

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

FORM 10-Q

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

For the Quarterly Period Ended August 3, 2019

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: 001-35239

FRANCESCA'S HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

8760 Clay Road Houston, TX
(Address of principal executive offices)

20-8874704
(I.R.S. Employer
Identification No.)

77080
(Zip Code)

(713) 864-1358

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.01 per share	FRAN	The Nasdaq Stock Market LLC
Purchase Rights of Series A Junior Participating Preferred Stock, par value \$0.01 per share	N/A	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

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

The registrant had 3,056,042 shares (excluding 923,287 shares of treasury stock) of its common stock outstanding as of August 30, 2019.



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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Francesca's Holdings Corporation
Unaudited Consolidated Balance Sheets
(In thousands, except share amounts)

	<u>August 3, 2019</u>	<u>February 2, 2019</u>	<u>August 4, 2018</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 21,962	\$ 20,103	\$ 23,354
Accounts receivable	7,987	16,309	19,764
Inventories	30,942	30,478	31,902
Prepaid expenses and other current assets	10,759	10,357	10,549
Total current assets	<u>71,650</u>	<u>77,247</u>	<u>85,569</u>
Operating lease right-of-use assets, net	230,295	-	-
Property and equipment, net	61,874	71,207	89,858
Deferred income taxes	-	-	7,233
Other assets, net	4,197	4,588	4,912
TOTAL ASSETS	<u>\$ 368,016</u>	<u>\$ 153,042</u>	<u>\$ 187,572</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 18,773	\$ 24,330	\$ 29,406
Accrued liabilities	12,398	11,333	11,926
Operating lease liabilities	49,937	-	-
Total current liabilities	<u>81,108</u>	<u>35,663</u>	<u>41,332</u>
Operating lease liabilities	213,870	-	-
Landlord incentives and deferred rent	-	33,989	35,904
Long-term debt	10,000	10,000	-
Other liabilities	61	-	-
Total liabilities	<u>305,039</u>	<u>79,652</u>	<u>77,236</u>
Commitments and contingencies			
Stockholders' equity:			
Common stock – \$0.01 par value, 80.0 million shares authorized; 4.0 million, 3.9 million and 3.9 million issued at August 3, 2019, February 2, 2019 and August 4, 2018, respectively*	40	39	40
Additional paid-in capital	112,869	113,121	112,569
Retained earnings	110,089	120,251	157,748
Treasury stock, at cost – 0.9 million shares at each of August 3, 2019, February 2, 2019 and August 4, 2018*	(160,021)	(160,021)	(160,021)
Total stockholders' equity	<u>62,977</u>	<u>73,390</u>	<u>110,336</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 368,016</u>	<u>\$ 153,042</u>	<u>\$ 187,572</u>

* Reflects the 12-to-1 reverse stock split that became effective on July 1, 2019. Refer to Note 1 – Summary of Significant Accounting Policies for further information.

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

Francesca's Holdings Corporation
Unaudited Consolidated Statements of Operations
(In thousands, except per share data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Net sales	\$ 105,972	\$ 113,025	\$ 193,097	\$ 213,430
Cost of goods sold and occupancy costs	65,469	68,918	122,267	130,960
Gross profit	40,503	44,107	70,830	82,470
Selling, general and administrative expenses	39,124	43,277	79,118	86,160
Income (loss) from operations	1,379	830	(8,288)	(3,690)
Interest expense	152	112	325	229
Other income	259	102	372	252
Income (loss) before income tax (benefit) expense	1,486	820	(8,241)	(3,667)
Income tax (benefit) expense	(326)	366	96	(236)
Net income (loss)	\$ 1,812	\$ 454	\$ (8,337)	\$ (3,431)
Basic income (loss) per common share*	\$ 0.62	\$ 0.16	\$ (2.87)	\$ (1.18)
Diluted income (loss) per common share*	\$ 0.61	\$ 0.16	\$ (2.87)	\$ (1.18)

Weighted average shares outstanding:

Basic shares*	2,907	2,897	2,904	2,901
Diluted shares*	2,960	2,918	2,904	2,901

* Reflects the 12-to-1 reverse stock split that became effective on July 1, 2019. Refer to Note 1 – Summary of Significant Accounting Policies for further information.

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

Francesca's Holdings Corporation
Unaudited Consolidated Statement of Changes in Stockholders' Equity
(In thousands)

Fiscal Year 2019	Common Stock*		Additional Paid-in Capital*	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
	Shares Outstanding	Par Value				
Balance, February 2, 2019	2,972	\$ 39	\$ 113,121	\$ 120,251	\$ (160,021)	\$ 73,390
Cumulative effect adjustment on adoption of new accounting standard	-	-	-	(1,825)	-	(1,825)
Net loss	-	-	-	(10,149)	-	(10,149)
Stock-based compensation	-	-	(271)	-	-	(271)
Restricted stocks forfeited	(14)	-	-	-	-	-
Balance, May 4, 2019	2,958	39	112,850	108,277	(160,021)	61,145
Net income	-	-	-	1,812	-	1,812
Stock-based compensation	-	-	24	-	-	24
Fractional shares cancelled	(1)	-	(4)	-	-	(4)
Restricted stocks issued, net of forfeitures	99	1	(1)	-	-	-
Balance, August 3, 2019	3,056	40	112,869	110,089	(160,021)	62,977

Fiscal Year 2018	Common Stock*		Additional Paid-in Capital*	Retained Earnings	Treasury Stock, at cost	Total Stockholders' Equity
	Shares Outstanding	Par Value				
Balance, February 3, 2018	2,990	\$ 39	\$ 111,863	\$ 159,045	\$ (156,499)	\$ 114,448
Cumulative effect adjustment on adoption of new accounting standards, net of tax	-	-	-	2,134	-	2,134
Net loss	-	-	-	(3,885)	-	(3,885)
Stock-based compensation	-	-	418	-	-	418
Restricted stocks issued, net of forfeitures	71	1	(1)	-	-	-
Shares withheld related to net settlement of equity awards	-	-	(26)	-	-	(26)
Repurchases of common stock	(55)	-	-	-	(3,522)	(3,522)
Balance, May 5, 2018	3,006	40	112,254	157,294	(160,021)	109,567
Net income	-	-	-	454	-	454
Stock-based compensation	-	-	315	-	-	315
Restricted stocks issued, net of forfeitures	13	-	-	-	-	-
Balance, August 4, 2018	3,019	40	112,569	157,748	(160,021)	110,336

* Reflects the 12-to-1 reverse stock split that became effective on July 1, 2019. Refer to Note 1 – Summary of Significant Accounting Policies for further information.

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

Francesca's Holdings Corporation
Unaudited Consolidated Statements of Cash Flows
(In thousands)

	Twenty-Six Weeks Ended	
	August 3, 2019	August 4, 2018
Cash Flows Provided by Operating Activities:		
Net loss	\$ (8,337)	\$ (3,431)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	11,320	12,105
Stock-based compensation expense	(190)	733
Loss on sale of assets	99	350
Impairment charges	189	148
Deferred income taxes	-	1,473
Changes in operating assets and liabilities:		
Accounts receivable	8,322	(3,122)
Inventories	(464)	(5,086)
Prepaid expenses and other assets	(373)	(2,411)
Accounts payable	(3,765)	12,590
Accrued liabilities	1,064	20
Operating lease right-of-use assets and lease liabilities, net	(2,490)	-
Landlord incentives and deferred rent	-	(2,433)
Net cash provided by operating activities	5,375	10,936
Cash Flows Used in Investing Activities:		
Purchases of property and equipment	(3,372)	(14,436)
Net cash used in investing activities	(3,372)	(14,436)
Cash Flows Used in Financing Activities:		
Proceeds from borrowings under the revolving credit facility	5,000	-
Repayments of borrowings under the revolving credit facility	(5,000)	-
Payment of debt issuance costs	(144)	(471)
Taxes paid related to net settlement of equity awards	-	(26)
Repurchases of common stock	-	(3,980)
Net cash used in financing activities	(144)	(4,477)
Net increase (decrease) in cash and cash equivalents	1,859	(7,977)
Cash and cash equivalents, beginning of year	20,103	31,331
Cash and cash equivalents, end of period	\$ 21,962	\$ 23,354
Supplemental Disclosures of Cash Flow Information:		
Cash (received) paid for income taxes	\$ (8,601)	\$ 226
Interest paid	\$ 330	\$ 77

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

Francesca's Holdings Corporation
Notes to Unaudited Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Business

Francesca's Holdings Corporation is a holding company incorporated in 2007 under the laws of the State of Delaware whose business operations are conducted through its subsidiaries. Unless the context otherwise requires, the "Company," refers to Francesca's Holdings Corporation and its consolidated subsidiaries. The Company operates a nationwide-chain of boutiques providing its customers with a unique, fun and personalized shopping experience. The merchandise assortment the Company offers is a diverse and balanced mix of apparel, jewelry, accessories and gifts at attractive values. The Company aims to offer a differentiated shopping experience and quality, on-trend merchandise at a compelling value, across a wide variety of geographic markets and shopping venues. At August 3, 2019, the Company operated 718 boutiques, which are located in 47 states throughout the United States and the District of Columbia, and also served its customers through www.francescas.com, its ecommerce website.

On July 1, 2019, the Company effected a 12-to-1 stock split (the "Reverse Stock Split"), reducing the number of shares of common stock outstanding on that date from 35.4 million to 3.1 million shares. Additionally, the number of shares of common stock subject to outstanding stock options, restricted stock awards and restricted stock units, the exercise price of outstanding stock options, and the number of shares reserved for future issuance pursuant to the Company's equity compensation plans were adjusted proportionately in connection with the Reverse Stock Split. The number of authorized shares of common stock under the Company's Amended and Restated Certificate of Incorporation and the par value per share of the Company's common stock were unchanged. All historical share and per share amounts presented herein have been adjusted retrospectively to reflect these changes.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial statements and are in the form prescribed by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these unaudited financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations, changes in equity, and cash flows at the dates and for the periods presented. The financial information as of February 2, 2019 was derived from the Company's audited consolidated financial statements and notes thereto as of and for the fiscal year ended February 2, 2019 included in the Company's Annual Report on Form 10-K filed with the SEC on May 3, 2019.

These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes as of and for the fiscal year ended February 2, 2019 included in the Company's Annual Report on Form 10-K.

Due to seasonal variations in the Company's business, interim results are not necessarily indicative of results that may be expected for any other interim period or for a full year.

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Company and all its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Company maintains its accounts on a 52- or 53-week year ending on the Saturday closest to January 31st. Fiscal years 2019 and 2018 each include 52 weeks of operations. The fiscal quarters ended August 3, 2019 and August 4, 2018 refer to the thirteen week periods ended as of those dates. The year-to-date periods ended August 3, 2019 and August 4, 2018 refer to the twenty-six week periods ended as of those dates.

Management Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, net of estimated sales returns, and expenses during the reporting periods. Actual results could differ materially from those estimates.

Francesca's Holdings Corporation
Notes to Unaudited Consolidated Financial Statements

Leases

Adoption of Accounting Standards Codification 842

On February 3, 2019, the Company adopted the provisions of Accounting Standards Codification ("ASC") 842, "Leases", using the additional, optional transition method which allows entities to initially apply the new standard by recognizing a cumulative-effect adjustment to the opening balance of retained earnings at the date of adoption. Prior period amounts and disclosures were not adjusted and continue to be reported under ASC 840, "Leases."

In applying the new standard, the Company elected the package of practical expedients which allows the Company to carry forward its prior conclusions under ASC 840 about lease identification, lease classification, and initial direct costs. The Company also elected the practical expedient of combining lease and non-lease components as a single lease component as well as the short-term lease recognition exemption for all leases at transition.

As a result of the adoption, the Company recorded an operating lease liability of \$278.9 million and operating lease right-of-use ("ROU") asset of \$242.9 million at February 3, 2019. Additionally, the Company recognized a \$1.8 million cumulative-effect adjustment to the beginning balance of retained earnings related to the impairment of certain operating lease ROU assets subjected to impairment testing under existing accounting guidance for which indicators of impairment existed at the time of the adoption of ASC 842. The adoption of ASC 842 did not have a material impact to the unaudited consolidated statements of operations or cash flows.

Accounting Policy Under ASC 842

The Company leases boutiques, its distribution center and office space and certain boutique and corporate office equipment under operating leases. The Company determines if an arrangement contains a lease at inception and recognizes operating lease ROU assets and operating lease liabilities at the commencement date based on the present value of the fixed lease payments over the lease term and, for operating lease ROU assets, include initial direct costs and exclude lease incentives. Variable lease payments are expensed as incurred. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will elect that option. Subsequent to the recognition of its operating lease ROU assets and operating lease liabilities, the Company recognizes lease expense related to its operating lease payments on a straight-line basis over the lease term.

Operating lease liabilities are calculated using the effective interest method and recognized at the commencement date based on the present value of lease payments over the reasonably certain lease term. As the interest rate implicit in the Company's leases is not readily determinable, the Company utilized a collateralized incremental borrowing rate determined through the development of a synthetic credit rating to calculate the present value of its lease payments.

The Company accounts for lease and non-lease components as a single component. Accordingly, the Company's fixed lease payments mainly consists of base rent, common area maintenance and landlord advertising. Additionally, the Company also elected the short-term lease recognition exemption for all leases.

Impairment of Long-Lived Assets, Including Operating Lease ROU Assets

The Company evaluates long-lived assets held for use, including operating lease ROU assets, and held for sale whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows, which is generally at a boutique level. In determining whether an impairment has occurred, the Company considers both qualitative and quantitative factors.

