



**Part II** Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ See attached

18 Can any resulting loss be recognized? ▶ See attached

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ The adjustments to basis would be taken into account in the tax year of a holder during which the Transaction occurred. Note, the Effective Date of the Transaction was October 12, 2018.

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ▶ Blaine Robinson Date ▶ 11/26/18

Print your name ▶ Blaine Robinson Title ▶ SVP, GLOBAL CONTROLLER & CAO

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Jeffrey P. van Gelder	<u>[Signature]</u>	11/26/2018		P00239127
	Firm's name ▶ <u>DELOITTE TAX LLP</u>	Firm's address ▶ <u>333 SE 2ND AVENUE, STE. 3600, MIAMI, FL 33131</u>		Firm's EIN ▶ <u>86-1065772</u>	Phone no. <u>305-372-3100</u>

**Claire's Stores, Inc.**  
**FEIN: 59-0940416**  
**Attachment to Form 8937**  
**Report of Organizational Actions Affecting Basis of Securities**

Disclaimer: The information contained in Form 8937 and this attachment does not constitute tax advice and does not purport to take into account any shareholder's or note holder's specific circumstances. Shareholders and note holders are urged to consult their own tax advisors regarding U.S. tax consequences of the transaction described herein and the impact to tax basis resulting from the transaction.

**Claire's Stores, Inc.**  
**FEIN: 59-0940416**  
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**Report of Organizational Actions Affecting Basis of Securities**

**Form 8937, Part I, Line 10**

<b>Debt Obligations Exchanged</b>	<b>CUSIP Number</b>
6.125% Senior Secured First Lien Notes due March 2020 (144A)	179584AP2
6.125% Senior Secured First Lien Notes due March 2020 (REG-S)	U17926AG8
9.00% Senior Secured First Lien Notes due March 2019 (144A)	179584AM9
9.00% Senior Secured First Lien Notes due March 2019 (REG-S)	U17926AE3
9.00% Senior Secured First Lien Notes due March 2019	U17926AF0
8.875% Senior Secured Second Lien Notes due March 2019	179584AL1
7.75% Senior Unsecured Notes due June 2020 (144A)	179584AQ0
7.75% Senior Unsecured Notes due June 2020 (REG-S)	U17926AH6

**Form 8937, Part II, Line 14**

On March 19, 2018 (the "Petition Date"), Claire's, Inc. ("Claire's Parent"), Claire's Stores, Inc. ("Claire's Stores"), and certain of their U.S. subsidiaries (together, the "Debtors") filed voluntary petitions for relief (the "Bankruptcy Filing") under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). On September 21, 2018 (the "Confirmation Date"), the Bankruptcy Court entered an order approving and confirming the Third Amended Joint Chapter 11 Plan of Reorganization (the "Plan"). On October 12, 2018 (the "Effective Date"), Claire's satisfied the conditions precedent to the Effective Date and the Plan became effective and was substantially consummated. Unless otherwise noted, capitalized terms herein have the same meaning as used in the Plan or in the *Disclosure Statement for the Second Amended Joint Chapter 11 Plan of Reorganization* (the "Disclosure Statement"), filed July 27, 2018.

On the Effective Date, in a series of transactions pursuant to the Plan (the "Transaction"), reorganized Claire's Inc. ("Reorganized Claire's Parent") contributed its own common stock ("Reorganized Claire's Parent Interests") and rights to subscribe to an offering (the "First Lien Subscription Rights") of Reorganized Claire's Parent's new preferred stock (the "New Preferred Equity Interests"), a new first lien exit term loan (the "New First Lien Term Loan"), and a new exit ABL revolver (the "New ABL Revolver" and, collectively, the "New Money Investment") to Claire's Stores (as a capital contribution or in exchange, in whole or in part, for an intercompany note issued by Claire's Stores). Immediately thereafter, holders of the First Lien Debt Secured Claims received the Reorganized Claire's Parent Interests and First Lien Subscription Rights, as applicable, from Claire's Stores in exchange for their First Lien Debt Secured Claims. The following describes the exchange of consideration between Claire's Stores and the following holders of Allowed Claims of Claire's Stores in the Transaction.

