UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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 July 30, 2022

or

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

For the transition period from ____________ to ____________

Commission file number 0-23071

THE CHILDREN'S PLACE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**31-1241495**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
500 Plaza Drive **Secaucus, New Jersey**	**07094**
(Address of principal executive offices)	(Zip Code)

(201) 558-2400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbol:	Name of each exchange on which registered:
Common Stock, $0.10 par value	PLCE	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 x No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x 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.

Large accelerated filer	x	Accelerated filer	☐
Non-accelerated filer	☐	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 x

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: Common Stock, par value $0.10 per share, outstanding at August 23, 2022: 13,028,338.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED JULY 30, 2022

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	July 30, 2022	January 29, 2022	July 31, 2021
	(unaudited)		(unaudited)
		(in thousands, except par value)	
ASSETS			
Current assets:			
Cash and cash equivalents	$ 28,193	$ 54,787	$ 63
Accounts receivable	44,445	21,863	38
Inventories	616,436	428,813	461
Prepaid expenses and other current assets	59,383	76,075	45
Total current assets	748,457	581,538	609
Long-term assets:			
Property and equipment, net	154,738	155,006	165
Right-of-use assets	167,619	194,653	235
Tradenames, net	71,292	71,692	72
Deferred income taxes	20,013	23,109	36
Other assets	12,339	11,462	9
Total assets	$ 1,174,458	$ 1,037,460	$ 1,128
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Revolving loan	$ 283,931	$ 175,318	$ 199
Accounts payable	303,776	183,758	227
Current portion of operating lease liabilities	78,989	91,097	109
Income taxes payable	2,482	10,984	4
Accrued expenses and other current liabilities	123,919	130,669	130
Total current liabilities	793,097	591,826	672
Long-term liabilities:			
Long-term debt	49,718	49,685	74
Long-term portion of operating lease liabilities	112,386	134,761	174
Income taxes payable	18,925	14,939	14
Other tax liabilities	2,337	8,689	6
Other long-term liabilities	13,814	12,088	17
Total liabilities	990,277	811,988	960
Commitments and contingencies (see Note 7)			
Stockholders' equity:			
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; 13,087, 13,964, and 14,831 issued; 13,023, 13,903, and 14,772 outstanding	1,309	1,396	1
Additional paid-in capital	151,954	160,348	164
Treasury stock, at cost (64, 61, and 59 shares)	(3,587)	(3,443)	(3
Deferred compensation	3,587	3,443	3
Accumulated other comprehensive loss	(14,614)	(14,186)	(13
Retained earnings	45,532	77,914	15
Total stockholders' equity	184,181	225,472	168
Total liabilities and stockholders' equity	$ 1,174,458	$ 1,037,460	$ 1,128

See accompanying notes to these consolidated financial statements.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(in thousands, except earnings (loss) per common share)			
Net sales	$ 380,885	$ 413,855	$ 743,235	$ 849,336
Cost of sales (exclusive of depreciation and amortization)	265,422	245,994	485,867	493,269
Gross profit	115,463	167,861	257,368	356,067
Selling, general, and administrative expenses	114,672	115,620	223,708	222,358
Depreciation and amortization	13,241	14,392	26,856	29,953
Asset impairment charges	1,379	—	1,379	—
Operating income (loss)	(13,829)	37,849	5,425	103,756
Interest expense	(2,603)	(4,700)	(4,313)	(9,114)
Interest income	14	4	19	7
Income (loss) before provision (benefit) for income taxes	(16,418)	33,153	1,131	94,649
Provision (benefit) for income taxes	(3,120)	9,058	(5,402)	25,349
Net income (loss)	$ (13,298)	$ 24,095	$ 6,533	$ 69,300
Earnings (loss) per common share				
Basic	$ (1.01)	$ 1.63	$ 0.49	$ 4.71
Diluted	$ (1.01)	$ 1.60	$ 0.48	$ 4.61
Weighted average common shares outstanding				
Basic	13,147	14,780	13,384	14,725
Diluted	13,147	15,062	13,532	15,032

See accompanying notes to these consolidated financial statements.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(in thousands)			
Net income (loss)	$ (13,298)	$ 24,095	$ 6,533	$ 69,
Other comprehensive income (loss):				
Foreign currency translation adjustment	54	(355)	(428)	
Total comprehensive income (loss)	$ (13,244)	$ 23,740	$ 6,105	$ 69,

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 July 30, 2022

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total Stockholder Equity
Balance, April 30, 2022	13,422	$ 1,342	$ 155,097	$ 3,512	$ 71,913	$ (14,668)	(62)	$ (3,512)	$ 213
Vesting of stock awards	147	15	(15)						
Stock-based compensation expense			6,272						6
Purchase and retirement of common stock	(482)	(48)	(9,400)		(13,083)				(22,
Other comprehensive income						54			
Deferral of common stock into deferred compensation plan				75			(2)	(75)	
Net loss					(13,298)				(13,
Balance, July 30, 2022	13,087	$ 1,309	$ 151,954	$ 3,587	$ 45,532	$ (14,614)	(64)	$ (3,587)	$ 184

Twenty-six Weeks Ended July 30, 2022

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total Stockholder Equity
Balance, January 29, 2022	13,964	$ 1,396	$ 160,348	$ 3,443	$ 77,914	$ (14,186)	(61)	$ (3,443)	$ 225
Vesting of stock awards	270	27	(27)						
Stock-based compensation expense			13,834						13
Purchase and retirement of common stock	(1,147)	(114)	(22,201)		(38,915)				(61,
Other comprehensive loss						(428)			(
Deferral of common stock into deferred compensation plan				144			(3)	(144)	
Net income					6,533				6
Balance, July 30, 2022	13,087	$ 1,309	$ 151,954	$ 3,587	$ 45,532	$ (14,614)	(64)	$ (3,587)	$ 184

See accompanying notes to these consolidated financial statements.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)

(Unaudited)

Thirteen Weeks Ended July 31, 2021

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total Stockhold Equity
Balance, May 1, 2021	14,693	$ 1,469	$ 155,908	$ 3,234	$ 563	$ (12,930)	(58)	$ (3,234)	$ 14
Vesting of stock awards	255	26	(26)						
Stock-based compensation expense			10,526						1
Purchase and retirement of common stock	(117)	(12)	(2,118)		(8,961)				(1
Other comprehensive loss						(355)			
Deferral of common stock into deferred compensation plan				70			(1)	(70)	
Net income					24,095				2
Balance, July 31, 2021	14,831	$ 1,483	$ 164,290	$ 3,304	$ 15,697	$ (13,285)	(59)	$ (3,304)	$ 16

Twenty-six Weeks Ended July 31, 2021

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total Stockhold Equity
Balance, January 30, 2021	14,641	$ 1,464	$ 148,519	$ 3,165	$ (42,790)	$ (13,816)	(57)	$ (3,165)	$ 9
Vesting of stock awards	336	34	(34)						
Stock-based compensation expense			18,442						1
Purchase and retirement of common stock	(146)	(15)	(2,637)		(10,813)				(1
Other comprehensive income						531			
Deferral of common stock into deferred compensation plan				139			(2)	(139)	
Net income					69,300				6
Balance, July 31, 2021	14,831	$ 1,483	$ 164,290	$ 3,304	$ 15,697	$ (13,285)	(59)	$ (3,304)	$ 16

See accompanying notes to these consolidated financial statements.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,533	$ 69,300
Reconciliation of net income to net cash used in operating activities:		
Non-cash portion of operating lease expense	40,075	52,075
Depreciation and amortization	26,856	29,953
Non-cash stock-based compensation expense	13,834	18,442
Deferred income tax provision	2,768	9,390
Asset impairment charges	1,379	—
Other non-cash items, net	(521)	743
Changes in operating assets and liabilities:		
Inventories	(187,762)	(74,406)
Accounts receivable and other assets	(23,542)	520
Prepaid expenses and other current assets	554	(847)
Income taxes payable, net of prepayments	8,008	12,056
Accounts payable and other current liabilities	105,228	(13,090)
Lease liabilities	(47,928)	(107,572)
Other long-term liabilities	1,729	139
Net cash used in operating activities	(52,789)	(3,297)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(18,766)	(13,496)
Change in deferred compensation plan	(357)	31
Net cash used in investing activities	(19,123)	(13,465)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	379,364	386,343
Repayments under revolving credit facility	(270,750)	(356,284)
Purchase and retirement of common stock, including shares surrendered for tax withholdings and transaction costs	(62,900)	(13,465)
Payment of debt issuance costs	—	(358)
Net cash provided by financing activities	45,714	16,236
Effect of exchange rate changes on cash and cash equivalents	(396)	960
Net increase (decrease) in cash and cash equivalents	(26,594)	434
Cash and cash equivalents, beginning of period	54,787	63,548
Cash and cash equivalents, end of period	$ 28,193	$ 63,982

See accompanying notes to these consolidated financial statements.

THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021
	(in thousands)	
OTHER CASH FLOW INFORMATION:		
Net cash paid (received) for income taxes	$ (16,425)	$ 3,793
Cash paid for interest	4,014	4,645
Increase (decrease) in accrued capital expenditures	7,406	(1,145)

See accompanying notes to these consolidated financial statements.

1. BASIS OF PRESENTATION

Description of Business

The Children's Place, Inc. and subsidiaries (collectively, 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 and 'tweens.' The Company designs, contracts to manufacture, sells at retail and wholesale, and licenses to sell trend right, high-quality merchandise predominantly at value prices, primarily under the Company's proprietary "The Children's Place", "Place", "Baby Place", "Gymboree", and "Sugar & Jade" 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 Canadian-based wholesale business, as well as revenue from international franchisees. Each segment includes an e-commerce business located at *www.childrensplace.com*, *www.gymboree.com*, and *www.sugarandjade.com*.

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

- *Second Quarter 2022 — The thirteen weeks ended July 30, 2022*
- *Second Quarter 2021 — The thirteen weeks ended July 31, 2021*
- *First Quarter 2022 — The thirteen weeks ended April 30, 2022*
- *Year-To-Date 2022 — The twenty-six weeks ended July 30, 2022*
- *Year-To-Date 2021 — The twenty-six weeks ended July 31, 2021*
- *Fiscal 2022 – The fifty-two weeks ending January 28, 2023*
- *Fiscal 2021 – The fifty-two weeks ended January 29, 2022*
- *SEC — U.S. Securities and Exchange Commission*
- *U.S. GAAP — Generally Accepted Accounting Principles in the United States*
- *FASB — Financial Accounting Standards Board*
- *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*

Basis of Presentation

The unaudited consolidated financial statements and accompanying notes to consolidated financial statements are prepared in accordance with U.S. GAAP for interim financial information and the rules and regulations of 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.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated. As of July 30, 2022, January 29, 2022, and July 31, 2021, the Company did not have any investments in unconsolidated affiliates. FASB ASC 810—*Consolidation* is considered when determining whether an entity is subject to consolidation.

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 July 30, 2022 and July 31, 2021, the results of its consolidated operations, consolidated comprehensive income (loss), and consolidated changes in stockholders' equity for the thirteen and twenty-six weeks ended July 30, 2022 and July 31, 2021, and consolidated cash flows for the twenty-six weeks ended July 30, 2022 and July 31, 2021. The consolidated balance sheet as of January 29, 2022 was derived from audited financial statements. Due to the seasonal nature of the Company's business, the results of operations for the thirteen and twenty-six weeks ended July 30, 2022 and July 31, 2021 are not necessarily indicative of operating results for a full fiscal year. These consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2022.

Fiscal Year

The Company’s fiscal year is a fifty-two week or fifty-three 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. Critical accounting estimates inherent in the preparation of the consolidated financial statements include impairment of long-lived assets, income taxes, stock-based compensation, and inventory valuation.

Recent Accounting Standards Updates

There are no pending accounting standards updates that are currently expected to have a material impact on the Company.

2. REVENUES

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

The following table presents the Company’s revenues disaggregated by geography:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(in thousands)			
Net sales:				
South	$ 146,368	$ 164,630	$ 282,740	$ 330,368
Northeast	72,113	84,954	147,509	179,976
West	52,411	59,854	102,543	122,077
Midwest	39,218	48,088	82,831	108,892
International and other (1)	70,775	56,329	127,612	108,023
Total net sales	$ 380,885	$ 413,855	$ 743,235	$ 849,336

(1) Includes retail and e-commerce sales in Canada and Puerto Rico, wholesale and franchisee sales, and certain amounts earned under the Company’s private label credit card program.

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 sales of $12.6 million, $3.6 million, and $9.5 million within Accrued expenses and other current liabilities as of July 30, 2022, January 29, 2022, and July 31, 2021, respectively, based upon estimated time of delivery, at which point control passes to the customer. 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 have not been 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 $2.3 million, $1.0 million, and $3.1 million as of July 30, 2022, January 29, 2022, and July 31, 2021, respectively.

The Company's private label credit card is issued to customers for use exclusively at The Children's Place stores and online at *www.childrensplace.com*, *www.gymboree.com*, and *www.sugarandjade.com*, and credit is extended to such customers by a third-party financial institution on a non-recourse basis to the Company. 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 private label credit card 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 $3.9 million, $5.0 million, and $7.1 million as of July 30, 2022, January 29, 2022, and July 31, 2021, 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. Gift card breakage is recorded within Net sales. Prior to their redemption, gift cards are recorded as a liability within Accrued expenses and other current liabilities. The liability is estimated based on expected breakage that considers historical patterns of redemption. The gift card liability balance as of July 30, 2022, January 29, 2022, and July 31, 2021 was $11.7 million, $12.1 million, and $12.8 million, respectively. During Year-To-Date 2022, the Company recognized Net sales of $3.6 million related to the gift card liability balance that existed at January 29, 2022.

The Company has an international program of 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. INTANGIBLE ASSETS

The Company's intangible assets were as follows:

		July 30, 2022		
	Useful Life	Gross Amount	Accumulated Amortization	Net Amount
			(in thousands)	
Gymboree tradename [1]	Indefinite	$ 69,953	$ —	$ 69,953
Crazy 8 tradename [1]	5 years	4,000	(2,661)	1,339
Customer databases [2]	3 years	3,000	(3,000)	—
Total intangibles		$ 76,953	$ (5,661)	$ 71,292

		January 29, 2022		
	Useful Life	Gross Amount	Accumulated Amortization	Net Amount
			(in thousands)	
Gymboree tradename [1]	Indefinite	$ 69,953	$ —	$ 69,953
Crazy 8 tradename [1]	5 years	4,000	(2,261)	1,739
Customer databases [2]	3 years	3,000	(2,827)	173
Total intangibles		$ 76,953	$ (5,088)	$ 71,865

		July 31, 2021		
	Useful Life	Gross Amount	Accumulated Amortization	Net Amount
			(in thousands)	
Gymboree tradename [1]	Indefinite	$ 69,953	$ —	$ 69,953
Crazy 8 tradename [1]	5 years	4,000	(1,861)	2,139
Customer databases [2]	3 years	3,000	(2,328)	672
Total intangibles		$ 76,953	$ (4,189)	$ 72,764

(1) Included within Tradenames, net on the Consolidated Balance Sheets.
(2) Included within Other assets on the Consolidated Balance Sheets.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	July 30, 2022	January 29, 2022	July 31, 2021
		(in thousands)	
Property and equipment:			
Land and land improvements	$ 3,403	$ 3,403	$ 3,403
Building and improvements	36,187	36,045	36,045
Material handling equipment	68,450	64,989	61,649
Leasehold improvements	195,342	197,436	214,229
Store fixtures and equipment	205,961	212,613	224,238
Capitalized software	333,967	320,716	313,371
Construction in progress	16,913	8,170	5,339
	860,223	843,372	858,274
Less accumulated depreciation and amortization	(705,485)	(688,366)	(692,716)
Property and equipment, net	$ 154,738	$ 155,006	$ 165,558

At July 30, 2022, January 29, 2022, and July 31, 2021, the Company reviewed its store related long-lived assets for indicators of impairment, and performed a recoverability test if indicators were identified. Based on the results of the analyses performed, the Company recorded asset impairment charges in the Second Quarter 2022 and Year-To-Date 2022 of $1.4 million, inclusive of right-of-use ("ROU") assets. The Company did not record asset impairment charges in the Second Quarter 2021 or Year-To-Date 2021.

