

**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 31, 2020

**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 CHILDRENS PLACE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**500 Plaza Drive**  
**Secaucus, New Jersey**  
(Address of Principal Executive Offices)

**31-1241495**  
(I.R.S. Employer  
Identification Number)

**07094**  
(Zip Code)

**(201) 558-2400**  
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, \$0.10 par value**

Trading Symbol: **PLCE**

Name of each exchange on which registered: **Nasdaq Global Select Market**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)	Emerging growth company <input type="checkbox"/>

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

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

The number of shares outstanding of the registrant's common stock with a par value of \$0.10 per share, as of November 20, 2020 was 14,587,078 shares.

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

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE PERIOD ENDED OCTOBER 31, 2020**

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**PART I. FINANCIAL INFORMATION**

**Item 1. CONSOLIDATED FINANCIAL STATEMENTS**

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

	October 31, 2020	February 1, 2020	November 2, 2019
	(unaudited)		(unaudited)
(in thousands, except par value)			
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 64,456	\$ 68,487	\$ 66,059
Accounts receivable	31,376	32,812	39,471
Inventories	427,629	327,165	389,815
Prepaid expenses and other current assets	16,159	21,416	20,722
Total current assets	539,620	449,880	516,067
Long-term assets:			
Property and equipment, net	191,544	236,898	246,234
Right-of-use assets	297,206	393,820	418,151
Tradenames, net	72,692	73,291	73,386
Deferred income taxes	93,697	12,941	17,615
Other assets	12,184	14,567	14,269
Total assets	\$ 1,206,943	\$ 1,181,397	\$ 1,285,722
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Current liabilities:			
Revolving loan	\$ 179,360	\$ 170,808	\$ 184,179
Current portion of long-term debt	1,328	—	—
Accounts payable	283,943	213,115	235,491
Current lease liabilities	171,276	121,868	124,281
Income taxes payable	7,445	5,607	7,171
Accrued expenses and other current liabilities	133,407	83,609	109,476
Total current liabilities	776,759	595,007	660,598
Long-term liabilities:			
Long-term debt	76,307	—	—
Long-term lease liabilities	232,153	311,908	331,615
Other tax liabilities	6,821	6,782	5,050
Income taxes payable	17,589	17,589	18,939
Other long-term liabilities	19,945	14,924	15,081
Total liabilities	1,129,574	946,210	1,031,283
<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; 14,641, 14,762, and 15,310 issued; 14,586, 14,711, and 15,260 outstanding	1,464	1,476	1,531
Additional paid-in capital	141,613	139,041	145,219
Treasury stock, at cost (55, 51, and 50 shares)	(3,095)	(2,956)	(2,886)
Deferred compensation	3,095	2,956	2,886
Accumulated other comprehensive loss	(15,170)	(13,545)	(13,442)
Retained earnings (deficit)	(50,538)	108,215	121,131
Total stockholders' equity	77,369	235,187	254,439
Total liabilities and stockholders' equity	\$ 1,206,943	\$ 1,181,397	\$ 1,285,722

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 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
	(in thousands, except earnings and dividends per share)			
Net sales	\$ 425,571	\$ 524,796	\$ 1,049,701	\$ 1,357,647
Cost of sales (exclusive of depreciation and amortization)	279,506	326,671	856,229	868,701
<b>Gross profit</b>	146,065	198,125	193,472	488,946
Selling, general, and administrative expenses	106,639	120,514	319,442	364,937
Depreciation and amortization	15,809	18,821	50,405	55,877
Asset impairment charges	294	839	37,929	1,308
<b>Operating income (loss)</b>	23,323	57,951	(214,304)	66,824
Interest expense	(3,266)	(2,221)	(7,802)	(6,341)
Interest income	3	66	60	197
<b>Income (loss) before benefit for income taxes</b>	20,060	55,796	(222,046)	60,680
Provision (benefit) for income taxes	6,740	12,748	(73,917)	11,620
<b>Net income (loss)</b>	<u>\$ 13,320</u>	<u>\$ 43,048</u>	<u>\$ (148,129)</u>	<u>\$ 49,060</u>
<b>Earnings (loss) per common share</b>				
Basic	\$ 0.91	\$ 2.78	\$ (10.13)	\$ 3.12
Diluted	\$ 0.91	\$ 2.77	\$ (10.13)	\$ 3.10
<b>Weighted average common shares outstanding</b>				
Basic	14,639	15,497	14,628	15,720
Diluted	14,643	15,546	14,628	15,837
<b>Cash dividends declared per common share</b>	\$ —	\$ 0.56	\$ —	\$ 1.68

See accompanying notes to these consolidated financial statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
	(in thousands)			
<b>Net income (loss)</b>	\$ 13,320	\$ 43,048	\$ (148,129)	\$ 49,060
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustment	216	1,773	(876)	1,376
Change in fair value of cash flow hedges, net of income taxes	(949)	30	(749)	116
<b>Other comprehensive income (loss)</b>	(733)	1,803	(1,625)	1,492
<b>Total comprehensive income (loss)</b>	<u>\$ 12,587</u>	<u>\$ 44,851</u>	<u>\$ (149,754)</u>	<u>\$ 50,552</u>

See accompanying notes to these consolidated financial statements.

**THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Unaudited)**

**Thirteen Weeks Ended October 31, 2020**

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Value	
(in thousands, except dividends per share)									
BALANCE, August 1, 2020	\$ 14,637	\$ 1,464	\$ 138,350	\$ 3,025	\$ (63,862)	\$ (14,437)	\$ (52)	\$ (3,025)	\$61,515
Vesting of stock awards	4								—
Stock-based compensation			3,275						3,275
Purchase and retirement of shares			(12)		4				(8)
Other comprehensive income (loss)						(733)			(733)
Deferral of common stock into deferred compensation plan				70			(3)	(70)	—
Net income					13,320				13,320
BALANCE, October 31, 2020	<u>\$ 14,641</u>	<u>\$ 1,464</u>	<u>\$ 141,613</u>	<u>\$ 3,095</u>	<u>\$ (50,538)</u>	<u>\$ (15,170)</u>	<u>\$ (55)</u>	<u>\$ (3,095)</u>	<u>\$ 77,369</u>

**Thirty-nine Weeks Ended October 31, 2020**

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Value	
(in thousands, except dividends per share)									
BALANCE, February 1, 2020	\$ 14,762	\$ 1,476	\$ 139,041	\$ 2,956	\$ 108,215	\$ (13,545)	(51)	\$ (2,956)	\$235,187
Vesting of stock awards	171	17	(17)						—
Stock-based compensation			7,388						7,388
Purchase and retirement of shares	(292)	(29)	(4,799)		(10,624)				(15,452)
Other comprehensive income (loss)						(1,625)			(1,625)
Deferral of common stock into deferred compensation plan				139			(4)	(139)	—
Net income (loss)					(148,129)				(148,129)
BALANCE, October 31, 2020	<u>\$ 14,641</u>	<u>\$ 1,464</u>	<u>\$ 141,613</u>	<u>\$ 3,095</u>	<u>\$ (50,538)</u>	<u>\$ (15,170)</u>	<u>\$ (55)</u>	<u>\$ (3,095)</u>	<u>\$ 77,369</u>

**THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Unaudited)**

**Thirteen Weeks Ended November 2, 2019**

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Value	
	(in thousands, except dividends per share)								
BALANCE, August 3, 2019	\$ 15,719	\$ 1,572	\$ 149,140	\$ 2,816	\$ 113,789	\$ (15,245)	(49)	\$ (2,816)	\$ 249,256
Vesting of stock awards	4								—
Stock-based compensation			2,351						2,351
Purchase and retirement of shares	(414)	(41)	(6,640)		(26,657)				(33,338)
Dividends declared (\$0.56 per share)					(8,681)				(8,681)
Unvested dividends			368		(368)				—
Other comprehensive income						1,803			1,803
Deferral of common stock into deferred compensation plan				70			(1)	(70)	—
Net income					43,048				43,048
BALANCE, November 2, 2019	<u>\$ 15,309</u>	<u>\$ 1,531</u>	<u>\$ 145,219</u>	<u>\$ 2,886</u>	<u>\$ 121,131</u>	<u>\$ (13,442)</u>	<u>\$ (50)</u>	<u>\$ (2,886)</u>	<u>\$ 254,439</u>

**Thirty-nine Weeks Ended November 2, 2019**

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Value	
	(in thousands, except dividends per share)								
BALANCE, February 2, 2019	\$ 15,873	\$ 1,588	\$ 146,991	\$ 2,685	\$ 180,792	\$ (14,934)	(47)	\$ (2,685)	\$ 314,437
ASC Topic 842 Adjustment					(1,667)				(1,667)
Vesting of stock awards	470	46	(5)						41
Stock-based compensation			13,622						13,622
Purchase and retirement of shares	(1,034)	(103)	(16,297)		(79,666)				(96,066)
Dividends declared (\$0.56 per share)					(26,480)				(26,480)
Unvested dividends			908		(908)				—
Other comprehensive income						1,492			1,492
Deferral of common stock into deferred compensation plan				201			(3)	(201)	—
Net income					49,060				49,060
BALANCE, November 2, 2019	<u>\$ 15,309</u>	<u>\$ 1,531</u>	<u>\$ 145,219</u>	<u>\$ 2,886</u>	<u>\$ 121,131</u>	<u>\$ (13,442)</u>	<u>\$ (50)</u>	<u>\$ (2,886)</u>	<u>\$ 254,439</u>

