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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 25, 2017

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 001-07832

PIER 1 IMPORTS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-1729843
(I.R.S. Employer
Identification Number)

100 Pier 1 Place, Fort Worth, Texas 76102
(Address of principal executive offices, including zip code)

(817) 252-8000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

As of December 28, 2017, there were outstanding 83,348,017 shares of the registrant's common stock, all of one class.

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Forward-Looking Statements

Certain statements contained in Items 1, 2 and 3 of Part I, and Item 1 of Part II and elsewhere in this report, may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Pier 1 Imports, Inc. and its consolidated subsidiaries (the “Company”) may also make forward-looking statements in other reports filed with the United States Securities and Exchange Commission (“SEC”), in press releases and in material delivered to the Company’s shareholders. Forward-looking statements provide current expectations of future events based on management’s assumptions and assessments in light of past experience and trends, current economic and industry conditions, expected future developments and other relevant factors. These statements encompass information that does not directly relate to any historical or current fact and often may be identified with words such as “believe,” “expect,” “estimate,” “anticipate,” “plan,” “may,” “will,” “intend” and other similar expressions. Management’s expectations and assumptions regarding: the effectiveness of the Company’s marketing campaigns, merchandising and promotional strategies and customer databases; consumer spending patterns; inventory levels and values; the Company’s ability to implement planned cost control measures and its three-year strategic plan; expected benefits from the real estate optimization initiative, including cost savings and increases in efficiency; risks related to U.S. import policy; changes in foreign currency values relative to the U.S. Dollar and other future results are subject to risks, uncertainties and other factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. Additional risks and uncertainties that may affect Company operations and performance include, among others: an inability to anticipate, identify and respond to changing customer trends and preferences; an inability to identify and successfully implement strategic initiatives; risks related to outsourcing, including disruptions in business and increased costs; an overall decline in the health of the United States economy and its impact on consumer confidence and spending; negative impacts from failure to control merchandise returns and recalls; disruptions in the Company’s e-Commerce website; the ability of the Company to source, ship, and deliver items of acceptable quality to its U.S. distribution centers, stores and customers at reasonable prices and rates in a timely fashion; failure to successfully manage and execute the Company’s marketing initiatives; potential impairment charges; an inability to operate in desirable locations at reasonable rental rates; factors affecting consumer spending, including employment levels and disposable income, interest rates, consumer debt levels, fuel and transportation costs and other factors; failure to attract and retain an effective management team or changes in the cost or availability of a suitable workforce; failure to successfully manage omni-channel operations; competition; seasonal variations; increases in costs that are outside the Company’s control; adverse weather conditions or natural disasters; risks related to technology; failure to protect consumer data; failure to successfully implement new information technology systems and enhance existing systems; risks related to cybersecurity; failure to maintain positive brand perception and recognition; regulatory and legal risks; risks related to recent U.S. tax legislation; litigation risks; risks related to imported merchandise including the health of global, national, regional and local economies and their impact on vendors, manufacturers and merchandise; disruptions in the global credit and equity markets; and risks related to insufficient cash flows and access to capital. The foregoing risks and uncertainties are in addition to others discussed elsewhere in this report which may also affect Company operations and performance. The Company assumes no obligation to update or otherwise revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied will not be realized. Additional information concerning these risks and uncertainties is contained in the Company’s Annual Report on Form 10-K for the year ended February 25, 2017, as filed with the SEC.

PART IItem 1. Financial Statements.

PIER 1 IMPORTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share amounts)
(unaudited)

	Three Months Ended		Nine Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
Net sales	\$ 469,161	\$ 475,901	\$ 1,286,293	\$ 1,300,094
Cost of sales	292,485	279,508	817,856	809,698
Gross profit	176,676	196,393	468,437	490,396
Selling, general and administrative expenses	150,395	160,833	428,677	439,334
Depreciation	12,833	13,307	39,973	40,956
Operating income (loss)	13,448	22,253	(213)	10,106
Nonoperating (income) and expenses:				
Interest, investment income and other	(597)	(438)	(1,575)	(1,677)
Interest expense	2,960	3,113	8,991	9,177
	2,363	2,675	7,416	7,500
Income (loss) before income taxes	11,085	19,578	(7,629)	2,606
Income tax provision (benefit)	3,704	6,001	(4,201)	(882)
Net income (loss)	\$ 7,381	\$ 13,577	\$ (3,428)	\$ 3,488
Earnings (loss) per share:				
Basic	\$ 0.09	\$ 0.17	\$ (0.04)	\$ 0.04
Diluted	\$ 0.09	\$ 0.17	\$ (0.04)	\$ 0.04
Dividends declared per share:	\$ 0.07	\$ 0.07	\$ 0.21	\$ 0.21
Average shares outstanding during period:				
Basic	79,658	80,680	80,363	80,926
Diluted	79,658	80,683	80,363	80,927

The accompanying notes are an integral part of these financial statements.

PIER 1 IMPORTS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Three Months Ended		Nine Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
Net income (loss)	\$ 7,381	\$ 13,577	\$ (3,428)	\$ 3,488
Other comprehensive income (loss)				
Foreign currency translation adjustments	(685)	(1,207)	985	399
Pension adjustments	(57)	640	(170)	1,367
Other comprehensive income (loss)	(742)	(567)	815	1,766
Comprehensive income (loss), net of tax	<u>\$ 6,639</u>	<u>\$ 13,010</u>	<u>\$ (2,613)</u>	<u>\$ 5,254</u>

The accompanying notes are an integral part of these financial statements.

