# 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 November 1, 2014**

**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 000-21250**

# THE GYMBOREE CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **94-2615258**<br>**(IRS Employer Identification No.)** |
| **500 Howard Street, San Francisco, California**<br>**(Address of principal executive offices)** | **94105**<br>**(Zip Code)** |

**(415) 278-7000**
**(Registrant's telephone number, including area code)**

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated Filer | ☐ |
| Non-accelerated filer | ☒ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

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

As of December 15, 2014, the registrant had 1,000 shares of common stock outstanding, par value $0.001 per share, all of which are owned by Giraffe Holding, Inc., the registrant's indirect parent holding company, and are not publicly traded.

* In order to comply with reporting covenants governing the terms of its indebtedness, the Registrant files periodic and current reports with the SEC, but is not required by law to file reports under Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended.

**TABLE OF CONTENTS**

Table of Contents

**Part I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In thousands, except share and per share data)**
**(Unaudited)**

| | November 1, 2014 | February 1, 2014 | November 2, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 20,828 | $ 39,429 | $ 19,079 |
| Accounts receivable, net of allowance of $2,174, $1,370 and $649 | 23,377 | 21,882 | 32,485 |
| Merchandise inventories | 259,266 | 175,495 | 222,414 |
| Prepaid income taxes | 2,715 | 1,979 | 1,815 |
| Prepaid expenses | 21,090 | 18,801 | 19,986 |
| Deferred income taxes | 9,182 | 13,454 | 11,721 |
| Total current assets | 336,458 | 271,040 | 307,500 |
| Property and equipment: | | | |
| Land and buildings | 22,428 | 22,428 | 22,428 |
| Leasehold improvements | 200,948 | 195,556 | 199,308 |
| Furniture, fixtures and equipment | 122,427 | 117,131 | 108,650 |
| | 345,803 | 335,115 | 330,386 |
| Less accumulated depreciation and amortization | (154,628) | (128,807) | (121,119) |
| Net property and equipment | 191,175 | 206,308 | 209,267 |
| Goodwill | 375,345 | 758,777 | 898,983 |
| Other intangible assets, net | 344,829 | 559,824 | 576,744 |
| Deferred financing costs | 27,338 | 32,455 | 34,067 |
| Other assets | 8,866 | 11,700 | 12,604 |
| Total assets | $ 1,284,011 | $ 1,840,104 | $ 2,039,165 |
| **LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 146,066 | $ 101,959 | $ 87,323 |
| Accrued liabilities | 108,334 | 100,303 | 113,472 |
| Line of credit | 42,000 | — | 24,000 |
| Current obligation under capital lease | 539 | 503 | 492 |
| Total current liabilities | 296,939 | 202,765 | 225,287 |
| Long-term liabilities: | | | |
| Long-term debt | 1,113,970 | 1,113,742 | 1,113,668 |
| Long-term obligation under capital lease | 2,993 | 3,402 | 3,532 |
| Lease incentives and other liabilities | 54,129 | 50,432 | 49,772 |
| Unrecognized tax benefits | 6,186 | 6,157 | 12,416 |
| Deferred income taxes | 131,137 | 214,464 | 217,908 |
| Total liabilities | 1,605,354 | 1,590,962 | 1,622,583 |
| Commitments and contingencies | | | |
| Stockholders' (deficit) equity | | | |
| Common stock, including additional paid-in capital ($.001 par value: 1,000 shares authorized, issued and outstanding) | 521,237 | 517,932 | 516,629 |
| Accumulated deficit | (845,917) | (279,258) | (112,102) |
| Accumulated other comprehensive loss | (9,255) | (4,880) | (5,795) |
| Total stockholders' (deficit) equity | (333,935) | 233,794 | 398,732 |
| Noncontrolling interest | 12,592 | 15,348 | 17,850 |
| Total (deficit) equity | (321,343) | 249,142 | 416,582 |
| Total liabilities and stockholders' (deficit) equity | $ 1,284,011 | $ 1,840,104 | $ 2,039,165 |

**See notes to condensed consolidated financial statements.**

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands)**
**(Unaudited)**

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|---|---|---|---|
| | November 1, 2014 | November 2, 2013 | November 1, 2014 | November 2, 2013 |
| Net sales: | | | | |
| Retail | $ 304,265 | $ 297,352 | $ 816,765 | $ 857,173 |
| Gymboree Play & Music | 7,744 | 6,821 | 21,895 | 19,409 |
| Retail Franchise | 4,810 | 5,665 | 14,472 | 16,955 |
| Total net sales | 316,819 | 309,838 | 853,132 | 893,537 |
| Cost of goods sold, including buying and occupancy expenses | (190,898) | (186,370) | (522,489) | (542,010) |
| Gross profit | 125,921 | 123,468 | 330,643 | 351,527 |
| Selling, general and administrative expenses | (113,679) | (111,199) | (323,109) | (317,351) |
| Goodwill and intangible asset impairment | (591,396) | — | (591,396) | — |
| Operating (loss) income | (579,154) | 12,269 | (583,862) | 34,176 |
| Interest income | 42 | 41 | 157 | 143 |
| Interest expense | (20,768) | (20,483) | (61,597) | (61,352) |
| Loss on extinguishment of debt | — | (834) | — | (834) |
| Other (expense) income, net | (19) | 853 | (521) | 751 |
| Loss before income taxes | (599,899) | (8,154) | (645,823) | (27,116) |
| Income tax benefit (expense) | 77,505 | (16,244) | 75,573 | (9,455) |
| Net loss | (522,394) | (24,398) | (570,250) | (36,571) |
| Net loss attributable to noncontrolling interest | 319 | 413 | 3,591 | 700 |
| Net loss attributable to The Gymboree Corporation | $ (522,075) | $ (23,985) | $ (566,659) | $ (35,871) |

**See notes to condensed consolidated financial statements.**

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**(In thousands)**
**(Unaudited)**

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|---|---|---|---|
| | November 1, 2014 | November 2, 2013 | November 1, 2014 | November 2, 2013 |
| Net loss | $ (522,394) | $ (24,398) | $ (570,250) | $ (36,571) |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments, net of tax | (4,940) | 8 | (5,090) | (415) |
| Unrealized net gain (loss) on cash flow hedges, net of tax expense of $127, $501, $127, and $0 | 522 | (871) | 536 | 635 |
| Total other comprehensive (loss) income | (4,418) | (863) | (4,554) | 220 |
| Comprehensive loss | (526,812) | (25,261) | (574,804) | (36,351) |
| Comprehensive loss attributable to noncontrolling interest | 193 | 369 | 3,770 | 599 |
| Comprehensive loss attributable to The Gymboree Corporation | $ (526,619) | $ (24,892) | $ (571,034) | $ (35,752) |

**See notes to condensed consolidated financial statements.**

Table of Contents

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**
**(Unaudited)**

| | 39 Weeks Ended | |
|---|---|---|
| | November 1, 2014 | November 2, 2013 |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (570,250) | $ (36,571) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Loss on extinguishment of debt | — | 834 |
| Goodwill and intangible asset impairment | 591,396 | — |
| Depreciation and amortization | 33,469 | 34,825 |
| Amortization of deferred financing costs and accretion of original issue discount | 5,345 | 5,112 |
| Interest rate cap contracts - adjustment to market | 1,441 | 742 |
| Loss on disposal/impairment of assets | 6,089 | 5,662 |
| Deferred income taxes | (79,214) | 2,969 |
| Share-based compensation expense | 3,389 | 4,417 |
| Other | (106) | 40 |
| Change in assets and liabilities: | | |
| Accounts receivable | (1,507) | 4,382 |
| Merchandise inventories | (84,093) | (24,264) |
| Prepaid income taxes | (744) | 1,223 |
| Prepaid expenses and other assets | 630 | (5,144) |
| Accounts payable | 44,115 | (2,807) |
| Accrued liabilities | 8,237 | 17,344 |
| Lease incentives and other liabilities | 5,304 | 14,522 |
| Net cash (used in) provided by operating activities | (36,499) | 23,286 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital expenditures | (24,372) | (35,213) |
| Other | (45) | (235) |
| Net cash used in investing activities | (24,417) | (35,448) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from ABL facility | 300,000 | 79,000 |
| Payments on ABL facility | (258,000) | (55,000) |
| Repurchase of notes | — | (24,760) |
| Payments on capital lease | (373) | (78) |
| Dividend payment to Parent | (84) | (7,475) |
| Capital contribution received by noncontrolling interest | 992 | 6,506 |
| Net cash provided by (used in) financing activities | 42,535 | (1,807) |
| Effect of exchange rate fluctuations on cash and cash equivalents | (220) | (280) |
| Net decrease in cash and cash equivalents | (18,601) | (14,249) |
| **CASH AND CASH EQUIVALENTS:** | | |
| Beginning of period | 39,429 | 33,328 |
| End of period | $ 20,828 | $ 19,079 |
| **OTHER CASH FLOW INFORMATION:** | | |
| Cash paid for income taxes, net | $ 3,677 | $ 1,591 |
| Cash paid for interest | $ 46,862 | $ 47,948 |

**See notes to condensed consolidated financial statements.**

**THE GYMBOREE CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**1. Basis of Presentation**

The unaudited interim condensed consolidated financial statements, which include The Gymboree Corporation (the "Company," "we" or "us") and our 100%-owned subsidiaries, as well as Gymboree (China) Commercial and Trading Co. Ltd. ("Gymboree China") and Gymboree (Tianjin) Educational Information Consultation Co. Ltd. ("Gymboree Tianjin") (collectively, the "VIEs"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with generally accepted accounting principles have been omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended February 1, 2014 filed with the Securities and Exchange Commission on May 2, 2014.

The accompanying condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position, results of operations, comprehensive income (loss) and cash flows for the periods presented. The results of operations for the 13 weeks ("third quarter of fiscal 2014") and 39 weeks ended November 1, 2014 are not necessarily indicative of the operating results that may be expected for the 52-week period ending January 31, 2015 ("fiscal 2014") or any future period.

**2. Recently Issued Accounting Standards**

In August 2014, the Financial Accounting Standards Board ("FASB") issued accounting standards update ("ASU") No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, to provide guidance on principles and definitions to reduce diversity in the timing and content of disclosures when evaluating whether there is substantial doubt about an organization's ability to continue as a going concern. This ASU is effective in the annual period ending after December 15, 2016, with early application permitted. We have not yet determined the impact of the new standard on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. generally accepted accounting principles and International Financial Reporting Standards. This ASU is effective for fiscal years and interim periods within those years, beginning after December 15, 2016, and is to be applied either retrospectively to each prior reporting period presented or with the cumulative effect recognized at the date of initial adoption as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets). We have not yet determined the impact of the new standard on our condensed consolidated financial statements.

In July 2013, the FASB issued authoritative guidance that requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance is effective prospectively for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. The adoption of this guidance in the first quarter of fiscal 2014 did not have a material impact on our condensed consolidated financial statements.

## 3. Goodwill and Intangible Assets and Liabilities

### Goodwill

Goodwill allocated to our reportable segments as of November 1, 2014, February 1, 2014 and November 2, 2013 was as follows (in thousands):

| | Retail Stores Segment | Gymboree Play & Music Segment | International Retail Franchise Segment | Total |
|---|---|---|---|---|
| Balance as of November 1, 2014 | | | | |
| Goodwill | $ 887,241 | $ 16,389 | $ 23,636 | $ 927,266 |
| Accumulated impairment losses | (547,285) | — | — | (547,285) |
| Effect of exchange rate fluctuations | (4,636) | | | (4,636) |
| | $ 335,320 | $ 16,389 | $ 23,636 | $ 375,345 |
| Balance as of February 1, 2014 | | | | |
| Goodwill | $ 887,241 | $ 16,389 | $ 23,636 | $ 927,266 |
| Accumulated impairment losses | (168,489) | — | — | (168,489) |
| | $ 718,752 | $ 16,389 | $ 23,636 | $ 758,777 |
| Balance as of November 2, 2013 | | | | |
| Goodwill | $ 887,241 | $ 16,406 | $ 23,636 | $ 927,283 |
| Accumulated impairment losses | (28,300) | — | — | (28,300) |
| | $ 858,941 | $ 16,406 | $ 23,636 | $ 898,983 |

Goodwill impairment charges were as follows (in thousands):

| | Retail Stores Segment | Gymboree Play & Music Segment | International Retail Franchise Segment | Total |
|---|---|---|---|---|
| 13 and 39 weeks ended November 1, 2014 | $ (378,796) | $ — | $ — | $(378,796) |
| 52 weeks ended February 1, 2014 | $ (140,189) | $ — | $ — | $(140,189) |
| 13 and 39 weeks ended November 2, 2013 | $ — | $ — | $ — | $ — |

*Goodwill Impairment*

Goodwill is allocated to our reporting units, which are the same as our operating segments: Gymboree Retail (including an online store), Gymboree Outlet, Janie and Jack (including an online store), Crazy 8 (including an online store), Gymboree Play & Music and International Retail Franchise. We evaluate goodwill for impairment on an annual basis at the end of our tenth fiscal period (fiscal November) each year and at an interim date if indicators of impairment exist.

In connection with our long-range planning process in the third quarter of fiscal 2014, we revised our growth assumptions based on estimates of future operations. The updated assumptions resulted in a plan that reflects slower growth in revenues and margins in the reporting units of our retail stores segment. As a result, we considered this to be a triggering event and performed the first step of the two-step goodwill impairment test during the quarter ended November 1, 2014. We determined that the fair value of the Gymboree Retail, Gymboree Outlet and Crazy 8 reporting units, components of our retail stores reporting segment, were below their carrying values. We performed step two of the goodwill impairment test to measure the goodwill impairment loss specific to these three reporting units. Under step two, the fair values of all Gymboree Retail, Gymboree Outlet and Crazy 8 reporting unit tangible and intangible assets and liabilities were estimated for the purpose of deriving an estimate of the implied fair value of goodwill for each reporting unit. The implied fair value of each reporting unit's goodwill was then compared to its carrying value to determine the amount of goodwill impairment.

The goodwill impairment analysis for the reporting units was based on our projection of revenues, gross margin, operating costs and cash flows considering historical and estimated future results, general economic and market conditions, as well as the impact of planned business and operational strategies. We based our fair value estimates on assumptions we believed to be reasonable at the time, but such assumptions are subject to inherent uncertainty. Actual results may differ from those estimates. The valuations employed present value techniques to measure fair value and considered market factors and reporting unit specific developments. We primarily used an income approach to value these reporting units. The discount rates used in the income approach ranged from 13.0% to 15.5%. We also considered a market approach. Assumptions used in the market approach include valuation multiples based on analysis of multiples for comparable public companies. Finally, specific weights were applied to the components of each approach to estimate the total implied fair value. These weights are estimates by management and are developed based on the specific characteristics, risks and uncertainties of each reporting unit.

During the third quarter of 2014, we concluded that there was goodwill impairment in the Gymboree Retail, Gymboree Outlet and Crazy 8 reporting units of $252.3 million, $67.2 million and $59.3 million, respectively. The impairment charge is subject to

Table of Contents

finalization of fair values, which we will complete in the fourth quarter of fiscal 2014. We believe that the preliminary estimate of impairment is reasonable and represents our best estimate of the impairment charge to be incurred; however, it is possible that material adjustments to the preliminary estimate may be required as the analysis is finalized.