5. LEASES

The Company has operating leases for retail stores, corporate offices, distribution facilities, and certain equipment. The Company’s leases have remaining lease terms ranging from less than one year up to ten years, some of which include options to extend the leases for up to five years, and some of which include options to terminate the lease early. The Company records all occupancy costs in Cost of sales, except costs for administrative office buildings, which are recorded in Selling, general, and administrative expenses. As of the periods presented, the Company’s finance leases were not material to the Consolidated Balance Sheets, Consolidated Statements of Operations, or Consolidated Statements of Cash Flows.

The following components of operating lease expense were recognized in the Company’s Consolidated Statements of Operations:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(in thousands)			
Fixed operating lease cost	$ 24,070	$ 24,272	$ 47,040	$ 50,030
Variable operating lease cost (1)	12,573	10,847	27,691	14,221
Total operating lease cost	$ 36,643	$ 35,119	$ 74,731	$ 64,251

(1) Includes short term leases with lease periods of less than 12 months as well as lease abatements accounted for as reductions to variable lease costs under the COVID-19 expedient of $0.1 million and $2.3 million during the Second Quarter 2022 and Second Quarter 2021, and $0.9 million and $10.3 million during Year-To-Date 2022 and Year-To-Date 2021, respectively.

As of July 30, 2022, the weighted-average remaining operating lease term was 4.3 years, and the weighted-average discount rate for operating leases was 4.9%. Cash paid for amounts included in the measurement of operating lease liabilities during Year-To-Date 2022 was $47.9 million. ROU assets obtained in exchange for new operating lease liabilities were $22.6 million during Year-To-Date 2022.

As of July 30, 2022, the maturities of operating lease liabilities were as follows:

	July 30, 2022
	(in thousands)
Remainder of 2022	$ 54,762
2023	61,015
2024	30,536
2025	18,021
2026	15,205
Thereafter	30,664
Total operating lease payments	210,203
Less: imputed interest	(18,828)
Present value of operating lease liabilities	$ 191,375

6. DEBT

On November 16, 2021, the Company completed the refinancing of its previous $360.0 million asset-based revolving credit facility (the “Previous ABL Credit Facility”) and previous $80.0 million term loan (the “Previous Term Loan”) with a new lending group led by an affiliate of Wells Fargo Bank, National Association (“Wells Fargo”) by entering into a fourth amendment to its Credit Agreement, dated as of May 9, 2019, with the lenders party thereto. The new debt consists of a revolving credit facility with $350.0 million of availability (the “ABL Credit Facility”) and a $50.0 million term loan (the “Term Loan”).

ABL Credit Facility and Term Loan

The Company and certain of its subsidiaries maintain the $350 million ABL Credit Facility and the $50 million Term Loan with Wells Fargo, Truist Bank, 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, Swing Line Lender and Term Agent. Both the ABL Credit Facility and the Term Loan mature in November 2026, and both of these debt facilities have lower interest rates, reduced reporting requirements, and increased flexibility under the covenants compared to the Previous ABL Credit Facility and Previous Term Loan.

The ABL Credit Facility includes a $25 million Canadian sublimit and a $50 million sublimit for standby and documentary letters of credit.

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

(i) the prime rate, plus a margin of 0.375% or 0.625% 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, three, or six months, as selected by the Company, plus a margin of 1.125% or 1.375% based on the amount of the Company’s average excess availability under the facility.

The Company is charged a fee of 0.20% on the unused portion of the commitments. Letter of credit fees range from 0.563% to 0.683% for commercial letters of credit and from 0.625% to 0.875% for standby letters of credit. Letter of credit fees are determined based on the amount of the Company’s average excess availability under the facility. The amount available for loans and letters of credit under the ABL Credit Facility is determined by a borrowing base consisting of certain credit card receivables, certain trade receivables, certain inventory, and the fair market value of certain real estate, subject to certain reserves.

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

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

Credit extended under the ABL Credit Facility is secured by a first priority security interest in substantially all of the Company’s U.S. and Canadian assets other than intellectual property, certain furniture, fixtures, equipment, and pledges of subsidiary capital stock, and a second priority security interest in the Company’s intellectual property, certain furniture, fixtures, equipment, and pledges of subsidiary capital stock.

The table below presents the components of the Company’s ABL Credit Facility and Previous ABL Credit Facility:

	July 30, 2022	January 29, 2022	July 31, 2021
		(in millions)	
Credit facility maximum	$ 350.0	$ 350.0	$ 360.0
Borrowing base [(1)]	350.0	279.7	354.0
Outstanding borrowings	283.9	175.3	199.8
Letters of credit outstanding—standby	7.4	7.4	7.4
Utilization of credit facility at end of period	291.3	182.7	207.2
Availability [(2)]	$ 58.7	$ 97.0	$ 146.8
Interest rate at end of period	3.4%	1.6%	3.8%

	Year-To-Date 2022	Fiscal 2021	Year-To-Date 2021
		(in millions)	
Average end of day loan balance during the period	$ 268.2	$ 187.0	$ 213.5
Highest end of day loan balance during the period	$ 297.6	$ 269.7	$ 269.7
Average interest rate	2.4%	3.6%	3.9%

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(1) Lower of the credit facility maximum or the total borrowing base collateral.

(2) The sub-limit availability for letters of credit was $42.6 million at July 30, 2022, January 29, 2022, and July 31, 2021.

The Term Loan bears interest, payable monthly, at (a) the LIBOR Rate plus 2.50% for any portion that is a LIBOR loan, or (b) the base rate plus 1.75% for any portion that is a base rate loan. The Term Loan is pre-payable at any time without penalty, and does not require amortization. For the Second Quarter 2022 and Year-To-Date 2022, the Company recognized $0.5 million and $0.8 million in interest expense related to the Term Loan.

The Term Loan is secured by a first priority security interest in the Company's intellectual property, certain furniture, fixtures, equipment, and pledges of subsidiary capital stock, and a second priority security interest in the collateral securing the ABL Credit Facility on a first-priority basis. The Term Loan is guaranteed by each of the Company's subsidiaries that guarantees the ABL Credit Facility and contains substantially the same covenants as provided in the ABL Credit Facility.

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

7. COMMITMENTS AND CONTINGENCIES

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 sought to represent a class of California purchasers and sought, 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 January 28, 2020, the date of preliminary approval by the court of the settlement. The Company submitted its memorandum in support of final approval of the class settlement on March 2, 2021. On March 29, 2021, the court granted final approval of the class settlement and denied plaintiff's motion for attorney's fees, with the amount of attorney's fees to be decided after the class recovery amount has been determined. The settlement provides merchandise vouchers for qualified class members who submit valid claims, as well as payment of legal fees and expenses and claims administration expenses. Vouchers were distributed to class members on November 15, 2021 and they will be eligible for redemption in multiple rounds through November 2023. In connection with the 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.

8. STOCKHOLDERS’ EQUITY

Share Repurchase Programs

In March 2018, the Board of Directors authorized a $250.0 million share repurchase program (the “2018 Share Repurchase Program”). In November 2021, the Board of Directors approved another $250.0 million share repurchase program (the “2021 Share Repurchase Program”), which added to the then remaining availability under the 2018 Share Repurchase Program. Under these programs, the Company may repurchase shares on the open market at current market prices at the time of purchase or in privately negotiated transactions. The timing and actual number of shares repurchased under a program will depend on a variety of factors, including price, corporate and regulatory requirements, and other market and business conditions. The Company may suspend or discontinue the programs at any time and may thereafter reinstitute purchases, all without prior announcement. As of July 30, 2022, there was $196.1 million remaining under the 2021 Share Repurchase Program. From March 2020 through July 2021, the Company suspended share repurchases, other than to satisfy withholding tax requirements of equity award recipients, 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 repurchase 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:

	Twenty-six Weeks Ended			
	July 30, 2022		July 31, 2021	
	Shares	Amount	Shares	Amount
	(in thousands)			
Share repurchases related to:				
Share repurchase program	1,147	$ 61,230	147	$ 13,465
Shares acquired and held in treasury	3	$ 144	2	$ 139

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. For all shares retired during Year-To-Date 2022 and Year-To-Date 2021, $38.9 million and $10.8 million was charged to Retained earnings, respectively.

Dividends

In March 2020, the Company announced it had temporarily suspended its dividend payments due to the COVID-19 pandemic.

Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by the Company’s Board of Directors based on a number of factors, including business and market conditions, the Company’s financial performance, and other investment priorities.

9. 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.

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(in thousands)			
Deferred Awards	$ 2,171	$ 3,188	$ 5,596	$ 6,766
Performance Awards	4,101	7,338	8,238	11,676
Total stock-based compensation expense [(1)]	$ 6,272	$ 10,526	$ 13,834	$ 18,442

(1) Stock-based compensation expense recorded within Cost of sales (exclusive of depreciation and amortization) amounted to $0.3 million and $0.8 million in the Second Quarter 2022 and Second Quarter 2021, respectively, and $0.9 million and $1.7 million in the Year-To-Date 2022 and Year-To-Date 2021, respectively. All other stock-based compensation expense is included in Selling, general, and administrative expenses.

10. EARNINGS (LOSS) PER COMMON SHARE

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(in thousands)			
Net income (loss)	$ (13,298)	$ 24,095	$ 6,533	$ 69,300
Basic weighted average common shares outstanding	13,147	14,780	13,384	14,725
Dilutive effect of stock awards [(1)]	—	282	148	307
Diluted weighted average common shares outstanding	13,147	15,062	13,532	15,032

(1) Because the Company incurred a net loss in the Second Quarter 2022, unvested stock awards are anti-dilutive and are therefore excluded from the calculation of diluted loss per common share for such period.

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 and amortization, rent expense, inventory, stock-based compensation, net operating loss carryforwards, tax credits, and various accruals and reserves.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act allows net operating losses ("NOLs") incurred in taxable years 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to offset 100% of taxable income and to generate a refund of previously paid income taxes. Pursuant to the CARES Act, the Company carried back the taxable year 2020 tax loss of approximately $150.0 million to prior years. During the First Quarter 2022, the Company received $22.0 million of this income tax refund and the remaining balance of $19.1 million as of July 30, 2022, is included within Prepaid expenses and other current assets on the Consolidated Balance Sheets.

The Company’s effective income tax rate for the Second Quarter 2022 was a benefit of 19.0%, or $3.1 million, compared to a provision of 27.3%, or $9.1 million, during the Second Quarter 2021. The decrease in the effective income tax rate for the Second Quarter 2022 compared to the Second Quarter 2021 was primarily driven by a decrease in the forecasted effective income tax rate resulting from a favorable mix of income on forecasted earnings compared to the prior year and the impact of discrete items recognized in the Second Quarter 2022.

The Company’s effective income tax rate for Year-To-Date 2022 was a benefit of 477.6%, or $5.4 million, compared to a provision of 26.8%, or $25.3 million, for Year-To-Date 2021. The effective income tax rate for Year-To-Date 2022 reflected the release of a reserve of $6.4 million for unrecognized tax benefits as a result of a settlement with a taxing authority in the First Quarter 2022.

The Company accrues interest and penalties related to unrecognized tax benefits as part of the provision for income taxes. The total amount of unrecognized tax benefits was $2.3 million, $8.7 million, and $8.0 million as of July 30, 2022, January 29, 2022, and July 31, 2021, respectively, and is included within long-term liabilities. Additional interest expense recognized during Year-To-Date 2022 and Year-To-Date 2021 related to unrecognized tax benefits was not significant.

The Company is subject to tax in the United States and foreign jurisdictions, including Canada and Hong Kong. The Company files a consolidated U.S. income tax return for federal income tax purposes. The Company is no longer subject to income tax examinations by U.S. federal, state and local or foreign tax authorities for tax years 2016 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 arise as a result of a tax audit, and are resolved in a manner not consistent with management’s expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

12. SEGMENT INFORMATION

In accordance with FASB ASC 280—*Segment Reporting*, the Company reports segment data based on geography: The Children’s Place U.S. and The Children’s Place International. Each segment includes an e-commerce business located at *www.childrensplace.com*, *www.gymboree.com*, and *www.sugarandjade.com*. Included in The Children’s Place U.S. segment are the Company’s U.S. and Puerto Rico-based stores and revenue from the Company’s U.S.-based wholesale business. Included in The Children’s Place International segment are the Company’s Canadian-based stores, revenue from the Company’s Canadian-based wholesale business, and revenue from international franchisees. The Company measures its segment profitability based on operating income, defined as income before interest and taxes. Net sales and direct costs are recorded by each segment. Certain inventory procurement functions, such as production and design, as well as corporate overhead, including executive management, finance, real estate, human resources, legal, and information technology services, are managed by The Children’s Place U.S. segment. Expenses related to these functions, including depreciation and amortization, are allocated to The Children’s Place International segment based primarily on net sales. The assets related to these functions are not allocated. The Company periodically reviews these allocations and adjusts them based upon changes in business circumstances. Net sales to external customers are derived from merchandise sales, and the Company has no customers that individually account for more than 10% of its net sales. As of July 30, 2022, The Children’s Place U.S. had 577 stores and The Children’s Place International had 81 stores. As of July 31, 2021, The Children’s Place U.S. had 615 stores and The Children’s Place International had 93 stores.

The following tables provide segment level financial information:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(in thousands)			
Net sales:				
The Children's Place U.S.	$ 341,223	$ 372,319	$ 669,184	$ 771,978
The Children's Place International [1]	39,662	41,536	74,051	77,358
Total net sales	$ 380,885	$ 413,855	$ 743,235	$ 849,336
Operating income (loss):				
The Children's Place U.S.	$ (13,943)	$ 34,355	$ 2,926	$ 98,267
The Children's Place International	114	3,494	2,499	5,489
Total operating income (loss)	$ (13,829)	$ 37,849	$ 5,425	$ 103,756
Operating income (loss) as a percentage of net sales:				
The Children's Place U.S.	(4.1%)	9.2%	0.4%	12.7%
The Children's Place International	0.3%	8.4%	3.4%	7.1%
Total operating income (loss) as a percentage of net sales	(3.6%)	9.1%	0.7%	12.2%
Depreciation and amortization:				
The Children's Place U.S.	$ 12,261	$ 13,303	$ 24,848	$ 27,614
The Children's Place International	980	1,089	2,008	2,339
Total depreciation and amortization	$ 13,241	$ 14,392	$ 26,856	$ 29,953
Capital expenditures:				
The Children's Place U.S.	$ 7,612	$ 6,385	$ 17,969	$ 12,872
The Children's Place International	431	385	797	624
Total capital expenditures	$ 8,043	$ 6,770	$ 18,766	$ 13,496

[1] Net sales from The Children's Place International are primarily derived from Canadian operations. The Company's foreign subsidiaries, primarily in Canada, have operating results based in foreign currencies and are thus subject to the fluctuations of the corresponding translation rates into U.S. dollars.

ITEM 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 and adjusted net income per diluted share. Forward-looking statements typically are identified by use of terms such as "may," "will," "should," "plan," "project," "expect," "anticipate," "estimate" and similar words, although some forward-looking statements are expressed differently. These forward-looking statements are based upon the Company's current expectations and assumptions and are subject to various risks and uncertainties that could cause actual results and performance to differ materially. Some of these risks and uncertainties are described in the Company's filings with the Securities and Exchange Commission, including in the "Risk Factors" section of its annual report on Form 10-K for the fiscal year ended January 29, 2022. Included among the risks and uncertainties that could cause actual results and performance to differ materially are the risk that the Company will be unsuccessful in gauging fashion trends and changing consumer preferences, the risks resulting from the highly competitive nature of the Company's business and its dependence on consumer spending patterns, which may be affected by changes in economic conditions, the risks related to the COVID-19 pandemic, including the impact of the COVID-19 pandemic on our business or the economy in general (including decreased customer traffic, schools adopting remote and hybrid learning models, closures of businesses and other activities causing decreased demand for our products and negative impacts on our customers' spending patterns due to decreased income or actual or perceived wealth, and the impact of legislation related to the COVID-19 pandemic, including any changes to such legislation), the risk that the Company's strategic initiatives to increase sales and margin are delayed or do not result in anticipated improvements, the risk of delays, interruptions and disruptions in the Company's global supply chain, including resulting from the COVID-19 pandemic or other disease outbreaks, foreign sources of supply in less developed countries, more politically unstable countries, or countries where vendors fail to comply with industry standards or ethical business practices, including the use of forced, indentured or child labor, 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 January 29, 2022.