The quantitative analysis involves estimating the undiscounted future cash flows directly related to that asset and comparing it against its carrying value. If the carrying value of the asset is greater than the sum of the undiscounted future cash flows, an impairment loss is recognized for the difference between the carrying value of the asset and its fair value. The fair value of the asset group is generally determined using discounted future cash flows or a market participant's ability to generate economic benefits using the asset in its highest and best use, whichever is appropriate. The determination of fair value takes into account the asset's historical performance, current sales trends, market conditions and other relevant factors deemed material, and discounted using a rate commensurate with the risk. The inputs used in the determination of the fair value are considered as Level 3 inputs in the fair value hierarchy, which require a significant degree of judgment and are based on the Company's own assumptions.

Francesca's Holdings Corporation
Notes to Unaudited Consolidated Financial Statements

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." The new guidance, among other things, requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and (ii) a ROU asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Since the original issuance of ASU 2016-02, the FASB has issued several amendments and updates to this guidance (collectively, "ASC 842, Leases"). This new guidance was effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted ASC 842, Leases, on February 3, 2019 using the optional transition method. Please refer to "Leases" above in this Note 1 and below in Note 9 to the Unaudited Consolidated Financial Statements.

Recent Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, "Intangibles-Goodwill and Other-Internal-Use-Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract." ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This new guidance will be effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 changes the methodology for measuring credit losses on financial instruments and timing of when such losses are recorded. Since the original issuance of ASU 2016-13, the FASB has issued several amendments and updates to this guidance. This new guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The guidance is to be adopted using the modified retrospective approach. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures.

2. Revenues

The Company disaggregates net sales into the following major merchandise departments.

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>August 3, 2019</u>	<u>August 4, 2018</u>	<u>August 3, 2019</u>	<u>August 4, 2018</u>
	(in thousands)			
Apparel	\$ 52,389	\$ 56,807	\$ 94,213	\$ 106,341
Jewelry	27,957	26,984	51,835	50,842
Accessories	16,211	17,181	29,851	32,665
Gifts	8,532	11,337	16,375	22,442
Others ⁽¹⁾	883	716	823	1,140
	<u>\$ 105,972</u>	<u>\$ 113,025</u>	<u>\$ 193,097</u>	<u>\$ 213,430</u>

(1) Includes gift card breakage income, shipping revenue and change in return reserve.

Contract liability

The Company recognizes a contract liability related to its gift cards. The Company accounts for the sale of gift cards as a liability at the time a gift card is sold. The liability is relieved and revenue is recognized upon redemption of the gift card. The Company's gift cards do not have an expiration date. Income from gift card breakage is estimated based on historical redemption patterns and recognized over the historical redemption period. Unredeemed gift cards at the end of the prior fiscal year recognized in revenues during the thirteen and twenty-six weeks ended August 3, 2019 totaled \$1.3 million and \$3.1 million, respectively, and for the thirteen and twenty-six weeks ended August 4, 2018 totaled \$1.1 million and \$3.0 million, respectively.

3. Earnings (Loss) Per Share

Earnings (loss) per common share amounts are calculated using the weighted-average number of common shares outstanding for the period. Diluted loss per common share amounts are calculated using the weighted-average number of common shares outstanding for the period and include the dilutive impact of restricted stock awards, restricted stock units and stock option grants using the treasury stock method. The following table summarizes the potential dilution that could occur if stock options to acquire common stock were exercised or if the restricted stock grants were fully vested and reconciles the weighted-average common shares outstanding used in the computation of basic and diluted loss per share.

Francesca's Holdings Corporation
Notes to Unaudited Consolidated Financial Statements

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>August 3, 2019</u>	<u>August 4, 2018</u>	<u>August 3, 2019</u>	<u>August 4, 2018</u>
(in thousands, except per share data)				
Numerator:				
Net income (loss)	\$ 1,812	\$ 454	\$ (8,337)	\$ (3,431)
Denominator				
Weighted-average common shares outstanding - basic ⁽¹⁾	2,907	2,897	2,904	2,901
Restricted stocks awards, restricted stock units and stock options ⁽¹⁾	53	21	-(2)	-(2)
Weighted-average common shares outstanding - diluted ⁽¹⁾	<u>2,960</u>	<u>2,918</u>	<u>2,904</u>	<u>2,901</u>
Per common share:				
Basic earnings (loss) per common share ⁽¹⁾	\$ 0.62	\$ 0.16	\$ (2.87)	\$ (1.18)
Diluted earnings (loss) per common share ⁽¹⁾	\$ 0.61	\$ 0.16	\$ (2.87)	\$ (1.18)

- (1) Reflects the 12-to-1 reverse stock split that became effective on July 1, 2019. Refer to Note 1 – Summary of Significant Accounting Policies for further information.
- (2) Due to the Company being in a net loss position in the twenty-six weeks ended August 3, 2019 and August 4, 2018, no restricted stock awards, restricted stock units and stock options were included in the computation of diluted loss per share as their effect would have been anti-dilutive.

Potentially issuable shares under the Company's stock-based compensation plans which amounted to 0.1 million shares in each of the thirteen and twenty-six weeks ended August 3, 2019 and less than 0.1 million and 0.1 million shares in the thirteen and twenty-six weeks ended August 4, 2018, respectively, were excluded in the computation of diluted loss per shares due to their anti-dilutive effect. The Company also excluded contingently issuable performance-based awards totaling 0.1 million in each of the thirteen and twenty-six weeks ended August 3, 2019 and August 4, 2018 from the computation of diluted earnings per share because the pre-established goals had not been satisfied as of the end of each period.

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amount reflected in the consolidated balance sheets of financial assets and liabilities, which includes cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximated their fair values due to the short-term nature of these financial assets and liabilities. The carrying amount of the Company's debt approximates its fair value due to the proximity of the debt issue date and the balance sheet date and the variable component of interest on debt.

5. Income Taxes

The provision for income tax expense (benefit) is based on the Company's current estimate of the annual effective tax rate. The effective income tax expense (benefit) rates for the thirteen weeks ended August 3, 2019 and August 4, 2018 were (22.0)% and 44.6%, respectively, and for the twenty-six weeks ended August 3, 2019 and August 4, 2018 were 1.2% and (6.4)%, respectively. The decrease in the Company's effective income tax (benefit) expense rate during the thirteen weeks ended August 3, 2019 was due to a revision in the Company's estimate of its annualized taxable income for fiscal year 2019.

As of August 3, 2019 and August 4, 2018, the Company had \$1.9 million and \$11.7 million of income tax receivable, respectively. As previously disclosed, the Company received an income tax refund of \$8.5 million from the IRS on April 22, 2019.

6. Revolving Credit Facility

On May 25, 2018, Francesca's Holdings Corporation (the "Holdings"), as a guarantor, certain of its subsidiaries, as borrowers (the "Borrowers"), and certain of its subsidiaries as guarantors (together with Holdings and the Borrowers, the "Loan Parties"), entered into an asset based revolving credit agreement ("ABL Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto. The ABL Credit Agreement provides for revolving commitments of \$50.0 million (including up to \$10.0 million for letters of credit) and matures on May 25, 2023. Availability under the ABL Credit Agreement is subject to a customary borrowing base comprised of: (a) a specified percentage of the Borrower's credit card accounts (as defined in the ABL Credit Agreement); and (b) a specified percentage of the Borrower's eligible inventory (as defined in the ABL Credit Agreement), and reduced by (c) certain customary reserves and adjustments (as defined in the ABL Credit Agreement). The ABL Credit Agreement also contains an option to increase, permitting the Borrowers, subject to certain requirements, to arrange with lenders for additional revolving commitments for up to an aggregate of \$25.0 million. At August 3, 2019, the Company had \$10.0 million of borrowings outstanding and \$10.0 million of borrowing base availability under the ABL Credit Agreement. Of the total borrowing base availability as of August 3, 2019, \$4.0 million is available to be drawn without consideration of the Fixed Charge Coverage Ratio requirement (as defined below). Additionally, there were no letters of credit outstanding as of August 3, 2019.

Francesca's Holdings Corporation
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All obligations of each Loan Party under the ABL Credit Agreement are unconditionally guaranteed by the Company and each of the Company's existing and future direct and indirect wholly owned domestic subsidiaries, including the Borrowers. All obligations under the ABL Credit Agreement, and the guarantees of those obligations (as well as banking services obligations and any interest rate hedging or other swap agreements), are secured by substantially all of the assets of the Company and each of the Company's existing and future direct and indirect wholly owned domestic subsidiaries. Additionally, the ABL Credit Agreement contains customary events of default and requires the Loan Parties to comply with certain financial covenants, including a restriction prohibiting the Loan Parties from declaring or making dividend payments, subject to certain exceptions. In addition, Holdings may declare or make dividend payments, subject to the satisfaction of the Payment Conditions (as defined in the ABL Credit Agreement). The ABL Credit Agreement also requires that the auditor's report on the Company's audited financial statements for the previous fiscal year does not contain a "going concern" or like qualification or exception and also requires the Loan Parties to maintain a minimum ratio of (i) EBITDAR (as defined in the ABL Credit Agreement) minus unfinanced capital expenditures (as defined in the ABL Credit Agreement), to (ii) fixed charges of 1.00 to 1.00 during periods when availability (as defined in the ABL Credit Agreement) is less than \$6.0 million (or has recently been less than \$6.0 million as further specified in the ABL Credit Agreement) (such ratio, the "Fixed Charge Coverage Ratio"). As of August 3, 2019, our borrowing availability was more than \$6.0 million, resulting in the elimination of the Fixed Charge Coverage Ratio requirement.

See Note 11, Subsequent Events for additional information on the Term Loan Credit Agreement and First Amendment to ABL Credit Agreement (each as defined below) entered into on August 13, 2019.

7. Stockholder Rights Plan

On July 31, 2019, the Board of Directors of the Company adopted a limited duration stockholder rights plan (the "Rights Plan") with an expiration date of August 1, 2022 and an ownership trigger threshold of 15%, subject to certain exceptions. In connection with the Rights Plan, the Board of Directors authorized and declared a dividend to the Company's stockholders of record at the close of business on August 15, 2019 of one preferred share purchase right (a "Right") for each outstanding share of the Company's common stock.

Upon certain triggering events, each Right will entitle the holder thereof to purchase from the Company one five-thousandth (subject to adjustment) of one share of Series A Junior Participating Preferred Stock, \$0.01 par value per share of the Company (the "Preferred Stock") at an exercise price of \$18.00 (the "Exercise Price") per one five-thousandth of a share of Preferred Stock. In addition, if a person or group acquires beneficial ownership of 15% or more of the Company's common stock without prior approval of the Company's Board of Directors, or in the case of a person or group that beneficially owned more than 15% of the Company's common stock prior to the issuance of the press release announcing the adoption of the Rights Agreement on August 2, 2019, such person or group acquires beneficial ownership of any additional shares of the Company's common stock without prior approval of the Company's Board of Directors, each holder of a Right (other than the acquiring person or group whose Rights will become void) will have the right to purchase, upon payment of the Exercise Price and in accordance with and subject to the adjustment under the terms of the Rights Plan, a number of shares of the Company's common stock having a market value of twice the Exercise Price (as adjusted). The complete terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement"), dated as of August 1, 2019, between the Company and Computershare Trust Company, N.A., as rights agent.

8. Stock-based Compensation

Stock-based compensation cost is measured at the grant date fair value and is recognized as an expense on a straight-line basis over the employee's requisite service period. The Company recognized stock-based compensation expense of less than \$0.1 million in the thirteen weeks ended August 3, 2019 and a net reversal of previously accrued stock-based compensation of \$0.2 million in the twenty-six weeks ended August 3, 2019. Stock-based compensation expense during the thirteen and twenty-six weeks ended August 4, 2018 was \$0.3 million and \$0.7 million, respectively.

Francesca's Holdings Corporation
Notes to Unaudited Consolidated Financial Statements

Management Awards

For the twenty-six weeks ended August 3, 2019, the Company granted 0.3 million of restricted stock units ("RSU"), and, for the twenty-six weeks ended August 4, 2018, granted 0.1 million of restricted stock awards ("RSA") to certain executives and key employees. Of the total award in each period, 50% of the total units or shares awarded were in the form of performance-based ("PSU" or "PSA") while the remaining 50% were in the form of time-based restricted shares. The number of PSUs or PSAs that may ultimately vest will be equal to 0% to 150% of the target units or shares awarded subject to the achievement of pre-established performance goals and the employee's continued employment through the third anniversary of the grant date. The RSUs and RSAs vest in one installment on the third anniversary of the award date.

At the end of each reporting period, the Company assessed the probability of achieving the pre-established performance conditions related to the PSUs and PSAs and adjusted stock-based compensation expense based on the results of such assessment.

9. Leases

The Company leases boutiques, its distribution center, office space, and certain boutique and corporate office equipment under operating leases expiring in various years through the fiscal year ending 2029. Certain of the leases provide that the Company may cancel the lease, with penalties as defined in the lease, if the Company's boutique sales at that location fall below an established level. Certain leases provide for additional rent payments to be made when sales exceed a base amount. Certain operating leases provide for renewal options for periods from three to five years at the market rate at the time of renewal. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. See above under "Leases" in Note 1 for additional information regarding the Company's adoption of ASC 842, Leases on February 3, 2019 and the impact of such adoption.

The following table presents the components of the Company's operating lease costs for the period presented.

