

**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 May 2, 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)

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

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

**07094**  
(Zip Code)

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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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

The number of shares outstanding of the registrant's common stock with a par value of \$0.10 per share, as of June 9, 2020 was 14,585,719 shares.

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

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE PERIOD ENDED MAY 2, 2020**

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**I. FINANCIAL INFORMATION**

**Item 1. CONSOLIDATED FINANCIAL STATEMENTS**

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

	May 2, 2020	February 1, 2020	May 4, 2019
	(unaudited)		(unaudited)
	(in thousands, except par value)		
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 71,751	\$ 68,487	\$ 66,111
Accounts receivable	37,173	32,812	39,562
Inventories	335,795	327,165	341,174
Prepaid expenses and other current assets	23,521	21,416	27,156
Total current assets	468,240	449,880	474,003
Long-term assets:			
Property and equipment, net	212,011	236,898	249,836
Right-of-use assets	349,646	393,820	458,702
Tradenames, net	73,090	73,291	73,656
Deferred income taxes	68,573	12,941	15,106
Other assets	13,376	14,567	14,651
Total assets	\$ 1,184,936	\$ 1,181,397	\$ 1,285,954
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Current liabilities:			
Revolving loan	\$ 234,554	\$ 170,808	\$ 153,072
Accounts payable	263,984	213,115	205,643
Current lease liabilities	150,463	121,868	133,783
Income taxes payable	2,629	5,607	2,452
Accrued expenses and other current liabilities	107,370	83,609	105,252
Total current liabilities	759,000	595,007	600,202
Long-term liabilities:			
Long-term lease liabilities	281,839	311,908	367,307
Other tax liabilities	6,800	6,782	5,025
Income taxes payable	17,589	17,589	18,939
Other long-term liabilities	14,673	14,924	14,107
Total liabilities	1,079,901	946,210	1,005,580
<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; 14,581, 14,762, and 15,915 issued; 14,529, 14,711, and 15,867 outstanding	1,458	1,476	1,592
Additional paid-in capital	135,328	139,041	149,435
Treasury stock, at cost (52, 51, and 48 shares)	(3,025)	(2,956)	(2,747)
Deferred compensation	3,025	2,956	2,747
Accumulated other comprehensive loss	(14,913)	(13,545)	(15,542)
Retained earnings (deficit)	(16,838)	108,215	144,889
Total stockholders' equity	105,035	235,187	280,374
Total liabilities and stockholders' equity	\$ 1,184,936	\$ 1,181,397	\$ 1,285,954

See accompanying notes to these consolidated financial statements.

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

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
	(In thousands, except earnings and dividends per share)	
Net sales	\$ 255,207	\$ 412,382
Cost of sales (exclusive of depreciation and amortization)	274,880	260,406
<b>Gross profit (loss)</b>	<b>(19,673)</b>	<b>151,976</b>
Selling, general, and administrative expenses	98,491	128,006
Depreciation and amortization	17,888	18,584
Asset impairment charges	37,091	348
<b>Operating income (loss)</b>	<b>(173,143)</b>	<b>5,038</b>
Interest expense	(1,889)	(1,799)
Interest income	49	88
<b>Income (loss) before benefit for income taxes</b>	<b>(174,983)</b>	<b>3,327</b>
Benefit for income taxes	(60,173)	(1,163)
<b>Net income (loss)</b>	<b>\$ (114,810)</b>	<b>\$ 4,490</b>
<b>Earnings (loss) per common share</b>		
Basic	\$ (7.86)	\$ 0.28
Diluted	\$ (7.86)	\$ 0.28
<b>Weighted average common shares outstanding</b>		
Basic	14,611	15,847
Diluted	14,611	16,107
<b>Cash dividends declared per common share</b>	<b>\$ —</b>	<b>\$ 0.56</b>

See accompanying notes to these consolidated financial statements.

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

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
	(In thousands)	
<b>Net income (loss)</b>	\$ (114,810)	\$ 4,490
<b>Other comprehensive income (loss):</b>		
Foreign currency translation adjustment	(1,523)	(683)
Change in fair value of cash flow hedges, net of income taxes	155	75
<b>Total comprehensive income (loss)</b>	<u>\$ (116,178)</u>	<u>\$ 3,882</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 May 2, 2020**

(in thousands, except dividends per share)	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Value	
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	81	8	(8)						—
Stock-based compensation			585						585
Purchase and retirement of shares	(262)	(26)	(4,290)		(10,243)				(14,559)
Change in cumulative translation adjustment						(1,523)			(1,523)
Change in fair value of cash flow hedges, net of income taxes						155			155
Deferral of common stock into deferred compensation plan				69			(1)	(69)	—
Net income (loss)					(114,810)				(114,810)
BALANCE, May 2, 2020	14,581	\$ 1,458	\$ 135,328	\$ 3,025	\$ (16,838)	\$ (14,913)	(52)	\$ (3,025)	\$ 105,035

**Thirteen Weeks Ended May 4, 2019**

(in thousands, except dividends per share)	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Value	
BALANCE, February 2, 2019	15,873	\$ 1,588	\$ 146,991	\$ 2,685	\$ 180,792	\$ (14,934)	(47)	\$ (2,685)	\$314,437
Vesting of stock awards	403	40	(4)						36
Stock-based compensation			7,759						7,759
Purchase and retirement of shares	(363)	(36)	(5,526)		(29,581)				(35,143)
Dividends declared (\$0.56 per share)					(8,930)				(8,930)
Unvested dividends			215		(215)				—
ASC Topic 842 Adjustment					(1,667)				(1,667)
Change in cumulative translation adjustment						(683)			(683)
Change in fair value of cash flow hedges, net of income taxes						75			75
Deferral of common stock into deferred compensation plan				62			(1)	(62)	—
Net income (loss)					4,490				4,490
BALANCE, May 4, 2019	15,913	\$ 1,592	\$ 149,435	\$ 2,747	\$ 144,889	\$ (15,542)	(48)	\$ (2,747)	\$ 280,374

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

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (114,810)	\$ 4,490
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Amortization of operating lease assets	29,365	38,731
Depreciation and amortization	17,888	18,584
Non-cash stock-based compensation	585	7,759
Deferred income tax (benefit)	(55,656)	3,169
Asset impairment charges	37,091	348
Other non-cash charges, net	58	69
Changes in operating assets and liabilities:		
Inventories	(8,629)	(38,323)
Accounts receivable and other assets	(3,508)	(1,074)
Prepaid expenses and other current assets	3,511	4,840
Income taxes payable, net of prepayments	(8,858)	(2,965)
Accounts payable and other current liabilities	69,307	28,699
Other long-term liabilities	(6,795)	(43,142)
Net cash provided by (used in) operating activities	(40,451)	21,185
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(5,733)	(11,009)
Acquisition of intangible assets	—	(76,000)
Change in deferred compensation plan	121	517
Net cash used in investing activities	(5,612)	(86,492)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase and retirement of common stock, including shares surrendered for tax withholdings and transaction costs	(14,559)	(33,319)
Payment of dividends	—	(8,930)
Borrowings under revolving credit facility	134,130	306,279
Repayments under revolving credit facility	(70,384)	(202,068)
Net cash provided by financing activities	49,187	61,962
Effect of exchange rate changes on cash and cash equivalents	140	320
Net increase (decrease) in cash and cash equivalents	3,264	(3,025)
Cash and cash equivalents, beginning of period	68,487	69,136
Cash and cash equivalents, end of period	\$ 71,751	\$ 66,111

See accompanying notes to these consolidated financial statements.



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

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
	(In thousands)	
<b>OTHER CASH FLOW INFORMATION:</b>		
Net cash paid during the period for income taxes	\$ 4,676	\$ (1,379)
Cash paid during the period for interest	1,702	1,537
Increase in accrued purchases of property and equipment	(1,093)	(2,019)

See accompanying notes to these consolidated financial statements.

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

**1. BASIS OF PRESENTATION**

**Description of Business**

The Children’s Place, Inc. and subsidiaries (the “Company”) is the largest pure-play children’s specialty apparel retailer in North America. The Company provides apparel, 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 e-commerce businesses 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 May 2, 2020 and May 4, 2019 and the results of its consolidated operations for the thirteen weeks ended May 2, 2020 and May 4, 2019 and cash flows for the thirteen weeks ended May 2, 2020 and May 4, 2019 and stockholders’ equity for the thirteen weeks ended May 2, 2020 and May 4, 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 thirteen weeks ended May 2, 2020 and May 4, 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 private entities mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories, and quarantining of people who may have been exposed to the virus. 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:

- First Quarter 2020 — The thirteen weeks ended May 2, 2020
- First Quarter 2019 — The thirteen weeks ended May 4, 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.

The Company's estimated realizable value of its inventory as of May 2, 2020 reflects material adverse impacts associated with the COVID-19 pandemic business disruptions, which include the temporary closure of the Company's and its franchisees' stores, as well as significant declines in retail traffic.

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

The Company periodically reviews its long-lived assets when events indicate that their carrying value may not be recoverable. Such events include historical trends or projected trend of cash flow losses or a future expectation that the Company will sell or dispose of an asset significantly before the end of its previously estimated useful life. In reviewing for impairment, the Company groups its long-lived assets at the lowest possible level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

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 the First Quarter 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 disruption.

### **Stock-based Compensation**

The Company generally grants time vesting stock awards ("Deferred Awards") and performance-based stock awards ("Performance Awards") to employees at management levels. The Company also grants Deferred Awards to its non-employee directors. Deferred Awards are granted in the form of a defined number of restricted stock units that require each recipient to complete a service period. Deferred Awards generally vest ratably over three years, except for those granted to non-employee directors, which generally vest after one year. Performance Awards are granted in the form of restricted stock units which have performance criteria that must be achieved for the awards to vest (the "Target Shares") in addition to a service period requirement. For Performance Awards issued during fiscal 2017 (the "2017 Performance Awards"), an employee may earn from 0% to 200% of their Target Shares based on the achievement of cumulative adjusted earnings per share achieved for the

applicable performance period, which is generally three years, adjusted operating margin expansion achieved for the performance period, and adjusted return on invested capital ("adjusted ROIC") achieved as of the end of the performance period. The 2017 Performance Awards cliff vested after completion of the performance period. The fair value of the 2017 Performance Awards granted is based on the closing price of our common stock on the grant date. For Performance Awards issued during fiscal 2018 and 2019 (the "2018 and 2019 Performance Awards"), an employee may earn from 0% to 250% of their Target Shares based on cumulative adjusted earnings per share achieved for the applicable performance period, which is generally three years, adjusted operating margin expansion achieved for the performance period, adjusted ROIC achieved as of the end of the performance period, and the ranking of our adjusted ROIC relative to that of companies in our peer group as of the end of the performance period. The 2018 and 2019 Performance Awards cliff vest, if earned, after completion of the performance period. The fair value of the 2018 and 2019 Performance Awards granted is based on the closing price of our common stock on the grant date.

Stock-based compensation expense is recognized ratably over the related service period reduced for estimated forfeitures of those awards not expected to vest due to employee turnover. Stock-based compensation expense, as it relates to Performance Awards, is also adjusted based on the Company's estimate of adjusted earnings per share and adjusted operating margin expansion and adjusted ROIC and, as applicable, ranking of our adjusted ROIC relative to that of companies in our peer group as they occur.

### **Deferred Compensation Plan**

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

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

**Fair Value Measurement and Financial Instruments-** FASB ASC 820--*Fair Value 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 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 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 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 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	
	May 2, 2020	May 4, 2019
Net sales:	(In thousands)	
South	\$ 97,936	\$ 147,064
Northeast	51,830	97,903
West	37,262	61,994
Midwest	37,233	54,648
International and other	30,946	50,773
<b>Total net sales</b>	<b>\$ 255,207</b>	<b>\$ 412,382</b>

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 \$15.1 million and \$5.1 million as of May 2, 2020 and May 4, 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 \$1.1 million and \$1.6 million as of May 2, 2020 and May 4, 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 \$2.1 million and \$3.8 million as of May 2, 2020 and May 4, 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 \$14.9 million and \$17.0 million as of May 2, 2020 and May 4, 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	3,352
Gift cards redeemed	(3,834)
Gift card breakage	(677)
Balance at May 2, 2020	<u>\$ 14,941</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 early terminate the lease.

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 May 2, 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	Thirteen Weeks Ended
	May 2, 2020	May 4, 2019
	(in thousands)	(in thousands)
Operating lease cost	\$ 40,152	\$ 38,731
Variable lease cost <sup>1</sup>	11,133	15,937
Total lease cost	\$ 51,285	\$ 54,668

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

As of May 2, 2020, the weighted-average remaining operating lease term was 4.5 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 in the First Quarter 2020 was approximately \$11.8 million.

ROU assets obtained in exchange for new operating lease liabilities were approximately \$37.8 million.

During the First Quarter 2020, the Company recorded ROU assets impairment of approximately \$17.9 million.

As of May 2, 2020, the future minimum annual lease payments under operating lease agreements were as follows:

	May 2, 2020
	Operating Leases
	(in thousands)
Remainder of 2020	\$ 135,620
2021	112,628
2022	75,372
2023	45,371
2024	27,026
Thereafter	69,085
Total lease payments	\$ 465,102
Less: imputed interest	\$ (32,800)
Present value of lease liabilities	\$ 432,302

#### 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 includes 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 May 2, 2020:

	Useful life	May 2, 2020		
		Gross amount	Accumulated amortization	Net amount
(in thousands)				
Gymboree tradename <sup>(1)</sup>	Indefinite	\$ 69,951	\$ —	\$ 69,951
Crazy 8 tradename <sup>(1)</sup>	5 years	4,000	(861)	3,139
Customer databases <sup>(2)</sup>	3 years	3,000	(1,077)	1,923
<b>Total intangibles, net</b>		<b>\$ 76,951</b>	<b>\$ (1,938)</b>	<b>\$ 75,013</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 Programs

In March 2018, the Board of Directors authorized a \$250 million share repurchase program (the "2018 Share Repurchase Program"). At May 2, 2020, there was approximately \$93.8 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 a 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:

	Thirteen Weeks Ended			
	May 2, 2020		May 4, 2019	
	Shares	Value	Shares	Value
(In thousands)				
Shares repurchases related to:				
2018 Share Repurchase Program <sup>(1)</sup>	262	\$ 14,559	344	\$ 33,319
Shares acquired and held in treasury under Deferred Compensation Plan	1.1	\$ 69	0.7	\$ 62

<sup>(1)</sup> Inclusive of 0.2 million shares for approximately \$15.3 million during First Quarter 2019 withheld to cover taxes in conjunction with the vesting of stock awards.