Terms that are commonly used in our Management's Discussion and Analysis of Financial Condition and Results of Operations are defined as follows:

- *Second Quarter 2022 — The thirteen weeks ended July 30, 2022*
- *Second Quarter 2021 — The thirteen weeks ended July 31, 2021*
- *First Quarter 2022 — The thirteen weeks ended April 30, 2022*
- *Year-To-Date 2022 — The twenty-six weeks ended July 30, 2022*
- *Year-To-Date 2021 — The twenty-six weeks ended July 31, 2021*
- *Fiscal 2022 – The fifty-two weeks ending January 28, 2023*
- *Fiscal 2021 – The fifty-two weeks ended January 29, 2022*
- *SEC — U.S. Securities and Exchange Commission*
- *U.S. GAAP — Generally Accepted Accounting Principles in the United States*
- *FASB — Financial Accounting Standards Board*
- *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*
- *AUR — Average unit retail price*

- *Comparable Retail Sales — Net sales, in constant currency, from stores that have been open for at least 14 consecutive months and from our e-commerce store, excluding postage and handling fees. Store closures in the current fiscal year will be excluded from Comparable Retail Sales beginning in the fiscal quarter in which the store closes. A store that is closed for a substantial remodel, relocation, or material change in size will be excluded from Comparable Retail Sales for at least 14 months beginning in the fiscal quarter in which the closure occurred. However, stores that temporarily close will be excluded from Comparable Retail Sales until the store is reopened for a full fiscal month. Comparable Retail Sales do not exclude any temporarily closed stores impacted by the COVID-19 pandemic.*
- *Gross Margin — Gross profit expressed as a percentage of net sales*
- *SG&A — Selling, general, and administrative expenses*

OVERVIEW

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 predominantly at value prices, primarily under our proprietary "The Children's Place", "Place", "Baby Place", "Gymboree", and "Sugar & Jade" brand names. As of July 30, 2022, we had 658 stores across North America, our e-commerce business at *www.childrensplace.com*, *www.gymboree.com*, and *www.sugarandjade.com*, and had 212 international points of distribution with our six franchise partners in 16 countries.

Segment Reporting

In accordance with FASB ASC 280—*Segment Reporting*, 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*, *www.gymboree.com*, and *www.sugarandjade.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 our Canadian-based wholesale business, as well as revenue from international franchisees. We measure our segment profitability based on operating income, defined as income before interest and taxes. Net sales and direct costs are recorded by each segment. Certain inventory procurement functions such as production and design, as well as corporate overhead, including executive management, finance, real estate, human resources, legal, and information technology services, are managed by The Children's Place U.S. segment. Expenses related to these functions, including depreciation and amortization, are allocated to The Children's Place International segment based primarily on net sales. The assets related to these functions are not allocated. We periodically review these allocations and adjust them based upon changes in business circumstances. Net sales to external customers are derived from merchandise sales, and we have no customers that individually account for more than 10% of our net sales.

COVID-19 Pandemic

The COVID-19 pandemic continues to significantly impact regions all around the world, including the United States and Canada. Since March 2020, this has resulted in restrictions of businesses and other activities implemented by national, state, and local authorities and private entities, leading to significant adverse economic conditions and business and lifestyle disruptions, as well as significant volatility in global financial and retail markets. From the onset of the pandemic and as new variants emerged, federal, state, and local governments and health officials worldwide imposed varying degrees of preventative and protective actions 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. In addition, we have experienced, and will likely continue to experience, disruptions in our global supply chain, which have caused delays in the production and transportation of our products, which we are seeking to mitigate, including through shifting production schedules.

As of the Second Quarter 2022, the progress achieved nationwide in addressing the effects of the pandemic has allowed businesses and shopping malls to reopen and resume operations. Our distribution centers remained open and operating during the pandemic to support our retail stores and e-commerce business, and as of July 30, 2022, all of our stores are open to the public in the U.S., Canada, and Puerto Rico. Our U.S. office and certain of our foreign offices are also open in a hybrid work environment, while we continue to monitor the developments of the pandemic for our other foreign offices. We will continue to assess the pandemic's impact on our operations and financial situation, and will seek to implement all necessary measures as needed.

Recent Developments

Recent macroeconomic events have increased the cost of goods and services necessary to produce and distribute our products, including cotton and other materials used in production, as well as labor, transportation, fuel and energy. The same inflationary pressures have adversely affected our core customer, resulting in a decrease in apparel purchases during the Second Quarter 2022. We expect these increased product input costs, transportation costs, and inflationary pressures to continue to impact the remainder of 2022 and into 2023.

On November 16, 2021, we completed the refinancing of our previous $360.0 million asset-based revolving credit facility (the “Previous ABL Credit Facility”) and our previous $80.0 million term loan (the “Previous Term Loan”) with a new lending group led by an affiliate of Wells Fargo Bank, National Association (“Wells Fargo”) by entering into a Fourth amendment to our Credit Agreement, dated as of May 9, 2019, with the lenders party thereto (the “Fourth Amendment”). The new debt consists of a revolving credit facility with $350.0 million of availability (the “ABL Credit Facility”) and a $50.0 million term loan (the “Term Loan”), both with five year maturities, lower interest rates, reduced reporting requirements, and increased flexibility under the covenants.

Operating Highlights

Net sales decreased $33.0 million, or 8.0%, to $380.9 million during the Second Quarter 2022 from $413.9 million during the Second Quarter 2021, primarily due to the impact of a slowdown in consumer demand, resulting from the unprecedented inflation impacting our customer, an increase in promotional activity across the sector, lapping the impact of the enhanced child tax credit last July, and the impact of permanent store closures. Comparable retail sales decreased 8.7% for the Second Quarter 2022.

Gross profit decreased $52.4 million to $115.5 million during the Second Quarter 2022 from $167.9 million during the Second Quarter 2021. Gross margin deleveraged 1,025 basis points to 30.3% of net sales in the Second Quarter 2022. The decrease was primarily the result of lower merchandise margins, due to unplanned AUR pressure resulting from an abrupt slowdown in consumer demand, coupled with an increase in promotional activity across the sector, higher domestic supply chain costs, increased penetration of our wholesale business, which operates at a lower gross margin, higher inbound transportation expenses, and the deleverage of fixed expenses resulting from the decline in net sales.

Operating income (loss) decreased $51.6 million to a loss of $13.8 million during the Second Quarter 2022 from income of $37.8 million during the Second Quarter 2021. Operating income (loss) deleveraged 1,278 basis points to (3.6%) of net sales.

Net income (loss) decreased $37.4 million to a loss of $13.3 million, or $(1.01) per diluted share, during the Second Quarter 2022 compared to income of $24.1 million, or $1.60 per diluted share, during the Second Quarter 2021, due to the factors discussed above.

During the Second Quarter 2022, we repurchased approximately 0.5 million shares of our common stock for $22.6 million, consisting of shares surrendered to cover tax withholdings associated with the vesting of equity awards and shares acquired in the open market. As of July 30, 2022, there was $196.1 million remaining under our share repurchase program.

While we continue to face a challenging macroeconomic environment, including increases in the cost of goods and services necessary to produce and distribute our products, including cotton and other materials used in production, as well as labor, transportation, fuel and energy and continuing uncertainty regarding the future impact of the COVID-19 pandemic, we continue to focus on our key strategic growth initiatives – superior product, digital transformation, and fleet optimization.

Digital remains our top priority and we continue to expand our digital capabilities. We have migrated to a new responsive site and mobile application, and we have expanded our partnerships with our outside providers to help us monitor and reallocate our marketing budgets in a more efficient and timely manner to drive acquisition, retention and reactivation. As our digital business continues to expand, we continue to strengthen our partnership with our third party logistics provider to help provide our customer with a best-in-class digital experience.

We continue to evaluate our store fleet through our fleet optimization initiative. We have closed 541 stores, including 7 stores closed during the Second Quarter 2022, since the announcement of our fleet optimization initiative in 2013. We are planning to close a total of approximately 40 stores this year. With over 75% of our store fleet coming up for lease action in the next 24 months, we continue to maintain meaningful financial flexibility in our lease portfolio.