	Thirteen Weeks Ended	Twenty-Six Weeks Ended
	August 3, 2019	August 3, 2019
Operating lease costs	\$ 15,322	\$ 30,471
Variable lease costs	244	468
	<u>\$ 15,566</u>	<u>\$ 30,939</u>

As of August 3, 2019, the weighted average remaining operating lease term was 6.0 years and the weighted average discount rate for operating leases was 5.6%. Cash paid for operating leases included in the measurement of lease liabilities totaled \$32.5 million for the twenty-six weeks ended August 3, 2019.

As of August 3, 2019, the maturities of lease liabilities were as follows:

Maturities of lease liabilities	
Remainder of 2019	\$ 32,215
2020	60,273
2021	51,956
2022	44,411
2023	38,113
Thereafter	85,179
Total lease payments	312,147
Less: Interest	48,340
Present value of lease liabilities	<u>\$ 263,807</u>

As of August 3, 2019, the minimum rental commitments for operating lease contracts that have not yet commenced was \$4.8 million while its lease terms were within the range of 5 to 10 years.

10. Contingencies

On January 27, 2017, a purported collective action lawsuit entitled Meghan Magee, et al. v. Francesca's Holdings Corp., et al. was filed in the United States District Court for the District of New Jersey, Camden Vicinage against the Company for alleged violations of federal and state wage and hour laws. After substitution of a named plaintiff, the lawsuit is now captioned, Danielle Prulello, et al. v. Francesca's Holding Corp., et al. On November 6, 2018, the court conditionally certified the collective action. The Company believes that the allegations contained in the lawsuit are without merit and intends to vigorously defend itself against all claims asserted therein. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time and, as such, the Company has not recorded an accrual for any possible loss.

Francesca's Holdings Corporation
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The Company, from time to time, is subject to various claims and legal proceedings, including employment claims, wage and hour claims, intellectual property claims, contractual and commercial disputes and other matters that arise in the ordinary course of business. While the outcome of any such claim cannot be predicted with certainty, the Company does not believe that the outcome of these matters will have a material adverse effect on the Company's business, results of operations or financial condition.

11. Subsequent Events

Term Loan Credit Agreement

On August 13, 2019, the Loan Parties entered into a Term Loan Credit Agreement ("Term Loan Credit Agreement") with Tiger Finance, LLC, as administrative agent and the lenders party thereto. The Term Loan Credit Agreement provides for an aggregate term loan of \$10.0 million and matures on August 13, 2022.

The loan under the Term Loan Credit Agreement (the "Term Loan") bears interest at a rate equal to LIBOR for the interest period relevant to the Term Loan, subject to a 0.00% floor, plus 8.00%, provided that the interest rate on the Term Loan will not be less than 10.00%. The Term Loan Credit Agreement also requires the Borrowers to pay a closing fee equal to 2.5% of the amount of the Term Loan and an annual agency fee of \$50,000. The Term Loan Credit Agreement is subject to a combined borrowing base together with the Company's existing asset based revolving credit facility. As of August 31, 2019, the combined borrowing base availability was \$16.3 million.

The proceeds from the Term Loan were used to pay the \$10.0 million outstanding under the ABL Credit Agreement.

First Amendment to ABL Credit Agreement

On August 13, 2019, concurrent with entering into the Term Loan Credit Agreement, the Company and the other Loan Parties, entered into a First Amendment to ABL Credit Agreement (the "First Amendment to ABL Credit Agreement") with JPMorgan Chase, N.A., as administrative agent, and the lenders party thereto, which amends the existing ABL Credit Agreement.

The First Amendment to ABL Credit Agreement, among other things, (i) reduces the Aggregate Revolving Commitment (as defined in the ABL Credit Agreement) from \$50.0 million to \$40.0 million; (ii) allows the Loan Parties to enter into the Term Loan Credit Agreement; (iii) changes the maturity date under the ABL Credit Agreement from May 23, 2023 to the earlier of (a) May 23, 2023 and (b) the date that is 90 days prior to any scheduled maturity of the Term Loan; (iv) removes the requirement to maintain a minimum Fixed Charge Coverage Ratio (as defined in the ABL Credit Agreement) previously contained in the ABL Credit Agreement; and (v) limits the amount of capital expenditures that the Loan Parties may make through the fiscal year ending in 2021, provided that the Loan Parties may make unlimited amounts of capital expenditures if certain payment conditions are met. The reduced aggregate revolving commitment of \$40.0 million exceeds the current borrowing base under the ABL Credit Agreement by a significant amount and such reduction therefore does not result in any reduction in available borrowings under the ABL Credit Agreement.

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

FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements concern our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition, which are subject to risks and uncertainties. All statements other than statements of historical fact included in this report are forward-looking statements. These statements may include words such as “aim”, “anticipate”, “assume”, “believe”, “can have”, “could”, “due”, “estimate”, “expect”, “goal”, “intend”, “likely”, “may”, “objective”, “plan”, “potential”, “positioned”, “predict”, “should”, “target”, “will”, “would” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events or trends. For example, all statements we make relating to our estimated and projected earnings, sales, costs, expenditures, cash flows, growth rates, market share and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward-looking statements.

These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management's beliefs and assumptions. These statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in many cases beyond our control. All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. These risks and uncertainties include, but are not limited to, the following: the risk that the Company may not be able to successfully execute its turnaround plan, the risk that we may not be able to successfully integrate our Interim Chief Executive Officer and attract and integrate a new Chief Executive Officer; the risk that we cannot anticipate, identify and respond quickly to changing fashion trends and customer preferences or changes in consumer environment, including changing expectations of service and experience in boutiques and online, and evolve our business model; our ability to attract a sufficient number of customers to our boutiques or sell sufficient quantities of our merchandise through our ecommerce website; our ability to successfully open, close, refresh, and operate new boutiques each year; our ability to efficiently source and distribute additional merchandise quantities necessary to support our growth; risks related to our ability to comply with the continued listing standards of the Nasdaq Global Select Market; and the impact of potential tariff increases or new tariffs. For additional information regarding these and other risks and uncertainties that could cause actual results to differ materially from those contained in our forward looking statements, please refer to “Item 1A. Risk Factors,” in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 and filed with the Securities and Exchange Commission (“SEC”) on May 3, 2019 (“Fiscal Year 2018 10-K”) and any risk factors contained in subsequent Quarterly Reports on Form 10-Q or other filings we file with the SEC, including under “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q, as well as our disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report and in our Fiscal Year 2018 10-K.

We derive many of our forward-looking statements from our own 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. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in this report as well as other cautionary statements that are made from time to time in our other SEC filings and public communications. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. These forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update or revise any forward-looking statements publicly after the date of this report whether as a result of new information, future developments or otherwise.

Overview

Unless the context otherwise requires, the “Company,” “we,” “our,” “ours,” “us” and “francesca’s[®]” refer to Francesca’s Holdings Corporation and its consolidated subsidiaries.

francesca’s[®] is a specialty retailer which operates a nationwide-chain of boutiques providing customers a unique, fun and personalized shopping experience. The merchandise assortment we offer is a diverse and balanced mix of apparel, jewelry, accessories and gifts. We aim to offer a differentiated shopping experience and quality, on-trend merchandise at a compelling value, across a wide variety of geographic markets and shopping venues. As of August 3, 2019, francesca’s[®] operated 718 boutiques in 47 states throughout the United States and the District of Columbia and also served its customers through www.francescas.com, our ecommerce website. The information contained on our ecommerce website is not incorporated by reference into this Quarterly Report on Form 10-Q and you should not consider information contained on our ecommerce website to be part of this Quarterly Report on Form 10-Q.

During the thirteen weeks ended August 3, 2019, our net sales decreased 6% to \$106.0 million from \$113.0 million, income from operations increased by \$0.5 million from \$0.8 million to \$1.4 million, and net income increased \$1.4 million from \$0.5 million, or \$0.16 earnings per diluted share, to \$1.8 million, or \$0.61 earnings per diluted share, over the comparable prior year period.

During the twenty-six weeks ended August 3, 2019, our net sales decreased 10% to \$193.1 million from \$213.4 million, loss from operations increased by \$4.6 million from \$3.7 million to \$8.3 million, and net loss increased \$4.9 million from \$3.4 million, or \$1.18 loss per diluted share, to \$8.3 million, or \$2.87 loss per diluted share, over the comparable prior year period.

In February 2019, we executed a workforce reduction at both our corporate office and field management as part of our cost reduction initiative associated with our turnaround plan that commenced in January 2019. As a result, we expensed \$0.9 million of severance benefits during the twenty-six weeks ended August 3, 2019. These severance benefits are included in selling, general and administrative expenses in the unaudited consolidated statements of operations.

On July 1, 2019, we effected a 12-to-1 stock split (the "Reverse Stock Split"), reducing the number of shares of common stock outstanding on that date from 35.4 million to 3.1 million shares. Additionally, the number of shares of our common stock subject to outstanding stock options, restricted stock awards and restricted stock units, the exercise price of all our outstanding stock options, and the number of shares reserved for future issuance pursuant to our equity compensation plans were adjusted proportionately in connection with the Reverse Stock Split. The number of authorized shares of common stock under the Company's Amended and Restated Certificate of Incorporation and the par value per share of its common stock were unchanged. All historical share and per share amounts presented herein have been adjusted retrospectively to reflect these changes. The Reverse Stock Split was effected in order to increase the market price per share of our common stock to ensure the Company regained full compliance with The Nasdaq Stock Market LLC's ("Nasdaq") minimum bid price requirement and maintained its listing on Nasdaq. Nasdaq informed the Company on July 17, 2019 that it had regained full compliance with Nasdaq's listing requirements.

On July 31, 2019, our Board of Directors adopted a limited duration stockholder rights plan (the "Rights Plan") with an expiration date of August 1, 2022 and an ownership trigger threshold of 15%, subject to certain exceptions. In connection with the Rights Plan, the Board of Directors authorized and declared a dividend to the Company's stockholders of record at the close of business on August 15, 2019 of one preferred share purchase right (a "Right") for each outstanding share of our common stock. Upon certain triggering events, each Right will entitle the holder to purchase from us one five-thousandth (subject to adjustment) of one share of Series A Junior Participating Preferred Stock, \$0.01 par value per share (the "Preferred Stock") at an exercise price of \$18.00 (the "Exercise Price") per one five-thousandth of a share of Preferred Stock. In addition, if a person or group acquires beneficial ownership of 15% or more of our common stock without prior approval of our Board of Directors, or in the case of a person or group that beneficially owned more than 15% of our common stock prior to the issuance of the press release announcing the adoption of the Rights Agreement on August 2, 2019, such person or group acquires beneficial ownership of any additional shares of our common stock without prior approval of our Board of Directors, each holder of a Right (other than the acquiring person or group whose Rights will become void) will have the right to purchase, upon payment of the Exercise Price and in accordance with and subject to adjustment under the terms of the Rights Plan, a number of shares of our common stock having a market value of twice the Exercise Price (as adjusted). The complete terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement"), dated as of August 1, 2019, between Francesca's Holdings Corporation and Computershare Trust Company, N.A., as rights agent, which is included as Exhibit 4.1 to this Quarterly Report on Form 10-Q.

On August 13, 2019, Francesca's Holdings Corporation (the "Company"), as a guarantor, certain of its subsidiaries, as borrowers (the "Borrowers"), and certain of its subsidiaries as guarantors (together with the Company and the Borrowers, the "Loan Parties"), entered into a Term Loan Credit Agreement ("Term Loan Credit Agreement") with Tiger Finance, LLC, as administrative agent and the lenders party thereto. The Term Loan Credit Agreement provides for an aggregate term loan of \$10.0 million and matures on August 13, 2022. Concurrent with entering into the Term Loan Credit Agreement, the Company and the other Loan Parties, entered into a First Amendment to ABL Credit Agreement (the "First Amendment to ABL Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, which amends the Company's existing asset based revolving credit agreement, dated as of May 25, 2018, by and among the Company, the other Loan Parties, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (the "ABL Credit Agreement" and, as amended by the First Amendment to ABL Credit Agreement, the "Amended ABL Credit Agreement"). See "Asset Based Revolving Credit Facility" and "Term Loan Credit Agreement" under "Liquidity and Capital Resources" below for additional information.

On August 13, 2019, we announced the completion of our previously announced strategic alternatives review process as we intend to focus on the execution of our turnaround plan.

Our boutique count decreased to 718 boutiques as of August 3, 2019 from 742 boutiques as of August 4, 2018. As previously disclosed, our current priority is executing our turnaround plan which is aimed at improving comparable sales and profitability. As such, we plan to close at least 10 existing boutiques during the remainder of the fiscal year as we continue to optimize our existing boutique fleet. We plan to resume new boutique openings and remodels in the future, as appropriate, when the desired results are achieved under our turnaround plan.

Net Sales

Net sales decreased 6% to \$106.0 million in the thirteen weeks ended August 3, 2019 from \$113.0 million in the thirteen weeks ended August 4, 2018. This decrease was primarily due to a 5% decrease in comparable sales following a 13% decrease in the same period of the prior year. The decrease in comparable sales was the result of lower average unit retail prices associated with deeper markdowns. This was partially offset by higher boutique conversion rates and higher average units per transaction. There were 704 comparable boutiques and 14 non-comparable boutiques open at August 3, 2019 compared to 663 and 79, respectively, at August 4, 2018.

