

During the third quarter of fiscal 2012, management approved a plan to close the Company's distribution center in Dayton, New Jersey ("Northeast DC") and move the operations to its Southeast DC. The Company ceased operations in the Northeast DC during the fourth quarter of fiscal 2012. The lease of the Northeast DC expires in January 2021 and the Company has subleased this facility through January 2021.

The following table provides details of the remaining accruals for the West Coast DC and Northeast DC as of November 1, 2014, of which approximately \$0.8 million was included in accrued expenses and other current liabilities and approximately \$0.9 million was included in other long-term liabilities (dollars in thousands):

	Other Associated Costs	Lease Termination Costs	Total
Balance at February 1, 2014	\$—	\$2,679	\$2,679
Restructuring costs	90	(243	) (153
Payments and reductions	(90	) (729	) (819
Balance at November 1, 2014	\$—	\$1,707	\$1,707

**Fair Value Measurement and Financial Instruments**

The "Fair Value Measurements and Disclosure" topic of the FASB ASC provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities.

This topic defines fair value 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 establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities

Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly

Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

The Company's cash and cash equivalents, short-term investments, accounts receivable, accounts payable and credit facility are all short-term in nature. As such, their carrying amounts approximate fair value and fall within Level 1 of the fair value hierarchy. The underlying assets and liabilities of the Company's Deferred Compensation Plan, excluding Company stock, fall within Level 1 of the fair value hierarchy. The Company stock that is included in the Deferred Compensation Plan is not subject to fair value measurement.

The Company's assets measured at fair value on a nonrecurring basis include long-lived assets. The Company reviews the carrying amounts of such assets when events indicate that their carrying amounts may not be recoverable. Any resulting asset impairment would require that the asset be recorded at its fair value. The resulting fair value measurements of the assets are considered to be Level 3 inputs.

**Recently Adopted Accounting Standards**

In May 2014, the FASB issued guidance relating to revenue recognition from contracts with customers. This guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently reviewing the potential impact of this standard.



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## 2. STOCKHOLDERS' EQUITY

The Company's Board of Directors has authorized the following share repurchase programs: (1) \$100 million on November 26, 2012 (the "2012 Share Repurchase Program") and (2) \$100 million on March 4, 2014 (the "2014 Share Repurchase Program"). The 2012 Share Repurchase Program was completed during the first quarter of the Company's 2014 fiscal year. At November 1, 2014, there was approximately \$56.0 million remaining on the 2014 Share Repurchase Program. Under the 2014 Share Repurchase Program, the Company may repurchase shares in the open market at current market prices at the time of purchase or in privately negotiated transactions. The timing and actual number of shares repurchased under the program will depend on a variety of factors including price, corporate and regulatory requirements, and other market and business conditions. The Company may suspend or discontinue the program at any time, and may thereafter reinstitute purchases, all without prior announcement.

Pursuant to restrictions imposed by the Company's insider trading policy during black-out periods, the Company withholds and retires shares of vesting stock awards and makes payments to satisfy the withholding tax requirements of certain recipients. The Company's payment of the withholding taxes in exchange for the retired shares constitutes a purchase of its common stock. The Company also acquires shares of its common stock in conjunction with liabilities owed under the Company's Deferred Compensation Plan, which are held in treasury.

The following table summarizes the Company's share repurchases (in thousands):

	Thirty-nine Weeks Ended			
	November 1, 2014		November 2, 2013	
	Shares	Value	Shares	Value
Shares repurchases related to:				
2012 Share Repurchase Program	281.6	\$14,671	1,097.1	\$54,714
2014 Share Repurchase Program <sup>(1)</sup>	896.4	44,037	—	—
Withholding taxes	24.7	1,257	1.8	132
Shares acquired and held in treasury	10.8	\$548	7.6	\$394

<sup>(1)</sup> Subsequent to November 1, 2014 and through December 2, 2014, the Company repurchased 0.1 million shares for approximately \$6.2 million.

In accordance with the "Equity" topic of the FASB ASC, the par value of the shares retired is charged against common stock and the remaining purchase price is allocated between additional paid-in capital and retained earnings. The portion charged against additional paid-in capital is done using a pro rata allocation based on total shares outstanding. Related to all shares retired during Year-To-Date 2014 and Year-To-Date 2013, approximately \$47.4 million and \$44.2 million, respectively, were charged to retained earnings.

In the Third Quarter 2014 the Company's Board of Directors authorized a quarterly cash dividend. The Third Quarter 2014 dividend of \$0.1325 per share was declared on August 7, 2014 and was payable to shareholders of record on the close of business on September 26, 2014 and was paid on October 17, 2014. Related to the fiscal 2014 dividends, \$9.1 million was charged to retained earnings, of which \$8.7 million related to cash dividends paid and \$0.4 million related to dividend share equivalents on unvested Deferred Awards and Performance Awards. On November 4, 2014, the Company's Board of Directors declared a quarterly cash dividend of \$0.1325 per share to be paid on January 16, 2015 to shareholders of record on the close of business on December 26, 2014. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by the Company's Board of Directors based on a number of factors, including business and market conditions, the Company's future financial performance and other investment priorities.



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## 3. STOCK-BASED COMPENSATION

The following table summarizes the Company's stock-based compensation expense (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Deferred Awards	\$2,856	\$3,243	\$8,615	\$10,085
Performance Awards	1,825	2,298	4,439	6,406
Total stock-based compensation expense <sup>(1)</sup>	\$4,681	\$5,541	\$13,054	\$16,491

<sup>(1)</sup> During the Third Quarter 2014 and the Third Quarter 2013, approximately \$1.0 million and \$0.3 million, respectively, were included in cost of sales. During Year-To-Date 2014 and Year-To-Date 2013, approximately \$2.5 million and \$1.9 million, respectively, were included in cost of sales. All other stock-based compensation is included in selling, general & administrative expenses.

The Company recognized a tax benefit related to stock-based compensation expense of approximately \$5.1 million and \$6.5 million for Year-To-Date 2014 and Year-To-Date 2013, respectively.

## Awards Granted During Year-To-Date 2014

The Company granted Deferred Awards and Performance Awards to various executives and members of our Board of Directors during Year-To-Date 2014. Awards were also granted in connection with new hires and contractual obligations. Generally, the Deferred Awards have a three year vesting period with one third of the award vesting annually. Deferred Awards granted to the Board of Directors vest after one year. In general, the Performance Awards granted to executives other than our CEO have a three-year performance period, and, if earned, vest upon completion of the three-year performance period. Depending on the final adjusted earnings per share achieved for the three-year performance period and the Company's total shareholder return ("TSR") relative to that of the Company's peer group, the percentage of Target Shares earned can be 0% and range up to 300% for non-CEO Performance Awards. The Performance Award granted to our CEO, if earned, has a one year performance and vest period. Depending on the final adjusted operating income for the one-year performance period, the percentage of Target Shares earned can be 0% and range up to 200%.

## Changes in the Company's Unvested Stock Awards during Year-To-Date 2014

## Deferred Awards

	Number of Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested Deferred Awards, beginning of period	691	\$49.27
Granted	260	48.29
Vested	(220)	) 48.92
Forfeited	(64)	) 49.33
Unvested Deferred Awards, end of period	667	\$49.00

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated \$20.9 million as of November 1, 2014, which will be recognized over a weighted average period of approximately 2.4 years.

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## Performance Awards

	Number of Shares <sup>(1)</sup>	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested Performance Awards, beginning of period	267	\$47.67
Granted	245	50.91
Vested shares, including shares vested in excess of target	(107 )	46.34
Forfeited	(19 )	49.17
Unvested Performance Awards, end of period	386	\$50.02

For those awards in which the performance period is complete, the number of unvested shares is based on actual <sup>(1)</sup> shares that will vest upon completion of the service period. For those awards in which the performance period is not yet complete, the number of unvested shares is based on the participants earning their Target Shares at 100%. For those awards in which the performance period is not yet complete, the cumulative expense recognized reflects changes in adjusted operating income and adjusted earnings per share estimates. Total unrecognized stock-based compensation expense related to unvested Performance Awards approximated \$10.5 million as of November 1, 2014, which will be recognized over a weighted average period of approximately 1.9 years.

## Stock Options

At November 1, 2014, there were no unvested stock options.

## Outstanding Stock Options

Changes in the Company's outstanding stock options for Year-To-Date 2014 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Options outstanding, beginning of period	34	\$28.77	3.8	\$817
Exercised	(2 )	23.99	N/A	63
Forfeited	(1 )	23.84	N/A	26
Options outstanding and exercisable, end of period	31	\$29.27	3.4	\$616

## 4. NET INCOME PER COMMON SHARE

The following table reconciles net income and share amounts utilized to calculate basic and diluted net income per common share (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net income	\$36,942	\$41,739	\$39,851	\$37,375
Basic weighted average common shares	21,541	22,337	21,843	22,632
Dilutive effect of stock awards	215	291	219	264
Diluted weighted average common shares	21,756	22,628	22,062	22,896
Antidilutive stock awards	2	—	1	42

Antidilutive stock awards (stock options, Deferred Awards and Performance Awards) represent those awards that are excluded from the earnings per share calculation as a result of their antidilutive effect in the application of the treasury stock method in accordance with the "Earnings per Share" topic of the FASB ASC.