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 First Quarter 2020 and First Quarter 2019, approximately \$10.2 million and \$29.6 million, respectively, were charged to retained earnings.

## Dividends

In March 2020, the Company announced it had temporarily suspended its dividend payments. During the First Quarter 2019, \$9.1 million was charged to retained earnings, of which \$8.9 million related to cash dividends paid and \$0.2 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 future financial performance, and other investment priorities.

## 6. STOCK-BASED COMPENSATION

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

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
	(In thousands)	
Deferred Awards	\$ 4,314	\$ 4,150
Performance Awards	(3,729)	3,609
Total stock-based compensation expense <sup>(1)</sup>	\$ 585	\$ 7,759

<sup>(1)</sup> During the First Quarter 2020 and the First Quarter 2019, approximately \$0.1 million and \$1.0 million, respectively, were included within cost of sales. All other stock-based compensation is included in selling, general, and administrative expenses.

The Company recognized a tax benefit related to stock-based compensation expense of approximately \$0.2 million and \$2.1 million during First Quarter 2020 and First Quarter 2019, respectively.

### Changes in the Company's Unvested Stock Awards during the First Quarter 2020

#### Deferred Awards

	Number of Shares	Weighted Average Grant Date Fair Value
	(In thousands)	
Unvested Deferred Awards, beginning of period	377	\$ 97.88
Granted	17	63.03
Vested	(78)	99.97
Forfeited	(20)	108.77
Unvested Deferred Awards, end of period	296	\$ 94.56

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated \$6.9 million as of May 2, 2020, which will be recognized over a weighted average period of approximately 1.9 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
Shares unearned (below target)	101	118.00
Vested shares	(3)	105.86
Forfeited	(8)	110.77
Unvested Performance Awards, end of period	432	\$ 103.95

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

For those awards in which the performance period is not yet complete, the number of unvested shares in the table above is based on the participants earning their Target Shares at 100%. However, the cumulative expense recognized reflects changes in estimated adjusted earnings per share, adjusted operating margin expansion, adjusted return on invested capital, and ranking of our adjusted return on invested capital relative to that of companies in our peer group as they occur. The Company does not have any unrecognized stock-based compensation expense related to unvested Performance Awards as of May 2, 2020.

## 7. EARNINGS (LOSS) PER COMMON SHARE

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

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
	(In thousands)	
Net income (loss)	\$ (114,810)	\$ 4,490
Basic weighted average common shares	14,611	15,847
Dilutive effect of stock awards	—	260
Diluted weighted average common shares	14,611	16,107

## 8. PROPERTY AND EQUIPMENT

Property and equipment, net consist of the following:

	May 2, 2020	February 1, 2020	May 4, 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	56,475	53,540	51,934
Leasehold improvements	270,988	285,955	299,735
Store fixtures and equipment	269,237	272,158	270,755
Capitalized software	287,918	265,610	256,343
Construction in progress	14,845	33,240	20,568
	938,793	949,474	938,306
Accumulated depreciation and amortization	(726,782)	(712,576)	(688,470)
Property and equipment, net	\$ 212,011	\$ 236,898	\$ 249,836

At May 2, 2020, the Company performed impairment testing on 920 stores with a total net book value of approximately \$65.0 million. During the First Quarter 2020, the Company recorded asset impairment charges of \$37.1 million, including approximately \$19.2 million related to fixed assets and approximately \$17.9 million related to ROU assets recorded in connection with Topic 842, primarily for 412 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.

At May 4, 2019, the Company performed impairment testing on 971 stores with a total net book value of approximately \$72.0 million. During the First Quarter 2019, the Company recorded asset impairment charges of \$0.3 million primarily for five stores, all of which were fully impaired.

## 9. CREDIT FACILITY

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

The Credit Agreement, which expires in May 2024, consists of a \$360 million asset based revolving credit facility, that was recently increased from \$325 million as a result of finalizing an amendment with 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. Revolving credit loans outstanding under the Credit Agreement 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 2.50% to 2.75% 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 Credit Agreement is determined by a borrowing base consisting of certain credit card receivables, certain trade and franchise receivables, certain inventory, and the fair market value of certain real estate, subject to certain reserves.

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

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

The Company has capitalized an aggregate of approximately \$5.3 million in deferred financing costs related to the Credit Agreement. The unamortized balance of deferred financing costs at May 2, 2020 was approximately \$1.1 million. Unamortized deferred financing costs are amortized over the remaining term of the Credit Agreement.

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

	May 2, 2020	February 1, 2020	May 4, 2019
	(In millions)		
Credit facility maximum	\$ 360.0	\$ 325.0	\$ 250.0
Borrowing base	329.1	282.1	250.0
Outstanding borrowings	234.6	170.8	153.1
Letters of credit outstanding—standby	6.2	6.2	6.3
Utilization of credit facility at end of period	240.7	177.0	159.4
Availability <sup>(1)</sup>	\$ 88.4	\$ 105.1	\$ 90.6
Interest rate at end of period	3.4 %	3.4 %	3.8 %

	First Quarter 2020	Fiscal 2019	First Quarter 2019
Average end of day loan balance during the period	\$ 237.2	\$ 192.0	\$ 141.8
Highest end of day loan balance during the period	272.2	262.5	196.8
Average interest rate	3.1 %	4.0 %	4.6 %

<sup>(1)</sup> The sublimit availability for the letters of credit were \$43.8 million at May 2, 2020 and February 1, 2020, respectively, and \$43.7 million at May 4, 2019.

## 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 in December 2016 and April 2017. The parties reached an agreement in principle in April 2017, and signed a definitive settlement agreement in November 2017, to settle the matter on a class basis with all individuals in the U.S. who made a qualifying purchase at The Children's Place from February 11, 2012 through the date of preliminary approval by the court of the settlement. The settlement is subject to court approval and provides for merchandise vouchers for class members who submit valid claims, as well as payment of legal fees and expenses and claims administration expenses. The court stayed the matter, pending an appellate court ruling in another lawsuit to which the Company is not a party, from April 2, 2018 through June 17, 2019. On January 28, 2020, the court entered an order granting preliminary approval of the settlement. The settlement is also subject to the court's final approval and the final fairness hearing is scheduled for July 31, 2020. The settlement, if finally approved by the court, will result in the dismissal of all claims through the date of the court's preliminary approval of the settlement. However, if the settlement is 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. In the opinion of management, any ultimate liability arising out of these proceedings will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

## 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 First Quarter 2020 was a benefit of 34.4% compared to a benefit of 35.0% during the First Quarter 2019. The First Quarter 2020 benefit was primarily driven by a favorable benefit due to the enactment of the CARES Act. The First Quarter 2019 benefit was primarily driven by an excess tax benefit related to the vesting of equity shares, which caused a benefit for income taxes in the quarter.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in provision for income taxes. The total amount of unrecognized tax benefits as of May 2, 2020, February 1, 2020, and May 4, 2019 were \$6.8 million, \$6.8 million, and \$5.0 million, respectively, and is included within non-current liabilities. The Company recognized less than

\$0.1 million in each of the First Quarter 2020 and the First Quarter 2019, respectively, of additional interest expense related to its unrecognized tax benefits.

The Company is subject to tax in the United States and foreign jurisdictions, including Canada and Hong Kong. The Company, joined by its domestic subsidiaries, files a consolidated income tax return for federal income tax purposes. The Company, with certain exceptions, is no longer subject to income tax examinations by U.S. federal, state and local, or foreign tax authorities for tax years 2013 and prior.

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

## 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 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 May 2, 2020, the Company had foreign exchange forward contracts with an aggregate notional amount of \$2.7 million, and the fair value of the derivative instruments was an asset of \$1.4 million. As these foreign exchange forward contracts are measured at fair value using observable market inputs such as forward rates, the Company's credit risk, and our counterparties' credit risks, they are classified within Level 2 of the fair value hierarchy. Cash settlements related to these forward contracts are recorded within cash flows from operating activities within the consolidated statements of cash flows.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI") and reclassified into earnings within cost of sales (exclusive of depreciation and amortization) in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in earnings within selling, general, and administrative expenses, consistent with where the Company records realized and unrealized foreign currency gains and losses on transactions in foreign denominated currencies. There were no losses related to hedge ineffectiveness during Year-To-Date 2020. Assuming May 2, 2020 exchange rates remain constant, \$0.9 million of gains, net of tax, related to hedges of these transactions are expected to be reclassified from OCI into earnings over the next 12 months. Changes in fair value associated with derivatives that are not designated and qualified as cash flow hedges are recognized as earnings within selling, general, and administrative expenses.

The Company enters into foreign exchange forward contracts with major banks and has risk exposure in the event of nonperformance by either party. However, based on our assessment, the Company believes that obligations under the contracts will be fully satisfied. Accordingly, there was no requirement to post collateral or other security to support the contracts as of May 2, 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 e-commerce businesses 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 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 May 2, 2020, The Children's Place U.S. had 800 stores and The Children's Place International had 120 stores. As of May 4, 2019, The Children's Place U.S. had 849 stores and The Children's Place International had 122 stores.

The following tables provide segment level financial information:

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
(In thousands)		
<b>Net sales <sup>(1)</sup>:</b>		
The Children's Place U.S.	\$ 234,948	\$ 374,657
The Children's Place International <sup>(2)</sup>	20,259	37,725
Total net sales	<u>\$ 255,207</u>	<u>\$ 412,382</u>
<b>Operating income (loss) <sup>(1)</sup>:</b>		
The Children's Place U.S.	\$ (159,336)	\$ 4,161
The Children's Place International	(13,807)	877
Total operating income (loss)	<u>\$ (173,143)</u>	<u>\$ 5,038</u>
<b>Operating income (loss) as a percent of net sales<sup>(1)</sup>:</b>		
The Children's Place U.S.	(67.8)%	1.1 %
The Children's Place International	(68.2)%	2.3 %
Total operating income (loss) as a percent of net sales	(67.8)%	1.2 %
<b>Depreciation and amortization:</b>		
The Children's Place U.S.	\$ 16,186	\$ 16,709
The Children's Place International	1,702	1,875
Total depreciation and amortization	<u>\$ 17,888</u>	<u>\$ 18,584</u>
<b>Capital expenditures:</b>		
The Children's Place U.S.	\$ 5,200	\$ 10,800
The Children's Place International	533	209
Total capital expenditures	<u>\$ 5,733</u>	<u>\$ 11,009</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.

	May 2, 2020	February 1, 2020	May 4, 2019
	(In thousands)		
<b>Total assets:</b>			
The Children's Place U.S.	\$ 1,097,544	\$ 1,080,665	\$ 1,183,611
The Children's Place International	87,392	100,732	102,343
Total assets	<u>\$ 1,184,936</u>	<u>\$ 1,181,397</u>	<u>\$ 1,285,954</u>

## **m 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. 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, closures of schools 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 COVID-19 or other disease outbreaks, 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:

- *First Quarter 2020* — The thirteen weeks ended May 2, 2020
- *First Quarter 2019* — The thirteen weeks ended May 4, 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 May 2, 2020, we had 920 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 266 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, 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 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 May 2, 2020, The Children's Place U.S. had 800 stores and The Children's Place International had 120 stores. As of May 4, 2019, The Children's Place U.S. had 849 stores and The Children's Place International had 122 stores.

#### *Recent Developments*

The COVID-19 pandemic has impacted regions all around the world, resulting in restrictions and shutdowns implemented by national, state, and local authorities, leading to significant adverse economic conditions and business disruptions, as well as significant volatility in global financial markets. Governments worldwide have imposed varying degrees of preventative and protective actions, such as temporary travel bans, forced business closures, and stay-at-home orders, all in an effort to reduce the spread of the virus. 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. Our distribution centers remain open and operating to support our e-commerce business, which has accelerated 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;
- Suspended rent payments on all of our U.S. and Canadian retail stores;
- Evaluating our options on store lease events occurring through the end of fiscal 2021, which impact approximately 70% of our current store fleet, targeting 300 additional retail store closures through fiscal 2021;
- Effective April 1, 2020, Jane Elfers, President and Chief Executive Officer, agreed to forgo 100% of her salary until further notice. In addition, the senior leadership team took a temporary 25% reduction in salary until further notice and the independent Directors of the Board unanimously approved to forgo their cash compensation until further notice;
- Effective April 5, 2020, all U.S. and Canadian field management and store associates were temporarily furloughed. We continue to furlough a portion of our U.S. and Canadian field management and store associates not supporting ship from store activities;
- Effective April 5, 2020, we instituted a combination of temporary furloughs and pay reductions for the substantial majority of our corporate staff;
- 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
- Temporarily suspended the Company's capital return program, inclusive of share repurchases and dividends.

On May 19, 2020, the Company reopened stores in 10 states: Alabama, Arkansas, Idaho, Mississippi, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, and Utah. The Company intends to reopen stores on a phased timeline, as state and local guidelines and conditions permit, taking an informed, measured approach based on a number of factors.

#### *Operating Highlights*

Net sales decreased by \$157.2 million, or 38.1%, to \$255.2 million during the First Quarter 2020 from \$412.4 million during the First Quarter 2019. The net sales decrease of \$157.2 million primarily resulted from temporary store closures on March 18, 2020 due to the COVID-19 pandemic.

Gross profit (loss) decreased by \$171.7 million to \$(19.7) million during the First Quarter 2020 from \$152.0 million during the First Quarter 2019. The comparability of our gross profit (loss) 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 store closures; occupancy expense of approximately \$23.1 million for our stores temporarily closed due to COVID-19; and incremental expenses, primarily personal protective equipment and incentive pay for our associates, of approximately \$1.7 million. Excluding the impact of these charges, gross margin de-leveraged 990 basis points. The decrease resulted primarily from increased penetration of our e-commerce business and its higher fulfillment costs, along with the deleverage of fixed expenses resulting from the decline in sales as a result of store closures related to the COVID-19 pandemic.

Selling, general, and administrative expenses decreased \$29.5 million to \$98.5 million during the First Quarter 2020 from \$128.0 million during the First Quarter 2019. The comparability of our SG&A was impacted by: 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; restructuring costs, primarily related to severance costs for corporate associates, of approximately \$3.4 million; the write-off of certain account receivables of approximately \$1.0 million; and incremental operating expenses, primarily personal protective equipment for our associates, of approximately \$0.7 million. Excluding the impact of these charges, SG&A de-leveraged 380 basis points due to the de-leverage of fixed expenses resulting from the decline in sales as a result of temporary store closures, partially offset by a reduction in operating expenses associated with actions taken in response to the COVID-19 pandemic.

Asset impairment charges were \$37.1 million during the First Quarter 2020, including the ROU assets recorded in connection with Topic 842, primarily for 412 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 during the First Quarter 2019 were \$0.3 million, which related to the full impairment of primarily five stores.