Cost of Goods Sold and Occupancy Costs

Cost of goods sold and occupancy costs decreased 5% to \$65.5 million in the thirteen weeks ended August 3, 2019 from \$68.9 million in the thirteen weeks ended August 4, 2018. Cost of merchandise and shipping expenses decreased by \$2.3 million primarily due to decreased sales volume during the quarter. Occupancy costs decreased by \$1.1 million due to lower depreciation associated with boutiques impaired in fiscal year 2018 and lower demolition costs associated with boutique remodels.

As a percentage of net sales, cost of goods sold and occupancy costs increased to 61.8% in the thirteen weeks ended August 3, 2019 from 61.0% in the thirteen weeks ended August 4, 2018, an unfavorable variance of 80 basis points. This change was due to lower merchandise margins and deleveraging of occupancy costs as a result of lower sales. The decrease in merchandise margins was due to deeper markdowns but was partially offset by lower marked-out-of-stock charges.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 10% to \$39.1 million in the thirteen weeks ended August 3, 2019 from \$43.3 million in the thirteen weeks ended August 4, 2018. This decrease was primarily due to a \$2.5 million decrease in boutique payroll and supplies associated with our cost reduction initiatives under our turnaround plan. Additionally, corporate payroll, stock-based compensation and other payroll related expenses decreased \$0.7 million primarily due to lower headcount as a result of the workforce reduction in February 2019, marketing expenses decreased by \$0.4 million, and asset write-off charges related to remodels decreased by \$0.3 million.

As a percentage of net sales, selling, general and administrative expense decreased to 36.9% in the thirteen weeks ended August 3, 2019 as compared to 38.3% in the thirteen weeks ended August 4, 2018 due to leveraging of expenses.

Income Tax (Benefit) Expense

Income tax benefit was \$(0.3) million in the thirteen weeks ended August 3, 2019 compared to an income tax expense of \$0.4 million in the thirteen weeks ended August 4, 2018 while the effective income tax (benefit) expense rate was (22.0)% compared to 44.6% over the same period, respectively. The income tax benefit recognized in the thirteen weeks ended August 3, 2019 was based on our revised estimate of the Company's annualized taxable income for fiscal year 2019.

Twenty-Six Weeks August 3, 2019 Compared to Twenty-Six Weeks Ended August 4, 2018

	Twenty-Six Weeks Ended				Variance		
	August 3, 2019		August 4, 2018		In USD	%	Basis Points
	In USD	As a % of Net Sales ⁽¹⁾	In USD	As a % of Net Sales ⁽¹⁾			
	(in thousands, except percentages and basis points)						
Net sales	\$ 193,097	100.0%	\$ 213,430	100.0%	\$ (20,333)	(10)%	-
Cost of goods sold and occupancy costs	122,267	63.3%	130,960	61.4%	(8,693)	(7)%	200
Gross profit	70,830	36.7%	82,470	38.6%	(11,640)	(14)%	(200)
Selling, general and administrative expenses	79,118	41.0%	86,160	40.4%	(7,042)	(8)%	60
Loss from operations	(8,288)	(4.3)%	(3,690)	(1.7)%	4,598	125%	260
Interest expense	325	0.2%	229	0.1%	96	42%	10
Other income	372	0.2%	252	0.1%	120	48%	10
Loss before income tax expense (benefit)	(8,241)	(4.3)%	(3,667)	(1.7)%	4,574	125%	250
Income tax expense (benefit)	96	0.0%	(236)	(0.1)%	332	141%	20
Net loss	<u>\$ (8,337)</u>	<u>(4.3)%</u>	<u>\$ (3,431)</u>	<u>(1.6)%</u>	<u>\$ 4,906</u>	<u>143%</u>	<u>270</u>

(1) Percentage totals or differences in the above table may not equal the sum or difference of the components due to rounding.

Net Sales

Net sales decreased 10% to \$193.1 million in the twenty-six weeks ended August 3, 2019 from \$213.4 million in the twenty-six weeks ended August 4, 2018. This decrease was primarily due to a 9% decrease in comparable sales following a 15% decrease in the same period of the prior year. The decrease in comparable sales was primarily due a decline in traffic as well as lower average unit retail prices as a result of deeper markdowns. There were 704 comparable boutiques and 14 non-comparable boutiques open at August 3, 2019 compared to 663 and 79, respectively, at August 4, 2018.

Cost of Goods Sold and Occupancy Costs

Cost of goods sold and occupancy costs decreased 7% to \$122.3 million in the twenty-six weeks ended August 3, 2019 from \$131.0 million in the twenty-six weeks ended August 4, 2018. Cost of merchandise and shipping expenses decreased by \$7.2 million primarily due to decreased sales volume. Occupancy costs decreased by \$1.5 million due to lower depreciation associated with boutiques impaired in fiscal year 2018 and lower demolition costs associated with boutique remodels.

As a percentage of net sales, cost of goods sold and occupancy costs increased to 63.3% in the twenty-six weeks ended August 3, 2019 from 61.4% in the twenty-six weeks ended August 4, 2018, an unfavorable variance of 200 basis points. This change was due to deleveraging of occupancy costs as a result of lower sales. Merchandise margins slightly decreased as the increase in markdowns were partially offset by lower marked-out-stock charges.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 8% to \$79.1 million in the twenty-six weeks ended August 3, 2019 from \$86.2 million in the twenty-six weeks ended August 4, 2018. This decrease was primarily due to a \$5.7 million decrease in boutique payroll and supplies associated with our cost reduction initiatives under our turnaround plan. Additionally, stock-based compensation decreased \$1.0 million primarily due to certain employee departures, marketing expenses decreased \$0.7 million and freight expenses decreased \$0.5 million as a result of lower sales volume. These decreases were partially offset by \$2.2 million of consulting expenses associated with our review of strategic and financial alternatives and the implementation of our turnaround plan as well as higher audit and legal fees.

As a percentage of net sales, selling, general and administrative expense increased to 41.0% in the twenty-six weeks ended August 3, 2019 as compared to 40.4% in the twenty-six weeks ended August 4, 2018 due to deleveraging of expenses as a result of lower sales.

Income Tax Expense (Benefit)

Income tax expense was \$0.1 million in the twenty-six weeks ended August 3, 2019 compared to an income tax benefit of \$0.2 million in the twenty-six weeks ended August 4, 2018 while the effective income tax expense (benefit) rate was 1.2% compared to (6.4)% over the same period, respectively. The income tax expense in the current year-to-date period was related to state taxes while the prior year income tax benefit included a provision for net operating loss carryover partially offset by additional income tax expense related to the vesting of certain stock-based awards.

Sales by Merchandise Department

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	August 3, 2019		August 4, 2018		August 3, 2019		August 4, 2018	
	In Dollars	As a % of Net Sales ⁽¹⁾	In Dollars	As a % of Net Sales ⁽¹⁾	In Dollars	As a % of Net Sales ⁽¹⁾	In Dollars	As a % of Net Sales ⁽¹⁾
	(in thousands, except percentages)							
Apparel	\$ 52,389	49.4%	\$ 56,807	50.3%	\$ 94,213	48.8%	\$ 106,341	49.8%
Jewelry	27,957	26.4%	26,984	23.9%	51,835	26.8%	50,842	23.8%
Accessories	16,211	15.3%	17,181	15.2%	29,851	15.5%	32,664	15.3%
Gifts	8,532	8.1%	11,337	10.0%	16,375	8.5%	22,442	10.5%
Other ⁽²⁾	883	0.8%	716	0.6%	823	0.4%	1,140	0.5%
	<u>\$ 105,972</u>	<u>100.0%</u>	<u>\$ 113,025</u>	<u>100.0%</u>	<u>\$ 193,097</u>	<u>100.0%</u>	<u>\$ 213,430</u>	<u>100.0%</u>

(1) Percentage totals in the above table may not equal the sum of the components due to rounding.

(2) Includes gift card breakage income, shipping and change in return reserve.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under our Amended ABL Credit Agreement (see “Asset Based Revolving Credit Facility” below for more information) and Term Loan Credit Agreement (see “Term Loan Credit Agreement” below for more information). Our primary cash needs are for funding normal working capital requirements, the operation of our existing boutiques and ecommerce website, the implementation of our turnaround plan, and payments of interest and principal, if any, under our Amended ABL Credit Agreement and Term Loan Credit Agreement. We may use cash or our asset based revolving credit facility to issue letters of credit to support merchandise receipts or for other corporate purposes. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts payable, operating lease liabilities and other current liabilities. Our working capital position benefits from the fact that we generally collect cash from sales to customers the day of or, in the case of credit or debit card transactions, within several days of the related sales and we typically have up to 45 days to pay our inventory vendors and up to 60 days to pay other vendors.

At August 3, 2019, we had \$22.0 million of cash and cash equivalents, and \$10.0 million of borrowings outstanding, with \$10.0 million of borrowing base availability under our ABL Credit Agreement. Of the total borrowing base availability as of August 3, 2019, \$4.0 million was available to be drawn without consideration of the fixed charge coverage ratio requirement (as defined below). We were in compliance with all covenants under our ABL Credit Agreement as of August 3, 2019.

On August 13, 2019, we entered into a Term Loan Credit Agreement with Tiger Finance, LLC for an aggregate term loan of \$10.0 million and matures on August 13, 2022. See “Term Loan Credit Agreement” below for more information. We used the proceeds from this Term Loan to pay the \$10.0 million outstanding amount under our ABL Credit Agreement.

We expect that our cash flow from operations and any available borrowings under our Amended ABL Credit Agreement will be sufficient to fund capital expenditures and our working capital requirements for at least the next twelve months.

Cash Flow

A summary of our operating, investing and financing activities are shown in the following table:

	Twenty-Six Weeks Ended	
	August 3, 2019	August 4, 2018
	(in thousands)	
Provided by operating activities	\$ 5,375	\$ 10,936
Used in investing activities	(3,372)	(14,436)
Used in financing activities	(144)	(4,477)
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,859</u>	<u>\$ (7,977)</u>

Operating Activities

Operating activities consist of net income (loss) adjusted for non-cash items, including depreciation and amortization, deferred taxes, and the effect of working capital changes. Net cash provided by operating activities was \$5.4 million in the twenty-six weeks ended August 3, 2019 compared to \$10.9 million in the twenty-six weeks ended August 4, 2018. The decrease in cash provided by operating activities in the current period as compared to the same period of the prior year was primarily due to the increase in net loss and timing of payments of accounts payable partially offset by the \$8.5 million income tax refund received in April 2019.

Investing Activities

Investing activities consist primarily of capital expenditures for new boutiques, improvements to existing boutiques, as well as investments in information technology and our distribution facility.

	Twenty-Six Weeks Ended	
	August 3, 2019	August 4, 2018
	(in thousands)	
Capital expenditures for:		
Remodels	\$ 1,575	\$ 4,186
New boutiques	620	7,807
Existing boutiques	738	980
Technology	282	891
Corporate and distribution	157	572
	<u>\$ 3,372</u>	<u>\$ 14,436</u>

Our total capital expenditures for the twenty-six weeks ended August 3, 2019 and August 4, 2018 were \$3.4 million and \$14.4 million, respectively. Our spending in the twenty-six weeks ended August 3, 2019 was associated with the payment of prior year accrued constructions costs. Total net capital expenditure additions, on an accrual basis, for the twenty-six weeks ended August 3, 2019 totaled \$1.4 million. As previously disclosed, we have substantially decreased, and expect to continue to substantially decrease, our investments in new boutiques, remodels and relocations in fiscal year 2019 until the desired results of our turnaround plan are achieved. For the twenty-six weeks ended August 4, 2018, our capital expenditures were mostly related to new boutique openings and remodels.

The following table summarizes new boutique openings and existing boutique remodels information for the periods presented.

	Twenty-Six Weeks Ended	
	August 3, 2019	August 4, 2018
New boutiques:		
Number of new boutiques opened	4	31
Average cost per new boutique	\$ 420,000	\$ 315,000
Average tenant allowance per new boutique	\$ -	\$ 43,000
Remodels:		
Number of boutiques remodeled	-	45
Average cost per remodeled boutique	\$ -	\$ 140,000

The increase in average cost per new boutique in the twenty-six weeks ended August 3, 2019 compared to the comparable prior year period was primarily due to costs associated with bringing one new boutique in compliance with certain requirements. Additionally, we did not receive any tenant allowances for new boutiques opened during the current year period as we continued our focus on lowering rental rates.

Management anticipates that additional capital expenditures for the remainder of fiscal year 2019 will be approximately \$2.6 million. The majority of this amount will be spent on improvements to existing boutiques and investments in existing technology.

Financing Activities

Financing activities consist of borrowings and payments under our Asset Based Revolving Credit Facility as well as repurchases of our common stock.

Net cash used in financing activities in the twenty-six weeks ended August 3, 2019 consisted of \$5.0 million proceeds from borrowings under our ABL Credit Agreement that was subsequently repaid during the quarter and \$0.1 million payment of debt issuance costs associated with our Term Loan Credit Agreement. Net cash used in financing activities in the twenty-six weeks ended August 4, 2018 was \$4.4 million which primarily consisted of repurchases of common stock.

Asset Based Revolving Credit Facility

On May 25, 2018, the Borrowers, entered into the ABL Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto. The ABL Credit Agreement provided for an Aggregate Revolving Commitments (as defined in the ABL Credit Agreement) of \$50.0 million (including up to \$10.0 million for letters of credit) and was scheduled to mature on May 25, 2023. On August 3, 2019, we had \$10.0 million of borrowings outstanding and \$10.0 million of borrowing base availability under the ABL Credit Agreement. Of the total borrowing base availability as of August 3, 2019, \$4.0 million was available to be drawn without consideration of the fixed charge coverage ratio requirement contained in the ABL Credit Agreement. Additionally, there were no letters of credit outstanding as of August 3, 2019.