During the 13 and 39 week periods ended November 2, 2013, we did not identify impairment indicators for goodwill or other indefinite-lived intangible assets.

In fiscal 2013, due to weak results, particularly in the fourth quarter, we concluded that there was goodwill impairment in the Gymboree Retail, Gymboree Outlet and Crazy 8 reporting units. We recorded an estimate of impairment for goodwill of $140.2 million in the fourth quarter of fiscal 2013. The impairment charges were subject to finalization of fair values, which we completed during the first quarter of fiscal 2014, with no change to the previously recorded estimate.

**Intangible Assets and Liabilities**

*Indefinite-lived intangible assets Impairment*

We test indefinite-lived intangible assets for impairment as of our annual test date, which is the end of our tenth fiscal period each year (fiscal November), and more frequently if indicators of potential impairment exist and indicate it is more likely than not that the carrying value of the assets may not be recoverable.

In connection with our long-range planning process in the third quarter of fiscal 2014, we revised our growth assumptions based on estimates of future operations. The updated assumptions resulted in a plan that reflects slower growth in revenues and margins in the reporting units of our retail stores segment. We considered this to be a triggering event and tested our indefinite-lived intangible assets for impairment during the quarter ended November 1, 2014. As a result, we recorded a $212.6 million impairment charge in the third quarter of fiscal 2014 related to trade names of our retail stores segment, which is included as a component of goodwill and intangible asset impairment. The impairment charge is subject to finalization of fair values, which we will complete in the fourth quarter of fiscal 2014.

We did not identify impairment indicators for indefinite-lived intangible assets during the 13 and 39 weeks ended November 2, 2013.

Intangible assets and liabilities consist of the following (in thousands):

| | November 1, 2014 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Accumulated Impairment | Net Amount |
| Intangible Assets Not Subject to Amortization: | | | | |
| Trade names | $ 567,494 | $ — | $ (229,600) | $ 337,894 |
| Intangible Assets Subject to Amortization: | | | | |
| Customer relationships | 37,551 | (37,248) | — | 303 |
| Below market leases | 7,055 | (4,995) | — | 2,060 |
| Co-branded credit card agreement | 4,000 | (2,419) | — | 1,581 |
| Franchise agreements and reacquired franchise rights | 6,632 | (3,641) | — | 2,991 |
| | 55,238 | (48,303) | — | 6,935 |
| Total other intangible assets | $ 622,732 | $ (48,303) | $ (229,600) | $ 344,829 |
| Intangible Liabilities Subject to Amortization: | | | | |
| Above market leases (included in Lease incentives and other liabilities) | $ (16,631) | $ 11,517 | $ — | $ (5,114) |

Table of Contents

| | February 1, 2014 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Accumulated Impairment | Net Amount |
| Intangible Assets Not Subject to Amortization: | | | | |
| Trade names | $ 567,494 | $ — | $ (17,000) | $ 550,494 |
| Intangible Assets Subject to Amortization: | | | | |
| Customer relationships | 37,551 | (36,803) | — | 748 |
| Below market leases | 7,055 | (4,195) | — | 2,860 |
| Co-branded credit card agreement | 4,000 | (1,958) | — | 2,042 |
| Franchise agreements and reacquired franchise rights | 6,632 | (2,952) | — | 3,680 |
| | 55,238 | (45,908) | — | 9,330 |
| Total other intangible assets | $ 622,732 | $ (45,908) | $ (17,000) | $ 559,824 |
| Intangible Liabilities Subject to Amortization: | | | | |
| Above market leases (included in Lease incentives and other liabilities) | $ (16,631) | $ 9,999 | $ — | $ (6,632) |

| | November 2, 2013 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Accumulated Impairment | Net Amount |
| Intangible Assets Not Subject to Amortization: | | | | |
| Trade names | $ 567,494 | $ — | $ — | $ 567,494 |
| Intangible Assets Subject to Amortization: | | | | |
| Customer relationships | 36,400 | (36,400) | — | — |
| Below market leases | 7,055 | (3,908) | — | 3,147 |
| Co-branded credit card agreement | 4,000 | (1,804) | — | 2,196 |
| Franchise agreements | 6,600 | (2,693) | — | 3,907 |
| | 54,055 | (44,805) | — | 9,250 |
| Total other intangible assets | $ 621,549 | $ (44,805) | $ — | $ 576,744 |
| Intangible Liabilities Subject to Amortization: | | | | |
| Above market leases (included in Lease incentives and other liabilities) | $ (16,631) | $ 9,366 | $ — | $ (7,265) |

Included in cost of goods sold ("COGS"), is amortization of below market leases and above market leases. During the 13 weeks ended November 1, 2014 and November 2, 2013, we recorded net amortization income of approximately $0.2 million and $0.3 million, respectively, in COGS. During the 39 weeks ended November 1, 2014 and November 2, 2013, we recorded net amortization income of approximately $0.7 million and $1.1 million, respectively, in COGS.

Included in selling, general and administrative expenses ("SG&A"), is amortization of customer relationships, co-branded credit card agreement and franchise agreements and reacquired franchise rights. During the 13 weeks ended November 1, 2014 and November 2, 2013, we recorded amortization expense of approximately $0.5 million and $0.4 million, respectively, in SG&A. During the 39 weeks ended November 1, 2014 and November 2, 2013, we recorded amortization expense of approximately $1.6 million and $3.0 million, respectively, in SG&A.

**4. Derivative Financial Instruments**

We enter into forward foreign exchange contracts with respect to certain purchases in United States dollars ("U.S. dollars") of inventory to be sold in our retail stores in Canada. The purpose of these contracts is to protect our margins on the eventual sale of the

Table of Contents

inventory from fluctuations in the exchange rate for Canadian and U.S. dollars. The term of these forward foreign exchange contracts is generally less than one year. These contracts are treated as cash flow hedges. Amounts reported in accumulated other comprehensive income (loss) related to these forward foreign exchange contracts will be reclassified to COGS over a three-month period. We also enter into forward foreign exchange contracts with respect to short-term intercompany balances between U.S. and foreign entities in Canada and Australia. The purpose of these contracts is to protect us from fluctuations in the exchange rates upon the settlement of such balances. These contracts are not designated as hedges. Consequently, changes in the fair value of these contracts are included in other income.

In December 2010, we paid approximately $12.1 million to enter into interest rate caps to hedge against rising interest rates associated with our Term Loan (see Note 7) above the strike rate of the cap through December 23, 2016, the maturity date of the caps. The interest rate caps were designated on the date of execution as cash flow hedges. The premium, and any related amounts reported in accumulated other comprehensive loss, are being amortized to interest expense through December 23, 2016, as interest payments are made on the underlying Term Loan. During the 13 weeks ended November 1, 2014 and November 2, 2013, we reclassified approximately $0.5 million and $0.3 million, respectively, from accumulated other comprehensive loss to interest expense. During the 39 weeks ended November 1, 2014 and November 2, 2013, we reclassified approximately $1.4 million and $0.7 million, respectively, from accumulated other comprehensive loss to interest expense. We estimate approximately $3.4 million will be reclassified from accumulated other comprehensive loss to interest expense within the next 12 months.

For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (loss) and is subsequently recognized in earnings when the hedged exposure is recognized in earnings. Gains or losses on the derivative representing either hedge components excluded from the assessment of effectiveness or hedge ineffectiveness are recognized in earnings.

We had the following outstanding derivatives designated as cash flow hedges (U.S. dollars in thousands):

| | November 1, 2014 | | February 1, 2014 | | November 2, 2013 | |
|---|---|---|---|---|---|---|
| | Number of Instruments | Notional (USD) | Number of Instruments | Notional (USD) | Number of Instruments | Notional (USD) |
| **Interest rate derivatives** | | | | | | |
| Purchased interest rate caps | 4 | $700,000 | 4 | $700,000 | 4 | $700,000 |
| **Foreign exchange derivatives** | | | | | | |
| Forward foreign exchange contracts | 3 | 4,682 | 6 | 5,029 | 3 | 3,420 |
| Total | 7 | $704,682 | 10 | $705,029 | 7 | $703,420 |

We had the following outstanding derivatives which were not designated as hedges (U.S. dollars in thousands):

| | November 1, 2014 | | February 1, 2014 | | November 2, 2013 | |
|---|---|---|---|---|---|---|
| | Number of Instruments | Notional (USD) | Number of Instruments | Notional (USD) | Number of Instruments | Notional (USD) |
| Forward foreign exchange contracts | — | $ — | 2 | $10,339 | 1 | $ 380 |

The table below presents the fair value of all of our derivative financial instruments as well as their classification on the condensed consolidated balance sheets (in thousands):

| | November 1, 2014 | February 1, 2014 | November 2, 2013 |
|---|---|---|---|
| | Derivative Assets | Derivative Assets | Derivative Assets |
| **Other Assets** | | | |
| Purchased interest rate caps | $ 41 | $ 599 | $ 641 |
| Forward foreign exchange contracts | 134 | 348 | 107 |
| Total | $ 175 | $ 947 | $ 748 |

The tables below present the effect of all of our derivative financial instruments on the condensed consolidated statements of operations and comprehensive income (loss) (in thousands). No amounts were reclassified from accumulated other comprehensive loss into earnings as a result of forecasted transactions that failed to occur or as a result of hedge ineffectiveness.

Table of Contents

| | 13 Weeks Ended November 1, 2014 | | |
|---|---|---|---|
| | Gains / (Losses) Recognized in OCI on Derivative (Effective Portion) | Location of Gains (Losses) Reclassified from Accumulated OCI into Income (Effective Portion) | Gains / (Losses) Reclassified from Accumulated OCI into Income (Effective Portion) |
| Interest rate caps | $ (1) | Interest expense | $ (509) |
| Forward foreign exchange contracts | 181 | Cost of goods sold | 40 |
| Total | $ 180 | | $ (469) |

| | 13 Weeks Ended November 2, 2013 | | |
|---|---|---|---|
| | Gains / (Losses) Recognized in OCI on Derivative (Effective Portion) | Location of Gains (Losses) Reclassified from Accumulated OCI into Income (Effective Portion) | Gains / (Losses) Reclassified from Accumulated OCI into Income (Effective Portion) |
| Interest rate caps | $ (546) | Interest expense | $ (310) |
| Forward foreign exchange contracts | 3 | Cost of goods sold | 137 |
| Total | $ (543) | | $ (173) |

| | 39 Weeks Ended November 1, 2014 | | |
|---|---|---|---|
| | Gains / (Losses) Recognized in OCI on Derivative (Effective Portion) | Location of Gains (Losses) Reclassified from Accumulated OCI into Income (Effective Portion) | Gains / (Losses) Reclassified from Accumulated OCI into Income (Effective Portion) |
| Interest rate caps | $ (558) | Interest expense | $ (1,441) |
| Forward foreign exchange contracts | 109 | Cost of goods sold | 329 |
| Total | $ (449) | | $ (1,112) |

| | 39 Weeks Ended November 2, 2013 | | |
|---|---|---|---|
| | Gains / (Losses) Recognized in OCI on Derivative (Effective Portion) | Location of Gains (Losses) Reclassified from Accumulated OCI into Income (Effective Portion) | Gains / (Losses) Reclassified from Accumulated OCI into Income (Effective Portion) |
| Interest rate caps | $ (323) | Interest expense | $ (742) |
| Forward foreign exchange contracts | 407 | Cost of goods sold | 191 |
| Total | $ 84 | | $ (551) |

**5. Fair Value Measurements**

We record our money market funds, interest rate caps and forward foreign exchange contracts at fair value. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. Accounting guidance prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be derived from observable market data.

Level 3 – Inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. Valuation techniques could include the use of discounted cash flow models and similar techniques.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety is classified is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The tables below present our assets and liabilities measured at fair value on a recurring basis as of November 1, 2014, February 1, 2014 and November 2, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands). There were no transfers into or out of Level 1 and Level 2 during the 13 and 39 weeks ended November 1, 2014 and November 2, 2013, or for the year ended February 1, 2014.

| | November 1, 2014 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| **Assets** | | | | |
| Interest rate caps | $ — | $ 41 | $ — | $ 41 |
| Forward foreign exchange contracts | — | 134 | — | 134 |
| Total | $ — | $ 175 | $ — | $ 175 |

| | February 1, 2014 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| **Assets** | | | | |
| Money market funds | $ 14,571 | $ — | $ — | $ 14,571 |
| Interest rate caps | — | 599 | — | 599 |
| Forward foreign exchange contracts | — | 348 | — | 348 |
| Total | $ 14,571 | $ 947 | $ — | $ 15,518 |

| | November 2, 2013 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| **Assets** | | | | |
| Interest rate caps | $ — | $ 641 | $ — | $ 641 |
| Forward foreign exchange contracts | — | 107 | — | 107 |
| Total | $ — | $ 748 | $ — | $ 748 |

Our cash equivalents, which are primarily placed in money market funds, are valued at their original purchase prices plus interest that has accrued at the stated rate.

The fair value of our interest rate caps was determined using the market standard methodology of discounting future cash receipts. The variable cash receipts were based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves and volatilities. In addition, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, were incorporated in the fair values to account for potential nonperformance risk. In adjusting the fair value of these contracts for the effect of nonperformance risk, we have considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined the majority of the inputs used to value our interest rate caps fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with these derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of November 1, 2014, February 1, 2014, and November 2, 2013, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our interest rate cap positions and determined the credit valuation adjustment was not significant to the overall valuation. As a result, we classified our interest rate caps derivative valuations in Level 2 of the fair value hierarchy.

The fair value of our forward foreign exchange contracts was determined using the market approach and Level 2 inputs. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.

The carrying value of cash and cash equivalents, receivables and payables balances approximate their estimated fair values due to the short maturities of these instruments. We estimate the fair value of our long-term debt using current market yields. These current market yields are considered Level 2 inputs. The estimated fair value of long-term debt is as follows (in thousands):

| | November 1, 2014 | | February 1, 2014 | | November 2, 2013 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Term loan | $ 767,970 | $488,380 | $ 767,742 | $ 692,192 | $ 767,668 | $ 746,029 |
| Notes | 346,000 | 110,720 | 346,000 | 308,805 | 346,000 | 332,160 |
| | $ 1,113,970 | $599,100 | $ 1,113,742 | $1,000,997 | $ 1,113,668 | $1,078,189 |

We had no other financial assets or liabilities measured at fair value as of November 1, 2014, February 1, 2014, and November 2, 2013.

**Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

Our non-financial assets, which primarily consist of goodwill, other intangible assets and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value. However, on a periodic basis whenever events or changes in circumstances indicate their carrying value may not be fully recoverable (and at least annually for goodwill and indefinite-lived intangible assets), non-financial assets are assessed for impairment and, if applicable, written-down to and recorded at fair value, considering external market participant assumptions.

During the 13 and 39 weeks ended November 1, 2014, we recorded $378.8 million of goodwill impairment related to our Gymboree Retail, Gymboree Outlet, and Crazy 8 reporting units and $212.6 million of impairment related to our indefinite-lived intangible assets (see Note 3). We did not recognize any goodwill or indefinite-lived intangible assets impairment charges during the 13 and 39 weeks ended November 2, 2013.