- First Lien Debt Secured Claims
- First Lien Deficiency Claims
- Second Lien Notes Claims
- Unsecured Notes Claims
- General Unsecured Elective Claims
- Existing Claire's Parent Equity Interests

#### **Treatment of Holders of First Lien Debt Secured Claims**

Pursuant to the Plan, the First Lien Debt Secured Claims were allowed in the amount of \$1,137,612,368 against each Debtor other than Claire's Parent. The First Lien Debt Secured Claims included the following debt instruments:

- 9.0% Senior Secured First Lien Notes due 2019
- 6.125% Senior Secured First Lien Notes due 2020
- Claire's Term Loan due 2021

On the Effective Date, each holder of a First Lien Debt Secured Claim was entitled to receive the holder's pro rata share of the following:

- (i) 100% of the Reorganized Claire's Parent Interests, subject to dilution by the New Preferred Equity Interests and the Management Equity Incentive Plan;
- (ii) With respect to Eligible First Lien Holders, the First Lien Subscription Rights; and
- (iii) With respect to each Ineligible First Lien Holder, cash in the amount equal to the value of the First Lien Subscription Rights that such holders would have received if they had been Eligible First Lien Holders

#### **Treatment of Holders of First Lien Deficiency Claims**

Pursuant to the Plan, the First Lien Deficiency Claims were allowed in the aggregate amount of \$288,287,776 against each Debtor other than Claire's Parent. The First Lien Deficiency Claims included the following debt instruments:

- 9.0% Senior Secured First Lien Notes due 2019
- 6.125% Senior Secured First Lien Notes due 2020
- Claire's Term Loan due 2021

On the Effective Date, the holders of the First Lien Deficiency Claims were entitled to receive, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for each holder's pro rata share of the First Lien Secured Debt Deficiency Claim Recovery Cash Pool of \$18,000,000.

#### **Treatment of Holders of Second Lien Notes Claims**

Pursuant to the Plan, the Second Lien Notes Claims included claims by holders of the 8.875% Senior Secured Second Lien Notes due 2019 and were allowed in the aggregate amount of \$232,383,775 against each Debtor other than Claire's Parent.

On the Effective Date, the holders of the Second Lien Notes Claims were entitled to receive, in full and final satisfaction, compromise, settlement, release, and discharge of, and in exchange for each holder's Second Lien Notes Claims, such holder's pro rata share of (i) the Second Lien Notes Claims Recovery Cash Pool of \$41,829,080 and (ii) the CVR Certificates, which entitle the holder to the rights to a share of the Contingent Value Rights Cash Pool.

#### **Treatment of Holders of Unsecured Notes Claims**

Pursuant to the Plan, the Unsecured Notes Claims included claims by holders of the 7.75% Senior Notes due 2020 and were allowed in the aggregate amount of \$221,781,252 against each Debtor other than Claire's Parent.

On the Effective Date, the holders of the Unsecured Notes Claims were entitled to receive, in full and final satisfaction, compromise, settlement, release, and discharge of and in exchange for such claims, each holder's pro rata share of the Unsecured Notes Claim Recovery Cash Pool of \$32,436,000.

#### **Treatment of Holders of General Unsecured Elective Claims**

Pursuant to the Plan, on the Effective Date, the holders of the General Unsecured Elective Claims were entitled to receive, as a carve out from collateral (or the value of such collateral) securing First Lien Debt Claims, each holder's pro rata share of the General Unsecured Elective Claim Recovery Cash Pool of \$16,000,000.

#### **Existing Claire's Parent Equity Interests**

On the Effective Date, the holders of the Existing Parent Equity Interests were entitled to receive each holder's pro rata share of, as applicable:

- (i) With respect to Eligible Shareholders, the Shareholder Subscription Rights, which entitle a holder to participate as a beneficiary of Claire's Parent's exercise of its rights as a Backstop Party to the New Money Investment;
- (ii) With respect to Ineligible Shareholders, cash in the amount equal to the value of the Shareholder Subscription Rights that would have been distributable to such Shareholder if such Shareholder was an Eligible Shareholder; and
- (iii) The cash proceeds or other consideration, if any, available from Reorganized Claire's Parent's assets after all Allowed Claims against Claire's Parent are satisfied in full with the proceeds from the Reorganized Claire's Parent assets

Eligible Shareholders exercising their Shareholder Subscription Rights shall be a beneficiary of Claire's Parent's exercise of its rights as a Backstop Party under the New Money Backstop Commitment Agreement with respect to Reorganized Claire's Parent's New Investment Allocation (*i.e.*, with respect to Claire's Parent's right to participate in the New Money Investment as a Backstop Party).