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## 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	Asset Life	November 1, 2014	February 1, 2014	November 2, 2013
Property and equipment:				
Land and land improvements	—	\$3,403	\$3,403	\$3,403
Building and improvements	20-25 yrs	35,548	35,548	35,548
Material handling equipment	10-15 yrs	48,479	48,345	48,345
Leasehold improvements	3-15 yrs	348,466	350,451	379,253
Store fixtures and equipment	3-10 yrs	236,342	234,151	245,892
Capitalized software	3-10 yrs	116,426	63,874	72,642
Construction in progress	—	19,961	43,213	34,825
		808,625	778,985	819,908
Accumulated depreciation and amortization		(489,754	) (466,836	) (501,887
Property and equipment, net		\$318,871	\$312,149	\$318,021

At November 1, 2014, the Company performed impairment testing on 1,017 stores with a total net book value of approximately \$142.9 million. During the Third Quarter 2014, the Company recorded asset impairment charges of \$3.3 million for 15 stores, of which 14 were fully impaired and one was partially impaired. During Year-To-Date 2014, the Company recorded store asset impairment charges of \$6.4 million for 45 stores, of which 34 were fully impaired and 11 partially impaired. At November 1, 2014, the aggregate net book value of the stores that were partially impaired was approximately \$1.7 million, which the Company determined to be recoverable based on an estimate of discounted future cash flows.

At November 2, 2013, the Company performed impairment testing on 1,066 stores with a total net book value of approximately \$168.4 million. During the Third Quarter 2013, the Company did not incur any asset impairment charges. During Year-To-Date 2013, the Company recorded store asset impairment charges of \$12.7 million for 75 stores, of which 48 were fully impaired and 27 partially impaired.

During Year-To-Date 2013 the Company established a strategic long term systems plan. As part of this plan, the Company concluded that certain development costs previously incurred were no longer relevant and deemed certain systems to be obsolete and needed to be replaced by enhanced capabilities in order to incorporate industry best practices as well as service our international franchisees and wholesale business partners. Accordingly, the Company recorded asset impairment charges of \$9.1 million and incurred \$1.2 million of selling, general and administrative expenses related to the write-down of some previously capitalized development costs and obsolete systems.

As of November 1, 2014, February 1, 2014 and November 2, 2013, the Company had approximately \$14.3 million, \$10.2 million and \$5.5 million, respectively, in property and equipment for which payment had not yet been made. These amounts are included in accounts payable and accrued expenses and other current liabilities.

## 6. CREDIT FACILITY

The Company and certain of its domestic subsidiaries maintain a credit agreement with Wells Fargo Bank, National Association (“Wells Fargo”), Bank of America, N.A., HSBC Business Credit (USA) Inc., and JPMorgan Chase Bank, N.A. as lenders (collectively, the “Lenders”) and Wells Fargo, as Administrative Agent, Collateral Agent and Swing Line Lender (the “Credit Agreement”). The Credit Agreement was amended and restated on March 4, 2014 to incorporate all prior amendments, and the provisions below reflect the amended and restated Credit Agreement. The Credit Agreement, which expires in August 2018, consists of a \$200 million asset based revolving credit facility, with a \$50 million sublimit for standby and documentary letters of credit and an uncommitted accordion feature that could provide up to \$25 million of additional availability. Revolving credit loans outstanding under the Credit Agreement bear interest, at the Company’s option, at:

(i)

the prime rate plus a margin of 0.50% to 0.75% based on the amount of the Company's average excess availability under the facility; or

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the London InterBank Offered Rate, or “LIBOR”, for an interest period of one, two, three or six months, as selected (ii) by the Company, plus a margin of 1.50% to 1.75% based on the amount of the Company’s average excess availability under the facility.

The Company is charged an unused line fee of 0.25% on the unused portion of the commitments. Letter of credit fees range from 0.75% to 0.875% for commercial letters of credit and range from 1.00% to 1.25% for standby letters of credit. Letter of credit fees are determined based on the amount of the Company’s average excess availability under the facility. The amount available for loans and letters of credit under the Credit Agreement is determined by a borrowing base consisting of certain credit card receivables, certain inventory and the fair market value of certain real estate, subject to certain reserves.

The outstanding obligations under the Credit Agreement may be accelerated upon the occurrence of certain events, including, among others, non-payment, breach of covenants, the institution of insolvency proceedings, defaults under other material indebtedness and a change of control, subject, in the case of certain defaults, to the expiration of applicable grace periods. The Company is not subject to any early termination fees.

The Credit Agreement contains covenants, which include conditions on stock buybacks and the payment of cash dividends or similar payments. Credit extended under the Credit Agreement is secured by a first priority security interest in substantially all of the Company’s U.S. assets excluding intellectual property, software, equipment and fixtures.

On March 4, 2014, the Credit Agreement was amended to permit the payment of dividends, subject to certain conditions, to increase the revolving credit limit from \$150 million to its current \$200 million and to extend the term from August 2017 to August 2018, and was restated to incorporate all prior amendments. In conjunction with this amendment and restatement, the Company paid approximately \$0.3 million in additional deferred financing costs.

As of November 1, 2014, the Company has capitalized an aggregate of approximately \$4.0 million in deferred financing costs related to the Credit Agreement. The unamortized balance of deferred financing costs at November 1, 2014 was approximately \$1.3 million. Unamortized deferred financing costs are amortized on a straight-line basis over the remaining term of the Credit Agreement.

The table below presents the components (in millions) of the Company’s credit facility:

	November 1, 2014	February 1, 2014	November 2, 2013
Credit facility maximum	\$200.0	\$150.0	\$150.0
Borrowing base	200.0	150.0	150.0
Outstanding borrowings	19.1	—	—
Letters of credit outstanding—merchandise	0.1	1.2	3.7
Letters of credit outstanding—standby	9.1	9.9	10.2
Utilization of credit facility at end of period	28.3	11.1	13.9
Availability <sup>(1)</sup>	\$171.7	\$138.9	\$136.1
Interest rate at end of period	2.1	% 3.8	% 3.8
	Year-To-Date 2014	Fiscal 2013	Year-To-Date 2013
Average end of day loan balance during the period	\$9.7	\$—	\$—
Highest end of day loan balance during the period	40.9	10.4	10.4
Average interest rate	3.3	% 3.8	% 3.8

<sup>(1)</sup> The sublimit availability for the letters of credit was \$40.8 million, \$113.9 million, and \$111.1 million at November 1, 2014, February 1, 2014, and November 2, 2013, respectively.

Letter of credit fees were immaterial during Year-To-Date 2014 and approximately \$0.2 million during Year-To-Date 2013, substantially all of which are included in cost of sales.

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## 7. LEGAL AND REGULATORY MATTERS

During the Third Quarter 2014, neither the Company nor any of its subsidiaries became a party to, nor did any of their property become the subject of, any material legal proceedings, and there were no material developments to any legal proceedings previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

The Company is also involved in various legal proceedings arising in the normal course of business. In the opinion of management, any ultimate liability arising out of these proceedings will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

## 8. INCOME TAXES

The Company computes income taxes using the liability method. This method requires recognition of deferred tax assets and liabilities, measured by enacted rates, attributable to temporary differences between the financial statement and income tax basis of assets and liabilities. The Company's deferred tax assets and liabilities are comprised largely of differences relating to depreciation, rent expense, inventory and various accruals and reserves.

The Company's effective tax rate for the Third Quarter 2014 and Year-To-Date 2014 was 33.7% and 32.8%, respectively, compared to 32.3% and 31.4% during the Third Quarter 2013 and Year-To-Date 2013, respectively. The Third Quarter 2014 and Year-To-Date 2014 rates are higher due to the impact of the mix of forecasted income in 2014 being larger in higher tax jurisdictions, including the U.S., compared to lower tax jurisdictions such as Hong Kong and Canada.