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

	Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019
(in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (148,129)	\$ 49,060
Reconciliation of net income (loss) to net cash provided by operating activities:		
Non-cash portion of operating lease expense	81,582	112,316
Depreciation and amortization	50,405	55,877
Stock-based compensation	7,388	13,622
Deferred taxes	(80,778)	745
Asset impairment charges	37,929	1,308
Other	399	175
Changes in operating assets and liabilities:		
Inventories	(100,346)	(86,440)
Accounts receivable and other assets	2,522	(3,027)
Prepaid expenses and other current assets	7,117	2,622
Income taxes payable, net of prepayments	1,667	10,888
Accounts payable and other current liabilities	120,784	63,641
Other long-term liabilities	(31,271)	(120,221)
Net cash provided by (used in) operating activities	(50,731)	100,566
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(23,763)	(42,396)
Acquisition of assets	—	(76,951)
Change in deferred compensation plan	211	222
Net cash used in investing activities	(23,552)	(119,125)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of common stock, including shares surrendered for tax withholdings and transaction costs	(15,452)	(93,763)
Payment of dividends	—	(26,480)
Borrowings under revolving loan	356,316	750,981
Repayments under revolving loan	(347,764)	(615,663)
Proceeds from term loan, net of discount	78,750	—
Payment of debt issuance costs	(1,164)	—
Net cash provided by financing activities	70,686	15,075
Effect of exchange rate changes on cash and cash equivalents	(434)	407
Net decrease in cash and cash equivalents	(4,031)	(3,077)
Cash and cash equivalents, beginning of period	68,487	69,136
Cash and cash equivalents, end of period	\$ 64,456	\$ 66,059

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 31, 2020	November 2, 2019
	(in thousands)	
<b>OTHER CASH FLOW INFORMATION:</b>		
Net cash paid during the period for income taxes	\$ 4,975	\$ 74
Cash paid during the period for interest	6,177	6,233
Increase (decrease) in accrued purchases of property and equipment	(2,162)	797

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”, or “we”) is the largest pure-play children’s specialty apparel retailer in North America. The Company provides apparel, footwear, accessories, 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 predominately at value prices, primarily under our proprietary “The Children’s Place”, “Place”, “Baby Place”, and “Gymboree” 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) and [www.gymboree.com](http://www.gymboree.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 Company as of October 31, 2020 and November 2, 2019, the results of its consolidated operations for the thirteen and thirty-nine weeks ended October 31, 2020 and November 2, 2019, consolidated cash flows for the thirty-nine weeks ended October 31, 2020 and November 2, 2019 and consolidated stockholders’ equity for the thirteen and thirty-nine weeks ended October 31, 2020 and November 2, 2019. The consolidated financial position as of February 1, 2020 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 31, 2020 and November 2, 2019 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 February 1, 2020.

In December 2019, there was an outbreak of a new strain of coronavirus (“COVID-19”) that began in Wuhan, China and has since spread to the other regions of the world. In March 2020, the World Health Organization declared COVID-19 a global pandemic, and the President of the United States declared a national emergency. Federal, state, and local governments and health officials mandated and continue to mandate various restrictions, including closures of businesses and other activities, travel restrictions, restrictions on public gatherings, stay at home orders and advisories, quarantining of people who may have been exposed to the virus, and the adoption of remote or hybrid learning models for schools. The COVID-19 pandemic has significantly negatively affected the global economy, significantly disrupted global supply chains, and created significant disruption of the financial and retail markets, including a significant disruption in consumer demand for children’s clothing and accessories. As such, the comparability of the Company’s operating results has been affected by significant adverse impacts related to the COVID-19 pandemic.

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

- Third Quarter 2020 — The thirteen weeks ended October 31, 2020
- Third Quarter 2019 — The thirteen weeks ended November 2, 2019
- Year-To-Date 2020 — The thirty-nine weeks ended October 31, 2020
- Year-To-Date 2019 — The thirty-nine weeks ended November 2, 2019
- 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.

### **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 shrinkage is estimated in interim periods based upon the historical results of physical inventory counts 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 trends 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.

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 impairment, the Company projects future cash flows over the remaining life of the lease, adjusted for lease payments, and compares the total undiscounted cash flows to the net book value of the related long-lived assets, including right-of-use ("ROU") 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 uses discounted future cash flows directly associated with those assets to determine fair market value of long-lived assets and ROU 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 and competition and their effect on sales trends, as well as macroeconomic factors, such as global pandemics. 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.

Asset impairment charges during Year-To-Date 2020 were related to underperforming stores identified in our ongoing store portfolio evaluation primarily as a result of decreased net revenues and cash flow projections resulting from the COVID-19 pandemic.

### **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, an employee may earn from 0% to 250% of their Target Shares based on the Company's achievement of certain performance goals established at the beginning of the applicable performance period. The Performance Awards cliff vest, if earned, after completion of the applicable performance period, which is generally three years. The fair value of these 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 probability that the performance criteria will be achieved.

### **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 Measurement* 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, 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 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 fair value hierarchy.

Our assets measured at fair value on a nonrecurring basis include long-lived assets, such as intangible assets, fixed assets, and ROU 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.

## **Recently Issued Accounting Standards**

### ***Adopted in Fiscal 2020***

In August 2018, the FASB issued guidance related to the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. We adopted this guidance in the first quarter of fiscal 2020. This adoption did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued guidance related to disclosure requirements for fair value measurement. The amendments modify current fair value measurement disclosure requirements by removing, adding, or modifying certain fair value measurement disclosures. We adopted this guidance in the first quarter of fiscal 2020. This adoption did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued guidance related to the accounting for financial instrument credit losses. The guidance provides more decision useful information about the expected credit losses on financial instruments by replacing the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We adopted this guidance in the first quarter of fiscal 2020. This adoption did not have a material impact on our consolidated financial statements.

### ***To Be Adopted After Fiscal 2020***

In December 2019, the FASB issued guidance related to the accounting for income taxes. The guidance aims to simplify the accounting for income taxes by removing certain exceptions to the general principles within the current guidance and by clarifying and amending the current guidance. The guidance is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2020. We do not expect the guidance to have a material impact on our consolidated financial statements.

## 2. REVENUES

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The following table presents our revenues disaggregated by geography:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Net sales:	(in thousands)			
South	\$ 151,374	\$ 176,091	\$ 395,655	\$ 475,801
Northeast	97,668	129,325	232,435	319,468
West	50,896	77,213	143,472	206,344
Midwest	61,740	69,957	139,243	173,912
International and other	63,893	72,210	138,896	182,122
Total net sales	<u>\$ 425,571</u>	<u>\$ 524,796</u>	<u>\$ 1,049,701</u>	<u>\$ 1,357,647</u>

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 e-commerce, net of coupon redemptions and anticipated sales returns. The Company deferred approximately \$7.4 million and \$2.5 million as of October 31, 2020 and November 2, 2019, respectively, based upon estimated time of delivery, at which point control passes to the customer, and is recorded in accrued expenses and other current liabilities. Sales tax collected from customers is excluded from revenue.

For the sale of goods with a right of return, the Company recognizes revenue for the consideration it expects to be entitled to and calculates an allowance for estimated sales returns based upon the Company's sales return experience. Adjustments to the allowance for estimated sales returns in subsequent periods are generally not material based on historical data, thereby reducing the uncertainty inherent in such estimates. The allowance for estimated sales returns, which is recorded in accrued expenses and other current liabilities, was approximately \$1.7 million and \$2.3 million as of October 31, 2020 and November 2, 2019, respectively.

Our private label credit card is issued to our customers for use exclusively at The Children's Place stores and online at [www.childrensplace.com](http://www.childrensplace.com) and [www.gymboree.com](http://www.gymboree.com), and credit is extended to such customers by a third-party financial institution on a non-recourse basis to us. The private label credit card includes multiple performance obligations for the Company, including marketing and promoting the program on behalf of the bank and the operation of the loyalty rewards program. Included in the agreement with the third-party financial institution was an upfront bonus paid to the Company. The upfront bonus is recognized as revenue and allocated between brand and reward obligations. As the license of the Company's brand is the predominant item in the performance obligation, the amount allocated to the brand obligation is recognized on a straight-line basis over the initial term. The amount allocated to the reward obligation is recognized on a point-in-time basis as redemptions under the loyalty program occur.

In measuring revenue and determining the consideration the Company is entitled to as part of a contract with a customer, the Company takes into account the related elements of variable consideration, such as additional bonuses, including profit-sharing, over the life of the program. Similar to the upfront bonus, the usage-based royalties and bonuses are recognized as revenue and allocated between the brand and reward obligations. The amount allocated to the brand obligation is recognized on a straight-line basis over the initial term. The amount allocated to the reward obligation is recognized on a point-in-time basis as redemptions under the loyalty program occur. In addition, the annual profit-sharing amount is estimated and recognized quarterly within an annual period when earned. The additional bonuses are amortized over the contract term based on anticipated progress against future targets and level of risk associated with achieving the targets.

The Company has a points-based customer loyalty program, in which customers earn points based on purchases and other promotional activities. These points can be redeemed for coupons to discount future purchases. A contract liability is estimated based on the standalone selling price of benefits earned by customers through the program and the related redemption experience under the program. The value of each point earned is recorded as deferred revenue and is included within accrued expenses and other current liabilities. The total contract liabilities related to this program were \$2.5 million and \$2.9 million as of October 31, 2020 and November 2, 2019, respectively.

The Company's policy with respect to gift cards is to record revenue as and when the gift cards are redeemed for merchandise. The Company recognizes gift card breakage income in proportion to the pattern of rights exercised by the customer when the Company expects to be entitled to breakage 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 net sales. Prior to their redemption, gift cards are recorded as a liability, included within accrued expenses and other current liabilities. The total contract liability related to gift cards issued was \$12.6 million and \$14.7 million as of October 31, 2020 and November 2, 2019, respectively. The liability is estimated based on expected breakage that considers historical patterns of redemption. The following table provides the reconciliation of the contract liability related to gift cards:

	<b>Contract Liability</b> <b>(in thousands)</b>
Balance at February 1, 2020	\$ 16,100
Gift cards sold	11,452
Gift cards redeemed	(12,740)
Gift card breakage	(2,231)
Balance at October 31, 2020	<u>\$ 12,581</u>

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 and based on the opening of new stores. The Company records these territorial fees as deferred revenue and amortizes the fee into net sales over the life of the territorial agreement.

### 3. LEASES

We have operating leases for retail stores, corporate offices, distribution facilities, and certain equipment. Our leases have remaining lease terms of less than 1 year up to 10 years, some of which may include options to extend the leases for up to five years, and some of which may include options to terminate the lease early.

The lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For operating leases, the ROU asset is initially and subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, less any accrued lease payments and unamortized lease incentives. For finance leases, the ROU asset is initially measured at cost and subsequently amortized using the straight-line method generally from the lease commencement date to the earlier of the end of its useful life or the end of the lease term.

The discount rate is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the Company is required to use its incremental borrowing rate. The discount rate for a lease is determined based on the information available at lease commencement. In general, the Company accounts for the underlying leased asset and applies a discount rate at the lease level. However, there are certain non-real estate leases for which the Company utilizes the portfolio method by aggregating similar leased assets based on the underlying lease term.

The Company has made an accounting policy election by class of underlying asset to not apply the recognition requirements of FASB ASC 842--*Leases* ("Topic 842") to leases with an initial term of 12 months or less. Leases with an initial lease term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components. The Company has elected a policy to account for lease and non-lease components as a single component for all asset classes.

In certain leases, the Company has the right to exercise lease renewal options. Renewal option periods are included in the measurement of lease ROU assets and lease liabilities where the exercise is reasonably certain to occur.

As of October 31, 2020, the Company's finance leases were not material to the consolidated balance sheets, consolidated statements of operations, or consolidated statements of cash flows.

We have certain lease agreements structured with both a fixed base rent and a contingent rent based on a percentage of sales over contractual levels, others with only contingent rent based on a percentage of sales, and some with a fixed base rent adjusted periodically for inflation or changes in fair market value of the underlying real estate. Contingent rent is recognized as sales occur. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

We record all occupancy costs in cost of sales, except administrative office buildings, which are recorded in selling, general, and administrative expenses.

The following components of lease expense are included in the Company's consolidated statements of operations.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
	(in thousands)			
Operating lease cost	\$ 29,218	\$ 36,348	\$ 108,412	\$ 112,316
Variable lease cost <sup>(1)</sup>	16,871	16,754	36,696	47,520
Total lease cost	<u>\$ 46,089</u>	<u>\$ 53,102</u>	<u>\$ 145,108</u>	<u>\$ 159,836</u>

<sup>(1)</sup>Includes short term leases with lease periods of less than 12 months.

As of October 31, 2020, the weighted-average remaining operating lease term was 4.0 years, and the weighted-average discount rate for operating leases was 5.0%.

Cash paid for amounts included in the measurement of operating lease liabilities during Year-To-Date 2020 was approximately \$92.9 million.

ROU assets obtained in exchange for new operating lease liabilities were approximately \$41.4 million during Year-To-Date 2020.

As of October 31, 2020, the stated future minimum annual lease payments under operating lease agreements were as follows:

	As of October 31, 2020 (in thousands)
Remainder of 2020	\$ 96,913
2021	114,785
2022	82,512
2023	45,951
2024	27,754
Thereafter	70,010
Total lease payments	<u>\$ 437,925</u>
Less: imputed interest	<u>\$ (34,496)</u>
Present value of lease liabilities	<u>\$ 403,429</u>

#### 4. INTANGIBLE ASSETS

The Company acquired certain intellectual property and related assets (the “Gymboree Assets”) of Gymboree Group, Inc. and related entities, which included the worldwide rights to the names “Gymboree” and “Crazy 8” and other intellectual property, including trademarks, domain names, copyrights, and customer databases. These intangible assets, inclusive of acquisition costs, are recorded in the long-term assets section of the consolidated balance sheets.

The Company’s intangible assets include both indefinite and finite assets. Intangible assets with indefinite lives consist primarily of trademarks and acquired trade names, which are tested for impairment annually or whenever circumstances indicate that a decline in value may have occurred. The Company estimates the fair value of these intangible assets based on an income approach using the relief-from-royalty method. The Company’s finite-lived intangible assets consist primarily of customer lists and other acquisition-related assets. Finite-lived intangible assets are amortized over their estimated useful economic lives and are reviewed for impairment when factors indicate that an impairment may have occurred. The Company recognizes an impairment charge when the estimated fair value of the intangible asset is less than the carrying value.

The Company’s intangible assets were as follows as of October 31, 2020:

	Useful life	October 31, 2020		
		Gross amount	Accumulated amortization	Net amount
(in thousands)				
Gymboree tradename <sup>(1)</sup>	Indefinite	\$ 69,953	\$ —	\$ 69,953
Crazy 8 tradename <sup>(1)</sup>	5 years	4,000	(1,261)	2,739
Customer databases <sup>(2)</sup>	3 years	3,000	(1,577)	1,423
<b>Total intangibles, net</b>		<b>\$ 76,953</b>	<b>\$ (2,838)</b>	<b>\$ 74,115</b>

<sup>(1)</sup> Included within Tradenames, net in the consolidated balance sheets.

<sup>(2)</sup> Included within Other assets in the consolidated balance sheets.

#### 5. STOCKHOLDERS’ EQUITY

##### Share Repurchase Program

In March 2018, the Board of Directors authorized a \$250 million share repurchase program (the “2018 Share Repurchase Program”). At October 31, 2020, there was approximately \$92.9 million remaining on the 2018 Share Repurchase Program. Under this program, the Company may repurchase shares on 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 the program at any time and may thereafter reinstitute purchases, all without prior announcement. In March 2020, the Company temporarily suspended share repurchases due to the COVID-19 pandemic.

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 repurchases shares of vesting stock awards and makes payments to taxing authorities as required by law to satisfy the withholding tax requirements of all equity award 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 31, 2020		November 2, 2019	
	Shares	Value	Shares	Value
(in thousands)				
Shares repurchases related to:				
2018 Share Repurchase Program	292	\$ 15,452	1,028	\$ 93,763
Shares acquired and held in treasury under Deferred Compensation Plan	4.3	\$ 139	2.1	\$ 201

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 determined using a pro-rata allocation based on total shares outstanding. Related to all shares retired during Year-To-Date 2020 and Year-To-Date 2019, approximately \$10.6 million and \$79.7 million, respectively, were charged to retained earnings.

### Dividends

In March 2020, the Company announced it had temporarily suspended its dividend payments due to the COVID-19 pandemic. During Year-To-Date 2019, \$27.4 million was charged to retained earnings, of which \$26.5 million related to cash dividends paid and \$0.9 million related to dividend share equivalents on unvested Deferred Awards and Performance Awards.

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 financial performance, and other investment priorities.

## 6. STOCK-BASED COMPENSATION

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
	(in thousands)			
Deferred Awards	\$ 2,775	\$ 4,494	\$ 10,282	\$ 14,237
Performance Awards	500	(2,143)	(2,894)	(615)
Total stock-based compensation expense <sup>(1)</sup>	\$ 3,275	\$ 2,351	\$ 7,388	\$ 13,622

<sup>(1)</sup> During the Third Quarter 2020 and the Third Quarter 2019, approximately \$0.9 million and \$0.9 million, respectively, were included within cost of sales. During Year-To-Date 2020 and Year-To-Date 2019, approximately \$2.6 million and \$2.8 million, respectively, were included within cost of sales (exclusive of depreciation and amortization). 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 \$2.0 million and \$3.6 million during Year-To-Date 2020 and Year-To-Date 2019, respectively.

### Changes in the Company's Unvested Stock Awards during Year-To-Date 2020

#### Deferred Awards

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested Deferred Awards, beginning of period	377	\$ 97.88
Granted	410	41.73
Vested	(165)	107.11
Forfeited	(73)	80.75
Unvested Deferred Awards, end of period	549	\$ 55.47

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated \$20.4 million as of October 31, 2020, which will be recognized over a weighted average period of approximately 2.1 years.

### Performance Awards

	Number of Shares <sup>(1)</sup>	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested Performance Awards, beginning of period	342	\$ 99.97
Granted	144	41.64
Shares unearned (below target)	(101)	118.00
Vested shares	(3)	105.86
Forfeited	(29)	106.69
Unvested Performance Awards, end of period	353	\$ 70.37

<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 the probability that the performance criteria will be achieved as they occur. Total unrecognized stock-based compensation expense related to unvested Performance Awards approximated \$5.2 million as of October 31, 2020, which will be recognized over a weighted average period of approximately 2.6 years.

## 7. EARNINGS PER COMMON SHARE

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
	(in thousands)			
Net income (loss)	\$ 13,320	\$ 43,048	\$ (148,129)	\$ 49,060
Basic weighted average common shares	14,639	15,497	14,628	15,720
Dilutive effect of stock awards	4	49	—	117
Diluted weighted average common shares	14,643	15,546	14,628	15,837

## 8. PROPERTY AND EQUIPMENT

Property and equipment, net consist of the following:

	October 31, 2020	February 1, 2020	November 2, 2019
	(in thousands)		
Property and equipment:			
Land and land improvements	\$ 3,403	\$ 3,403	\$ 3,403
Building and improvements	35,927	35,568	35,568
Material handling equipment	56,926	53,540	52,506
Leasehold improvements	226,881	285,955	299,897
Store fixtures and equipment	234,423	272,158	271,476
Capitalized software	295,277	265,610	264,574
Construction in progress	12,701	33,240	34,287
	<u>865,538</u>	<u>949,474</u>	<u>961,711</u>
Accumulated depreciation and amortization	(673,994)	(712,576)	(715,477)
Property and equipment, net	<u>\$ 191,544</u>	<u>\$ 236,898</u>	<u>\$ 246,234</u>

At October 31, 2020, the Company performed impairment testing on 809 stores with a total net book value of approximately \$44.0 million. During the Third Quarter 2020, the Company recorded asset impairment charges of \$0.3 million, inclusive of ROU assets, primarily for one store. During Year-To-Date 2020, the Company recorded asset impairment charges of \$37.9 million, inclusive of ROU assets, primarily for 419 stores. These charges were related to underperforming stores identified in our ongoing store portfolio evaluation primarily as a result of decreased net revenues and cash flow projections resulting from the COVID-19 pandemic.

At November 2, 2019, the Company performed impairment testing on 955 stores with a total net book value of approximately \$70.1 million. During the Third Quarter 2019, the Company recorded asset impairment charges of \$0.8 million primarily for eight stores. During Year-To-Date 2019, the Company recorded asset impairment charges of \$1.3 million primarily for 15 stores.