During the 13 and 39 weeks ended November 1, 2014, we recorded impairment charges of $2.0 million and $5.2 million, respectively, related to assets for under-performing stores. During the 13 and 39 weeks ended November 2, 2013, we recorded impairment charges of $0.5 million and $1.5 million, respectively, related to assets for under-performing stores. The fair market value of these non-financial assets was determined using the income approach and Level 3 inputs, which required management to make significant estimates about future cash flows. Management estimates the amount and timing of future cash flows based on historical operating results and its experience and knowledge of the retail market in which each store operates. These impairment charges are included in SG&A expenses in the accompanying condensed consolidated statement of operations.

**6. Line of Credit**

We have a senior secured asset-based revolving credit facility (“ABL”) that provides financing of up to $225 million, subject to a borrowing base. Availability under the ABL is subject to the assets of the Company, any subsidiary co-borrowers and any subsidiary guarantors that are available to collateralize the borrowings thereunder, and is reduced by the level of outstanding letters of credit. Line of credit borrowings outstanding under the ABL as of November 1, 2014, February 1, 2014 and November 2, 2013 were $42.0 million, $0 and $24.0 million, respectively. Amounts available under the ABL are reduced by letter of credit utilization totaling $29.6 million as of November 1, 2014. Undrawn availability under the ABL, after being reduced by letter of credit utilization and outstanding borrowings, was $146.0 million as of November 1, 2014.

Average borrowings for the 13 and 39 weeks ended November 1, 2014 under the ABL amounted to $48.5 million and $28.9 million, respectively. Average borrowings for the year ended February 1, 2014 under the ABL amounted to $4.3 million. Average borrowings for the 13 and 39 weeks ended November 2, 2013 under the ABL amounted to $10.6 million and $3.5 million, respectively.

The ABL provides us the right to request up to $125 million of additional commitments under this facility (or, if less, the amount permitted under the Term Loan described in Note 7), subject to the satisfaction of certain conditions. Principal amounts outstanding under the ABL are due and payable in full in March 2017. Borrowings under the ABL bear interest at a rate per annum equal to, at our option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50%, and (3) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00%, or (b) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs ("Adjusted LIBOR"), in each case plus an applicable margin. In addition to paying interest on outstanding principal under the ABL, we are required to pay a commitment fee on unutilized commitments thereunder, which is 0.375% per annum under the amended ABL.

If at any time the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the ABL exceeds the lesser of (a) the commitment amount and (b) the borrowing base, we will be required to repay outstanding loans and/or cash collateralize letters of credit in an aggregate amount equal to such excess, with no reduction of the commitment amount. The ABL contains financial and other covenants that, among other things, restrict our ability to incur additional indebtedness and pay dividends. As of November 1, 2014, we were in compliance with these covenants. The obligations under the ABL are secured, subject to certain exceptions, by substantially all of our assets. Our 100%-owned domestic subsidiaries have fully and unconditionally guaranteed our obligations under the ABL.

**7. Long-Term Debt**

Long-term debt consists of (in thousands):

| | November 1, 2014 | February 1, 2014 | November 2, 2013 |
|---|---|---|---|
| Term loan due February 2018, Adjusted LIBOR (with a floor of 1.5%) plus 3.5%, net of discount of $1,133, $1,360, and $1,434 | $ 767,970 | $ 767,742 | $ 767,668 |
| Senior notes due December 2018, 9.125% | 346,000 | 346,000 | 346,000 |
| Long-term debt | $ 1,113,970 | $ 1,113,742 | $ 1,113,668 |

*Term Loan*

We have an agreement with several lenders for an $820 million senior secured Term Loan, with a maturity date of February 2018. The Term Loan allows us to request additional tranches of term loans in an aggregate amount not to exceed $200 million, subject to the satisfaction of certain conditions, provided such amount will be subject to reduction by the amount of any additional commitments incurred under the ABL described in Note 6. The interest rate for borrowings under the Term Loan is, at our option, a base rate plus an additional marginal rate of 2.5% or the Adjusted LIBOR rate (with a 1.5% floor) plus an additional rate of 3.5%. As of November 1, 2014, the interest rate under our Term Loan was 5%.

The Term Loan requires us to make quarterly payments equal to 0.25% of the original $820 million principal amount of the Term Loan made on the closing date plus accrued and unpaid interest thereon, with the balance due in February 2018. The Term Loan also has mandatory and voluntary pre-payment provisions, including a requirement that we prepay the Term Loan with a certain percentage of our annual excess cash flow. We calculated our excess cash flow using fiscal 2013 operating results and concluded we are not required to make any excess cash flow payments on the Term Loan during fiscal 2014. Excess cash flow payments on the Term Loan for fiscal 2015 will be calculated with our fiscal 2014 annual operating results. Voluntary prepayments and the excess cash flow prepayments made in prior fiscal years were applied toward our remaining quarterly amortization payments payable under the Term Loan through fiscal 2016. Our next quarterly payment payable under the Term Loan is due in the first quarter of fiscal 2017.

The obligations under the Term Loan are secured, subject to certain exceptions, by substantially all of our assets and those of our 100%-owned domestic subsidiaries. Our 100%-owned domestic subsidiaries also have fully and unconditionally guaranteed the Company's obligations under the Term Loan.

*Notes*

In fiscal 2010, we issued $400 million aggregate principal amount of 9.125% senior notes due in December 2018 (the "Notes"). Interest on the Notes is payable semi-annually. If the Company or our subsidiaries sell certain assets, we generally must either invest the net cash proceeds from such sale in our business within a certain period of time, use the proceeds to prepay senior secured debt, or make an offer to purchase a principal amount of the Notes equal to the excess net cash proceeds at a redemption price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest. Upon a change in control, we may also be required to make an offer to purchase all of the Notes at a redemption price equal to 101% of the principal amount of the Notes redeemed plus accrued and unpaid interest. We may redeem the Notes, in whole or in part, upon at least 30 days prior notice, at the redemption prices (expressed as percentages of principal amount of the Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the twelve-month period beginning on December 1 of each of the years indicated below:

| Year | Percentage |
|---|---|
| 2014 | 104.563% |
| 2015 | 102.281% |
| 2016 and thereafter | 100.000% |

The Notes are unsecured senior obligations of The Gymboree Corporation. The Company's 100%-owned domestic subsidiaries have fully and unconditionally guaranteed the Company's obligations under the Notes (see Note 16). The guarantees of the Notes are joint and several and will terminate upon the following circumstances: (A) the sale, exchange, disposition or transfer (by merger or otherwise) of (x) the capital stock of the guarantor providing the applicable guarantee, if after such sale, exchange, disposition or transfer such guarantor is no longer a subsidiary of The Gymboree Corporation, or (y) all or substantially all of the assets of such guarantor, (B) the release or discharge of the guarantee by such guarantor of the other indebtedness which resulted in the creation of the subsidiary guarantee by such guarantor under the Indenture, (C) the designation of such guarantor as an "unrestricted subsidiary" under the Indenture or (D) the legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, in each such case specified in clauses (A) through (D) above in accordance with the requirements therefore set forth in the Indenture.

Future minimum principal payments on long-term debt, excluding accretion of original issue discount ("OID") of $1.1 million, as of November 1, 2014, are as follows (in thousands):

| Fiscal years | Principal Payments |
|---|---|
| Remainder of 2014 | $ — |
| 2015 | — |
| 2016 | — |
| 2017 | 6,502 |
| 2018 | 1,108,600 |
| Total | $ 1,115,102 |

*Interest Expense on Long-Term Debt and ABL*

Interest expense on long-term debt and the ABL was $20.6 million and $20.5 million for the 13 weeks ended November 1, 2014 and November 2, 2013, respectively. Interest expense on long-term debt and the ABL was $61.2 million and $61.4 million for the 39 weeks ended November 1, 2014 and November 2, 2013, respectively.

Amortization of deferred financing costs and accretion of OID are also included in interest expense. Deferred financing costs allocated to the Term Loan and Notes are amortized over the term of the related financing agreements using the effective interest method. Deferred financing costs allocated to the ABL are amortized on a straight-line basis over 6.4 years. The weighted-average remaining amortization period is 3.5 years. Amortization of deferred financing costs was $1.7 million for both the 13 weeks ended November 1, 2014 and November 2, 2013, respectively. Amortization of deferred financing costs was $5.1 million and $4.9 million for the 39 weeks ended November 1, 2014 and November 2, 2013, respectively. Accretion of OID was not material for the 13 and 39 weeks ended November 1, 2014 and November 2, 2013.

**8. Share-Based Compensation**

Share-based compensation expense included as a component of SG&A expenses was $1.1 million and $1.4 million during the 13 weeks ended November 1, 2014 and November 2, 2013, respectively. Share-based compensation expense was $3.4 million and $4.4 million during the 39 weeks ended November 1, 2014 and November 2, 2013, respectively. We include an estimate of forfeitures in determining share-based compensation expense.

**9. Dividends**

During the third quarter of fiscal 2014, we distributed $0.1 million in the form of a dividend to our indirect parent, Giraffe Holding, Inc. ("Parent"). The dividend was used by Parent's shareholders, which are investment funds sponsored by Bain Capital Partners, LLC ("Bain Capital"), to repurchase shares. During the first and third quarter of fiscal 2013, we distributed $0.2 million and $0.6 million, respectively, in the form of a dividend to Parent, which was used by Parent's shareholders to repurchase shares.

Table of Contents

During the third quarter of 2013, we distributed $6.7 million in the form of a dividend to Parent, which was used by Parent's shareholders to fund their equity investment in the VIE (see Note 15).

Equity investments received by the VIE as capital contributions from affiliate of Parent during the second quarter of fiscal 2014 were $1.0 million and zero in the first and third quarters of fiscal 2014. Total equity investments received by the VIE as capital contributions from affiliate of Parent during the first and second quarter of fiscal 2013, were $1.0 million and $5.5 million, respectively, and zero in the third quarter of fiscal 2013.

**10. Income Taxes**

As of November 1, 2014, February 1, 2014 and November 2, 2013, unrecognized tax benefits were $6.9 million, $6.6 million and $12.1 million, respectively. We believe it is reasonably possible that the total amount of unrecognized tax benefits of $6.9 million as of November 1, 2014 will decrease by as much as $1.2 million during the next twelve months due to the resolution of certain tax contingencies and lapses of applicable statutes of limitations.

As of November 1, 2014, February 1, 2014 and November 2, 2013, the total valuation allowance against deferred tax assets was $52.4 million, $31.9 million and $25.2 million, respectively. We establish a valuation allowance when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. We consider all available positive and negative evidence in evaluating whether a valuation allowance is required, including prior earnings history, actual earnings over the previous 12 quarters on a cumulative basis, carryback and carryforward periods, and tax planning strategies that could potentially enhance the likelihood of realization of a deferred tax asset. We continue to have a valuation allowance against all net deferred tax assets in U.S. federal and unitary state jurisdictions, excluding indefinite-lived deferred tax assets and liabilities, and against the tax benefit on losses from our VIEs. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal.

**11. Accumulated Other Comprehensive Loss**

The following table shows the components of accumulated other comprehensive income (loss) ("OCI"), net of tax for the periods ended (in thousands):

| | November 1, 2014 | February 1, 2014 | November 2, 2013 |
|---|---|---|---|
| Foreign currency translation | $ (4,288) | $ 623 | $ 292 |
| Accumulated changes in fair value of derivative financial instruments, net of tax benefit of $3,855, $3,982 and $3,982 | (4,967) | (5,503) | (6,087) |
| Total accumulated other comprehensive loss | $ (9,255) | $ (4,880) | $ (5,795) |

Changes in accumulated OCI balance by component were as follows for the periods ended (in thousands):

| | 13 Weeks Ended November 1, 2014 | | |
|---|---|---|---|
| | Derivatives | Foreign Currency | Total Accumulated Comprehensive (Loss) Income Including Noncontrolling Interest |
| Beginning balance | $ (5,489) | $ 778 | $ (4,711) |
| Other comprehensive income (loss) recognized before reclassifications | 180 | (4,940) | (4,760) |
| Amounts reclassified from accumulated other comprehensive loss to earnings | 469 | — | 469 |
| Tax expense | (127) | — | (127) |
| Net current-period other comprehensive income (loss) | 522 | (4,940) | (4,418) |
| Other comprehensive income attributable to noncontrolling interest | — | (126) | (126) |
| Ending balance | $ (4,967) | $ (4,288) | $ (9,255) |

| | 13 Weeks Ended November 2, 2013 | | |
|---|---|---|---|
| | Derivatives | Foreign Currency | Total Accumulated Comprehensive (Loss) Income Including Noncontrolling Interest |
| Beginning balance | $ (5,216) | $ 328 | $ (4,888) |
| Other comprehensive (loss) income recognized before reclassifications | (543) | 8 | (535) |
| Amounts reclassified from accumulated other comprehensive loss to earnings | 173 | — | 173 |
| Tax expense | (501) | — | (501) |
| Net current-period other comprehensive (loss) income | (871) | 8 | (863) |
| Other comprehensive income attributable to noncontrolling interest | — | (44) | (44) |
| Ending balance | $ (6,087) | $ 292 | $ (5,795) |

| | 39 Weeks Ended November 1, 2014 | | |
|---|---|---|---|
| | Derivatives | Foreign Currency | Total Accumulated Comprehensive (Loss) Income Including Noncontrolling Interest |
| Beginning balance | $ (5,503) | $ 623 | $ (4,880) |
| Other comprehensive loss recognized before reclassifications | (449) | (5,090) | (5,539) |
| Amounts reclassified from accumulated other comprehensive loss to earnings | 1,112 | — | 1,112 |
| Tax expense | (127) | — | (127) |
| Net current-period other comprehensive income (loss) | 536 | (5,090) | (4,554) |
| Other comprehensive loss attributable to noncontrolling interest | — | 179 | 179 |
| Ending balance | $ (4,967) | $ (4,288) | $ (9,255) |

| | 39 Weeks Ended November 2, 2013 | | |
|---|---|---|---|
| | Derivatives | Foreign Currency | Total Accumulated Comprehensive (Loss) Income Including Noncontrolling Interest |
| Beginning balance | $ (6,722) | $ 808 | $ (5,914) |
| Other comprehensive income (loss) recognized before reclassifications | 84 | (415) | (331) |
| Amounts reclassified from accumulated other comprehensive loss to earnings | 551 | — | 551 |
| Net current-period other comprehensive income (loss) | 635 | (415) | 220 |
| Other comprehensive income attributable to noncontrolling interest | — | (101) | (101) |
| Ending balance | $ (6,087) | $ 292 | $ (5,795) |

## 12. Related Party Transactions

*Related Party Transactions – Excluding VIEs*

We incurred approximately $0.7 million and $0.9 million in management fees and reimbursement of out-of-pocket expenses from Bain Capital during the 13 weeks ended November 1, 2014 and November 2, 2013, respectively. We incurred approximately $2.3 million and $2.7 million in management fees and reimbursement of out-of-pocket expenses from Bain Capital during the 39 weeks ended November 1, 2014 and November 2, 2013, respectively. As of November 1, 2014, February 1, 2014 and November 2, 2013, we had a payable balance of $0.2 million, $0.4 million and $0.2 million, respectively, to Bain Capital.

We incurred approximately $0.5 million and $0.6 million in expenses related to services purchased from LogicSource, a company owned by funds associated with Bain Capital, during the 13 weeks ended November 1, 2014 and November 2, 2013, respectively. We incurred approximately $1.4 million and $1.8 million in expenses related to services purchased from LogicSource during the 39 weeks ended November 1, 2014 and November 2, 2013, respectively. As of November 1, 2014, February 1, 2014 and November 2, 2013, we had a payable balance of $0.2 million, $0.2 million and $0.3 million, respectively, to LogicSource.

