

CLAIRE'S STORES INC
Form 10-Q
December 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended October 30, 2010

OR

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

For the transition period from _____ to _____

Commission File Nos. 1-8899 and 333-148108

Claire's Stores, Inc.

(Exact name of registrant as specified in its charter)

Florida

59-0940416

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

**2400 West Central Road,
Hoffman Estates, Illinois**

60192

(Address of principal executive offices)

(Zip Code)

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

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

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

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

Large accelerated filer ☐ Accelerated
filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(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 ☒

As of December 1, 2010, 100 shares of the Registrant's common stock, \$0.001 par value, were outstanding.

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

	October 30, 2010	January 30, 2010
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 154,055	\$ 198,708
Inventories	160,247	110,338
Prepaid expenses	32,396	32,873
Other current assets	27,278	28,236
Total current assets	373,976	370,155
Property and equipment:		
Land and building		19,318
Furniture, fixtures and equipment	177,919	162,602
Leasehold improvements	242,020	228,503
	419,939	410,423
Less accumulated depreciation and amortization	(221,219)	(182,439)
	198,720	227,984
Leased property under capital leases:		
Land and building	18,055	
Less accumulated depreciation and amortization	(677)	
	17,378	
Intangible assets, net of accumulated amortization of \$40,916 and \$32,532, respectively	573,389	580,027
Deferred financing costs, net of accumulated amortization of \$39,160 and \$29,949, respectively	38,430	47,641
Other assets	43,822	58,242
Goodwill	1,550,056	1,550,056
	2,205,697	2,235,966
Total assets	\$ 2,795,771	\$ 2,834,105
LIABILITIES AND STOCKHOLDER S DEFICIT		
Current liabilities:		
Trade accounts payable	\$ 64,547	\$ 45,660

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Current portion of long-term debt	14,500	14,500
Income taxes payable	8,321	10,272
Accrued interest payable	27,032	14,644
Accrued expenses and other current liabilities	104,465	96,436
Total current liabilities	218,865	181,512
Long-term debt	2,235,384	2,313,378
Revolving credit facility	194,000	194,000
Obligations under capital leases	17,290	
Deferred tax liability	122,075	122,145
Deferred rent expense	25,205	22,082
Unfavorable lease obligations and other long-term liabilities	30,837	35,630
	2,624,791	2,687,235
Commitments and contingencies		
Stockholder's deficit:		
Common stock par value \$0.001 per share; authorized 1,000 shares; issued and outstanding 100 shares		
Additional paid-in capital	619,675	616,086
Accumulated other comprehensive income, net of tax	2,791	2,625
Retained deficit	(670,351)	(653,353)
	(47,885)	(34,642)
Total liabilities and stockholder's deficit	\$ 2,795,771	\$ 2,834,105

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(in thousands)

	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Net sales	\$ 348,175	\$ 324,404	\$ 1,004,485	\$ 931,698
Cost of sales, occupancy and buying expenses	167,573	159,400	485,544	470,895
Gross profit	180,602	165,004	518,941	460,803
Other expenses:				
Selling, general and administrative	123,432	115,823	366,493	332,877
Depreciation and amortization	16,106	17,327	48,328	54,185
Severance and transaction-related costs	121	32	435	406
Other expense (income), net	(553)	(874)	964	(1,182)
	139,106	132,308	416,220	386,286
Operating income	41,496	32,696	102,721	74,517
Gain on early debt extinguishment	2,652	16,096	13,388	33,200
Impairment of equity investment			6,030	
Interest expense, net	37,132	43,716	120,468	134,279
Income (loss) before income tax expense	7,016	5,076	(10,389)	(26,562)
Income tax expense	3,369	2,187	6,609	3,305
Net income (loss)	\$ 3,647	\$ 2,889	\$ (16,998)	\$ (29,867)
Net income (loss)	\$ 3,647	\$ 2,889	\$ (16,998)	\$ (29,867)
Foreign currency translation and interest rate swap adjustments, net of tax	9,747	4,851	9,738	30,450
Reclassification of foreign currency translation adjustments in net loss			(9,572)	
Comprehensive income (loss)	\$ 13,394	\$ 7,740	\$ (16,832)	\$ 583

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**CLAIRE S STORES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Cash flows from operating activities:		
Net loss	\$ (16,998)	\$ (29,867)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	48,328	54,185
Impairment	6,030	
Amortization of lease rights and other assets	2,246	1,513
Amortization of debt issuance costs	7,507	7,845
Payment in kind interest expense	27,837	29,415
Net unfavorable accretion of lease obligations	(1,236)	(1,594)
Loss on sale/retirement of property and equipment, net	632	39
Gain on early debt extinguishment	(13,388)	(33,200)
Gain on sale of intangible assets/lease rights		(598)
Stock compensation expense	3,589	4,332
(Increase) decrease in:		
Inventories	(48,463)	(30,915)
Prepaid expenses	1,698	(5,193)
Other assets	(3,251)	(5,567)
Increase (decrease) in:		
Trade accounts payable	16,505	9,945
Income taxes payable	313	1,749
Accrued interest payable	12,389	15,121
Accrued expenses and other liabilities	12,877	(954)
Deferred income taxes	512	1,578
Deferred rent expense	2,957	2,895
Net cash provided by operating activities	60,084	20,729
Cash flows from investing activities:		
Acquisition of property and equipment, net	(29,803)	(17,675)
Acquisition of intangible assets/lease rights	(919)	(484)
Proceeds from sale of intangible assets/lease rights		2,154
Proceeds from sale of property	16,765	
Net cash used in investing activities	(13,957)	(16,005)
Cash flows from financing activities:		
Credit facility payments	(10,875)	(10,875)
Note purchases	(79,865)	(36,521)
Principal payments on capital leases	(765)	

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Net cash used in financing activities	(91,505)	(47,396)
Effect of foreign currency exchange rate changes on cash and cash equivalents	725	3,257
Net decrease in cash and cash equivalents	(44,653)	(39,415)
Cash and cash equivalents at beginning of period	198,708	204,574
Cash and cash equivalents at end of period	\$ 154,055	\$ 165,159

Supplemental disclosure of cash flow information:

Income taxes paid	\$ 5,095	\$ 2,719
Interest paid	72,997	81,927
Property acquired under capital lease	18,055	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CLAIRE S STORES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of the results for the interim periods presented have been included. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the year ended January 30, 2010 filed with the Securities and Exchange Commission, including Note 2 to the Consolidated Financial Statements included therein which discusses principles of consolidation and summary of significant accounting policies.

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

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

The Company has evaluated subsequent events and transactions for potential recognition and disclosure in the financial statements through the day the financial statements were issued.

2. Significant Accounting Policies

Update to Significant Accounting Policies

The Company has updated certain portions of its significant accounting policies since it published its Annual Report on Form 10-K as of and for the fiscal year ended January 30, 2010. The portions updated include the following:

Capital Leases

Leased property meeting certain capital lease criteria is capitalized as an asset and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is recorded using the straight-line method over the shorter of the estimated useful life of the leased asset or the initial lease term and is included in

Depreciation and amortization in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Interest expense is recognized on the outstanding capital lease obligation using the effective interest method and is recorded

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in Interest expense, net in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

The Unaudited Condensed Consolidated Financial Statements include certain reclassifications of prior period amounts in order to conform to current period presentation.

3. Segment Information

The Company is organized based on the geographic markets in which it operates. Under this structure, the Company currently has two reportable segments: North America and Europe. Within its North American division, the Company accounts for the goods it sells to third parties under franchising and licensing agreements within Net sales and Cost of sales, occupancy and buying expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Within its European division, the franchise fees the Company charges under the franchising agreements are reported in Other expense (income), net in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Until September 2, 2010, the Company accounted for the results of operations of Claire's Nippon under the equity method and included the results within Other expense (income), net in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) within the Company's North American division. These former joint venture stores now operate as licensed stores. Substantially all of the interest expense on the Company's outstanding debt is recorded in the Company's North American division.