On August 13, 2019, concurrent with entering into the Term Loan Credit Agreement (described below), the Borrowers, entered into the First Amendment to ABL Credit Agreement. The First Amendment to ABL Credit Agreement, among other things, (i) reduced the Aggregate Revolving Commitment (as defined in the Amended ABL Credit Agreement) from \$50.0 million to \$40.0 million; (ii) allowed the Loan Parties to enter into the Term Loan Credit Agreement; (iii) changed the maturity date under the Amended ABL Credit Agreement from May 23, 2023 to the earlier of (a) May 23, 2023 and (b) the date that is 90 days prior to any scheduled maturity of the Term Loan; (iv) removed the requirement to maintain the minimum fixed charge coverage ratio previously contained in the ABL Credit Agreement; and (v) limits the amount of capital expenditures that the Loan Parties may make through the fiscal year ending in 2021, provided that the Loan Parties may make unlimited amounts of capital expenditures if certain payment conditions are met. The reduced Aggregate Revolving Commitment of \$40.0 million exceeds the current borrowing base under the Amended ABL Credit Agreement by a significant amount and such reduction therefore does not result in any reduction in available borrowings under the Amended ABL Credit Agreement.

Availability under the Amended ABL Credit Agreement is subject to a customary borrowing base comprised of: (a) a specified percentage of the Borrower's credit card accounts (as defined in the Amended ABL Credit Agreement); and (b) a specified percentage of the Borrower's eligible inventory (as defined in the Amended ABL Credit Agreement), and reduced by (c) certain customary reserves and adjustments (as defined in the Amended ABL Credit Agreement).

All obligations of each Loan Party under the Amended ABL Credit Agreement continue to be unconditionally guaranteed by the Company and each of the Company's existing and future direct and indirect wholly owned domestic subsidiaries, including the Borrowers. All obligations under the Amended ABL Credit Agreement, and the guarantees of those obligations (as well as banking services obligations and any interest rate hedging or other swap agreements), are secured by substantially all of the assets of the Company and each of the Company's existing and future direct and indirect wholly owned domestic subsidiaries. Additionally, the Amended ABL Credit Agreement contains customary events of default and requires the Loan Parties to comply with certain financial covenants, including a restriction prohibiting the Loan Parties from declaring or making dividend payments, subject to certain exceptions. In addition, the Company may declare or make dividend payments, subject to the satisfaction of the Payment Conditions (as defined in the Amended ABL Credit Agreement). The Amended ABL Credit Agreement also requires that the auditor's report on the Company's audited financial statements for the previous fiscal year does not contain a "going concern" or like qualification or exception.

Borrowings under the Amended ABL Credit Agreement continue to bear interest at a rate equal to an applicable margin plus, at the option of the Borrowers, either (a) in the case of base rate borrowings, a rate equal to the highest of (1) the prime rate of JPMorgan Chase Bank, N.A., (2) the federal funds rate plus 1/2 of 1.00%, and (3) LIBOR for an interest period of one month plus 1.00% (subject to a 0.00% LIBOR floor), provided that that the interest rate for base rate borrowings (including the addition of the applicable margin) shall be no less than 1.50% per annum, or (b) in the case of LIBOR borrowings, a rate equal to the LIBOR for the interest period relevant to such borrowing subject to a 0.00% floor. The applicable margin for borrowings under the Amended ABL Credit Agreement ranges from -0.50% to 0.00% per annum with respect to base rate borrowings and from 1.25% to 1.75% per annum with respect to LIBOR borrowings, in each case based upon the achievement of specified levels of the Fixed Charge Coverage Ratio (as defined in the Amended ABL Credit Agreement). The Amended ABL Credit Agreement also requires the Borrowers to pay a commitment fee for the unused portion of the revolving credit facility of 0.20% per annum.

The Amended ABL Credit Agreement contains customary affirmative and negative covenants, including limitations, subject to customary exceptions, on the ability of the Company and its subsidiaries to (i) incur additional debt; (ii) create liens; (iii) make certain investments, acquisitions, loans and advances; (iv) sell assets; (v) pay dividends or make distributions or make other restricted payments; (vi) prepay other indebtedness; (vii) engage in mergers or consolidations; (viii) change the business conducted by the Company and its subsidiaries; (ix) engage in certain transactions with affiliates; (x) enter into agreements that restrict dividends from subsidiaries or the ability of subsidiaries to grant liens upon their assets; and (xi) amend certain charter documents and material agreements governing subordinated and junior indebtedness.

The Amended ABL Credit Agreement also contains customary events of default, including: (i) failure to pay principal, interest, fees or other amounts under the Amended ABL Credit Agreement when due taking into account any applicable grace period; (ii) any representation or warranty proving to have been materially incorrect when made or deemed made; (iii) a cross default with respect to other material indebtedness; (iv) bankruptcy and insolvency events; (v) unsatisfied material final judgments; (vi) a "change of control"; (vii) certain defaults under the Employee Retirement Income Security Act of 1974; (viii) the invalidity or impairment of any loan document or any security interest; and (ix) breach of covenants in the Amended ABL Credit Agreement and other loan documents.

Term Loan Credit Agreement

On August 13, 2019, the Loan Parties, entered into the Term Loan Credit Agreement with Tiger Finance, LLC, as administrative agent and the lenders party thereto. The Term Loan Credit Agreement provides for an aggregate term loan of \$10.0 million and matures on August 13, 2022. The Term Loan Credit Agreement is subject to a combined borrowing base together with the Company's existing asset based revolving credit facility under the Amended ABL Credit Agreement. As of August 31, 2019, the combined borrowing base availability was \$16.3 million.

All obligations of each Loan Party under the Term Loan Credit Agreement are unconditionally guaranteed by the Company and each of the Company's existing and future direct and indirect wholly owned domestic subsidiaries, including the Borrowers. All obligations under the Term Loan Credit Agreement, and the guarantees of those obligations, are secured on a junior lien basis by substantially all of the assets of the Company and each of the Company's existing and future direct and indirect wholly owned domestic subsidiaries.

The loan under the Term Loan Credit Agreement (the “Term Loan”) bears interest at a rate equal to LIBOR for the interest period relevant to the Term Loan, subject to a 0.00% floor, plus 8.00%, provided that the interest rate on the Term Loan will not be less than 10.00%. The Term Loan Credit Agreement also requires the Borrowers to pay a closing fee equal to 2.50% of the amount of the Term Loan and an annual agency fee of \$50,000.

The Term Loan Credit Agreement contains customary affirmative and negative covenants, including limitations, subject to customary exceptions, on the ability of the Company and its subsidiaries to (i) incur additional debt; (ii) create liens; (iii) make certain investments, acquisitions, loans and advances; (iv) sell assets; (v) pay dividends or make distributions or make other restricted payments; (vi) prepay other indebtedness; (vii) engage in mergers or consolidations; (viii) change the business conducted by the Company and its subsidiaries; (ix) engage in certain transactions with affiliates; (x) enter into agreements that restrict dividends from subsidiaries or the ability of subsidiaries to grant liens upon their assets; and (xi) amend certain charter documents and material agreements governing subordinated and junior indebtedness.

In addition, the Term Loan Credit Agreement limits the amount of capital expenditures that the Loan Parties may make through the fiscal year ending in 2021, provided that the Loan Parties may make unlimited amounts of capital expenditures if certain payment conditions are met.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the related disclosures of contingent assets and liabilities at the date of the financial statements. A summary of the Company’s significant accounting policies is included in Note 1 to the Company’s annual consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

Certain of the Company’s accounting policies and estimates are considered critical, as these policies and estimates are the most important to the depiction of the Company’s consolidated financial statements and require significant, difficult, or complex judgments, often about the effect of matters that are inherently uncertain. Such policies are summarized in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the fiscal year ended February 2, 2019. Except as noted below, as of August 3, 2019, there were no significant changes to any of our critical accounting policies and estimates as disclosed in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

Leases

On February 3, 2019, we adopted the provisions of Accounting Standards Codification (“ASC”) 842, “Leases”, using the additional, optional transition method which allows entities to initially apply the new standard by recognizing a cumulative-effect adjustment to the opening balance of retained earnings at the date of adoption. Prior period amounts and disclosures were not adjusted and continue to be reported under ASC 840, “Leases.” As a result of the adoption, we recorded an operating lease liability of \$278.9 million and operating lease right-of-use (“ROU”) asset of \$242.9 million at February 3, 2019. Additionally, we recognized \$1.8 million cumulative-effect adjustment to the beginning balance of retained earnings related to the impairment of certain ROU assets subjected to impairment testing under existing accounting guidance for which indicators of impairment existed at the time of the adoption of ASC 842. The adoption of ASC 842 did not have a material impact to the unaudited consolidated statements of operations or cash flows. See Note 1 to our accompanying consolidated financial statements for additional information.

We lease our boutiques, distribution center and office space, and certain boutique and corporate office equipment under operating leases. In accordance with ASC 842, we determine if an arrangement is a lease at inception and recognize operating lease ROU assets and operating lease liabilities at commencement date based on the net present value of the fixed lease payments over the lease term and, for operating lease ROU assets, include initial direct costs and exclude lease incentives. Variable lease payments are expensed as incurred. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will elect that option. Subsequent to the recognition of its operating lease ROU assets and operating lease liabilities, we recognize lease expense related to its operating lease payments on a straight-line basis over the lease term.

Operating lease liabilities are calculated using the effective interest method and recognized at the commencement date based on the present value of lease payments over the reasonably certain lease term. As our leases generally do not provide an implicit rate, we use a collateralized incremental borrowing rate to determine the present value of lease payments. The collateralized incremental borrowing rate is based on a synthetic credit rating that is externally prepared at each measurement.

Impairment of Long-Lived Assets, Including Operating Lease ROU Assets

We evaluate long-lived assets held for use, including operating lease ROU assets, and held for sale whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows, which is generally at a boutique level. In determining whether an impairment has occurred, we consider both qualitative and quantitative factors.

The quantitative analysis involves estimating the undiscounted future cash flows directly related to that asset and comparing it against its carrying value. If the carrying value of the asset is greater than the sum of the undiscounted future cash flows, an impairment loss is recognized for the difference between the carrying value of the asset and its fair value. The fair value of the asset group is generally determined using discounted future cash flows or a market participant's ability to generate economic benefits using the asset in its highest and best use, whichever is appropriate. The determination of fair value takes into account the asset's historical performance, current sales trends, market conditions and other relevant factors deemed material, and discounted using a rate commensurate with the risk. The inputs used in the determination of the fair value are considered as Level 3 inputs in the fair value hierarchy, which require a significant degree of judgment and are based on our own assumptions.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, please refer to Note 1 to our unaudited consolidated financial statements included in Part I of this Report, which is incorporated herein by reference.

Contractual Obligations

There were no significant changes to our contractual obligations and commercial commitments as disclosed in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019, other than those which occur in the normal course of business. In addition, subsequent to August 3, 2019, we entered into the Term Loan Credit Agreement and First Amendment to ABL Credit Agreement as discussed above.

Off Balance Sheet Arrangements

We are not party to any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposure to market risk relates to changes in interest rates. Our revolving credit facility under the Amended ABL Agreement and Term Loan carries floating interest rates that are tied to LIBOR, the federal funds rate and the prime rate, and therefore, our statements of operations and our cash flows could be exposed to changes in interest rates to the extent that we do not have effective hedging arrangements in place. We historically have not used derivative financial instruments for speculative or trading purposes; however, this does not preclude our adoption of specific hedging strategies in the future. At August 3, 2019, \$10.0 million was outstanding under our ABL Credit Agreement.

ITEM 4. CONTROLS AND PROCEDURES

We maintain 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")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and regulations and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

At the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee and management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of August 3, 2019.

There were no changes in our internal control over financial reporting during the quarter ended August 3, 2019 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings involving us, please refer to Note 10 to our unaudited consolidated financial statements included in Part I of this Report, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Except as noted below, there have been no material changes to our risk factors as previously disclosed in Item 1A contained in Part I of our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 and filed with the SEC on May 3, 2019.

Our Board of Directors has adopted a limited duration stockholder rights plan, which could delay or discourage a merger, tender offer, or assumption of control of the Company not approved by our Board of Directors.

On July 31, 2019, our Board of Directors adopted a limited duration stockholder rights plan (the “Rights Plan”) with an expiration date of August 1, 2022 and an ownership trigger threshold of 15%, subject to certain exceptions. In connection with the Rights Plan, our Board of Directors authorized and declared a dividend to stockholders of record at the close of business on August 15, 2019 of one preferred share purchase right (a “Right”) for each outstanding share of our common stock.

Upon certain triggering events, each Right will entitle the holder to purchase from us one five-thousandth (subject to adjustment) of one share of Series A Junior Participating Preferred Stock, \$0.01 par value per share (the “Preferred Stock”) at an exercise price of \$18.00 (the “Exercise Price”) per one five-thousandth of a share of Preferred Stock. In addition, if a person or group acquires beneficial ownership of 15% or more of the Company’s common stock without prior approval of our Board of Directors, or in the case of a person or group that beneficially owned more than 15% of our common stock prior to the issuance of the press release announcing the adoption of the Rights Agreement on August 2, such person or group acquires beneficial ownership of any additional shares of our common stock without prior approval of our Board of Directors, each holder of a Right (other than the acquiring person or group whose Rights will become void) will have the right to purchase, upon payment of the Exercise Price and in accordance with and subject to adjustment under the terms of the Rights Plan, a number of shares of our common stock having a market value of twice the Exercise Price (as adjusted).