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 the average translation rates that most significantly impact our operating results:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Average Translation Rates [1]				
Canadian dollar	0.7775	0.8140	0.7835	0.8044
Hong Kong dollar	0.1274	0.1288	0.1276	0.1288
Chinese renminbi	0.1491	0.1552	0.1530	0.1546

(1) The average translation rates are the average of the monthly translation rates used during each period to translate the respective statement of operations. Each rate represents the U.S. dollar equivalent of the respective foreign currency.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

We describe our significant accounting policies in "Note 1. Basis of Preparation and Summary of Significant Accounting Policies" of the notes to consolidated financial statements included in our most recent Annual Report on Form 10-K for the fiscal year ended January 29, 2022. There have been no significant changes in our accounting policies from those described in our most recent Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires us 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 the amounts of revenues and expenses reported during the period. We continuously review 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 materially from our estimates.

Our critical accounting estimates are described under the heading "Critical Accounting Estimates" in Item 7 of our most recent Annual Report on Form 10-K for the fiscal year ended January 29, 2022. Our critical accounting estimates include impairment of long-lived assets, income taxes, stock-based compensation, and inventory valuation. There have been no material changes in these critical accounting estimates from those described in our most recent Annual Report on Form 10-K.

Recent Accounting Standards Updates

There are no pending accounting standards updates that are currently expected to have a material impact on the Company.

RESULTS OF OPERATIONS

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 following table sets forth, for the periods indicated, selected Statement of Operations data expressed as a percentage of net sales. We primarily evaluate the results of our operations as a percentage of net sales rather than in terms of absolute dollar increases or decreases by analyzing the year over year change in our business expressed as a percentage of net sales (i.e., "basis points"). For example, SG&A increased 217 basis points to 30.1% of net sales during the Second Quarter 2022 from 27.9% during the Second Quarter 2021. 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		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales (exclusive of depreciation and amortization)	69.7	59.4	65.4	58.1
Gross profit	30.3	40.6	34.6	41.9
Selling, general, and administrative expenses	30.1	27.9	30.1	26.2
Depreciation and amortization	3.5	3.5	3.6	3.5
Asset impairment charges	0.4	—	0.2	—
Operating income (loss)	(3.6)	9.1	0.7	12.2
Income (loss) before provision (benefit) for income taxes	(4.3)	8.0	0.2	11.1
Provision (benefit) for income taxes	(0.8)	2.2	(0.7)	3.0
Net income (loss)	(3.5 %)	5.8 %	0.9 %	8.2 %
Number of Company stores, end of period	658	708	658	708

Table may not add due to rounding.

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(in thousands)			
Net sales:				
The Children's Place U.S.	$ 341,223	$ 372,319	$ 669,184	$ 771,978
The Children's Place International	39,662	41,536	74,051	77,358
Total net sales	$ 380,885	$ 413,855	$ 743,235	$ 849,336

Second Quarter 2022 Compared to Second Quarter 2021

Net sales decreased $33.0 million or 8.0%, to $380.9 million during the Second Quarter 2022 from $413.9 million during the Second Quarter 2021, primarily due to the impact of a slowdown in consumer demand, resulting from the unprecedented inflation impacting our customer, an increase in promotional activity across the sector, lapping the impact of the enhanced child tax credit last July, and the impact of permanent store closures. Comparable retail sales decreased 8.7% for the quarter.

The Children's Place U.S. net sales decreased $31.1 million or 8.4%, to $341.2 million in the Second Quarter 2022, compared to $372.3 million in the Second Quarter 2021. This decrease was primarily due to the impact of a slowdown in consumer demand, resulting from the unprecedented inflation impacting our customer, an increase in promotional activity across the sector, lapping the impact of the enhanced child tax credit last July, and the impact of permanent store closures.

The Children's Place International net sales decreased $1.9 million or 4.5%, to $39.7 million in the Second Quarter 2022, compared to $41.5 million in the Second Quarter 2021. This decrease was primarily driven by the impact of unprecedented inflation on our customer and permanent store closures, partially offset by the favorable impact of stores that were temporarily closed in Canada during the Second Quarter 2021.

Total e-commerce sales, which include postage and handling, were 47.0% of net retail sales and 43.2% of net sales during the Second Quarter 2022, compared to 44.5% and 42.7%, respectively, during the Second Quarter 2021.

Gross profit decreased $52.4 million to $115.5 million in the Second Quarter 2022, compared to $167.9 million in the Second Quarter 2021. Gross margin deleveraged 1,025 basis points to 30.3% of net sales in the Second Quarter 2022. The Second Quarter 2022 results included a net credit of $0.6 million primarily related to the write-off of the lease liability and related right-of-use asset of a closed store. The Second Quarter 2021 results included incremental expenses related to the COVID-19 pandemic, including personal protective equipment and incentive pay for our associates of $0.2 million. Excluding the impact of these charges, gross margin deleveraged 1,046 basis points to 30.2% of net sales. The decrease was primarily the result of lower merchandise margins, due to unplanned AUR pressure resulting from an abrupt slowdown in consumer demand, coupled with an increase in promotional activity across the sector, higher domestic supply chain costs, increased penetration of our wholesale business, which operates at a lower gross margin, higher inbound transportation expenses, and the deleverage of fixed expenses resulting from the decline in net sales.

Gross profit as a percentage of net sales 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 $0.9 million to $114.7 million during the Second Quarter 2022 from $115.6 million during the Second Quarter 2021. SG&A deleveraged 217 basis points to 30.1% of net sales in the Second Quarter 2022. The Second Quarter 2022 results included incremental operating expenses, including fleet optimization costs of $0.4 million, a provision for foreign settlement of $0.4 million, restructuring costs of $0.2 million, and professional and consulting fees of $0.1 million. The Second Quarter 2021 results included incremental operating expenses, primarily personal protective equipment for our associates, of $0.7 million, restructuring costs, primarily related to severance costs for corporate associates, of $0.5 million, and fleet optimization costs of $0.3 million. Excluding the impact of these incremental charges, SG&A deleveraged 223 basis points to 29.8% of net sales, primarily as a result of the deleverage of fixed expenses resulting from the decline in net sales and higher planned marketing spend.

Asset impairment charges were $1.4 million during the Second Quarter 2022, inclusive of ROU assets, primarily related to four stores. There were no asset impairment charges during the Second Quarter 2021.

Depreciation and amortization was $13.2 million during the Second Quarter 2022, compared to $14.4 million during the Second Quarter 2021. The decrease was primarily driven by reduced depreciation of capitalized software and the permanent closure of 50 stores during the past twelve months.

Operating income (loss) decreased $51.6 million to a loss of $13.8 million during the Second Quarter 2022 from income of $37.8 million during the Second Quarter 2021. Operating income (loss) deleveraged 1,278 basis points to (3.6%) of net sales in the Second Quarter 2022. The Second Quarter 2022 and Second Quarter 2021 results included incremental operating expenses of $2.1 million and $2.2 million, respectively, as described above. Excluding the impact of these incremental charges, operating income (loss) deleveraged 1,277 basis points to (3.1%) of net sales.

Interest expense, net was $2.6 million during the Second Quarter 2022, compared to $4.7 million during the Second Quarter 2021. The decrease was primarily driven by lower interest rates due to our refinancing in November 2021 and a lower Term Loan balance in the Second Quarter 2022.

Provision (benefit) for income taxes was a benefit of $3.1 million during the Second Quarter 2022, compared to a provision of $9.1 million during the Second Quarter 2021. Our effective tax rate was a benefit of 19.0% and a provision of 27.3% in the Second Quarter 2022 and the Second Quarter 2021, respectively. The decrease in our effective tax rate for the Second Quarter 2022 compared to the Second Quarter 2021 was primarily due to a favorable mix of income on forecasted earnings compared to the prior year and the impact of discrete items recognized in the Second Quarter 2022.

Net income (loss) decreased $37.4 million to a loss of $13.3 million, or $(1.01) per diluted share during the Second Quarter 2022, compared to income of $24.1 million, or $1.60 per diluted share during the Second Quarter 2021, due to the factors discussed above.

Year-To-Date 2022 Compared to Year-To-Date 2021

Net sales decreased $106.1 million or 12.5%, to $743.2 million during Year-To-Date 2022 from $849.3 million during Year-To-Date 2021, primarily due to lapping the COVID-19 stimulus relief program in 2021, the impact of a slowdown in consumer demand, resulting from the unprecedented inflation impacting our customer, an increase in promotional activity across the sector, and the impact of permanent store closures. Comparable retail sales decreased 12.8% during Year-To-Date 2022.