Net sales and operating income for the three and nine months ended October 30, 2010 and October 31, 2009 are as follows (in thousands):

	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Net sales:				
North America	\$ 220,672	\$ 199,867	\$ 643,358	\$ 589,476
Europe	127,503	124,537	361,127	342,222
Total net sales	348,175	324,404	1,004,485	931,698
Depreciation and amortization:				
North America	10,344	11,230	31,253	36,479
Europe	5,762	6,097	17,075	17,706
Total depreciation and amortization	16,106	17,327	48,328	54,185
Operating income for reportable segments:				
North America	28,449	15,459	72,220	44,251
Europe	13,168	17,269	30,936	30,672
Total operating income for reportable segments	41,617	32,728	103,156	74,923
Severance and transaction-related costs	121	32	435	406
Net consolidated operating income	41,496	32,696	102,721	74,517

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Gain on early debt extinguishment	2,652	16,096	13,388	33,200
Impairment of equity investment			6,030	
Interest expense, net	37,132	43,716	120,468	134,279

Net consolidated income (loss) before income tax expense	\$ 7,016	\$ 5,076	\$ (10,389)	\$ (26,562)
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Excluded from operating income for the North American segment are severance and transaction-related costs of approximately \$0 and \$0 for the three months ended October 30, 2010 and October 31, 2009, respectively, and \$0.3 million and \$0.4 million for the nine months ended October 30, 2010 and October 31, 2009, respectively.

Excluded from operating income for the European segment are severance and transaction-related costs of approximately \$0.1 million and \$0 for the three months ended October 30, 2010 and October 31, 2009, respectively, and \$0.1 million and \$0 for the nine months ended October 30, 2010 and October 31, 2009, respectively.

4. Debt**Capital Leases**

On February 19, 2010, the Company sold its North American distribution center/office building (the Property) to a third party. Net proceeds from the sale were \$16.8 million. Contemporaneously with the sale of the Property, the Company entered into a lease agreement, dated February 19, 2010. The lease agreement provides for (1) an initial lease term through February 28, 2030 with two (2) five (5) year renewal periods, each at the option of the Company; and (2) basic rent of \$2.1 million per annum (subject to annual increases). Based on the terms of the lease agreement, the Company has accounted for the lease as a capital lease and has recorded an asset equal to the fair value of the Property at lease inception of \$18.1 million and a corresponding capital lease obligation.

Note Purchases

The following is a summary of the Company's debt repurchase activity for the three and nine months ended October 30, 2010 and October 31, 2009 (in thousands):

	Three Months Ended October 30, 2010		Nine Months Ended October 30, 2010	
	Principal Amount	Purchase Price	Principal Amount	Purchase Price
Note Purchased				
Senior Notes	\$ 14,000	\$ 12,268	\$ 14,000	\$ 12,268
Senior Toggle Notes	9,550	8,486	57,173	49,798
Senior Subordinated Notes			22,625	17,799
	\$ 23,550	\$ 20,754	\$ 93,798	\$ 79,865

	Three Months Ended October 31, 2009		Nine Months Ended October 31, 2009	
	Principal Amount	Purchase Price	Principal Amount	Purchase Price
Note Purchased				
Senior Toggle Notes	\$ 27,500	\$ 17,520	\$ 27,500	\$ 17,520
Senior Subordinated Notes	15,000	8,965	42,838	19,001
	\$ 42,500	\$ 26,485	\$ 70,338	\$ 36,521

See Note 7 for related fair value disclosure on debt.

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The following is a summary of activity in the Company's stock option plan for the nine months ended October 30, 2010:

Options	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 30, 2010	6,275,110	\$ 10.00		
Options granted	592,500	\$ 10.00		
Options exercised				
Options forfeited or expired	(339,315)	\$ 10.00		
Outstanding at October 30, 2010	6,528,295	\$ 10.00	4.5	\$
Exercisable at October 30, 2010	2,106,711	\$ 10.00	4.1	\$

The weighted average grant date fair value of options granted during the nine months ended October 30, 2010 and October 31, 2009 was \$3.97 and \$2.99, respectively.

During the three and nine months ended October 30, 2010 and October 31, 2009, the Company recorded stock-based compensation expense and additional paid-in capital relating to stock-based compensation of approximately \$1.1 million, \$1.4 million, \$3.6 million and \$4.3 million, respectively. Stock-based compensation expense is recorded in Selling, general and administrative expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

6. Income Taxes

The effective income tax rate was 48.0% and (63.6)% for the three and nine months ended October 30, 2010, respectively. These effective income tax rates differed from the statutory federal tax rate of 35% primarily from increases in the valuation allowance recorded for additional deferred tax assets generated in the three and nine months ended October 30, 2010 by the Company's U.S. operations.

The effective income tax rate was 43.1% and (12.4)% for the three and nine months ended October 31, 2009, respectively. These effective income tax rates differed from the statutory federal tax rate of 35% primarily from increases in the valuation allowance recorded for additional deferred tax assets generated in the three and nine months ended October 31, 2009 by the Company's U.S. operations.

7. Fair Value Measurements and Derivative Instruments

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

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, current liabilities, debt, the revolving credit facility and interest rate swaps. Cash and cash equivalents, accounts receivable and current liabilities approximate fair market value due to the relatively short maturity of these financial instruments.

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The Company considers all investments with a maturity of three months or less when acquired to be cash equivalents. The Company's cash equivalent instruments are valued using quoted market prices and are primarily U.S. Treasury securities. The fair value (estimated market value) of the debt is based primarily on quoted prices for similar instruments.

On July 28, 2010, the Company entered into an interest rate swap agreement (the "Swap") to manage exposure to fluctuations in interest rates. The Swap expires on July 30, 2013. The Swap represents a contract to exchange floating rate for fixed interest payments periodically over the life of the Swap without exchange of the underlying notional amount. The Swap covers an aggregate notional amount of \$200.0 million of the outstanding principal balance of the senior secured term loan facility. The fixed rate of the Swap is 1.2235% and has been designated and accounted for as a cash flow hedge.

The Company entered into three interest rate swap agreements in July 2007 (the "Swaps") to manage exposure to fluctuations in interest rates. Those Swaps expired on June 30, 2010. The Swaps represented contracts to exchange floating rate for fixed interest payments periodically over the lives of the Swaps without exchange of the underlying notional amount. The Swaps covered an aggregate notional amount of \$435.0 million of the outstanding principal balance of the senior secured term loan facility. The fixed rates of the Swaps ranged from 4.96% to 5.25%. The Swaps were designated and accounted for as cash flow hedges.

For derivatives that qualify as cash flow hedges, the Company reports the effective portion of the change in fair value as a component of "Accumulated other comprehensive income (loss), net of tax" in the accompanying Unaudited Condensed Consolidated Balance Sheets and reclassifies it into earnings in the same periods in which the hedged item affects earnings, and within the same income statement line item as the impact of the hedged item. The ineffective portion of the change in fair value of a cash flow hedge is recognized in income immediately. No ineffective portion was recorded to earnings for the three and nine months ended October 30, 2010, and all components of the derivative gain or loss were included in the assessment of hedge effectiveness.

The fair value of the Company's interest rate swaps represent the estimated amounts the Company would receive or pay to terminate those contracts at the reporting date based upon pricing or valuation models applied to current market information. The interest rate swaps are valued using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates derived from observed market interest rate curves. The Company included credit valuation adjustment risk in the calculation of fair value for the Swaps entered into in July 2007. The Company does not make any credit-related valuation adjustments to the Swap entered into on July 28, 2010 because it is collateralized by cash, the balance of which is \$5.6 million at October 30, 2010. The collateral requirement increases for declines in the three year LIBOR rate below 1.2235%. As of October 30, 2010, the three year LIBOR rate was 0.64% and each further 10 basis point decline in rate would result in an additional collateral requirement of \$0.6 million. Any subsequent increases in the three year LIBOR rate will result in a release of the collateral. The Company mitigates derivative credit risk by transacting with highly rated counterparties. The Company does not enter into derivative financial instruments for trading or speculative purposes.