The Rights Plan is intended to enable all of our stockholders to realize the value of their investment in the Company, ensure that all stockholders receive fair treatment, and provide our Board of Directors and stockholders with adequate time to make informed decisions. The Rights Plan is not intended to deter offers that are fair and otherwise in the best interests of the Company’s stockholders. However, the Rights Plan could render more difficult, or discourage, a merger, tender offer, or assumption of control of the Company that is not approved by our Board of Directors, even if such a transaction would be beneficial to our stockholders. These deterrents could adversely affect the price of our common stock.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
<u>3.1.1</u>	<u>Amended and Restated Certificate of Incorporation of Francesca’s Holdings Corporation (incorporated by reference to Exhibit 3.3 of Amendment No. 5 to the Registration Statement on Form S-1 (File No. 333-173581) filed by Francesca’s Holdings Corporation on July 14, 2011)</u>
<u>3.1.2</u>	<u>Certificate of Amendment of Amended and Restated Certificate of Incorporation of Francesca’s Holdings Corporation (incorporated to Exhibit 3.1 of the Current Report on Form 8-K filed by Francesca’s Holdings Corporation on July 1, 2019)</u>
<u>3.1.3</u>	<u>Certificate of Designation of Series A Junior Participating Preferred Stock of Francesca’s Holdings Corporation (incorporated to Exhibit 3.1 of the Current Report on Form 8-K filed by Francesca’s Holdings Corporation on August 2, 2019)</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of Francesca’s Holdings Corporation (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Francesca’s Holdings Corporation on September 20, 2016)</u>
<u>4.1</u>	<u>Rights Agreement, dated as of August 1, 2019, between Francesca’s Holdings Corporation and Computershare Trust Company, N.A., as Rights Agent, which includes the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Shares of Preferred Stock of Francesca’s Holdings Corporation as Exhibit C (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed by Francesca’s Holdings Corporation on August 2, 2019)</u>
<u>4.2</u>	<u>Form of Right Certificate representing the right to purchase shares of Series A Junior Participating Preferred Stock of Francesca’s Holdings Corporation (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed by Francesca’s Holdings Corporation on August 2, 2019)</u>
<u>10.1</u>	<u>Term Loan Credit Agreement, dated as of August 13, 2019, by and among Francesca’s Holdings Corporation, its subsidiaries party thereto as loan parties, the lenders party thereto and Tiger Finance, LLC, as administrative agent (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Francesca’s Holdings Corporation on August 14, 2019)</u>
<u>10.2</u>	<u>First Amendment to Credit Agreement, dated as of August 13, 2019, by and among Francesca’s Holdings Corporation, its subsidiaries party thereto as loan parties, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Francesca’s Holdings Corporation on August 14, 2019)</u>
<u>10.3+</u>	<u>Form of Director Restricted Stock Award Agreement under the Francesca’s Holdings Corporation 2015 Equity Incentive Plan (filed herewith)</u>

- [10.4+](#) [Employment Letter Agreement between Cindy Thomassee and Francesca's Services Corporation, Francesca's Holdings Corporation and Francesca's Collections, Inc. \(filed herewith\)](#)
- [31.1](#) [Certification of Interim Chief Executive Officer Pursuant to Exchange Act Rule 13a-14\(a\) \(filed herewith\)](#)
- [31.2](#) [Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14\(a\) \(filed herewith\)](#)
- [32.1](#) [Certification of Interim Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(furnished herewith\)](#)
- 101* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Unaudited Consolidated Balance Sheets as of August 3, 2019, February 2, 2019 and August 4, 2018, (ii) the Unaudited Consolidated Statements of Operations for the Thirteen and Twenty-Six Weeks Ended August 3, 2019 and August 4, 2018, (iii) Unaudited Consolidated Statements of Changes in Stockholders' Equity for the Twenty-Six Weeks Ended August 3, 2019 and August 4, 2018, (iv) Unaudited Consolidated Statements of Cash Flows for the Twenty-six Weeks ended August 3, 2019 and August 4, 2018 and (v) the Notes to the Unaudited Consolidated Financial Statements.

+ Indicates a management contract or compensatory plan or arrangement.

SIGNATURE

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.

Francesca's Holdings Corporation
(Registrant)

Date: September 10, 2019

/s/ Cindy Thomassee

Cindy Thomassee
Chief Financial Officer (duly authorized officer and Principal Financial and
Accounting Officer)

FRANCESCA'S HOLDINGS CORPORATION
2015 EQUITY INCENTIVE PLAN
DIRECTOR RESTRICTED STOCK AWARD AGREEMENT

THIS DIRECTOR RESTRICTED STOCK AWARD AGREEMENT (this "Award Agreement") is dated as of _____ by and between Francesca's Holdings Corporation, a Delaware corporation (the "Corporation"), and _____ (the "Director").

WITNESSETH

WHEREAS, pursuant to the Francesca's Holdings Corporation 2015 Equity Incentive Plan (the "Plan"), the Corporation hereby grants to the Director, effective as of _____ (the "Award Date"), a restricted stock award (the "Award"), upon the terms and conditions set forth herein and in the Plan.

NOW THEREFORE, in consideration of services rendered and to be rendered by the Director, and the mutual promises made herein and the mutual benefits to be derived therefrom, the parties agree as follows:

1. **Defined Terms.** Capitalized terms used herein and not otherwise defined herein shall have the meaning assigned to such terms in the Plan.
2. **Grant.** Subject to the terms of this Award Agreement, the Corporation hereby grants to the Director an Award with respect to an aggregate of _____ restricted shares of Common Stock of the Corporation (the "Restricted Stock").
3. **Vesting.** Subject to the terms and conditions of this Award Agreement (including, without limitation, the terms of Section 8 below), the Award shall vest, and restrictions (other than those set forth in Section 8.1 of the Plan) shall lapse, in _____ installment on the _____ anniversary of the Award Date; provided, however, that if the Director ceases to be a member of the Board due to the Director's Retirement, the Award shall vest on a pro-rated basis on the date of such Retirement as to (i) the total number of shares of Restricted Stock subject to the Award, multiplied by (ii) a fraction, the numerator of which is the number of days that have elapsed between the Award Date and the date of such Retirement and the denominator of which is three hundred sixty-five (365), with the balance of the Award to be forfeited to the Corporation as provided in Section 8. For purposes of the Award, "Retirement" means the Director's resignation from service on the Board at a time when the Director has both (a) attained age fifty-five (55) and (b) served as a member of the Board for at least five (5) years. The Board reserves the right to accelerate the vesting of the Restricted Stock in such circumstances as it, in its sole discretion, deems appropriate and any such acceleration shall be effective only when set forth in a written instrument executed by an officer of the Corporation.
4. **Continuance of Employment or Service.** The vesting schedule requires continued employment or service through the applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Director to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 8 below or under the Plan.

5. **Dividend and Voting Rights.** After the Award Date, the Director shall be entitled to cash dividends with respect to the shares of Restricted Stock subject to the Award even though such shares are not vested but shall not be entitled to voting rights with respect to the shares of Restricted Stock, provided that such rights to cash dividends shall terminate immediately as to any shares of Restricted Stock that are forfeited pursuant to Section 8 below; and provided, further, that the Director agrees that promptly following any such forfeiture of the shares of Restricted Stock, the Director will make a cash payment to the Company equal to the amount of any cash dividends received by the Director in respect of any such unvested, forfeited shares. To the extent the shares are forfeited after the record date and before the payment date for a particular dividend, the Director shall, promptly after the dividend is paid, make a cash payment to the Company equal to the amount of any such cash dividend received by the Director in respect of such forfeited shares.

6. **Restrictions on Transfer.** Prior to the time that they have become vested pursuant to Section 3 or Section 7 of the Plan, neither the Restricted Stock, nor any interest therein, amount payable in respect thereof, or Restricted Property (as defined in Section 9 hereof) may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

7. **Stock Certificates.**

(a) **Book Entry Form.** The Corporation shall issue the shares of Restricted Stock subject to the Award either: (a) in certificate form as provided in Section 7(b) below; or (b) in book entry form, registered in the name of the Director with notations regarding the applicable restrictions on transfer imposed under this Award Agreement.

(b) **Certificates to be Held by Corporation: Legend.** Any certificates representing shares of Restricted Stock that may be delivered to the Director by the Corporation prior to vesting shall be redelivered to the Corporation to be held by the Corporation until the restrictions on such shares shall have lapsed and the shares shall thereby have become vested or the shares represented thereby have been forfeited hereunder. Such certificates shall bear the following legend and any other legends the Corporation may determine to be necessary or advisable to comply with all applicable laws, rules, and regulations:

“The ownership of this certificate and the shares of stock evidenced hereby and any interest therein are subject to substantial restrictions on transfer under an Agreement entered into between the registered owner and Francesca’s Holdings Corporation. A copy of such Agreement is on file in the office of the Secretary of Francesca’s Holdings Corporation.”

(c) **Delivery of Certificates Upon Vesting.** Promptly after the vesting of any shares of Restricted Stock pursuant to Section 3 or Section 8 hereof or Section 7 of the Plan and the satisfaction of any and all related tax withholding obligations pursuant to Section 10, the Corporation shall, as applicable, either remove the notations on any shares of Restricted Stock issued in book entry form which have vested or deliver to the Director a certificate or certificates evidencing the number of shares of Restricted Stock which have vested (or, in either case, such lesser number of shares as may result after giving effect to Section 10). The Director (or the beneficiary or personal representative of the Director in the event of the Director’s death or disability, as the case may be) shall deliver to the Corporation any representations or other documents or assurances as the Corporation or its counsel may determine to be necessary or advisable in order to ensure compliance with all applicable laws, rules, and regulations with respect to the grant of the Award and the delivery of shares of Common Stock in respect thereof. The shares so delivered shall no longer be restricted shares hereunder.

(d) Stock Power; Power of Attorney. Concurrently with the execution and delivery of this Award Agreement, the Director shall deliver to the Corporation an executed stock power in the form attached hereto as Exhibit A, in blank, with respect to such shares. The Corporation shall not deliver any share certificates in accordance with this Award Agreement unless and until the Corporation shall have received such stock power executed by the Director. The Director, by acceptance of the Award, shall be deemed to appoint, and does so appoint by execution of this Award Agreement, the Corporation and each of its authorized representatives as the Director's attorney(s)-in-fact to effect any transfer of unvested forfeited shares (or shares otherwise reacquired by the Corporation hereunder) to the Corporation as may be required pursuant to the Plan or this Award Agreement and to execute such documents as the Corporation or such representatives deem necessary or advisable in connection with any such transfer.

8. Effect of Termination of Employment or Services. If the Director ceases to be employed by or ceases to provide services to the Corporation or a Subsidiary (the date of such termination of employment or service is referred to as the Director's "**Severance Date**"), the Director's shares of Restricted Stock (and related Restricted Property as defined in Section 9 hereof) shall, except as expressly provided below, be forfeited to the Corporation to the extent such shares have not become vested pursuant to Section 3 hereof or Section 7 of the Plan upon the Severance Date (regardless of the reason for such termination of employment or service, whether with or without cause, voluntarily or involuntarily, or due to death or disability). Upon the occurrence of any forfeiture of shares of Restricted Stock hereunder, such unvested, forfeited shares and related Restricted Property shall be automatically transferred to the Corporation as of the Severance Date, without any other action by the Director (or the Director's beneficiary or personal representative in the event of the Director's death or disability, as applicable). No consideration shall be paid by the Corporation with respect to such transfer. The Corporation may exercise its powers under Section 7(d) hereof and take any other action necessary or advisable to evidence such transfer. The Director (or the Director's beneficiary or personal representative in the event of the Director's death or disability, as applicable) shall deliver any additional documents of transfer that the Corporation may request to confirm the transfer of such unvested, forfeited shares and related Restricted Property to the Corporation.

9. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan, the Administrator shall make adjustments in accordance with such section in the number and kind of securities that may become vested under the Award. If any adjustment shall be made under Section 7.1 of the Plan or an event described in Section 7.2 of the Plan shall occur and the shares of Restricted Stock are not fully vested upon such event or prior thereto, the restrictions applicable to such shares of Restricted Stock shall continue in effect with respect to any consideration, property or other securities (the "**Restricted Property**" and, for the purposes of this Award Agreement, "Restricted Stock" shall include "Restricted Property", unless the context otherwise requires) received in respect of such Restricted Stock. Such Restricted Property shall vest at such times and in such proportion as the shares of Restricted Stock to which the Restricted Property is attributable vest, or would have vested pursuant to the terms hereof if such shares of Restricted Stock had remained outstanding. To the extent that the Restricted Property includes any cash (other than regular cash dividends), such cash shall be invested, pursuant to policies established by the Administrator, in interest bearing, FDIC-insured (subject to applicable insurance limits) deposits of a depository institution selected by the Administrator, the earnings on which shall be added to and become a part of the Restricted Property.

10. Tax Withholding. Subject to Section 8.1 of the Plan, upon any vesting of the Restricted Stock, the Corporation shall automatically withhold and reacquire the appropriate number of whole shares of Restricted Stock, valued at their then fair market value (with the “fair market value” of such shares determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Corporation or its Subsidiaries with respect to such vesting at the minimum applicable withholding rates. In the event that the Corporation cannot satisfy such withholding obligations by withholding and reacquiring shares of Restricted Stock, or in the event that the Director makes or has made an election pursuant to Section 83(b) of the Code or the occurrence of any other withholding event with respect to the Award, the Corporation (or a Subsidiary) shall be entitled to require a cash payment by or on behalf of the Director and/or to deduct from other compensation payable to the Director any sums required by federal, state or local tax law to be withheld with respect to such vesting of any Restricted Stock or such Section 83(b) election or other withholding event.

