

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended October 28, 2017**

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

**For the transition period from                      to**

**Commission file number 0-23071**

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**THE CHILDREN'S PLACE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**31-1241495**

(I.R.S. Employer  
Identification Number)

**500 Plaza Drive**

**Secaucus, New Jersey**

(Address of Principal Executive Offices)

**07094**

(Zip Code)

**(201) 558-2400**

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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

The number of shares outstanding of the registrant's common stock with a par value of \$0.10 per share, as of November 17, 2017 was 17,395,543 shares.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED OCTOBER 28, 2017

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**PART I. FINANCIAL INFORMATION****Item 1. CONSOLIDATED FINANCIAL STATEMENTS****THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	October 28, 2017	January 28, 2017	October 29, 2016
	(unaudited)		(unaudited)
(in thousands, except par value)			
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 257,743	\$ 193,709	\$ 192,243
Short-term investments	15,000	49,300	75,100
Accounts receivable	32,432	31,413	30,605
Inventories	363,788	286,343	325,463
Prepaid expenses and other current assets	22,690	13,318	14,475
Deferred income taxes	—	17,504	19,459
<b>Total current assets</b>	<b>691,653</b>	<b>591,587</b>	<b>657,345</b>
Long-term assets:			
Property and equipment, net	266,230	264,280	274,747
Deferred income taxes	51,015	29,734	28,495
Other assets	4,526	5,322	3,497
<b>Total assets</b>	<b>\$ 1,013,424</b>	<b>\$ 890,923</b>	<b>\$ 964,084</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Current liabilities:			
Revolving loan	\$ 56,400	\$ 15,380	\$ 65,600
Accounts payable	249,562	158,632	170,192
Income taxes payable	6,790	13,812	26,877
Accrued expenses and other current liabilities	116,426	121,797	119,250
<b>Total current liabilities</b>	<b>429,178</b>	<b>309,621</b>	<b>381,919</b>
Long-term liabilities:			
Deferred rent liabilities	55,095	61,128	63,578
Other tax liabilities	3,220	7,344	7,772
Other long-term liabilities	15,465	16,543	16,500
<b>Total liabilities</b>	<b>502,958</b>	<b>394,636</b>	<b>469,769</b>
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>STOCKHOLDERS' EQUITY:</b>			
Preferred stock, \$1.00 par value, 1,000 shares authorized, 0 shares issued and outstanding	—	—	—
Common stock, \$0.10 par value, 100,000 shares authorized; 17,487, 17,764 and 18,156 issued; 17,443, 17,722 and 18,114 outstanding (shares in thousands)	1,749	1,776	1,816
Additional paid-in capital	253,724	239,940	238,892
Treasury stock, at cost (44, 42 and 42 shares, in thousands)	(2,374)	(2,188)	(2,126)
Deferred compensation	2,374	2,188	2,126
Accumulated other comprehensive loss	(17,640)	(20,341)	(23,348)
Retained earnings	272,633	274,912	276,955
<b>Total stockholders' equity</b>	<b>510,466</b>	<b>496,287</b>	<b>494,315</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,013,424</b>	<b>\$ 890,923</b>	<b>\$ 964,084</b>

See accompanying notes to these consolidated financial statements.

**THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(In thousands, except earnings per share)			
Net sales	\$ 490,026	\$ 473,777	\$ 1,300,303	\$ 1,264,544
Cost of sales (exclusive of depreciation and amortization)	287,593	279,260	798,874	780,805
<b>Gross profit</b>	202,433	194,517	501,429	483,739
Selling, general, and administrative expenses	118,288	115,442	338,642	332,557
Depreciation and amortization	16,789	16,586	48,460	48,938
Asset impairment charges	3,203	392	4,661	3,218
Other costs	4	17	14	276
<b>Operating income</b>	64,149	62,080	109,652	98,750
Interest expense	(517)	(572)	(1,772)	(1,503)
Interest income	417	414	1,343	1,095
<b>Income before provision for income taxes</b>	64,049	61,922	109,223	98,342
Provision for income taxes	19,972	17,756	14,627	30,202
<b>Net income</b>	\$ 44,077	\$ 44,166	\$ 94,596	\$ 68,140
<b>Earnings per common share</b>				
Basic	\$ 2.50	\$ 2.41	\$ 5.36	\$ 3.63
Diluted	\$ 2.44	\$ 2.36	\$ 5.19	\$ 3.56
<b>Weighted average common shares outstanding</b>				
Basic	17,617	18,342	17,645	18,785
Diluted	18,090	18,703	18,223	19,139
<b>Cash dividends declared per common share</b>	\$ 0.40	\$ 0.20	\$ 1.20	\$ 0.60

See accompanying notes to these consolidated financial statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(In thousands)			
<b>Net income</b>	\$ 44,077	\$ 44,166	\$ 94,596	\$ 68,140
<b>Other comprehensive income:</b>				
Foreign currency translation adjustment	(4,741)	(3,745)	2,476	3,844
Change in fair value of cash flow hedges, net of income taxes	191	158	225	293
<b>Total comprehensive income</b>	\$ 39,527	\$ 40,579	\$ 97,297	\$ 72,277

See accompanying notes to these consolidated financial statements.

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

	Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016
(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 94,596	\$ 68,140
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	48,460	48,938
Stock-based compensation	22,561	20,904
Excess tax benefits from stock-based compensation	—	(1,571)
Deferred taxes	(3,654)	(8,462)
Asset impairment charges	4,661	3,218
Other	272	686
Changes in operating assets and liabilities:		
Inventories	(76,556)	(55,627)
Accounts receivable and other assets	(6,968)	(4,145)
Income taxes payable, net of prepayments	(8,051)	34,713
Accounts payable and other current liabilities	66,129	26,675
Deferred rent and other liabilities	(11,505)	(7,919)
Net cash provided by operating activities	<u>129,945</u>	<u>125,550</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(37,882)	(26,483)
Purchase of short-term investments	(15,000)	(75,100)
Proceeds from sale of short-term investments	49,300	40,100
Change in company-owned life insurance policies	(636)	(270)
Net cash used in investing activities	<u>(4,218)</u>	<u>(61,753)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of common stock, including shares surrendered for tax withholdings and transaction costs	(85,385)	(118,494)
Payment of dividends	(21,145)	(11,203)
Borrowings under revolving loan	487,660	496,282
Repayments under revolving loan	(446,640)	(430,682)
Exercise of stock options	—	438
Excess tax benefits from stock-based compensation	—	1,571
Net cash used in financing activities	<u>(65,510)</u>	<u>(62,088)</u>
Effect of exchange rate changes on cash and cash equivalents	3,817	3,000
Net increase in cash and cash equivalents	<u>64,034</u>	<u>4,709</u>
Cash and cash equivalents, beginning of period	193,709	187,534
Cash and cash equivalents, end of period	<u>\$ 257,743</u>	<u>\$ 192,243</u>

See accompanying notes to these consolidated financial statements.

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

	<u>Thirty-nine Weeks Ended</u>	
	<u>October 28,</u> <u>2017</u>	<u>October 29,</u> <u>2016</u>
	(In thousands)	
<b>OTHER CASH FLOW INFORMATION:</b>		
Net cash paid during the period for income taxes	\$ 30,297	\$ 6,028
Cash paid during the period for interest	1,567	1,299
Increase in accrued purchases of property and equipment	6,428	1,992

See accompanying notes to these consolidated financial statements.

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

**1. BASIS OF PRESENTATION**

**Description of Business**

The Children's Place, Inc. and subsidiaries (the "Company") is the largest pure-play children's specialty apparel retailer in North America. The Company provides apparel, accessories, footwear, and other items for children. The Company designs, contracts to manufacture, sells at retail and wholesale and licenses to sell trend right, high-quality merchandise at value prices, the substantial majority of which is under its proprietary "The Children's Place", "Place" and "Baby Place" brand names.

The Company classifies its business into two segments: The Children's Place U.S. and The Children's Place International. Included in The Children's Place U.S. segment are the Company's U.S. and Puerto Rico-based stores and revenue from its U.S.- based wholesale business. Included in The Children's Place International segment are its Canadian-based stores, revenue from the Company's Canada wholesale business, as well as revenue from international franchisees. Each segment includes an e-commerce business located at [www.childrensplace.com](http://www.childrensplace.com).

**Interim Financial Statements**

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of The Children's Place, Inc. (the "Company") as of October 28, 2017 and October 29, 2016 and the results of its consolidated operations for the thirteen and thirty-nine weeks ended October 28, 2017 and October 29, 2016 and cash flows for the thirty-nine weeks ended October 28, 2017 and October 29, 2016. The consolidated financial position as of January 28, 2017 was derived from audited financial statements. Due to the seasonal nature of the Company's business, the results of operations for the thirty-nine weeks ended October 28, 2017 and October 29, 2016 are not necessarily indicative of operating results for a full fiscal year. These consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

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

- Third Quarter 2017 — The thirteen weeks ended October 28, 2017
- Third Quarter 2016 — The thirteen weeks ended October 29, 2016
- Year-To-Date 2017 — The thirty-nine weeks ended October 28, 2017
- Year-To-Date 2016 — The thirty-nine weeks ended October 29, 2016
- FASB — Financial Accounting Standards Board
- SEC — U.S. Securities and Exchange Commission
- U.S. GAAP — Generally Accepted Accounting Principles in the United States
- FASB ASC — FASB Accounting Standards Codification, which serves as the source for authoritative U.S. GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative U.S. GAAP for SEC registrants

**Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated. FASB ASC 810--*Consolidation* is considered when determining whether an entity is subject to consolidation.

**Fiscal Year**

The Company's fiscal year is a 52-week or 53-week period ending on the Saturday on or nearest to January 31.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of



the financial statements, and amounts of revenues and expenses reported during the period. Actual results could differ from the assumptions used and estimates made by management, which could have a material impact on the Company's financial position or results of operations. Significant estimates inherent in the preparation of the consolidated financial statements include: reserves for the realizability of inventory; reserves for litigation and other contingencies; useful lives and impairments of long-lived assets; fair value measurements; accounting for income taxes and related uncertain tax positions; insurance reserves; valuation of stock-based compensation awards and related estimated forfeiture rates, among others.

### **Reclassifications**

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

### **Short-term Investments**

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

### **Revenue Recognition**

The Company recognizes revenue, including shipping and handling fees billed to customers, upon purchase at the Company's retail stores or when received by the customer if the product was purchased via the internet, net of coupon redemptions and anticipated sales returns. Sales tax collected from customers is excluded from revenue. An allowance for estimated sales returns is calculated based upon the Company's sales return experience and is recorded within accrued expenses and other current liabilities.

The Company's policy with respect to gift cards is to record revenue as the gift cards are redeemed for merchandise. Prior to their redemption, gift cards are recorded as a liability, included within accrued expenses and other current liabilities. The Company recognizes breakage income for the estimated portion of unredeemed gift cards that is unlikely to be redeemed and the Company determines that it does not have a legal obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property and is recorded within selling, general, and administrative expenses.

In fiscal 2016, the Company launched a new points-based customer loyalty program to replace its prior program. In this program, customers earn points based on purchases and other promotional activities. These points can be redeemed for coupons to discount future purchases. The Company has developed an estimated value of each point earned based on the awards customers can attain less a reasonable breakage rate. The value of each point earned is recorded as deferred revenue and is included within accrued expenses and other current liabilities.