The Company recognized less than \$0.1 million in each of the Third Quarter 2014 and Third Quarter 2013, respectively, and \$0.1 million during each of Year-To-Date 2014 and Year-To-Date 2013, respectively, of additional interest expense related to its unrecognized tax benefits. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

The Company is subject to taxation and files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax audits for years through fiscal 2008. The Company, with certain exceptions, is no longer subject to income tax examinations by state and local or foreign tax authorities for tax years through fiscal 2009.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations; however, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

## 9. INTEREST INCOME (EXPENSE), NET

The following table presents the components of the Company's interest expense, net (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Interest income	\$268	\$290	\$851	\$792
Less:				
Interest expense – revolver	105	—	234	—
Interest expense – credit facilities	23	33	75	93
Unused line fee	104	74	328	214
Amortization of deferred financing fees	88	91	264	273
Other interest and fees	30	10	73	70
Total interest expense	350	208	974	650
Interest income (expense), net	\$(82)	) \$82	\$(123)	) \$142





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## 10. SEGMENT INFORMATION

In accordance with the “Segment Reporting” topic of the FASB ASC, the Company reports segment data based on geography: The Children’s Place U.S. and The Children’s Place International. Each segment includes an e-commerce business located at [www.childrensplace.com](http://www.childrensplace.com). Included in The Children’s Place U.S. segment are the Company’s U.S. and Puerto Rico based stores and U.S. revenue from the Company’s U.S. wholesale partners. Included in The Children’s Place International segment are the Company’s Canadian based stores, revenue from the Company’s Canada wholesale partner and revenue from international franchisees. The Company measures its segment profitability based on operating income, defined as income before interest and taxes. Net sales and direct costs are recorded by each segment. Certain inventory procurement functions such as production and design as well as corporate overhead, including executive management, finance, real estate, human resources, legal, and information technology services are managed by The Children’s Place U.S. segment. Expenses related to these functions, including depreciation and amortization, are allocated to The Children’s Place International segment based primarily on net sales. The assets related to these functions are not allocated. The Company periodically reviews these allocations and adjusts them based upon changes in business circumstances. Net sales to external customers are derived from merchandise sales and the Company has no major customers that account for more than 10% of its net sales. As of November 1, 2014, The Children’s Place U.S. operated 982 stores and The Children’s Place International operated 135 stores. As of November 2, 2013, The Children’s Place U.S. operated 990 stores and The Children’s Place International operated 133 stores.

The following tables provide segment level financial information (dollars in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended		
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013	
Net sales:					
The Children’s Place U.S.	\$418,863	\$421,070	\$1,112,933	\$1,124,676	
The Children’s Place International <sup>(1)</sup>	68,441	71,610	169,148	173,616	
Total net sales	\$487,304	\$492,680	\$1,282,081	\$1,298,292	
Gross profit:					
The Children’s Place U.S.	\$163,713	\$168,753	\$395,858	\$419,243	
The Children’s Place International	26,398	33,008	61,632	71,968	
Total gross profit	\$190,111	\$201,761	\$457,490	\$491,211	
Gross Margin:					
The Children’s Place U.S.	39.1	% 40.1	% 35.6	% 37.3	%
The Children’s Place International	38.6	% 46.1	% 36.4	% 41.5	%
Total gross margin	39.0	% 41.0	% 35.7	% 37.8	%
Operating income:					
The Children’s Place U.S. <sup>(2)</sup>	\$43,147	\$49,199	\$48,162	\$42,178	
The Children’s Place International <sup>(3)</sup>	12,656	12,368	11,227	12,202	
Total operating income	\$55,803	\$61,567	\$59,389	\$54,380	
Operating income as a percent of net sales:					
The Children’s Place U.S.	10.3	% 11.7	% 4.3	% 3.8	%
The Children’s Place International	18.5	% 17.3	% 6.6	% 7.0	%
Total operating income	11.5	% 12.5	% 4.6	% 4.2	%
Depreciation and amortization:					
The Children’s Place U.S.	\$13,135	\$14,584	\$38,902	\$43,065	
The Children’s Place International	2,033	1,889	6,050	5,825	
Total depreciation and amortization	\$15,168	\$16,473	\$44,952	\$48,890	
Capital expenditures:					
The Children’s Place U.S.	\$13,367	\$17,117	\$41,583	\$49,391	
The Children’s Place International	495	1,371	3,054	7,767	

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Total capital expenditures	\$ 13,862	\$ 18,488	\$ 44,637	\$ 57,158
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- (1) Net sales from The Children's Place International are primarily derived from revenues from Canadian operations. Includes additional SG&A costs incurred related to restructuring, severance and reorganizations of approximately
- (2) \$1.1 million and \$0.3 million for the Third Quarter 2014 and Third Quarter 2013, respectively, and \$4.5 million and \$2.5 million for Year-To-Date 2014 and

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Year-To-Date 2013, respectively. Also includes asset impairment charges of \$3.1 million for the Third Quarter 2014 and \$6.1 million and \$20.8 million for Year-To-Date 2014 and Year-To-Date 2013, respectively.

(3) Includes a \$0.2 million asset impairment charge for the Third Quarter 2014 and Year-To-Date 2014, respectively, and a \$1.0 million asset impairment charge for Year-To-Date 2013.

	November 1, 2014	February 1, 2014	November 2, 2013
Total assets:			
The Children's Place U.S.	\$842,823	\$824,893	\$810,644
The Children's Place International	152,598	165,737	164,073
Total assets	\$995,421	\$990,630	\$974,717

11. SUBSEQUENT EVENTS

Subsequent to November 1, 2014 and through December 2, 2014, the Company repurchased 0.1 million shares for approximately \$6.2 million, which brought total shares purchased under the 2014 Share Repurchase Program to approximately \$50.2 million.

On November 4, 2014, the Company's Board of Directors declared a quarterly cash dividend of \$0.1325 per share to be paid on January 16, 2015 to shareholders of record on the close of business on December 26, 2014.

On November 20, 2014, the Company announced the appointment of Anurup Pruthi as Senior Vice President and Chief Financial Officer, effective December 1, 2014. He will report to Michael Scarpa, Chief Operating Officer.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to statements relating to the Company's strategic initiatives. Forward-looking statements typically are identified by use of terms such as "may," "will," "should," "plan," "project," "expect," "anticipate," "estimate" and similar words, although some forward-looking statements are expressed differently. These forward-looking statements are based upon the Company's current expectations and assumptions and are subject to various risks and uncertainties that could cause actual results and performance to differ materially. Some of these risks and uncertainties are described in the Company's filings with the Securities and Exchange Commission, including in the "Risk Factors" section of its Annual Report on Form 10-K for the fiscal year ended February 1, 2014. Included among the risks and uncertainties that could cause actual results and performance to differ materially are the risk that the Company will be unsuccessful in gauging fashion trends and changing consumer preferences, the risks resulting from the highly competitive nature of the Company's business and its dependence on consumer spending patterns, which may be affected by weakness in the economy that continues to affect the Company's target customer or by other factors such as increases in the cost of food, the risk that the Company's strategic initiatives to increase sales and margin are delayed or do not result in anticipated improvements, the risk that the cost of raw materials or energy prices will increase beyond current expectations or that the Company is unable to offset cost increases through value engineering or price increases, and the uncertainty of weather patterns. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. The Company undertakes no obligation to release publicly any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with the Company's unaudited financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the annual audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 1, 2014.

Terms that are commonly used in our management's discussion and analysis of financial condition and results of operations are defined as follows:

- ¶ Third Quarter 2014 — The thirteen weeks ended November 1, 2014.
- ¶ Third Quarter 2013 — The thirteen weeks ended November 2, 2013.
- ¶ Year-To-Date 2014 — The thirty-nine weeks ended November 1, 2014.
- ¶ Year-To-Date 2013 — The thirty-nine weeks ended November 2, 2013.

Comparable Retail Sales — Net sales, in constant currency, from stores that have been open for at least 14 consecutive months and from our e-commerce stores, excluding postage and handling fees. Store closures in the current fiscal year will be excluded from Comparable Retail Sales beginning in the fiscal quarter in which management commits to closure. Stores that temporarily close for non-substantial remodeling will be excluded from Comparable Retail Sales for only the period that they were closed. A store is considered substantially remodeled if it has been relocated or materially changed in size.

¶ Gross Margin — Gross profit expressed as a percentage of net sales.

¶ SG&A — Selling, general and administrative expenses.

¶ FASB — Financial Accounting Standards Board.

¶ SEC — U.S. Securities and Exchange Commission.

¶ U.S. GAAP — Generally Accepted Accounting Principles in the United States.

¶ FASB ASC — FASB Accounting Standards Codification, which serves as the source for authoritative U.S. GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative U.S. GAAP for SEC registrants.

**Our Business**

We are the largest pure-play children's specialty apparel retailer in North America. We design, contract to manufacture, sell and license to sell fashionable, high-quality, value-priced merchandise, virtually all of which is

under our proprietary “The Children's Place”, “Place” and "Baby Place" brand names. Our objective is to deliver high-quality, value-priced, trend-right assortments for children sizes 0-14. As of November 1, 2014, we operated 1,117 stores in the United States, Canada and Puerto Rico, our e-commerce business at [www.childrensplace.com](http://www.childrensplace.com), and had 67 international stores open and operated by our franchise partners.