11. Notices. Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Director at the Director’s last address reflected on the Corporation’s payroll records. Any notice shall be delivered in person or shall be enclosed in a properly sealed envelope, addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Director is no longer an Eligible Person, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 11.

12. Plan. The Award and all rights of the Director under this Award Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Director agrees to be bound by the terms of the Plan and this Award Agreement. The Director acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Award Agreement. Unless otherwise expressly provided in other sections of this Award Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not (and shall not be deemed to) create any rights in the Director unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

13. Entire Agreement. This Award Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan may be amended pursuant to Section 8.6 of the Plan. This Award Agreement may be amended by the Board from time to time. Any such amendment must be in writing and signed by the Corporation. Any such amendment that materially and adversely affects the Director's rights under this Award Agreement requires the consent of the Director in order to be effective with respect to the Award. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Director hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

14. Counterparts. This Award Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

15. Section Headings. The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

16. Governing Law. This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

17. Clawback Policy. The Restricted Stock is subject to the terms of the Corporation's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of the Restricted Stock or other cash or property received with respect to the Restricted Stock (including any value received from a disposition of the Restricted Stock).

18. Waiver of Jury Trial. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM AGAINST OUT OF OR RELATING TO THE PLAN OR THIS RESTRICTED STOCK AWARD AGREEMENT (INCLUDING THESE TERMS).

19. No Advice Regarding Grant. The Director is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Director may determine is needed or appropriate with respect to the Restricted Stock (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award, the advantages and disadvantages of making an election under Section 83(b) of the Code with respect to the Award, and the process and requirements for such an election). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Award Agreement) or recommendation with respect to the Award or the making an election under Section 83(b) of the Code with respect to the Award. In the event the Director desires to make an election under Section 83(b) of the Code with respect to the Award, it is the Director's sole responsibility to do so timely. Except for the withholding rights set forth in Section 10 above, the Director is solely responsible for any and all tax liability that may arise with respect to the Award.

IN WITNESS WHEREOF, the Corporation has caused this Award Agreement to be executed on its behalf by a duly authorized officer and the Director has hereunto set his or her hand as of the date and year first above written.

**FRANCESCA'S HOLDINGS CORPORATION,
a Delaware corporation**

By: _____

Print Name: _____

Its: _____

DIRECTOR

Signature

Print Name

CONSENT OF SPOUSE

In consideration of the execution of the foregoing Restricted Stock Award Agreement by Francesca's Holdings Corporation, I, _____, the spouse of the Director therein named, do hereby join with my spouse in executing the foregoing Restricted Stock Award Agreement and do hereby agree to be bound by all of the terms and provisions thereof and of the Plan.

Dated: _____, 20__

Signature of Spouse

Print Name

STOCK POWER

FOR VALUE RECEIVED and pursuant to that certain Restricted Stock Award Agreement between Francesca's Holdings Corporation, a Delaware corporation (the "Corporation"), and the individual named below (the "Individual") dated as of _____, 20__, the Individual, hereby sells, assigns and transfers to the Corporation, an aggregate _____ shares of Common Stock of the Corporation, standing in the Individual's name on the books of the Corporation and represented by stock certificate number(s) _____ to which this instrument is attached, and hereby irrevocably constitutes and appoints _____ as his or her attorney in fact and agent to transfer such shares on the books of the Corporation, with full power of substitution in the premises.

Dated _____, _____

Signature

Print Name

(Instruction: Please do not fill in any blanks other than the signature line. The purpose of the assignment is to enable the Corporation to exercise its sale/purchase option set forth in the Restricted Stock Award Agreement without requiring additional signatures on the part of the Individual.)

FRANCESCA'S SERVICES CORPORATION

July 1, 2019

Re: Employment Letter Agreement

Dear Cindy:

Subject to the terms and conditions of this letter agreement (this "Agreement"), Francesca's Services Corporation, a Delaware corporation ("FSC"), Francesca's Holdings Corporation, a Delaware corporation ("Parent") and Francesca's Collections, Inc., a Texas corporation ("FCI" and, collectively with FSC and Parent, the "Company") desires to employ you as the Company's Chief Financial Officer on the terms and conditions of this Agreement. This Agreement shall be effective as of the Effective Date.

1. **Employment; Compensation and Benefits.**

(a) Position and Duties. You shall serve as the Company's Executive Vice President and Chief Financial Officer ("CFO"), reporting to the Company's Chief Executive Officer. During your Period of Employment (as defined below) with the Company, you agree to (i) devote substantially all of your business time, energy and skill to the performance of your duties for the Company, (ii) perform such duties in a faithful, effective and efficient manner and (iii) hold no other employment.

(b) Period of Employment. Your appointment as CFO is effective July 19, 2019 (the "Effective Date"). Your "Period of Employment" hereunder begins on the Effective Date and is for an indefinite term, until terminated as provided in Section 2(a).

(c) Base Salary. Your base salary (the "Base Salary") shall be at an annualized rate of Three Hundred Twenty-Five Thousand Dollars (\$325,000.00) and shall be paid in accordance with the Company's regular payroll practices in effect from time to time.

(d) Annual Bonus. You may be eligible for an annual incentive bonus based on the Company's annual bonus plan that may exist from time to time. Your target annual incentive bonus amount for a particular fiscal year of the Company during the Period of Employment shall equal Fifty Percent (50%) of your Base Salary for that fiscal year.

(e) Retirement, Welfare and Fringe Benefits. During the Period of Employment you shall be entitled to participate in all employee savings and welfare benefit plans and programs, and fringe benefit plans and programs, made available by the Company to the Company's employees generally, in accordance with the eligibility and participation provisions of such plans and as such plans or programs may be in effect from time to time. You will be eligible for 21 days of paid-time-off.

(f) Promotion RSU Grant. Effective as of the Effective Date, in connection with and contingent on your appointment as CFO, you will be granted an award (the "Promotion Grant") of Parent restricted stock units ("RSUs") under the Francesca's Holdings Corporation 2015 Equity Incentive Plan (the "Plan"). The aggregate number of RSUs covered by the Promotion Grant (the "Promotion Grant RSUs") will equal the quotient obtained by dividing (i) an amount (not less than zero) equal to (A) Two Hundred Thousand Dollars (\$200,000), minus (B) the product obtained by multiplying (x) the closing price of a share of Parent's common stock (in regular trading) on the Effective Date (the "Parent Stock Price") by (y) the aggregate number of time-based and performance-based RSUs that were granted to you by Parent on April 5, 2019 (which you and Parent hereby agree was 14,422 RSUs, after giving effect to Parent's one-for-twelve reverse stock split effective July 1, 2019); by (ii) the Parent Stock Price. Fifty percent (50%) of the total number of Promotion Grant RSUs will vest in one installment on the third anniversary of the Effective Date, subject to your continued employment or service with the Company through the vesting date. The remaining fifty percent (50%) of the total number of Promotion Grant RSUs will be subject to vesting based on achievement of the same Company performance goals for the three-year period consisting of the Company's 2019, 2020 and 2021 fiscal years as apply to the performance stock units granted to you on April 5, 2019, as well as your continued employment or service through the third anniversary of the Effective Date. The Promotion Grant will be evidenced by a Restricted Stock Unit Award Agreement and a Performance Stock Unit Award Agreement and will be subject to the approval of the Compensation Committee of the Parent's Board of Directors and made in accordance with the terms and conditions of the Plan. For purposes of clarity, if the amount determined under clause (i) of this Section 1(f) is zero or a negative number, you will not be entitled to receive any Promotion Grant.

2. **Termination and Severance.**

(a) **Termination.** Your employment by the Company may be terminated by the Company: (i) immediately upon notice, with Cause (as defined below), or (ii) with no less than thirty (30) days' advance written notice to you, without Cause, or (iii) immediately in the event of your Disability (as defined below) or your death. In the event that you are provided with notice of termination without Cause pursuant to clause (ii) above, the Company will have the option to place you on administrative leave during the notice period. You may terminate your employment by the Company for any reason with no less than thirty (30) days' advance written notice to the Company. Any termination of your employment (by you or by the Company) must be communicated by written notice from the terminating party to the other party. Such notice of termination must be hand delivered (if to the Company, to the Company's Chief Executive Officer) and must indicate the specific provision(s) of this Agreement relied upon in effecting the termination. The date your employment by the Company terminates is referred to herein as your "**Severance Date.**"

(b) **Benefits upon Termination.** Regardless of the reason for the termination of your employment with the Company, in connection with such termination the Company will pay you (on or within 30 days following your Severance Date) your accrued and unused vacation (if any) and you will be entitled to any benefits that are due to you under the Company's 401(k) plan in accordance with the terms of that plan. If you hold any stock options or other equity or equity-based awards granted by the Company, the terms and conditions applicable to those awards will control as to the consequences of a termination of your employment on those awards. In addition to the foregoing, if your employment with the Company terminates as a result of a termination by the Company of your employment without Cause (as defined below), you will (subject to the other conditions set forth in Section 2(c) below) be entitled to the following benefits: the Company will pay you, subject to tax withholding and other authorized deductions, an aggregate amount equal to six (6) months (or twelve (12) months if your Severance Date occurs on or after the date that is six (6) months after the Effective Date) of your Base Salary at the monthly rate in effect on the Severance Date (the "**Severance Benefit**"). Subject to Section 5, the Company will pay this benefit to you in substantially equal installments (each in the applicable fraction of the aggregate benefit) in accordance with the Company's standard payroll practices over a period of six (6) months (or twelve (12) months, as applicable), with the first installment payable in the month following the month in which your Separation from Service (as such term is defined below) occurs.

(c) Conditions for Receipt of Severance Benefit. Notwithstanding anything to the contrary herein, if the Severance Benefit is otherwise due to you and, at any time, you breach any obligation under Section 6 of this Agreement, from and after the date of such breach and not in any way in limitation of any right or remedy otherwise available to the Company, you will no longer be entitled to, and the Company will no longer be obligated to pay, any remaining unpaid portion of the Severance Benefit. In addition, in order to receive any Severance Benefit, you must, upon or promptly following your Severance Date (and in all events within twenty-one (21) days after the Company provides the separation agreement to you, unless a longer period of time is required by applicable law), provide the Company with a separation agreement which shall contain a valid, executed general release agreement in a form acceptable to the Company, and such release shall have not been revoked. The Company will provide the separation agreement to you no later than seven (7) days after your Separation Date. In the event a period longer than twenty-one (21) days is required by applicable law, then the first installment of the Severance Benefit shall remain payable in the month following the month in which your Separation from Service (as such term is defined below) occurs, provided that if you fail to provide the Company with the executed general release agreement described above (or have otherwise revoked the release), any further instalments of the Severance Benefit shall cease at such time and shall no longer be payable to you. You agree and acknowledge that such separation agreement may contain additional restrictive covenants, including, without limitation, non-solicitation covenants and non-disparagement covenants.

(d) Exclusive Remedy. You agree that should your employment by the Company terminate for any reason, the payments and benefits contemplated by this Agreement with respect to the circumstances of such termination shall constitute the exclusive and sole remedy for any such termination of your employment and you agree not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment. You agree that, in the event of a termination of your employment, you are not and will not be entitled to severance benefits under any other agreement, plan, program, or policy of the Company.

3. Certain Defined Terms. As used in this Agreement, the following terms shall be defined as follows:

(a) "Cause" shall mean that one or more of the following has occurred: (i) you have committed a felony (under the laws of the United States or any relevant state, or a similar crime or offense under the applicable laws of any relevant foreign jurisdiction); (ii) you have engaged in acts of fraud, dishonesty or other acts of material misconduct in the course of your duties; (iii) your abuse of narcotics or alcohol that has or may reasonably harm the Company; (iv) any violation by you of the Company's written policies; (v) your failure to perform or uphold your duties and/or you fail to comply with reasonable directives of the Company's Chief Executive Officer or Board of Directors, as applicable; or (vi) any breach by you of any provision of Section 6, or any material breach by you of this Agreement or any other contract you are a party to with the Company.

(b) "Disability" shall mean a physical or mental impairment which renders you unable to perform the essential functions of your employment with the Company, even with reasonable accommodation that does not impose an undue hardship on the Company, for more than 180 days in any 12-month period, unless a longer period is required by federal or state law, in which case that longer period would apply.

(c) "Separation from Service" occurs when you die, retire, or otherwise have a termination of employment with the Company that constitutes a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder.

4. **Limitation on Benefits.** Notwithstanding anything contained in this Agreement to the contrary, to the extent that any payment, benefit or distribution of any type to you or for your benefit by the Company or any of its affiliates, whether paid or payable, provided or to be provided, or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the "Total Payments") would be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then the Total Payments shall be reduced (but not below zero) so that the maximum amount of the Total Payments (after reduction) shall be one dollar (\$1.00) less than the amount which would cause the Total Payments to be subject to the excise tax imposed by Section 4999 of the Code. Unless you shall have given prior written notice to the Company to effectuate a reduction in the Total Payments if such a reduction is required, any such notice consistent with the requirements of Section 409A of the Code to avoid the imputation of any tax, penalty or interest thereunder, the Company shall reduce or eliminate the Total Payments by first reducing or eliminating any cash severance benefits (with the payments to be made furthest in the future being reduced first), then by reducing or eliminating any accelerated vesting of stock options or similar awards, then by reducing or eliminating any accelerated vesting of restricted stock or similar awards, then by reducing or eliminating any other remaining Total Payments. The preceding provisions of this Section 4 shall take precedence over the provisions of any other plan, arrangement or agreement governing your rights and entitlements to any benefits or compensation.