During the 13 and 39 weeks ended November 1, 2014, we did not sell inventory to Burlington Coat Factory Investments Holdings, Inc., a company owned by funds associated with Bain Capital. During the 13 and 39 weeks ended November 2, 2013, we sold inventory to Burlington Coat Factory Investments Holdings, Inc. for $0.7 million and $8.7 million, respectively. As of November 1, 2014, February 1, 2014 and November 2, 2013, we had a receivable balance of $0, $1.0 million and $0, respectively, from Burlington Coat Factory Investments Holdings, Inc.

As of February 1, 2014, we had a receivable balance of $0.8 million, from our indirect parent, Giraffe Holding, Inc., related to income taxes and none as of November 1, 2014 and November 2, 2013.

In April 2014, Gymboree Play Programs, Inc. ("GPPI"), a wholly owned subsidiary of the Company, entered into a 10-year master franchise agreement with Gymboree Tianjin, an affiliate of the Company and VIE. Effective April 2014, Gymboree Tianjin became the master franchisor of Play & Music centers in the People's Republic of China ("PRC") Territory, with the rights to operate primary Play & Music centers, award and service unit franchises in the PRC. GPPI will receive a percentage of royalties and franchise fees earned by Gymboree Tianjin. Intercompany revenues and expenses have been eliminated upon consolidation.

*Related Party Transactions –VIEs*

Our VIE incurred approximately $0.1 million in management fees from Bain Capital Advisors (China) Ltd. during the 13 weeks ended November 1, 2014 and November 2, 2013. Our VIE incurred approximately $0.4 million in management fees from Bain Capital Advisors (China) Ltd. for the 39 weeks ended November 1, 2014 and November 2, 2013.

As of November 1, 2014, February 1, 2014 and November 2, 2013, our VIEs had a balance of $1.1 million, payable to their indirect parent, Gymboree Investment Holding GP, Ltd., related to funds used to pay operating costs of the VIEs. As of November 1, 2014, February 1, 2014 and November 2, 2013, our VIEs had a payable balance of $0.4 million related to funds used to pay operating costs of the VIEs, due to Gymboree Hong Kong Limited, the unconsolidated direct parent of the VIEs. The Company is part of a related party group that controls Gymboree Hong Kong Limited.

**13. Commitments and Contingencies**

*Commitments*

There have been no significant changes to our contractual obligations and commercial commitments as disclosed in our Annual Report on Form 10-K as of February 1, 2014, other than those which occur in the normal course of business.

*Contingencies*

From time to time, we are subject to various legal actions arising in the ordinary course of our business. Many of these legal actions raise complex factual and legal issues, which are subject to uncertainties. We cannot predict with reasonable assurance the outcome of these legal actions brought against us. Accordingly, any settlements or resolutions in these legal actions may occur and affect our net income in the quarter of such settlement or resolution. However, we do not believe the outcome of any legal actions would have a material effect on our condensed consolidated financial statements taken as a whole.

**14. Segment Information**

We have four reportable segments: retail stores (including online stores), Gymboree Play & Music, International Retail Franchise ("Retail Franchise"), and one reportable segment related to the activities of our consolidated VIEs. These reportable segments were identified based on how our business is managed and evaluated by our chief operating decision maker. The retail stores segment includes four operating segments (brands), which sell high-quality apparel for children: Gymboree Retail (including an online store), Gymboree Outlet, Janie and Jack (including an online store), and Crazy 8 (including an online store). These four operating segments have been aggregated into one reportable segment because these operating segments have similar historical economic characteristics and/or are expected to have similar economic characteristics and similar long-term financial performance in the future. Gross margin is the principal measure we consider in determining whether the economic characteristics are similar. In addition, each operating segment has similar products, production processes and type or class of customer. We believe disaggregating our operating segments would not provide material additional information. Corporate overhead (costs related to our distribution centers and shared corporate services) is included in the retail stores segment.

Summary financial data of each reportable segment were as follows for the periods ended (in thousands):

| | 13 Weeks Ended November 1, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Stores | Gymboree Play & Music | International Retail Franchise | VIEs | Intersegment Elimination | Total |
| Net sales | $ 303,166 | $ 4,178 | $ 4,914 | $6,055 | $ (1,494) | $ 316,819 |
| Operating (loss) income | $(583,758) | $ 1,981 | $ 2,452 | $ 172 | $ (1) | $(579,154) |

Table of Contents

| | 13 Weeks Ended November 2, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Stores | Gymboree Play & Music | International Retail Franchise | VIEs | Intersegment Elimination | Total |
| Net sales | $ 295,969 | $ 3,879 | $ 5,791 | $ 5,395 | $ (1,196) | $ 309,838 |
| Operating income (loss) | $ 8,786 | $ 1,836 | $ 2,430 | $ (803) | $ 20 | $ 12,269 |

| | 39 Weeks Ended November 1, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Stores | Gymboree Play & Music | International Retail Franchise | VIEs | Intersegment Elimination | Total |
| Net sales | $ 812,887 | $ 13,069 | $ 14,838 | $17,705 | $ (5,367) | $ 853,132 |
| Operating (loss) income | $ (596,894) | $ 8,227 | $ 7,340 | $ (2,525) | $ (10) | $ (583,862) |

| | 39 Weeks Ended November 2, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Stores | Gymboree Play & Music | International Retail Franchise | VIEs | Intersegment Elimination | Total |
| Net sales | $ 853,422 | $ 11,524 | $ 17,318 | $15,027 | $ (3,754) | $ 893,537 |
| Operating income (loss) | $ 22,657 | $ 5,284 | $ 7,499 | $ (1,318) | $ 54 | $ 34,176 |

| | Total Assets | | | | | |
|---|---|---|---|---|---|---|
| | Retail Stores | Gymboree Play & Music | International Retail Franchise | VIEs | Intersegment Elimination | Total |
| November 1, 2014 | $1,175,445 | $ 59,655 | $ 28,252 | $21,981 | $ (1,322) | $1,284,011 |
| February 1, 2014 | $1,728,186 | $ 60,942 | $ 29,256 | $23,208 | $ (1,488) | $1,840,104 |
| November 2, 2013 | $1,924,170 | $ 61,034 | $ 29,403 | $26,028 | $ (1,470) | $2,039,165 |

Interest expense, depreciation and amortization expense and capital expenditures have not been separately disclosed above as the amounts primarily relate to the retail segment. The Gymboree Play & Music and Retail Franchise reportable segments recorded intersegment revenues of $1.4 million and $0.1 million, respectively, for the 13 weeks ended November 1, 2014, and $1.1 million and $0.1 million, respectively, for the 13 weeks ended November 2, 2013. The Gymboree Play & Music and Retail Franchise reportable segments recorded intersegment revenues of $5.0 million and $0.4 million, respectively, for the 39 weeks ended November 1, 2014, and $3.4 million and $0.4 million, respectively, for the 39 weeks ended November 2, 2013.

We attribute retail store revenues to individual countries based on the selling location. For Retail Franchise, all sales are attributed to the U.S. geographic segment.

VIE Play & Music sales are attributable to the international geographic segment and all other Gymboree Play & Music sales are attributable to the U.S. geographic segment (see Note 15).

Summary financial data of each of our two geographical segments, United States and international were as follows for the fiscal periods ended (in thousands):

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | November 1, 2014 | | November 2, 2013 | |
| | United States | International | United States | International |
| Net sales | $ 296,839 | $ 19,980 | $ 290,962 | $ 18,876 |

| | 39 Weeks Ended | | | |
|---|---|---|---|---|
| | November 1, 2014 | | November 2, 2013 | |
| | United States | International | United States | International |
| Net sales | $ 801,409 | $ 51,723 | $ 841,855 | $ 51,682 |

Long-lived assets which include net property and equipment were as follows for the fiscal periods ended (in thousands):

| | November 1, 2014 | February 1, 2014 | November 2, 2013 |
|---|---|---|---|
| United States | $ 179,982 | $ 196,990 | $ 199,156 |
| International | $ 11,193 | $ 9,318 | $ 10,111 |

**15. Variable Interest Entities**

Gymboree China, Gymboree Tianjin and the Company are indirectly controlled by Gymboree Holding, Ltd. and investment funds sponsored by Bain Capital. Gymboree China and Gymboree Tianjin have been determined to be variable interest entities, and we (as well as our 100%-owned subsidiaries) are a member of a related party group that controls the VIEs and absorbs the economics of the VIEs. Based on our relationship with the VIEs, we determined we are most closely associated with the VIEs, and therefore, consolidate them as the primary beneficiary. However, as we have a 0% ownership interest in the VIEs, 100% of the results of operations of the VIEs are recorded as noncontrolling interest. The assets of the VIEs cannot be used by us. The liabilities of the VIEs are comprised mainly of short-term accrued expenses, and their creditors have no recourse to our general credit or assets.

The following tables reflect the impact of the VIEs on the condensed consolidated balance sheets as of November 1, 2014, February 1, 2014 and November 2, 2013, and the condensed consolidated statements of operations for the 13 and 39 weeks ended November 1, 2014 and November 2, 2013 (in thousands):

[Table of Contents](#)

**Condensed Consolidating Balance Sheets**

| | November 1, 2014 | | | |
|---|---|---|---|---|
| | Balance Before Consolidation of VIEs | VIEs | Eliminations | As Reported |
| Cash and cash equivalents | $ 10,653 | $10,175 | $ — | $ 20,828 |
| Other current assets | 310,491 | 6,461 | (1,322) | 315,630 |
| Total current assets | 321,144 | 16,636 | (1,322) | 336,458 |
| Non-current assets | 942,208 | 5,345 | — | 947,553 |
| Total assets | $ 1,263,352 | $21,981 | $ (1,322) | $1,284,011 |
| Current liabilities | $ 289,155 | $ 8,959 | $ (1,175) | $ 296,939 |
| Non-current liabilities | 1,307,985 | 430 | — | 1,308,415 |
| Total liabilities | 1,597,140 | 9,389 | (1,175) | 1,605,354 |
| Total stockholders' deficit | (333,788) | — | (147) | (333,935) |
| Noncontrolling interest | — | 12,592 | — | 12,592 |
| Total liabilities and stockholders' deficit | $ 1,263,352 | $21,981 | $ (1,322) | $1,284,011 |

| | February 1, 2014 | | | |
|---|---|---|---|---|
| | Balance Before Consolidation of VIEs | VIEs | Eliminations | As Reported |
| Cash and cash equivalents | $ 25,635 | $13,794 | $ — | $ 39,429 |
| Other current assets | 228,129 | 4,970 | (1,488) | 231,611 |
| Total current assets | 253,764 | 18,764 | (1,488) | 271,040 |
| Non-current assets | 1,564,620 | 4,444 | — | 1,569,064 |
| Total assets | $ 1,818,384 | $23,208 | $ (1,488) | $1,840,104 |
| Current liabilities | $ 196,631 | $ 7,490 | $ (1,356) | $ 202,765 |
| Non-current liabilities | 1,387,828 | 370 | (1) | 1,388,197 |
| Total liabilities | 1,584,459 | 7,860 | (1,357) | 1,590,962 |
| Total stockholders' equity | 233,925 | — | (131) | 233,794 |
| Noncontrolling interest | — | 15,348 | — | 15,348 |
| Total liabilities and stockholders' equity | $ 1,818,384 | $23,208 | $ (1,488) | $1,840,104 |

| | November 2, 2013 | | | |
|---|---|---|---|---|
| | Balance Before Consolidation of VIEs | VIEs | Eliminations | As Reported |
| Cash and cash equivalents | $ 13,743 | $ 5,336 | $ — | $ 19,079 |
| Other current assets | 273,798 | 16,093 | (1,470) | 288,421 |
| Total current assets | 287,541 | 21,429 | (1,470) | 307,500 |
| Non-current assets | 1,727,065 | 4,599 | 1 | 1,731,665 |
| Total assets | $ 2,014,606 | $26,028 | $ (1,469) | $2,039,165 |
| Current liabilities | $ 218,665 | $ 7,916 | $ (1,294) | $ 225,287 |
| Non-current liabilities | 1,397,034 | 262 | — | 1,397,296 |
| Total liabilities | 1,615,699 | 8,178 | (1,294) | 1,622,583 |
| Total stockholders' equity | 398,907 | — | (175) | 398,732 |
| Noncontrolling interest | — | 17,850 | — | 17,850 |
| Total liabilities and stockholders' equity | $ 2,014,606 | $26,028 | $ (1,469) | $2,039,165 |

Table of Contents

**Condensed Consolidating Statements of Operations**

| | For the 13 Weeks Ended November 1, 2014 | | | |
|---|---|---|---|---|
| | Balance Before Consolidation of VIEs | VIEs | Eliminations | As Reported |
| Net sales | $ 312,258 | $ 6,055 | $ (1,494) | $ 316,819 |
| Cost of goods sold | (189,729) | (1,561) | 392 | (190,898) |
| Selling, general and administrative expenses | (701,854) | (4,322) | 1,101 | (705,075) |
| Operating loss (income) | (579,325) | 172 | (1) | (579,154) |
| Other non-operating (expense) income | (20,772) | 27 | — | (20,745) |
| (Loss) income before income taxes | (600,097) | 199 | (1) | (599,899) |
| Income tax benefit (expense) | 78,023 | (518) | — | 77,505 |
| Net loss | (522,074) | (319) | (1) | (522,394) |
| Net loss attributable to noncontrolling interest | — | 319 | — | 319 |
| Net loss attributable to The Gymboree Corporation | $ (522,074) | $ — | $ (1) | $(522,075) |

| | For the 13 Weeks Ended November 2, 2013 | | | |
|---|---|---|---|---|
| | Balance Before Consolidation of VIEs | VIEs | Eliminations | As Reported |
| Net sales | $ 305,639 | $ 5,395 | $ (1,196) | $ 309,838 |
| Cost of goods sold | (185,116) | (1,297) | 43 | (186,370) |
| Selling, general and administrative expenses | (107,471) | (4,901) | 1,173 | (111,199) |
| Operating income (loss) | 13,052 | (803) | 20 | 12,269 |
| Other non-operating (expense) income | (21,140) | 717 | — | (20,423) |
| Loss before income taxes | (8,088) | (86) | 20 | (8,154) |
| Income tax expense | (15,917) | (327) | — | (16,244) |
| Net loss | (24,005) | (413) | 20 | (24,398) |
| Net loss attributable to noncontrolling interest | — | 413 | — | 413 |
| Net loss attributable to The Gymboree Corporation | $ (24,005) | $ — | $ 20 | $ (23,985) |

| | For the 39 Weeks Ended November 1, 2014 | | | |
|---|---|---|---|---|
| | Balance Before Consolidation of VIEs | VIEs | Eliminations | As Reported |
| Net sales | $ 840,794 | $ 17,705 | $ (5,367) | $ 853,132 |
| Cost of goods sold | (518,426) | (4,874) | 811 | (522,489) |
| Selling, general and administrative expenses | (903,695) | (15,356) | 4,546 | (914,505) |
| Operating loss | (581,327) | (2,525) | (10) | (583,862) |
| Other non-operating expense | (61,955) | (6) | — | (61,961) |
| Loss before income taxes | (643,282) | (2,531) | (10) | (645,823) |
| Income tax benefit (expense) | 76,633 | (1,060) | — | 75,573 |
| Net loss | (566,649) | (3,591) | (10) | (570,250) |
| Net loss attributable to noncontrolling interest | — | 3,591 | — | 3,591 |
| Net loss attributable to The Gymboree Corporation | $ (566,649) | $ — | $ (10) | $(566,659) |

| | For the 39 Weeks Ended November 2, 2013 | | | |
|---|---|---|---|---|
| | Balance Before Consolidation of VIEs | VIEs | Eliminations | As Reported |
| Net sales | $ 882,264 | $ 15,027 | $ (3,754) | $ 893,537 |
| Cost of goods sold | (538,591) | (3,868) | 449 | (542,010) |
| Selling, general and administrative expenses | (308,233) | (12,477) | 3,359 | (317,351) |
| Operating income (loss) | 35,440 | (1,318) | 54 | 34,176 |
| Other non-operating (expense) income | (62,163) | 871 | — | (61,292) |
| Loss before income taxes | (26,723) | (447) | 54 | (27,116) |
| Income tax expense | (9,202) | (253) | — | (9,455) |
| Net loss | (35,925) | (700) | 54 | (36,571) |
| Net loss attributable to noncontrolling interest | — | 700 | — | 700 |
| Net loss attributable to The Gymboree Corporation | $ (35,925) | $ — | $ 54 | $ (35,871) |

Table of Contents

**16. Condensed Guarantor Data**

The Company's 100%-owned domestic subsidiaries have fully and unconditionally guaranteed the Notes, subject to the customary automatic release provisions described above (see Note 7). The following condensed consolidating financial information presents the financial position, results of operations, comprehensive income (loss) and cash flows of The Gymboree Corporation and the guarantor and non-guarantor subsidiaries. The VIEs financial results are included in those of the non-guarantor subsidiaries. Intercompany transactions are eliminated.