The Company has an international expansion program through territorial agreements with franchisees. The Company generates revenues from the franchisees from the sale of product and, in certain cases, sales royalties. The Company records net sales and cost of goods sold on the sale of product to franchisees when the franchisee takes ownership of the product. The Company records net sales for royalties when the applicable franchisee sells the product to their customers. Under certain agreements, the Company receives a fee from each franchisee for exclusive territorial rights. The Company records this territorial fee as deferred revenue and amortizes the fee into gross sales over the life of the territorial agreement.

### **Inventories**

Inventories, which consist primarily of finished goods, are stated at the lower of cost or net realizable value, with cost determined on an average cost basis. The Company capitalizes certain supply chain costs in inventory and these costs are reflected within cost of sales as the inventories are sold. Inventory includes items that have been marked down to the Company's best estimate of their lower of cost or net realizable value and an estimate for inventory shrinkage. The Company bases its decision to mark-down merchandise upon its current rate of sale, the seasonal nature of the product, and the expected sell-through of the item. Inventory shrinkage is estimated in interim periods based upon the historical results of physical inventories in the context of current year facts and circumstances.

### **Impairment of Long-Lived Assets**

The Company periodically reviews its long-lived assets when events indicate that their carrying value may not be recoverable. Such events include historical trends or projected trend of cash flow losses or a future expectation that the Company will sell or dispose of an asset significantly before the end of its previously estimated useful life. In reviewing for impairment, the Company groups its long-lived assets at the lowest possible level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In that regard, the Company groups its assets into two categories: corporate-related and store-related. Corporate-related assets consist of those associated with the Company's corporate offices, distribution centers, and its information technology systems. Store-related assets consist of leasehold improvements, furniture and fixtures, certain computer equipment, and lease-related assets associated with individual stores.

For store-related assets, the Company reviews all stores that have reached comparable sales status, or sooner if circumstances should dictate, on at least an annual basis. The Company believes waiting this period of time allows a store to reach a maturity level where a more comprehensive analysis of financial performance can be performed. For each store that shows indications of operating losses, the Company projects future cash flows over the remaining life of the lease and compares the total undiscounted cash flows to the net book value of the related long-lived assets. If the undiscounted cash flows are less than the related net book value of the long-lived assets, they are written down to their fair market value. The Company primarily determines fair market value to be the discounted future cash flows directly associated with those assets. In evaluating future cash flows, the Company considers external and internal factors. External factors comprise the local environment in which the store resides, including mall traffic, competition and their effect on sales trends. Internal factors include the Company's ability to gauge the fashion taste of its customers, control variable costs such as cost of sales and payroll and, in certain cases, its ability to renegotiate lease costs.

### **Stock-based Compensation**

The Company generally grants time vesting stock awards ("Deferred Awards") and performance-based stock awards ("Performance Awards") to employees at management levels. The Company also grants Deferred Awards to its non-employee directors. Deferred Awards are granted in the form of a defined number of restricted stock units that require each recipient to complete a service period. Deferred Awards generally vest ratably over three years, except for those granted to non-employee directors, which generally vest after one year. Performance Awards are granted in the form of restricted stock units which have performance criteria that must be achieved for the awards to vest (the "Target Shares") in addition to a service period requirement. For Performance Awards issued during fiscal 2014 and 2015 (the "2014 and 2015 Performance Awards"), an employee may earn from 0% to 300% of their Target Shares based on the achievement of adjusted earnings per share for a cumulative three-fiscal year performance period and our total shareholder return ("TSR") relative to that of companies in our peer group. The 2014 and 2015 Performance Awards cliff vest, if earned, after completion of the applicable three year performance period. The 2014 and 2015 Performance Awards grant date fair value was estimated using a Monte Carlo simulation covering the period from the valuation date through the end of the applicable performance period using our simulated stock price as well as the TSR of companies in our peer group. For Performance Awards issued during fiscal 2016 and 2017 (the "2016 and 2017 Performance Awards"), an employee may earn from 0% to 200% of their Target Shares based on the achievement of cumulative adjusted earnings per share achieved for the three-year performance period, adjusted operating margin expansion achieved for the three-year performance period and adjusted return on invested capital achieved as of the end of the performance period. The 2016 and 2017 Performance Awards cliff vest, if earned, after completion of the three-year performance period. The fair value of the 2016 and 2017 Performance Awards granted is based on the closing price of our common stock on the grant date. Stock-based compensation expense is recognized ratably over the related service period reduced for estimated forfeitures of those awards not expected to vest due to employee turnover. Stock-based compensation expense, as it relates to Performance Awards, is also adjusted based on the Company's estimate of adjusted earnings per share and adjusted operating margin expansion, and adjusted return on invested capital as they occur.

### **Deferred Compensation Plan**

The Company has a deferred compensation plan (the "Deferred Compensation Plan"), which is a nonqualified plan, for eligible senior level employees. Under the plan, participants may elect to defer up to 80% of his or her base salary and/or up to 100% of his or her bonus to be earned for the year following the year in which the deferral election is made. The Deferred Compensation Plan also permits members of the Board of Directors to elect to defer payment of all or a portion of their retainer and other fees to be earned for the year following the year in which a deferral election is made. In addition, eligible employees and directors of the Company may also elect to defer payment of any shares of Company stock that is earned with respect to stock-based awards. Directors may elect to have all or a certain portion of their fees earned for their service on the Board invested in shares of the Company's common stock. Such elections are irrevocable. The Company is not required to contribute to the Deferred Compensation Plan, but at its sole discretion, can make additional contributions on behalf of the participants.

Deferred amounts are not subject to forfeiture and are deemed invested among investment funds offered under the Deferred Compensation Plan, as directed by each participant. Payments of deferred amounts (as adjusted for earnings and losses) are payable following separation from service or at a date or dates elected by the participant at the time the deferral is elected. Payments of deferred amounts are generally made in either a lump sum or in annual installments over a period not exceeding 15 years. All deferred amounts are payable in the form in which they were made, except for board fees invested in shares of the Company's common stock, which will be settled in shares of Company common stock. Earlier distributions are not permitted except in the case of an unforeseen hardship.

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

### **Fair Value Measurement and Financial Instruments**

FASB ASC 820--*Fair Value Measurements and Disclosure* provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities.

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

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

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

The Company's assets and liabilities include foreign exchange forward contracts that are measured at fair value using observable market inputs such as forward rates, the Company's credit risk, and our counterparties' credit risks. Based on these inputs, the Company's derivative assets and liabilities are classified within Level 2 of the valuation hierarchy.

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

### **Recently Issued Accounting Standards**

#### ***Adopted in Fiscal 2017***

In March 2016, the FASB issued guidance relating to the accounting for share-based payment transactions. This guidance involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classifications of awards as either equity or liabilities and classification on the statement of cash flows. With respect to the accounting for income taxes, this guidance requires, on a prospective basis, recognition of excess tax benefits and tax deficiencies (resulting from an increase or decrease in the fair value of an award from grant date to the vesting date) in the provision for income taxes as a discrete item in the quarterly period in which they occur. The guidance also requires that the value of shares withheld from employees upon vesting of stock awards in order to satisfy any applicable tax withholding requirements be presented within financing activities in the consolidated statement of cash flows. This presentation requirement is consistent with the Company's current presentation, and will therefore have no impact to the Company. The

Company adopted this guidance prospectively in the first fiscal quarter of 2017 and the adoption resulted in a reduction of our provision for income taxes of approximately \$16.5 million for Year-To-Date 2017.

The future impacts that this adoption will have on our provision or benefit for income taxes are dependent in part upon future grants and vesting of stock-based compensation awards and other factors that are not fully controllable or predictable by the Company, such as the future market price of the Company's common stock and the future achievement of performance criteria that affect performance-based awards. Therefore, the impact on the consolidated financial statements will be dependent upon future events which are unpredictable. However, based on the number of outstanding unvested Deferred and Performance Awards expected to vest during the remainder of fiscal 2017, the adoption of this guidance will not have a significant impact on our provision for income taxes and net income during the remainder of fiscal 2017.

In November 2015, the FASB issued guidance relating to balance sheet classification of deferred taxes. This guidance simplifies the current guidance by requiring entities to classify all deferred tax assets and liabilities, together with any related valuation allowance, as noncurrent on the balance sheet. The Company adopted this guidance in the first fiscal quarter of 2017 and applied its provisions prospectively. As a result, the prior periods were not retrospectively adjusted.

In July 2015, the FASB issued an update to accounting guidance to simplify the measurement of inventory. Prior to adoption, all inventory was measured at the lower of cost or market. The update requires an entity to measure inventory within the scope of the guidance at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. The update does not apply to inventory measured using last-in, first-out or the retail inventory methods. The adoption was applied prospectively and did not have a material impact on the Company's consolidated financial statements.

#### ***To Be Adopted After Fiscal 2017***

In August 2017, the FASB issued guidance relating to the accounting for hedging activities. This guidance aims to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in the guidance expand and refine hedge accounting for both non-financial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The standard is effective for the Company beginning in its fiscal year 2019, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently reviewing the potential impact of this standard.

In February 2016, the FASB issued guidance relating to the accounting for leases. This guidance applies a right of use model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. The lease term is the noncancellable period of the lease, and includes both periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease, if the lessee is reasonably certain not to exercise that termination option. The standard is effective for the Company beginning in its fiscal year 2019, including interim periods within those fiscal years, and early adoption is permitted. We are in the process of developing an implementation plan and beginning to gather information to assess which of our real estate, personal property and other arrangements may meet the definition of a lease as contemplated in the guidance. While we are currently reviewing the potential impact of this standard, we would expect that the adoption of this standard will require us to recognize right-of-use assets and lease liabilities that will be material to our consolidated balance sheet given the extent of our lease portfolio.

In May 2014, the FASB issued guidance relating to revenue recognition from contracts with customers. This guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB issued guidance to defer the effective date by one year and, therefore, the standard is effective for fiscal years and interim periods within those years beginning after December 15, 2017 and is to be applied retrospectively.

We have substantially completed the process of reviewing our current accounting policies and business practices to identify potential differences that would result from applying the new guidance. The majority of our revenue is generated from sales of finished products directly to the consumer, which will continue to be recognized when control is transferred. We have also evaluated the impact that the guidance may have on the accounting for our retail promotional programs, including our loyalty and private label credit card programs, as well as gift cards, and the related classification of these items within our consolidated income statement. The new guidance requires gift card breakage income to be recognized in proportion to the pattern of rights exercised by the customer when the Company expects to be entitled to breakage. We plan to adopt this guidance in the first quarter of fiscal 2018 using the modified-retrospective method and do not believe that the adoption of this

standard will have a material impact on the Company's consolidated financial statements. The new guidance will also require expanded disclosures related to revenue streams, performance obligations and consideration and the related judgments used in developing the necessary estimates.