5. **Section 409A.** It is intended that any amounts payable under this Agreement and the Company's and your exercise of authority or discretion hereunder shall comply with and avoid the imputation of any tax, penalty or interest under Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent. If you are a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of your Separation from Service and you are entitled to the Severance Benefit, you shall not be entitled to any payment or benefit pursuant to Section 2(b) until the earlier of (i) the date which is six (6) months after your Separation from Service for any reason other than your death, or (ii) the date of your death. The provisions of the preceding sentence shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Section 409A of the Code. Any amounts otherwise payable to you upon or in the six (6) month period following your Separation from Service that are not so paid by reason of such 6-month delay provision shall be paid (without interest) as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after your Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of your death).

6. **Protective Covenants.**

(a) **Confidential Information.**

(i) You shall not disclose or use at any time, either during the Period of Employment or thereafter, any Trade Secrets and Confidential Information (as defined below) of which you become aware, whether or not such information is developed by you, except to the extent that such disclosure or use is directly related to and required by your performance in good faith of duties for the Company. You will take all appropriate steps to safeguard Trade Secrets and Confidential Information in your possession and to protect it against disclosure, misuse, espionage, loss and theft. You shall deliver to the Company at the termination of your employment, or at any time the Company may request, all memoranda, notes, plans, records, reports, computer tapes and software and other documents and data (and copies thereof) relating to the Trade Secrets and Confidential Information or the Work Product (as hereinafter defined) of the business of the Company or any of its affiliates which you may then possess or have under your control. Notwithstanding the foregoing, you may truthfully respond to a lawful and valid subpoena or other legal process, but shall give the Company the earliest possible notice thereof.

(ii) For purposes of this Agreement, “Trade Secrets and Confidential Information” means information that is not generally known to the public and that is used, developed or obtained by the Company in connection with its business, including, but not limited to, information, observations and data obtained by you while employed by the Company or any predecessors thereof concerning (i) the business or affairs of the Company (or such predecessors), (ii) products or services, (iii) fees, costs and pricing structures, (iv) designs, (v) analyses, (vi) drawings, photographs and reports, (vii) computer software, including operating systems, applications and program listings, (viii) flow charts, manuals and documentation, (ix) data bases, (x) accounting and business methods, (xi) inventions, devices, new developments, methods and processes, whether patentable or unpatentable and whether or not reduced to practice, (xii) customers and clients and customer or client lists, (xiii) other copyrightable works, (xiv) all production methods, processes, technology and trade secrets, and (xv) all similar and related information in whatever form. Trade Secrets and Confidential Information will not include any information that has been published (other than a disclosure by you in breach of this Agreement) in a form generally available to the public prior to the date you propose to disclose or use such information. Trade Secrets and Confidential Information will not be deemed to have been published merely because individual portions of the information have been separately published, but only if all material features comprising such information have been published in combination.

(iii) For purposes of this Agreement, “Work Product” means all inventions, innovations, improvements, technical information, systems, software developments, methods, designs, analyses, drawings, reports, service marks, trademarks, trade names, logos and all similar or related information (whether patentable or unpatentable, copyrightable, registerable as a trademark, reduced to writing, or otherwise) which relates to the Company’s or any of its affiliates’ actual or anticipated business, research and development or existing or future products or services and which are conceived, developed or made by you (whether or not during usual business hours, whether or not by the use of the facilities of the Company or any of its affiliates, and whether or not alone or in conjunction with any other person) while employed by the Company (including those conceived, developed or made prior to the Effective Date) together with all patent applications, letters patent, trademark, trade name and service mark applications or registrations, copyrights and reissues thereof that may be granted for or upon any of the foregoing. All Work Product that you may have discovered, invented or originated during your employment by the Company or any of its affiliates prior to the date hereof, that you may discover, invent or originate during your employment or at any time following the termination of your employment with the Company, shall be the exclusive property of the Company and its affiliates, as applicable, and you hereby assign all of your right, title and interest in and to such Work Product to the Company or its applicable affiliate, including all intellectual property rights therein. You shall promptly disclose all Work Product to the Company, shall execute at the request of the Company any assignments or other documents the Company may deem necessary to protect or perfect its (or any of its affiliates’, as applicable) rights therein, and shall assist the Company, at the Company’s expense, in obtaining, defending and enforcing the Company’s (or any of its affiliates’, as applicable) rights therein. You hereby appoint the Company as your attorney-in-fact to execute on your behalf any assignments or other documents deemed necessary by the Company to protect or perfect the Company, the Company’s (and any of its affiliates’, as applicable) rights to any Work Product.

(b) Restriction on Competition. During your employment with the Company and twelve (12) months following the termination of your employment with the Company (regardless of the reason for such termination and regardless of whether or not you are entitled to the Severance Benefit) (the “Restricted Period”), you shall not directly or indirectly, individually or on behalf of any other person or entity, manage, participate in, work for, consult with, render services for, or take an interest in (as an owner, stockholder, partner or lender) any Competitor. For purposes of this Agreement, “Competitor” means a Person anywhere in North America (the “Restricted Area”) that at any time during the period of time during which you are employed by the Company, or any time during the Restricted Period engages in the business of operating retail stores and/or websites for the sale of women’s apparel, jewelry, accessories, gifts, greeting cards, picture frames and related items or any other business that the Company is engaged in, or reasonably anticipates becoming engaged in. The parties hereto agree that the Company intends to engage in business throughout the Restricted Area, even if it does not currently do so, and therefore its scope is reasonable. Nothing herein shall prohibit you from being a passive owner of not more than 2% of the outstanding stock of any class of a corporation which is publicly traded, so long as you have no active participation in the business of such corporation. The term “Person” as used in this Agreement shall be construed broadly and shall include, without limitation, an individual, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

(c) Non-Solicitation of Employees and Consultants. During your employment with the Company and during the Restricted Period, you will not, and should be enjoined (if necessary) from being able to directly or indirectly through any other Person: (i) induce or attempt to induce any employee or independent contractor of the Company or any affiliate of the Company to leave the employ or service, as applicable, of the Company or such affiliate, or in any way interfere with the relationship between the Company or any such affiliate, on the one hand, and any employee or independent contractor thereof, on the other hand, or (ii) hire any person who was an employee of the Company or any affiliate of the Company until twelve (12) months after such individual’s employment relationship with the Company or such affiliate has been terminated.

(d) Non-Solicitation of Customers; Non-Disparagement. During your employment with the Company and during the Restricted Period, you will not, and should be enjoined (if necessary) from being able to directly or indirectly through any other Person: (i) influence or attempt to influence customers, vendors, suppliers, licensors, lessors, joint venturers, associates, consultants, agents, or partners of the Company or any affiliate of the Company to divert their business away from the Company or such affiliate; and (ii) interfere with, disrupt or attempt to disrupt the business relationships, contractual or otherwise, between the Company or any affiliate of the Company, on the one hand, and any of its or their customers, suppliers, vendors, lessors, licensors, joint venturers, associates, officers, employees, consultants, managers, partners, members or investors, on the other hand.

You agree that you will not disparage, ridicule or criticize the Company or its affiliates and its and their present and former employees, directors and officers, or make any remarks or statements that could reasonably be construed as disparaging, ridiculing or criticizing any of them; provided, however, the foregoing shall not prohibit you from giving truthful testimony in any legal proceeding pending before any agency or court of the United States or state government or in any arbitration proceeding relating to this Agreement.

(e) Understanding of Covenants. You acknowledge and agree that the Company would not have entered into this Agreement, providing for severance protections to you on the terms and conditions set forth herein, but for your agreements herein. You agree that the foregoing covenants set forth in this Section 6 (the "Restrictive Covenants") are reasonable, including in temporal and geographical scope, and in all other respects, and necessary to protect the Company's and its affiliates' Trade Secrets and Confidential Information, good will, stable workforce, and customer relations. The parties hereto intend that Restrictive Covenants shall be deemed to be a series of separate covenants, one for each county or province of each and every state or jurisdiction within the Restricted Area and one for each month of the Restricted Period. You understand that the Restrictive Covenants may limit your ability to earn a livelihood in a business similar to the business of the Company and any of its affiliates, but you nevertheless believe that you have received and will receive sufficient consideration and other benefits as an employee of the Company and as otherwise provided hereunder or as described in the recitals hereto to clearly justify such restrictions which, in any event (given your education, skills and ability), you do not believe would prevent you from otherwise earning a living. You agree that the Restrictive Covenants do not confer a benefit upon the Company disproportionate to your detriment.

(f) Enforcement. You agree that a breach by you of any of the covenants in this Section 6 would cause immediate and irreparable harm to the Company that would be difficult or impossible to measure, and that damages to the Company for any such injury would therefore be an inadequate remedy for any such breach. Therefore, you agree that in the event of any breach or threatened breach of any provision of this Section 6, the Company shall be entitled, in addition to and without limitation upon all other remedies the Company may have under this Agreement, at law or otherwise, to obtain specific performance, injunctive relief and/or other appropriate relief (without posting any bond or deposit) in order to enforce or prevent any violations of the provisions of this Section 6, or require you to account for and pay over to the Company all compensation, profits, moneys, accruals, increments or other benefits derived from or received as a result of any transactions constituting a breach of this Section 6, if and when final judgment of a court of competent jurisdiction is so entered against you.

7. Withholding Taxes. Notwithstanding anything else herein to the contrary, the Company may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

8. **Successors and Assigns.** This Agreement is personal to you and without the prior written consent of the Company shall not be assignable by you otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by your legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

9. **Governing Law.** THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICTING PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF TEXAS TO BE APPLIED.

10. **Severability.** If any provision of this Agreement is found by any court of competent jurisdiction to be invalid or unenforceable for any reason, such finding shall not affect, impair or invalidate the remainder of this Agreement. If any aspect of any restriction herein is too broad or restrictive to permit enforcement to its fullest extent, you and the Company agree that any court of competent jurisdiction shall modify such restriction to the minimum extent necessary to make it enforceable and then enforce the provision as modified.

11. **Entire Agreement, Amendment and Waiver.** This Agreement constitutes the entire agreement between you and the Company with respect to the subject matter hereof and supersedes any and all prior or contemporaneous oral or written communications respecting such subject matter. This Agreement shall not be modified, amended or in any way altered except by written instrument signed by you and the Company's Chief Executive Officer. A waiver by either party hereto of any rights or remedies hereunder on any occasion shall not be a bar to the exercise of the same right or remedy on any subsequent occasion or of any other right or remedy at any time.

12. **Waiver of Jury Trial.** EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

13. **Remedies.** Each of the parties to this Agreement and any such person or entity granted rights hereunder whether or not such person or entity is a signatory hereto shall be entitled to enforce its rights under this Agreement specifically to recover damages and costs for any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that each party may in its sole discretion apply to any court of law or equity of competent jurisdiction for specific performance, injunctive relief and/or other appropriate equitable relief (without posting any bond or deposit) in order to enforce or prevent any violations of the provisions of this Agreement. Each party shall be responsible for paying its own attorneys' fees, costs and other expenses pertaining to any such legal proceeding and enforcement regardless of whether an award or finding or any judgment or verdict thereon is entered against either party.

14. **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument.

[Signature page follows]

IN WITNESS WHEREOF, you and the Company have executed this Agreement as of July 1, 2019.

Francesca's Services Corporation
a Delaware corporation
Francesca's Collections, Inc.
a Texas corporation
Francesca's Holdings Corporation
a Delaware corporation

By: /s/ Michael Prendergast
Michael Prendergast
Interim Chief Executive Officer

AGREED BY:

/s/ Cynthia Thomassee
Cynthia Thomassee

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Prendergast, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Francesca's Holdings 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 by Exchange Act Rules 13a-15(f) and 15-d-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.

Date: September 10, 2019

/s/ Michael Prendergast

Michael Prendergast

Interim Chief Executive Officer

(duly authorized officer and Principal Executive Officer)

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Cindy Thomasee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Francesca's Holdings 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 by Exchange Act Rules 13a-15(f) and 15-d-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.

Date: September 10, 2019

/s/ Cindy Thomasee
Cindy Thomasee
Chief Financial Officer
(duly authorized officer and Principal Financial and Accounting Officer)

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

I, Michael Prendergast, the Interim Chief Executive Officer of Francesca's Holdings Corporation, certify that (i) the quarterly report on Form 10-Q for the fiscal quarter ended August 3, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Francesca's Holdings Corporation as of the dates and for the periods set forth therein.

/s/ Michael Prendergast

Michael Prendergast
Interim Chief Executive Officer
(duly authorized officer and Principal Executive Officer)

September 10, 2019

Date

I, Cindy Thomasee, the Chief Financial Officer of Francesca's Holdings Corporation, certify that (i) the quarterly report on Form 10-Q for the fiscal quarter ended August 3, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Francesca's Holdings Corporation as of the dates and for the periods set forth therein.

/s/ Cindy Thomasee

Cindy Thomasee
Chief Financial Officer (duly authorized officer and Principal Financial and Accounting Officer)

September 10, 2019

Date

The foregoing certifications are being furnished solely to accompany the Quarterly Report on Form 10-Q pursuant to 18 U.S.C. § 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. These certifications shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference.