Effective during the first quarter of fiscal 2014, our Canadian subsidiary, which is part of the non-guarantor subsidiaries, issued common shares to The Gymboree Corporation valued at $18.5 million. No cash was exchanged since we immediately net settled $15.3 million and $3.2 million of intercompany liabilities payable to The Gymboree Corporation related to business operations and to our Advanced Pricing Agreement, respectively. The $18.5 million is a non-cash investing and financing activity for purposes of condensed consolidating statements of cash flows. During the second quarter of fiscal 2014, our Canadian subsidiary repurchased common shares from The Gymboree Corporation valued at $3.2 million.

During the third quarter of fiscal 2014, our guarantor subsidiaries distributed $3.0 million in the form of a dividend to The Gymboree Corporation.

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING BALANCE SHEETS**
**(In thousands)**

| | As of November 1, 2014 | | | | |
|---|---|---|---|---|---|
| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 2,195 | $ 3,236 | $ 15,397 | $ — | $ 20,828 |
| Accounts receivable, net of allowance | 687 | 20,693 | 1,997 | — | 23,377 |
| Merchandise inventories | — | 252,102 | 7,684 | (520) | 259,266 |
| Prepaid income taxes | 2,029 | 486 | 200 | — | 2,715 |
| Prepaid expenses | 4,461 | 15,164 | 1,465 | — | 21,090 |
| Deferred income taxes | — | 13,745 | 645 | (5,208) | 9,182 |
| Intercompany receivable | — | 542,194 | — | (542,194) | — |
| Total current assets | 9,372 | 847,620 | 27,388 | (547,922) | 336,458 |
| Property and equipment, net | 12,063 | 167,676 | 11,436 | — | 191,175 |
| Goodwill | — | 362,022 | 13,323 | — | 375,345 |
| Other intangible assets, net | — | 344,436 | 393 | — | 344,829 |
| Deferred financing costs | 27,338 | — | — | — | 27,338 |
| Other assets | 6,992 | 1,673 | 9,140 | (8,939) | 8,866 |
| Investment in subsidiaries | 1,362,644 | — | — | (1,362,644) | — |
| Total assets | $ 1,418,409 | $1,723,427 | $ 61,680 | $(1,919,505) | $1,284,011 |
| **LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 17,823 | $ 126,192 | $ 2,051 | $ — | $ 146,066 |
| Accrued liabilities | 32,221 | 67,963 | 8,086 | 64 | 108,334 |
| Deferred income taxes | 5,150 | — | 123 | (5,273) | — |
| Line of credit | 42,000 | — | — | — | 42,000 |
| Current obligation under capital lease | — | 539 | — | — | 539 |
| Intercompany payable | 536,282 | — | 6,431 | (542,713) | — |
| Total current liabilities | 633,476 | 194,694 | 16,691 | (547,922) | 296,939 |
| Long-term liabilities: | | | | | |
| Long-term debt | 1,113,970 | — | — | — | 1,113,970 |
| Long-term obligation under capital lease | — | 2,993 | — | — | 2,993 |
| Lease incentives and other liabilities | 4,898 | 50,056 | 5,361 | — | 60,315 |
| Deferred income taxes | — | 140,076 | — | (8,939) | 131,137 |
| Total liabilities | 1,752,344 | 387,819 | 22,052 | (556,861) | 1,605,354 |
| Total stockholders' (deficit) equity | (333,935) | 1,335,608 | 27,036 | (1,362,644) | (333,935) |
| Noncontrolling interest | — | — | 12,592 | — | 12,592 |
| Total liabilities and stockholders' (deficit) equity | $ 1,418,409 | $1,723,427 | $ 61,680 | $(1,919,505) | $1,284,011 |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING BALANCE SHEETS**
**(In thousands)**

| | As of February 1, 2014 | | | | |
|---|---|---|---|---|---|
| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 15,479 | $ 4,659 | $ 19,291 | $ — | $ 39,429 |
| Accounts receivable, net of allowance | 1,237 | 18,634 | 2,011 | — | 21,882 |
| Merchandise inventories | — | 170,126 | 5,823 | (454) | 175,495 |
| Prepaid income taxes | 1,659 | 284 | 36 | — | 1,979 |
| Prepaid expenses | 3,538 | 14,095 | 1,168 | — | 18,801 |
| Deferred income taxes | — | 13,303 | 918 | (767) | 13,454 |
| Intercompany receivable | — | 559,280 | — | (559,280) | — |
| Total current assets | 21,913 | 780,381 | 29,247 | (560,501) | 271,040 |
| Property and equipment, net | 14,288 | 182,421 | 9,599 | — | 206,308 |
| Goodwill | — | 721,844 | 36,933 | — | 758,777 |
| Other intangible assets, net | — | 558,962 | 862 | — | 559,824 |
| Deferred financing costs | 32,455 | — | — | — | 32,455 |
| Other assets | 15,139 | 2,340 | 10,920 | (16,699) | 11,700 |
| Investment in subsidiaries | 1,870,800 | — | — | (1,870,800) | — |
| Total assets | $ 1,954,595 | $2,245,948 | $ 87,561 | $(2,448,000) | $1,840,104 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 27,184 | $ 73,218 | $ 1,557 | $ — | $ 101,959 |
| Accrued liabilities | 34,328 | 58,430 | 7,545 | — | 100,303 |
| Deferred income taxes | 654 | — | 113 | (767) | — |
| Current obligation under capital lease | — | 503 | — | — | 503 |
| Intercompany payable | 541,397 | — | 18,337 | (559,734) | — |
| Total current liabilities | 603,563 | 132,151 | 27,552 | (560,501) | 202,765 |
| Long-term liabilities: | | | | | |
| Long-term debt | 1,113,742 | — | — | — | 1,113,742 |
| Long-term obligation under capital lease | — | 3,402 | — | — | 3,402 |
| Lease incentives and other liabilities | 3,496 | 48,117 | 4,976 | — | 56,589 |
| Deferred income taxes | — | 231,163 | — | (16,699) | 214,464 |
| Total liabilities | 1,720,801 | 414,833 | 32,528 | (577,200) | 1,590,962 |
| Total stockholders' equity | 233,794 | 1,831,115 | 39,685 | (1,870,800) | 233,794 |
| Noncontrolling interest | — | — | 15,348 | — | 15,348 |
| Total liabilities and stockholders' equity | $ 1,954,595 | $2,245,948 | $ 87,561 | $(2,448,000) | $1,840,104 |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING BALANCE SHEETS**
**(In thousands)**

| | As of November 2, 2013 | | | | |
|---|---|---|---|---|---|
| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 1,438 | $ 3,381 | $ 14,260 | $ — | $ 19,079 |
| Accounts receivable, net of allowance | 367 | 20,087 | 12,031 | — | 32,485 |
| Merchandise inventories | — | 216,605 | 6,231 | (422) | 222,414 |
| Prepaid income taxes | 1,478 | — | 337 | — | 1,815 |
| Prepaid expenses | 4,011 | 14,659 | 1,316 | — | 19,986 |
| Deferred income taxes | — | 15,295 | 864 | (4,438) | 11,721 |
| Intercompany receivable | — | 489,942 | — | (489,942) | — |
| Total current assets | 7,294 | 759,969 | 35,039 | (494,802) | 307,500 |
| Property and equipment, net | 13,166 | 185,689 | 10,412 | — | 209,267 |
| Goodwill | — | 859,165 | 39,818 | — | 898,983 |
| Other intangible assets, net | — | 576,623 | 121 | — | 576,744 |
| Deferred financing costs | 34,067 | — | — | — | 34,067 |
| Other assets | 21,321 | 2,142 | 13,696 | (24,555) | 12,604 |
| Investment in subsidiaries | 1,985,248 | — | — | (1,985,248) | — |
| Total assets | $ 2,061,096 | $2,383,588 | $ 99,086 | $(2,504,605) | $2,039,165 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 8,756 | $ 77,192 | $ 1,375 | $ — | $ 87,323 |
| Accrued liabilities | 38,548 | 66,832 | 8,092 | — | 113,472 |
| Deferred income taxes | 4,363 | — | 75 | (4,438) | — |
| Line of credit | 24,000 | — | — | — | 24,000 |
| Current obligation under capital lease | — | 492 | — | — | 492 |
| Intercompany payable | 468,686 | — | 21,678 | (490,364) | — |
| Total current liabilities | 544,353 | 144,516 | 31,220 | (494,802) | 225,287 |
| Long-term liabilities: | | | | | |
| Long-term debt | 1,113,668 | — | — | — | 1,113,668 |
| Long-term obligation under capital lease | — | 3,532 | — | — | 3,532 |
| Lease incentives and other liabilities | 4,343 | 47,638 | 10,207 | — | 62,188 |
| Deferred income taxes | — | 242,463 | — | (24,555) | 217,908 |
| Total liabilities | 1,662,364 | 438,149 | 41,427 | (519,357) | 1,622,583 |
| Total stockholders' equity | 398,732 | 1,945,439 | 39,809 | (1,985,248) | 398,732 |
| Noncontrolling interest | — | — | 17,850 | — | 17,850 |
| Total liabilities and stockholders' equity | $ 2,061,096 | $2,383,588 | $ 99,086 | $(2,504,605) | $2,039,165 |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**
**FOR THE 13 WEEKS ENDED NOVEMBER 1, 2014**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| Retail | $ 647 | $ 296,195 | $ 15,461 | $ (8,038) | $ 304,265 |
| Gymboree Play & Music | — | 2,786 | 4,958 | — | 7,744 |
| Retail Franchise | — | 4,810 | — | — | 4,810 |
| Intercompany revenue | 18,249 | 1,800 | — | (20,049) | — |
| Total net sales | 18,896 | 305,591 | 20,419 | (28,087) | 316,819 |
| Cost of goods sold, including buying and occupancy expenses | (2,258) | (185,288) | (11,736) | 8,384 | (190,898) |
| Gross profit | 16,638 | 120,303 | 8,683 | (19,703) | 125,921 |
| Selling, general and administrative expenses | (17,956) | (106,741) | (8,657) | 19,675 | (113,679) |
| Goodwill and intangible asset impairment | — | (572,422) | (18,974) | — | (591,396) |
| Operating loss | (1,318) | (558,860) | (18,948) | (28) | (579,154) |
| Interest income | — | 7 | 39 | (4) | 42 |
| Interest expense | (20,568) | (200) | (4) | 4 | (20,768) |
| Other (expense) income, net | (48) | 31 | (2) | — | (19) |
| Loss before income taxes | (21,934) | (559,022) | (18,915) | (28) | (599,899) |
| Income tax benefit (expense) | 8,306 | 70,407 | (1,208) | — | 77,505 |
| Equity in earnings of affiliates, net of tax | (508,447) | — | — | 508,447 | — |
| Net loss | (522,075) | (488,615) | (20,123) | 508,419 | (522,394) |
| Net loss attributable to noncontrolling interest | — | — | 319 | — | 319 |
| Net loss attributable to The Gymboree Corporation | $ (522,075) | $ (488,615) | $ (19,804) | $ 508,419 | $ (522,075) |

Table of Contents

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**
**FOR THE 13 WEEKS ENDED NOVEMBER 2, 2013**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| Retail | $ 443 | $ 287,574 | $ 16,232 | $ (6,897) | $ 297,352 |
| Gymboree Play & Music | — | 2,808 | 4,013 | — | 6,821 |
| Retail Franchise | — | 5,665 | — | — | 5,665 |
| Intercompany revenue | 12,866 | 1,490 | — | (14,356) | — |
| Total net sales | 13,309 | 297,537 | 20,245 | (21,253) | 309,838 |
| Cost of goods sold, including buying and occupancy expenses | (1,435) | (180,116) | (10,720) | 5,901 | (186,370) |
| Gross profit | 11,874 | 117,421 | 9,525 | (15,352) | 123,468 |
| Selling, general and administrative expenses | (14,271) | (103,254) | (9,090) | 15,416 | (111,199) |
| Operating (loss) income | (2,397) | 14,167 | 435 | 64 | 12,269 |
| Interest income | 29 | 6 | 5 | 1 | 41 |
| Interest expense | (20,421) | (62) | — | — | (20,483) |
| Loss on extinguishment of debt | (834) | — | — | — | (834) |
| Other (expense) income, net | (37) | (4) | 894 | — | 853 |
| (Loss) income before income taxes | (23,660) | 14,107 | 1,334 | 65 | (8,154) |
| Income tax (expense) benefit | (2,244) | (14,626) | 626 | — | (16,244) |
| Equity in earnings of affiliates, net of tax | 1,919 | — | — | (1,919) | — |
| Net (loss) income | (23,985) | (519) | 1,960 | (1,854) | (24,398) |
| Net loss attributable to noncontrolling interest | — | — | 413 | — | 413 |
| Net (loss) income attributable to The Gymboree Corporation | $ (23,985) | $ (519) | $ 2,373 | $ (1,854) | $ (23,985) |