## 2. STOCKHOLDERS' EQUITY

### Share Repurchase Programs

The Company's Board of Directors has authorized the following share repurchase programs active during Year-To-Date 2017 and Year-To-Date 2016: (1) \$100 million in January 2015 (the "2015 Share Repurchase Program"); (2) \$250 million in December 2015 (the "2015 \$250 Million Share Repurchase Program"); and (3) \$250 million in March 2017 (the "2017 Share Repurchase Program"). The 2015 Share Repurchase Program has been completed. At October 28, 2017, there was approximately \$277.6 million in the aggregate remaining on the 2015 \$250 Million and 2017 Share Repurchase Programs. Under the 2015 \$250 Million and 2017 Share Repurchase Programs, the Company may repurchase shares in the open market at current market prices at the time of purchase or in privately negotiated transactions. The timing and actual number of shares repurchased under a program will depend on a variety of factors including price, corporate and regulatory requirements and other market and business conditions. The Company may suspend or discontinue a program at any time, and may thereafter reinstitute purchases, all without prior announcement.

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

The following table summarizes the Company's share repurchases:

	Thirty-nine Weeks Ended			
	October 28, 2017		October 29, 2016	
	Shares	Value	Shares	Value
	(In thousands)			
Shares repurchases related to:				
2015 Share Repurchase Program	—	—	310	\$ 20,726
2015 \$250 Million Share Repurchase Program <sup>(1)(2)</sup>	766	\$ 85,385	1,157	91,527
Shares acquired and held in treasury	1.7	\$ 186	3	\$ 187

<sup>(1)</sup> Inclusive of 0.3 million shares for approximately \$32.7 million withheld to cover taxes in conjunction with the vesting of stock awards.

<sup>(2)</sup> Subsequent to October 28, 2017 and through November 17, 2017, the Company repurchased approximately 50 thousand shares for approximately \$5.7 million.

In accordance with the FASB ASC 505--*Equity*, the par value of the shares retired is charged against common stock and the remaining purchase price is allocated between additional paid-in capital and retained earnings. The portion charged against additional paid-in capital is done using a pro-rata allocation based on total shares outstanding. Related to all shares retired during Year-To-Date 2017 and Year-To-Date 2016, approximately \$74.5 million and \$100.5 million, respectively, were charged to retained earnings.

### Dividends

The Third Quarter 2017 dividend of \$0.40 per share was paid on October 3, 2017 to shareholders of record on the close of business on September 12, 2017. During Year-To-Date 2017, \$22.4 million was charged to retained earnings, of which \$21.1 million related to cash dividends paid and \$1.3 million related to dividend share equivalents on unvested Deferred Awards and Performance Awards. During Year-To-Date 2016, \$11.8 million was charged to retained earnings, of which \$11.2 million related to cash dividends paid and \$0.6 million related to dividend share equivalents on unvested Deferred Awards and Performance Awards.

The Company's Board of Directors declared a quarterly cash dividend of \$0.40 per share to be paid on January 3, 2018 to shareholders of record on the close of business on December 13, 2017. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by the Company's Board of Directors based on a

number of factors, including business and market conditions, the Company's future financial performance and other investment priorities.

### 3. STOCK-BASED COMPENSATION

The following table summarizes the Company's stock-based compensation expense:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(In thousands)			
Deferred Awards	\$ 2,804	\$ 2,202	\$ 8,730	\$ 6,629
Performance Awards	5,277	6,073	13,831	14,275
Total stock-based compensation expense <sup>(1)</sup>	\$ 8,081	\$ 8,275	\$ 22,561	\$ 20,904

<sup>(1)</sup> During the Third Quarter 2017 and the Third Quarter 2016, approximately \$1.1 million and \$1.1 million, respectively, were included within cost of sales. During Year-To-Date 2017 and Year-To-Date 2016, approximately \$3.1 million and \$2.6 million, respectively, were included within cost of sales. All other stock-based compensation is included in selling, general, and administrative expenses.

The Company recognized a tax benefit related to stock-based compensation expense of approximately \$8.8 million and \$8.3 million during Year-To-Date 2017 and Year-To-Date 2016, respectively.

#### Awards Granted During Year-To-Date 2017

The Company granted Deferred Awards and Performance Awards to various executives and Deferred Awards to members of our Board of Directors during Year-To-Date 2017. Awards were also granted in connection with new hires and contractual obligations. Generally, the Deferred Awards have a three year vesting period with one third of the award vesting annually. Generally, the Deferred Awards granted to members of the Board of Directors vest after one year. Performance Awards granted during Year-To-Date 2017 have a three-year performance period, and, if earned, vest upon completion of the three-year performance period. Depending on the cumulative adjusted earnings per share achieved for the three-year performance period, adjusted operating margin expansion achieved for the three-year performance period, and adjusted return on invested capital achieved as of the end of fiscal 2019, the percentage of Target Shares earned range from 0% to 200%.

#### Changes in the Company's Unvested Stock Awards during Year-To-Date 2017

##### Deferred Awards

	Number of Shares	Weighted Average Grant Date Fair Value
	(In thousands)	
Unvested Deferred Awards, beginning of period	469	\$ 61.19
Granted	211	110.18
Vested	(185)	60.79
Forfeited	(43)	77.74
Unvested Deferred Awards, end of period	452	\$ 82.64

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated \$24.3 million as of October 28, 2017, which will be recognized over a weighted average period of approximately 2.2 years.

## Performance Awards

	Number of Shares <sup>(1)</sup>	Weighted Average Grant Date Fair Value
	(In thousands)	
Unvested Performance Awards, beginning of period	515	\$ 68.11
Granted	171	113.77
Shares earned in excess of target	203	50.97
Vested shares, including shares vested in excess of target	(301)	50.97
Forfeited	(36)	82.55
Unvested Performance Awards, end of period	552	\$ 103.87

<sup>(1)</sup> For those awards in which the performance period is complete, the number of unvested shares is based on actual shares that will vest upon completion of the service period.

For those awards in which the performance period is not yet complete, the number of unvested shares in the table above is based on the participants earning their Target Shares at 100%. However, the cumulative expense recognized reflects changes in estimated adjusted earnings per share, adjusted operating margin expansion, and adjusted return on invested capital as they occur. Total unrecognized stock-based compensation expense related to unvested Performance Awards approximated \$33.7 million as of October 28, 2017, which will be recognized over a weighted average period of approximately 1.9 years.

## 4. EARNINGS PER COMMON SHARE

The following table reconciles net income and share amounts utilized to calculate basic and diluted earnings per common share:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(In thousands)			
Net income	\$ 44,077	\$ 44,166	\$ 94,596	\$ 68,140
Basic weighted average common shares	17,617	18,342	17,645	18,785
Dilutive effect of stock awards	473	361	578	354
Diluted weighted average common shares	18,090	18,703	18,223	19,139
Antidilutive stock awards	—	—	—	1

Antidilutive stock awards (Deferred Awards and Performance Awards) represent those awards that are excluded from the earnings per share calculation as a result of their antidilutive effect in the application of the treasury stock method in accordance with FASB ASC 260--*Earnings per Share*.

## 5. PROPERTY AND EQUIPMENT

Property and equipment, net consist of the following:

	October 28, 2017	January 28, 2017	October 29, 2016
	(In thousands)		
Property and equipment:			
Land and land improvements	\$ 3,403	\$ 3,403	\$ 3,403
Building and improvements	35,548	35,548	35,548
Material handling equipment	48,345	48,345	48,345
Leasehold improvements	311,093	317,884	325,329
Store fixtures and equipment	222,619	223,873	229,210
Capitalized software	223,318	204,901	199,380
Construction in progress	27,519	7,316	6,741
	<u>871,845</u>	<u>841,270</u>	<u>847,956</u>
Accumulated depreciation and amortization	(605,615)	(576,990)	(573,209)
Property and equipment, net	<u>\$ 266,230</u>	<u>\$ 264,280</u>	<u>\$ 274,747</u>

At October 28, 2017, the Company performed impairment testing on 1,027 stores with a total net book value of approximately \$81.7 million. During the Third Quarter 2017, the Company recorded asset impairment charges of \$0.8 million for 8 stores, all of which were fully impaired. During Year-To-Date 2017, the Company recorded asset impairment charges of \$2.3 million for 17 stores, all of which were fully impaired. Additionally, during the Third Quarter 2017, the Company recorded asset impairment charges of \$2.4 million related to the write-down of information technology systems.

At October 29, 2016, the Company performed impairment testing on 1,046 stores with a total net book value of approximately \$95.8 million. During the Third Quarter 2016, the Company recorded asset impairment charges of \$0.4 million for nine stores, all of which were partially impaired. During Year-To-Date 2016, the Company recorded asset impairment charges of \$1.9 million for 21 stores, of which four stores were fully impaired and 17 stores were partially impaired. Additionally, the Company recorded asset impairment charges of \$1.3 million related to the write-down of some previously capitalized development costs and information technology systems.

As of October 28, 2017, January 28, 2017 and October 29, 2016, the Company had approximately \$15.8 million, \$9.4 million and \$8.1 million, respectively, within property and equipment for which payment had not yet been made. These amounts are included within accounts payable and accrued expenses and other current liabilities.

## 6. CREDIT FACILITY

The Company and certain of its domestic subsidiaries maintain a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), Bank of America, N.A., HSBC Business Credit (USA) Inc., and JPMorgan Chase Bank, N.A., as lenders (collectively, the "Lenders") and Wells Fargo, as Administrative Agent, Collateral Agent and Swing Line Lender.

The Credit Agreement, which expires in September 2020, consists of a \$250 million asset based revolving credit facility, with a \$50 million sublimit for standby and documentary letters of credit and an uncommitted accordion feature that could provide up to \$50 million of additional availability. Revolving credit loans outstanding under the Credit Agreement bear interest, at the Company's option, at:

- (i) the prime rate, plus a margin of 0.50% to 0.75% based on the amount of the Company's average excess availability under the facility; or
- (ii) the London InterBank Offered Rate, or "LIBOR", for an interest period of one, two, three or six months, as selected by the Company, plus a margin of 1.25% to 1.50% based on the amount of the Company's average excess availability under the facility.

The Company is charged a fee of 0.25% on the unused portion of the commitments. Letter of credit fees range from 0.625% to 0.75% for commercial letters of credit and from 0.75% to 1.00% for standby letters of credit. Letter of credit fees are determined based on the amount of the Company's average excess availability under the facility. The amount available for



loans and letters of credit under the Credit Agreement is determined by a borrowing base consisting of certain credit card receivables, certain trade and franchise receivables, certain inventory, and the fair market value of certain real estate, subject to certain reserves.

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

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

The Company has capitalized an aggregate of approximately \$4.3 million in deferred financing costs related to the Credit Agreement. The unamortized balance of deferred financing costs at October 28, 2017 was approximately \$0.8 million. Unamortized deferred financing costs are amortized over the remaining term of the Credit Agreement.

The table below presents the components of the Company's credit facility:

	October 28, 2017	January 28, 2017	October 29, 2016
	(In millions)		
Credit facility maximum	\$ 250.0	\$ 250.0	\$ 250.0
Borrowing base	250.0	223.8	250.0
Outstanding borrowings	56.4	15.4	65.6
Letters of credit outstanding—standby	7.0	7.3	7.3
Utilization of credit facility at end of period	63.4	22.7	72.9
Availability <sup>(1)</sup>	<u>\$ 186.6</u>	<u>\$ 201.1</u>	<u>\$ 177.1</u>
Interest rate at end of period	2.8%	2.8%	2.0%
	Year-To-Date 2017	Fiscal 2016	Year-To-Date 2016
Average end of day loan balance during the period	\$ 55.2	\$ 39.9	\$ 45.5
Highest end of day loan balance during the period	98.2	95.8	95.8
Average interest rate	2.8%	2.4%	2.4%

<sup>(1)</sup> The sublimit availability for the letters of credit was \$43.0 million, \$42.7 million, and \$42.7 million at October 28, 2017, January 28, 2017, and October 29, 2016, respectively.