Benefit for income taxes was \$60.2 million during the First Quarter 2020 compared to a benefit of \$1.2 million during the First Quarter 2019. Our effective tax rate was a benefit of 34.4% and 35.0% in the First Quarter 2020 and the First Quarter 2019, respectively. The First Quarter 2020 benefit was primarily driven by a favorable benefit due to the enactment of the CARES Act. The First Quarter 2019 benefit was primarily driven by an excess tax benefit related to the vesting of equity shares, which caused a benefit for income taxes in the quarter.

Net income (loss) was \$(114.8) million during the First Quarter 2020 compared to income of \$4.5 million during the First Quarter 2019, due to the COVID-19 pandemic and the other factors discussed above. Earnings (loss) per diluted share was a loss of \$(7.86) in the First Quarter 2020 compared to earnings of \$0.28 per diluted share in the First Quarter 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 1.5 million, which is the result of our share repurchase program.

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 and strong product acceptance is anticipated to deliver gross margin and inventory productivity benefits. 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 by designing, sourcing, and merchandising Spring 2020 collections.

The transformation of our digital capabilities continues to expand with the development of a completely redesigned responsive site and mobile application, providing a rich online shopping experience geared towards the needs of our "on-the-go" mobile customers, expanded customer personalization, which delivers unique, relevant content to drive sales, loyalty and retention, and the ability to have our entire store fleet equipped with ship-from-store capabilities.

We continue to evaluate our store fleet as part of our fleet optimization initiative. We have closed 275 stores, including the four stores closed in the First Quarter 2020, since the announcement of this initiative. Our fleet optimization strategy has resulted in an average lease life of approximately two years with approximately 70% 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 COVID-19, we have increased our planned store closures and are targeting to close approximately 300 additional store locations by the end of fiscal 2021, with approximately 200 closing in fiscal 2020.

During the First Quarter 2020, we repurchased approximately 0.3 million shares for approximately \$14.6 million, inclusive of shares surrendered to cover tax withholdings associated with the vesting of equity awards. As of May 2, 2020, there was approximately \$93.8 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	
	May 2, 2020	May 4, 2019
<b><u>Average Translation Rates</u></b> <sup>(1)</sup>		
Canadian Dollar	0.7275	0.7505
Hong Kong Dollar	0.1288	0.1274
China Yuan Renminbi	0.1422	0.1490

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

## **CRITICAL ACCOUNTING POLICIES**

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

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

**Inventory Valuation-** We value inventory at the lower of cost or net realizable value, with cost determined using an average cost method. The estimated market value of inventory is determined based on an analysis of historical sales trends of our individual product categories, the impact of market trends and economic conditions, and a forecast of future demand, as well as plans to sell through inventory. Estimates may differ from actual results due to the quantity, quality, and mix of products in inventory, consumer and retailer preferences, and market conditions, such as those resulting from disease pandemics and other catastrophic events. Our historical estimates have not differed materially from actual results.

The Company's estimated realizable value of its inventory as of May 2, 2020 reflects material adverse impacts associated with the COVID-19 pandemic business disruptions, which include the temporary closure of the Company's and its franchisees' stores, as well as significant declines in retail traffic.

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 \$0.6 million.

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

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

We generally grant time vesting and performance-based stock awards to employees at management levels and above. We also grant time vesting stock awards to our non-employee directors. Time vesting awards are granted in the form of restricted stock units that require each recipient to complete a service period ("Deferred Awards"). Deferred Awards granted to employees generally vest ratably over three years. Deferred Awards granted to non-employee directors generally vest after one year. Performance-based stock awards are granted in the form of restricted stock units which have a performance criteria that must be achieved for the awards to be earned in addition to a service period requirement ("Performance Awards"), and each Performance Award has a defined number of shares that an employee can earn (the "Target Shares"). With the approval of the Board's Compensation Committee, the Company may settle vested Deferred Awards and Performance Awards to the employee in shares, in a cash amount equal to the market value of such shares at the time all requirements for delivery of the award have been met, or in part shares and cash. For Performance Awards issued during fiscal 2017 (the "2017 Performance Awards"), an employee may earn from 0% to 200% of their Target Shares based on the cumulative adjusted earnings per share achieved for the applicable performance period, which is generally three years, adjusted operating margin expansion achieved for the performance period, and adjusted return on invested capital ("adjusted ROIC") achieved at the end of the performance period. The 2017 Performance Awards cliff vest, if earned, after completion of the applicable performance period. The fair value of the

2017 Performance Awards granted is based on the closing price of our common stock on the grant date. For Performance Awards issued during fiscal 2018 and fiscal 2019 (the “2018 and 2019 Performance Awards”), an employee may earn from 0% to 250% of their Target Shares based on the cumulative adjusted earnings per share achieved for the applicable performance period, which is generally three years, adjusted operating margin expansion achieved for the performance period, adjusted ROIC achieved as of the end of the performance period, and our adjusted ROIC relative to that of companies in our peer group as of the end of the performance period. The 2018 and 2019 Performance Awards cliff vest, if earned, after completion of the performance period. The fair value of the 2018 and 2019 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 \$0.9 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 the First Quarter 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 disruption.

**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 May 2, 2020 would have impacted net income by approximately \$0.5 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 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 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 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 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 760 basis points to 38.6% of net sales during the First Quarter 2020 from 31.0% during the First 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., “de-leveraging”), we have less efficiently utilized the investments we have made in our business.

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
Net sales	100.0 %	100.0 %
Cost of sales (exclusive of depreciation and amortization)	107.7	63.1
Gross profit (loss)	(7.7)	36.9
Selling, general, and administrative expenses	38.6	31.0
Depreciation and amortization	7.0	4.5
Asset impairment charges	14.5	0.1
Operating income (loss)	(67.8)	1.2
Income (loss) before benefit for income taxes	(68.6)	0.8
Benefit for income taxes	(23.6)	(0.3)
Net income (loss)	(45.0)%	1.1 %
Number of Company-operated stores, end of period	920	971

*Table may not add due to rounding.*

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

	Thirteen Weeks Ended	
	May 2, 2020	May 4, 2019
<b>Net sales:</b>	<b>(In thousands)</b>	
The Children’s Place U.S.	\$ 234,948	\$ 374,657
The Children’s Place International	20,259	37,725
Total net sales	\$ 255,207	\$ 412,382

#### First Quarter 2020 Compared to the First Quarter 2019

Net sales decreased by \$157.2 million, or 38.1%, to \$255.2 million during the First Quarter 2020 from \$412.4 million during the First Quarter 2019. The net sales decrease of \$157.2 million primarily resulted from temporary store closures on March 18, 2020 due to the COVID-19 pandemic.

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 \$139.8 million, or 37.3%, to \$234.9 million in the First Quarter 2020 compared to \$374.7 million in the First Quarter 2019. This decrease primarily resulted from temporary store closures due to the COVID-19 pandemic.

The Children’s Place International net sales decreased \$17.4 million, or 46.2%, to \$20.3 million in the First Quarter 2020 compared to \$37.7 million in the First Quarter 2019. The decrease resulted primarily from temporary store closures and a decrease in revenue from international franchisees due to the COVID-19 pandemic.

Total e-commerce sales, which include postage and handling, increased to 53.0% of net sales during the First Quarter 2020 from 29.2% during the First Quarter 2019 due to accelerating e-commerce demand.



*Gross profit (loss)* decreased by \$171.7 million to \$(19.7) million during the First Quarter 2020 from \$152.0 million during the First Quarter 2019. The comparability of our gross profit (loss) was impacted by an inventory provision of approximately \$63.2, related to the adverse business disruption resulting from the COVID-19 pandemic, including the store closures; occupancy expense of approximately \$23.1 million for our stores temporarily closed due to COVID-19; and incremental expenses, primarily personal protective equipment and incentive pay for our associates, of approximately \$1.7 million. Excluding the impact of these charges, gross margin de-leveraged 990 basis points. The decrease resulted primarily from increased penetration of our e-commerce business and its higher fulfillment costs, along with the deleverage of fixed expenses resulting from the decline in sales as a result of store closures related to the COVID-19 pandemic.

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

*Selling, general, and administrative expenses* decreased \$29.5 million to \$98.5 million during the First Quarter 2020 from \$128.0 million during the First Quarter 2019. The comparability of our SG&A was impacted by: 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; restructuring costs, primarily related to severance costs for corporate associates, of approximately \$3.4 million; the write-off of certain account receivables of approximately \$1.0 million; and incremental operating expenses, primarily personal protective equipment for our associates, of approximately \$0.7 million. Excluding the impact of these charges, SG&A de-leveraged 380 basis points due to the de-leverage of fixed expenses resulting from the decline in sales as a result of temporary store closures, partially offset by a reduction in operating expenses associated with actions taken in response to the COVID-19 pandemic.

*Asset impairment charges* were \$37.1 million during the First Quarter 2020, including the ROU assets recorded in connection with Topic 842, primarily for 412 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 during the First Quarter 2019 were \$0.3 million, which related to the full impairment of primarily five stores.

*Depreciation and amortization* was \$17.9 million during the First Quarter 2020 compared to \$18.6 million during the First Quarter 2019.

*Benefit for income taxes* was \$60.2 million during the First Quarter 2020 compared to a benefit of \$1.2 million during the First Quarter 2019. Our effective tax rate was a benefit of 34.4% and 35.0% in the First Quarter 2020 and the First Quarter 2019, respectively. The First Quarter 2020 benefit was primarily driven by a favorable benefit due to the enactment of the CARES Act. The First Quarter 2019 benefit was primarily driven by an excess tax benefit related to the vesting of equity shares, which caused a benefit for income taxes in the quarter.

*Net income (loss)* was \$(114.8) million during the First Quarter 2020 compared to income of \$4.5 million during the First Quarter 2019, due to the COVID-19 pandemic and the other factors discussed above. Earnings (loss) per diluted share was a loss of \$(7.86) in the First Quarter 2020 compared to earnings of \$0.28 per diluted share in the First Quarter 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 1.5 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;
- Suspended rent payments on all of our U.S. and Canadian retail stores;
- Evaluating our options on store lease events occurring through the end of fiscal 2021, which impact approximately 70% of our current store fleet, targeting 300 additional retail store closures through fiscal 2021;
- Effective April 1, 2020, Jane Elfers, President and Chief Executive Officer, agreed to forgo 100% of her salary until further notice. In addition, the senior leadership team took a temporary 25% reduction in salary until further notice and the independent Directors of the Board unanimously approved to forgo their cash compensation until further notice;

- Effective April 5, 2020, all U.S. and Canadian field management and store associates were temporarily furloughed. We continue to furlough a portion of our U.S. and Canadian field management and store associates not supporting ship from store activities;
- Effective April 5, 2020, we instituted a combination of temporary furloughs and pay reductions for the substantial majority of our corporate staff;
- 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
- Temporarily suspended the Company's capital return program, inclusive of share repurchases and dividends.

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 \$164.6 million to \$290.8 million at May 2, 2020 compared to \$126.2 million at May 4, 2019, primarily due to seasonal cash usage and the impact of the COVID-19 pandemic, partially offset by cash management. During the First Quarter 2020, we repurchased approximately 0.3 million shares for approximately \$14.6 million. During the First Quarter 2019, the Company repurchased approximately 0.3 million shares for approximately \$33.3 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 \$360.0 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 May 2, 2020, we had \$234.6 million of outstanding borrowings and \$88.4 million available for borrowing. In addition, at May 2, 2020, we had \$6.2 million of outstanding letters of credit with an additional \$43.8 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 a credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), Bank of America, N.A., HSBC Business Credit (USA) Inc., and JPMorgan Chase Bank, N.A. as lenders (collectively, the "Lenders") and Wells Fargo, as Administrative Agent, Collateral Agent, and Swing Line Lender (the "Credit Agreement").

The Credit Agreement, which expires in May 2024, consists of a \$360 million asset based revolving credit facility, that was recently increased from \$325 million as a result of finalizing an amendment with 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. Revolving credit loans outstanding under the Credit Agreement 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 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 2.50% to 2.75% based on the amount of our average excess availability under the facility.

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

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

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



We have capitalized an aggregate of approximately \$5.3 million in deferred financing costs related to the Credit Agreement. The unamortized balance of deferred financing costs at May 2, 2020 was approximately \$1.1 million. Unamortized deferred financing costs are amortized over the remaining term of the Credit Agreement.

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

During the First Quarter 2020, cash flows used in operating activities were \$40.5 million compared to cash flows provided by operating activities of \$21.2 million during the First Quarter 2019. The decrease was primarily as a result of a net loss in the quarter due to temporary store closures due to the COVID-19 pandemic, partially offset by strategic working capital management and the extension of vendor payment terms.

During the First Quarter 2020, cash flows used in investing activities were \$5.6 million compared to \$86.5 million during the First Quarter 2019. This change was primarily due to the Gymboree intellectual property and related assets acquisition during the First Quarter 2019 and a reduction in capital expenditures.

During the First Quarter 2020, cash flows provided by financing activities were \$49.2 million compared to \$62.0 million during the First Quarter 2019. The decrease primarily resulted from a decrease in borrowings under our revolving credit facility, partially offset by 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.

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 the First Quarter 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.

#### **Derivative Instruments**

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

All derivative instruments are presented at gross fair value on the consolidated balance sheets within either prepaid expenses and other current assets or accrued expenses and other current liabilities. As of May 2, 2020, we had foreign exchange forward contracts with an aggregate notional amount of \$2.7 million, and the fair value of the derivative instruments was an asset of \$1.4 million.

### **m 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 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 May 2, 2020, we had \$234.6 million in borrowings under our credit facility. A 10% change in the prime rate or LIBOR interest rates would not have had a material impact on our interest expense.

#### **Foreign Assets and Liabilities**

Assets and liabilities outside the United States are primarily located in Canada and Hong Kong. Our investments in our Canadian and Hong Kong subsidiaries are considered long-term. As of May 2, 2020, net assets in Canada and Hong Kong were

approximately \$29.4 million and \$8.4 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 \$0.8 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 May 2, 2020, we had approximately \$20.9 million of our cash and cash equivalents held in foreign countries, of which approximately \$12.5 million was in Canada, approximately \$4.1 million was in Hong Kong, and approximately \$4.3 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, First Quarter 2020 net sales could have decreased or increased by approximately \$1.7 million, and total costs and expenses could have decreased or increased by approximately \$5.8 million. Additionally, we have foreign currency denominated receivables and payables that when settled, result in transaction gains or losses. At May 2, 2020, we had foreign currency denominated receivables and payables, including inter-company balances, of \$8.6 million and \$5.1 million, respectively.