Table of Contents

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**
**FOR THE 39 WEEKS ENDED NOVEMBER 1, 2014**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non- guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| Retail | $ 1,278 | $ 794,856 | $ 39,365 | $ (18,734) | $ 816,765 |
| Gymboree Play & Music | — | 8,067 | 13,828 | — | 21,895 |
| Retail Franchise | — | 14,472 | — | — | 14,472 |
| Intercompany revenue | 46,632 | 6,182 | — | (52,814) | — |
| Total net sales | 47,910 | 823,577 | 53,193 | (71,548) | 853,132 |
| Cost of goods sold, including buying and occupancy expenses | (5,160) | (506,120) | (30,661) | 19,452 | (522,489) |
| Gross profit | 42,750 | 317,457 | 22,532 | (52,096) | 330,643 |
| Selling, general and administrative expenses | (48,003) | (299,394) | (27,768) | 52,056 | (323,109) |
| Goodwill and intangible asset impairment | — | (572,422) | (18,974) | — | (591,396) |
| Operating loss | (5,253) | (554,359) | (24,210) | (40) | (583,862) |
| Interest income | 1 | 54 | 147 | (45) | 157 |
| Interest expense | (61,224) | (373) | (45) | 45 | (61,597) |
| Other (expense) income, net | (480) | 31 | (72) | — | (521) |
| Loss before income taxes | (66,956) | (554,647) | (24,180) | (40) | (645,823) |
| Income tax benefit (expense) | 15,677 | 62,141 | (2,245) | — | 75,573 |
| Equity in earnings of affiliates, net of tax | (515,380) | — | — | 515,380 | — |
| Net loss | (566,659) | (492,506) | (26,425) | 515,340 | (570,250) |
| Net loss attributable to noncontrolling interest | — | — | 3,591 | — | 3,591 |
| Net loss attributable to The Gymboree Corporation | $ (566,659) | $(492,506) | $ (22,834) | $ 515,340 | $ (566,659) |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**
**FOR THE 39 WEEKS ENDED NOVEMBER 2, 2013**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| Retail | $ 1,365 | $ 831,597 | $ 44,597 | $ (20,386) | $ 857,173 |
| Gymboree Play & Music | — | 8,132 | 11,277 | — | 19,409 |
| Retail Franchise | — | 16,955 | — | — | 16,955 |
| Intercompany revenue | 45,883 | 4,592 | — | (50,475) | — |
| Total net sales | 47,248 | 861,276 | 55,874 | (70,861) | 893,537 |
| Cost of goods sold, including buying and occupancy expenses | (4,389) | (525,280) | (30,172) | 17,831 | (542,010) |
| Gross profit | 42,859 | 335,996 | 25,702 | (53,030) | 351,527 |
| Selling, general and administrative expenses | (49,249) | (295,002) | (26,150) | 53,050 | (317,351) |
| Operating (loss) income | (6,390) | 40,994 | (448) | 20 | 34,176 |
| Interest income | 62 | 29 | 52 | — | 143 |
| Interest expense | (61,290) | (62) | (1) | 1 | (61,352) |
| Loss on extinguishment of debt | (834) | — | — | — | (834) |
| Other (expense) income, net | (261) | (5) | 1,017 | — | 751 |
| (Loss) income before income taxes | (68,713) | 40,956 | 620 | 21 | (27,116) |
| Income tax benefit (expense) | 19,834 | (29,467) | 178 | — | (9,455) |
| Equity in earnings of affiliates, net of tax | 13,008 | — | — | (13,008) | — |
| Net (loss) income | (35,871) | 11,489 | 798 | (12,987) | (36,571) |
| Net loss attributable to noncontrolling interest | — | — | 700 | — | 700 |
| Net (loss) income attributable to The Gymboree Corporation | $ (35,871) | $ 11,489 | $ 1,498 | $ (12,987) | $ (35,871) |

Table of Contents

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE 13 WEEKS ENDED NOVEMBER 1, 2014**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net loss | $ (522,075) | $ (488,615) | $ (20,123) | $ 508,419 | $ (522,394) |
| Other comprehensive (loss) income, net of tax: | | | | | |
| Foreign currency translation adjustments | (5,066) | — | (4,945) | 5,071 | (4,940) |
| Unrealized net gain on cash flowhedges, net of tax expense of $127 | 522 | — | 142 | (142) | 522 |
| Total other comprehensive loss, net of tax | (4,544) | — | (4,803) | 4,929 | (4,418) |
| Comprehensive loss | (526,619) | (488,615) | (24,926) | 513,348 | (526,812) |
| Comprehensive loss attributable to noncontrolling interest | — | — | 193 | — | 193 |
| Comprehensive loss attributable to The Gymboree Corporation | $ (526,619) | $ (488,615) | $ (24,733) | $ 513,348 | $ (526,619) |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE 13 WEEKS ENDED NOVEMBER 2, 2013**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net (loss) income | $ (23,985) | $ (519) | $ 1,960 | $ (1,854) | $ (24,398) |
| Other comprehensive (loss) income, net of tax: | | | | | |
| Foreign currency translation adjustments | (36) | — | (11) | 55 | 8 |
| Unrealized net loss on cash flowhedges, net of tax expense of $501 | (871) | — | (191) | 191 | (871) |
| Total other comprehensive loss, net of tax | (907) | — | (202) | 246 | (863) |
| Comprehensive (loss) income | (24,892) | (519) | 1,758 | (1,608) | (25,261) |
| Comprehensive income attributable to noncontrolling interest | — | — | 369 | — | 369 |
| Comprehensive (loss) income attributable to The Gymboree Corporation | $ (24,892) | $ (519) | $ 2,127 | $ (1,608) | $ (24,892) |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE 39 WEEKS ENDED NOVEMBER 1, 2014**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net loss | $ (566,659) | $ (492,506) | $ (26,425) | $ 515,340 | $ (570,250) |
| Other comprehensive (loss) income, net of tax: | | | | | |
| Foreign currency translation adjustments | (4,911) | — | (5,065) | 4,886 | (5,090) |
| Unrealized net gain (loss) on cash flow hedges, net of tax expense of $127 | 536 | — | (219) | 219 | 536 |
| Total other comprehensive loss, net of tax | (4,375) | — | (5,284) | 5,105 | (4,554) |
| Comprehensive loss | (571,034) | (492,506) | (31,709) | 520,445 | (574,804) |
| Comprehensive loss attributable to noncontrolling interest | — | — | 3,770 | — | 3,770 |
| Comprehensive loss attributable to The Gymboree Corporation | $ (571,034) | $ (492,506) | $ (27,939) | $ 520,445 | $ (571,034) |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE 39 WEEKS ENDED NOVEMBER 2, 2013**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net (loss) income | $ (35,871) | $ 11,489 | $ 798 | $ (12,987) | $ (36,571) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Foreign currency translation adjustments | (516) | — | (456) | 557 | (415) |
| Unrealized net gain on cash flow hedges, net of tax benefit of $0 | 635 | — | 217 | (217) | 635 |
| Total other comprehensive income (loss), net of tax | 119 | — | (239) | 340 | 220 |
| Comprehensive (loss) income | (35,752) | 11,489 | 559 | (12,647) | (36,351) |
| Comprehensive loss attributable to noncontrolling interest | — | — | 599 | — | 599 |
| Comprehensive (loss) income attributable to The Gymboree Corporation | $ (35,752) | $ 11,489 | $ 1,158 | $ (12,647) | $ (35,752) |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**
**FOR THE 39 WEEKS ENDED NOVEMBER 1, 2014**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non- guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | | |
| Net cash (used in) provided by operating activities | $ (58,088) | $ 29,216 | $ (4,627) | $ (3,000) | $ (36,499) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | | |
| Capital expenditures | (2,403) | (17,798) | (4,171) | — | (24,372) |
| Proceeds from sale of shares | 3,207 | — | — | (3,207) | — |
| Intercompany transfers | — | (9,490) | — | 9,490 | — |
| Other | — | 22 | (67) | — | (45) |
| Net cash provided by (used in) investing activities | 804 | (27,266) | (4,238) | 6,283 | (24,417) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | | |
| Intercompany transfers | 2,084 | — | 7,406 | (9,490) | — |
| Proceeds from ABL facility | 300,000 | — | — | — | 300,000 |
| Payments on ABL facility | (258,000) | — | — | — | (258,000) |
| Payments on capital lease | — | (373) | — | — | (373) |
| Dividend to The Gymboree Corporation | — | (3,000) | — | 3,000 | — |
| Dividend payment to Parent | (84) | — | — | — | (84) |
| Repurchase of shares | — | — | (3,207) | 3,207 | — |
| Capital contribution received by noncontrolling interest | — | — | 992 | — | 992 |
| Net cash provided by (used in) financing activities | 44,000 | (3,373) | 5,191 | (3,283) | 42,535 |
| Effect of exchange rate fluctuations on cash and cash equivalents | — | — | (220) | — | (220) |
| Net decrease in cash and cash equivalents | (13,284) | (1,423) | (3,894) | — | (18,601) |
| **CASH AND CASH EQUIVALENTS:** | | | | | |
| Beginning of Period | 15,479 | 4,659 | 19,291 | — | 39,429 |
| End of Period | $ 2,195 | $ 3,236 | $ 15,397 | $ — | $ 20,828 |

**THE GYMBOREE CORPORATION**
**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**
**FOR THE 39 WEEKS ENDED NOVEMBER 2, 2013**
**(In thousands)**

| | The Gymboree Corporation | Guarantor Subsidiaries | Non- guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | | |
| Net cash (used in) provided by operating activities | $ (52,645) | $ 85,441 | $ (9,510) | $ — | $ 23,286 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | | |
| Capital expenditures | (1,648) | (30,438) | (3,127) | — | (35,213) |
| Intercompany transfers | — | (54,683) | — | 54,683 | — |
| Other | — | 11 | (246) | — | (235) |
| Net cash used in investing activities | (1,648) | (85,110) | (3,373) | 54,683 | (35,448) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | | |
| Intercompany transfers | 45,535 | — | 9,148 | (54,683) | — |
| Proceeds from ABL facility | 79,000 | — | — | — | 79,000 |
| Payments on ABL facility | (55,000) | — | — | — | (55,000) |
| Repurchase of notes | (24,760) | — | — | — | (24,760) |
| Payments on capital lease | — | (78) | — | — | (78) |
| Dividend payment to parent | (7,475) | — | — | — | (7,475) |
| Capital contribution received by noncontrolling interest | — | — | 6,506 | — | 6,506 |
| Net cash provided by (used in) financing activities | 37,300 | (78) | 15,654 | (54,683) | (1,807) |
| Effect of exchange rate fluctuations on cash and cash equivalents | — | — | (280) | — | (280) |
| Net (decrease) increase in cash and cash equivalents | (16,993) | 253 | 2,491 | — | (14,249) |
| **CASH AND CASH EQUIVALENTS:** | | | | | |
| Beginning of Period | 18,431 | 3,128 | 11,769 | — | 33,328 |
| End of Period | $ 1,438 | $ 3,381 | $ 14,260 | $ — | $ 19,079 |

Table of Contents

The Company and its guarantor subsidiaries participate in a cash pooling program. As part of this program, cash balances are generally swept on a daily basis between the guarantor subsidiary bank accounts and those of the Company. In addition, we pay expenses on behalf of our guarantor and non-guarantor subsidiaries on a regular basis. These types of transactions have been accounted for as intercompany transfers within investing and financing activities.

The Company's transactions include interest, tax payments and intercompany sales transactions related to administrative costs incurred by the Company, which are billed to guarantor and non-guarantor subsidiaries on a cost plus basis. All intercompany transactions are presumed to be settled in cash and therefore are included in operating activities. Non-operating cash flow changes have been classified as investing and financing activities.

Subsequent to the issuance of the third quarter of fiscal 2013 condensed consolidated financial statements, management determined that within the condensed consolidating statements of cash flows, the intercompany transfers of the guarantor subsidiaries previously presented as financing activities should be classified as investing activities. The classification of these intercompany transfers has been corrected in the above condensed consolidating statements of cash flows for the 39 weeks ended November 2, 2013 to be presented within investing activities. This correction has no impact on the condensed consolidated statement of cash flows for the 39 weeks ended November 2, 2013. The effect is summarized as follows:

| | 39 Weeks Ended November 2, 2013 | | | |
|---|---|---|---|---|
| | Guarantor Subsidiaries (As Previously Reported) | Guarantor Subsidiaries (As Corrected) | Eliminations (As Previously Reported) | Eliminations (As Corrected) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Intercompany transfers | $ — | $ (54,683) | $ — | $ 54,683 |
| Net cash used in investing activities | $ (30,427) | $ (85,110) | $ — | $ 54,683 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | |
| Intercompany transfers | $ (54,683) | $ — | $ — | $ (54,683) |
| Net cash used in financing activities | $ (54,761) | $ (78) | $ — | $ (54,683) |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of
The Gymboree Corporation

We have reviewed the accompanying condensed consolidated balance sheets of The Gymboree Corporation and subsidiaries (the "Company") as of November 1, 2014 and November 2, 2013, and the related condensed consolidated statements of operations and comprehensive income (loss) for the thirteen and thirty-nine week periods then ended, and of cash flows for the thirty-nine week periods then ended. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Gymboree Corporation and subsidiaries as of February 1, 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' (deficit) equity, and cash flows for the fiscal year then ended (not presented herein); and in our report dated May 2, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 1, 2014 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California

December 15, 2014

Table of Contents

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

### Forward-Looking Statements

This quarterly report contains forward-looking statements. You can identify forward-looking statements because they contain words such as "believe," "expect," "may," "will," "should," "could," "seek," "intend," "plan," "estimate," or "anticipate" or similar expressions that concern our strategy, plans or intentions. All statements we make relating to: future sales, costs and expenses and gross profit percentages; the continuation of historical trends; planned store openings and closings, including franchise partner store openings; estimated capital expenditures for fiscal 2014; our ability to operate our business under our capital and operating structure; and the sufficiency of our cash balances and cash generated from operating and financing activities for future liquidity and capital resource needs are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we had expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results.

Important factors that could cause actual results to differ materially from our expectations ("cautionary statements") are disclosed under "Item 1A, Risk Factors," in this Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014, filed with the Securities and Exchange Commission on May 2, 2014 (the "Fiscal 2013 Annual Report"). We encourage you to read these risk factors disclosures carefully. We caution investors not to place substantial reliance on the forward-looking statements contained in this quarterly report. These statements, like all statements in this quarterly report, speak only as of the date of this quarterly report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments.

### Overview

As of November 1, 2014, we operated a total of 1,355 retail stores, as follows: 626 Gymboree® stores (including 572 in the United States, 47 in Canada, 1 in Puerto Rico and 6 in Australia), 174 Gymboree Outlet stores (172 in the United States and 2 in Puerto Rico), 151 Janie and Jack® shops, and 404 Crazy 8® stores in the United States, as well as 3 online stores at www.gymboree.com, www.janieandjack.com and www.crazy8.com. We also offer directed parent-child developmental play programs at 702 franchised and Company-operated Gymboree Play & Music® centers in the United States and 41 other countries. In addition, as of November 1, 2014, third-party overseas franchisees operated 79 Gymboree stores in the Middle East, South Korea, Latin America and China, including 23 Gymboree retail stores operated by Gymboree (China) Commercial and Trading Co. Ltd. ("Gymboree China"). Gymboree China and Gymboree (Tianjin) Educational Information Consultation Co. Ltd. ("Gymboree Tianjin") are collectively referred to as the "VIEs." Gymboree Tianjin provides various services on Gymboree Play & Music's behalf to Gymboree Play & Music's franchisees in China. Third-party overseas franchisees also operated 3 Crazy 8 stores and 1 Janie and Jack store in the Middle East as of November 1, 2014.

During the third quarter of fiscal 2014, we opened 16 new stores and closed 5 stores. We plan to open approximately 50 new stores in fiscal 2014 (46 opened as of November 1, 2014), distributed fairly evenly across the brands, and close approximately 40 stores (14 closed as of November 1, 2014). We expect our international franchise partners to open approximately 20 to 25 franchise stores in fiscal 2014 (14 opened as of November 1, 2014).