## 7. LEGAL AND REGULATORY MATTERS

The Company is a defendant in *Rael v. The Children's Place, Inc.*, a purported class action, pending in the U.S. District Court, Southern District of California. In the initial complaint filed in February 2016, the plaintiff alleged that the Company falsely advertised discount prices in violation of California's Unfair Competition Law, False Advertising Law, and Consumer Legal Remedies Act. The plaintiff filed an amended complaint in April 2016, adding allegations of violations of other state consumer protection laws. In August 2016, the plaintiff filed a second amended complaint, adding an additional plaintiff and removing the other state law claims. The plaintiffs' second amended complaint seeks to represent a class of California purchasers and seeks, among other items, injunctive relief, damages, and attorneys' fees and costs.

The Company engaged in mediation proceedings with the plaintiffs in December 2016 and April 2017. The parties reached an agreement in principle in April 2017, and signed a definitive settlement agreement in November 2017, to settle the matter on a class basis with all individuals in the U.S. who made a qualifying purchase at The Children's Place from February 11, 2012 through the date of preliminary approval by the court of the settlement. The settlement is subject to court approval and provides for merchandise vouchers for class members who submit valid claims, as well as payment of legal fees and expenses and claims administration expenses. The settlement, if ultimately approved by the court, will result in the dismissal of all claims through the date of the court's preliminary approval of the settlement. However, if the settlement is rejected by the co

urt, the parties will likely return to litigation, and in such event, no assurance can be given as to the ultimate outcome of this matter. In connection with the proposed settlement, the Company recorded a reserve for \$5.0 million in its consolidated financial statements in the first quarter of fiscal 2017.

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

## **8. INCOME TAXES**

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

The Company's effective tax rate for the Third Quarter 2017 and Year-To-Date 2017 was 31.2% and 13.4%, respectively, compared to 28.7% and 30.7% during the Third Quarter 2016 and Year-To-Date 2016, respectively. The effective tax rate was higher during the Third Quarter 2017 primarily as a result of a \$1.6 million tax benefit recorded for uncertain tax positions during the Third Quarter 2016. The decrease in the Year-To-Date 2017 effective tax rate was primarily the result of tax benefits of \$16.5 million for excess stock compensation benefits recorded during Year-To-Date 2017, as well as the release of a \$4.0 million reserve for an uncertain tax position that was resolved during the first quarter of fiscal 2017 compared to a \$1.6 million tax benefit recorded for uncertain tax positions during Year-To-Date 2016.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in provision for income taxes. The total amount of unrecognized tax benefits as of October 28, 2017, January 28, 2017, and October 29, 2016 were \$3.2 million, \$7.3 million and \$7.8 million, respectively, and is included within non-current liabilities. The Company recognized less than \$0.1 million in each of the Third Quarter 2017 and the Third Quarter 2016, respectively, of additional interest expense related to its unrecognized tax benefits. During each of Year-To-Date 2017 and Year-To-Date 2016, the Company recognized approximately \$0.1 million of additional interest expense. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in provision for income taxes.

The Company is subject to tax in the United States and foreign jurisdictions, including Canada and Hong Kong. The Company, joined by its domestic subsidiaries, files a consolidated income tax return for federal income tax purposes. The Company, with certain exceptions, is no longer subject to income tax examinations by U.S. federal, state and local or foreign tax authorities for tax years 2012 and prior.

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

## **9. DERIVATIVE INSTRUMENTS**

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates attributable to inventory purchases denominated in a foreign currency. Specifically, our Canadian subsidiary's functional currency is the Canadian dollar, but purchases inventory from suppliers in U.S. dollars. In order to mitigate the variability of cash flows associated with certain of these forecasted inventory purchases, we enter into foreign exchange forward contracts. These contracts typically mature within 12 months. We do not use forward contracts to engage in currency speculation and we do not enter into derivative financial instruments for trading purposes.

The Company accounts for all of its derivatives and hedging activity under FASB ASC 815--*Derivatives and Hedging*.

Under the Company's risk management policy and in accordance with guidance under the topic, in order to qualify for hedge accounting treatment, a derivative must be considered highly effective at offsetting changes in either the hedged item's cash flows or fair value. Additionally, the hedge relationship must be documented to include the risk management objective and strategy, the hedging instrument, the hedged item, the risk exposure, and how hedge effectiveness will be assessed prospectively and retrospectively. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis. The Company would discontinue hedge accounting under a foreign exchange forward contract prospectively (i) if management determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item, (ii) when the derivative expires or is terminated, (iii) if the forecasted transaction being hedged by the derivative is no longer probable of occurring, or (iv) if management determines that designation of the derivative as a hedge instrument is no longer appropriate.

All derivative instruments are presented at gross fair value on the consolidated balance sheets within either prepaid expenses and other current assets or accrued expenses and other current liabilities. As of October 28, 2017, the Company had foreign exchange forward contracts with an aggregate notional amount of \$26.1 million and the fair value of the derivative instruments was an asset of \$1.6 million. As these foreign exchange forward contracts are measured at fair value using observable market inputs such as forward rates, the Company's credit risk and our counterparties' credit risks, they are classified within Level 2 of the valuation hierarchy. Cash settlements related to these forward contracts are recorded within cash flows from operating activities within the consolidated statements of cash flows.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI") and reclassified into earnings within cost of sales (exclusive of depreciation and amortization) in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in earnings within selling, general, and administrative expenses, consistent with where the Company records realized and unrealized foreign currency gains and losses on transactions in foreign denominated currencies. There were no losses related to hedge ineffectiveness during Year-To-Date 2017. Assuming October 28, 2017 exchange rates remain constant, \$0.7 million of gains, net of tax, related to hedges of these transactions are expected to be reclassified from OCI into earnings over the next 12 months. Changes in fair value associated with derivatives that are not designated and qualified as cash flow hedges are recognized as earnings within selling, general, and administrative expenses.

The Company enters into foreign exchange forward contracts with major banks and has risk exposure in the event of nonperformance by either party. However, based on our assessment, the Company believes that obligations under the contracts will be fully satisfied. Accordingly, there was no requirement to post collateral or other security to support the contracts as of October 28, 2017.

## 10. SEGMENT INFORMATION

In accordance with FASB ASC 280---*Segment Reporting*, the Company reports segment data based on geography: The Children's Place U.S. and The Children's Place International. Each segment includes an e-commerce business located at [www.childrensplace.com](http://www.childrensplace.com). Included in The Children's Place U.S. segment are the Company's U.S. and Puerto Rico-based stores and revenue from the Company's U.S.-based wholesale business. Included in The Children's Place International segment are the Company's Canadian-based stores, revenue from the Company's Canadian wholesale business and revenue from international franchisees. The Company measures its segment profitability based on operating income, defined as income before interest and taxes. Net sales and direct costs are recorded by each segment. Certain inventory procurement functions such as production and design as well as corporate overhead, including executive management, finance, real estate, human resources, legal, and information technology services are managed by The Children's Place U.S. segment. Expenses related to these functions, including depreciation and amortization, are allocated to The Children's Place International segment based primarily on net sales. The assets related to these functions are not allocated. The Company periodically reviews these allocations and adjusts them based upon changes in business circumstances. Net sales to external customers are derived from merchandise sales and the Company has no major customers that account for more than 10% of its net sales. As of October 28, 2017, The Children's Place U.S. operated 898 stores and The Children's Place International operated 129 stores. As of October 29, 2016, The Children's Place U.S. operated 930 stores and The Children's Place International operated 131 stores.

The following tables provide segment level financial information:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
(In thousands)				
<b>Net sales:</b>				
The Children's Place U.S.	\$ 427,603	\$ 412,380	\$ 1,149,741	\$ 1,106,676
The Children's Place International <sup>(1)</sup>	62,423	61,397	150,562	157,868
Total net sales	<u>\$ 490,026</u>	<u>\$ 473,777</u>	<u>\$ 1,300,303</u>	<u>\$ 1,264,544</u>
<b>Operating income:</b>				
The Children's Place U.S.	\$ 51,751	\$ 48,997	\$ 89,567	\$ 74,535
The Children's Place International	12,398	13,083	20,085	24,215
Total operating income <sup>(2)</sup>	<u>\$ 64,149</u>	<u>\$ 62,080</u>	<u>\$ 109,652</u>	<u>\$ 98,750</u>
<b>Operating income as a percent of net sales:</b>				
The Children's Place U.S.	12.1%	11.9%	7.8%	6.7%
The Children's Place International	19.9%	21.3%	13.3%	15.3%
Total operating income	13.1%	13.1%	8.4%	7.8%
<b>Depreciation and amortization:</b>				
The Children's Place U.S.	\$ 14,921	\$ 14,073	\$ 43,155	\$ 43,605
The Children's Place International	1,868	2,513	5,305	5,333
Total depreciation and amortization	<u>\$ 16,789</u>	<u>\$ 16,586</u>	<u>\$ 48,460</u>	<u>\$ 48,938</u>
<b>Capital expenditures:</b>				
The Children's Place U.S.	\$ 14,415	\$ 10,160	\$ 37,291	\$ 24,989
The Children's Place International	311	287	591	1,494
Total capital expenditures	<u>\$ 14,726</u>	<u>\$ 10,447</u>	<u>\$ 37,882</u>	<u>\$ 26,483</u>

<sup>(1)</sup> Net sales from The Children's Place International are primarily derived from revenues from Canadian operations.

<sup>(2)</sup> Includes costs incurred related to asset impairment charges and costs arising out of the restructuring of certain store and corporate operations totaling approximately \$4.2 million for the Third Quarter 2017.

Includes costs incurred related to a provision for a legal settlement, asset impairment charges, costs related to foreign exchange control penalties, and a sales and use tax audit settlement, and costs arising out of the restructuring of certain store and corporate operations totaling approximately \$12.2 million during Year-To-Date 2017.

Includes costs incurred related to asset impairment charges and costs arising out of the restructuring of certain store and corporate operations, of approximately \$0.4 million and \$3.0 million for the Third Quarter 2016 and Year-To-Date 2016, respectively.

	October 28, 2017	January 28, 2017	October 29, 2016
	(In thousands)		
<b>Total assets:</b>			
The Children's Place U.S.	\$ 825,969	\$ 716,377	\$ 799,908
The Children's Place International	187,455	174,546	164,176
Total assets	<u>\$ 1,013,424</u>	<u>\$ 890,923</u>	<u>\$ 964,084</u>

## 11. SUBSEQUENT EVENTS

Subsequent to October 28, 2017 and through November 17, 2017, the Company repurchased approximately 50 thousand shares for approximately \$5.7 million.

The Company announced that its Board of Directors has declared a quarterly cash dividend of \$0.40 per share to be paid on January 3, 2018 to shareholders of record on the close of business on December 13, 2017.