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 $102.8 million or 13.3%, to $669.2 million during Year-To-Date 2022, compared to $772.0 million during Year-To-Date 2021. This decrease was primarily due to the impact of a slowdown in consumer demand, resulting from the unprecedented inflation impacting our customer, an increase in promotional activity across the sector, lapping the impact of the enhanced child tax credit last July, and the impact of permanent store closures.

The Children’s Place International net sales decreased $3.3 million or 4.3%, to $74.1 million during Year-To-Date 2022, compared to $77.4 million during Year-To-Date 2021. This decrease was primarily driven by the impact of unprecedented inflation on our customer and permanent store closures, partially offset by the favorable impact of stores that were temporarily closed in Canada during Year-To-Date 2021.

Total e-commerce sales, which include postage and handling, were 45.8% of net retail sales and 42.6% of net sales during Year-To-Date 2022, compared to 44.5% and 42.6%, respectively, during Year-To-Date 2021.

Gross profit decreased $98.7 million to $257.4 million during Year-To-Date 2022, compared to $356.1 million during Year-To-Date 2021. Gross margin deleveraged 730 basis points to 34.6% of net sales during Year-To-Date 2022. The Year-To-Date 2022 results included a net credit of $0.6 million primarily related to the write-off of the lease liability and related right-of-use asset of a closed store. The Year-To-Date 2021 results included incremental expenses related to the COVID-19 pandemic, including personal protective equipment and incentive pay for our associates, of $1.2 million. Excluding the impact of these charges, gross margin deleveraged 752 basis points to 34.5% of net sales. The decrease was primarily the result of lower merchandise margins due to unplanned AUR pressure resulting from an abrupt slowdown in consumer demand, coupled with an increase in promotional activity across the sector, higher inbound transportation expenses, increased penetration of our wholesale business, which operates at a lower gross margin, and the deleverage of fixed expenses resulting from the decline in net sales.

Gross profit as a percentage of net sales 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 increased $1.3 million to $223.7 million during Year-To-Date 2022 from $222.4 million during Year-To-Date 2021. SG&A deleveraged 392 basis points to 30.1% of net sales during Year-To-Date 2022. The Year-To-Date 2022 results included incremental operating expenses, including fleet optimization costs of $0.8 million, professional and consulting fees of $0.6 million, a provision for foreign settlement of $0.4 million, and restructuring costs of $0.2 million. The Year-To-Date 2021 results included incremental operating expenses, including personal protective equipment and incentive pay for our associates, of approximately $1.2 million, restructuring costs, primarily related to severance costs for corporate and store associates, of approximately $1.1 million, fleet optimization costs of $1.0 million, and contract termination costs of $0.8 million. Excluding the impact of these incremental charges, SG&A deleveraged 414 basis points to 29.8% of net sales, primarily as a result of the deleverage of fixed expenses resulting from the decline in net sales as well as higher planned marketing spend.

Asset impairment charges were $1.4 million during Year-To-Date 2022, inclusive of ROU assets, primarily related to four stores. There were no asset impairment charges during Year-To-Date 2021.

Depreciation and amortization was $26.9 million during Year-To-Date 2022, compared to $30.0 million during Year-To-Date 2021. The decrease was primarily driven by reduced depreciation of capitalized software and the permanent closure of 50 stores during the past twelve months.

Operating income decreased $98.4 million to $5.4 million during the Year-To-Date 2022 from $103.8 million during the Year-To-Date 2021. Operating income deleveraged 1,149 basis points to 0.7% of net sales during Year-To-Date 2022. The Year-To-Date 2022 results included incremental operating expenses of $3.5 million, compared to $7.1 million during Year-To-Date 2021. Excluding the impact of these incremental charges, operating income deleveraged 1,185 basis points to 1.2%of net sales.

Interest expense, net was $4.3 million during Year-To-Date 2022, compared to $9.1 million during Year-To-Date 2021. The decrease was primarily driven by lower interest rates due to our refinancing in November 2021 and a lower Term Loan balance during Year-To-Date 2022.

Provision (benefit) for income taxes was a benefit of $5.4 million during Year-To-Date 2022 compared to a provision of $25.3 million during Year-To-Date 2021. Our effective tax rate was a benefit of 477.6% and a provision of 26.8% during Year-To-Date 2022 and Year-To-Date 2021, respectively. The effective income tax rate for Year-To-Date 2022 reflected the release of a reserve for unrecognized tax benefits as a result of a settlement with a taxing authority in the First Quarter 2022.

Net income (loss) decreased $62.8 million to $6.5 million, or $0.48 per diluted share during Year-To-Date 2022, compared to $69.3 million, or $4.61 per diluted share during Year-To-Date 2021, due to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our working capital needs typically follow a seasonal pattern, peaking during the third fiscal quarter based on seasonal inventory purchases. However, our working capital needs were elevated in the Second Quarter 2022, in part due to the actions taken in an effort to mitigate the global supply chain disruptions. Our primary uses of cash are for working capital requirements, which are principally inventory purchases, the financing of capital projects, including investments in new systems, and for our capital return program (other than payment of dividends, which continue to be temporarily suspended due to the COVID-19 pandemic).

On November 16, 2021, we completed the refinancing of the Previous ABL Credit Facility and Previous Term Loan with a new lending group led by an affiliate of Wells Fargo by entering into the Fourth Amendment to our Credit Agreement with the lenders party thereto. The new debt consists of a revolving credit facility with $350.0 million of availability and a $50.0 million term loan. (See “ABL Credit Facility and Term Loan” below for further information).

Our working capital deficit improved $18.5 million to a deficit of $44.6 million at July 30, 2022, compared to a deficit of $63.1 million at July 31, 2021, primarily reflecting operating results over the past twelve months, as well as a higher inventory balance, reflecting higher average unit costs, higher inbound transportation costs, amounts on hand to support growth initiatives and elevated in-transit times, partially offset by higher payables and amounts outstanding under our ABL Credit Facility. During Year-To-Date 2022, we used $62.9 million of cash to repurchase shares, inclusive of shares repurchased and surrendered to cover tax withholdings associated with the vesting of equity awards.

At July 30, 2022, we had $283.9 million of outstanding borrowings and $58.7 million available for borrowing under our ABL Credit Facility. In addition, at July 30, 2022, we had $7.4 million of outstanding letters of credit with an additional $42.6 million available for issuing letters of credit under our ABL Credit Facility.

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 ABL Credit Facility.

ABL Credit Facility and Term Loan

We and certain of our subsidiaries maintain a $350 million ABL Credit Facility and a $50 million Term Loan with Wells Fargo, Truist Bank, 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, Swing Line Lender and Term Agent. Both the ABL Credit Facility and the Term Loan mature in November 2026, and both of these debt facilities have lower interest rates, reduced reporting requirements, and increased flexibility under the covenants compared to the Previous ABL Credit Facility and Previous Term Loan.

The ABL Credit Facility includes a $25 million Canadian sublimit and a $50 million sublimit for standby and documentary letters of credit.

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

(i) the prime rate plus a margin of 0.375% or 0.625% 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, three, or six months, as selected by us, plus a margin of 1.125% or 1.375% based on the amount of our average excess availability under the facility.

We are charged an unused line fee of 0.20% on the unused portion of the commitments. Letter of credit fees range from 0.563% to 0.683% for commercial letters of credit and range from 0.625% to 0.875% 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 ABL Credit Facility is determined by a borrowing base consisting of certain credit card receivables, certain trade receivables, certain inventory, and the fair market value of certain real estate, subject to certain reserves.

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

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

Credit extended under the ABL Credit Facility is secured by a first priority security interest in substantially all of our U.S. and Canadian assets other than intellectual property, certain furniture, fixtures, equipment, and pledges of subsidiary capital stock, and a second priority security interest in our intellectual property, certain furniture, fixtures, equipment, and pledges of subsidiary capital stock.

The table below presents the components of our ABL Credit Facility and Previous ABL Credit Facility:

	July 30, 2022	January 29, 2022	July 31, 2021
		(in millions)	
Credit facility maximum	$ 350.0	$ 350.0	$ 36
Borrowing base [1]	350.0	279.7	35
Outstanding borrowings	283.9	175.3	19
Letters of credit outstanding—standby	7.4	7.4	
Utilization of credit facility at end of period	291.3	182.7	20
Availability [2]	$ 58.7	$ 97.0	$ 14
Interest rate at end of period	3.4%	1.6%	3.