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

	Fair Value Measurements at October 30, 2010 Using		
	Quoted Prices in Active Markets for Identical Assets (Liabilities)	Significant Other Observable Inputs	Significant Unobservable Inputs
Carrying Value	(Level 1)	(Level 2)	(Level 3)

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Debt and Credit Facility	\$	(2,443,884)	\$	(2,173,558)	\$		\$
Interest rate swap	\$	(3,088)	\$		\$	(3,088)	\$
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		Fair Value Measurements at January 30, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Liabilities)	Significant Other Observable Inputs	Significant Unobservable Inputs
	Carrying Value	(Level 1)	(Level 2)	(Level 3)
Debt and Credit Facility	\$ (2,521,878)	\$ (1,952,832)	\$	\$
Interest rate swaps	\$ (8,752)	\$	\$ (8,752)	\$

The fair value of the interest rate swaps is included in Accrued expenses and other current liabilities and is recorded, net of tax of approximately \$0 and \$5.7 million, as a component in Accumulated other comprehensive income (loss), net of tax as of October 30, 2010 and January 30, 2010, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets. The following tables provide a summary of the financial statement effect of the Company's derivative financial instruments designated as interest rate cash flow hedges during the three and nine months ended October 30, 2010 and October 31, 2009 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) Three months ended		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (1) Three months ended	
	October 30, 2010	October 31, 2009		October 30, 2010	October 31, 2009
Interest rate swaps	\$ (2,086)	\$ 2,266	Interest expense, net	\$ (378)	\$ (5,275)

(1) Represents reclassification of amounts from accumulated other comprehensive income (loss) to earnings as interest expense is recognized on the senior secured term loan facility. No ineffectiveness is associated with these interest rate cash flow hedges.

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (1)	

			(Effective Portion)		
	Nine months ended			Nine months ended	
	October	October		October	October
	30,	31,		30,	31,
	2010	2009		2010	2009
Interest rate swaps	\$ 5,663	\$ 3,862	Interest expense, net	\$ (9,157)	\$ (13,920)

(1) Represents reclassification of amounts from accumulated other comprehensive income (loss) to earnings as interest expense is recognized on the senior secured term loan facility. No ineffectiveness is associated with these interest rate cash flow hedges.

Over the next twelve months, the Company expects to reclassify net losses on the Company's interest rate swaps recognized within Accumulated other comprehensive income (loss), net of tax of \$1.9 million to interest expense.

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

The 2010 precipitous decline in sales, lower margin rates due to markdowns on slow-moving merchandise, and difficulty in cost reduction efforts, coupled with an inability to generate positive cash flow to pay royalties or dividends since inception, prompted the Company to perform a valuation of Claire's Nippon. In accordance with Accounting Standards Codification (ASC) Subtopic 323-10, *Investments - Equity Method and Joint Ventures*, the Company is required to perform an assessment of overall other than temporary decrease in investment value when events or circumstances indicate that the carrying value may not be recoverable. The fair value of Claire's Nippon is based on a discounted cash flow analysis of estimated future operating results. A decrease in business growth, decrease in earnings projections or increase in the discount factor will cause the fair value to decrease. Because the expected future cash flows were less than the net carrying value of the investment in Claire's Nippon, an impairment loss was recognized for the excess of the net carrying value over the estimated fair value. The Company recorded a \$6.0 million non-cash impairment charge related to the investment in Claire's Nippon during the fiscal 2010 second quarter.

On September 2, 2010, the Company converted its 50:50 joint venture with Aeon into a license arrangement for stores in Japan only. As a result, the Company now owns the full and exclusive rights to operate Claire's stores in all of Asia excluding Japan. The parties also agreed to operate Claire's Nippon under a new license agreement, to replace the existing merchandising agreement and to amend the buying agency agreement. In accordance with ASC Subtopic 845-10, *Nonmonetary Transactions*, the Company measured the conversion based on the fair value of the asset surrendered.

8. Commitments and Contingencies

The Company is, from time to time, involved in litigation incidental to the conduct of its business, including personal injury litigation, litigation regarding merchandise sold, including product and safety concerns regarding content in merchandise, litigation with respect to various employment matters, including litigation with present and former employees, wage and hour litigation, and litigation to protect trademark rights. The Company believes that current pending litigation will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

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9. Related Party Transactions

Included in Furniture, fixtures and equipment in the accompanying Unaudited Condensed Consolidated Balance Sheets and Selling, general and administrative expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) are store architectural planning and retail design fees paid to a company owned by a family member of one of the Company's executive officers. For the three months ended October 30, 2010 and October 31, 2009, fees of approximately \$0.3 million and \$0.3 million, respectively, were paid to this company. For the nine months ended October 30, 2010 and October 31, 2009, the Company paid fees of approximately \$0.9 million and \$0.6 million, respectively. The arrangement was entered into during Fiscal 2008. This arrangement was approved by the Audit Committee of the Board of Directors.

10. Supplemental Financial Information

On May 29, 2007, Claire's Stores, Inc. (the Issuer), issued \$935.0 million in Senior Notes, Senior Toggle Notes and Senior Subordinated Notes. These Notes are irrevocably and unconditionally guaranteed, jointly and severally, by all wholly-owned domestic current and future subsidiaries of Claire's Stores, Inc. that guarantee the Company's Credit Facility (the Guarantors). The Company's other subsidiaries, principally its international subsidiaries including its European, Canadian and Asian subsidiaries (the Non-Guarantors), are not guarantors of these Notes.

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

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Condensed Consolidating Balance Sheet
October 30, 2010
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 95,976	\$ (8,615)	\$ 66,694	\$	\$ 154,055
Inventories		103,330	56,917		160,247
Prepaid expenses	1,536	15,019	15,841		32,396
Other current assets	27	18,307	8,944		27,278
Total current assets	97,539	128,041	148,396		373,976
Property and equipment:					
Land and building					
Furniture, fixtures and equipment	3,143	114,668	60,108		177,919
Leasehold improvements	1,050	141,161	99,809		242,020
	4,193	255,829	159,917		419,939
Less accumulated depreciation and amortization	(2,031)	(139,448)	(79,740)		(221,219)
	2,162	116,381	80,177		198,720
Leased property under capital leases:					
Land and building		18,055			18,055
Less accumulated depreciation and amortization		(677)			(677)
		17,378			17,378
Intercompany receivables		293,500		(293,500)	
Investment in subsidiaries	2,304,841	(66,132)		(2,238,709)	
Intangible assets, net	285,999	10,752	276,638		573,389
Deferred financing costs, net	38,430				38,430
Other assets	127	4,131	39,564		43,822
Goodwill		1,235,650	314,406		1,550,056
	2,629,397	1,477,901	630,608	(2,532,209)	2,205,697
Total assets	\$ 2,729,098	\$ 1,739,701	\$ 859,181	\$ (2,532,209)	2,795,771
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)					

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Current liabilities:

Trade accounts payable	\$ 2,988	\$ 29,463	\$ 32,096	\$	\$ 64,547
Current portion of long-term debt	14,500				14,500
Income taxes payable		(330)	8,651		8,321
Accrued interest payable	27,032				27,032
Accrued expenses and other current liabilities	20,341	34,991	49,133		104,465
Total current liabilities	64,861	64,124	89,880		218,865
Intercompany payables	282,738		10,762	(293,500)	
Long-term debt	2,235,384				2,235,384
Revolving credit facility	194,000				194,000
Obligations under capital leases		17,290			17,290
Deferred tax liability		106,613	15,462		122,075
Deferred rent expense		16,726	8,479		25,205
Unfavorable lease obligations and other long-term liabilities		29,286	1,551		30,837
	2,712,122	169,915	36,254	(293,500)	2,624,791
Stockholder's equity (deficit):					
Common stock		367	2	(369)	
Additional paid in capital	619,675	1,445,795	876,798	(2,322,593)	619,675
Accumulated other comprehensive income (loss), net of tax	2,791	3,094	(2,564)	(530)	2,791
Retained earnings (deficit)	(670,351)	56,406	(141,189)	84,783	(670,351)
	(47,885)	1,505,662	733,047	(2,238,709)	(47,885)
Total liabilities and stockholder's equity (deficit)	\$ 2,729,098	\$ 1,739,701	\$ 859,181	\$ (2,532,209)	\$ 2,795,771