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

This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to statements relating to the Company's strategic initiatives. Forward-looking statements typically are identified by use of terms such as "may," "will," "should," "plan," "project," "expect," "anticipate," "estimate" and similar words, although some forward-looking statements are expressed differently. These forward-looking statements are based upon the Company's current expectations and assumptions and are subject to various risks and uncertainties that could cause actual results and performance to differ materially. Some of these risks and uncertainties are described in the Company's filings with the Securities and Exchange Commission, including in the "Risk Factors" section of its Annual Report on Form 10-K for the fiscal year ended January 28, 2017. Included among the risks and uncertainties that could cause actual results and performance to differ materially are the risk that the Company will be unsuccessful in gauging fashion trends and changing consumer preferences, the risks resulting from the highly competitive nature of the Company's business and its dependence on consumer spending patterns, which may be affected by weakness in the economy that continues to affect the Company's target customer, the risk that the Company's strategic initiatives to increase sales and margin are delayed or do not result in anticipated improvements, the risk of delays, interruptions and disruptions in the Company's global supply chain, including resulting from foreign sources of supply in less developed countries or more politically unstable countries, the risk that the cost of raw materials or energy prices will increase beyond current expectations or that the Company is unable to offset cost increases through value engineering or price increases, and the uncertainty of weather patterns. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. The Company undertakes no obligation to release publicly any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with the Company's unaudited financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the annual audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 28, 2017.

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

- *Third Quarter 2017* — The thirteen weeks ended October 28, 2017
- *Third Quarter 2016* — The thirteen weeks ended October 29, 2016
- *Year-To-Date 2017* — The thirty-nine weeks ended October 28, 2017
- *Year-To-Date 2016* — The thirty-nine weeks ended October 29, 2016
- *Comparable Retail Sales* — Net sales, in constant currency, from stores that have been open for at least 14 consecutive months and from our e-commerce store, excluding postage and handling fees. Store closures in the current fiscal year will be excluded from Comparable Retail Sales beginning in the fiscal quarter in which the store closes. Stores that temporarily close for non-substantial remodeling will be excluded from Comparable Retail Sales for only the period that they were closed. A store is considered substantially remodeled if it has been relocated or materially changed in size and will be excluded from Comparable Retail Sales for at least 14 months beginning in the period in which the remodel occurred.
- *AUR* — Average unit retail
- *Gross Margin* — Gross profit expressed as a percentage of net sales
- *SG&A* — Selling, general, and administrative expenses
- *FASB* — Financial Accounting Standards Board
- *SEC* — U.S. Securities and Exchange Commission
- *U.S. GAAP* — Generally Accepted Accounting Principles in the United States
- *FASB ASC* — FASB Accounting Standards Codification, which serves as the source for authoritative U.S. GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative U.S. GAAP for SEC registrants

**Our Business**

We are the largest pure-play children's specialty apparel retailer in North America. The Company provides apparel, accessories, footwear, and other items for children. We design, contract to manufacture, sell at retail and wholesale, and license to sell trend right, high-quality merchandise at value prices, the substantial majority of which is under our proprietary "The Children's Place", "Place" and "Baby Place" brand names. As of October 28, 2017, we operated 1,027 stores across North America, our e-commerce business at [www.childrensplace.com](http://www.childrensplace.com), and had 168 international points of distribution open and operated by our seven franchise partners in 19 countries.

### Segment Reporting

In accordance with the “*Segment Reporting*” topic of the FASB ASC, we report segment data based on geography: The Children’s Place U.S. and The Children’s Place International. Each segment includes an e-commerce business located at [www.childrensplace.com](http://www.childrensplace.com). Included in The Children’s Place U.S. segment are our U.S. and Puerto Rico-based stores and revenue from our U.S.-based wholesale business. Included in The Children’s Place International segment are our Canadian-based stores, revenue from the Company’s Canadian wholesale business, as well as revenue from international franchisees. We measure our segment profitability based on operating income, defined as income before interest and taxes. Net sales and direct costs are recorded by each segment. Certain inventory procurement functions such as production and design as well as corporate overhead, including executive management, finance, real estate, human resources, legal and information technology services are managed by The Children’s Place U.S. segment. Expenses related to these functions, including depreciation and amortization, are allocated to The Children’s Place International segment based primarily on net sales. The assets related to these functions are not allocated. We periodically review these allocations and adjust them based upon changes in business circumstances. Net sales from external customers are derived from merchandise sales and we have no major customers that account for more than 10% of our net sales. As of October 28, 2017, The Children’s Place U.S. operated 898 stores and The Children’s Place International operated 129 stores. As of October 29, 2016, The Children’s Place U.S. operated 930 stores and The Children’s Place International operated 131 stores.

### Operating Highlights

Our Comparable Retail Sales, which excludes stores closed for an extended period of time due to hurricanes, increased 5.1% and 4.8% during the Third Quarter 2017 and Year-To-Date 2017, respectively, despite the impact of hurricanes in Texas, Florida, and Puerto Rico, as well as unseasonably warm weather across most of the country during the Third Quarter 2017. Net sales increased by \$16.2 million, or 3.4%, to \$490.0 million during the Third Quarter 2017 and increased \$35.8 million, or 2.8%, to \$1,300.3 million during Year-To-Date 2017. We believe that our e-commerce and brick-and-mortar retail store operations are highly interdependent, with both sharing common customers purchasing from a common pool of product inventory. Accordingly, we believe that consolidated omni-channel reporting presents the most meaningful and appropriate measure of our performance, including Comparative Retail Sales and revenues.

Gross margin increased 20 and 30 basis points, respectively, during the Third Quarter 2017 and Year-To-Date 2017. The increase in gross margin resulted primarily from an increase in merchandise margin resulting from strong product acceptance and the leverage of fixed costs, partially offset by the increased penetration of our e-commerce business, which generally has a lower gross margin due to higher fulfillment costs.

Selling, general, and administrative expenses increased \$2.9 million to \$118.3 million during the Third Quarter 2017 from \$115.4 million during the Third Quarter 2016. As a percentage of net sales, SG&A decreased 30 basis points to 24.1% during the Third Quarter 2017 from 24.4% during the Third Quarter 2016. The leverage was primarily due to strong Comparable Retail Sales, decreased store expenses, including lower credit card fees, and lower incentive compensation expenses, partially offset by expenses related to the continued investment in our transformation initiatives.

Asset impairment charges were \$3.2 million during the Third Quarter 2017, of which \$0.8 million related to the full impairment of eight stores, and \$2.4 million related to the write-down of information technology systems. Asset impairment charges during the Third Quarter 2016 were \$0.4 million, which related to the partial impairment of nine stores.

We continue to make significant progress on our key strategic growth initiatives--superior product, business transformation through technology, alternate channels of distribution and fleet optimization.

Focus on product remains our top priority. Strong product acceptance and our inventory management are delivering gross margin and inventory productivity benefits, as evidenced by the Third Quarter 2017 being our 11th consecutive quarter of merchandise margin expansion.

Our business transformation through technology initiative has two key components: inventory management and digital transformation. With respect to digital transformation, we are in the process of developing and implementing a personalized customer contact strategy. Our goal is to deliver dynamic and personalized customer content that will drive increased customer acquisition, retention and engagement, intended to result in increases in incremental sales and profitability.

The transformation of our digital capabilities has continued with the deployment of four of our five digital releases planned for fiscal 2017, resulting in the migration to a new digital platform. In conjunction with this migration, we launched "BOPIS," or Buy Online Pick Up In Store, to our entire U.S. store fleet during the Third Quarter 2017. We also tested ship from store capabilities in a few locations during the Third Quarter 2017 and will continue to roll these capabilities to more stores during the fourth quarter of fiscal 2017. Additionally, during the fourth quarter of fiscal 2017, we will install wireless networks and mobile point of sale to our entire U.S. fleet as part of our connected store initiative.

With respect to alternate channels of distribution, we continued our international expansion program and added seven additional international points of distribution (stores, shop in shops, e-commerce site) during the Third Quarter 2017 bringing our total count to 168, operating in 19 countries. In addition, our newest franchise partner, Gill Capital, opened five stores in Indonesia during the fourth quarter of fiscal 2017, and expects to open 25 stores in Indonesia over time. In our wholesale business, our relationship with Amazon continues to develop with the expansion of our replenishment program and the launch with Amazon Canada for holiday 2017.

We continue to evaluate our store fleet as part of our fleet optimization initiative to improve store productivity and plan to close approximately 300 stores through fiscal 2020, which includes the 156 stores we closed since the announcement of this initiative.

During Year-To-Date 2017, we repurchased approximately 0.8 million shares for approximately \$85.4 million, inclusive of shares repurchased and surrendered to cover tax withholdings associated with the vesting of equity awards held by management. As of October 28, 2017, there was approximately \$277.6 million in aggregate remaining on the 2015 \$250 Million and 2017 Share Repurchase Programs. During Year-To-Date 2017, we paid cash dividends of \$21.1 million and our fourth quarter 2017 dividend of \$0.40 per share will be paid on January 3, 2018 to shareholders of record on the close of business on December 13, 2017.

Net income was \$44.1 million during the Third Quarter 2017 compared to \$44.2 million during the Third Quarter 2016 due to the factors listed above and a higher effective tax rate that was primarily the result of a result of a \$1.6 million tax benefit recorded for uncertain tax positions during the Third Quarter 2016. Earnings per diluted share was \$2.44 in the Third Quarter 2017 compared to \$2.36 in the Third Quarter 2016. This increase in earnings per share is due to the factors noted above and a lower weighted average common shares outstanding of approximately 0.6 million, which is the result of our share repurchase programs.

Net income was \$94.6 million during Year-To-Date 2017 compared to \$68.1 million during Year-To-Date 2016. Earnings per diluted share was \$5.19 during Year-To-Date 2017 compared to \$3.56 per diluted share during Year-To-Date 2016. This increase in earnings per share is due to the increase in net income due to the factors noted above, tax benefits of \$16.5 million for excess stock compensation benefits, given our adoption of FASB guidance relating to the accounting for share-based payment transactions, and a lower weighted average common shares outstanding of approximately 0.9 million, which is the result of our share repurchase programs.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
<b><u>Average Translation Rates</u></b> <sup>(1)</sup>				
Canadian Dollar	0.8001	0.7630	0.7700	0.7628
Hong Kong Dollar	0.1280	0.1289	0.1283	0.1288
China Yuan Renminbi	0.1509	0.1497	0.1476	0.1516

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

## **CRITICAL ACCOUNTING POLICIES**

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

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

**Inventory Valuation-** We value inventory at the lower of cost or net realizable value, with cost determined using an average cost method. The estimated market value of inventory is determined based on an analysis of historical sales trends of our individual product categories, the impact of market trends and economic conditions and a forecast of future demand, as well as plans to sell through inventory. Estimates may differ from actual results due to the quantity, quality, and mix of products in inventory, consumer and retailer preferences and market conditions. Our historical estimates have not differed materially from actual results and a 10% difference in our reserve as of October 28, 2017 would have impacted net income by approximately \$0.2 million. Our reserve balance at October 28, 2017 was approximately \$2.3 million compared to \$2.5 million at October 29, 2016.

Reserves for inventory shrinkage, representing the risk of physical loss of inventory, are estimated based on historical experience and are adjusted based upon physical inventory counts. A 0.5% difference in our shrinkage rate as a percentage of cost of goods sold could impact each quarter's net income by approximately \$0.7 million.