#### **Form 8937, Part II, Line 15**

#### **Effect on Basis to U.S. Holders**

As a result of the Transaction, each holder of a First Lien Debt Secured Claim, First Lien Deficiency Claim, Second Lien Notes Claim, Unsecured Notes Claim, General Unsecured Claim, General Unsecured Elective Claim, and Existing Parent Equity Interest (together or separately, a "Claim") exchanged its Claim for the right to receive consideration discussed on Line 14 of this Form 8937.

*For purposes of this section, a “U.S. Holder” means a beneficial owner of a First Lien Debt Secured Claim, First Lien Deficiency Claim, Second Lien Notes Claim, Unsecured Notes Claim, General Unsecured Claim, General Unsecured Elective Claim, Reorganized Claire’s Parent Interests, or Subscription Rights, that is: (a) an individual citizen or resident of the United States for U.S. federal income tax purposes; (b) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia; (c) an estate the income of which is subject to U.S. federal income taxation regardless of the source of such income; or (d) a trust (i) if a court within the United States is able to exercise primary jurisdiction over the trust’s administration and one or more United States persons have authority to control all substantial decisions of the trust or (ii) that has a valid election in effect under applicable Treasury regulations to be treated as a United States person.*

The following summary of certain U.S. federal income tax consequences is for informational purposes only and is not a substitute for careful tax planning and advice based upon your individual circumstances. For a complete discussion of the U.S. tax consequences of the Plan, see the *Disclosure Statement for the Second Amended Joint Chapter 11 Plan of Reorganization* (i.e., the Disclosure Statement), filed July 27, 2018. All holders of Claims and Interests are urged to consult their tax advisor for the U.S. federal, state, local and other tax consequences applicable under the Plan.

#### **Effect on Basis to U.S. Holders of Claims that Constitute Stock or Securities**

The exchange (or deemed exchange) of a Claim that constitutes a “security” for U.S. federal income tax purposes, for the consideration in the Transaction should be treated as part of a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code if the consideration issued in the Transaction also constitutes a “security” for U.S. federal income tax purposes. A U.S. Holder of a Claim that received consideration in exchange for a Claim as part of a reorganization generally would not recognize gain or loss unless the holder also received cash or other property in the Transaction, in which case the holder generally would recognize gain (but not loss) on the exchange, but only up to the amount of any cash and generally the fair market value of the other property received. A U.S. Holder that has a gain would recognize such gain to the extent of the fair market value of the Reorganized Claire’s Parent Interests received and possibly the portion of the value of the First Lien Subscription Rights allocable to the New Preferred Equity Interests. In addition, a U.S. Holder is expected to have interest income to the extent of any exchange consideration allocable to accrued but unpaid interest not previously included in income.

A U.S. Holder’s tax basis in stock or securities received in the Transaction in exchange for a Claim (apart from any portion thereof allocable to interest) in the case where the exchange is a Section 368(a) reorganization generally will equal such holder’s adjusted tax basis in the stock or securities surrendered, less the amount of cash and the fair market value of any other property received, plus the amount of gain recognized by the holder, and a holder’s holding period in such stock or securities received (apart from any portion thereof allocable to interest) generally will include the holder’s holding period in the stock or securities surrendered except to the extent of any consideration received in respect of accrued by unpaid interest. A U.S. holder would have a tax basis in the Reorganized Claire’s Parent Interests and possibly the portion of the First Lien Subscription Rights as relates to the New Preferred Equity Interests received equal to their fair market value. A U.S. Holder’s tax basis in other property received generally will be

such property's fair market value as of the Effective Date, and the holder's holding period for such other property generally will begin on the date after the day of receipt.

To the extent any portion of a U.S. Holder's share of the consideration is allocable to interest on its Claim that accrued while such holder held the Claim, such portion would be generally treated as interest income to the U.S. Holder. A U.S. Holder's tax basis in stock or securities received on account of accrued but unpaid interest generally is expected to be equal to the fair market value of such stock or securities, and the holder's holding period for such stock or securities generally will begin on the day after the day of receipt.

#### **Effect on Basis to U.S. Holders of Claims that Do Not Constitute a Security or that Receive Consideration that Does Not Constitute a Security**

In the event that either a U.S. Holder's Claim does not constitute a security for U.S. federal income tax purposes or that such Claim is exchanged for consideration in the Transaction that does not constitute a security for U.S. federal income tax purposes (*e.g.*, U.S. Holders that receive cash distributions from the various cash recovery pools), the U.S. Holder will generally recognize gain or loss in an amount equal to the difference, if any, between (i) the U.S. Holder's amount realized and (ii) the U.S. Holder's adjusted tax basis in its Claim. A U.S. Holder's amount realized generally is equal to the amount of cash plus fair market value of stock, securities, and other property received by the U.S. Holder with respect to its Claim.