## 9. DEBT

### *Revolving Credit Facility*

The Company and certain of its subsidiaries maintain an asset-based revolving credit facility (the “ABL Credit Facility”) 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 ABL Credit Facility, which expires in May 2024, consists of a \$360 million asset-based revolving credit facility that was increased from \$325 million as a result of finalizing an amendment with the Lenders on April 24, 2020 to secure the Company an additional \$35 million available under the accordion feature for a period of one year, and including a \$25 million Canadian sublimit, with a \$50 million sublimit for standby and documentary letters of credit. On October 5, 2020, the Company further amended the ABL Credit Facility to provide for certain changes that permitted the issuance of an \$80 million term loan (the “Term Loan”) on that date and align certain terms of the ABL Credit Facility to those of the Term Loan. The Term Loan is discussed in more detail below.

Borrowings outstanding under the ABL Credit Facility bear interest, at the Company’s option, at:

- (i) the prime rate, plus a margin of 1.75% to 1.88% 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: a) 2.50% to 2.75% and b) 1.00%, 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 1.25% to 1.38% for commercial letters of credit and from 2.00% to 2.25% for standby letters of credit. Letter of credit fees are determined based on the amount of the Company's average excess availability under the facility. The amount available for loans and letters of credit under the ABL Credit Facility is determined by a borrowing base consisting of certain credit card receivables and certain trade receivables, certain inventory, and the fair market value of certain real estate, subject to certain reserves.

The outstanding obligations under the ABL Credit Facility 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 ABL Credit Facility contains covenants, which include conditions on stock buybacks and the payment of cash dividends or similar payments. These covenants also limit the ability of the Company and its subsidiaries to incur certain liens, to incur certain indebtedness, to make certain investments, acquisitions, or dispositions or to change the nature of its business.

Credit extended under the ABL Credit Facility is secured by a first priority security interest in substantially all of the Company's U.S. and Canadian assets, excluding intellectual property, software, equipment, and fixtures. In connection with the Term Loan, the Lenders under the ABL Credit Facility entered into an intercreditor agreement with the Term Loan lender and were granted a second priority security interest in the Term Loan collateral, which includes the Company's intellectual property, certain furniture, fixtures and equipment, and pledges of subsidiary capital stock.

The Company has capitalized an aggregate of approximately \$5.9 million in deferred financing costs related to the ABL Credit Facility. The unamortized balance of deferred financing costs at October 31, 2020 was approximately \$1.4 million. Unamortized deferred financing costs are amortized over the remaining term of the ABL Credit Facility.

The table below presents the components of the Company's ABL Credit Facility:

	October 31, 2020	February 1, 2020	November 2, 2019
	(in millions)		
Credit facility maximum	\$ 360.0	\$ 325.0	\$ 325.0
Borrowing base	360.0	282.1	325.0
Outstanding borrowings	179.4	170.8	184.2
Letters of credit outstanding—standby	7.8	6.2	6.2
Utilization of credit facility at end of period	187.2	177.0	190.4
Availability <sup>(1)</sup>	\$ 172.8	\$ 105.1	\$ 134.6
Interest rate at end of period	3.9 %	3.4 %	3.3 %
	Year-To-Date 2020	Fiscal 2019	Year-To-Date 2019
Average end of day loan balance during the period	\$ 233.2	\$ 192.0	\$ 192.1
Highest end of day loan balance during the period	275.6	262.5	262.5
Average interest rate	3.7 %	4.0 %	4.1 %

<sup>(1)</sup> The sublimit availability for the letters of credit was \$42.2 million at October 31, 2020 and \$43.8 million at February 1, 2020 and November 2, 2019.

**Long-Term Debt**

Long-term debt is solely comprised of the Term Loan transaction completed during Third Quarter 2020, as discussed below.

On October 5, 2020, the Company and certain of its subsidiaries entered into a loan agreement (the “Loan Agreement”) dated October 5, 2020 with Crystal Financial LLC, as Lender, Administrative Agent, and Collateral Agent, providing for an \$80 million Term Loan. The net proceeds from the Term Loan, after deducting related fees and expenses, were used to repay borrowings under the Company’s ABL Credit Facility.

The Term Loan: (i) matures on the earlier of October 5, 2025 or the maturity date under the ABL Credit Facility, currently in May 2024; (ii) bears interest, payable monthly, at the greater of (a) the three month LIBOR Rate published in the Wall Street Journal, and (b) 1.00%, plus 7.75% or 8.00% depending on the average excess availability of credit under the ABL Credit Facility, adjusted quarterly; and (iii) amortizes by (x) 5.00% per annum payable quarterly beginning with the fiscal quarter ending on or around July 31, 2021 through the fiscal quarter ending on or around April 30, 2022, (y) 7.50% per annum payable quarterly beginning with the fiscal quarter ending on or around July 31, 2022 through the fiscal quarter ending on or around April 30, 2023, and (z) 10.00% per annum payable quarterly thereafter. For Third Quarter and Year-To-Date 2020, the stated interest rate for the Term Loan was 9.0%, and the effective interest rate was 9.5%. For Third Quarter and Year-To-Date 2020, the Company recognized \$0.6 million in interest expense related to the Term Loan.

The Term Loan is secured by a first priority security interest in the Company’s intellectual property, certain furniture, fixtures and equipment, and pledges of subsidiary capital stock, and a second priority security interest in the collateral securing the ABL Credit Facility. The Term Loan is guaranteed, subject to certain exceptions, by each of the Company’s subsidiaries that guarantee the ABL Credit Facility.

The Term Loan is, in whole or in part, pre-payable any time and from time to time, subject to certain prepayment premiums specified in the Loan Agreement, plus accrued and unpaid interest.

Among other covenants, the Loan Agreement limits the ability of the Company and its subsidiaries to incur certain liens, to incur certain indebtedness, including under the ABL Credit Facility, to make certain investments, acquisitions, dispositions or restricted payments, or to change the nature of its business. These covenants are substantially the same covenants as provided in the ABL Credit Facility.

The Loan Agreement contains customary events of default, which include (subject in certain cases to customary grace and cure periods), nonpayment of principal or interest, breach of other covenants in the Loan Agreement, failure to pay certain other indebtedness, including under the ABL Credit Facility, and certain events of bankruptcy, insolvency or reorganization.

The following table summarizes the current and long-term portion of the long-term debt:

	<b>October 31, 2020</b>
	<b>(in thousands)</b>
Term Loan principal	\$ 80,000
Less: Unamortized discount, net	(1,224)
Less: Unamortized debt issuance costs, net	(1,141)
Term Loan, net	77,635
Less: Current portion, net	(1,328)
Long-term debt, net	<u>\$ 76,307</u>

Future principal payments of long-term debt due in each of the next four years subsequent to October 31, 2020 are as follows:

<b>Period</b>	<b>Future Principal Payments</b>
	<b>(in thousands)</b>
Remainder of 2020	\$ —
2021	3,000
2022	5,500
2023	7,500
2024	64,000
Total future principal payments	<u>\$ 80,000</u>

## 10. 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 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 provides for merchandise vouchers for class members who submit valid claims, as well as payment of legal fees and expenses and claims administration expenses. On January 28, 2020, the court entered an order granting preliminary approval of the settlement. The settlement is subject to the court's final approval and, if approved, will result in the settlement of all claims through the date of the court's preliminary approval of the settlement. However, if the settlement is ultimately rejected by the court, 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 2017.

The Company is also involved in various legal proceedings arising in the normal course of business, including lawsuits with landlords as a result of the Company's temporary suspension of rent payments when stores were closed at the beginning of the COVID-19 pandemic in the spring of 2020 and the resumption of rent payments on a modified basis as stores began to re-open. In many cases, active negotiations and settlement discussions with landlords regarding suspended rent payments and modified rent payments for our store leases remain ongoing.

## 11. 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, stock-based compensation, and various accruals and reserves.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act, ("CARES Act") was signed into law. The CARES Act includes changes that may benefit the Company such as a five-year net operating loss carryback, changes in the deductibility of interest expense, and accelerated depreciation on certain store leasehold improvements. The CARES Act also allows for the deferral of employer FICA taxes and an employee retention credit.

The Company's effective tax rate for the Third Quarter 2020 was 33.6% as compared 22.8% during the Third Quarter 2019, resulting in income tax expense of \$6.7 million during the Third Quarter 2020 compared to an expense of \$12.7 million during the Third Quarter 2019. The increase in the effective tax rate for the Third Quarter 2020 compared to the Third Quarter 2019 was primarily driven by the impact of the CARES Act on the current quarter rate and the jurisdictional mix of income in the periods.

The Company's effective tax rate for the Year-To-Date 2020 was a benefit of 33.3% compared to an expense of 19.1% during the Year-To-Date 2019. The Year-To-Date 2020 benefit was primarily driven by the net loss in the period as well as the impact of the enactment of the CARES Act. The Year-To-Date 2019 income tax rate was impacted by an excess tax benefit related to the vesting of equity shares.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. The total amount of unrecognized tax benefits as of October 31, 2020, February 1, 2020, and November 2, 2019 were \$6.8 million, \$6.8 million, and \$5.1 million, respectively, and is included within non-current liabilities. The Company recognized additional interest expense related to unrecognized tax benefits of less than \$0.1 million in each of the Third Quarter 2020 and the Third Quarter 2019, respectively. During each of Year-To-Date 2020 and Year-To-Date 2019, the Company recognized less than \$0.1 million of additional interest expense.

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 is no longer subject to income tax examinations by U.S. federal, state and local, or foreign tax authorities for fiscal tax years 2014 and prior, with the exception of Hong Kong, which is open through fiscal tax year 2013 due to an ongoing tax examination.

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.

## 12. 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, from time-to-time, 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 31, 2020, the Company did not have any open foreign exchange forward contracts.

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 2020.