Our Canadian subsidiary's functional currency is the Canadian dollar but purchases inventory from suppliers in U.S. dollars. In order to mitigate the variability of cash flows associated with certain of these forecasted inventory purchases, we enter into foreign exchange forward contracts. As of May 2, 2020, we had foreign exchange forward contracts with an aggregate notional amount of \$2.7 million, and the fair value of the derivative instruments was an asset of \$1.4 million. Assuming a 10% change in Canadian foreign exchange rates, the fair value of these instruments could have decreased by or increased by approximately \$0.3 million. Any resulting changes in the fair value of the instruments would be partially offset by changes in the underlying balance sheet positions. We do not hedge all transactions denominated in foreign currency.

We import a vast majority of our merchandise from foreign countries, primarily Cambodia, China, India, Vietnam, and Indonesia. 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.

## **m 4. CONTROLS AND PROCEDURES.**

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

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

Management, including our Chief Executive Officer and President and our Chief Operating Officer and 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 May 2, 2020. Based on that evaluation, our Chief Executive Officer and President and our Chief Operating Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level, as of May 2, 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 12 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 have been 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, other than as set out below.

***The COVID-19 pandemic has significantly disrupted and is expected to continue to significantly disrupt our business, which in turn could have a material adverse effect on our business, financial condition, and results of operations.***

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 private entities mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories, and quarantining of people who may have been exposed to the virus. 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.

The COVID-19 pandemic has had, and will likely continue to have, a significant adverse effect on our business, financial condition, and results of operations. For example:

- In March 2020, for the safety of customers and employees, we suspended retail store operations in the U.S. and Canada, which has had a significant adverse effect on the results of operations of our business. On May 19, 2020 the Company reopened stores in ten states, and we intend to continue to reopen our stores on a phased timeline, as state and local guidelines and conditions permit, taking an informed, measured approach. The decision to reopen stores is driven by a number of factors, including evaluating the safety of the Company’s customers and employees, as well as an evaluation of guidance provided by the federal, state, and local governments.
- The Company experienced reductions and volatility in demand for its retail products as customers are not able to purchase merchandise due to illness, quarantine, or government or self-imposed restrictions placed on the Company’s stores’ operations. Additionally, the Company expects that social distancing measures and changes in consumer spending behaviors due to COVID-19 may continue to impact traffic in stores after operations are resumed and such actions could result in a significant loss of sales and profit.
- The Company has experienced, and may continue to experience, significant temporary or long-term disruptions in its global supply chain, as the outbreak has resulted in travel disruptions and has significantly adversely impacted manufacturing and distribution throughout the world. The receipt of products or raw material sourced from impacted areas has been, and may continue to be, slowed or disrupted which could adversely impact the fulfillment of merchandise orders from the Company’s vendors.

Our management has been focused on mitigating the effects of the COVID-19 pandemic, including reducing costs, inventory commitments, and capital expenditures, which has required and will continue to require, a significant investment of time and resources across our enterprise. Actions to mitigate the effects of the outbreak include:

- 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;
- Suspended rent payments on all of our U.S. and Canadian retail stores;
- Evaluating our options on store lease events occurring through the end of fiscal 2021, which impact approximately 70% of our current store fleet, targeting 300 additional retail store closures through fiscal 2021;
- Effective April 1, 2020, Jane Elfers, President and Chief Executive Officer, agreed to forgo 100% of her salary until further notice. In addition, the senior leadership team took a temporary 25% reduction in salary until further notice

and the independent Directors of the Board unanimously approved to forgo their cash compensation until further notice;

- Effective April 5, 2020, all U.S. and Canadian field management and store associates were temporarily furloughed. We continue to furlough a portion of our U.S. and Canadian field management and store associates not supporting ship from store activities;
- Effective April 5, 2020, we instituted a combination of temporary furloughs and pay reductions for the substantial majority of our corporate staff;
- 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
- Temporarily suspended the Company's capital return program, inclusive of share repurchases and dividends.

These measures, other measures taken in response to the COVID-19 pandemic, and/or the significant disruptions caused by the COVID-19 pandemic may have a material adverse effect on our business, financial condition, and results of operations.

The Company cannot foresee whether the outbreak of COVID-19 will be effectively contained, nor can it predict the severity and duration of its impact. As such, impacts of COVID-19 on the Company are highly uncertain, and the Company will continue to assess the financial impacts. The significant disruption to the global economy and to the Company's business may lead to additional triggering events that may indicate that the carrying value of certain assets, including inventories, long-lived assets, and intangibles may not be recoverable. The situation is changing rapidly and future material impacts may materialize that are not yet known.

## 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 First 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
2/2/20-2/29/20 <sup>(1)</sup>	150,450	\$ 65.57	149,395	\$ 98,552
3/1/20-4/4/20 <sup>(2)</sup>	95,227	45.39	95,227	94,230
4/5/20-5/2/20 <sup>(3)</sup>	17,722	23.96	17,722	93,805
Total	263,399	\$ 55.47	262,344	\$ 93,805

<sup>(1)</sup> Consists of 1,055 shares acquired as treasury stock as directed by participants in the Company's deferred compensation plan and 4,971 shares withheld to cover taxes in conjunction with the vesting of stock awards.

<sup>(2)</sup> Consists of 1,227 shares withheld to cover taxes in conjunction with the vesting of stock awards.

<sup>(3)</sup> Consists of 17,722 shares withheld to cover taxes in conjunction with the vesting of stock awards.

**m 6. Exhibits.**

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

<a href="#">10.1(+)</a>	<a href="#">First amendment to amended and restated credit agreement, dated April 24, 2020, by and among the Company and The Children's Place Services Company, LLC, as borrowers The Children's Place (International), LLC, The Children's Place Canada Holdings, Inc., the childrensplace.com, inc., TCP IH II, LLC, TCP International IP Holdings, LLC and TCP International Product Holdings, LLC, as guarantors, Wells Fargo Bank, National Association (successor by merger to Wells Fargo Retail Finance, LLC), as Administrative Agent and Collateral Agent, L/C Issuer, Swing Line Lender and as a lender and HSBC Bank USA, N.A. and JPMorgan Chase Bank, N.A., as lenders.</a>
<a href="#">10.2(+)(*)</a>	<a href="#">Letter Agreement dated May 25, 2020 between The Children's Place Services Company, LLC and Leah Swan.</a>
<a href="#">10.3(+)(*)</a>	<a href="#">Form of Performance-Based Restricted Stock Unit Award Agreement under the 2011 Equity Incentive Plan (Senior Vice President &amp; above).</a>
<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: June 11, 2020

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

Date: June 11, 2020

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

**FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT**

This First Amendment to Amended and Restated Credit Agreement (this "First Amendment") is made as of this 24<sup>th</sup> day of April, 2020, by and among:

THE CHILDREN'S PLACE, INC., a Delaware corporation, for itself and as agent (in such capacity, the "Lead Borrower") for the other Borrowers party hereto;

the BORROWERS party hereto;

the GUARANTORS party hereto;

the LENDERS party hereto; and

WELLS FARGO BANK, NATIONAL ASSOCIATION (successor by merger to Wells Fargo Retail Finance, LLC), as Administrative Agent, Collateral Agent, L/C Issuer, and Swing Line Lender.

**WITNESSETH:**

WHEREAS, reference is made to that certain Amended and Restated Credit Agreement (as amended in effect from time to time, the "Credit Agreement") dated as of May 9, 2019 by and among (i) the Borrowers, (ii) the Guarantors, (iii) the Lenders, and (iv) Wells Fargo Bank, National Association (successor by merger to Wells Fargo Retail Finance, LLC), as Administrative Agent, Collateral Agent, and Swing Line Lender;

WHEREAS, the Lead Borrower has requested, pursuant to Section 2.15 of the Credit Agreement, an increase in the Aggregate Commitments in the amount of \$35,000,000, and the Agents and the Lenders have agreed to do so, subject to the terms and conditions set forth herein; and

WHEREAS, the Loan Parties, the Agents and the Lenders have agreed to amend certain other terms and conditions of the Credit Agreement as set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions. All capitalized terms used herein and not otherwise defined shall have the same meaning herein as in the Credit Agreement.
2. Amendments to the Credit Agreement. The Credit Agreement is hereby amended as follows:
  - (a) Section 1.01 of the Credit Agreement (Defined Terms) is hereby amended as follows:

- (i) By inserting the following definitions in their proper alphabetical sequence:

“Benchmark Replacement” means the sum of: (a) the alternate benchmark rate (which may include Term SOFR) that has been selected by Agent and Administrative Borrower giving due consideration to (i) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the LIBO Rate for United States dollar-denominated syndicated credit facilities and (b) the Benchmark Replacement Adjustment; provided that, if the Benchmark Replacement as so determined would be less than zero, the Benchmark Replacement shall be deemed to be zero for the purposes of this Agreement.

“Benchmark Replacement Adjustment” means, with respect to any replacement of the LIBO Rate with an Unadjusted Benchmark Replacement for each applicable Interest Period, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by Agent and Administrative Borrower giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the LIBO Rate with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the LIBO Rate with the applicable Unadjusted Benchmark Replacement for United States dollar-denominated syndicated credit facilities at such time.

“Benchmark Replacement Conforming Changes” means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of “Base Rate”, the definition of “Interest Period”, timing and frequency of determining rates and making payments of interest and other administrative matters) that Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by Agent in a manner substantially consistent with market practice (or, if Agent decides that adoption of any portion of such market practice is not administratively feasible or if Agent determines that no market practice for the administration of the Benchmark Replacement exists, in such other manner of administration as Agent decides is reasonably necessary in connection with the administration of this Agreement).

“Benchmark Replacement Date” means the earlier to occur of the following events with respect to the LIBO Rate:



(a) in the case of clause (a) or (b) of the definition of “Benchmark Transition Event,” the later of (i) the date of the public statement or publication of information referenced therein and (ii) the date on which the administrator of the LIBO Rate permanently or indefinitely ceases to provide the LIBO Rate; or

(b) in the case of clause (c) of the definition of “Benchmark Transition Event,” the date of the public statement or publication of information referenced therein.

“Benchmark Transition Event” means the occurrence of one or more of the following events with respect to the LIBO Rate:

(a) a public statement or publication of information by or on behalf of the administrator of the LIBO Rate announcing that such administrator has ceased or will cease to provide the LIBO Rate, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the LIBO Rate;

(b) a public statement or publication of information by the regulatory supervisor for the administrator of the LIBO Rate, the Federal Reserve System of the United States (or any successor), an insolvency official with jurisdiction over the administrator for the LIBO Rate, a resolution authority with jurisdiction over the administrator for the LIBO Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the LIBO Rate, which states that the administrator of the LIBO Rate has ceased or will cease to provide the LIBO Rate permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the LIBO Rate; or

(c) a public statement or publication of information by the regulatory supervisor for the administrator of the LIBO Rate announcing that the LIBO Rate is no longer representative.

“Benchmark Transition Start Date” means (a) in the case of a Benchmark Transition Event, the earlier of (i) the applicable Benchmark Replacement Date and (ii) if such Benchmark Transition Event is a public statement or publication of information of a prospective event, the 90<sup>th</sup> day prior to the expected date of such event as of such public statement or publication of information (or if the expected date of such prospective event is fewer than 90 days after such statement or publication, the date of such statement or publication) and (b) in the case of an Early Opt-in Election, the date specified by Agent or the Required Lenders, as applicable, by notice to Administrative Borrower, Agent (in the case of such notice by the Required Lenders) and the Lenders.

“Benchmark Unavailability Period” means, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the LIBO Rate and solely to the extent that the LIBO Rate has not been replaced with a Benchmark Replacement, the period (x) beginning at the time that such Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the LIBO Rate for all purposes hereunder in accordance with Section 3.03(b) and (y) ending at the time that a Benchmark Replacement has replaced the LIBO Rate for all purposes hereunder pursuant to Section 3.03(b).

“BHC Act Affiliate” of a Person means an “affiliate” (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such Person.

“Covered Entity” means any of the following:

(a) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);

(b) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or

(c) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Covered Party” has the meaning specified in Section 10.28.

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“Early Opt-in Election” means the occurrence of:

(a) (i) a determination by Agent or (ii) a notification by the Required Lenders to Agent (with a copy to Administrative Borrower) that the Required Lenders have determined that United States dollar-denominated syndicated credit facilities being executed at such time, or that include language similar to that contained in Section 3.03(b) are being executed or amended, as applicable, to incorporate or adopt a new benchmark interest rate to replace the LIBO Rate, and

(b) (i) the election by Agent or (ii) the election by the Required Lenders to declare that an Early Opt-in Election has occurred and the provision, as applicable, by Agent of written notice of such election to Administrative Borrower and the Lenders or by the Required Lenders of written notice of such election to Agent.

“Federal Reserve Bank of New York’s Website” means the website of the Federal Reserve Bank of New York at <http://www.newyorkfed.org>, or any successor source.

“First Amendment” means that certain First Amendment to Amended and Restated Credit Agreement dated as of the First Amendment Effective Date by and among (i) the Borrowers, (ii) the Guarantors, (iii) the Lenders, and (iv) Wells Fargo Bank, National Association (successor by merger to Wells Fargo Retail Finance, LLC), as Administrative Agent, Collateral Agent, and Swing Line Lender.

“First Amendment Effective Date” means April 24, 2020.

“Flood Insurance Laws” means, collectively, (a) the National Flood Insurance Act of 1968, (b) the Flood Disaster Protection Act of 1973, (c) the National Flood Insurance Reform Act of 1994, (d) the Flood Insurance Reform Act of 2004, and (e) the Biggert-Waters Flood Insurance Reform Act of 2012, as each of the foregoing is now or hereafter in effect and any successor statute to any of the foregoing.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. § 5390(c)(8)(D).

“QFC Credit Support” has the meaning specified in Section 10.28.

“Relevant Governmental Body” means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

“Supported QFC” has the meaning specified in Section 10.28.

“SOFR” with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York’s Website.

“Term SOFR” means the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

“U.S. Special Resolution Regimes” has the meaning specified in Section 10.28.

“Unadjusted Benchmark Replacement” means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

- a. By amending and restating the definition of “Adjustment Date” in its entirety as follows:

“Adjustment Date” means the first day of each Fiscal Quarter, commencing January 31, 2021.

- b. By amending and restating the definition of “Aggregate Commitments” in its entirety as follows:

“Aggregate Commitments” means the Commitments of all of the Lenders. As of the First Amendment Effective Date, the Aggregate Commitments are \$360,000,000.

- c. By amending and restating the definition of “Applicable Commitment Fee Percentage” in its entirety as follows:

“Applicable Commitment Fee Percentage” means 0.25%.