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Condensed Consolidating Balance Sheet
January 30, 2010
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 109,138	\$ (10,604)	\$ 100,174	\$	\$ 198,708
Inventories		73,902	36,436		110,338
Prepaid expenses	509	14,217	18,147		32,873
Other current assets	1,030	19,527	7,679		28,236
Total current assets	110,677	97,042	162,436		370,155
Property and equipment:					
Land and building		19,318			19,318
Furniture, fixtures and equipment	2,137	109,405	51,060		162,602
Leasehold improvements	1,113	138,706	88,684		228,503
	3,250	267,429	139,744		410,423
Less accumulated depreciation and amortization	(1,746)	(117,101)	(63,592)		(182,439)
	1,504	150,328	76,152		227,984
Intercompany receivables		148,072		(148,072)	
Investment in subsidiaries	2,200,694	(7,069)		(2,193,625)	
Intangible assets, net	286,000	13,017	281,010		580,027
Deferred financing costs, net	47,641				47,641
Other assets	18,099	3,230	36,913		58,242
Goodwill		1,235,651	314,405		1,550,056
	2,552,434	1,392,901	632,328	(2,341,697)	2,235,966
Total assets	\$ 2,664,615	\$ 1,640,271	\$ 870,916	\$ (2,341,697)	\$ 2,834,105
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)					
Current liabilities:					
Trade accounts payable	\$ 2,335	\$ 19,202	\$ 24,123	\$	\$ 45,660
Current portion of long-term debt	14,500				14,500
Income taxes payable		101	10,171		10,272
Accrued interest payable	14,644				14,644
Accrued expenses and other current liabilities	22,380	33,559	40,497		96,436

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Total current liabilities	53,859	52,862	74,791		181,512
Intercompany payables	137,913		10,159	(148,072)	
Long-term debt	2,313,378				2,313,378
Revolving credit facility	194,000				194,000
Deferred tax liability		106,386	15,759		122,145
Deferred rent expense	107	14,957	7,018		22,082
Unfavorable lease obligations and other long-term liabilities		33,347	2,283		35,630
	2,645,398	154,690	35,219	(148,072)	2,687,235
Stockholder's equity (deficit):					
Common stock		367	2	(369)	
Additional paid in capital	616,086	1,445,795	876,798	(2,322,593)	616,086
Accumulated other comprehensive income (loss), net of tax	2,625	2,101	(4,134)	2,033	2,625
Retained deficit	(653,353)	(15,544)	(111,760)	127,304	(653,353)
	(34,642)	1,432,719	760,906	(2,193,625)	(34,642)
Total liabilities and stockholder's equity (deficit)	\$ 2,664,615	\$ 1,640,271	\$ 870,916	\$ (2,341,697)	\$ 2,834,105

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For The Three Months Ended October 30, 2010
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$	\$ 418,244	\$ 144,237	\$ (214,306)	\$ 348,175
Cost of sales, occupancy and buying expenses	1,088	313,787	67,004	(214,306)	167,573
Gross profit	(1,088)	104,457	77,233		180,602
Other expenses:					
Selling, general and administrative	8,739	62,757	51,936		123,432
Depreciation and amortization	162	9,485	6,459		16,106
Severance and transaction-related costs	41		80		121
Other (income) expense	(6,259)	4,797	909		(553)
	2,683	77,039	59,384		139,106
Operating income (loss)	(3,771)	27,418	17,849		41,496
Gain on early debt extinguishment	2,652				2,652
Interest expense, net	36,667	473	(8)		37,132
Income (loss) before income taxes	(37,786)	26,945	17,857		7,016
Income tax expense (benefit)		822	2,547		3,369
Income (loss) from continuing operations	(37,786)	26,123	15,310		3,647
Equity in earnings of subsidiaries	41,433	1,365		(42,798)	
Net income	3,647	27,488	15,310	(42,798)	3,647
Foreign currency translation and interest rate swap adjustments, net of tax	9,747	83	11,465	(11,548)	9,747
Comprehensive income	\$ 13,394	\$ 27,571	\$ 26,775	\$ (54,346)	\$ 13,394

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For The Three Months Ended October 31, 2009
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$	\$ 381,633	\$ 139,537	\$ (196,766)	\$ 324,404
Cost of sales, occupancy and buying expenses		290,248	65,918	(196,766)	159,400

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Gross profit		91,385	73,619		165,004
Other expenses:					
Selling, general and administrative	6,970	63,829	45,024		115,823
Depreciation and amortization	163	10,374	6,790		17,327
Severance and transaction-related costs	32				32
Other (income) expense	(4,310)	4,328	(892)		(874)
	2,855	78,531	50,922		132,308
Operating income (loss)	(2,855)	12,854	22,697		32,696
Gain on early debt extinguishment	16,096				16,096
Interest expense (income), net	43,714	2			43,716
Income (loss) before income taxes	(30,473)	12,852	22,697		5,076
Income tax expense (benefit)	174	440	1,573		2,187
Income (loss) from continuing operations	(30,647)	12,412	21,124		2,889
Equity in earnings of subsidiaries	33,536	2,100		(35,636)	
Net income	2,899	14,512	21,124	(35,636)	2,889
Foreign currency translation and interest rate swap adjustments, net of tax	4,851	(194)	1,716	(1,522)	4,851
Comprehensive income	\$ 7,740	\$ 14,318	\$ 22,840	\$ (37,158)	\$ 7,740

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For The Nine Months Ended October 30, 2010
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$	\$ 1,144,850	\$ 407,123	\$ (547,488)	\$ 1,004,485
Cost of sales, occupancy and buying expenses	3,745	836,903	192,384	(547,488)	485,544
Gross profit	(3,745)	307,947	214,739		518,941
Other expenses:					
Selling, general and administrative	26,225	188,544	151,724		366,493
Depreciation and amortization	449	28,699	19,180		48,328
Severance and transaction-related costs	355		80		435
Other (income) expense	(19,456)	13,163	7,257		964
	7,573	230,406	178,241		416,220
Operating income (loss)	(11,318)	77,541	36,498		102,721
Gain on early debt extinguishment	13,388				13,388
Impairment of equity investment		6,030			6,030
Interest expense, net	119,830	655	(17)		120,468
Income (loss) before income taxes	(117,760)	70,856	36,515		(10,389)
Income tax expense	23	506	6,080		6,609
Income (loss) from continuing operations	(117,783)	70,350	30,435		(16,998)
Equity in earnings of subsidiaries	100,785	1,600		(102,385)	
Net income (loss)	(16,998)	71,950	30,435	(102,385)	(16,998)
Foreign currency translation and interest rate swap adjustments, net of tax	9,738	994	1,570	(2,564)	9,738
Reclassification of foreign currency translation adjustments in net income (loss)	(9,572)	(9,572)		9,572	(9,572)
Comprehensive income (loss)	\$ (16,832)	\$ 63,372	\$ 32,005	\$ (95,377)	\$ (16,832)

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For The Nine Months Ended October 31, 2009
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
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Net sales	\$	\$ 1,043,158	\$ 380,734	\$ (492,194)	\$ 931,698
Cost of sales, occupancy and buying expenses		775,328	187,761	(492,194)	470,895
Gross profit		267,830	192,973		460,803
Other expenses:					
Selling, general and administrative	20,957	176,578	135,342		332,877
Depreciation and amortization	1,276	32,995	19,914		54,185
Severance and transaction-related costs	406				406
Other (income) expense	(10,548)	13,811	(4,445)		(1,182)
	12,091	223,384	150,811		386,286
Operating income (loss)	(12,091)	44,446	42,162		74,517
Gain on early debt extinguishment	33,200				33,200
Interest expense (income), net	134,332	(11)	(42)		134,279
Income (loss) before income taxes	(113,223)	44,457	42,204		(26,562)
Income tax expense		2,288	1,017		3,305
Income (loss) from continuing operations	(113,223)	42,169	41,187		(29,867)
Equity in earnings of subsidiaries	83,356	3,372		(86,728)	
Net income (loss)	(29,867)	45,541	41,187	(86,728)	(29,867)
Foreign currency translation and interest rate swap adjustments, net of tax	30,450	3,855	27,565	(31,420)	30,450
Comprehensive income	\$ 583	\$ 49,396	\$ 68,752	\$ (118,148)	\$ 583