**Stock-Based Compensation-** We account for stock-based compensation according to the provisions of FASB ASC 718-- *Compensation-Stock Compensation*.

*Time Vesting and Performance-Based Awards*

We generally grant time vesting and performance-based stock awards to employees at management levels and above. We also grant time vesting stock awards to our non-employee directors. Time vesting awards are granted in the form of restricted stock units that require each recipient to complete a service period ("Deferred Awards"). Deferred Awards granted to employees generally vest ratably over three years. Deferred Awards granted to non-employee directors generally vest after one year. Performance-based stock awards are granted in the form of restricted stock units which have a performance criteria that must be achieved for the awards to be earned in addition to a service period requirement ("Performance Awards") and each Performance Award has a defined number of shares that an employee can earn (the "Target Shares"). With the approval of the Board's Compensation Committee, the Company may settle vested Deferred Awards and Performance Awards to the employee in shares, in a cash amount equal to the market value of such shares at the time all requirements for delivery of the award have been met, or in part shares and cash. For Performance Awards issued during fiscal 2014 and 2015 (the "2014 and 2015 Performance Awards"), the Target Shares earned can range from 0% to 300% and depend on the achievement of adjusted earnings per share for the cumulative three-fiscal year performance period and our total shareholder return ("TSR") relative to that of companies in our peer group. The 2014 and 2015 Performance Awards generally cliff vest, if earned, after the completion of the applicable three year performance period. The 2014 and 2015 Performance Awards grant date fair value was estimated using a Monte Carlo simulation covering the period from the valuation date through the end of the applicable performance period using our simulated stock price as well as the TSR of companies in our peer group. For Performance Awards issued during fiscal 2016 and fiscal 2017 (the "2016 and 2017 Performance Awards"), an employee may earn from 0% to 200% of their Target Shares based on the achievement of cumulative adjusted earnings per share achieved for the three-year performance period, adjusted operating margin expansion achieved for the three-year performance period, and adjusted return on invested capital achieved at the end of the performance period. The 2016 and 2017 Performance Awards cliff vest, if earned, after completion of the applicable three year performance period. The fair value of the 2016 and 2017 Performance Awards granted is based on the closing price of our common stock on the grant date. Compensation expense is recognized ratably over the related service period reduced for estimated forfeitures of those awards not expected to vest due to employee turnover. While actual forfeitures could vary significantly from those estimated, a 10% change in our estimated forfeiture rate would impact our fiscal 2017 net income by approximately \$0.5 million.

**Impairment of Long-Lived Assets-** We periodically review our long-lived assets when events indicate that their carrying value may not be recoverable. Such events include a historical or projected trend of cash flow losses or a future expectation that we will sell or dispose of an asset significantly before the end of its previously estimated useful life. In reviewing for impairment, we group our long-lived assets at the lowest possible level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In that regard, we group our assets into two categories: corporate-related and store-related. Corporate-related assets consist of those associated with our corporate offices, distribution centers, and our information technology systems. Store-related assets consist of leasehold improvements, furniture and fixtures, certain computer equipment, and lease-related assets associated with individual stores.

For store-related assets, we review all stores that have been open for at least two years, or sooner if circumstances should dictate, on at least an annual basis. We believe waiting two years allows a store to reach a maturity level where a more comprehensive analysis of financial performance can be performed. For each store that shows indications of operating losses, we project future cash flows over the remaining life of the lease and compare the total undiscounted cash flows to the net book value of the related long-lived assets. If the undiscounted cash flows are less than the related net book value of the long-lived assets, they are written down to their fair market value. We primarily determine fair market value to be the discounted future cash flows associated with those assets. In evaluating future cash flows, we consider external and internal factors. External factors comprise the local environment in which the store resides, including mall traffic, competition, and their effect on sales trends. Internal factors include our ability to gauge the fashion taste of our customers, control variable costs such as cost of sales and payroll, and in certain cases, our ability to renegotiate lease costs. If external factors should change unfavorably, if actual sales should differ from our projections, or if our ability to control costs is insufficient to sustain the necessary cash flows, future impairment charges could be material. At October 28, 2017, the average net book value per store was approximately \$0.1 million.

**Income Taxes-** We utilize the liability method of accounting for income taxes as set forth in FASB ASC 740--*Income Taxes*. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities, as well as for net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using currently enacted tax rates that apply to taxable income in effect for the years in which



the basis differences and tax assets are expected to be realized. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In determining the need for valuation allowances we consider projected future taxable income and the availability of tax planning strategies. If, in the future we determine that we would not be able to realize our recorded deferred tax assets, an increase in the valuation allowance would decrease earnings in the period in which such determination is made.

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

**Fair Value Measurement and Financial Instruments-** FASB ASC 820--*Fair Value Measurements and Disclosure* provides a single definition of fair value, together with a framework for measuring it and requires additional disclosure about the use of fair value to measure assets and liabilities.

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

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

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

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

Our derivative assets and liabilities include foreign exchange forward contracts that are measured at fair value using observable market inputs such as forward rates, our credit risk and our counterparties' credit risks. Based on these inputs, our derivative assets and liabilities are classified within Level 2 of the valuation hierarchy.

**Insurance and Self-Insurance Liabilities-** Based on our assessment of risk and cost efficiency, we self-insure as well as purchase insurance policies to provide for workers' compensation, general liability and property losses, cyber-security coverage, as well as directors' and officers' liability, vehicle liability and employee medical benefits. We estimate risks and record a liability based upon historical claim experience, insurance deductibles, severity factors and other actuarial assumptions. These estimates include inherent uncertainties due to the variability of the factors involved, including type of injury or claim, required services by the providers, healing time, age of claimant, case management costs, location of the claimant and governmental regulations. While we believe that our risk assessments are appropriate, these uncertainties or a deviation in future claims trends from recent historical patterns could result in our recording additional or reduced expenses, which may be material to our results of operations. Our historical estimates have not differed materially from actual results and a 10% difference in our insurance reserves as of October 28, 2017 would have impacted net income by approximately \$0.7 million.

## **Recently Issued Accounting Standards**

### ***Adopted in Fiscal 2017***

In March 2016, the FASB issued guidance relating to the accounting for share-based payment transactions. This guidance involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classifications of awards as either equity or liabilities and classification on the statement of cash flows. With respect to the accounting for income taxes, this guidance requires, on a prospective basis, recognition of excess tax benefits and tax deficiencies (resulting from an increase or decrease in the fair value of an award from grant date to the vesting date) in the

provision for income taxes as a discrete item in the quarterly period in which they occur. The guidance also requires that the value of shares withheld from employees upon vesting of stock awards in order to satisfy any applicable tax withholding requirements be presented within financing activities in the consolidated statement of cash flows. This presentation requirement is consistent with the Company's current presentation, and will therefore have no impact to the Company. The Company adopted this guidance prospectively in the first fiscal quarter of 2017 and the adoption resulted in a reduction of our provision for income taxes of approximately \$16.5 million for Year-To-Date 2017.

The future impacts that this adoption will have on our provision or benefit for income taxes are dependent in part upon future grants and vesting of stock-based compensation awards and other factors that are not fully controllable or predictable by the Company, such as the future market price of the Company's common stock and the future achievement of performance criteria that affect performance-based awards. Therefore, the impact on the consolidated financial statements will be dependent upon future events which are unpredictable. However, based on the number of outstanding unvested Deferred and Performance Awards expected to vest during the remainder of fiscal 2017, the adoption of this guidance will not have a significant impact on our provision for income taxes and net income during the remainder of fiscal 2017.

In November 2015, the FASB issued guidance relating to balance sheet classification of deferred taxes. This guidance simplifies the current guidance by requiring entities to classify all deferred tax assets and liabilities, together with any related valuation allowance, as noncurrent on the balance sheet. The Company adopted this guidance in the first fiscal quarter of 2017 and applied its provisions prospectively. As a result, the prior periods were not retrospectively adjusted.

In July 2015, the FASB issued an update to accounting guidance to simplify the measurement of inventory. Prior to adoption, all inventory was measured at the lower of cost or market. The update requires an entity to measure inventory within the scope of the guidance at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The update does not apply to inventory measured using last-in, first-out or the retail inventory methods. The adoption was applied prospectively and did not have a material impact on the Company's consolidated financial statements.

#### ***To Be Adopted After Fiscal 2017***

In August 2017, the FASB issued guidance relating to the accounting for hedging activities. This guidance aims to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in the guidance expand and refine hedge accounting for both non-financial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The standard is effective for the Company beginning in its fiscal year 2019, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently reviewing the potential impact of this standard.

In February 2016, the FASB issued guidance relating to the accounting for leases. This guidance applies a right of use model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. The lease term is the noncancellable period of the lease, and includes both periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease, if the lessee is reasonably certain not to exercise that termination option. The standard is effective for the Company beginning in its fiscal year 2019, including interim periods within those fiscal years, and early adoption is permitted. We are in the process of developing an implementation plan and gathering information to assess which of our real estate, personal property and other arrangements may meet the definition of a lease as contemplated in the guidance. While we are currently reviewing the potential impact of this standard, we would expect that the adoption of this standard will require us to recognize right-of-use assets and lease liabilities that will be material to our consolidated balance sheet given the extent of our lease portfolio.

In May 2014, the FASB issued guidance relating to revenue recognition from contracts with customers. This guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB issued guidance to defer the effective date by one year and, therefore, the standard is effective for fiscal years and interim periods within those years beginning after December 15, 2017 and is to be applied retrospectively.

We have substantially completed the process of reviewing our current accounting policies and business practices to identify potential differences that would result from applying the new guidance. The majority of our revenue is generated from sales of finished products directly to the consumer, which will continue to be recognized when control is transferred. We have also evaluated the impact that the guidance may have on the accounting for our retail promotional programs, including our

loyalty and private label credit card programs, as well as gift cards, and the related classification of these items within our consolidated income statement. The new guidance requires gift card breakage income to be recognized in proportion to the pattern of rights exercised by the customer when the Company expects to be entitled to breakage. We plan to adopt this guidance in the first quarter of fiscal 2018 using the modified-retrospective method and do not believe that the adoption of this standard will have a material impact on the Company's consolidated financial statements. The new guidance will also require expanded disclosures related to revenue streams, performance obligations and consideration and the related judgments used in developing the necessary estimates.