- d. By amending the definition of “Applicable Margin” as follows:

- (1) by amending and restating clause (a) thereof as follows:

(a) from and after the First Amendment Effective Date through and including January 30, 2021, the percentages set forth in Level II of the pricing grid below;

- (2) by amending clause (b) thereof by deleting the phrase “from and after the Restatement Date,” and replacing it with phrase “from and after the first Adjustment Date,”; and

- (3) by deleting the pricing grid appearing therein in its entirety and replacing it with the following pricing grid:

Level	Average Excess Availability	LIBOR and BA Rate Margin	Base Rate Margin	Commercial Letter of Credit Fee	Standby Letter of Credit Fee
I	Greater than or equal to 50% multiplied by the Revolving Credit Ceiling	2.50%	1.75%	1.25%	2.00%
II	Less than 50% multiplied by the Revolving Credit Ceiling	2.75%	1.875%	1.375%	2.25%

- e. By amending and restating the definition of “BA Rate” in its entirety as follows:

“BA Rate” means, for any Interest Period, the greater of (i) one percent (1.00%) per annum, and (ii) the rate per annum determined by the Administrative Agent by reference to the average rate per annum as reported on the “Reuters Screen CDOR Page” (as defined in the International Swaps and Derivatives Association, Inc. 2000 definitions, as modified and amended from time to time, or any successor page or, if no longer available, such other page or commercially available service displaying Canadian interbank bid rates for Canadian Dollar bankers’

acceptances as the Administrative Agent may designate from time to time, or if no such substitute service is available, the rate quoted by a bank named in Schedule I of the Bank Act (Canada) selected by the Administrative Agent at which such bank is offering to purchase Canadian Dollar bankers' acceptances), as of 10:00 a.m. Eastern (Toronto) time on the date of commencement of the requested Interest Period, for a term, and in an amount, comparable to the Interest Period and the amount of the BA Rate Loan requested (whether as an initial BA Rate Loan or as a continuation of a BA Rate Loan or as a conversion of a Canadian Dollar Base Rate Loan to a BA Rate Loan) by the Canadian Borrowers in accordance with this Agreement; provided that, if any such reported rate is below zero (0), then the rate determined pursuant to clause (ii) of this definition of BA Rate shall be deemed to be zero (0). Each determination of the BA Rate shall be made by the Administrative Agent and shall be conclusive in the absence of manifest error.

- f. By amending and restating the definition of "Disposition" in its entirety as follows:

"Disposition" or "Dispose" means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction and any sale, transfer, license or other disposition of (whether in one transaction or in a series of transactions) all or substantially all of its assets to or in favor of any Person) of any property (including, without limitation, any Equity Interests) by any Person (or the granting of any option or other right to do any of the foregoing), including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith, and including in any case, any such transaction by an allocation of assets among newly divided limited liability companies pursuant to a "plan of division".

- g. By amending and restating the definition of "Fee Letter" in its entirety as follows:

"Fee Letter" means, collectively, (i) the letter agreement, dated as of the Restatement Date, among the Borrowers and the Agents, and (ii) the letter agreement, dated as of the First Amendment Effective Date, among the Borrowers and the Agents, as each such letter agreement is amended, modified or supplemented from time to time.

- h. By amending and restating the definition of "LIBO Rate" in its entirety as follows:

"LIBO Rate" means for any Interest Period with respect to a LIBO Rate Loan, the greater of (i) one percent (1.00%) per annum, and (ii) the rate per annum as published by ICE Benchmark Administration Limited (or any successor page or other commercially available source as the

Administrative Agent may designate from time to time) as of 11:00 a.m., London time, two Business Days prior to the commencement of the requested Interest Period, for a term, and in an amount, comparable to the Interest Period and the amount of the LIBO Rate Loan requested (whether as an initial LIBO Rate Loan or as a continuation of a LIBO Rate Loan or as a conversion of a Base Rate Loan to a LIBO Rate Loan) by Borrowers in accordance with this Agreement (and, if any such published rate is below zero, then the rate determined pursuant to this clause (ii) shall be deemed to be zero). Each determination of the LIBO Rate shall be made by the Administrative Agent and shall be conclusive in the absence of manifest error.

- i. By amending and restating the definition of “Revolving Credit Ceiling” in its entirety as follows:

“Revolving Credit Ceiling” means (a) from the First Amendment Effective Date until the day immediately preceding the first anniversary thereof, \$360,000,000, and (b) from and after the first anniversary of the First Amendment Effective Date, \$325,000,000, in each case as such amounts may be modified in accordance with the terms of this Agreement.

- j. By amending the definition of “Interest Period” by deleting the phrase “two,” therefrom.

1. Section 3.03 of the Credit Agreement (Inability to Determine Rates) is hereby amended and restated to read in its entirety as follows:

### 3.03 Inability to Determine Rates

(a) General. Subject to Section 3.03(b) below, if the Required Lenders determine that for any reason in connection with any request for a LIBO Rate Loan or BA Rate Loan or a conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank market or bankers’ acceptances are not being offered to banks in the Canadian interbank market for the applicable amount and Interest Period of such LIBO Rate Loan or BA Rate Loan, respectively, (b) adequate and reasonable means do not exist for determining the LIBO Rate or BA Rate for any requested Interest Period with respect to a proposed LIBO Rate Loan or BA Rate Loan, or (c) the LIBO Rate or BA Rate for any requested Interest Period with respect to a proposed LIBO Rate Loan or BA Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Lead Borrower and each Lender. Thereafter, the obligation of the Lenders to make or maintain LIBO Rate Loans or BA Rate Loans, as applicable, shall be suspended until the Administrative Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Lead Borrower

may revoke any pending request for a Borrowing of, conversion to or continuation of LIBO Rate Loans or BA Rate Loans, as applicable, or, failing that, will be deemed to have converted such request into a request for a Committed Borrowing of Base Rate Loans in the amount specified therein.

(b) Effect of Benchmark Transition Event.

(i) Benchmark Replacement. Notwithstanding anything to the contrary herein or in any other Loan Document, upon the occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, the Administrative Agent and the Lead Borrower may amend this Agreement to replace the LIBO Rate with a Benchmark Replacement. Any such amendment with respect to a Benchmark Transition Event will become effective at 5:00 p.m. on the fifth (5th) Business Day after the Administrative Agent has posted such proposed amendment to all Lenders and the Lead Borrower so long as the Administrative Agent has not received, by such time, written notice of objection to such amendment from Lenders comprising the Required Lenders. Any such amendment with respect to an Early Opt-in Election will become effective on the date that Lenders comprising the Required Lenders have delivered to the Administrative Agent written notice that such Required Lenders accept such amendment, notwithstanding anything (including, without limitation, Section 10.01) herein to the contrary. No replacement of the LIBO Rate with a Benchmark Replacement pursuant to this Section 3.03(b) will occur prior to the applicable Benchmark Transition Start Date.

(ii) Benchmark Replacement Conforming Changes. In connection with the implementation of a Benchmark Replacement, the Administrative Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document (including, without limitation, Section 10.01 hereof), any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(iii) Notices; Standards for Decisions and Determinations. The Administrative Agent will promptly notify the Lead Borrower and the Lenders of (1) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date and Benchmark Transition Start Date, (2) the implementation of any Benchmark Replacement, (3) the effectiveness of any Benchmark Replacement Conforming Changes and (4) the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by the Administrative Agent or the Lenders pursuant to this Section 3.03(b) including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in

its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section 3.03(b).

(iv) Benchmark Unavailability Period. Upon the Lead Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, the Lead Borrower may revoke any request for a LIBOR Borrowing of, conversion to or continuation of LIBO Rate Loans to be made, converted or continued during any Benchmark Unavailability Period and, failing that, the Lead Borrower will be deemed to have converted any such request into a request for a Borrowing of or conversion to Base Rate Loans. During any Benchmark Unavailability Period, the component of Base Rate based upon the LIBO Rate will not be used in any determination of the Base Rate.

2. Section 6.02 of the Credit Agreement (Certificates; Other Information) is hereby amended as follows:

a. By amending and restating clause (c) thereof to read in its entirety as follows:

(c) on the second Friday of each Fiscal Month (or more frequently as the Lead Borrower may elect as provided in the proviso at the end of this clause (c)) (or, if such day is not a Business Day, on the next succeeding Business Day):

(i) a certificate in the form of Exhibit G (a "Borrowing Base Certificate") showing the Borrowing Base as of the close of business as of the last day of the immediately preceding Fiscal Month, each Borrowing Base Certificate to be certified as complete and correct by a Responsible Officer of the Lead Borrower; provided that (i) if Uncapped Excess Availability at any time is less than 12.5% of the Revolving Credit Ceiling or (ii) an Event of Default has occurred and is continuing, such Borrowing Base Certificate shall be delivered on Friday of each week (or, if Friday is not a Business Day, on the next succeeding Business Day), and shall show the Borrowing Base as of the close of business on the immediately preceding Saturday; and

(ii) a schedule of all Eligible Franchise Receivables and Eligible Trade Receivables indicating the aging of each such Account as well as copies of all past due invoices related to Eligible Franchise Receivables issued by the Borrowers to the applicable franchisees not previously provided to the Administrative Agent;

provided, that the Lead Borrower may elect, during the sixty (60) day period commencing on the First Amendment Effective Date, to furnish the Administrative Agent with a Borrowing Base Certificate on the Friday of each week (or, if Friday is not a Business Day, on the next succeeding Business Day), which Borrowing Base Certificate shall show the



Borrowing Base as of the close of business on the immediately preceding Saturday, it being understood and agreed that once such election is made, then the Lead Borrower shall continue to furnish a Borrowing Base Certificate on such weekly basis from the date of such election through the later to occur of the last day of such sixty (60) day period or the date that is sixty (60) days following the date of such election;

- b. By adding the following new paragraph at the end thereof:

The Loan Parties and the Administrative Agent hereby agree that the delivery of the Borrowing Base Certificate through the Portal, subject to the Administrative Agent's authentication process, by such other electronic method as may be approved by the Administrative Agent from time to time in its sole discretion, or by such other electronic input of information necessary to calculate the Borrowing Base as may be approved by the Administrative Agent from time to time in its sole discretion, shall in each case be deemed to satisfy the obligation of the Lead Borrower to deliver such Borrowing Base Certificate, with the same legal effect as if such Borrowing Base Certificate had been manually executed by the Lead Borrower and delivered to the Administrative Agent.

3. Section 6.13 of the Credit Agreement (Cash Management) is hereby amended by adding the following new clause (h) at the end thereof:

(h) The Loan Parties shall not permit cash or cash equivalents in an aggregate amount in excess of \$75,000,000 (other than (i) operating cash and (ii) cash necessary for the Loan Parties to satisfy in the ordinary course of their business the current liabilities incurred by them in the ordinary course of their business and without acceleration of the satisfaction of such current liabilities) to accumulate and be maintained in the deposit or investment accounts of the Loan Parties and their Subsidiaries (it being understood and agreed that all such excess amounts shall be remitted to the Administrative Agent for application to the Loans then outstanding); provided, however, that (x) this Section 6.13(h) shall not restrict amounts maintained in deposit accounts of Subsidiaries, which accounts and Subsidiaries are located in and organized in Asia, so long as such amounts are permitted to be maintained in such accounts and Subsidiaries pursuant to the terms of this Agreement, and (y) the Loan Parties' obligations under this Section 6.13(h) shall be suspended if and for so long as there are no Loans outstanding.

4. Section 6.17 of the Credit Agreement (Further Assurances) is hereby amended as follows:

- a. By adding the following new sentence to the end of clause (e) thereof:

Notwithstanding anything to the contrary contained herein (including this Section 6.17 and Section 10.01) or in any other Loan Document, (x) the Collateral Agent shall not accept delivery of any Mortgage from any Loan

Party unless each of the Lenders has received forty-five (45) days' prior written notice thereof and the Collateral Agent has received confirmation from each Lender that such Lender has completed its flood insurance diligence, has received copies of all flood insurance documentation and has confirmed that flood insurance compliance has been completed as required by the Flood Insurance Laws or as otherwise satisfactory to such Lender, and (y) at any time that the Real Estate or any other real property is included in the Collateral, no addition, increase, renewal or extension of any Loan, Letter of Credit or Commitment hereunder shall be consummated until the completion of flood due diligence, documentation and coverage as required by the Flood Insurance Laws or as otherwise satisfactory to all Revolving Credit Lenders.

b. By adding the following new clause (f) to the end thereof:

(f) Notwithstanding anything to the contrary contained herein (including this Section 6.17) or in any other Loan Document, the Agents shall not accept delivery of any joinder to any Loan Document with respect to any Subsidiary of any Loan Party that is not a Loan Party, if such Subsidiary that qualifies as a "legal entity customer" under the Beneficial Ownership Regulation unless such Subsidiary has delivered a Beneficial Ownership Certification in relation to such Subsidiary and the Administrative Agent has completed its Patriot Act searches, OFAC/PEP searches, Canadian AML Legislation searches (if applicable), and customary individual background checks for such Subsidiary, the results of which shall be satisfactory to the Administrative Agent.

5. Section 9.09 of the Credit Agreement (Collateral and Guaranty Matters) is hereby amended by adding the following new paragraph at the end thereof:

Notwithstanding the provisions of this Section 9.09, the Collateral Agent shall be authorized, without the consent of any Lender and without the requirement that an asset sale consisting of the sale, transfer or other disposition having occurred, to release any security interest in any building, structure or improvement located in an area determined by the Federal Emergency Management Agency to have special flood hazards.

6. Section 10.10 of the Credit Agreement (Counterparts; Integration; Effectiveness) is hereby amended and restated to read in its entirety as follows:

10.10 Counterparts; Integration; Effectiveness

7. .

(a) This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among

the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.10, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy, pdf or other electronic transmission shall be as effective as delivery of a manually executed counterpart of this Agreement.

(b) Without limiting the provisions of clause (a) above, this Agreement and any notices delivered under this Agreement, may be executed by means of (a) an electronic signature that complies with the federal Electronic Signatures in Global and National Commerce Act, state enactments of the Uniform Electronic Transactions Act, or any other relevant and applicable electronic signatures law; (b) an original manual signature; or (c) a faxed, scanned, or photocopied manual signature. Each electronic signature or faxed, scanned, or photocopied manual signature shall for all purposes have the same validity, legal effect, and admissibility in evidence as an original manual signature. The Administrative Agent reserves the right, in its sole discretion, to accept, deny, or condition acceptance of any electronic signature on this Agreement or on any notice delivered to the Administrative Agent under this Agreement.

8. Article X of the Credit Agreement is hereby amended by adding the following new Section 10.28:

10.28 Acknowledgment Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for Swap Contracts or any other agreement or instrument that is a QFC (such support, “QFC Credit Support” and each such QFC a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States): In the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support

(and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States.