Segment Reporting

In accordance with the “Segment Reporting” topic of the FASB ASC, we report segment data based on geography: The Children’s Place U.S. and The Children’s Place International. Each segment includes an e-commerce business located at

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www.childrensplace.com. Included in The Children's Place U.S. segment are our U.S. and Puerto Rico based stores and U.S. revenue from our U.S. wholesale partners. Included in The Children's Place International segment are our Canadian based stores, revenue from the Company's Canada wholesale partner, as well as revenue from international franchisees. We measure our segment profitability based on operating income, defined as income before interest and taxes. Net sales and direct costs are recorded by each segment. Certain inventory procurement functions such as production and design as well as corporate overhead, including executive management, finance, real estate, human resources, legal, and information technology services are managed by The Children's Place U.S. segment. Expenses related to these functions, including depreciation and amortization, are allocated to The Children's Place International segment based primarily on net sales. The assets related to these functions are not allocated. We periodically review these allocations and adjust them based upon changes in business circumstances. Net sales from external customers are derived from merchandise sales and we have no major customers that account for more than 10% of our net sales. As of November 1, 2014, The Children's Place U.S. operated 982 stores and The Children's Place International operated 135 stores. As of November 2, 2013, The Children's Place U.S. operated 990 stores and The Children's Place International operated 133 stores.

### Recent Developments

On November 20, 2014, we announced the appointment of Anurup Pruthi as Senior Vice President and Chief Financial Officer, effective December 1, 2014. He will report to Michael Scarpa, Chief Operating Officer.

### Operating Highlights

During the Third Quarter 2014, we saw positive Comparative Retail Sales for the second straight quarter. Our Comparable Retail Sales increased 0.2% during the Third Quarter 2014 compared to a 0.7% decrease during the Third Quarter 2013. Net sales during the Third Quarter 2014 decreased by \$5.4 million, or 1.1%, to \$487.3 million from \$492.7 million during the Third Quarter 2013. Net sales Year-To-Date 2014 decreased by \$16.2 million, or 1.2%, to \$1,282.1 million from \$1,298.3 million in Year-To-Date 2013. Our Comparable Retail Sales decreased 0.8% during Year-To-Date 2014 compared to a 2.3% decrease during Year-To-Date 2013.

Gross Margin decreased 200 basis points to 39.0% during the Third Quarter 2014 from 41.0% during the Third Quarter 2013 and decreased 210 basis points to 35.7% during Year-To-Date 2014 from 37.8% during Year-To-Date 2013. The decrease in Gross Margin was attributable to an elevated promotional environment, higher supply chain costs and the accelerated sale of inventory in preparation for the planned 2015 go live of our new assortment planning tool.

As a percentage of net sales, SG&A decreased 130 basis points and 120 basis points, respectively, during the Third Quarter 2014 and Year-To-Date 2014. Managing company-wide expenses has been, and will continue to be, a key focus for the entire Company.

We reported net income of \$36.9 million, or \$1.70 per diluted share during the Third Quarter 2014, compared to \$41.7 million, or \$1.84 per diluted share, during the Third Quarter 2013 and net income of \$39.9 million, or \$1.81 per diluted share during Year-To-Date 2014, compared to \$37.4 million, or \$1.63 per diluted share, during Year-To-Date 2013.

We continue to be focused on our business transformation initiatives. During Year-To-Date 2014 we successfully implemented SAP, launched our upgraded website platform for our e-commerce business, completed our customer segmentation work, and are now focused on deploying our inventory management and assortment planning tools, pricing analytics and enhancing our digital capabilities.

We continue to evaluate our store fleet and plan to close 125 underperforming stores through fiscal 2016, which includes the 41 stores we closed during fiscal 2013, along with approximately 35 stores we plan to close in fiscal 2014. During the Third Quarter 2014, we opened ten stores and closed six. During the Third Quarter 2013 we opened ten stores and closed three. During Year-To-Date 2014, we opened 24 stores and closed 14. During Year-To-Date 2013, we opened 45 stores and closed 17. We are slowing new store growth in fiscal 2014 and beyond as we focus on our international, wholesale and omni-channel initiatives.

We continued our international store expansion program with our franchise partners opening 32 additional stores during Year-To-Date 2014, including 23 in Israel and one store in Panama, bringing our total international franchise store count to 67. Additionally, during the third quarter of fiscal 2014 we announced a new franchise agreement with Arvind Lifestyle Brand Limited to open stores in India with the first store opening slated for mid-2015. In our wholesale business, we continued to add accounts, including four during the Third Quarter 2014, and expand categories and distribution to our customers during Year-To-Date 2014.



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We continue to be committed to returning capital to shareholders, and during Year-To-Date 2014 we paid cash dividends of \$8.7 million and repurchased \$58.7 million in stock. Our fourth quarter 2014 dividend will be paid on January 16, 2015 to shareholders of record on December 26, 2014.

We have subsidiaries whose operating results are based in foreign currencies and are thus subject to the fluctuations of the corresponding translation rates into U.S. dollars. The table below summarizes those average translation rates that most impact our operating results:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Average Translation Rates <sup>(1)</sup>				
Canadian Dollar	0.9046	0.9641	0.9114	0.9738
Hong Kong Dollar	0.1290	0.1290	0.1290	0.1289
China Yuan Renminbi	0.1629	0.1635	0.1616	0.1624

(1) The average translation rates are the average of the monthly translation rates used during each period to translate the respective income statements. The rates represent the U.S. dollar equivalent of a unit of each foreign currency.

For the Third Quarter 2014, the effects of these translation rate changes on net sales, gross profit and income before income taxes were decreases of approximately \$3.9 million, \$2.0 million and \$1.4 million, respectively. For Year-To-Date 2014, the effects of these translation rate changes on net sales, gross profit and income before income taxes were decreases of approximately \$10.2 million, \$4.0 million and \$1.7 million, respectively. Net sales are affected only by the Canadian dollar translation rates. In addition, translation rate changes affect the gross profit of our Canadian subsidiary because its purchases of inventory are priced in U.S. dollars. The effects of these purchases on our Canadian subsidiary's gross profit were decreases of approximately \$0.2 million and \$0.7 million during the Third Quarter 2014 and Year-To-Date 2014, respectively.

**CRITICAL ACCOUNTING POLICIES**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reported period. In many cases, there are alternative policies or estimation techniques that could be used. We continuously review the application of our accounting policies and evaluate the appropriateness of the estimates used in preparing our financial statements; however, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information. Consequently, actual results could differ from our estimates.

The accounting policies and estimates discussed below include those that we believe are the most critical to aid in fully understanding and evaluating our financial results. Senior management has discussed the development and selection of our critical accounting policies and estimates with the Audit Committee of our Board of Directors, which has reviewed our related disclosures herein.

**Inventory Valuation-** We value inventory at the lower of cost or market ("LCM"), with cost determined using an average cost method. We capitalize supply chain costs in inventory and these costs are reflected in cost of sales as the inventories are sold. We review our inventory levels in order to identify slow-moving merchandise and use markdowns to clear merchandise. We record an adjustment when future estimated selling price is less than cost. Our LCM adjustment calculation requires management to make assumptions to estimate the selling price and amount of slow-moving merchandise subject to markdowns, which is dependent upon factors such as historical trends with similar merchandise, inventory aging, forecasted consumer demand, and the promotional environment. In the LCM calculation any inability to provide the proper quantity of appropriate merchandise in a timely manner, or to correctly estimate the sell-through rate, could have a material impact on our consolidated financial statements. Our historical estimates have not differed materially from actual results and a 10% difference in our LCM reserve as of November 1,

2014 would have impacted net income by approximately \$0.2 million. Our reserve balance at November 1, 2014 was approximately \$3.0 million compared to \$2.4 million at November 2, 2013. Additionally, we adjust our inventory based upon an annual physical inventory, which is taken during the fourth quarter of the fiscal year. Based on the results of our historical physical inventories, an estimated shrink rate is used for each successive quarter until the next annual physical inventory, or sooner if facts or circumstances should indicate differently. A 1% difference in our shrinkage rate as a percentage of cost of goods sold could impact each quarter's net income by approximately \$1.0 million.

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**Stock-Based Compensation-** We account for stock-based compensation according to the provisions of the “Compensation-Stock Compensation” topic of the FASB ASC.