## **RESULTS OF OPERATIONS**

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of net sales. We primarily evaluate the results of our operations as a percentage of net sales rather than in terms of absolute dollar increases or decreases by analyzing the year over year change in our business expressed as a percentage of net sales (i.e. "basis points"). For example, gross profit increased approximately 20 basis points to 41.3% of net sales during the Third Quarter 2017 from 41.1% during the Third Quarter 2016. Accordingly, to the extent that our sales have increased at a faster rate than our costs (i.e. "leveraging"), the more efficiently we have utilized the investments we have made in our business. Conversely, if our sales decrease or if our costs grow at a faster pace than our sales (i.e. "de-leveraging"), we have less efficiently utilized the investments we have made in our business.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (exclusive of depreciation and amortization)	58.7	58.9	61.4	61.7
Gross profit	41.3	41.1	38.6	38.3
Selling, general, and administrative expenses	24.1	24.4	26.0	26.3
Depreciation and amortization	3.4	3.5	3.7	3.9
Asset impairment charge	0.7	0.1	0.4	0.3
Operating income	13.1	13.1	8.4	7.8
Income before income taxes	13.1	13.1	8.4	7.8
Provision for income taxes	4.1	3.7	1.1	2.4
Net income	9.0%	9.3%	7.3%	5.4%
Number of Company-operated stores, end of period	1,027	1,061	1,027	1,061

*Table may not add due to rounding.*

The following tables set forth net sales by segment, for the periods indicated.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
<b>Net sales:</b>	<b>(In thousands)</b>			
The Children's Place U.S.	\$ 427,603	\$ 412,380	\$ 1,149,741	\$ 1,106,676
The Children's Place International	62,423	61,397	150,562	157,868
Total net sales	<u>\$ 490,026</u>	<u>\$ 473,777</u>	<u>\$ 1,300,303</u>	<u>\$ 1,264,544</u>

### Third Quarter 2017 Compared to the Third Quarter 2016

*Net sales* increased by \$16.2 million, or 3.4%, to \$490.0 million during the Third Quarter 2017 from \$473.8 million during the Third Quarter 2016. Our net sales increased by \$24.2 million driven primarily by a Comparable Retail Sales increase of 5.1% and favorable changes in the Canadian exchange rate of \$2.6 million, partially offset by a \$10.6 million decrease in sales primarily due to operating fewer stores.

The Children's Place U.S. net sales increased \$15.2 million, or 3.7%, to \$427.6 million in the Third Quarter 2017 compared to \$412.4 million in the Third Quarter 2016. This increase primarily resulted from a U.S. Comparable Retail Sales increase of 5.9%, partially offset by operating fewer stores.

The Children's Place International net sales increased \$1.0 million, or 1.6%, to \$62.4 million in the Third Quarter 2017 compared to \$61.4 million in the Third Quarter 2016. The increase resulted primarily from favorable changes in the Canadian exchange rate, primarily offset by a Canadian Comparable Retail Sales decrease of 1.2%.

*Gross profit* increased by \$7.9 million to \$202.4 million during the Third Quarter 2017 from \$194.5 million during the Third Quarter 2016. Gross margin leveraged 20 basis points to 41.3% during the Third Quarter 2017 from 41.1% during the Third Quarter 2016. The increase in gross margin resulted primarily from merchandise margin expansion and the leverage of fixed expenses, partially offset by the increased penetration of our e-commerce business, which operates at a lower gross margin rate due to higher fulfillment costs.

Gross profit as a percentage of net revenues is dependent upon a variety of factors, including changes in the relative sales mix among distribution channels, changes in the mix of products sold, the timing and level of promotional activities, foreign currency exchange rates, and fluctuations in material costs. These factors, among others, may cause gross profit as a percentage of net revenues to fluctuate from period to period.

*Selling, general, and administrative expenses* increased \$2.9 million to \$118.3 million during the Third Quarter 2017 from \$115.4 million during the Third Quarter 2016. As a percentage of net sales, SG&A decreased 30 basis points to 24.1% during the Third Quarter 2017 from 24.4% during the Third Quarter 2016. The leverage was primarily due to strong Comparable Retail Sales, decreased store expenses, including lower credit card fees, and lower incentive compensation expenses, partially offset by expenses related to the continued investment in our transformation initiatives.

*Asset impairment charges* were \$3.2 million during the Third Quarter 2017, of which \$0.8 million related to the full impairment of eight stores, and \$2.4 million related to the write-down of information technology systems. Asset impairment charges during the Third Quarter 2016 were \$0.4 million, which related to the partial impairment of nine stores.

*Provision for income taxes* was \$20.0 million during the Third Quarter 2017 compared to \$17.8 million during the Third Quarter 2016. Our effective tax rate was 31.2% and 28.7% in the Third Quarter 2017 and the Third Quarter 2016, respectively. The effective tax rate was higher primarily as a result of a \$1.6 million tax benefit recorded for uncertain tax positions during the Third Quarter 2016.

*Net income* was \$44.1 million during the Third Quarter 2017 compared to \$44.2 million during the Third Quarter 2016, due to the factors discussed above. Earnings per diluted share was \$2.44 in the Third Quarter 2017 compared to \$2.36 per diluted share in the Third Quarter 2016. This increase in earnings per share is due to the factors noted above and a lower weighted average common shares outstanding of approximately 0.6 million, which is the result of our share repurchase program.

### Year-To-Date 2017 Compared to the Year-To-Date 2016

*Net sales* increased by \$35.8 million, or 2.8%, to \$1,300.3 million during Year-To-Date 2017 from \$1,264.5 million during Year-To-Date 2016. Our net sales increased by \$59.4 million driven primarily by a Comparable Retail Sales increase of

4.8% and favorable changes in the Canadian exchange rate of \$1.4 million, partially offset by a \$25.0 million decrease in sales primarily due to operating fewer stores.

The Children's Place U.S. net sales increased \$43.0 million, or 3.9%, to \$1,149.7 million during Year-To-Date 2017 compared to \$1,106.7 million during Year-To-Date 2016. This increase primarily resulted from a U.S. Comparable Retail Sales increase of 5.8%, partially offset by operating fewer stores.

The Children's Place International net sales decreased \$7.3 million, or 4.6%, to \$150.6 million during Year-To-Date 2017 compared to \$157.9 million during Year-To-Date 2016. The decrease resulted primarily from a Canadian Comparable Retail Sales decrease of 2.4%, as well as from operating fewer stores in the current year, partially offset by favorable changes in the Canadian exchange rate.

Gross profit increased by \$17.7 million to \$501.4 million during Year-To-Date 2017 from \$483.7 million during Year-To-Date 2016. Gross margin increased 30 basis points to 38.6% during Year-To-Date 2017 from 38.3% during Year-To-Date 2016. The increase in gross margin resulted primarily from merchandise margin expansion and the leverage of fixed expenses, partially offset by the increased penetration of our e-commerce business, which operates at a lower gross margin rate due to higher fulfillment costs.

Gross profit as a percentage of net revenues is dependent upon a variety of factors, including changes in the relative sales mix among distribution channels, changes in the mix of products sold, the timing and level of promotional activities, foreign currency exchange rates, and fluctuations in material costs. These factors, among others, may cause gross profit as a percentage of net revenues to fluctuate from period to period.

*Selling, general, and administrative expenses* increased \$6.0 million to \$338.6 million during Year-To-Date 2017 from \$332.6 million during Year-To-Date 2016. As a percentage of net sales, SG&A decreased 30 basis points to 26.0% during Year-To-Date 2017 from 26.3% during Year-To-Date 2016. The comparability of our SG&A was affected by costs related to a provision for a legal settlement, costs related to foreign exchange control penalties, and a sales tax and use tax audit settlement, and costs arising out of the restructuring of certain store and corporate operations totaling approximately \$6.9 million during Year-To-Date 2017 and by income related to the restructuring of certain store and corporate operations totaling \$0.4 million during Year-To-Date 2016. Excluding this impact, our SG&A decreased \$1.3 million and leveraged 80 basis points. The leverage was primarily due to decreased store expenses, including credit card fees, and lower incentive compensation expenses, partially offset by expenses related to the continued investment in our transformation initiatives.

*Asset impairment charges* were \$4.7 million during Year-To-Date 2017, of which \$2.3 million related to the full impairment of 17 stores, and \$2.4 million related to the write-down of obsolete information technology systems. Asset impairment charges during Year-To-Date 2016 were \$3.2 million, of which \$1.9 million related to 21 stores, four of which were fully impaired and 17 which were partially impaired, and \$1.3 million related to the write-down of some previously capitalized development costs and information technology systems.

*Provision for income taxes* was \$14.6 million during Year-To-Date 2017 compared to \$30.2 million during Year-To-Date 2016. Our effective tax rate was a 13.4% compared to a provision of 30.7% during Year-To-Date 2017 and Year-To-Date 2016, respectively. The decrease in the effective tax rate was primarily a result of tax benefits of \$16.5 million for excess stock compensation benefits, due to the Company's adoption of FASB guidance relating to the accounting for share-based payment transactions, as well as the release of a \$4.0 million reserve for an uncertain tax position that was resolved during the first quarter of fiscal 2017 compared to a \$1.6 million tax benefit recorded for uncertain tax positions during Year-To-Date 2016.

*Net income* was \$94.6 million during Year-To-Date 2017 compared to \$68.1 million during Year-To-Date 2016, due to the factors discussed above. Earnings per diluted share was \$5.19 during Year-To-Date 2017 compared to \$3.56 per diluted share during Year-To-Date 2016. This increase in earnings per share is due to the increase in net income, the aforementioned tax benefits for excess stock compensation benefits and a lower weighted average common shares outstanding of approximately 0.9 million, which is the result of our share repurchase program.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

Our working capital needs follow a seasonal pattern, peaking during the third fiscal quarter based on seasonal inventory purchases. Our primary uses of cash are working capital requirements, which are principally inventory purchases, and the financing of capital projects, including investments in new systems, and the repurchases of our common stock and payment of dividends.

Our working capital decreased \$12.9 million to \$262.5 million at October 28, 2017 compared to \$275.4 million at October 29, 2016, partially due to the prospective adoption of FASB guidance issued in November 2015 classifying deferred tax assets as noncurrent on the balance sheet. During Year-To-Date 2017, we repurchased approximately 0.8 million shares for approximately \$85.4 million, inclusive of shares repurchased and surrendered to cover tax withholdings associated with the vesting of equity awards. During Year-To-Date 2016, we repurchased approximately 1.5 million shares for approximately \$112.3 million. We also paid cash dividends of \$21.1 million and \$11.2 million during Year-To-Date 2017 and Year-To-Date 2016, respectively. Subsequent to October 28, 2017 and through November 17, 2017, we repurchased approximately 50 thousand shares for approximately \$5.7 million and declared a quarterly cash dividend of \$0.40 per share to be paid on January 3, 2018 to shareholders of record on the close of business on December 13, 2017.

Our credit facility provides for borrowings up to the lesser of \$250.0 million or our borrowing base, as defined by the credit facility agreement (see “Credit Facility” below). At October 28, 2017, we had \$56.4 million of outstanding borrowings and \$186.6 million available for borrowing. In addition, at October 28, 2017, we had \$7.0 million of outstanding letters of credit with an additional \$43.0 million available for issuing letters of credit.

As of October 28, 2017, we had \$257.7 million of cash and cash equivalents, of which approximately \$246.0 million of cash and cash equivalents were held in foreign subsidiaries, of which approximately \$133.6 million was in our Canadian subsidiaries, approximately \$108.4 million was in our Hong Kong subsidiaries and approximately \$4.0 million was in other foreign subsidiaries. As of October 28, 2017, we also had short-term investments of \$15.0 million in Hong Kong. Because all of our earnings in our foreign subsidiaries are permanently and fully reinvested, any repatriation of cash from these subsidiaries would require the accrual and payment of U.S. federal and certain state taxes. Due to the complexities associated with the hypothetical calculation, including the availability of foreign tax credits, we have concluded it is not practicable to determine the unrecognized deferred tax liability related to the undistributed earnings. We currently do not intend to repatriate cash from any of these foreign subsidiaries.