9. The Credit Agreement (including, without limitation, Schedule 10.02 thereof) is hereby amended by replacing each reference to any Agent's address of One Boston Place, 18th Floor, Boston, Massachusetts 02108 with such Agent's address of 125 High Street, 11th Floor, Boston, Massachusetts 02110.
10. The Credit Agreement is hereby amended by deleting Schedule 2.01 (Commitments and Applicable Percentages) in its entirety and replacing it with the Schedule 2.01 annexed hereto as to Annex A.
11. The Credit Agreement is hereby amended by deleting Exhibit G (Form of Borrowing Base Certificate) in its entirety and replacing it with the Schedule 2.01 annexed hereto as to Annex B.

i. Exercise of Increase in Commitments. The Loan Parties hereby acknowledge and agree that (i) the increase in the Aggregate Commitments contemplated by this First Amendment constitutes, in the amount of \$35,000,000, the exercise of a "Commitment Increase" under and as defined in the Credit Agreement, and (ii) from the First Amendment Effective Date until the day immediately preceding the first anniversary thereof, the maximum amount of additional Commitment Increases permitted under the Credit Agreement, subject to the terms thereof, is \$15,000,000. Notwithstanding the foregoing, from and after the reduction of the Aggregate Commitments to \$325,000,000 on the first anniversary of the First Amendment Effective Date, the Lead Borrower shall be permitted, from time to time, to request an increase in the Aggregate Commitments by an amount not exceeding \$50,000,000 in the aggregate as and to the extent provided in Section 2.15 of the Credit Agreement.

i. Borrowing Base Calculations. The parties hereto acknowledge and agree that, as provided in the Credit Agreement, for purposes of determining the Borrowing Base, NRLV of Inventory shall be calculated as determined from time to time by an independent appraiser engaged by the Administrative Agent, which determination shall, except as otherwise agreed by the Administrative Agent and such appraiser, be made on a calendar month basis and shall be applied to such Inventory based on each applicable Fiscal Month (or, to the extent provided in Section 6.02(c)(i) of the Credit Agreement, on each applicable week), in each case consistent with historical practices.

3. Ratification of Loan Documents; Waiver of Claims.

- i. Except as otherwise expressly provided herein, all terms and conditions of the Credit Agreement and the other Loan Documents remain in full force and effect. The Loan Parties hereby ratify, confirm, and reaffirm (i) all Loan Documents as amended hereby, and (ii) that all representations and warranties of the Loan Parties contained in the Credit Agreement or any other Loan Document are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date.
  - ii. Each of the Loan Parties hereby acknowledges and agrees that there is no basis or set of facts on the basis of which any amount (or any portion thereof) owed by the Loan Parties under the Loan Documents could be reduced, offset, waived, or forgiven, by rescission or otherwise; nor is there any claim, counterclaim, offset, or defense (or other right, remedy, or basis having a similar effect) available to the Loan Parties with regard thereto; nor is there any basis on which the terms and conditions of any of the Obligations could be claimed to be other than as stated on the written instruments which evidence such Obligations.
  - iii. Each of the Loan Parties hereby acknowledges and agrees that it has no offsets, defenses, claims, or counterclaims against the Agents or any Lender, or any of their respective affiliates, predecessors, successors, or assigns, or any of their respective officers, directors, employees, attorneys, or representatives, with respect to the Obligations, or otherwise, and that if any Loan Party now has, or ever did have, any offsets, defenses, claims, or counterclaims against the Agents or any Lender, or their respective affiliates, predecessors, successors, or assigns, or their respective officers, directors, employees, attorneys, or representatives, whether known or unknown, at law or in equity, from the beginning of the world through this date and through the time of execution of this First Amendment, all of them are hereby expressly **WAIVED**, and each of the Loan Parties hereby **RELEASES** the Agents and each Lender and their respective officers, directors, employees, attorneys, representatives, affiliates, predecessors, successors, and assigns from any liability therefor.
4. Conditions to Effectiveness. This First Amendment shall not be effective until each of the following conditions precedent has been fulfilled to the reasonable satisfaction of the Administrative Agent:
- iv. The Administrative Agent shall have received counterparts of this First Amendment duly executed and delivered by each of the parties hereto and thereto.
  - v. The Administrative Agent shall have received a Borrowing Base Certificate dated as of the First Amendment Effective Date in form and substance satisfactory to the Administrative Agent.
  - vi. The Borrowers shall have delivered to the Administrative Agent a certificate of each Loan Party dated as of the First Amendment Effective Date (in sufficient

copies for each U.S. Lender) signed by a Responsible Officer of such Loan Party (A) certifying and attaching the resolutions adopted by such Loan Party approving or consenting to the transactions contemplated by this First Amendment and the other Loan Documents (including, without limitation, the increase to the Aggregate Commitments referred to herein (the “Commitment Increase”)) (or, in the case of the Lead Borrower, a ratification of the resolutions authorizing such transactions provided in connection with the Credit Agreement and a certification that the Board of Directors of the Lead Borrower has approved the execution, delivery and performance of this First Amendment and has authorized the Commitment Increase), and (B) in the case of the Borrowers, certifying that, before and after giving effect to such transactions, (1) the representations and warranties contained in Article V and the other Loan Documents are true and correct on and as of the First Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes hereof, the representations and warranties contained in subsections (a) and (b) of Section 5.05 of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01 of the Credit Agreement, and (2) no Default or Event of Default exists or would arise therefrom.

- vii. After giving effect to this First Amendment, no Default or Event of Default shall have occurred and be continuing.
- viii. There shall be no material misstatements in the written materials furnished by the Loan Parties to the Agents or the Lenders prior to closing of this First Amendment, or in the representations or warranties of the Loan Parties made in the Credit Agreement. The Administrative Agent shall be satisfied, in its reasonable discretion, that any financial statements delivered to it fairly present the business and financial condition of the Borrowers and their Subsidiaries, taken as a whole, as of the date thereof and for the periods covered thereby, and that there has been no material adverse change in the assets, business, financial condition or income of the Borrowers and their subsidiaries, taken as a whole, since the date of the most recent Financial Statements delivered to the Administrative Agent. The Administrative Agent shall be satisfied, in its reasonable discretion, that any projections delivered to it represent the Borrowers’ good faith estimate of their future financial performance and were prepared on the basis of assumptions believed by the Borrowers to be fair and reasonable in light of current business conditions at the time such projections were prepared.
- ix. The Borrowers shall have paid the fees contemplated to be paid on the First Amendment Effective Date pursuant to the Fee Letter.
- x. If any Loan Party or any of its Subsidiaries owns any Margin Stock, Borrowers shall have delivered to the Administrative Agent an updated Form U-1 (with sufficient additional originals thereof for each Lender), duly executed and delivered by the Borrowers, together with such other documentation as the

Administrative Agent shall reasonably request, in order to enable the Administrative Agent and the Lenders to comply with any of the requirements under Regulations T, U or X of the FRB.

- xi. There shall not have occurred since February 1, 2020 (a) any event or condition that has had or could reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect or (b) any action, suit, investigation or proceeding pending or, to the knowledge of the Borrowers, threatened in any court or before any arbitrator or governmental authority that could reasonably be expected to have a Material Adverse Effect.
- xii. The Agents shall have been reimbursed by the Loan Parties for all reasonable invoiced costs and expenses of the Agents (including, without limitation, reasonable attorneys' fees) in connection with the preparation, negotiation, execution, and delivery of this First Amendment and related documents. The Loan Parties hereby acknowledge and agree that the Administrative Agent may charge the Loan Account to pay such costs and expenses.
- xiii. The Borrowers shall prepay any Committed Loans outstanding on the First Amendment Effective Date (and pay any additional amounts required pursuant to Section 3.05 of the Credit Agreement) to the extent necessary to keep the outstanding Committed Loans ratable with any revised Applicable Percentages arising from any nonratable increase in the Commitments under the Credit Agreement.
- xiv. The Agents shall have received, in form and substance reasonably satisfactory to the Agents, the documents, instruments and agreements described on Annex C hereto.

5. Miscellaneous.

- xv. This First Amendment may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, and all of which together shall constitute one instrument. Delivery of an executed counterpart of a signature page to this First Amendment by telecopy or other electronic transmission shall be effective as delivery of a manually executed counterpart of this First Amendment.
- xvi. This First Amendment expresses the entire understanding of the parties with respect to the transactions contemplated hereby. No prior negotiations or discussions shall limit, modify, or otherwise affect the provisions hereof.
- xvii. Any determination that any provision of this First Amendment or any application hereof is invalid, illegal or unenforceable in any respect and in any instance shall not affect the validity, legality, or enforceability of such provision in any other instance, or the validity, legality, or enforceability of any other provisions of this First Amendment.

- xviii. The Loan Parties represent and warrant that they have consulted with independent legal counsel of their selection in connection with this First Amendment and are not relying on any representations or warranties of the Agents or the Lenders or their counsel in entering into this First Amendment.
- xix. THIS FIRST AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

[Signature Pages Follow]



IN WITNESS WHEREOF, the parties have hereunto caused this First Amendment to be executed and their seals to be hereto affixed as of the date first above written.

**THE CHILDREN'S PLACE, INC.**, as Lead Borrower and as a Borrower

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE CHILDREN'S PLACE SERVICES COMPANY, LLC**, as a Borrower

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE CHILDREN'S PLACE (CANADA), LP**, by its general partner, TCP INVESTMENT CANADA II CORP., as a Canadian Borrower

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE CHILDRENSPLACE.COM, INC.**, as a Guarantor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE CHILDREN'S PLACE INTERNATIONAL, LLC**, as a Guarantor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE CHILDREN'S PLACE CANADA HOLDINGS, INC.**, as a Guarantor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TCP IH II, LLC**, as a Guarantor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TCP REAL ESTATE HOLDINGS, LLC**, as a Guarantor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TCP INTERNATIONAL PRODUCT HOLDINGS, LLC**, as a Guarantor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TCP INVESTMENT CANADA II CORP.**, as a Guarantor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**WELLS FARGO BANK, NATIONAL ASSOCIATION** (successor by merger to Wells Fargo Retail Finance, LLC), as Administrative Agent, Collateral Agent, L/C Issuer, Swing Line Lender, and as a Lender

By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**WELLS FARGO CAPITAL FINANCE CORPORATION CANADA**, as L/C  
Issuer, as Swing Line Lender and as a Canadian Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BANK OF AMERICA, N.A.**, as a U.S. Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BANK OF AMERICA, N.A.** (acting through its Canada branch), as a Canadian  
Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HSBC BANK (USA), N.A.**, as a U.S. Lender and as a Canadian Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**JPMORGAN CHASE BANK, N.A.**, as a U.S Lender

By: \_\_\_\_\_ Name: \_\_\_\_\_  
\_\_\_\_\_ Title: \_\_\_\_\_

**JPMORGAN CHASE BANK, N.A., TORONTO BRANCH**, as a Canadian Lender

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature Page to First Amendment to Amended and Restated Credit Agreement

## ANNEX A

### Schedule 2.01

#### Commitments and Applicable Percentages

From the First Amendment Effective Date until the day immediately preceding the first anniversary thereof (as such amounts may be modified in accordance with the terms of the Credit Agreement):

<b>Lender</b>	<b>U.S. Commitment</b>	<b>U.S. Applicable Percentage</b>	<b>Canadian Commitment</b>	<b>Canadian Applicable Percentage</b>	<b>Total Commitment</b>	<b>Applicable Percentage</b>
Wells Fargo Bank, National Association	\$165,000,000 <sup>1</sup>	45.8333333333%	\$0	44.0000000000%	\$165,000,000 <sup>1</sup>	45.8333333333%
Wells Fargo Capital Finance Corporation Canada	\$0	See Note 1 below	\$11,000,000	See Note 1 below	See Note 1 below	See Note 1 below
Bank of America, N.A.	\$97,500,000 <sup>2</sup>	27.0833333333%	\$0	30.0000000000%	\$97,500,000 <sup>2</sup>	27.0833333333%
Bank of America, N.A. (acting through its Canada branch)	\$0	See Note 2 below	\$7,500,000	See Note 2 below	See Note 2 below	See Note 2 below
JPMorgan Chase Bank, N.A.	\$52,500,000 <sup>3</sup>	14.5833333333%	\$0	14.0000000000%	\$52,500,000 <sup>3</sup>	14.5833333333%
JPMorgan Chase Bank, N.A., Toronto Branch	\$0	See Note 3 below	\$3,500,000	See Note 3 below	See Note 3 below	See Note 3 below
HSBC Bank USA, National Association	\$45,000,000 <sup>4</sup>	12.5000000000%	\$3,000,000 <sup>4</sup>	12.0000000000%	\$45,000,000 <sup>4</sup>	12.5000000000%
<b>TOTAL</b>	<b>\$360,000,000</b>	<b>100.0000000000%</b>	<b>\$25,000,000</b>	<b>100.0000000000%</b>	<b>\$360,000,000</b>	<b>100.0000000000%</b>

The Commitments of certain Lenders may be used by either the Canadian Borrowers or the U.S. Borrowers at any time but are not aggregated. Thus:

Note 1: The aggregate Commitments of Wells Fargo Bank, National Association and Wells Fargo Capital Finance Corporation Canada total \$165,000,000. Any usage by the Canadian Borrowers of the Canadian Commitment of Wells Fargo Capital Finance Corporation Canada will reduce dollar for dollar the amounts available to be borrowed under the U.S. Commitment of Wells Fargo Bank, National Association. Similarly, any amounts borrowed by the U.S. Borrowers from Wells Fargo Bank, National Association in excess of \$154,000,000 will reduce dollar for dollar the amounts available to be borrowed under the Canadian Commitment of Wells Fargo Capital Finance Corporation Canada.

Note 2: The aggregate Commitments of Bank of America, N.A. and Bank of America, N.A. (acting through its Canada branch) total \$97,500,000. Any usage by the Canadian Borrowers of the Canadian Commitment of Bank of America, N.A. (acting through its Canada branch) will reduce dollar for dollar the amounts available to be borrowed under the U.S. Commitment of Bank of America, N.A. Similarly, any amounts borrowed by the U.S. Borrowers from Bank of America, N.A. in excess of \$90,000,000 will reduce

dollar for dollar the amounts available to be borrowed under the Canadian Commitment of Bank of America, N.A. (acting through its Canada branch).