### **Time Vesting and Performance-Based Awards**

We generally grant time vesting and performance-based stock awards to employees at management levels and above. We also grant time vesting stock awards to our non-employee directors. Time vesting awards are granted in the form of restricted stock units that require each recipient to complete a service period (“Deferred Awards”). Deferred Awards granted to employees generally vest ratably over three years. Deferred Awards granted to non-employee directors generally vest after one year. Performance-based stock awards are granted in the form of restricted stock units which have a performance criteria that must be achieved for the awards to be earned in addition to a service period requirement (“Performance Awards”). For Performance Awards issued during fiscal 2013 and to our CEO in fiscal 2014, each award has a defined number of shares that an employee can earn (the “Target Shares”) and based on the adjusted operating income level achieved for the three-fiscal year period (one-fiscal year in the case of the CEO's Performance Award), the employee can earn from 0% to 200% of their Target Shares. The fair value of all awards granted is based on the closing price of our common stock on the grant date. For non-CEO Performance Awards issued during fiscal 2014 (“2014 Performance Awards”), the Target Shares earned can range from 0% to 300% and depend on the achievement of adjusted earnings per share for the three-fiscal year performance period and our total shareholder return (“TSR”) relative to that of companies in our peer group. 2014 Performance Awards generally cliff vest, if earned, after a three year service period. The 2014 Performance Awards grant date fair value was estimated using a Monte Carlo simulation covering the period from the valuation date through the end of the performance period using our simulated stock price as well as the TSR of companies in our peer group. Compensation expense is recognized ratably over the related service period reduced for estimated forfeitures of those awards not expected to vest due to employee turnover. While actual forfeitures could vary significantly from those estimated, a 10% change in our estimated forfeiture rate would impact our fiscal 2014 net income by approximately \$0.8 million.

The expense for Performance Awards is based on the number of shares we estimate will vest as a result of our earnings-to-date plus our estimate of future earnings for the performance periods. To the extent that actual operating results for fiscal years 2014, 2015 and 2016 differ from our estimates, future performance share compensation expense could be significantly different. For Performance Awards issued during fiscal 2013 and to our CEO in fiscal 2014 for which the performance period has not yet concluded a 10% increase or decrease in our annual projected adjusted operating income would have caused an approximate \$1.3 million increase or a \$2.5 million decrease, respectively, to stock-based compensation expense for Year-To-Date 2014. For 2014 Performance Awards for which the performance period has not yet concluded a 10% increase or decrease in our cumulative projected adjusted earnings per share would have caused an approximate \$0.4 million increase or a \$0.8 million decrease, respectively, to stock-based compensation expense for Year-To-Date 2014.

### **Stock Options**

We have not issued stock options since fiscal 2008; however, certain issued stock options remain outstanding. The fair value of all outstanding stock options was estimated using the Black-Scholes option pricing model based on a Monte Carlo simulation, which requires extensive use of accounting judgment and financial estimates, including estimates of how long employees will hold their vested stock options before exercise, the estimated volatility of our common stock over the expected term, and the number of options that will be forfeited prior to the completion of vesting requirements. All exercise prices were based on the average of the high and low of the selling price of our common stock on the grant date. There is no unamortized stock compensation at November 1, 2014.

**Insurance and Self-Insurance Liabilities-** Based on our assessment of risk and cost efficiency, we self-insure as well as purchase insurance policies to provide for workers' compensation, general liability, and property losses, cyber-security coverage, as well as directors' and officers' liability, vehicle liability and employee medical benefits. We estimate risks and record a liability based upon historical claim experience, insurance deductibles, severity factors and other actuarial assumptions. These estimates include inherent uncertainties due to the variability of the factors involved, including type of injury or claim, required services by the providers, healing time, age of claimant, case management costs, location of the claimant, and governmental regulations. While we believe that our risk assessments are

appropriate, these uncertainties or a deviation in future claims trends from recent historical patterns could result in our recording additional or reduced expenses, which may be material to our results of operations. Our historical estimates have not differed materially from actual results and a 10% difference in our insurance reserves as of November 1, 2014 would have impacted net income by approximately \$0.7 million.

Impairment of Long-Lived Assets- We periodically review our long-lived assets when events indicate that their carrying value may not be recoverable. Such events include a historical or projected trend of cash flow losses or a future expectation that we will sell or dispose of an asset significantly before the end of its previously estimated useful life. In reviewing for impairment, we group our long-lived assets at the lowest possible level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In that regard, we group our assets into two categories: corporate-

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related and store-related. Corporate-related assets consist of those associated with our corporate offices, distribution centers and our information technology systems. Store-related assets consist of leasehold improvements, furniture and fixtures, certain computer equipment and lease related assets associated with individual stores.

For store-related assets, we review all stores that have been open for at least two years, or sooner if circumstances should dictate, on at least an annual basis. We believe waiting two years allows a store to reach a maturity level where a more comprehensive analysis of financial performance can be performed. For each store that shows indications of operating losses, we project future cash flows over the remaining life of the lease and compare the total undiscounted cash flows to the net book value of the related long-lived assets. If the undiscounted cash flows are less than the related net book value of the long-lived assets, they are written down to their fair market value. We primarily determine fair market value to be the discounted future cash flows associated with those assets. In evaluating future cash flows, we consider external and internal factors. External factors comprise the local environment in which the store resides, including mall traffic, competition, and their effect on sales trends. Internal factors include our ability to gauge the fashion taste of our customers, control variable costs such as cost of sales and payroll, and in certain cases, our ability to renegotiate lease costs. Prior to the implementation of the current fleet optimization program, historically, less than 2% of our stores required impairment charges in any one year. If external factors should change unfavorably, if actual sales should differ from our projections, or if our ability to control costs is insufficient to sustain the necessary cash flows, future impairment charges could be material. At November 1, 2014, the average net book value per store was approximately \$0.2 million.

**Income Taxes-** We utilize the liability method of accounting for income taxes as set forth in the “Income Taxes” topic of the FASB ASC. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities, as well as for net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using currently enacted tax rates that apply to taxable income in effect for the years in which the basis differences and tax assets are expected to be realized. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In determining the need for valuation allowances we consider projected future taxable income and the availability of tax planning strategies. If, in the future we determine that we would not be able to realize our recorded deferred tax assets, an increase in the valuation allowance would decrease earnings in the period in which such determination is made.

We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements.

**Fair Value Measurement and Financial Instruments-** The “Fair Value Measurements and Disclosure” topic of the FASB ASC provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities.

This topic defines fair value 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 establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

Our cash and cash equivalents, short-term investments, accounts receivable, accounts payable and credit facility are all short-term in nature. As such, their carrying amounts approximate fair value and fall within Level 1 of the fair value hierarchy. The underlying assets and liabilities of our Deferred Compensation Plan fall within Level 1 of the fair

value hierarchy. The Company stock included in the Deferred Compensation Plan is not subject to fair value measurement.

Our assets measured at fair value on a nonrecurring basis include long-lived assets. We review the carrying amounts of such assets when events indicate that their carrying amounts may not be recoverable. Any resulting asset impairment would require that the asset be recorded at its fair value. The resulting fair value measurements of the assets are considered to be Level 3 inputs.

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## Recently Adopted Accounting Standards

In May 2014, the FASB issued guidance relating to revenue recognition from contracts with customers. This guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. We are currently reviewing the potential impact of this standard.

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of net sales. We primarily evaluate the results of our operations as a percentage of net sales rather than in terms of absolute dollar increases or decreases by analyzing the year over year change in our business expressed as a percentage of net sales (i.e. “basis points”). For example, our SG&A expenses decreased approximately 130 basis points to 23.8% of net sales during the Third Quarter 2014 from 25.1% during the Third Quarter 2013. Accordingly, to the extent that our sales have increased at a faster rate than our costs (i.e. “leveraging”), the more efficiently we have utilized the investments we have made in our business. Conversely, if our sales decrease or if our costs grow at a faster pace than our sales (i.e. “de-leveraging”), we have less efficiently utilized the investments we have made in our business.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended		
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013	
Net sales	100.0	% 100.0	% 100.0	% 100.0	
Cost of sales (exclusive of depreciation and amortization)	61.0	59.0	64.3	62.2	
Gross profit	39.0	41.0	35.7	37.8	
Selling, general and administrative expenses	23.8	25.1	27.1	28.3	
Asset impairment charge	0.7	—	0.5	1.7	
Other costs (income)	(0.1	) —	—	(0.1	)
Depreciation and amortization	3.1	3.3	3.5	3.8	
Operating income	11.5	12.5	4.6	4.2	
Income before income taxes	11.4	12.5	4.6	4.2	
Provision for income taxes	3.9	4.0	1.5	1.3	
Net income	7.6	% 8.5	% 3.1	% 2.9	
Number of Company-operated stores, end of period	1,117	1,123	1,117	1,123	

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Table may not add due to rounding.

The following tables set forth by segment, for the periods indicated, net sales, gross profit and Gross Margin (dollars in thousands).