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Condensed Consolidating Statement of Cash Flows
Nine Months Ended October 30, 2010
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ (16,998)	\$ 71,950	\$ 30,435	\$ (102,385)	\$ (16,998)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity in earnings of subsidiaries	(100,785)	(1,600)		102,385	
Depreciation and amortization	449	28,699	19,180		48,328
Impairment		6,030			6,030
Amortization of lease rights and other assets		29	2,217		2,246
Amortization of debt issuance costs	7,507				7,507
Payment in kind interest expense	27,837				27,837
Net accretion of favorable (unfavorable) lease obligations		(1,624)	388		(1,236)
Loss on sale/retirement of property and equipment, net		632			632
Gain on early debt extinguishment	(13,388)				(13,388)
Stock compensation expense	2,757		832		3,589
(Increase) decrease in:					
Inventories		(29,428)	(19,035)		(48,463)
Prepaid expenses	(1,026)	(803)	3,527		1,698
Other assets	1,216	1,299	(5,766)		(3,251)
Increase (decrease) in:					
Trade accounts payable	653	9,072	6,780		16,505
Income taxes payable		1,346	(1,033)		313
Accrued interest payable	12,389				12,389
Accrued expenses and other liabilities	3,625	1,334	7,918		12,877
Deferred income taxes		424	88		512
Deferred rent expense	(107)	1,770	1,294		2,957
Net cash provided by (used in) operating activities	(75,871)	89,130	46,825		60,084
Cash flows from investing activities:					
Acquisition of property and equipment, net	(1,104)	(10,386)	(18,313)		(29,803)
Acquisition of intangible assets/lease rights		(89)	(830)		(919)
Proceeds from sale of property		16,765			16,765

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Net cash provided by (used in) investing activities	(1,104)	6,290	(19,143)	(13,957)
Cash flows from financing activities:				
Credit facility payments	(10,875)			(10,875)
Note purchases	(79,865)			(79,865)
Principal payments on capital leases		(765)		(765)
Intercompany activity, net	154,553	(94,473)	(60,080)	
Net cash provided by (used in) financing activities	63,813	(95,238)	(60,080)	(91,505)
Effect of foreign currency exchange rate changes on cash and cash equivalents		1,807	(1,082)	725
Net increase (decrease) in cash and cash equivalents	(13,162)	1,989	(33,480)	(44,653)
Cash and cash equivalents at beginning of period	109,138	(10,604)	100,174	198,708
Cash and cash equivalents at end of period	\$ 95,976	\$ (8,615)	\$ 66,694	\$ 154,055

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Condensed Consolidating Statement of Cash Flows
Nine Months Ended October 31, 2009
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ (29,867)	\$ 45,541	\$ 41,187	\$ (86,728)	\$ (29,867)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity in earnings of subsidiaries	(83,356)	(3,372)		86,728	
Depreciation and amortization	1,276	32,995	19,914		54,185
Amortization of lease rights and other assets		36	1,477		1,513
Amortization of debt issuance costs	7,845				7,845
Payment in kind interest expense	29,415				29,415
Net accretion of favorable (unfavorable) lease obligations		(1,885)	291		(1,594)
Loss on sale / retirement of property and equipment, net	3	17	19		39
Gain on early debt extinguishment	(33,200)				(33,200)
Gain on sale of intangible assets/lease rights			(598)		(598)
Stock compensation expense	2,901		1,431		4,332
(Increase) decrease in:					
Inventories		(21,560)	(9,355)		(30,915)
Prepaid expenses	(158)	(674)	(4,361)		(5,193)
Other assets	(1,487)	(2,215)	(1,865)		(5,567)
Increase (decrease) in:					
Trade accounts payable	(510)	1,319	9,136		9,945
Income taxes payable		(216)	1,965		1,749
Accrued interest payable	15,124		(3)		15,121
Accrued expenses and other liabilities	(4,585)	302	3,329		(954)
Deferred income taxes	987	1,035	(444)		1,578
Deferred rent expense	(486)	2,348	1,033		2,895
Net cash provided by (used in) operating activities	(96,098)	53,671	63,156		20,729
Cash flows from investing activities:					
Acquisition of property and equipment, net	(162)	(9,723)	(7,790)		(17,675)
Acquisition of intangible assets/lease rights		(87)	(397)		(484)
			2,154		2,154

Proceeds from sale of intangible
assets/lease rights

Net cash used in investing activities	(162)	(9,810)	(6,033)	(16,005)
Cash flows from financing activities:				
Credit facility payments	(10,875)			(10,875)
Note purchases	(36,521)			(36,521)
Intercompany activity, net	82,115	(48,835)	(33,280)	
Net cash provided by (used in) financing activities	34,719	(48,835)	(33,280)	(47,396)
Effect of foreign currency exchange rate changes on cash and cash equivalents		(242)	3,499	3,257
Net increase (decrease) in cash and cash equivalents	(61,541)	(5,216)	27,342	(39,415)
Cash and cash equivalents at beginning of period	154,414	211	49,949	204,574
Cash and cash equivalents at end of period	\$ 92,873	\$ (5,005)	\$ 77,291	\$ 165,159

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

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

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

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Business Overview

We are one of the world's leading specialty retailers of fashionable accessories and jewelry at affordable prices for young women, teens, tweens, and girls ages 3 to 27. We are organized based on our geographic markets, which include our North American division and our European division. As of October 30, 2010, we operated a total of 2,971 stores, of which 1,983 were located in all 50 states of the United States, Puerto Rico, Canada, and the U.S. Virgin Islands (our North American division) and 988 stores were located in the United Kingdom, France, Switzerland, Spain, Ireland, Austria, Germany, Netherlands, Portugal, Belgium and Poland (our European division). Our stores operate under the trade names Claire's and Icing.

In addition, as of October 30, 2010, we franchised or licensed 398 stores in Japan, the Middle East, Turkey, Russia, South Africa, Greece, Guatemala and Malta under franchising agreements. Within our North American division, we account for the goods we sell to third parties under franchising agreements within Net sales and Cost of sales, occupancy and buying expenses in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Within our European division, the franchise fees we charge under the franchising agreements are reported in Other expense (income), net in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) included in this Quarterly Report.

Until September 2, 2010, we also operated stores in Japan through our Claire's Nippon 50:50 joint venture with Aeon Co., Ltd. Within our North American division, we accounted for the results of operations of Claire's Nippon under the equity method and included the results within Other expense (income), net in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) included in this Quarterly Report. Beginning September 2, 2010, these former joint venture stores now operate as licensed stores.

Our primary brand in North America and exclusively in Europe is Claire's. Our Claire's customers are predominantly teens (ages 13 to 18), tweens (ages 7 to 12) and kids (ages 3 to 6), or known internally to Claire's as our Young, Younger and Youngest target customer groups.

Our second brand in North America is Icing, which targets a single edit point customer represented by a 23 year old young woman just graduating from college and entering the work force who dresses consistent with the current fashion influences. We believe this niche strategy enables us to create a well defined merchandise point of view and attract a broad group of customers from 19 to 27 years of age.

We believe that we are the leading accessories and jewelry destination for our target customers, which is embodied in our mission statement to be a fashion authority and fun destination offering a compelling, focused assortment of value-priced accessories, jewelry and other emerging fashion categories targeted to the lifestyles of kids, tweens, teens and young women. In addition to age segmentation, we use multiple lifestyle aesthetics to further differentiate our merchandise assortments for our Young and Younger target customer groups.

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

Accessories includes fashion accessories for year-round use, including legwear, headwear, attitude glasses, armwear, scarves and belts, and seasonal use, including sunglasses, sandals, hats, boots, scarves, gloves, earmuffs and slippers; and other accessories, including hairgoods, handbags, and small leather goods, as well as cosmetics

Jewelry includes earrings, necklaces, bracelets, body jewelry and rings, as well as ear piercing

In North America, our stores are located primarily in shopping malls. The differentiation of our Claire's and Icing brands allows us to operate multiple store locations within a single mall. In Europe our stores are located primarily on high streets, in shopping malls and in high traffic urban areas.