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

### **Credit Facility**

We and certain of our domestic subsidiaries maintain a credit agreement with Wells Fargo Bank, National Association (“Wells Fargo”), Bank of America, N.A., HSBC Business Credit (USA) Inc., and JPMorgan Chase Bank, N.A. as lenders (collectively, the “Lenders”) and Wells Fargo, as Administrative Agent, Collateral Agent and Swing Line Lender (the “Credit Agreement”). The Credit Agreement was amended on September 15, 2015 and the provisions below reflect the amended and extended Credit Agreement.

The Credit Agreement, which expires in September 2020, consists of a \$250 million asset based revolving credit facility, with a \$50 million sublimit for standby and documentary letters of credit and an uncommitted accordion feature that could provide up to \$50 million of additional availability. Revolving credit loans outstanding under the Credit Agreement bear interest, at the Company’s option, at:

- (i) the prime rate plus a margin of 0.50% to 0.75% based on the amount of our average excess availability under the facility; or
- (ii) the London InterBank Offered Rate, or “LIBOR”, for an interest period of one, two, three or six months, as selected by us, plus a margin of 1.25% to 1.50% based on the amount of our average excess availability under the facility.

We are charged an unused line fee of 0.25% on the unused portion of the commitments. Letter of credit fees range from 0.625% to 0.750% for commercial letters of credit and range from 0.75% to 1.00% for standby letters of credit. Letter of credit fees are determined based on the amount of our average excess availability under the facility. The amount available for loans and letters of credit under the Credit Agreement is determined by a borrowing base consisting of certain credit card receivables, certain trade and franchise receivables, certain inventory and the fair market value of certain real estate, subject to certain reserves.

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

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

We have capitalized an aggregate of approximately \$4.3 million in deferred financing costs related to the Credit Agreement. The unamortized balance of deferred financing costs at October 28, 2017 was approximately \$0.8 million. Unamortized deferred financing costs are amortized over the remaining term of the Credit Agreement.

### **Cash Flows/Capital Expenditures**

During Year-To-Date 2017, cash flows provided by operating activities were \$129.9 million compared to \$125.6 million during Year-To-Date 2016, resulting primarily from operating performance.

During Year-To-Date 2017, cash flows used in investing activities were \$4.2 million compared to \$61.8 million during Year-To-Date 2016. This change was primarily due to a \$34.3 million net redemption of short-term investments into cash and cash equivalents for working capital needs during Year-To-Date 2017 compared to a \$35.0 million net purchase of short-term investments during Year-To-Date 2016 partially offset by an \$11.4 million increase in capital expenditures.

During Year-To-Date 2017, cash flows used in financing activities were \$65.5 million compared to \$62.1 million during Year-To-Date 2016. The increase primarily resulted from borrowings under our revolving credit facility and an increase in cash dividends paid, partially offset by a decrease in purchases of our common stock.

We anticipate that total capital expenditures will be approximately \$65 million in fiscal 2017, primarily related to our business transformation initiatives, compared to \$35 million in fiscal 2016. Our ability to continue to meet our capital requirements in fiscal 2017 depends on our cash on hand, our ability to generate cash flows from operations, and our available borrowings under our credit facility. Cash flow generated from operations depends on our ability to achieve our financial plans. During Year-To-Date 2017, we were able to fund our capital expenditures with cash on hand and cash generated from operating activities supplemented by funds from our credit facility. We believe that our existing cash on hand, cash generated from operations and funds available to us through our credit facility will be sufficient to fund our capital and other cash requirements for the foreseeable future.

### **Derivative Instruments**

We are exposed to gains and losses resulting from fluctuations in foreign currency exchange rates attributable to inventory purchases denominated in a foreign currency. Specifically, our Canadian subsidiary's functional currency is the Canadian dollar, but purchases inventory from suppliers in U.S. dollars. In order to mitigate the variability of cash flows associated with certain of these forecasted inventory purchases, we enter into foreign exchange forward contracts. These contracts typically mature within 12 months. We do not use forward contracts to engage in currency speculation and we do not enter into derivative financial instruments for trading purposes.

All derivative instruments are presented at gross fair value on the Consolidated Balance Sheets within either prepaid expenses and other current assets or accrued expenses and other current liabilities. As of October 28, 2017, we had foreign exchange forward contracts with an aggregate notional amount of \$26.1 million and the fair value of the derivative instruments was an asset of \$1.6 million.

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

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

### **Cash and Cash Equivalents**

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

### **Short-term Investments**

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

### **Interest Rates**

Our credit facility bears interest at a floating rate equal to the prime rate or LIBOR, plus a calculated spread based on our average excess availability. As of October 28, 2017, we had \$56.4 million in borrowings under our credit facility. A 10% change in the prime rate or LIBOR interest rates would not have had a material impact on our interest expense.

### **Foreign Assets and Liabilities**

Assets and liabilities outside the United States are primarily located in Canada and Hong Kong. Our investments in our Canadian and Hong Kong subsidiaries are considered long-term. As of October 28, 2017, net assets in Canada and Hong Kong were approximately \$135.9 million and \$124.2 million, respectively. A 10% increase or decrease in the Canadian and Hong Kong exchange rates would increase or decrease the corresponding net investment by approximately \$13.6 million and \$12.4 million, respectively. All changes in the net investment of our foreign subsidiaries are recorded in other comprehensive income as unrealized gains or losses.

As of October 28, 2017, we had approximately \$246.0 million of our cash and cash equivalents held in foreign countries, of which approximately \$133.6 million was in Canada, approximately \$108.4 million was in Hong Kong and approximately \$4.0 million was in other foreign countries. As of October 28, 2017, we had short-term investments of \$15.0 million held in Hong Kong which are U.S. dollar denominated time deposits with banking institutions in Hong Kong that have six month maturity dates.

### **Foreign Operations**

We have exchange rate exposure primarily with respect to certain revenues and expenses denominated in Canadian dollars. As a result, fluctuations in exchange rates impact the amount of our reported sales and expenses. Assuming a 10% change in foreign exchange rates, Year-To-Date 2017 net sales could have decreased or increased by approximately \$13.1 million and total costs and expenses could have decreased or increased by approximately \$15.2 million. Additionally, we have foreign currency denominated receivables and payables that when settled, result in transaction gains or losses. At October 28, 2017, we had foreign currency denominated receivables and payables, including inter-company balances, of \$4.1 million and \$4.9 million, respectively.

Our Canadian subsidiary's functional currency is the Canadian dollar, but purchases inventory from suppliers in U.S. dollars. In order to mitigate the variability of cash flows associated with certain of these forecasted inventory purchases, we enter into foreign exchange forward contracts. As of October 28, 2017, we had foreign exchange forward contracts with an aggregate notional amount of \$26.1 million and the fair value of the derivative instruments was an asset of \$1.6 million. Assuming a 10% change in Canadian foreign exchange rates, the fair value of these instruments could have decreased by or increased by approximately \$2.6 million. Any resulting changes in the fair value of the instruments would be partially offset by changes in the underlying balance sheet positions. We do not hedge all transactions denominated in foreign currency.

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

## **Item 4. CONTROLS AND PROCEDURES.**

### **Evaluation of Disclosure Controls and Procedures**

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

Management, including our Chief Executive Officer and President and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of October 28, 2017. Based on that evaluation, our Chief Executive Officer and President and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level, as of October 28, 2017, to ensure that all information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules



and forms and is accumulated and communicated to our management, including our principal executive, principal accounting and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

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

## PART II - OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS.

Certain legal proceedings in which we are involved are discussed in Note 9 to the consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended January 28, 2017. See Note 7 to the accompanying consolidated financial statements for a discussion of the recent developments concerning our legal proceedings.

### Item 1A. RISK FACTORS.

There were no material changes to the risk factors disclosed in Item 1A of Part I in our Annual Report on Form 10-K for the year ended January 28, 2017.

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

In December 2015, the Company's Board of Directors authorized a \$250 Million Share Repurchase Program (the "2015 \$250 Million Share Repurchase Program"). Additionally, in March 2017, the Board of Directors authorized a \$250 million share repurchase program (the "2017 Share Repurchase Program"). Under the Share Repurchase Programs, the Company may repurchase shares in the open market at current market prices at the time of purchase or in privately negotiated transactions. The timing and actual number of shares repurchased under the programs will depend on a variety of factors including price, corporate and regulatory requirements, and other market and business conditions. We may suspend or discontinue the program at any time, and may thereafter reinstitute purchases, all without prior announcement.

The following table provides a month-by-month summary of our share repurchase activity during the Third Quarter 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value (in thousands) of Shares that May Yet Be Purchased Under the Plans or Programs
7/30/17-8/26/17 <sup>(1)</sup>	66,591	\$ 105.07	66,039	\$ 298,684
8/27/17-9/30/17 <sup>(2)</sup>	88,731	110.85	88,731	288,848
10/1/17-10/28/17 <sup>(3)</sup>	103,899	108.18	103,899	277,608
Total	259,221	\$ 108.30	258,669	\$ 277,608

<sup>(1)</sup> Consists of 552 shares acquired as treasury stock as directed by participants in the Company's deferred compensation plan and 1,476 shares withheld to cover taxes in conjunction with the vesting of stock awards.

<sup>(2)</sup> Consists of 299 shares withheld to cover taxes in conjunction with the vesting of stock awards.

<sup>(3)</sup> Consists of 6,923 shares withheld to cover taxes in conjunction with the vesting of stock awards.

**Item 6. Exhibits.**

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

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

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(+) Filed herewith.

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

**SIGNATURES**

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

THE CHILDREN'S PLACE, INC.

Date: November 21, 2017

By: /S/ JANE T. ELFERS

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JANE T. ELFERS

*Chief Executive Officer and President*

*(Principal Executive Officer)*

Date: November 21, 2017

By: /S/ ANURUP PRUTHI

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ANURUP PRUTHI

*Chief Financial Officer*

*(Principal Accounting and Financial Officer)*

**Certificate of Principal Executive Officer pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jane T. Elfers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Children's Place, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2017

By: /S/ JANE T. ELFERS

JANE T. ELFERS  
*Chief Executive Officer and President*  
*(Principal Executive Officer)*

**Certificate of Principal Financial Officer pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Anurup Pruthi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Children's Place, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2017

By: /S/ ANURUP PRUTHI

ANURUP PRUTHI

*Chief Financial Officer*

*(Principal Accounting and Financial Officer)*

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

I, Jane T. Elfers, Chief Executive Officer and President of The Children's Place, Inc. (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, do hereby certify that to my knowledge:

1. The Quarterly Report of the Company on Form 10-Q for the quarter ended October 28, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this Certification this 21st day of November, 2017.

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

I, Anurup Pruthi, Chief Financial Officer of The Children's Place, Inc. (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, do hereby certify that to my knowledge:

1. The Quarterly Report of the Company on Form 10-Q for the quarter ended October 28, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this Certification this 21st day of November, 2017.

By:           /S/ ANURUP PRUTHI            
*Chief Financial Officer*  
*(Principal Accounting and Financial Officer)*

This certification accompanies the Quarterly Report on Form 10-Q of The Children's Place, Inc. for the quarter ended October 28, 2017 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original copy of this written statement required by Section 906 of the Sarbanes Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission and its staff upon request.