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	Thirteen Weeks Ended		Thirty-nine Weeks Ended		
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013	
Net sales:					
The Children's Place U.S.	\$418,863	\$421,070	\$1,112,933	\$1,124,676	
The Children's Place International	68,441	71,610	169,148	173,616	
Total net sales	\$487,304	\$492,680	\$1,282,081	\$1,298,292	
Gross profit:					
The Children's Place U.S.	\$163,713	\$168,753	\$395,858	\$419,243	
The Children's Place International	26,398	33,008	61,632	71,968	
Total gross profit	\$190,111	\$201,761	\$457,490	\$491,211	
Gross Margin:					
The Children's Place U.S.	39.1	% 40.1	% 35.6	% 37.3	%
The Children's Place International	38.6	% 46.1	% 36.4	% 41.5	%
Total gross margin	39.0	% 41.0	% 35.7	% 37.8	%

## The Third Quarter 2014 Compared to the Third Quarter 2013

Net sales decreased by \$5.4 million, or 1.1%, to \$487.3 million during the Third Quarter 2014 from \$492.7 million during the Third Quarter 2013. Our net sales decrease resulted from unfavorable changes in the Canadian exchange rate of \$3.9 million and a \$2.2 million decrease in sales from new stores, as well as other sales that did not qualify as comparable sales, partially offset by a Comparable Retail Sales increase of \$0.7 million. Comparable Retail Sales increased 0.2% in the Third Quarter 2014, due to a 0.5% increase in number of transactions partially offset by a 0.3% decrease in average dollar transaction size. Total e-commerce sales, which include postage and handling, increased to 16.4% of sales in the Third Quarter 2014 from 14.8% in the Third Quarter 2013.

The Children's Place U.S. net sales decreased \$2.2 million, or 0.5%, to \$418.9 million in the Third Quarter 2014 compared to \$421.1 million in the Third Quarter 2013. This decrease resulted from a \$5.3 million decrease in sales from new stores, as well as other sales that did not qualify as comparable sales, partially offset by a Comparable Retail Sales increase of \$3.1 million. U.S. Comparable Retail Sales increased 0.8% in the Third Quarter 2014, due to a 0.7% increase in the number of transactions and a 0.1% increase in average dollar transaction size. Total U.S. e-commerce sales, which include postage and handling, increased to 17.2% of The Children's Place U.S. sales in the Third Quarter 2014 from 15.8% in the Third Quarter 2013.

The Children's Place International net sales decreased \$3.2 million, or 4.5%, to \$68.4 million in the Third Quarter 2014 compared to \$71.6 million in the Third Quarter 2013. The decrease resulted from unfavorable changes in the Canadian exchange rates of \$3.9 million and a Canadian Comparable Retail Sales decrease of \$2.4 million, partially offset by a \$3.1 million increase in sales from new stores, as well as other sales that did not qualify as comparable sales. Canadian Comparable Retail Sales decreased 3.8% in the Third Quarter 2014, due to a 3.2% decrease in average dollar transaction size and a 0.6% decrease in the number of transactions. Total International e-commerce sales, which include postage and handling, increased to 11.3% of The Children's Place International sales in the Third Quarter 2014 from 8.4% in the Third Quarter 2013.

During the Third Quarter 2014, we opened ten stores and closed six, all in the United States. During the Third Quarter 2013 we opened ten stores and closed three, all in the United States.

Gross profit decreased by \$11.7 million to \$190.1 million during the Third Quarter 2014 from \$201.8 million during the Third Quarter 2013. Consolidated Gross Margin decreased 200 basis points to 39.0% during the Third Quarter 2014 from 41.0% during the Third Quarter 2013. The decrease in consolidated Gross Margin resulted primarily from an elevated promotional environment, higher supply chain costs and the accelerated sale of inventory in preparation for the planned 2015 go live of our new assortment planning tool.

Gross Margin at The Children's Place U.S. decreased 100 basis points from 40.1% in the Third Quarter 2013 to 39.1% in the Third Quarter 2014. The decrease in U.S. Gross Margin resulted primarily from an elevated promotional



environment, higher supply chain costs and the accelerated sale of inventory in preparation for the planned 2015 go live of our new assortment planning tool.

Gross Margin at The Children's Place International decreased 750 basis points from 46.1% in the Third Quarter 2013 to 38.6% in the Third Quarter 2014. The decrease in International Gross Margin resulted primarily from a de-leverage of fixed costs due to negative Canadian Comparable Retail Sales and higher supply chain costs.

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Selling, general and administrative expenses decreased \$7.4 million to \$116.1 million during the Third Quarter 2014 from \$123.5 million during the Third Quarter 2013. As a percentage of net sales SG&A decreased 130 basis points to 23.8% during the Third Quarter 2014 from 25.1% during the Third Quarter 2013. The comparability of our SG&A was affected by the restructuring of certain store and corporate operations which resulted in costs of approximately \$1.1 million and \$0.3 million for the Third Quarter 2014 and the Third Quarter 2013, respectively. Excluding this impact our SG&A decreased approximately \$8.2 million, or 140 basis points, and included the following variances: store expenses decreased approximately \$3.5 million, or 70 basis points, primarily due to expense reduction initiatives in payroll, supplies and maintenance costs; and a decrease in administrative expenses of approximately \$3.2 million, or 70 basis points, primarily related to expense reduction initiatives in payroll, corporate expenses and marketing expenses, which resulted primarily from fewer direct mailings, partially offset by increased training costs associated with our ongoing transformation initiatives.

Asset impairment charges were \$3.3 million during the Third Quarter 2014, which related to 15 stores, of which 14 were fully impaired and one was partially impaired. These store impairment charges were recorded as a result of revenue and/or gross margins not meeting targeted levels and accelerated store lease termination dates. There were no asset impairment charges during the Third Quarter 2013.

Provision for income taxes was \$18.8 million during the Third Quarter 2014 compared to \$19.9 million during the Third Quarter 2013. Our effective tax rate was 33.7% and 32.3% in the Third Quarter 2014 and the Third Quarter 2013, respectively.

Net income was \$36.9 million during the Third Quarter 2014 compared to \$41.7 million during the Third Quarter 2013, due to the factors discussed above. Earnings per diluted share was \$1.70 in the Third Quarter 2014 compared to \$1.84 in the Third Quarter 2013. This decrease in earnings per share is due to the decrease in net income for the quarter partially offset by a lower weighted average common shares outstanding of approximately 0.9 million, which is primarily the result of our share repurchase program.

Year-To-Date 2014 Compared to Year-To-Date 2013

Net sales decreased by \$16.2 million, or 1.2%, to \$1,282.1 million during Year-To-Date 2014 from \$1,298.3 million during Year-To-Date 2013. Our net sales decrease resulted from a Comparable Retail Sales decrease of \$11.4 million and a \$10.2 million decrease resulting from unfavorable changes in the Canadian exchange rate, partially offset by a \$5.4 million increase in sales from new stores, as well as other sales that did not qualify as comparable sales.

Comparable Retail Sales declined 0.8% in Year-To-Date 2014, due to a 1.4% decline in the number of transactions partially offset by a 0.6% increase in average dollar transaction size. Total e-commerce sales, which include postage and handling, increased to 15.9% of sales in Year-To-Date 2014 from 13.7% in the Year-To-Date 2013.

The Children's Place U.S. net sales decreased \$11.8 million, or 1.0%, to \$1,112.9 million in Year-To-Date 2014 compared to \$1,124.7 million in Year-To-Date 2013. This decrease resulted from a Comparable Retail Sales decrease of \$10.4 million and a \$1.4 million decrease in sales from new stores, as well as other sales that did not qualify as comparable sales. U.S. Comparable Retail Sales declined 0.8% in Year-To-Date 2014, due to a 1.6% decline in the number of transactions partially offset by a 0.8% increase in average dollar transaction size. Total U.S. e-commerce sales, which include postage and handling, increased to 16.5% of The Children's Place U.S. sales in Year-To-Date 2014 from 14.6% in Year-To-Date 2013.

The Children's Place International net sales decreased \$4.5 million, or 2.6%, to \$169.1 million in Year-To-Date 2014 compared to \$173.6 million in Year-To-Date 2013. The decrease resulted from a \$10.2 million decrease resulting from unfavorable changes in the Canadian exchange rates and a Canadian Comparable Retail Sales decrease of \$1.0 million partially offset by a \$6.7 million increase in sales from new stores, as well as other sales that did not qualify as comparable sales. Canadian Comparable Retail Sales decreased 0.9% in Year-To-Date 2014, due to a 0.5% decrease in average dollar transaction size and a 0.4% decline in the number of transactions. Total International e-commerce sales, which include postage and handling, increased to 11.1% of The Children's Place International sales in Year-To-Date 2014 from 7.5% in Year-To-Date 2013.

During Year-To-Date 2014, we opened 24 stores, 22 in the United States and two in Canada, and closed 14, all in the United States. During Year-To-Date 2013 we opened 45 stores, consisting of 41 in the United States and four in Canada, and closed 17, all in the United States.