Table of Contents**Current Market Conditions**

The current distress in the financial markets has resulted in declines in consumer confidence and spending, extreme volatility in securities prices, and has had a negative impact on credit availability and declining valuations of certain investments. We have assessed the implications of these factors on our current business and have responded with pursuit of cost reduction opportunities and are proceeding cautiously to support increased sales. If the national, or global, economies or credit market conditions in general were to deteriorate further in the future, it is possible that such deterioration could put additional negative pressure on consumer spending and negatively affect our cash flows or cause a tightening of trade credit that may negatively affect our liquidity.

Consolidated Results of Operations

A summary of our consolidated results of operations for the three and nine months ended October 30, 2010 and October 31, 2009 are as follows (dollars in thousands):

	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009
Net sales	\$ 348,175	\$ 324,404
Increase (decrease) in same store sales	7.5%	(0.3)%
Gross profit percentage	51.9%	50.9%
Selling, general and administrative expenses as a percentage of net sales	35.5%	35.7%
Depreciation and amortization as a percentage of net sales	4.6%	5.3%
Operating income	\$ 41,496	\$ 32,696
Gain on early debt extinguishment	\$ 2,652	\$ 16,096
Net income	\$ 3,647	\$ 2,889
Number of stores at the end of the period (1)	2,971	2,954

(1) Number of stores excludes stores operated under franchise and licensing agreements.

	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Net sales	\$ 1,004,485	\$ 931,698
Increase (decrease) in same store sales	8.0%	(3.2)%
Gross profit percentage	51.7%	49.5%
Selling, general and administrative expenses as a percentage of net sales	36.5%	35.7%
Depreciation and amortization as a percentage of net sales	4.8%	5.8%
Operating income	\$ 102,721	\$ 74,517
Gain on early debt extinguishment	\$ 13,388	\$ 33,200
Impairment of equity investment	\$ 6,030	\$
Net loss	\$ (16,988)	\$ (29,867)
Number of stores at the end of the period (1)	2,971	2,954

(1) Number of stores excludes stores operated under franchise and licensing agreements.

Net sales

Net sales for the three months ended October 30, 2010 increased \$23.8 million, or 7.3%, from the three months ended October 31, 2009. This increase was attributable to an increase in same store sales, new store sales and an increase in

shipments to franchisees, partially offset by foreign currency translation effect of our foreign locations' sales and closed stores. Sales would have increased 9.4% excluding the impact from foreign currency rate changes.

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Net sales for the nine months ended October 30, 2010 increased \$72.8 million, or 7.8%, from the nine months ended October 31, 2009. This increase was attributable to an increase in same store sales and new store sales, partially offset by foreign currency translation effect of our foreign locations sales and closed stores. Sales would have increased 8.7% excluding the impact from foreign currency rate changes.

For the three months ended October 30, 2010, the increase in same store sales was primarily attributable to an increase in average transaction value of 5.3% and an increase in average number of transactions per store of 3.0%.

For the nine months ended October 30, 2010, the increase in same store sales was primarily attributable to an increase in average transaction value of 7.2% and an increase in average number of transactions per store of 1.1%.

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

	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
% of Total				
Accessories	54.3	54.3	52.7	51.2
Jewelry	45.7	45.7	47.3	48.8
	100.0	100.0	100.0	100.0

Gross profit

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

During the fiscal 2010 third quarter, gross profit percentage increased 100 basis points to 51.9% compared to 50.9% during the comparable prior year quarter. The increase consisted of a 180 basis point decrease in occupancy costs, partially offset by an 80 basis point decrease in merchandise margin. The improvement in occupancy rate is due to the leveraging effect of higher sales. The decrease in merchandise margin was primarily due to an increase in markdowns and freight expense.

During the first nine months of fiscal 2010, gross profit percentage increased 220 basis points to 51.7% compared to 49.5% during the comparable prior year period. The increase consisted of a 50 basis point improvement in merchandise margin and a 190 basis point decrease in occupancy costs, partially offset by a 20 basis point increase in buying and buying-related costs. Merchandise margin benefited by 30 basis points based on the results of our all store North America inventory observation during the fiscal 2010 second quarter. Merchandise margin also benefited from increased initial mark up and reduced markdowns partially offset by increases in freight expense. The improvement in occupancy rate is due to the leveraging effect of higher sales.

Selling, general and administrative expenses

During the three months ended October 30, 2010, selling, general and administrative expenses increased \$7.6 million, or 6.6%, compared to the three months ended October 31, 2009. As a percentage of net sales, selling, general and administrative expenses decreased 20 basis points compared to the three months ended October 31, 2009. The majority of the increase was for store-related expenses resulting from increased sales.

During the nine months ended October 30, 2010, selling, general and administrative expenses increased \$33.6 million, or 10.1%, compared to the nine months ended October 31, 2009. As a percentage of net sales, selling, general and administrative expenses increased 80 basis points compared to the nine months ended October 31, 2009. The majority of the increase was for store-related expenses resulting from

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increased sales, including the all store inventory observation in North America during the fiscal 2010 second quarter.

Depreciation and amortization expense

Depreciation and amortization expense decreased \$1.2 million to \$16.1 million during the three months ended October 30, 2010 compared to the three months ended October 31, 2009. The majority of this decrease is due to the effect of assets becoming fully depreciated or amortized.

Depreciation and amortization expense decreased \$5.9 million to \$48.3 million during the nine months ended October 30, 2010 compared to the nine months ended October 31, 2009. The majority of this decrease is due to the effect of assets becoming fully depreciated or amortized.

Other expense (income), net

The following is a summary of other expense (income) activity for the three and nine months ended October 30, 2010 and October 31, 2009 (in thousands):

	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Equity (income) loss	\$	\$	\$	\$
Royalty income	(553)	(411)	2,529	777
Gain on sale of assets		(334)	(1,085)	(1,141)
Other income		(129)	(480)	(598)
				(220)
	\$ (553)	\$ (874)	\$ 964	\$ (1,182)

Impairment of equity investment

During the second quarter of 2010, the Company recorded a non-cash impairment charge related to the investment in Claire's Nippon of \$6.0 million. There were no other impairment charges recorded during the three and nine months ended October 30, 2010. Recent operating losses prompted us to perform a valuation of Claire's Nippon during the second fiscal quarter of 2010.

Interest expense, net

Net interest expense for the three months ended October 30, 2010 aggregated \$37.1 million compared to \$43.7 million for the three months ended October 31, 2009. This decrease of \$6.6 million is primarily the result of reductions in interest rates on the floating portion of our debt and Note purchases.

Net interest expense for the nine months ended October 30, 2010 aggregated \$120.5 million compared to \$134.3 million for the nine months ended October 31, 2009. This decrease of \$13.8 million is primarily the result of reductions in interest rates on the floating portion of our debt and Note purchases.

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The effective income tax rate for the three and nine months ended October 30, 2010 was 48.0% and (63.6)%, respectively, compared to 43.1% and (12.4)% for the three and nine months ended October 31, 2009, respectively. These effective income tax rates differed from the statutory federal tax rate of 35% primarily from increases in the valuation allowance recorded for additional deferred tax assets generated in the three and nine months ended October 30, 2010 and October 31, 2009, respectively, by our U.S. operations.

Segment Operations

We are organized into two business segments North America and Europe. The following is a discussion of results of operations by business segment.

North America

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

	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Net sales	\$ 220,672	\$ 199,867	\$ 643,358	\$ 589,476
Increase (decrease) in same store sales	9.6%	(1.9)%	9.1%	(5.0)%
Gross profit percentage	52.1%	50.6%	51.9%	49.4%
Number of stores at the end of the period (1)	1,983	2,001	1,983	2,001

(1) Number of stores excludes stores operated under franchise and licensing agreements.

During the three months ended October 30, 2010, net sales in North America increased \$20.8 million, or 10.4%, from the three months ended October 31, 2009. This increase was attributable to an increase in same store sales, an increase in shipments to franchisees, new store sales and foreign currency translation effect of our Canadian operations sales, partially offset by closed stores. Sales would have increased 10.1% excluding the impact from foreign currency rate changes.

During the nine months ended October 30, 2010, net sales in North America increased \$53.9 million, or 9.1%, from the nine months ended October 31, 2009. This increase was attributable to an increase in same store sales, foreign currency translation effect of our Canadian operations sales and new store sales, partially offset by closed stores. Sales would have increased 8.4% excluding the impact from foreign currency rate changes.