A U.S. Holder's tax basis in the property received in a taxable exchange generally equals the fair market value of such property. A U.S. Holder's holding period in the property would begin on the day following the day of receipt.

To the extent any portion of the U.S. Holder's recovery is allocable to accrued but unpaid interest on a Claim that accrued while such holder held the Claim, such portion would be treated as interest income to the U.S. Holder.

#### **Treatment of the First Lien Subscription Rights and New Money Investment**

The characterization of the First Lien Subscription Rights and their subsequent exercise for U.S. federal income tax purposes – as the exercise of options to acquire a portion of the New Money Investment (*i.e.*, a portion of each of the New First Lien Term Loans and New Preferred Equity Interests, together with a commitment to lend under the New ABL Revolver) or, alternatively, as an integrated transaction pursuant to which the New Money Investment is acquired directly in partial satisfaction of a holder's Claim – is uncertain. The characterization of the First Lien Subscription Rights as the exercise of an option to acquire a portion of the New Money Investment or, alternatively, as an integrated transaction may impact, among other things, the amount of loss (if any) that a holder of First Lien Debt Secured Claims may recognize upon the satisfaction of its Claim and, assuming the exercise of such rights, a holder's tax basis in the New First Lien Term Loan received. The discussion herein assumes that the First Lien Subscription Rights are respected as options to acquire the New Money Investment.

A U.S. Holder of First Lien Subscription Rights generally would not recognize any gain or loss upon the exercise of such First Lien Subscription Rights. A U.S. Holder's aggregate tax basis in the New First Lien Terms Loans and New Preferred Equity Interests received upon exercise of a First Lien Subscription



Right should be equal to the sum of (i) the amount paid upon exercise of the First Lien Subscription Rights and (ii) the holder's tax basis in either (a) the First Lien Subscription Rights, or (b) under an integrated transaction analysis, the New First Lien Term Loans and New Preferred Equity Interests treated as directly acquired in partial satisfaction of the holder's First Lien Debt Secured Claim (which, in the case of recapitalization exchange, should be a carryover tax basis increased for any interest income or gain recognized, and in the case of taxable exchange, should be the portion of the "issue price" of the New First Lien Term Loans and the portion of the fair market value of the New Preferred Equity Interests treated as directly acquired in partial satisfaction of the holder's First Lien Debt Secured Claim).

A U.S. Holder's holding period in the New First Lien Terms Loans and New Preferred Equity Interests received upon exercise of a First Lien Subscription Right generally should commence the day following the exercise of the right, unless the First Lien Subscription Right is disregarded and the holder is instead treated as directly receiving a portion of the New First Lien Term Loans and New Preferred Equity Interests in partial satisfaction of its First Lien Debt Secured Claim. In the latter event, if the receipt of the New First Lien Term Loans was part of a "recapitalization" exchange for U.S. federal income tax purposes, the U.S. Holder could have a holding period that includes its holding period in the First Lien Debt Secured Claim deemed exchanged directly for a portion of the New First Lien Term Loans. In addition, if either the First Lien Subscription Rights or, under an integrated transaction analysis, the New First Lien Term Loans are treated as received as part of a recapitalization, any gain recognized upon a subsequent disposition of the New First Lien Term Loans may be treated as ordinary income to the extent of any carryover of accrued market discount not previously included in income.

It is uncertain whether a U.S. Holder that receives but does not exercise a First Lien Subscription Right should be treated as receiving anything of additional value in respect of its Claim. If the U.S. Holder is treated as having received a First Lien Subscription Right of value (despite its subsequent lapse), such that it obtains a tax basis in the right, the U.S. Holder generally would recognize a loss to the extent of the U.S. Holder's tax basis in the First Lien Subscription Right. In general, such loss would be a capital loss, long-term or short-term, depending upon whether the requisite holding period was satisfied (which in the case of a recapitalization exchange, even if the right goes unexercised, should include the holding period of the First Lien Debt Secured Claim exchanged therefor).

### ***New First Lien Term Loan***

The New First Lien Term Loan may be issued with OID for U.S. federal income tax purposes. The amount of OID, and the manner in which the New First Lien Term Loan will be treated under the OID provisions of the Tax Code, depends in part on whether the "issue price" of the New First Lien Term Loan is less than the face amount of such loans for OID purposes or, alternatively, whether the New First Lien Term Loan is treated as a "contingent payment debt instrument" under applicable Treasury regulations (the "Contingent Payment Debt Regulations").