Gross profit decreased by \$33.7 million to \$457.5 million during Year-To-Date 2014 from \$491.2 million during Year-To-Date 2013. Consolidated Gross Margin decreased 210 basis points to 35.7% during Year-To-Date 2014 from 37.8% during Year-To-Date 2013. The decrease in consolidated Gross Margin resulted primarily from a de-leverage of fixed costs due to negative Comparable Retail Sales, an elevated promotional environment, higher supply chain costs and the accelerated sale of inventory in preparation for the planned 2015 go live of our new assortment planning tool.

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Gross Margin at The Children's Place U.S. decreased 170 basis points from 37.3% in Year-To-Date 2013 to 35.6% in Year-To-Date 2014. The decrease in U.S. Gross Margin resulted primarily from a de-leverage of fixed costs due to negative Comparable Retail Sales, an elevated promotional environment, higher supply chain costs and the accelerated sale of inventory in preparation for the planned 2015 go live of our new assortment planning tool.

Gross Margin at The Children's Place International decreased 510 basis points from 41.5% in Year-To-Date 2013 to 36.4% in Year-To-Date 2014. The decrease in International Gross Margin resulted primarily from a de-leverage of fixed costs due to negative Comparable Retail Sales, higher cost of goods sold as a percentage of net sales and higher supply chain costs.

Selling, general and administrative expenses decreased \$19.9 million to \$347.0 million during Year-To-Date 2014 from \$366.9 million during Year-To-Date 2013. As a percentage of net sales SG&A decreased 120 basis points to 27.1% during Year-To-Date 2014 from 28.3% during Year-To-Date 2013. The comparability of our SG&A was affected by the restructuring of certain store and corporate operations which resulted in costs of approximately \$4.5 million and \$2.5 million for Year-To-Date 2014 and Year-To-Date 2013, respectively. Excluding this impact our SG&A decreased approximately \$21.9 million, or 140 basis points, and included the following variances:

• store expenses decreased approximately \$11.6 million, or 70 basis points, primarily due to expense reduction initiatives in payroll, supplies and maintenance costs; and

• a decrease in administrative expenses of approximately \$8.1 million, or 50 basis points, primarily related to expense reduction initiatives in payroll, corporate expenses and marketing expenses, which resulted primarily from fewer direct mailings, partially offset by increased training costs associated with our ongoing transformation initiatives.

Asset impairment charges were \$6.4 million during Year-To-Date 2014, which related to 45 stores, 34 of which were fully impaired and 11 of which were partially impaired. Asset impairment charges were \$21.8 million during Year-To-Date 2013, \$12.7 million of which related to 75 stores, 48 of which were fully impaired and 27 of which were partially impaired. These store impairment charges were recorded as a result of revenue and/or gross margins not meeting targeted levels and accelerated store lease termination dates. Additionally, during Year-To-Date 2013, we recorded asset impairment charges of \$9.1 million related to a determination that certain development costs previously incurred were no longer relevant and that certain systems were obsolete.

Provision for income taxes was \$19.4 million during Year-To-Date 2014 compared to \$17.1 million during Year-To-Date 2013. Our effective tax rate was 32.8% and 31.4% during Year-To-Date 2014 and Year-To-Date 2013, respectively. The Year-To-Date 2014 rate is higher due to the impact of the mix of forecasted income in 2014 being larger in higher tax jurisdictions, including the U.S., compared to lower tax jurisdictions such as Hong Kong and Canada.

Net income was \$39.9 million during Year-To-Date 2014 compared to \$37.4 million during Year-To-Date 2013, due to the factors discussed above. Earnings per diluted share was \$1.81 in Year-To-Date 2014 compared to \$1.63 in Year-To-Date 2013. This increase in earnings per share is due to the increase in net income and a lower weighted average common shares outstanding of approximately 0.8 million, which is primarily the result of our share repurchase programs.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Our working capital needs follow a seasonal pattern, peaking during the third quarter when inventory is purchased for the back-to-school and holiday selling seasons. Our primary uses of cash are working capital requirements, which are principally inventory purchases, and the financing of capital projects, including investments in new systems, the repurchases of our common stock, and the financing of new store openings and remodels. In March 2014, our Board of Directors instituted the payment of a quarterly cash dividend.

Our working capital decreased \$21.6 million to \$332.7 million at November 1, 2014 compared to \$354.3 million at November 2, 2013. This decrease is primarily due to an increase in capital returned to our shareholders through dividends and higher share repurchases and a decrease in cash from operations. During Year-To-Date 2014, under our

share repurchase programs, we repurchased approximately 1.2 million shares for approximately \$58.7 million. We also paid cash dividends of \$8.7 million during Year-To-Date 2014. Subsequent to November 1, 2014 and through December 2, 2014, we repurchased 0.1 million shares for approximately \$6.2 million and announced that our Board of Directors declared a quarterly cash dividend of \$0.1325 per share to be paid on January 16, 2015 to shareholders of record on the close of business on December 26, 2014.

Our credit facility provides for borrowings up to the lesser of \$200.0 million or our borrowing base, as defined by the credit facility agreement (see "Credit Facility" below). At November 1, 2014, our borrowing base was \$200.0 million, we had

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\$19.1 million of outstanding borrowings and there were \$9.2 million of outstanding letters of credit, with \$171.7 million of availability for borrowings and a sublimit availability for letters of credit of \$40.8 million.

As of November 1, 2014, we had \$170.8 million of cash and cash equivalents, of which approximately \$165.2 million of cash and cash equivalents were held in foreign subsidiaries, of which approximately \$93.6 million was in our Canadian subsidiaries, approximately \$60.2 million was in our Hong Kong subsidiaries and approximately \$11.4 million was in other foreign subsidiaries. As of November 1, 2014 we also had a short-term investment of \$39.0 million in Hong Kong. Because all of our cash, cash equivalents and short-term investments in our foreign subsidiaries are considered permanently and fully reinvested, any repatriation of cash from these subsidiaries would require the accrual and payment of U.S. federal and certain state taxes. Due to the complexities associated with the hypothetical calculation, including the availability of foreign tax credits, we have concluded it is not practicable to determine the unrecognized deferred tax liability related to the undistributed earnings. We currently do not intend to repatriate cash from any of these foreign subsidiaries.

We expect to be able to meet our working capital and capital expenditure requirements by using our cash on hand, cash flows from operations and availability under our credit facility.

**Credit Facility**

We and certain of our domestic subsidiaries maintain a credit agreement with Wells Fargo Bank, National Association (“Wells Fargo”), Bank of America, N.A., HSBC Business Credit (USA) Inc., and JPMorgan Chase Bank, N.A. as lenders (collectively, the “Lenders”) and Wells Fargo, as Administrative Agent, Collateral Agent and Swing Line Lender (the “Credit Agreement”). The Credit Agreement was amended and restated on March 4, 2014 to incorporate all prior amendments, and the provisions below reflect the amended and restated Credit Agreement.

The Credit Agreement, which expires in August 2018, consists of a \$200 million asset based revolving credit facility, with a \$50 million sublimit for standby and documentary letters of credit and an uncommitted accordion feature that could provide up to \$25 million of additional availability. Revolving credit loans outstanding under the Credit Agreement bear interest, at the Company’s option, at:

- (i) the prime rate plus a margin of 0.50% to 0.75% based on the amount of our average excess availability under the facility; or
- (ii) the London InterBank Offered Rate, or “LIBOR”, for an interest period of one, two, three or six months, as selected by us, plus a margin of 1.50% to 1.75% based on the amount of our average excess availability under the facility.

We are charged an unused line fee of 0.25% on the unused portion of the commitments. Letter of credit fees range from 0.75% to 0.875% for commercial letters of credit and range from 1.00% to 1.25% for standby letters of credit. Letter of credit fees are determined based on the amount of our average excess availability under the facility. The amount available for loans and letters of credit under the Credit Agreement is determined by a borrowing base consisting of certain credit card receivables, certain inventory and the fair market value of certain real estate, subject to certain reserves.

The outstanding obligations under the Credit Agreement may be accelerated upon the occurrence of certain events, including, among others, non-payment, breach of covenants, the institution of insolvency proceedings, defaults under other material indebtedness and a change of control, subject, in the case of certain defaults, to the expiration of applicable grace periods. We are not subject to any early termination fees.

The Credit Agreement contains covenants, which include conditions on stock buybacks and the payment of cash dividends or similar payments. Credit extended under the Credit Agreement is secured by a first priority security interest in substantially all of our U.S. assets excluding intellectual property, software, equipment and fixtures.

On March 4, 2014, the Credit Agreement was amended to permit the payment of dividends, subject to certain conditions, to increase the revolving credit limit from \$150 million to its current \$200 million and to extend the term from August 2017 to August 2018, and was restated to incorporate all prior amendments. In conjunction with this amendment and restatement, we paid approximately \$0.3 million in additional deferred financing costs.