### Seasonality

Our business is impacted by the general seasonal trends characteristic of the apparel and retail industries. Sales from retail operations in the past several years have been highest during the third and fourth fiscal quarters, somewhat lower during the first fiscal quarter, and lowest during the second fiscal quarter. Consequently, the results for any fiscal quarter are not necessarily indicative of results for the full year. These historical quarterly trends may not continue in the future.

### Results of Operations

#### 13 weeks ended November 1, 2014, compared to 13 weeks ended November 2, 2013

***Net Sales***

Net retail sales for the third quarter of fiscal 2014 increased to $304.3 million from $297.4 million in the same period last year, an increase of $6.9 million, or 2.3%, primarily due to new store growth and higher comparable store sales. Comparable store sales (including online sales) increased by 1% in the third quarter of fiscal 2014 compared to the same period in the prior year. Comparable store sales (excluding online sales) increased by 1% in the third quarter of fiscal 2014 compared to the same period in the prior year. The increase in comparable store sales was driven by an increase in transactions. Total net stores increased from 1,319 as of November 2, 2013, to 1,355 as of November 1, 2014. Total square footage increased from approximately 2.7 million square feet to approximately 2.8 million square feet from the third quarter of fiscal 2013 to the third quarter of fiscal 2014.

Gymboree Play & Music net sales for the third quarter of fiscal 2014 increased to $7.7 million from $6.8 million in the same period last year, an increase of $0.9 million or 13.5%, primarily due to growth of the business in China.

Retail Franchise net sales for the third quarter of fiscal 2014 decreased to $4.8 million from $5.7 million in the same period last year, a decrease of $0.9 million or 15.1% primarily due to lower franchise sales in the Middle East region. As of the third quarter of fiscal 2014, our third-party overseas franchisees operated a total of 83 stores compared to 71 stores as of the end of the same period last year.

***Gross Profit***

Gross profit for the third quarter of fiscal 2014 increased to $125.9 million from $123.5 million in the same period last year. As a percentage of net sales, gross profit for the third quarter of fiscal 2014 decreased 0.1 percentage points to 39.7% from 39.8% in the same period last year due to an increase in occupancy expenses. As we record certain distribution costs as a component of selling, general and administrative expenses ("SG&A") and do not include such costs in cost of goods sold ("COGS"), our COGS and gross profit may not be comparable to those of other companies. Our distribution costs recorded in SG&A expenses represent primarily outbound shipping and handling expenses to our stores, and amounted to $11.8 million and $10.9 million in the third quarter of fiscal 2014 and 2013, respectively.

***Selling, General and Administrative Expenses***

SG&A principally consists of non-occupancy store expenses, corporate overhead and distribution expenses. SG&A increased to $113.7 million for the third quarter of fiscal 2014 compared to $111.2 million in the same period last year, due to net store growth, benefit related expenses and an increase in marketing expenses, partially offset by a reduction in store and other tangible asset impairment charges. As a percentage of net sales, SG&A expenses were 35.9% for both the third quarter of fiscal 2014 and 2013.

***Goodwill and Intangible Asset Impairment***

In connection with our long-range planning process in the third quarter of fiscal 2014, we revised our growth assumptions based on estimates of future operations. The updated assumptions resulted in a plan that reflects slower growth in revenues and margins in the reporting units of our retail stores segment. As a result, we recorded goodwill impairment charges in the third quarter of fiscal 2014 of $252.3 million, $67.2 million and $59.3 million related to the Gymboree Retail, Gymboree Outlet and Crazy 8 reporting units, respectively. In the third quarter of fiscal 2014, we also recorded an impairment charge of $212.6 million related to trade names in our retail stores segment. These impairment charges do not have an effect on our business operations, liquidity or financial covenants.

***Loss on Extinguishment of Debt***

During the third quarter of fiscal 2013, we repurchased Notes with an aggregate principal amount of $25.0 million for $24.8 million in cash, which resulted in a $0.2 million gain on extinguishment of debt and a $1.0 million charge related to the write-off of deferred financing costs. We did not repurchase Notes during the third quarter of fiscal 2014.

***Income Taxes***

The effective tax rate for the third quarter of fiscal 2014 and 2013 was 12.9% (benefit) and -199.2% (expense), respectively. The change in effective tax rate as of the third quarter of fiscal 2014 was related to goodwill and trade name impairment charges. The change in effective tax rate as of third quarter of fiscal 2013 was due to recording a valuation allowance against net deferred tax assets in the third quarter of fiscal 2013 in jurisdictions where it is more likely than not that these assets will not be realized.

We consider all available positive and negative evidence in evaluating whether a valuation allowance is required, including prior earnings history, actual earnings over the previous 12 quarters on a cumulative basis, carryback and carryforward periods, and tax planning strategies that could potentially enhance the likelihood of realization of a deferred tax asset. As a result of weighing the available objective evidence as of November 1, 2014, February 1, 2014 and November 2, 2013, our valuation allowance against deferred tax assets was $52.4 million, $31.9 million and $25.2 million, respectively. The valuation allowance as of November 1, 2014 represents a valuation allowance against all net deferred tax assets in U.S. federal and unitary state jurisdictions, excluding indefinite-lived deferred tax assets and liabilities, and against the tax benefit on losses from our VIEs. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal.

**39 weeks ended November 1, 2014, compared to 39 weeks ended November 2, 2013**

***Net Sales***

Net retail sales for the 39 weeks ended November 1, 2014 decreased to $816.8 million from $857.2 million in the same period last year, a decrease of $40.4 million, or 4.7%, primarily due to lower comparable store sales, partially offset by new store growth. Comparable store sales (including online sales) decreased by 6% in the 39 weeks ended November 1, 2014 compared to the same period last year. Comparable store sales (excluding online sales) decreased by 7% in the 39 weeks ended November 1, 2014 compared to the same period last year. The decrease in comparable store sales was driven by a decrease in transactions. Total net stores increased from 1,319 as of November 2, 2013, to 1,355 as of November 1, 2014. Total square footage increased from approximately 2.7 million square feet to approximately 2.8 million square feet from the third quarter of fiscal 2013 to the third quarter of fiscal 2014.

Gymboree Play & Music net sales for the 39 weeks ended November 1, 2014 increased to $21.9 million from $19.4 million in the same period last year, an increase of $2.5 million or 12.8%, primarily due to growth of the business in China.

Retail Franchise net sales for the 39 weeks ended November 1, 2014 decreased to $14.5 million from $17.0 million in the same period last year, a decrease of $2.5 million or 14.6% primarily due to lower franchise sales in the Middle East region. As of November 1, 2014, our third-party overseas franchisees operated a total of 83 stores compared to 71 stores as of the end of the same period last year.

***Gross Profit***

Gross profit for the 39 weeks ended November 1, 2014 decreased to $330.6 million from $351.5 million in the same period last year. As a percentage of net sales, gross profit for the 39 weeks ended November 1, 2014 decreased 0.5 percentage points to 38.8% from 39.3% in the same period last year. The decrease in gross profit as a percentage of net sales was due to deleveraging of buying and occupancy expenses associated with negative comparable store sales in the 39 weeks ended November 1, 2014, partially offset by an increase in average unit retail prices. As we record certain distribution costs as a component of SG&A and do not include such costs in COGS, our COGS and gross profit may not be comparable to those of other companies. Our distribution costs recorded in SG&A expenses represent primarily outbound shipping and handling expenses to our stores, and amounted to $31.4 million and $25.9 million for the 39 weeks ended November 1, 2014 and November 2, 2013, respectively.

***Selling, General and Administrative Expenses***

SG&A principally consists of non-occupancy store expenses, corporate overhead and distribution expenses. SG&A increased to $323.1 million for the 39 weeks ended November 1, 2014 compared to $317.4 million in the same period last year. As a percentage of net sales, SG&A expenses increased 2.4 percentage points to 37.9% for the 39 weeks ended November 1, 2014 from 35.5% in the same period last year primarily due to a deleveraging of expenses on lower comparable store sales and increased expenses related to our third-party fulfillment center.

***Goodwill and Intangible Asset Impairment***

In connection with our long-range planning process in the third quarter of fiscal 2014, we revised our growth assumptions based on estimates of future operations. The updated assumptions resulted in a plan that reflects slower growth in revenues and margins in the reporting units of our retail stores segment. As a result, we recorded goodwill impairment charges of $252.3 million, $67.2 million and $59.3 million related to the Gymboree Retail, Gymboree Outlet and Crazy 8 reporting units, respectively. In the 39 weeks ended November 1, 2014, we also recorded an impairment charge of $212.6 million related to trade names in our retail segment. These impairment charges do not have an effect on our business operations, liquidity or financial covenants.

***Loss on Extinguishment of Debt***

During the third quarter of fiscal 2013, we repurchased Notes with an aggregate principal amount of $25.0 million for $24.8 million in cash, which resulted in a $0.2 million gain on extinguishment of debt and a $1.0 million charge related to the write-off of deferred financing costs. We did not repurchase Notes during the 39 weeks ended November 1, 2014.

***Income Taxes***

The effective tax rate for the 39 weeks ended November 1, 2014 and November 2, 2013 was 11.7% (benefit) and -34.9% (expense), respectively. The change in effective tax rates as of the third quarter of fiscal 2014 was related to goodwill and trade name impairment charges. The change in effective tax rate as of third quarter of fiscal 2013 was due to recording a valuation allowance against net deferred tax assets in the third quarter of fiscal 2013 in jurisdictions where it is more likely than not that these assets will not be realized.

We consider all available positive and negative evidence in evaluating whether a valuation allowance is required, including prior earnings history, actual earnings over the previous 12 quarters on a cumulative basis, carryback and carryforward periods, and tax planning strategies that could potentially enhance the likelihood of realization of a deferred tax asset. As a result of weighing the available objective evidence as of November 1, 2014, February 1, 2014 and November 2, 2013, our valuation allowance against deferred tax assets was $52.4 million, $31.9 million and $25.2 million, respectively. The valuation allowance as of November 1, 2014 represents a valuation allowance against all net deferred tax assets in U.S. federal and unitary state jurisdictions, excluding indefinite-lived deferred tax assets and liabilities, and against the tax benefit on losses from our VIEs. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal.

**Financial Condition**

***Liquidity and Capital Resources***

Cash and cash equivalents were $20.8 million, $39.4 million and $19.1 million as of November 1, 2014, February 1, 2014 and November 2, 2013, respectively. Cash and cash equivalents held by the VIEs of which we are the primary beneficiary, and the results of which have been consolidated into our condensed financial statements, were $10.2 million, $13.8 million and $5.3 million as of November 1, 2014, February 1, 2014 and November 2, 2013, respectively (see Note 15 to the condensed consolidated financial statements included elsewhere in this quarterly report). The assets of the VIEs cannot be used by us. Working capital as of November 1, 2014, February 1, 2014 and November 2, 2013 totaled $39.5 million, $68.3 million and $82.2 million, respectively.

***Cash flows (used in) provided by operating activities***

Net cash used in operating activities for the 39 weeks ended November 1, 2014 was $36.5 million compared to net cash provided by operating activities of $23.3 million in the same period last year. The change in cash (used in) provided by operating activities is primarily due to an increase in operating losses and merchandise inventory purchases, partially offset by an increase in accounts payable. The increase in inventory and accounts payable was largely driven by investments in holiday merchandise, earlier receipt of Spring goods as compared to last year, and to a lesser extent an increase in net new stores.

***Cash flows used in investing activities***

Net cash used in investing activities for the 39 weeks ended November 1, 2014 was $24.4 million compared to $35.4 million in the same period last year. Capital expenditures were $24.4 million compared to $35.2 million in the same period last year primarily due to a decrease in the opening of new stores.

We estimate capital expenditures for fiscal 2014 will be approximately $35 to $40 million. We expect the capital expenditures to be used to open new stores, as well as to continue investment in our systems infrastructure.

***Cash flows provided by (used in) financing activities***

Net cash provided by financing activities for the 39 weeks ended November 1, 2014 was $42.5 million compared to net cash used in financing activities of $1.8 million in the same period last year. Net cash provided by financing activities for the 39 weeks ended November 1, 2014, is primarily due to net proceeds of $42.0 million from our ABL and a capital contribution of $1.0 million to the VIEs made by their immediate corporate parent. Net cash used in financing activities for the 39 weeks ended November 2, 2013, is primarily due to a repurchase of our Notes in privately negotiated transactions with $24.8 million in cash, a capital contribution of $7.5 million to Parent, partially offset by net proceeds of $24.0 million from our ABL and a capital contribution of $6.5 million to the VIEs made by their immediate corporate parent.

Our senior credit facilities are comprised of an $820 million Term Loan and a $225 million ABL Facility (collectively, the “Senior Credit Facilities”). As of November 1, 2014, $769.1 million was outstanding under the Term Loan and $42.0 million was outstanding under the ABL. Amounts available under the ABL are subject to customary borrowing base limitations, and are reduced by letter of credit utilization totaling $29.6 million as of November 1, 2014. Undrawn availability under the ABL, after being reduced by letter of credit utilization and outstanding borrowings, was $146.0 million as of November 1, 2014. The Term Loan allows us to request additional tranches of term loans in an aggregate amount not to exceed $200 million, subject to the satisfaction of certain conditions, provided that such amount will be subject to reduction by the amount of any additional commitments incurred under the ABL (see Note 6 to the condensed consolidated financial statements included elsewhere in this quarterly report). The ABL provides us the right to request up to $125 million of additional commitments under this facility (or, if less, the amount permitted under the Term Loan (see Note 7 to the condensed consolidated financial statements included elsewhere in this quarterly report), subject to the satisfaction of certain conditions. No incremental facilities are currently in effect or expected to be in effect. The Term Loan and ABL Facility contain covenants that, among other things, restrict our ability to incur additional indebtedness and pay dividends. The ABL Facility also contains financial covenants. As of the November 1, 2014, we were in compliance with these covenants. Average borrowings for the 39 weeks ended November 1, 2014 under the ABL amounted to $28.9 million. The Company anticipates utilizing its ABL Facility throughout the course of the year to support seasonal working capital needs and expects to have borrowings outstanding at year-end.

The Term Loan requires us to make quarterly payments each equal to 0.25% of the original $820 million principal amount of the Term Loan made on the closing date plus accrued and unpaid interest thereon, with the balance due in February 2018. The Term Loan also has mandatory and voluntary pre-payment provisions, including a requirement that we prepay the Term Loan with a certain percentage of our annual excess cash flow. We calculated our excess cash flow using fiscal 2013 operating results and concluded we are not required to make any excess cash flow payments on the Term Loan during fiscal 2014. We were not required to make any excess cash flow payments on the Term Loan during fiscal 2013. Our next quarterly payment payable under the Term Loan is due in the first quarter of fiscal 2017.