For the three months ended October 30, 2010, the increase in same store sales was primarily attributable to an increase in average transaction value of 5.2% and an increase in average number of transactions per store of 4.7%.

For the nine months ended October 30, 2010, the increase in same store sales was primarily attributable to an increase in average transaction value of 6.2% and an increase in average number of transactions per store of 2.8%.

During the fiscal 2010 third quarter, gross profit percentage increased 150 basis points to 52.1% compared to 50.6% during the comparable prior year quarter. The increase consisted of a 220 basis point decrease in occupancy costs, partially offset by a 50 basis point decrease in merchandise margin and a 20 basis point increase in buying and buying-related costs. The improvement in occupancy rate is due to the leveraging effect of higher sales. The decrease in merchandise margin was primarily due to an increase in markdowns and freight expense.

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During the first nine months of fiscal 2010, gross profit percentage increased 250 basis points to 51.9% compared to 49.4% during the comparable prior year period. The increase consisted of an 80 basis point improvement in merchandise margin and a 210 basis point decrease in occupancy costs, partially offset by a 40 basis point increase in buying and buying-related costs. Merchandise margin benefited by 50 basis points based on the results of our all store North America inventory observation during the fiscal 2010 second quarter. The improvement in occupancy rate is due to the leveraging effect of higher sales.

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

% of Total	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Accessories	49.4	48.8	47.7	45.5
Jewelry	50.6	51.2	52.3	54.5
	100.0	100.0	100.0	100.0

Europe

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

	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Net sales	\$ 127,503	\$ 124,537	\$ 361,127	\$ 342,222
Increase in same store sales	3.9%	2.3%	5.9%	0.0%
Gross profit percentage	51.5%	51.3%	51.2%	49.6%
Number of stores at the end of the period (1)	988	953	988	953

(1) Number of stores excludes stores operated under franchise and licensing agreements.

During the three months ended October 30, 2010, net sales in Europe increased \$3.0 million, or 2.4%, from the three months ended October 31, 2009. This increase was attributable to an increase in new store sales and same store sales, partially offset by foreign currency translation of our European operations sales and closed stores. Sales would have increased 8.3% excluding the impact from foreign currency rate changes.

During the nine months ended October 30, 2010, net sales in Europe increased \$18.9 million, or 5.5%, from the nine months ended October 31, 2009. This increase was attributable to an increase in same store sales and new store sales, partially offset by foreign currency translation of our European operations sales and closed stores. Sales would have increased 9.3% excluding the impact from foreign currency rate changes.

For the three months ended October 30, 2010, the increase in same store sales was primarily attributable to an increase in average transaction value of 5.1%, partially offset by a decrease in average number of transactions per store.

For the nine months ended October 30, 2010, the increase in same store sales was primarily attributable to an increase in average transaction value of 8.4%, partially offset by a decrease in average number of transactions per store.

During the fiscal 2010 third quarter, gross profit percentage increased 20 basis points to 51.5% compared to 51.3% during the comparable prior year quarter. The increase consisted of a 100 basis point decrease in occupancy costs and a 30 basis point decrease in buying and buying-related costs, partially offset by a 110 basis point decrease in merchandise margin. The improvement in occupancy rate is due to the leveraging effect of higher sales. The decrease

in merchandise margin was primarily due to an increase in markdowns and freight expense.

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During the first nine months of fiscal 2010, gross profit percentage increased 160 basis points to 51.2% compared to 49.6% during the comparable prior year period. The increase consisted of a 10 basis point improvement in merchandise margin, a 140 basis point decrease in occupancy costs and a 10 basis point decrease in buying and buying-related costs. The improvement in occupancy rate is due to the leveraging effect of higher sales.

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

	Three Months Ended October 30, 2010	Three Months Ended October 31, 2009	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
% of Total				
Accessories	62.6	62.9	61.6	60.6
Jewelry	37.4	37.1	38.4	39.4
	100.0	100.0	100.0	100.0

Financial Resources and Liquidity

A summary of cash flows provided by (used in) operating, investing and financing activities for the nine months ended October 30, 2010 and October 31, 2009 is outlined in the table below (in thousands):

	Nine Months Ended October 30, 2010	Nine Months Ended October 31, 2009
Operating activities	\$ 60,084	\$ 20,729
Investing activities	(13,957)	(16,005)
Financing activities	(91,505)	(47,396)

Cash flows from operating activities

Cash provided by operating activities increased \$39.4 million for the nine months ended October 30, 2010 compared to the prior year period. The primary reasons for the increase were an increase in operating income before depreciation and amortization expense of \$22.3 million; a decrease in working capital, excluding cash and cash equivalents, of \$12.1 million; and lower cash interest payments of \$8.9 million; partially offset by higher cash tax payments of \$2.4 million.

Cash flows from investing activities

Cash used in investing activities decreased \$2.0 million for the nine months ended October 30, 2010 compared to the prior year period. In February 2010, we completed a sale-leaseback transaction that generated proceeds of approximately \$16.8 million, offset by increased capital expenditures of \$12.6 million for the remodeling of existing stores, new store openings, and improvements to technology systems and last year we received \$2.2 million from the sale of intangible assets. During the remainder of Fiscal 2010, we expect to fund between \$15.0 million and \$20.0 million of capital expenditures.

Cash flows from financing activities

Cash used in financing activities increased \$44.1 million for the nine months ended October 30, 2010 compared to the prior year period. In both of these periods, we paid \$10.9 million for the scheduled principal payments on our Credit Facility. In the nine months ended October 30, 2010, we paid \$79.9 million to retire \$14.0 million of Senior Notes, \$57.2 million of Senior Toggle Notes and \$22.6 million of Senior Subordinated Notes. In the nine months ended October 31, 2009, we paid \$36.5 million to retire \$27.5 million of Senior Toggle Notes and \$42.8 million of Senior Subordinated Notes. We also paid \$0.8 million in capital lease payments during the nine months ended October 30, 2010.

As discussed in our Annual Report on Form 10-K for the year ended January 30, 2010, we have elected to pay interest in kind on our Senior Toggle Notes for the interest periods beginning June 2, 2008 and it is

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our current intention to pay interest in kind on the Senior Toggle Notes for all interest periods through June 1, 2011. We or our affiliates have purchased and may, from time to time, purchase portions of our indebtedness. All of our purchases have been privately-negotiated, open market transactions.

Cash position

As of October 30, 2010, we had cash and cash equivalents of \$154.1 million and substantially all of such cash equivalents consisted of U.S. Treasury securities.

We anticipate that cash generated from operations will be sufficient to meet our future working capital requirements, new store expenditures, and debt service requirements for at least the next twelve months. However, our ability to fund future operating expenses and capital expenditures and our ability to make scheduled payments of interest on, to pay principal on, or refinance indebtedness and to satisfy any other present or future debt obligations will depend on future operating performance. Our future operating performance and liquidity may also be adversely affected by general economic, financial, and other factors beyond the Company's control, including those disclosed in Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

Credit Facility and Notes

Although we did not need to do so, during the quarter ended November 1, 2008, we drew down the remaining \$194.0 million available under our Revolving Credit Facility ("Revolver"). An affiliate of Lehman Brothers is a member of the facility syndicate, and so immediately after Lehman Brothers filed for bankruptcy, in order to preserve the availability of the commitment, we drew down the full available amount under the Revolver. We received the entire \$194.0 million, including the remaining portion of Lehman Brothers affiliate's commitment of \$33 million. Upon the replacement of Lehman Brothers, or the assumption of its commitment by a creditworthy entity, we will assess whether to pay down all or a portion of this outstanding balance based on various factors, including the creditworthiness of other syndicate members and general economic conditions. We believe it is unlikely that this matter will be resolved until some time following the conclusion of the Lehman Brothers bankruptcy proceedings. The Company is not required to repay any of the Revolver until the due date of May 29, 2013, therefore, the Revolver is classified as a long-term liability in the accompanying Unaudited Condensed Consolidated Balance Sheets as of October 30, 2010.