Note 3: The aggregate Commitments of JPMorgan Chase Bank, N.A. and JPMorgan Chase Bank, N.A., Toronto Branch total \$52,500,000. Any usage by the Canadian Borrowers of the Canadian Commitment of JPMorgan Chase Bank, N.A., Toronto Branch will reduce dollar for dollar the amounts available to be borrowed under the U.S. Commitment of JPMorgan Chase Bank, N.A. Similarly, any amounts borrowed by the U.S. Borrowers from JPMorgan Chase Bank, N.A. in excess of \$42,000,000 will reduce dollar for dollar the amounts available to be borrowed under the Canadian Commitment of JPMorgan Chase Bank, N.A., Toronto Branch.

Note 4: The aggregate Commitments of HSBC Bank USA, National Association total \$45,000,000. Any usage by the Canadian Borrowers of the Canadian Commitment of HSBC Bank USA, National Association will reduce dollar for dollar the amounts available to be borrowed under the U.S. Commitment of HSBC Bank USA, National Association. Similarly, any amounts borrowed by the U.S. Borrowers from HSBC Bank USA, National Association in excess of \$36,000,000 will reduce dollar for dollar the amounts available to be borrowed under the Canadian Commitment of HSBC Bank USA, National Association.

From and after the first anniversary of the First Amendment Effective Date (as such amounts may be modified in accordance with the terms of the Credit Agreement):

<b>Lender</b>	<b>U.S. Commitment</b>	<b>U.S. Applicable Percentage</b>	<b>Canadian Commitment</b>	<b>Canadian Applicable Percentage</b>	<b>Total Commitment</b>	<b>Applicable Percentage</b>
Wells Fargo Bank, National Association	\$143,000,000 <sup>1</sup>	44.000000000%	\$0	44.000000000%	\$143,000,000 <sup>1</sup>	44.000000000%
Wells Fargo Capital Finance Corporation Canada	\$0	See Note 1 below	\$11,000,000	See Note 1 below	See Note 1 below	See Note 1 below
Bank of America, N.A.	\$97,500,000 <sup>2</sup>	30.000000000%	\$0	30.000000000%	\$97,500,000 <sup>2</sup>	30.000000000%
Bank of America, N.A. (acting through its Canada branch)	\$0	See Note 2 below	\$7,500,000	See Note 2 below	See Note 2 below	See Note 2 below
JPMorgan Chase Bank, N.A.	\$45,500,000 <sup>3</sup>	14.000000000%	\$0	14.000000000%	\$45,500,000 <sup>3</sup>	14.000000000%
JPMorgan Chase Bank, N.A., Toronto Branch	\$0	See Note 3 below	\$3,500,000	See Note 3 below	See Note 3 below	See Note 3 below
HSBC Bank USA, National Association	\$39,000,000 <sup>4</sup>	12.000000000%	\$3,000,000 <sup>4</sup>	12.000000000%	\$39,000,000 <sup>4</sup>	12.000000000%
<b>TOTAL</b>	<b>\$325,000,000</b>	<b>100.000000000%</b>	<b>\$25,000,000</b>	<b>100.000000000%</b>	<b>\$325,000,000</b>	<b>100.000000000%</b>

The Commitments of certain Lenders may be used by either the Canadian Borrowers or the U.S. Borrowers at any time but are not aggregated. Thus:

Note 1: The aggregate Commitments of Wells Fargo Bank, National Association and Wells Fargo Capital Finance Corporation Canada total \$143,000,000. Any usage by the Canadian Borrowers of the Canadian Commitment of Wells Fargo Capital Finance Corporation Canada will reduce dollar for dollar the amounts available to be borrowed under the U.S. Commitment of Wells Fargo Bank, National Association. Similarly, any amounts borrowed by the U.S. Borrowers from Wells Fargo Bank, National Association in excess of \$132,000,000 will reduce dollar for dollar the amounts available to be borrowed under the Canadian Commitment of Wells Fargo Capital Finance Corporation Canada.

Note 2: The aggregate Commitments of Bank of America, N.A. and Bank of America, N.A. (acting through its Canada branch) total \$97,500,000. Any usage by the Canadian Borrowers of the Canadian Commitment of Bank of America, N.A. (acting through its Canada branch) will reduce dollar for dollar the amounts available to be borrowed under the U.S. Commitment of Bank of America, N.A. Similarly, any amounts borrowed by the U.S. Borrowers from Bank of America, N.A. in excess of \$90,000,000 will reduce dollar for dollar the amounts available to be borrowed under the Canadian Commitment of Bank of America, N.A. (acting through its Canada branch).

Note 3: The aggregate Commitments of JPMorgan Chase Bank, N.A. and JPMorgan Chase Bank, N.A., Toronto Branch total \$45,500,000. Any usage by the Canadian Borrowers of the Canadian Commitment of JPMorgan Chase Bank, N.A., Toronto Branch will reduce dollar for dollar the amounts available to be borrowed under the U.S. Commitment of JPMorgan Chase Bank, N.A. Similarly, any amounts borrowed by the U.S. Borrowers from JPMorgan Chase Bank, N.A. in excess of \$42,000,000 will reduce dollar for dollar the amounts available to be borrowed under the Canadian Commitment of JPMorgan Chase Bank, N.A., Toronto Branch.

Note 4: The aggregate Commitments of HSBC Bank USA, National Association total \$39,000,000. Any usage by the Canadian Borrowers of the Canadian Commitment of HSBC Bank USA, National Association will reduce dollar for dollar the amounts available to be borrowed under the U.S. Commitment of HSBC Bank USA, National Association. Similarly, any amounts borrowed by the U.S. Borrowers from HSBC Bank USA, National Association in excess of \$36,000,000 will reduce dollar for dollar the amounts available to be borrowed under the Canadian Commitment of HSBC Bank USA, National Association.





Annex B

Updated Exhibit G (Form of Borrowing Base Certificate)

[see attached]

Annex C

First Amendment Closing Deliverables

Secretary's Certificates for each Loan Party with respect to Organization Documents (including good standing certificates)
Real Estate Documents with respect to Alabama Property
Appraisal
Flood Zone Certification
Updated UCC, Tax Lien, ERISA and Judgment Lien Searches
Updated Canadian corporate, PPSA/RDPRM, Bank Act, executions, bankruptcy, insolvency searches in each Canadian province
Enforceability, Due Authorization and Perfection Opinion of Greenberg Traurig LLP (including Virginia)
Evidence of Insurance
Fee Letter described in clause (ii) of such definition

## EXHIBIT 10.2

May 25, 2020

Leah Swan

Dear Leah,

On behalf of The Children's Place, it is my pleasure to confirm your promotion to the position of EVP, Chief Administrative Officer reporting to me. Details of your promotion are as follows:

- EFFECTIVE DATE: May 29, 2020
- ANNUAL BASE SALARY: \$750,000.00
  
- BONUS: You will be eligible to participate in our annual management incentive plan. Your target bonus will be 100% of your annual salary, and, among other things, you must be employed on the date of the bonus payout to be eligible to receive your bonus. Bonus payments are determined by Company performance and factor in personal performance, and are subject to the terms of the Management Incentive Plan. Please review the Annual Management Incentive Plan summary for additional details.
  
- PROMOTION EQUITY AWARD: Based upon your position with the Company, you will receive an equity award. All equity awards are subject to the Company's 2011 Equity Incentive Plan ("2011 Equity Plan") and must be awarded in accordance with the Company's Policy Regarding the Award of Equity-Based Incentives to Executives Officers and Other Employees (the "Equity Award Policy").
  - a. Value of Award: An award valued at \$2,000,000.00 with the number of shares constituting the award based on the closing stock price on the Grant Date, as defined below.
  - b. Types of Awards. The award will be in the form of Time-Based RSUs.
  - c. Grant Date. The grant date for these awards will be May 29, 2020 (the "Grant Date").
  - d. Vesting of Time-Based RSUs. The Time-Based RSUs will vest ratably over two years on each anniversary of the Grant Date, subject to your continued employment on the applicable vesting dates.
  
- ANNUAL EQUITY AWARD: **In 2021, you will be eligible to receive an equity award under the 2011 Equity Plan at the same time as other associates in the Company, subject to the approval of the Compensation Committee of the Board of Directors and the Equity Award Policy.**
  
- BENEFITS: You remain eligible for benefits available to other associates at your level.
  
- CHANGE IN CONTROL: Subject to your execution and delivery to the Company of a Change in Control Severance Agreement (the "Change in Control Severance Agreement"), you will receive severance if you are terminated other than for Cause (as defined in the Change in Control

Severance Agreement) or resign for Good Reason (as defined in the Change in Control Severance Agreement) in anticipation of, or subsequent to, a Change in Control (as defined in the Change in Control Severance Agreement). Under the Change in Control Severance Agreement, the severance period is 24 months. During the severance period, you will continue to be covered under the Company's health plan. The terms of the equity award agreements are subject to change by the Compensation Committee at any time. Unless the Change in Control Severance Agreement is otherwise terminated earlier pursuant to its terms, it will remain in force for two years from the execution thereof and it will renew for additional one year periods unless the Company provides you with notice of nonrenewal at least 90 days prior to the second anniversary date thereof or, if renewed, at least 90 days prior to each subsequent renewal.

- **SEVERANCE:** In the event that you are terminated by the Company without Cause (as defined in the Change in Control Severance Agreement), the amount you will be entitled to will be the greater of (i) eighteen month's severance in the form of salary continuation payments at your then current salary or (ii) the amount available to other associates at your level under the Company's severance guidelines, provided, in all cases, that such severance shall automatically and immediately be reduced by the amount of salary or other like compensation you receive from employment or engagement as an independent contractor, during the severance period, with any other person or entity. Further, the Company agrees to waive the applicable premium cost that you would otherwise be required to pay for continued group health benefit coverage under COBRA for the corresponding period of severance as provided above unless otherwise prohibited under applicable law. All such payments are intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations there under such that no payment made, or benefit provided, to you hereunder shall be subject to an "additional tax" within the meaning of the Code. Receipt of the payments set forth in this paragraph are conditioned upon the execution and delivery of an agreement containing a release of claims, an agreement of confidentiality, and an agreement of non-solicitation and non-competition for a period of 12 months following termination in such form as the Company shall reasonably determine, which release of claims shall, to the extent permitted by law, waive all claims and actions against the Company and its officers, directors, affiliates and such other related parties and entities as the Company chooses to include in the release.
- **WITHHOLDING:** The Company is authorized to withhold from any payment to be made hereunder to you such amounts for income tax, social security, unemployment compensation, excise taxes and other taxes and penalties as in the Company's judgment is required to comply with applicable laws and regulations.
- **409A COMPLIANCE:** Notwithstanding anything in this offer letter to the contrary, if you are a "specified employee" (determined in accordance with Section 409A of the Code and Treasury Regulation Section 1.409A-3(i)(2)) as of the termination of your employment with the Company, and, if any payment, benefit or entitlement provided for in this offer letter or otherwise both (i) constitutes a "deferral of compensation" within the meaning of Section 409A of the Code and (ii) cannot be paid or provided in a manner otherwise provided herein or otherwise without subjecting you to additional tax, interest, and/or penalties under Section 409A of the Code, then any such payment, benefit or entitlement that is payable during the first six months following the date of your termination of employment shall be paid or provided to you (or your estate, if applicable) in

a lump sum cash payment (together with interest on such amount during the period of such restriction at a rate, per annum, equal to the applicable federal short-term rate (compounded monthly) in effect under Section 1274(d) of the Code on the date of termination) on the earlier of (x) your death or (y) the first business day of the seventh calendar month immediately following the month in which your termination of employment occurs.

- CONFIDENTIALITY, ETC.: As a condition of your employment, you remain subject to the Company's Confidentiality, Work Product, and Non-solicitation Agreement.
- INDEMNIFICATION/D&O: As an officer of the Company, you will be indemnified on the same terms and conditions, and will be covered by the Company's directors' and officers' insurance coverage as other senior executives of the Company.
- NON-COMPETE: You agree that for a period of twelve (12) months following the date that you are no longer in the employ of the Company or any of its subsidiaries for any reason (the "Separation Date"), you will not, without the express prior written consent of the Company, anywhere, either directly or indirectly, whether alone or as an owner, shareholder, partner, member, joint venturer, officer, director, consultant, independent contractor, agent, employee or otherwise of any company or other business enterprise, assist in, engage in, be connected with or otherwise provide services or advice to, any business that is competitive with that of the Company. A "business that is competitive with that of the Company" is (i) one that designs, manufactures, contracts to manufacture or sells children's apparel, footwear or accessories, or intends so to do, and (ii) without limiting the generality of clause (i) above, any of the following companies, entities, or organizations, or any business enterprise that, directly or indirectly, owns, operates or is affiliated with any of the following companies or brands operated by any of the following companies: Gymboree Group, Inc., Carter's, Inc., Ascena Retail Group, Inc., The Gap, Inc., J. Crew Group, Inc., Target Corporation, Kohl's Corporation, Walmart Inc., Amazon.com, Inc., Hennes & Mauritz AB (H&M), or Zara SA, or, in any case, any of their respective subsidiaries, affiliates or related businesses (a "Competitive Business"). Notwithstanding the foregoing, nothing herein shall be deemed to prohibit your ownership of less than 1% of the outstanding shares of any publicly traded corporation that conducts a Competitive Business.

You acknowledge and agree that the restrictions on the activities in which you may engage that are set forth above, and the location and period of time for which such restrictions apply, are reasonable and necessary to protect the Company's legitimate business interests. You acknowledge and agree that the Company's business is global and, accordingly, the foregoing restrictions cannot be limited to any particular geographic area. You acknowledge and agree that the foregoing restrictions will not prevent you from earning a livelihood.

In consideration for the Company's agreements in this offer letter, you also acknowledge and agree that, in the event that you are no longer in the employ of the Company or any of its subsidiaries for any reason (whether termination of employment is voluntary or involuntary and whether termination of employment is affected by you or by the Company), the foregoing non-competition agreement will remain in full force and effect, and that the Company would not have entered into this offer letter unless such was the case.

- STOCK OWNERSHIP GUIDELINES: As a senior executive of the Company, you will be subject to stock ownership guidelines adopted from time to time by the Compensation Committee of the Company's Board of Directors. Please refer to the Stock Ownership Guidelines for Senior Executives document.
- GOVERNING LAW: This offer letter shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflict of laws principles.

Unless specifically stated in this offer letter, all terms and conditions of your employment are as provided by the policies and practices of The Children's Place, Inc. and its affiliates as in effect from time to time.

This offer of employment is not to be construed as an employment contract, expressed or implied, and it is specifically understood that your employment is at-will (this means that either you or the Company may terminate your employment at any time with or without cause) and further that there is no intent on the part of the Company or yourself, for continued employment of any specified period of time.

Please indicate your acceptance of and agreement with the foregoing by executing this offer letter and returning a copy to me.

Congratulations on your promotion Leah! We are confident that you will make a strong contribution to our continued growth and success.