## 13. 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) and [www.gymboree.com](http://www.gymboree.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-based 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 31, 2020, The Children's Place U.S. had 702 stores and The Children's Place International had 107 stores. As of November 2, 2019, The Children's Place U.S. had 834 stores and The Children's Place International had 121 stores.

The following tables provide segment level financial information:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
(in thousands)				
<b>Net sales<sup>(1)</sup>:</b>				
The Children's Place U.S.	\$ 373,625	\$ 467,834	\$ 941,607	\$ 1,217,215
The Children's Place International <sup>(2)</sup>	51,946	56,962	108,094	140,432
Total net sales	<u>\$ 425,571</u>	<u>\$ 524,796</u>	<u>\$ 1,049,701</u>	<u>\$ 1,357,647</u>
<b>Operating income (loss)<sup>(1)</sup>:</b>				
The Children's Place U.S.	\$ 17,491	\$ 48,129	\$ (204,468)	\$ 55,722
The Children's Place International	5,832	9,822	(9,836)	11,102
Total operating income (loss)	<u>\$ 23,323</u>	<u>\$ 57,951</u>	<u>\$ (214,304)</u>	<u>\$ 66,824</u>
<b>Operating income (loss) as a percent of net sales<sup>(1)</sup>:</b>				
The Children's Place U.S.	4.7 %	10.3 %	(21.7 %)	4.6 %
The Children's Place International	11.2 %	17.2 %	(9.1 %)	7.9 %
Total operating income (loss) as a percent of net sales	5.5 %	11.0 %	(20.4 %)	4.9 %
<b>Depreciation and amortization:</b>				
The Children's Place U.S.	\$ 14,542	\$ 16,971	\$ 46,322	\$ 50,301
The Children's Place International	1,267	1,850	4,083	5,576
Total depreciation and amortization	<u>\$ 15,809</u>	<u>\$ 18,821</u>	<u>\$ 50,405</u>	<u>\$ 55,877</u>
<b>Capital expenditures:</b>				
The Children's Place U.S.	\$ 9,413	\$ 20,326	\$ 23,046	\$ 41,741
The Children's Place International	82	230	717	655
Total capital expenditures	<u>\$ 9,495</u>	<u>\$ 20,556</u>	<u>\$ 23,763</u>	<u>\$ 42,396</u>

<sup>(1)</sup> Net sales and operating income (loss) were significantly impacted by the COVID-19 pandemic.

<sup>(2)</sup> Net sales from The Children's Place International are primarily derived from revenues from Canadian operations.

	October 31, 2020	February 1, 2020	November 2, 2019
	(in thousands)		
<b>Total assets:</b>			
The Children's Place U.S.	\$ 1,113,309	\$ 1,080,665	\$ 1,179,493
The Children's Place International	93,634	100,732	106,229
Total assets	<u>\$ 1,206,943</u>	<u>\$ 1,181,397</u>	<u>\$ 1,285,722</u>

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

This Quarterly Report on Form 10-Q contains or may contain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to statements relating to the Company's strategic initiatives. Forward-looking statements typically are identified by use of terms such as "may," "will," "should," "plan," "project," "expect," "anticipate," "estimate" and similar words, although some forward-looking statements are expressed differently. These forward-looking statements are based upon the Company's current expectations and assumptions and are subject to various risks and uncertainties that could cause actual results and performance to differ materially. Some of these risks and uncertainties are described in the Company's filings with the Securities and Exchange Commission, including in the "Risk Factors" section of its annual report on Form 10-K for the fiscal year ended February 1, 2020 and supplemented by the "Risk Factors" sections of its quarterly reports on Form 10-Q for the fiscal quarter ended May 2, 2020 and the fiscal quarter ended August 1, 2020. 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 changes in economic conditions, the risks related to the COVID-19 pandemic, including the impact of the COVID-19 pandemic on our business or the economy in general (including decreased customer traffic, schools adopting remote and hybrid learning models, closures of businesses and other activities causing decreased demand for our products and negative impacts on our customers' spending patterns due to decreased income or actual or perceived wealth, and the impact of the CARES Act and other legislation related to the COVID-19 pandemic, and any changes to the CARES Act or such other legislation), 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 the COVID-19 pandemic or other disease outbreaks, or 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, various types of litigation, including class action litigations brought under consumer protection, employment, and privacy and information security laws and regulations, the imposition of regulations affecting the importation of foreign-produced merchandise, including duties and tariffs, and the uncertainty of weather patterns. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. The Company undertakes no obligation to release publicly any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with the Company's unaudited financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the annual audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 1, 2020.

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 2020 — The thirteen weeks ended October 31, 2020
- Third Quarter 2019 — The thirteen weeks ended November 2, 2019
- Year-To-Date 2020 — The thirty-nine weeks ended October 31, 2020
- Year-To-Date 2019 — The thirty-nine weeks ended November 2, 2019
- Gross Margin — Gross profit expressed as a percentage of net sales
- SG&A — Selling, general, and administrative expenses
- FASB — Financial Accounting Standards Board
- SEC — U.S. Securities and Exchange Commission
- U.S. GAAP — Generally Accepted Accounting Principles in the United States
- FASB ASC — FASB Accounting Standards Codification, which serves as the source for authoritative U.S. GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative U.S. GAAP for SEC registrants

### Our Business

We are the largest pure-play children's specialty apparel retailer in North America. We design, contract to manufacture, sell at retail and wholesale, and license to sell, trend right, high quality merchandise predominately at value prices, primarily under our proprietary "The Children's Place", "Place", "Baby Place", and "Gymboree" brand names. As of October 31, 2020, we had 809 stores across North America, our e-commerce businesses at [www.childrensplace.com](http://www.childrensplace.com) and [www.gymboree.com](http://www.gymboree.com), and had 252 international points of distribution with our eight franchise partners in 19 countries.

## Segment Reporting

In accordance with the “*Segment Reporting*” topic of the FASB ASC 280, 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) and [www.gymboree.com](http://www.gymboree.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-based 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 31, 2020, The Children’s Place U.S. had 702 stores and The Children’s Place International had 107 stores. As of November 2, 2019, The Children’s Place U.S. had 834 stores and The Children’s Place International had 121 stores.

## COVID-19 Pandemic

The COVID-19 pandemic has significantly impacted regions all around the world, resulting in restrictions and shutdowns implemented by national, state, and local authorities and private entities, leading to significant adverse economic conditions and business disruptions, as well as significant volatility in global financial and retail markets. Federal, state, and local governments and health officials worldwide have imposed and continue to impose varying degrees of preventative and protective actions, such as travel bans, restrictions on public gatherings, forced closures of businesses and other activities, the adoption of remote or hybrid learning models for schools, and stay-at-home orders, all in an effort to reduce the spread of the virus. In addition, certain mall owners have restricted hours of operation and the number of people permitted in stores. Such factors, among others, have resulted in a significant decline in retail traffic and consumer spending on discretionary items.

As a result of the impact of the COVID-19 pandemic, we have experienced significant business disruption, and on March 18, 2020, we temporarily closed all of our stores across the U.S. and Canada. We re-opened the majority of our stores during the last two weeks of June and, as of October 31, 2020, 99% of our stores were open to the public. Our distribution centers remain open and operating to support our e-commerce business, which has significantly increased since the temporary store closures.

In response to the COVID-19 pandemic, we have taken the following actions designed to preserve our financial flexibility:

- Executing a substantial reduction and/or deferral of all non-essential expenses and capital expenditures;
- Collaborating with vendor partners to extend payment terms and balance forward inventory receipts to reflect reduced demand;
- Temporarily suspended rent payments on all of our U.S. and Canadian retail stores during the first quarter of fiscal 2020 and resumed rent payments on a modified basis as stores began to re-open during the Second Quarter 2020. We are negotiating with our landlords regarding the suspended rent payments and the modified rent payments;
- Evaluating our options on store lease events occurring through the end of fiscal 2021, which impact approximately 65% of our current store fleet. We are targeting 300 retail store closures through fiscal 2021 with a target of 200 store closures in fiscal 2020, inclusive of the 118 stores permanently closed in the first nine months of fiscal 2020, and 100 store closures in fiscal 2021;
- Effective April 1, 2020, Jane Elfers, President and Chief Executive Officer, forfeited 100% of her salary. In addition, the senior leadership team took a 25% reduction in salary and the independent Directors of the Board unanimously approved to forgo their cash compensation. Effective June 28, 2020, the base salaries of the executives noted above and the cash compensation of the independent Directors of the Board were reinstated to 100% of pre-reduction levels;
- Effective April 5, 2020, all U.S. and Canadian field management and store associates were temporarily furloughed, with the Company continuing to provide health benefits, until needed to support ship-from-store activities or stores were re-opened;

- Effective April 5, 2020, we instituted a combination of temporary furloughs and pay reductions for the substantial majority of our corporate staff. During the Second Quarter 2020 a majority of our furloughed employees returned to work and, effective June 28, 2020, salaries were reinstated to 100% of pre-reduction levels;
- Temporarily suspended the Company's capital return program, inclusive of share repurchases and dividends;
- Finalized an amendment to our revolving credit facility, which increased borrowing capacity from \$325 million to \$360 million for a period of one year; and
- Secured an \$80 million term loan on October 5, 2020. We used all of the net proceeds from the term loan to pay down revolving credit facility borrowings.

#### *Recent Developments*

In November 2020, as a result of recent nationwide increases in COVID-19 cases, state and local regulations required the Company to temporarily close additional retail stores in the U.S and Canada. The Company cannot predict whether or when store closures will continue to occur or when the stores that were required to close will reopen.

In response to increased digital demand resulting from the COVID-19 pandemic, the Company expects a continued increase in the use of its third-party logistics provider to further support both our U.S. and Canadian e-commerce operations. In addition, we expect to incur freight surcharges and to experience capacity constraints across the domestic transportation network resulting from the unprecedented level of expected online demand.

#### *Operating Highlights*

Net sales decreased by \$99.2 million, or 18.9%, to \$425.6 million during the Third Quarter 2020 from \$524.8 million during the Third Quarter 2019, primarily as a result of a decrease in back-to-school sales due to schools adopting remote and hybrid learning models, along with the impact of the permanent and temporary store closures.