We and our subsidiaries, the VIEs, and our affiliates may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions, by tender offer or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

We believe that cash generated by operations, the remaining funds available under our Senior Credit Facilities and existing cash and cash equivalents will be sufficient to meet working capital requirements, service our debt and finance capital expenditures over the next twelve months. However, if we face unanticipated cash needs such as the funding of a capital investment, or if our suppliers request one or more letters of credit, our existing cash and cash equivalents and available borrowings may be insufficient. In addition we cannot assure you our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the Senior Credit Facilities in amounts sufficient to enable us to repay our indebtedness when due, including the Notes, or to fund other liquidity needs. See "Item 1A. Risk Factors—Risks Related to Our Indebtedness and Certain Other Obligations" in our Fiscal 2013 Annual Report. We also regularly evaluate market conditions, our liquidity profile, and various financing alternatives for opportunities to enhance our capital structure. If opportunities are favorable, we may refinance our existing debt or issue additional securities.

**Critical Accounting Policies, Estimates and Judgments**

As of November 1, 2014, we had goodwill of $375.3 million. Goodwill is tested for impairment in the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate its carrying value may not be fully recoverable, by performing a two-step goodwill impairment test. The first step of the two-step goodwill impairment test is to compare the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step of the two-step goodwill impairment test is required to measure the goodwill impairment loss. The second step includes valuing all the tangible and intangible assets of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount.

Calculating the fair value of a reporting unit and the implied fair value of reporting unit goodwill requires significant judgment. The use of different assumptions, estimates or judgments in either step of the goodwill impairment testing process, such as the estimated future cash flows of reporting units, the discount rate used to discount such cash flows, or the estimated fair value of the reporting units' tangible and intangible assets and liabilities, could significantly increase or decrease the estimated fair value of a reporting unit or its net assets.

In connection with our long-range planning process in the third quarter of fiscal 2014, we revised our growth assumptions based on estimates of future operations. The updated assumptions resulted in a plan that reflects slower growth in revenues and margins in the reporting units of our retail stores segment. As a result, we considered this to be a triggering event and performed the first step of the two-step goodwill impairment test during the quarter ended November 1, 2014. We determined that the fair value of the Gymboree Retail, Gymboree Outlet and Crazy 8 reporting units, components of our retail stores reporting segment, were below their carrying values. We performed step two of the goodwill impairment test to measure the goodwill impairment loss specific to these three reporting units. Under step two, the fair values of all Gymboree Retail, Gymboree Outlet and Crazy 8 reporting unit tangible and intangible assets and liabilities were estimated for the purpose of deriving an estimate of the implied fair value of goodwill for each reporting unit. The implied fair value of each reporting unit's goodwill was then compared to its carrying value to determine the amount of goodwill impairment.

The goodwill impairment analysis for the reporting units was based on our projection of revenues, gross margin, operating costs and cash flows considering historical and estimated future results, general economic and market conditions, as well as the impact of planned business and operational strategies. We based our fair value estimates on assumptions we believed to be reasonable at the time, but such assumptions are subject to inherent uncertainty. Actual results may differ from those estimates. The valuations employed present value techniques to measure fair value and considered market factors and reporting unit specific developments. We primarily used an income approach to value these reporting units. The discount rates used in the income approach ranged from 13.0% to 15.5%. We also considered a market approach. Assumptions used in the market approach include valuation multiples based on analysis of multiples for comparable public companies. Finally, specific weights were applied to the components of each approach to estimate the total implied fair value. These weights are estimates by management and are developed based on the specific characteristics, risks and uncertainties of each reporting unit.

During the third quarter of 2014, we concluded that there was goodwill impairment in the Gymboree Retail, Gymboree Outlet, and Crazy 8 reporting units of $252.3 million, $67.2 million and $59.3 million, respectively. We also recorded a $212.6 million impairment charge in the third quarter of fiscal 2014 related to trade names of our retail stores segment, which is included as a component of goodwill and intangible asset impairment. The impairment charges are subject to finalization of fair values, which we will complete in the fourth quarter of fiscal 2014. We believe that the preliminary estimate of impairment is reasonable and represents our best estimate of the impairment charge to be incurred; however, it is possible that material adjustments to the preliminary estimate may be required as the analysis is finalized.

There have been no other material changes to our critical accounting policies and estimates affecting the application of those policies since our Fiscal 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 2, 2014.

**Non-GAAP Measures**

**Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”)**

In the table below, we present Adjusted EBITDA (which is defined as net income (loss) attributable to The Gymboree Corporation before interest expense, interest income, income tax expense/benefit, and depreciation and amortization (EBITDA) adjusted for the other items described below), which is considered a non-GAAP financial measure. We present Adjusted EBITDA in this quarterly report because we consider it an important supplemental measure of performance used by management and we believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the retail industry. Adjusted EBITDA is calculated in substantially the same manner as “EBITDA” under the indenture governing the Notes and “Consolidated EBITDA” under the agreement governing our Senior Credit Facilities. We believe the inclusion of supplementary adjustments applied to EBITDA in presenting Adjusted EBITDA is appropriate to provide additional information to investors about certain non-cash items and unusual or non-recurring items that we do not expect to continue in the future and to provide additional information with respect to our ability to meet our future debt service and to comply with various covenants in documents governing our indebtedness. However, Adjusted EBITDA is not a presentation made in accordance with GAAP, and our computation of Adjusted EBITDA may vary from others in the retail industry. Adjusted EBITDA should not be considered an alternative to operating income or net income (loss), as a measure of operating performance or cash flow, or as a measure of liquidity. Adjusted EBITDA has important limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. For example, Adjusted EBITDA:

- does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- does not reflect changes in, or cash requirements for, our working capital needs;
- does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- excludes income tax payments that represent a reduction in cash available to us; and
- does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of ongoing operations.

The following table provides a reconciliation of net loss attributable to The Gymboree Corporation to Adjusted EBITDA for the periods indicated (in thousands):

Table of Contents

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|---|---|---|---|
| | November 1, 2014 | November 2, 2013 | November 1, 2014 | November 2, 2013 |
| **Net loss attributable to The Gymboree Corporation** | $ (522,075) | $ (23,985) | $ (566,659) | $ (35,871) |
| Reconciling items (a): | | | | |
| Interest expense | 20,768 | 20,483 | 61,597 | 61,352 |
| Interest income | (14) | (41) | (80) | (114) |
| Income tax (benefit) expense | (78,023) | 15,917 | (76,633) | 9,202 |
| Depreciation and amortization (b) | 10,477 | 10,874 | 32,281 | 34,156 |
| Non-cash share-based compensation expense | 1,120 | 1,443 | 3,389 | 4,417 |
| Loss on disposal/impairment on assets | 2,186 | 3,712 | 6,041 | 5,583 |
| Loss on extinguishment of debt | — | 834 | — | 834 |
| Goodwill and intangible asset impairment | 591,396 | — | 591,396 | — |
| Acquisition-related adjustments (c) | 2,771 | 3,890 | 8,678 | 11,882 |
| Other (d) | 1,181 | 775 | 1,369 | 3,238 |
| **Adjusted EBITDA** | $ 29,787 | $ 33,902 | $ 61,379 | $ 94,679 |

(a) Excludes amounts related to noncontrolling interest, which are already excluded from net loss attributable to The Gymboree Corporation.

(b) Includes the following:

| | | | | |
|---|---|---|---|---|
| Amortization of intangible assets (impacts SG&A) | $ 384 | $ 383 | $ 1,151 | $ 3,025 |
| Amortization of below and above market leases (impacts COGS) | (237) | (348) | (724) | (1,110) |
| | $ 147 | $ 35 | $ 427 | $ 1,915 |

(c) Includes the following:

| | | | | |
|---|---|---|---|---|
| Additional rent expense recognized due to the elimination of deferred rent and construction allowances in purchase accounting (impacts COGS) | $ 2,058 | $ 2,217 | $ 6,189 | $ 6,675 |
| Sponsor fees, legal and accounting, as well as other costs incurred as a result of the Acquisition or refinancing (impacts SG&A) | 713 | 974 | 2,489 | 3,069 |
| Decrease in net sales due to the elimination of deferred revenue related to the Company's co-branded credit card program in purchase accounting (impacts net sales) | — | 699 | — | 2,138 |
| | $ 2,771 | $ 3,890 | $ 8,678 | $ 11,882 |

(d) Other is comprised of restructuring charges, a non-recurring change in reserves, and other non-recurring items.

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

***Foreign Currency Risk***

We enter into forward foreign exchange contracts with respect to certain purchases in United States dollars ("U.S. dollars") of inventory to be sold in our retail stores in Canada. The purpose of these contracts is to protect our margins on the eventual sale of the inventory from fluctuations in the exchange rate for Canadian and U.S. dollars. The term of the forward exchange contracts is generally less than one year. Our U.S. entity also enters into forward foreign exchange contracts with respect to short-term intercompany balances between our Canadian, Australian and U.S. entities. The purpose of these contracts is to protect us from fluctuations in the exchange rate for Canadian, Australian and U.S. dollars upon the settlement of such balances.

The table below summarizes the notional amounts and fair values of our forward foreign exchange contracts in U.S. dollars (in thousands except weighted-average rate data):

| | Notional Amount | Fair Value Gain (Loss) | Weighted-Average Rate |
|---|---|---|---|
| November 1, 2014 | $ 4,682 | $ 134 | $ 0.89 |
| February 1, 2014 | $15,368 | $ 348 | $ 0.90 |
| November 2, 2013 | $ 3,800 | $ 107 | $ 0.97 |

***Interest Rate Risk***

We are subject to interest rate risk in connection with our long-term debt. Our principal interest rate risk relates to the Term Loan outstanding under the Senior Credit Facilities. As of November 1, 2014, we had $769.1 million outstanding under our Senior Credit Facilities, bearing interest at variable rates. The interest rate for borrowings under the Term Loan is, at our option, a base rate plus an additional marginal rate of 2.5% or the Adjusted LIBOR rate (with a 1.5% floor) plus an additional rate of 3.5%. As of November 1, 2014, the interest rate under our Term Loan was 5.0%. A 0.125% increase in the Adjusted LIBOR rate, above the 1.5% floor, would have increased annual interest expense by approximately $1.0 million, assuming $769.1 million of indebtedness thereunder was outstanding for the whole year. The Term Loan allows us to request additional tranches of term loans in an aggregate amount not to exceed $200 million, subject to the satisfaction of certain conditions, provided such amount will be subject to reduction by the amount of any additional commitments incurred under the ABL (see Notes 6 and 7 to the condensed consolidated financial statements included elsewhere in this quarterly report). No incremental facilities are currently in effect.

In December 2010, we purchased four interest rate caps to hedge against rising interest rates associated with our senior secured term loan above the 5% strike rate of the caps through December 23, 2016, the maturity date of the caps. The notional amount of these caps is $700 million.

As of November 1, 2014, February 1, 2014, and November 2, 2013, accumulated other comprehensive loss included approximately $8.8 million, $9.5 million and $10.3 million, respectively, in unrealized losses related to the interest rate caps and forward foreign exchange contracts.

**Item 4. CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

The Company conducted an evaluation, under the supervision and with the participation of the Company’s management, including the Principal Executive Officer and the Principal Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on the Company’s evaluation, the Principal Executive Officer and Principal Financial Officer concluded the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information relating to the Company (including its consolidated subsidiaries) required to be included in the Company’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. In addition, the Company’s Principal Executive Officer and Principal Financial Officer concluded as of the end of the period covered by this report that the Company’s disclosure controls and procedures are also effective to ensure information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act is accumulated and communicated to the Company’s management, including the Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

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

During the third quarter of the Company’s fiscal 2014, there was no change in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

**Part II—OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. Our management does not expect that the results of any of these legal proceedings, either individually or in the aggregate, would have a material effect on our financial position, results of operations or cash flows.

**Item 1A. RISK FACTORS**

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors disclosed in Part I, Item 1A, of our 2013 Annual Report on Form 10-K.

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

Not applicable

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None

**Item 4. MINE SAFETY DISCLOSURES**

None

**Item 5. OTHER INFORMATION**

None

**Item 6. EXHIBITS**

| | |
|---|---|
| 10.1 | Offer Letter, dated as of October 16, 2014, by and between The Gymboree Corporation and Andrew North. (1) |
| 10.2 | Offer Letter, dated as of October 14, 2014, by and between The Gymboree Corporation and Maxine Clark. (2) |
| 10.3 | Offer Letter, dated as of October 14, 2014, by and between The Gymboree Corporation and Mark Weikel. (3) |
| 31.1 | Certification of Mark Breitbard Pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Andrew North Pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Mark Breitbard Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Andrew North Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from The Gymboree Corporation's Quarterly Report on Form 10-Q for the quarter ended November 1, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements. |

---

(1) Incorporated by reference to Exhibit 10.1 to The Gymboree Corporation's Current Report on Form 8-K filed with the SEC on November 10, 2014.
(2) Incorporated by reference to Exhibit 10.2 to The Gymboree Corporation's Current Report on Form 8-K filed with the SEC on November 10, 2014.
(3) Incorporated by reference to Exhibit 10.3 to The Gymboree Corporation's Current Report on Form 8-K filed with the SEC on November 10, 2014.

Table of Contents

**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 GYMBOREE CORPORATION
(Registrant)

| | | |
|---|---|---|
| December 15, 2014 | By: | /s/ Mark Breitbard |
| Date | | Mark Breitbard<br>Chief Executive Officer |

**Exhibit Index**

| Exhibit Number | Description |
|---|---|
| 10.1 | Offer Letter, dated as of October 16, 2014, by and between The Gymboree Corporation and Andrew North. (1) |
| 10.2 | Offer Letter, dated as of October 14, 2014, by and between The Gymboree Corporation and Maxine Clark. (2) |
| 10.3 | Offer Letter, dated as of October 14, 2014, by and between The Gymboree Corporation and Mark Weikel. (3) |
| 31.1 | Certification of Mark Breitbard Pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Andrew North Pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Mark Breitbard Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Andrew North Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from The Gymboree Corporation's Quarterly Report on Form 10-Q for the quarter ended November 1, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements. |

(1) Incorporated by reference to Exhibit 10.1 to The Gymboree Corporation's Current Report on Form 8-K filed with the SEC on November 10, 2014.
(2) Incorporated by reference to Exhibit 10.2 to The Gymboree Corporation's Current Report on Form 8-K filed with the SEC on November 10, 2014.
(3) Incorporated by reference to Exhibit 10.3 to The Gymboree Corporation's Current Report on Form 8-K filed with the SEC on November 10, 2014.

Exhibit 31.1

**CERTIFICATION**

I, Mark Breitbard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Gymboree Corporation;

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(s) 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(s) 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 the 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.

| | | |
|---|---|---|
| December 15, 2014 | By: | /s/ Mark Breitbard |
| Date | | Mark Breitbard<br>Chief Executive Officer<br>(Principal Executive Officer) |

**Exhibit 31.2**

**CERTIFICATION**

I, Andrew North, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Gymboree Corporation;

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(s) 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(s) 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 the 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.

| | | |
|---|---|---|
| December 15, 2014 | By: | /s/ Andrew North |
| Date | | Andrew North<br>Chief Financial Officer<br>(Principal Financial Officer) |

**Exhibit 32.1**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Gymboree Corporation (the "Company") on Form 10-Q for the quarterly period ended November 1, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Mark Breitbard, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| December 15, 2014 | By: | /s/ Mark Breitbard |
| Date | | Mark Breitbard<br>Chief Executive Officer<br>(Principal Executive Officer) |

**Exhibit 32.2**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Gymboree Corporation (the "Company") on Form 10-Q for the quarterly period ended November 1, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Andrew North, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| December 15, 2014 | By: | /s/ Andrew North |
| Date | | Andrew North<br>Chief Financial Officer<br>(Principal Financial Officer) |