Sincerely,

\_\_\_\_\_  
Jane Elfers  
President & Chief Executive Officer

Agreed and Accepted:



05/29/20

Leah Swan    Date

**PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD AGREEMENT THE CHILDREN'S PLACE, INC.**

This Performance-Based Restricted Stock Unit Award Agreement (the "Agreement"), effective as of \_\_\_\_\_, 20\_\_ (the "Award Date"), is entered into by and between The Children's Place, Inc., a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Awardee").

WHEREAS, the Company desires to provide the Awardee an incentive to participate in the success and growth of the Company through the opportunity to earn a proprietary interest in the Company;

WHEREAS, to give effect to the foregoing intentions, the Company desires to grant the Awardee the right to receive shares of the Company's common stock, par value \$0.10 per share (the "Common Stock"), pursuant to Section 9 of the 2011 Equity Incentive Plan of the Company (the "Plan"), subject to the terms and conditions set forth herein; and

WHEREAS, capitalized terms not otherwise defined herein or in Exhibit A hereto shall have the meanings ascribed thereto in the Plan.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties hereto agree as follows:

1. Award. Subject to the terms and conditions set forth in this Agreement, and as otherwise provided in the Plan, the Company shall issue and deliver to the Awardee the number of shares of Common Stock, if any, earned in accordance with Exhibit A (the "Performance Shares") in \_\_\_\_\_, but in no event later than \_\_\_\_\_ (the "Vesting Date"), provided that a determination has been made by the Board or the Committee that the performance targets and conditions set forth in Exhibit A have been achieved, and at what levels those performance targets and conditions have been achieved (by reference to Exhibit A) (a "Determination"), and provided further that the Awardee is in the employ of the Company or its subsidiaries on the Vesting Date. Notwithstanding the foregoing, in the event that on the Vesting Date, the number of shares of Common Stock that remain available for issuance under the Plan that are not otherwise allocated to cover (x) the Target Number of Performance Shares under this Award and for all other outstanding Performance-Based Restricted Stock Unit awards having the same Restricted Period as this Award (the "Similar PBRSU Awards") or (y) shares underlying any other then outstanding award under the Plan (the "Remaining Available Shares"), is insufficient to deliver the number of earned Performance Shares (in the aggregate for this Award and for all other Similar PBRSU Awards), then a Prorata Portion (as defined below) of the Excess Earned Shares (as defined below) shall be settled in cash at the Fair Market Value thereof on the Vesting Date at the same time that the Target Number of Performance Shares are delivered hereunder to the Awardee, all as otherwise subject to the terms hereof and of the Plan. For purposes hereof: (i) the "Excess Earned Shares" are the number of earned Performance Shares under this Award, if any, that exceed the Target Number of Performance Shares for this Award; (ii) the "Aggregate Excess Earned Shares" are the number of earned Performance Shares under this Award and under all outstanding Similar PBRSU



Awards; and (iii) the “Prorata Portion” is one (1) minus a fraction, the numerator of which is the number of Remaining Available Shares, and the denominator of which is the Aggregate Excess Earned Shares, with such result represented as a percentage.

2. Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan and any interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Any capitalized terms not otherwise defined in this Agreement shall have the definitions set forth in the Plan. The Committee shall have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations under them, and its decision shall be binding and conclusive upon the Awardee and his or her legal representative in respect of any questions arising under the Plan or this Agreement. By signing this Agreement, Awardee acknowledges that he or she has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan (and this Agreement).

3. Termination of Employment Due to Death, Disability or Retirement. In the event that Awardee’s employment with the Company and/or its subsidiaries terminates due to Awardee’s death, Disability or Retirement (i) prior to a Determination, then the performance targets in Exhibit A shall be deemed to have been achieved at target, and the conditions set forth in Exhibit A shall be deemed to have been satisfied, and, therefore, the Target Number of Performance Shares (as set forth in Exhibit A) shall immediately vest and be delivered to the Awardee (or Awardee’s estate, as applicable) within 10 days following the date of such termination of employment, provided that if such termination of employment occurs on or prior to the date on which 50% of the Performance Period (as set forth in Exhibit A) has elapsed, only 50% of the Target Number of Performance Shares shall immediately vest and be so delivered or (ii) after a Determination, then any Performance Shares that are determined to have been earned by Awardee in accordance with Exhibit A shall, to the extent not previously delivered to Awardee, vest and be delivered to Awardee (or Awardee’s estate, as applicable) within 10 days following the date of such termination of employment.

4. Termination of Service. Except as otherwise provided in Sections 3 above or 5 below, upon termination of the Awardee’s employment with the Company and its subsidiaries, this Award shall terminate and all of Awardee’s rights to receive Performance Shares and dividend equivalents otherwise credited pursuant to Section 6 below shall be forfeited immediately.

5. Termination and Change in Control.

(a) Prior to Determination of Performance. Notwithstanding any provision herein to the contrary, if a Change in Control occurs prior to a Determination, then immediately prior to such Change in Control, the Target Number of Performance Shares (as set forth in Exhibit A) shall automatically convert into service-based Performance Shares, and such service-based Performance Shares shall vest and be immediately delivered to the Awardee on the Vesting Date (without regard to achievement of any of the Performance Requirements set forth on Exhibit A), provided that the Awardee is in the employ of the Company or its subsidiaries on the Vesting Date. Notwithstanding any provision herein to the contrary, in the event that an

Involuntary Termination Event occurs either (i) within six (6) months prior to or (ii) within one (1) year following the occurrence of a Change in Control, the outstanding unvested service-based Performance Shares shall immediately become fully vested and be immediately delivered to the Awardee (in the case of an Involuntary Termination occurring prior to the occurrence of a Change in Control, such delivery shall be made immediately prior to the occurrence of the Change in Control, and in the case of an Involuntary Termination occurring after a Change in Control, such delivery shall be made immediately following the occurrence of the Involuntary Termination).

(b) After Determination of Performance. In the event that after a Determination, an Involuntary Termination Event and a Change in Control occur, then the number of Performance Shares determined to have been earned shall immediately vest and shall be immediately delivered to the Awardee.

(c) Involuntary Termination Event. The term “Involuntary Termination Event” shall mean (i) the involuntary termination of the Awardee’s employment with the Company or any of its subsidiaries (other than for Cause, death or Disability) or (ii) the Awardee’s resignation of employment with the Company or any of its subsidiaries for Good Reason.

(d) Good Reason. The term “Good Reason” shall mean the occurrence of any of the following without the Awardee’s prior written consent: (i) a material reduction in the Awardee’s then current base salary or target bonus percentage, (ii) a material diminution of the Awardee’s duties or responsibilities, (iii) the assignment to the Awardee of duties or responsibilities which are materially inconsistent with the Awardee’s previous duties or responsibilities, or (iv) relocation of the Awardee’s principal work location to a location more than thirty (30) miles from the Awardee’s previous principal work location; provided, however, that no such occurrence shall constitute Good Reason unless the Awardee provides the Company with written notice of the matter within thirty (30) days after the Awardee first has knowledge of the matter and, in the case of clauses (i), (ii) or (iii) hereof, the Company fails to cure such matter within ten (10) days after its receipt of such notice.

6. Dividend Equivalents. The Company shall credit the Awardee in respect of each Performance Share (and each Dividend Equivalent Share (or fraction thereof)) subject to this Award with dividend equivalents in the form of a number of shares of Common Stock (including any fractional shares) (the “Dividend Equivalent Shares”) equal to (i) the amount of each dividend (including extraordinary dividends if so determined by the Committee) declared to other stockholders of the Company in respect of one share of Common Stock divided by (ii) the Fair Market Value of a share of Common Stock on the payment date for the applicable dividend. On the date that Performance Shares are delivered to the Awardee hereunder (whether pursuant to Sections 1, 3 or 5), the Dividend Equivalent Shares in respect of the aggregate number of delivered Performance Shares shall also be delivered to the Awardee, with the aggregate number of such Dividend Equivalent Shares being rounded down to the nearest whole share (but, in any event, no fewer than one share). No dividend equivalents shall be accrued for the benefit of the Awardee with respect to record dates occurring prior to the Award Date, or with respect to record

dates occurring on or after the date, if any, on which the Awardee's rights to receive Performance Shares are forfeited.

7. Transfer Restrictions. Prior to delivery of any Common Stock with respect to the Performance Shares or the Dividend Equivalent Shares, the Awardee shall not be deemed to have any ownership or stockholder rights (including without limitation dividend and voting rights) with respect to such shares, nor may the Awardee sell, assign, pledge or otherwise transfer (voluntarily or involuntarily) this Award, or any of the Performance Shares or any of the Dividend Equivalent Shares prior to delivery thereof.

8. Changes in Capitalization. In the event of (a) any dividend (other than regular cash dividends) or other distribution (whether in the form of cash, shares of Common Stock, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, split-off, spin-off, combination, repurchase or exchange of shares of Common Stock or other securities of the Company, issuance of warrants or other rights to acquire shares of Common Stock or other securities of the Company, or other similar corporate transaction or event that affects the shares of Common Stock, or (b) unusual or nonrecurring events affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or changes in applicable rules, rulings, regulations or other requirements of any governmental body or securities exchange or inter-dealer quotation service, accounting principles or law, such that in any case an adjustment to this Award is determined by the Committee in its sole discretion to be necessary or appropriate, then this Award shall be adjusted in such manner as the Committee may deem equitable in accordance with Section 12 of the Plan.

9. Government Regulations. Notwithstanding anything contained herein to the contrary, the Company's obligation to issue or deliver the Performance Shares (or Dividend Equivalent Shares) or any certificates evidencing such shares shall be subject to the terms of all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

10. Withholding Taxes. Awardee shall be required to pay to the Company or its subsidiary, and the Company or its subsidiary shall have the right (but not the obligation) and is hereby authorized to withhold from amounts payable and/or property deliverable to the Awardee, the amount of any required withholding taxes in respect of the Performance Shares and the Dividend Equivalent Shares, or any other payment or transfer under the Award, and to take such other action as may be necessary in the opinion of the Committee or the Company to satisfy all obligations for the payment of such withholding taxes.

11. Awardee Representations. The Awardee has reviewed with his or her own tax advisors the federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement. The Awardee is relying solely on such advisors and not on any statements or representations of the Company or any of its agents, if any, made to the Awardee. The Awardee understands that the Awardee (and, subject to Section 10 above, not the Company) shall be responsible for the Awardee's own tax liability arising as a result of the transactions contemplated by this Agreement.

12. Clawback/Forfeiture. The Committee may in its sole discretion cancel this Award if the Awardee, without the consent of the Company, while employed by or providing services to the Company or any Affiliate or after termination of such employment or service, violates a non-competition, non-solicitation, non-disparagement, non-disclosure covenant or agreement or otherwise has engaged in or engages in activity that is in conflict with or adverse to the interest of the Company or any Affiliate, including fraud or conduct contributing to any financial restatements or irregularities, as determined by the Committee in its sole discretion. If the Awardee otherwise has engaged in or engages in any activity referred to in the preceding sentence, as determined by the Committee in its sole discretion, the Awardee will forfeit any compensation, gain or other value realized thereafter on the vesting or settlement of this Award, the sale or other transfer of this Award, or the sale of shares of Common Stock acquired in respect of this Award, and must promptly repay such amounts to the Company. If the Awardee receives any amount in excess of what the Awardee should have received under the terms of this Award for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error), all as determined by the Committee in its sole discretion, then the Awardee shall be required to promptly repay any such excess amount to the Company. To the extent required by applicable law (including without limitation Section 302 of the Sarbanes-Oxley Act of 2002 and Section 954 of the Dodd Frank Wall Street Reform and Consumer Protection Act) and/or the rules and regulations of NASDAQ or other securities exchange or inter-dealer quotation system on which the Common Stock is listed or quoted, or if so required pursuant to a written policy adopted by the Company, this Award shall be subject (including on a retroactive basis) to clawback, forfeiture or similar requirements (and such requirements shall be deemed incorporated by reference into this Award and this Agreement). In the event that this Section 12 and/or such written policy is deemed to be unenforceable, then the award of Performance Shares shall be deemed to be unenforceable due to the lack of adequate consideration.

13. Employment. Neither this Agreement nor any action taken hereunder shall be construed as giving the Awardee any right of continuing employment by the Company or its subsidiaries.

14. Notices. Notices or communications to be made hereunder shall be in writing and shall be delivered in person, by registered mail, by confirmed facsimile or by a reputable overnight courier service to the Company at its principal office or to the Awardee at his or her address contained in the records of the Company.

15. Governing Law. This Agreement shall be construed under the laws of the State of Delaware, without regard to conflict of laws principles.

16. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements and understandings relating to the subject matter of this Agreement. Notwithstanding the foregoing, this Agreement and the Award made hereby shall be subject to the terms of the Plan. In the event of a conflict between this Agreement and the Plan, the terms and conditions of the Plan shall control.

17. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company and the Awardee and their respective permitted successors, assigns, heirs, beneficiaries and representatives. This Agreement is personal to the Awardee and may not be assigned by the Awardee without the prior written consent of the Company. Any attempted assignment in violation of this Section shall be null and void.

18. Amendment. This Agreement may be amended or modified only as provided in Section 14 of the Plan or by a written instrument executed by both the Company and the Awardee.

19. Survivorship. This Agreement shall continue in effect until there are no further rights or obligations of the parties outstanding hereunder and shall not be terminated by either party without the express written consent of both parties.

\* \* \*

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement or caused their duly authorized officer to execute this Agreement as of the date first written above.

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

By:   Name: Leah SwanTitle: Chief Administrative Officer

**AWARDEE**

By:   Name:   Date:

**Exhibit A**

- (a) Awardee's Name: \_\_\_\_\_
- (b) Award Date: \_\_\_\_\_, 2020
- (c) Performance Period: the aggregate period commencing on \_\_\_\_\_
- (d) Target Number of Performance Shares available to be earned: \_\_\_\_\_
- (e) Maximum Number of Performance Shares available to be earned: \_\_\_\_\_ % the Target Number of Performance Shares set forth above

**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: June 11, 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: June 11, 2020

By: /S/ MICHAEL SCARPA

\_\_\_\_\_  
MICHAEL SCARPA  
Chief Operating Officer and Chief Financial Officer  
(Principal Financial Officer)



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

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

1. The Quarterly Report of the Company on Form 10-Q for the quarter ended May 2, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this Certification this 11th day of June, 2020.

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

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

1. The Quarterly Report of the Company on Form 10-Q for the quarter ended May 2, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this Certification this 11th day of June, 2020.

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

This certification accompanies the Quarterly Report on Form 10-Q of The Children's Place, Inc. for the quarter ended May 2, 2020 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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