Gross profit decreased by \$52.0 million to \$146.1 million during the Third Quarter 2020 from \$198.1 million during the Third Quarter 2019. The comparability of our gross profit was impacted by incremental expenses related to the COVID-19 pandemic, including personal protective equipment and incentive pay for our associates, of approximately \$3.8 million and occupancy expense of approximately \$1.9 million for our stores temporarily closed due to the COVID-19 pandemic. Excluding the impact of these charges, gross margin de-leveraged 210 basis points to 35.7% of net sales. The decrease was primarily the result of increased penetration of our ecommerce business and its higher fulfillment costs, along with the deleverage of fixed expenses resulting from the decline in net sales, partially offset by higher merchandise margins in both our stores and e-commerce channels.

Selling, general, and administrative expenses decreased \$13.9 million to \$106.6 million during the Third Quarter 2020 from \$120.5 million during the Third Quarter 2019. The comparability of our SG&A was impacted by incremental operating expenses, including personal protective equipment for our associates, of approximately \$1.6 million and restructuring costs of approximately \$0.9 million. Excluding the impact of these and other smaller incremental charges, SG&A de-leveraged 210 basis points to 24.3% of net sales, primarily as a result of the deleverage of fixed expenses resulting from the decline in net sales and higher incentive compensation accruals, partially offset by a reduction in store expenses resulting from our permanent store closures, as well as a reduction in operating expenses associated with actions taken in response to the COVID-19 pandemic.

Provision for income taxes was an expense of \$6.7 million during the Third Quarter 2020 compared to an expense of \$12.7 million during the Third Quarter 2019. Our effective tax rate was 33.6% in Third Quarter 2020 compared to 22.8% in Third Quarter 2019. The increase in the effective tax rate for the Third Quarter 2020 compared to the Third Quarter 2019 was primarily driven by the impact of the CARES Act on the current quarter rate and the jurisdictional mix of income in the periods.

Net income decreased by \$29.7 million to \$13.3 million during the Third Quarter 2020 compared to net income of \$43.0 million during the Third Quarter 2019, due to the COVID-19 pandemic and other factors discussed above. Earnings per diluted share was \$0.91 in the Third Quarter 2020 compared to \$2.77 per diluted share in the Third Quarter 2019. This decrease in diluted earnings per share is due to the factors noted above, partially offset by a lower weighted average common shares outstanding of approximately 0.9 million, which is the result of our share repurchase program, prior to its suspension.

Although we are facing a period of uncertainty regarding the future impact of the COVID-19 pandemic, we continue to focus on our key strategic growth initiatives--superior product, business transformation through technology, and fleet optimization.

Focus on product remains our top priority. We reintroduced the iconic Gymboree brand in February 2020 on an enhanced Gymboree website and in co-branded locations in over 200 Company stores in the U.S. and Canada and were encouraged by the initial customer response to the relaunch prior to the COVID-19 pandemic.

The transformation of our digital capabilities continues to expand with the development of a completely redesigned responsive site and mobile application, providing an online shopping experience geared towards the needs of our “on-the-go” mobile customers, expanded customer personalization, which delivers unique, relevant content designed to drive sales, loyalty and retention, and the ability to have our entire store fleet equipped with ship-from-store capabilities. Also, in response to increased digital demand, including as a result of the COVID-19 pandemic, the Company has increased and will continue to increase the utilization of its third-party logistics provider to further support both our U.S. and Canadian e-commerce operations.

We continue to evaluate our store fleet as part of our fleet optimization initiative. We have closed 389 stores, including the 118 stores closed during Year-To-Date 2020, since the announcement of this initiative in 2013. Our fleet optimization strategy has resulted in an average lease life of approximately two years with approximately 65% of our stores having a lease event by the end of fiscal 2021. As accelerated demand for online purchasing has increased our digital business, partly as a result of the COVID-19 pandemic, we have accelerated our planned store closures and are targeting 300 retail store closures through fiscal 2021 with a target of 200 store closures in fiscal 2020, inclusive of the 118 stores permanently closed in the first nine months of fiscal 2020, and 100 store closures in fiscal 2021.

During Year-To-Date 2020, we repurchased approximately 0.3 million shares for approximately \$15.5 million, consisting of shares surrendered to cover tax withholdings associated with the vesting of equity awards. As of October 31, 2020, there was approximately \$92.9 million in aggregate remaining pursuant to the 2018 Share Repurchase Program. In March 2020, we announced a temporary suspension of our capital return program, inclusive of share repurchases and dividends.

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 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
<b><u>Average Translation Rates</u></b> <sup>(1)</sup>				
Canadian Dollar	0.7565	0.7560	0.7384	0.7534
Hong Kong Dollar	0.1290	0.1276	0.1290	0.1276
China Yuan Renminbi	0.1466	0.1410	0.1435	0.1451

<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 the 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, such as those resulting from disease pandemics and other catastrophic events. Our historical estimates have not differed materially from actual results.

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 \$0.5 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. 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, an employee may earn from 0% to 250% of their Target Shares based on the Company's achievement of certain performance goals established at the beginning of the applicable performance period. The Performance Awards cliff vest, if earned, after completion of the applicable performance period, which is generally three years. The fair value of these 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 2020 net income by approximately \$1.0 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.

We review all stores that have reached comparable sales status, or sooner if circumstances should dictate, on at least an annual basis. We believe 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 impairment, we project future cash flows over the remaining life of the lease, adjusted for lease payments, and compare the total undiscounted cash flows to the net book value of the related long-lived assets, including ROU 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 use discounted future cash flows directly associated with those assets to determine fair market value of long-lived assets and ROU 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 and competition and their effect on sales trends, as well as macroeconomic factors, such as global pandemics. 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.

Asset impairment charges during Year-To-Date 2020 were related to underperforming stores identified in our ongoing store portfolio evaluation primarily as a result of decreased net revenues and cash flow projections resulting from the COVID-19 pandemic.

## **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, the availability of tax planning strategies, taxable income in prior carryback years, and future reversals of existing taxable temporary differences. 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 Measurement* 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, 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 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 fair value hierarchy.

Our assets measured at fair value on a nonrecurring basis include long-lived assets, such as intangible assets, fixed assets, and ROU 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.

## **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 31, 2020 would have impacted net income by approximately \$0.6 million.

## **Recently Issued Accounting Standards**

### ***Adopted in Fiscal 2020***

In August 2018, the FASB issued guidance related to the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. We adopted this guidance in the first quarter of fiscal 2020. This adoption did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued guidance related to disclosure requirements for fair value measurement. The amendments modify current fair value measurement disclosure requirements by removing, adding, or modifying certain fair value measurement disclosures. We adopted this guidance in the first quarter of fiscal 2020. This adoption did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued guidance related to the accounting for financial instrument credit losses. The guidance provides more decision useful information about the expected credit losses on financial instruments by replacing the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We adopted this guidance in the first quarter of fiscal 2020. This adoption did not have a material impact on our consolidated financial statements.

### ***To Be Adopted After Fiscal 2020***

In December 2019, the FASB issued guidance related to the accounting for income taxes. The guidance aims to simplify the accounting for income taxes by removing certain exceptions to the general principles within the current guidance and by clarifying and amending the current guidance. The guidance is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2020. We do not expect the guidance to have a material impact on our consolidated financial statements.

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected statements 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, SG&A increased approximately 210 basis points to 25.1% of net sales during the Third Quarter 2020 from 23.0% during the Third Quarter 2019. 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., “deleveraging”), we have less efficiently utilized the investments we have made in our business.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales (exclusive of depreciation and amortization)	65.7	62.2	81.6	64.0
Gross profit	34.3	37.8	18.4	36.0
Selling, general, and administrative expenses	25.1	23.0	30.4	26.9
Depreciation and amortization	3.7	3.6	4.8	4.1
Asset impairment charges	0.1	0.2	3.6	0.1
Operating income (loss)	5.5	11.0	(20.4)	4.9
Income (loss) before benefit for income taxes	4.7	10.6	(21.2)	4.5
Provision (benefit) for income taxes	1.6	2.4	(7.0)	0.9
Net income (loss)	3.1 %	8.2 %	(14.1 %)	3.6 %
Number of Company-operated stores, end of period	809	955	809	955

Table may not add due to rounding.

The following table sets forth net sales by segment, for the periods indicated.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
<b>Net sales:</b>	(in thousands)			
The Children’s Place U.S.	\$ 373,625	\$ 467,834	\$ 941,607	\$ 1,217,215
The Children’s Place International	51,946	56,962	108,094	140,432
Total net sales	\$ 425,571	\$ 524,796	\$ 1,049,701	\$ 1,357,647

### Third Quarter 2020 Compared to the Third Quarter 2019

Net sales decreased by \$99.2 million, or 18.9%, to \$425.6 million during the Third Quarter 2020 from \$524.8 million during the Third Quarter 2019. The net sales decrease of \$99.2 million primarily resulted from a decrease in back-to-school sales due to schools adopting remote and hybrid learning models, along with the impact of the permanent and temporary store closures.

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 net sales.

The Children’s Place U.S. net sales decreased \$94.2 million, or 20.1%, to \$373.6 million in the Third Quarter 2020 compared to \$467.8 million in the Third Quarter 2019. This decrease primarily resulted from a decrease in back-to-school sales due to schools adopting remote and hybrid learning models, along with the impact of the permanent and temporary store closures.

The Children's Place International net sales decreased \$5.1 million, or 8.8%, to \$51.9 million in the Third Quarter 2020 compared to \$57.0 million in the Third Quarter 2019. This decrease primarily resulted from a decrease in back-to-school sales due to schools adopting remote and hybrid learning models, along with a decrease in revenue from international franchisees due to the COVID-19 pandemic.

Total e-commerce sales, which include postage and handling, increased to 43.9% of net sales during the Third Quarter 2020 from 35.4% during the Third Quarter 2019.