	Year-To-Date 2022	Fiscal 2021	Year-To-Date 2021
Average end of day loan balance during the period	$ 268.2	$ 187.0	$ 213.5
Highest end of day loan balance during the period	$ 297.6	$ 269.7	$ 269.7
Average interest rate	2.4%	3.6%	3.9%

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(1) Lower of the credit facility maximum or the total borrowing base collateral.

(2) The sub-limit availability for the letters of credit was $42.6 million at July 30, 2022, January 29, 2022, and July 31, 2021.

The Term Loan bears interest, payable monthly, at (a) the LIBOR Rate plus 2.50% for any portion that is a LIBOR loan, or (b) the base rate plus 1.75% for any portion that is a base rate loan. The Term Loan is pre-payable at any time without penalty, and does not require amortization. For the Second Quarter 2022 and Year-To-Date 2022, we recognized $0.5 million and $0.8 million, respectively, in interest expense related to the Term Loan.

The Term Loan is secured by a first priority security interest in our intellectual property, certain furniture, fixtures, equipment, and pledges of subsidiary capital stock, and a second priority security interest in the collateral securing the ABL Credit Facility on a first-priority basis. The Term Loan is guaranteed by each of our subsidiaries that guarantees the ABL Credit Facility and contains substantially the same covenants as provided in the ABL Credit Facility.

Both the ABL Credit Facility and the Term Loan contain customary events of default, which include (subject in certain cases to customary grace and cure periods), nonpayment of principal or interest, breach of covenants, failure to pay certain other indebtedness, and certain events of bankruptcy, insolvency or reorganization. As of July 30, 2022, unamortized deferred financing costs amounted to $2.6 million, of which $2.3 million related to our ABL Credit Facility.

Cash Flows and Capital Expenditures

Cash used in operating activities was $52.8 million during Year-To-Date 2022, compared to $3.3 million during Year-To-Date 2021. Cash used in operating activities during Year-To-Date 2022 was primarily the result of the timing of inventory receipts as a result of global supply chain disruptions, partially offset by earnings generated during the period, the receipt of a net income tax refund of $16.4 million, as well as other planned changes in working capital. Cash used in operating activities during Year-To-Date 2021 was primarily the result of the payment of certain suspended 2020 rents, net of abatements, as well as other planned changes in working capital, which brought our vendor payables in line with historical payment terms, partially offset by earnings generated during the period.

Cash used in investing activities was $19.1 million during Year-To-Date 2022, compared to $13.5 million during Year-To-Date 2021. This change was primarily driven by the timing of capital expenditures.

Cash provided by financing activities was $45.7 million during Year-To-Date 2022, compared to $16.2 million during Year-To-Date 2021. The increase primarily resulted from additional net borrowings under our asset-based revolving credit facility, partially offset by increased repurchases of our common stock during Year-To-Date 2022 compared to Year-To-Date 2021.

We anticipate total capital expenditures to approximate $45 million in Fiscal 2022, primarily related to digital and supply chain fulfillment initiatives, compared to $29.3 million in Fiscal 2021. Our ability to continue to meet our capital requirements in Fiscal 2022 depends on our cash on hand, our ability to generate cash flows from operations, and available borrowings under our ABL Credit Facility. Cash flows generated from operations depends on our ability to achieve our financial plans. We believe that our existing cash on hand, cash generated from operations, and funds available to us through our ABL Credit Facility will be sufficient to fund our capital and other cash requirements for the foreseeable future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Cash and Cash Equivalents

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

Interest Rates

Our ABL Credit Facility bears interest at a floating rate equal to the prime rate or LIBOR, plus a calculated spread based on our average excess availability under the facility. As of July 30, 2022, we had $283.9 million in borrowings under our ABL Credit Facility. A 10% change in the prime rate or LIBOR interest rates would not have had a material impact on our interest expense.

Our Term Loan bears interest, payable monthly, at (a) the LIBOR Rate plus 2.50% for any portion that is a LIBOR loan, or (b) the base rate plus 1.75% for any portion that is a base rate loan. As of July 30, 2022, the outstanding balance of the Term Loan was $50.0 million. A 10% change in the three month LIBOR Rate would not have had a material impact on our interest expense.

Assets and Liabilities of Foreign Subsidiaries

Assets and liabilities outside the United States are primarily located in Canada and Hong Kong, where our investments in our subsidiaries are considered long-term. As of July 30, 2022, net assets in Canada and Hong Kong amounted to $46.9 million. A 10% increase or decrease in the Canadian and Hong Kong foreign currency exchange rates would increase or decrease the corresponding net investment by $4.7 million. All changes in the net investments in our foreign subsidiaries are recorded in other comprehensive income.

As of July 30, 2022, we had $21.7 million of our cash and cash equivalents held in foreign subsidiaries, of which $11.3 million was in Hong Kong and $5.9 million was in Canada.

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 currency exchange rates, the Second Quarter 2022 net sales would have decreased or increased by approximately $6.6 million, and total costs and expenses would have decreased or increased by approximately $8.1 million. Additionally, we have foreign currency denominated receivables and payables that, when settled, result in transaction gains or losses. A 10% change in foreign currency exchange rates would not result in a significant transaction gain or loss in earnings.

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

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Management, including our Chief Executive Officer and President and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of July 30, 2022. Based on that evaluation, our Chief Executive Officer and President and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level, as of July 30, 2022, 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 7. Commitments and Contingencies” to the accompanying consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended January 29, 2022.

ITEM 1A. RISK FACTORS.

There were no material changes to the risk factors disclosed in Item 1A of Part I in our Annual Report on Form 10-K for the year ended January 29, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

In March 2018, our Board of Directors authorized a $250.0 million share repurchase program (the “2018 Share Repurchase Program”). In November 2021, our Board of Directors approved another $250.0 million share repurchase program (the “2021 Share Repurchase Program”), which added to the then remaining availability under the 2018 Share Repurchase Program. Under these programs, we 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. We may suspend or discontinue the programs at any time and may thereafter reinstitute purchases, all without prior announcement.

Pursuant to our practice, including due to restrictions imposed by our insider trading policy during black-out periods, we withhold and repurchase shares of vesting stock awards and make payments to taxing authorities as required by law to satisfy the withholding tax requirements of all equity award recipients. Our payment of the withholding taxes in exchange for the surrendered shares constitutes a repurchase of our common stock. We also acquire shares of our common stock in conjunction with liabilities owed under our deferred compensation plan, which are held in treasury.

The following table provides a month-by-month summary of our share repurchase activity during the Second Quarter 2022:

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
5/1/22-5/28/22 (1)	331,246	$ 46.82	329,678	$ 203,160
5/29/22-7/2/22 (2)	151,952	46.60	151,952	196,079
7/3/22-7/30/22 (3)	387	42.12	387	196,063
Total	483,585	$ 46.75	482,017	$ 196,063

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(1) Includes 1,568 shares acquired as treasury stock as directed by participants in the deferred compensation plan and 12,884 shares withheld to cover taxes in conjunction with the vesting of stock awards.

(2) Includes 57,152 shares withheld to cover taxes in conjunction with the vesting of stock awards.

(3) Includes 387 shares withheld to cover taxes in conjunction with the vesting of stock awards.

ITEM 6. EXHIBITS.

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

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

(+) Filed herewith.

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

SIGNATURES

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

THE CHILDREN'S PLACE, INC.

Date: August 26, 2022	By:	/S/ Jane T. Elfers
		Jane T. Elfers *Chief Executive Officer and President* *(Principal Executive Officer)*
Date: August 26, 2022	By:	/S/ Robert Helm
		Robert Helm *Chief Financial Officer* *(Principal Financial Officer)*

EXHIBIT 31.1

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 officer 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: August 26, 2022

By: /S/ JANE T. ELFERS

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

EXHIBIT 31.2

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

I, Robert Helm, 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 officer 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: August 26, 2022

By: /S/ ROBERT HELM

ROBERT HELM
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

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 July 30, 2022 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 26th day of August, 2022.

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

I, Robert Helm, 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 July 30, 2022 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 26th day of August, 2022.

By: /S/ ROBERT HELM
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 July 30, 2022 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.