The method for determining the "issue price" of the New First Lien Term Loan for U.S. federal income tax purposes is uncertain. Under applicable Treasury regulations, if a substantial amount of the debt instruments in a debt offering is issued for cash, the issue price of each debt instrument is determined based on the cash price. Although not defined, a substantial amount of a debt offering could be ten percent or more of the offering. If a substantial amount is not issued for cash but the debt instruments are

traded on an “established market,” the issue price of each debt instrument will be its fair market value at issuance. In the present case, half of the New First Term Loan will be offered pursuant to the First Lien Subscription Rights and Shareholder Subscription Rights and will be received in partial satisfaction of the First Lien Debt Secured Claims and Existing Claire’s Parent Equity Interests, with the remainder acquired for cash by the Backstop Parties pursuant to the terms of the New Money Backstop Agreement. Accordingly, it is possible that the cash price paid by the Backstop Parties may determine the issue price of the New First Lien Term Loan. Alternatively, in the event that such price is not determinative, the Debtors expect that the issue price of the New First Lien Term Loan would be its fair market value at issuance.

It is possible that the New First Lien Term Loan will be treated as a contingent payment debt obligation for U.S. federal income tax purposes. Depending on the likelihood at issuance that the make-whole premium will be triggered upon a change in control or other event, the New First Lien Term Loan may be considered a contingent payment debt obligation. Holders are urged to consult their tax advisors regarding the application of the Contingent Payment Debt Regulations to the New First Lien Term Loan.

**Form 8937, Part II, Line 16**

To the extent that a Claim constituted a security for U.S. federal income tax purposes and the exchange for consideration in the Transaction constituted a reorganization pursuant to Section 368(a), a U.S. Holder’s aggregate tax basis in the Reorganized Claire’s Parent Interests received in respect of its Claims will generally equal such U.S. Holder’s aggregate tax basis in its respective Claim surrendered in the Transaction, increased by any gain recognized and decreased by any boot received (*e.g.*, cash and the fair market value of other property). A U.S. Holder’s aggregate tax basis in the New First Lien Terms Loans and New Preferred Equity Interests received upon exercise of a First Lien Subscription Right should be equal to the sum of (i) the amount paid upon exercise of the First Lien Subscription Rights and (ii) the holder’s tax basis in either (a) the First Lien Subscription Rights, or (b) under an integrated transaction analysis, the New First Lien Term Loans and New Preferred Equity Interests treated as directly acquired in partial satisfaction of the holder’s First Lien Debt Secured Claim (which, in the case of recapitalization exchange, should be a carryover tax basis increased for any interest income or gain recognized, and in the case of taxable exchange, should be the portion of the “issue price” of the New First Lien Term Loans and the portion of the fair market value of the New Preferred Equity Interests treated as directly acquired in partial satisfaction of the holder’s First Lien Debt Secured Claim).

The aggregate tax basis allocated to the Reorganized Claire’s Parent Interests, New First Lien Terms Loans, and New Preferred Equity Interests received will then be divided by the number of shares of each respective stock or security to determine the tax basis of each share of the respective consideration. If a U.S. Holder received more than one type of stock or security consideration, then the aggregate tax basis in its Claim allocated to the stock or security received should be allocated Pro Rata based on the relative fair market values of the respective consideration.

The tax basis of the boot received by U.S. Holders (*e.g.*, cash and other property received that does constitute a security) would equal the fair market value of the boot received.

To the extent a Claim did not constitute a security, the tax basis of any consideration received by a U.S. Holder of such Claim under the Plan would equal its fair market value.

**Form 8937, Part II, Line 17**

Internal Revenue Code Sections 354, 356, 358, 1001, 1012, and 1223.

**Form 8937, Part II, Line 18**

**Claim Holders**

The Transaction generally should not result in a recognizable loss to U.S. Holders of a Claim to the extent such Claim constitutes a security for U.S. federal income tax purposes, the consideration received by the U.S. Holder in the Transaction constitutes a security for U.S. federal income tax purposes, and the exchange qualifies as a tax-free reorganization pursuant to Section 368(a). Holders of a Claim should consult their individual tax advisors to determine the tax consequences of the Transaction to them. To the extent a Claim or the consideration received by a U.S. Holder did not constitute a tax security, the Transaction would result in a recognizable loss to a holder to the extent the tax basis in their Claim exceeded the fair market value of the cash or other consideration received in exchange therefor.