Gross profit decreased by \$52.0 million to \$146.1 million during the Third Quarter 2020 from \$198.1 million during the Third Quarter 2019. The comparability of our gross profit was impacted by incremental expenses related to the COVID-19 pandemic, including personal protective equipment and incentive pay for our associates, of approximately \$3.8 million and occupancy expense of approximately \$1.9 million for our stores temporarily closed due to the COVID-19 pandemic. Excluding the impact of these charges, gross margin deleveraged 210 basis points to 35.7% of net sales. The decrease was primarily the result of increased penetration of our e-commerce business and its higher fulfillment costs, along with the deleverage of fixed expenses resulting from the decline in net sales, partially offset by higher merchandise margins in both our stores and e-commerce channels.

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 (e-commerce sales have typically higher fulfillment costs than store sales), changes in the mix of products sold, the timing and level of promotional activities, foreign currency exchange rates, and fluctuations in materials and freight costs. These factors, among others, may cause gross profit as a percentage of net sales to fluctuate from period to period.

Selling, general, and administrative expenses decreased \$13.9 million to \$106.6 million during the Third Quarter 2020 from \$120.5 million during the Third Quarter 2019. The comparability of our SG&A was impacted by incremental operating expenses, including personal protective equipment for our associates, of approximately \$1.6 million and restructuring costs of approximately \$0.9 million. Excluding the impact of these and other smaller incremental charges, SG&A deleveraged 210 basis points to 24.3% of net sales, primarily as a result of the deleverage of fixed expenses resulting from the decline in net sales and higher incentive compensation accruals, partially offset by a reduction in store expenses resulting from our permanent store closures, as well as a reduction in operating expenses associated with actions taken in response to the COVID-19 pandemic.

Asset impairment charges were \$0.3 million during the Third Quarter 2020, primarily for one store. Asset impairment charges during the Third Quarter 2019 were \$0.8 million, primarily related to eight stores.

Depreciation and amortization was \$15.8 million during the Third Quarter 2020 compared to \$18.8 million during the Third Quarter 2019 primarily reflecting decreased depreciation associated with the write-off of store fixed assets as a result of the impairment charge incurred in the first quarter of 2020.

Provision for income taxes was an expense of \$6.7 million during the Third Quarter 2020 compared to an expense of \$12.7 million during the Third Quarter 2019. Our effective tax rate was 33.6% in Third Quarter 2020 compared to 22.8% in Third Quarter 2019. The increase in the effective tax rate for the Third Quarter 2020 compared to the Third Quarter 2019 was primarily driven by the impact of the CARES Act on the current quarter rate and the jurisdictional mix of income in the periods.

Net income decreased by \$29.7 million to \$13.3 million during the Third Quarter 2020 compared to net income of \$43.0 million during the Third Quarter 2019, due to the COVID-19 pandemic and other factors discussed above. Earnings per diluted share was \$0.91 in the Third Quarter 2020 compared to \$2.77 per diluted share in the Third Quarter 2019. This decrease in diluted earnings per share is due to the factors noted above, partially offset by a lower weighted average common shares outstanding of approximately 0.9 million, which is the result of our share repurchase program, prior to its suspension.

#### **Year-To-Date 2020 Compared to the Year-To-Date 2019**

Net sales decreased by \$307.9 million, or 22.7%, to \$1,049.7 million during Year-To-Date 2020 from \$1,357.6 million during Year-To-Date 2019. The net sales decrease of \$307.9 million was primarily a result of the permanent and temporary store closures, along with a decrease in back-to-school sales beginning in mid-July due to schools adopting remote and hybrid learning models, partially offset by increased e-commerce sales.

The Children's Place U.S. net sales decreased \$275.6 million, or 22.6%, to \$941.6 million during Year-To-Date 2020 compared to \$1,217.2 million during Year-To-Date 2019. This decrease primarily resulted from the permanent and temporary store closures, along with a decrease in back-to-school sales beginning in mid-July due to schools adopting remote and hybrid learning models, partially offset by increased e-commerce sales.

The Children's Place International net sales decreased \$32.3 million, or 23.0%, to \$108.1 million during Year-To-Date 2020 compared to \$140.4 million during Year-To-Date 2019. This decrease primarily resulted from the permanent and temporary store closures, along with a decrease in back-to-school sales beginning in mid-July due to schools adopting remote and hybrid learning models, a decrease in revenue from international franchisees due to the COVID-19 pandemic.

Total e-commerce sales, which include postage and handling, increased to 55.6% of net sales during Year-To-Date 2020 from 31.4% during Year-To-Date 2019.

*Gross profit* decreased by \$295.4 million to \$193.5 million during Year-To-Date 2020 from \$488.9 million during Year-To-Date 2019. The comparability of our gross profit was impacted by an inventory provision of approximately \$63.2 million related to the adverse business disruption resulting from the COVID-19 pandemic, including the temporary store closures; occupancy expense of approximately \$49.0 million for our stores temporarily closed due to the COVID-19 pandemic; and incremental expenses, including personal protective equipment and incentive pay for our associates, of approximately \$8.2 million. Excluding the impact of these charges, gross margin deleveraged 610 basis points to 29.9% of net sales. The decrease resulted primarily from the increased penetration of our ecommerce business and its higher fulfillment costs, along with the deleverage of fixed expenses resulting from the decline in net sales.

*Selling, general, and administrative expenses* decreased \$45.5 million to \$319.4 million during Year-To-Date 2020 from \$364.9 million during Year-To-Date 2019. The comparability of our SG&A was impacted by incremental operating expenses, including personal protective equipment and incentive pay for our associates, of approximately \$9.4 million, restructuring costs, primarily related to severance costs for corporate and store associates, of approximately \$7.3 million, payroll and benefit costs for certain employees during the period our stores were closed due to the COVID-19 pandemic, net of a payroll tax credit benefit resulting from the CARES Act, of approximately \$4.2 million. Excluding the impact of these and other smaller incremental charges, SG&A deleveraged 160 basis points to 28.1% of net sales primarily as a result of the deleverage of fixed expenses resulting from the decline in sales, partially offset by a reduction in operating expenses associated with actions taken in response to the COVID-19 pandemic.

*Asset impairment charges* were \$37.9 million during Year-To-Date 2020, including the ROU assets recorded in connection with Topic 842, primarily for 419 stores. These charges were related to underperforming stores identified in our ongoing store portfolio evaluation primarily as a result of decreased net revenues and cash flow projections resulting from the COVID-19 disruption. Asset impairment charges were \$1.3 million during Year-To-Date 2019, primarily related to the impairment of 15 stores.

*Depreciation and amortization* was \$50.4 million during Year-To-Date 2020 compared to \$55.9 million during Year-To-Date 2019 primarily reflecting decreased depreciation associated with the write-off of store fixed assets as a result of the impairment charge incurred in the first quarter of fiscal 2020.

*Benefit (provision) for income taxes* was a benefit of \$73.9 million during Year-To-Date 2020 compared to an expense of \$11.6 million during Year-To-Date 2019. Our effective tax rate was a benefit of 33.3% and an expense of 19.1% during Year-To-Date 2020 and Year-To-Date 2019, respectively. The Year-To-Date 2020 benefit was primarily driven the net loss in the period as well as the impact of the enactment of the CARES Act. The Year-To-Date 2019 income tax rate was impacted by an excess tax benefit related to the vesting of equity shares.

*Net income (loss)* was a loss of (\$148.1) million during Year-To-Date 2020 compared to income of \$49.1 million during Year-To-Date 2019, due to the factors discussed above. Loss per diluted share was (\$10.13) during Year-To-Date 2020 compared to earnings per diluted share of \$3.10 during Year-To-Date 2019. This decrease in earnings per share is due to the factors noted above, partially offset by a lower weighted average common shares outstanding of approximately 1.2 million, which is the result of our share repurchase program.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

In response to the COVID-19 pandemic, the Company has taken the following actions to preserve financial flexibility:

- Executing a substantial reduction and/or deferral of all non-essential expenses and capital expenditures;
- Collaborating with vendor partners to extend payment terms and balance forward inventory receipts to reflect reduced demand;
- Temporarily suspended rent payments on all of our U.S. and Canadian retail stores during the first quarter of fiscal 2020 and resumed rent payments on a modified basis as stores began to re-open during the Second Quarter 2020. We are negotiating with our landlords regarding the suspended rent payments and the modified rent payments;
- Evaluating our options on store lease events occurring through the end of fiscal 2021, which impact approximately 65% of our current store fleet. We are targeting 300 retail store closures through fiscal 2021 with a target of 200 store closures in fiscal 2020, inclusive of the 118 stores permanently closed in the first nine months of fiscal 2020, and 100 store closures in fiscal 2021;

- Effective April 1, 2020, Jane Elfers, President and Chief Executive Officer, forfeited 100% of her salary. In addition, the senior leadership team took a 25% reduction in salary and the independent Directors of the Board unanimously approved to forgo their cash compensation. Effective June 28, 2020, the base salaries of the executives noted above and the cash compensation of the independent Directors of the Board were reinstated to 100% of pre-reduction levels;
- Effective April 5, 2020, all U.S. and Canadian field management and store associates were temporarily furloughed, with the Company continuing to provide health benefits, until needed to support ship-from-store activities or stores were re-opened;
- Effective April 5, 2020, we instituted a combination of temporary furloughs and pay reductions for the substantial majority of our corporate staff. During the Second Quarter 2020 a majority of our furloughed employees returned to work, and effective June 28, 2020, salaries were reinstated to 100% of pre-reduction levels;
- Temporarily suspended the Company's capital return program, inclusive of share repurchases and dividends;
- Finalized an amendment to our revolving credit facility, which increased borrowing capacity from \$325 million to \$360 million for a period of one year; and
- Secured an \$80 million term loan on October 5, 2020. We used all of the net proceeds from the term loan to pay down revolving credit facility borrowings.