Our Senior Notes, Senior Toggle Notes and Senior Subordinated Notes (collectively, the "Notes") contain certain covenants that, among other things, and subject to certain exceptions and other basket amounts, restrict our ability and the ability of our subsidiaries to:

incur additional indebtedness;

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

make certain investments;

create or incur certain liens;

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

transfer or sell assets;

engage in certain transactions with our affiliates; and

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

Certain of these covenants, such as limitations on our ability to make certain payments such as dividends, or incur debt, will no longer apply if our Notes have investment grade ratings from both of the rating agencies of Moody's Investor Services, Inc. ("Moody's") and Standard & Poor's Ratings Group ("S&P") and no event of default has occurred. Since the date of issuance of the Notes in May 2007, the Notes

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have not received investment grade ratings from Moody's or S&P. Accordingly, all of the covenants under the Notes currently apply to us. None of these covenants, however, require the Company to maintain any particular financial ratio or other measure of financial performance. As of October 30, 2010, we were in compliance with the covenants under our Notes.

Critical Accounting Policies and Estimates

Our Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in (i) Note 2 Significant Accounting Policies in this Quarterly Report on Form 10-Q and (ii) our Fiscal 2009 Annual Report on Form 10-K, filed on April 13, 2010, in the Notes to Consolidated Financial Statements, Note 2, and the Critical Accounting Policies and Estimates section contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations therein.

Cautionary Note Regarding Forward-Looking Statements and Risk Factors

We and our representatives may from time to time make written or oral forward-looking statements, including statements contained in this and other filings with the Securities and Exchange Commission and in our press releases and reports we issue publicly. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to our future financial performance, business strategy, planned capital expenditures, ability to service our debt, and new store openings for future periods, are forward-looking statements. The forward-looking statements are and will be based on management's then current views and assumptions regarding future events and operating performance, and we assume no obligation to update any forward-looking statement. Forward-looking statements involve known or unknown risks, uncertainties and other factors, including changes in estimates and judgments discussed under Critical Accounting Policies and Estimates which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements may use the words expect, anticipate, plan, intend, project, may, believe, for, similar expressions. Some of these risks, uncertainties and other factors are as follows: our level of indebtedness; general economic conditions; changes in consumer preferences and consumer spending; competition; general political and social conditions such as war, political unrest and terrorism; natural disasters or severe weather events; currency fluctuations and exchange rate adjustments; uncertainties generally associated with the specialty retailing business; disruptions in our supply of inventory; inability to increase same store sales; inability to renew, replace or enter into new store leases on favorable terms; significant increases in our merchandise markdowns; inability to grow our store base in Europe or expand our international franchising operations; inability to design and implement new information systems; delays in anticipated store openings or renovations; results from any future asset impairment analysis; changes in applicable laws, rules and regulations, including changes in federal, state or local regulations governing the sale of our products, particularly regulations relating to the content in our products, general employment laws, including laws relating to overtime pay and employee benefits, health care laws, tax laws and import laws; product recalls; loss of key members of management; increases in the cost of labor; labor disputes; unwillingness of vendors and service providers to supply goods or services pursuant to historical customary credit arrangements; increases in the cost of borrowings; unavailability of additional debt or equity capital; and the impact of our substantial indebtedness on our operating income and our ability to grow. The Company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances. In addition, we typically earn a disproportionate share of our operating income in the fourth quarter due to seasonal buying patterns, which are difficult to forecast with certainty. Additional discussion of these and other risks and uncertainties is contained elsewhere in this Item 2, in Item 3, Quantitative and Qualitative Disclosures About Market Risk and in our Form 10-K for Fiscal 2009 under Statement Regarding Forward-Looking Disclosures and Risk Factors.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Cash and Cash Equivalents

We have significant amounts of cash and cash equivalents at financial institutions that are in excess of federally insured limits. With the current financial environment and the instability of financial institutions, we cannot be assured that we will not experience losses on our deposits. We mitigate this risk by investing in two money market funds that are invested exclusively in U.S. Treasury securities and limiting the cash balance in any one bank account. As of October 30, 2010, all cash equivalents were maintained in two money market funds that were invested exclusively in U.S. Treasury securities.

Foreign Currency

We are exposed to market risk from foreign currency exchange rate fluctuations on the United States dollar (USD or dollar) value of foreign currency denominated transactions and our investments in foreign subsidiaries. We manage this exposure to market risk through our regular operating and financing activities, and may from time to time, use foreign currency options. Exposure to market risk for changes in foreign currency exchange rates relates primarily to our foreign operations buying, selling, and financing in currencies other than local currencies and to the carrying value of net investments in foreign subsidiaries. At October 30, 2010, we maintained no foreign currency options. We generally do not hedge the translation exposure related to our net investment in foreign subsidiaries. Included in Comprehensive income (loss) are \$4.1 million and \$26.6 million, net of tax, reflecting the unrealized gain (loss) on foreign currency translations during the nine months ended October 30, 2010 and October 31, 2009, respectively. Certain of our subsidiaries make significant USD purchases from Asian suppliers, particularly in China. Until July 2005, the Chinese government pegged its currency, the yuan renminbi (RMB), to the USD, adjusting the relative value only slightly and on infrequent occasion. Many people viewed this practice as leading to a substantial undervaluation of the RMB relative to the USD and other major currencies, providing China with a competitive advantage in international trade. China now allows the RMB to float to a limited degree against a basket of major international currencies, including the USD, the euro and the Japanese yen. The official exchange rate has historically remained stable; however, there are no assurances that this currency exchange rate will continue to be as stable in the future due to the Chinese government's adoption of a floating rate with respect to the value of the RMB against foreign currencies. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on China to adopt an even more flexible and more market-oriented currency policy that allows a greater fluctuation in the exchange rate between the RMB and the USD. This floating exchange rate, and any appreciation of the RMB that may result from such rate, could have various effects on our business, which include making our purchases of Chinese products more expensive. If we are unable to negotiate commensurate price decreases from our Chinese suppliers, these higher prices would eventually translate into higher costs of sales, which could have a significant effect on our results of operations.

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

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Interest Rates

On July 28, 2010, we entered into an interest rate swap agreement (the "Swap") to manage exposure to fluctuations in interest rates. The Swap expires on July 30, 2013. The Swap represents a contract to exchange floating rate for fixed interest payments periodically over the life of the Swap without exchange of the underlying notional amount. The Swap covers an aggregate notional amount of \$200.0 million of the outstanding principal balance of the senior secured term loan facility. The fixed rate of the Swap is 1.2235% and has been designated and accounted for as a cash flow hedge. At October 30, 2010, the estimated fair value of the Swap was a liability of approximately \$3.1 million and was recorded, net of tax, as a component of Accumulated other comprehensive income (loss), net of tax in our Unaudited Condensed Consolidated Balance Sheets.

We entered into three interest rate swap agreements in July 2007 (the "Swaps") to manage exposure to fluctuations in interest rates. Those Swaps expired on June 30, 2010. The Swaps represented contracts to exchange floating rate for fixed interest payments periodically over the lives of the Swaps without exchange of the underlying notional amount. The Swaps covered an aggregate notional amount of \$435.0 million of the outstanding principal balance of the senior secured term loan facility. The fixed rates of the three Swaps ranged from 4.96% to 5.25%. The Swaps were designated and accounted for as cash flow hedges. At January 30, 2010, the estimated fair value of the Swaps were liabilities of approximately \$8.8 million and were recorded, net of tax, as a component of Accumulated other comprehensive income (loss), net of tax in our Unaudited Condensed Consolidated Balance Sheets.

At October 30, 2010, we had fixed rate debt of \$864.3 million and variable rate debt of \$1.60 billion. Based on our variable rate debt balance (less \$200.0 million of interest rate swap) as of October 30, 2010, a 1% change in interest rates would increase or decrease our annual interest expense by approximately \$14.0 million, net.

General Market Risk

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting have been made during the quarter ended October 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in our risk factors disclosed in our Annual Report on Form 10-K for the year ended January 30, 2010.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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SIGNATURES

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

CLAIRE S STORES, INC.

December 6, 2010

By: /s/ Eugene S. Kahn
Eugene S. Kahn,
Chief Executive Officer
(principal executive officer)

December 6, 2010

By: /s/ J. Per Brodin
J. Per Brodin,
Executive Vice President and
Chief Financial Officer
(principal financial and accounting
officer)

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INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
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