As of November 1, 2014, we have capitalized an aggregate of approximately \$4.0 million in deferred financing costs related to the Credit Agreement. The unamortized balance of deferred financing costs at November 1, 2014 was approximately \$1.3 million. Unamortized deferred financing costs are amortized on a straight-line basis over the remaining term of the Credit Agreement.

Cash Flows/Capital Expenditures

During Year-To-Date 2014, cash flows provided by operating activities were \$68.6 million compared to \$99.2 million during Year-To-Date 2013. The net decrease of \$30.6 million in cash from operating activities resulted primarily from operating performance and the timing of payments on accounts payable and other current liabilities.

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During Year-To-Date 2014 cash flows used in investing activities were \$21.1 million compared to \$94.7 million during Year-To-Date 2013. This change was primarily due to a net redemption of short-term investments during Year-To-Date 2014 compared to a net purchase during Year-To-Date 2013 and a \$12.6 million decrease in purchases of property and equipment.

During Year-To-Date 2014, cash flows used in financing activities were \$49.5 million compared to \$53.4 million during Year-To-Date 2013. The decrease primarily resulted from borrowings under our revolving credit facility of \$19.1 million partially offset by a \$5.2 million increase in purchases of our common stock, pursuant to our share repurchase programs during Year-To-Date 2014 compared to Year-To-Date 2013, the payment of \$8.7 million in cash dividends and a \$1.4 million decrease in proceeds from the exercise of stock options.

We anticipate that total capital expenditures will be in the range of \$75 to \$80 million in fiscal 2014. During Year-To-Date 2014, we opened 24 stores and remodeled 43 at an aggregate cost of approximately \$16.0 million. We are slowing new store growth in fiscal 2014 and beyond as we focus on our international, wholesale and omni-channel initiatives and now plan to open 25 stores during fiscal 2014, and plan to close approximately 35 stores during fiscal 2014. During Year-To-Date 2014 we have also spent approximately \$28.0 million on information technology, our corporate offices and other strategic initiatives and approximately \$1.0 million on projects in our distribution centers. We anticipate that approximately two-thirds of our total fiscal 2014 capital expenditures will be spent on information technology, including enterprise resource planning and e-commerce systems, and other strategic initiatives and the remainder will be spent primarily on store projects.

Our ability to continue to meet our capital requirements in fiscal 2014 depends on our cash on hand, our ability to generate cash flows from operations and our available borrowings under our credit facility. Cash flow generated from operations depends on our ability to achieve our financial plans. During Year-To-Date 2014, we were able to fund our capital expenditures with cash on hand and cash generated from operating activities supplemented by funds from our credit facility. We believe that our existing cash on hand, cash generated from operations and funds available to us through our credit facility will be sufficient to fund our capital and other cash requirements over the next 12 months. Historically, we have funded our capital expenditures primarily from operations. With a domestic cash balance of \$5.6 million, \$171.7 million of availability on our credit facility, \$60.2 million in our Hong Kong subsidiaries, \$11.4 million in other foreign subsidiaries, a short-term investment of \$39.0 million in Hong Kong and a Canadian cash balance of \$93.6 million, all at November 1, 2014, we expect to meet our capital requirements over the next 12 months.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

In the normal course of business, our financial position and results of operations are routinely subject to market risk associated with interest rate movements on borrowings and investments and currency rate movements on non-U.S. dollar denominated assets, liabilities, income and expenses. We utilize cash from operations and short-term borrowings to fund our working capital and investment needs.

#### Cash and Cash Equivalents

Cash and cash equivalents are normally invested in short-term financial instruments that will be used in operations within 90 days of the balance sheet date. Because of the short-term nature of these instruments, changes in interest rates would not materially affect the fair value of these financial instruments.

#### Short-term Investments

Short-term investments consist of time deposits which we expect to convert into cash within one year which have original maturities greater than 90 days. Because of the short-term nature of these instruments, changes in interest rates would not materially affect the fair value of these financial instruments.

#### Interest Rates

Our credit facility bears interest at a floating rate equal to the prime rate or LIBOR, plus a calculated spread based on our average excess availability. As of November 1, 2014, we had \$19.1 million in borrowings under the credit facility. A 10% change in the prime rate or LIBOR interest rates would not have had a material impact on our interest expense.

#### Foreign Assets and Liabilities



Assets and liabilities outside the United States are primarily located in Canada and Hong Kong. Our investments in our Canadian and Hong Kong subsidiaries are considered long-term. We do not hedge these net investments nor are we party to any derivative financial instruments. As of November 1, 2014, net assets in Canada and Hong Kong were approximately \$121.7 million and \$88.8 million, respectively. A 10% increase or decrease in the Canadian and Hong Kong exchange rates

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would increase or decrease the corresponding net investment by approximately \$12.2 million and \$8.9 million, respectively. All changes in the net investment of our foreign subsidiaries are recorded in other comprehensive income as unrealized gains or losses.

As of November 1, 2014, we had approximately \$165.2 million of our cash and cash equivalents held in foreign countries, of which approximately \$93.6 million was in Canada, approximately \$60.2 million was in Hong Kong and approximately \$11.4 million was in other foreign countries. As of November 1, 2014, we had short-term investments of \$39.0 million held in Hong Kong.

### Foreign Operations

Approximately 12% of our consolidated net sales and approximately 13% of our total operating expenses are transacted in foreign currencies. As a result, fluctuations in exchange rates impact the amount of our reported sales and expenses. Assuming a 10% change in foreign exchange rates, Year-To-Date 2014 net sales could have decreased or increased by approximately \$15.4 million and total costs and expenses could have decreased or increased by approximately \$18.1 million. Additionally, we have foreign currency denominated receivables and payables that when settled, result in transaction gains or losses. At November 1, 2014, we had foreign currency denominated receivables and payables, including inter-company balances, of \$12.1 million and \$11.9 million, respectively. To date, we have not used derivatives to manage foreign currency exchange risk.

We import a vast majority of our merchandise from foreign countries, primarily China and Bangladesh.

Consequently, any significant or sudden change in these foreign countries' political, foreign trade, financial, banking or currency policies and practices, or the occurrence of significant labor unrest, could have a material adverse impact on our financial position, results of operations and cash flows.

## Item 4. CONTROLS AND PROCEDURES.

### Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed only to provide "reasonable assurance" that the controls and procedures will meet their objectives. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Management, including our Chief Executive Officer and President and our Chief Operating Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of November 1, 2014. Based on that evaluation, our Chief Executive Officer and President and our Chief Operating Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level, as of November 1, 2014, to ensure that all information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our principal executive, principal accounting and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS.

Certain legal proceedings in which we are involved are discussed in Note 10 to the consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended February 1, 2014. See Note 7 to the accompanying condensed consolidated financial statements for a discussion of any recent developments concerning

our legal proceedings.

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## Item 1A. RISK FACTORS.

There were no material changes to the risk factors disclosed in Item 1A of Part I in our Form 10-K for the year ended February 1, 2014.

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On March 3, 2014, the Board of Directors authorized a \$100 million share repurchase program (the "2014 Share Repurchase Program"). Under this share repurchase program, the Company may repurchase shares in the open market at current market prices at the time of purchase or in privately negotiated transactions. The timing and actual number of shares repurchased under the program will depend on a variety of factors including price, corporate and regulatory requirements, and other market and business conditions. We may suspend or discontinue the program at any time, and may thereafter reinstitute purchases, all without prior announcement.

The following table provides a month-by-month summary of our share repurchase activity during Third Quarter 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value (in thousands) of Shares that May Yet Be Purchased Under the Plans or Programs
8/3/14-8/30/14 <sup>(1)</sup>	107,839	\$50.66	105,200	\$ 68,327
8/31/14-10/4/14 <sup>(2)</sup>	120,612	50.66	120,500	62,222
10/5/14-11/1/14	130,000	48.15	130,000	55,963
Total	358,451	\$49.75	355,700	\$ 55,963

<sup>(1)</sup> Includes 1,345 shares acquired as treasury stock as directed by participants in the Company's deferred compensation plan and 1,294 shares withheld to cover taxes in conjunction with the vesting of stock awards.

<sup>(2)</sup> Includes 112 shares withheld to cover taxes in conjunction with the vesting of stock awards.

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Item 6. Exhibits.

The following exhibits are filed with this Quarterly Report on Form 10-Q:

31.1	Certificate of Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certificate of Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.

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Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration \*statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CHILDREN'S PLACE, INC.

Date: December 4, 2014

By: /S/ JANE T. ELFERS  
JANE T. ELFERS  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: December 4, 2014

By: /S/ MICHAEL SCARPA  
MICHAEL SCARPA  
Chief Operating Officer  
(Principal Accounting and Financial Officer)