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

Our working capital deficit increased \$92.6 million to a deficit of \$237.1 million at October 31, 2020 compared to a working capital deficit of \$144.5 million at November 2, 2019, primarily due to seasonal cash usage and the impact of the COVID-19 pandemic, partially offset by cash management. While our working capital deficit has increased since last year, we returned to generating positive operating cash flows of \$32.5 million for the Third Quarter 2020 after two previous quarters of operating cash outflows. During Year-To-Date 2020, prior to the suspension of our capital return program, we repurchased approximately 0.3 million shares for approximately \$15.5 million. During Year-To-Date 2019, we repurchased approximately 1.0 million shares for approximately \$93.8 million, inclusive of shares repurchased and surrendered to cover tax withholdings associated with the vesting of equity awards.

Our credit facility provides for borrowings up to the lesser of \$360 million, until April 2021, when it reduces to \$325 million, or our borrowing base, as defined by the credit facility agreement (see "Credit Facility" below). At October 31, 2020, we had \$179.4 million of outstanding borrowings and \$172.8 million available for borrowing. In addition, at October 31, 2020, we had \$7.8 million of outstanding letters of credit with an additional \$42.2 million available for issuing letters of credit.

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 subsidiaries maintain an asset-based revolving credit facility (the "ABL Credit Facility") 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 ABL Credit Facility, which expires in May 2024, consists of a \$360 million asset-based revolving credit facility that was increased from \$325 million as a result of finalizing an amendment with the Lenders on April 24, 2020 to secure the Company an additional \$35 million available under the accordion feature for a period of one year, and including a \$25 million Canadian sublimit, with a \$50 million sublimit for standby and documentary letters of credit. On October 5, 2020, we further amended the ABL Credit Facility to provide for certain changes that permitted the issuance of an \$80 million Term Loan (the "Term Loan") on that date and align certain terms of the ABL Credit Facility to those of the Term Loan. The Term Loan is discussed in more detail below.

Borrowings outstanding under the ABL Credit Facility bear interest, at our option, at:

- (i) the prime rate plus a margin of 1.75% to 1.88% 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 a) 2.50% to 2.75% and b) 1.00% based on the amount of our average excess availability under the facility.

We are charged a fee of 0.25% on the unused portion of the commitments. Letter of credit fees range from 1.25% to 1.38% for commercial letters of credit and from 2.00% to 2.25% for standby letters of credit. Letter of credit fees are determined based on the amount of the Company’s average excess availability under the facility. The amount available for loans and letters of credit under the ABL Credit Facility is determined by a borrowing base consisting of certain credit card receivables and certain trade receivables, certain inventory, and the fair market value of certain real estate, subject to certain reserves.

The outstanding obligations under the ABL Credit Facility 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 ABL Credit Facility contains covenants, which include conditions on stock buybacks and the payment of cash dividends or similar payments. These covenants also limit our ability to incur certain liens, to incur certain indebtedness, to make certain investments, acquisitions, or dispositions or to change the nature of our business.

Credit extended under the ABL Credit Facility is secured by a first priority security interest in substantially all of our U.S. and Canadian assets excluding intellectual property, software, equipment, and fixtures. In connection with the Term Loan, the Lenders under the ABL Credit Facility entered into an intercreditor agreement with the Term Loan lender and were granted a second priority security interest in the Term Loan collateral, which includes our intellectual property, certain furniture, fixtures and equipment, and pledges of subsidiary capital stock.

We have capitalized an aggregate of approximately \$5.9 million in deferred financing costs related to the Credit Agreement. The unamortized balance of deferred financing costs at October 31, 2020 was approximately \$1.4 million. Unamortized deferred financing costs are amortized over the remaining term of the ABL Credit Facility.

### **Term Loan**

On October 5, 2020, we and certain of our subsidiaries entered into a loan agreement (the “Loan Agreement”) dated October 5, 2020 with Crystal Financial LLC, as Lender, Administrative Agent, and Collateral Agent, providing for an \$80 million Term Loan. The net proceeds from the Term Loan, after deducting related fees and expenses, were used to repay borrowings under our ABL Credit Facility.

The Term Loan: (i) matures on the earlier of October 5, 2025 or the maturity date under the ABL Credit Facility, currently in May 2024; (ii) bears interest, payable monthly, at the greater of (a) the three month LIBOR Rate published in the Wall Street Journal, and (b) 1.00%, plus 7.75% or 8.00% depending on the average excess availability of credit under the ABL Credit Facility, adjusted quarterly; and (iii) amortizes by (x) 5.00% per annum payable quarterly beginning with the fiscal quarter ending on or around July 31, 2021 through the fiscal quarter ending on or around April 30, 2022, (y) 7.50% per annum payable quarterly beginning with the fiscal quarter ending on or around July 31, 2022 through the fiscal quarter ending on or around April 30, 2023, and (z) 10.00% per annum payable quarterly thereafter.

The Term Loan is secured by a first priority security interest in our intellectual property, certain furniture, fixtures and equipment, and pledges of subsidiary capital stock, and a second priority security interest in the collateral securing the ABL Credit Facility. The Term Loan is guaranteed, subject to certain exceptions, by each of our subsidiaries that guarantee the ABL Credit Facility.

The Term Loan is, in whole or in part, pre-payable any time and from time to time, subject to certain prepayment premiums specified in the Loan Agreement, plus accrued and unpaid interest.

Among other covenants, the Loan Agreement limits our ability to incur certain liens, to incur certain indebtedness, including under the ABL Credit Facility, to make certain investments, acquisitions, dispositions or restricted payments, or to change the nature of its business. These covenants are substantially the same covenants as provided in the ABL Credit Facility.

The Loan Agreement contains customary events of default, which include (subject in certain cases to customary grace and cure periods), nonpayment of principal or interest, breach of other covenants in the Loan Agreement, failure to pay certain other indebtedness, including under the ABL Credit Facility, and certain events of bankruptcy, insolvency or reorganization.

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

During Year-To-Date 2020, cash flows used in operating activities were \$50.7 million compared to cash flows provided by operating activities of \$100.6 million during Year-To-Date 2019. The Year-To-Date 2020 cash flows used in operating activities were primarily the result of a net loss in the year due to the permanent and temporary store closures, partially offset by strategic working capital management and the extension of vendor payment terms. The Year-To-Date 2019 cash provided by operating activities was primarily the result of the net income for the period and working capital management.

During Year-To-Date 2020, cash flows used in investing activities were \$23.6 million compared to \$119.1 million during Year-To-Date 2019. This change was primarily due to the Gymboree intellectual property and related assets acquisition during Year-To-Date 2019 and a reduction in capital expenditures during Year-To-Date 2020 compared to Year-To-Date 2019.

During Year-To-Date 2020, cash flows provided by financing activities were \$70.7 million compared to \$15.1 million during Year-To-Date 2019. The increase when compared to the prior year primarily resulted from the proceeds received from an \$80 million Term Loan in the Third Quarter 2020, a decrease in purchases of our common stock, and the suspension of the payment of dividends. In March 2020, we temporarily suspended our capital return program, inclusive of share repurchases and dividends. The increase in cash flows provided by financing activities when compared to the prior year period was partially offset by a decrease in revolving credit facility borrowings.

Our ability to continue to meet our capital requirements in fiscal 2020 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 2020, we were able to fund our capital expenditures with cash on hand 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.

### **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.

#### **Interest Rates**

Our ABL 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 31, 2020, we had \$179.4 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.

Our Term Loan bears interest at a floating rate at the greater of: (a) the three month LIBOR Rate published in the Wall Street Journal, and (b) 1.00%, plus 7.75% or 8.00% depending on the average excess availability of credit under the ABL Credit Facility. As of October 31, 2020, the outstanding balance of the Term Loan was \$80 million. A 10% change in the three month LIBOR Rate 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 31, 2020, net assets in Canada and Hong Kong were approximately \$29.0 million and \$30.6 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 \$2.9 million and \$3.1 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 31, 2020, we had approximately \$58.8 million of our cash and cash equivalents held in foreign countries, of which approximately \$29.9 million was in Hong Kong, approximately \$25.6 million was in Canada, and approximately \$3.3 million was in other foreign countries.

## **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 2020 net sales could have decreased or increased by approximately \$9.9 million, and total costs and expenses could have decreased or increased by approximately \$14.6 million. Additionally, we have foreign currency denominated receivables and payables that when settled, result in transaction gains or losses. At October 31, 2020, we had foreign currency denominated receivables and payables, including inter-company balances, of \$10.2 million and \$5.2 million, respectively.

We import a vast majority of our merchandise from foreign countries. 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 31, 2020. 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 31, 2020, to ensure that all information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our principal executive, principal accounting, and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Control over Financial Reporting**

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

**PART II - OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS.**

Certain legal proceedings in which we are involved are discussed in Note 10 to the consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended February 1, 2020. See Note 10 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 February 1, 2020 and in Item 1A of Part II in our Quarterly Report on Form 10-Q for the quarters ended May 2, 2020 and August 1, 2020.

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

In March 2018, the Board of Directors authorized a \$250 million share repurchase program (the “2018 Share Repurchase Program”). Under the Share Repurchase Program, the Company may repurchase shares on 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 2020:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value (in thousands) of Shares that May Yet Be Purchased Under the Plans or Programs
8/2/20-8/29/20 <sup>(1)</sup>	3,317	\$ 21.99	114	\$ 92,904
8/30/20-9/3/20 <sup>(2)</sup>	161	22.41	161	92,900
9/4/20-10/31/20 <sup>(3)</sup>	402	30.66	402	92,888
Total	3,880	\$ 22.90	677	\$ 92,888

<sup>(1)</sup> Consists of 3,203 shares acquired as treasury stock as directed by participants in the Company’s deferred compensation plan and 114 shares withheld to cover taxes in conjunction with the vesting of stock awards.

<sup>(2)</sup> Consists of 161 shares withheld to cover taxes in conjunction with the vesting of stock awards.

<sup>(3)</sup> Consists of 402 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.

(\*) Compensation arrangement.

\* 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 24, 2020

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

Date: November 24, 2020

By: /S/ ROBERT HELM  
ROBERT HELM  
*Senior Vice President, Finance and Inventory Management*  
*(Principal Accounting 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 24, 2020

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, Michael Scarpa, 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 24, 2020

By: /S/ MICHAEL SCARPA

MICHAEL SCARPA  
Chief Financial Officer  
(Principal Financial Officer)