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PIER 1 IMPORTS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands except share amounts)
(unaudited)

	November 25, 2017	February 25, 2017	November 26, 2016
ASSETS			
Current assets:			
Cash and cash equivalents, including temporary investments of \$67,719, \$149,375 and \$78,302, respectively	\$ 80,234	\$ 154,460	\$ 86,207
Accounts receivable, net	43,062	22,945	39,089
Inventories	418,868	400,976	479,832
Prepaid expenses and other current assets	43,960	31,607	36,378
Total current assets	<u>586,124</u>	<u>609,988</u>	<u>641,506</u>
Properties and equipment, net of accumulated depreciation of \$547,520, \$505,555 and \$498,174, respectively	178,481	191,476	189,787
Other noncurrent assets	39,006	41,618	36,113
	<u>\$ 803,611</u>	<u>\$ 843,082</u>	<u>\$ 867,406</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 94,279	\$ 68,981	\$ 96,511
Gift cards and other deferred revenue	57,280	60,398	61,078
Borrowings under revolving line of credit	—	—	25,000
Accrued income taxes payable	—	26,058	3,964
Current portion of long-term debt	2,000	2,000	2,000
Other accrued liabilities	120,274	133,866	145,198
Total current liabilities	<u>273,833</u>	<u>291,303</u>	<u>333,751</u>
Long-term debt	198,188	199,077	199,373
Other noncurrent liabilities	64,058	60,674	66,050
Commitments and contingencies			
Shareholders' equity:			
Common stock, \$0.001 par, 500,000,000 shares authorized, 125,232,000 issued	125	125	125
Paid-in capital	162,677	191,501	192,917
Retained earnings	716,719	737,165	716,154
Cumulative other comprehensive loss	(6,599)	(7,414)	(8,871)
Less — 41,710,000, 42,050,000 and 42,218,000 common shares in treasury, at cost, respectively	<u>(605,390)</u>	<u>(629,349)</u>	<u>(632,093)</u>
Total shareholders' equity	<u>267,532</u>	<u>292,028</u>	<u>268,232</u>
	<u>\$ 803,611</u>	<u>\$ 843,082</u>	<u>\$ 867,406</u>

The accompanying notes are an integral part of these financial statements.

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PIER 1 IMPORTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended	
	November 25, 2017	November 26, 2016
Cash flows from operating activities:		
Net income (loss)	\$ (3,428)	\$ 3,488
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation	45,934	45,250
Stock-based compensation expense	3,087	7,436
Deferred compensation, net	1,940	5,738
Deferred income taxes	5,663	(5,694)
Amortization of deferred gains	(814)	(804)
Other	2,982	4,240
Changes in cash from:		
Inventories	(17,892)	(73,973)
Prepaid expenses and other assets	(33,366)	(20,194)
Accounts payable and other liabilities	14,914	41,946
Accrued income taxes payable, net of payments	(26,058)	(2,360)
Net cash provided by (used in) operating activities	<u>(7,038)</u>	<u>5,073</u>
Cash flows from investing activities:		
Capital expenditures	(41,057)	(32,019)
Proceeds from disposition of properties	71	66
Proceeds from sale of restricted investments	27,428	2,058
Purchase of restricted investments	(25,742)	(1,043)
Net cash used in investing activities	<u>(39,300)</u>	<u>(30,938)</u>
Cash flows from financing activities:		
Cash dividends	(16,753)	(16,871)
Purchases of treasury stock	(10,000)	(10,566)
Stock purchase plan and other, net	1,626	788
Repayments of long-term debt	(1,500)	(1,500)
Debt issuance costs	(1,261)	—
Borrowings under revolving line of credit	8,000	38,000
Repayments of borrowings under revolving line of credit	(8,000)	(13,000)
Net cash used in financing activities	<u>(27,888)</u>	<u>(3,149)</u>
Change in cash and cash equivalents	(74,226)	(29,014)
Cash and cash equivalents at beginning of period	154,460	115,221
Cash and cash equivalents at end of period	<u>\$ 80,234</u>	<u>\$ 86,207</u>

The accompanying notes are an integral part of these financial statements.

PIER 1 IMPORTS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED NOVEMBER 25, 2017
(in thousands)
(unaudited)

	Common Stock		Paid-in Capital	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
	Outstanding Shares	Amount					
Balance February 25, 2017	83,182	\$ 125	\$191,501	\$737,165	\$ (7,414)	\$(629,349)	\$ 292,028
Net loss	—	—	—	(3,428)	—	—	(3,428)
Other comprehensive income	—	—	—	—	815	—	815
Purchases of treasury stock	(1,927)	—	—	—	—	(10,000)	(10,000)
Stock-based compensation expense	2,043	—	(26,815)	—	—	29,902	3,087
Stock purchase plan and other	224	—	(2,009)	(265)	—	4,057	1,783
Cash dividends (\$0.21 per share)	—	—	—	(16,753)	—	—	(16,753)
Balance November 25, 2017	<u>83,522</u>	<u>\$ 125</u>	<u>\$162,677</u>	<u>\$716,719</u>	<u>\$ (6,599)</u>	<u>\$(605,390)</u>	<u>\$ 267,532</u>

The accompanying notes are an integral part of these financial statements.

PIER 1 IMPORTS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 25, 2017
 AND NOVEMBER 26, 2016
 (unaudited)

Throughout this report, references to the “Company” include Pier 1 Imports, Inc. and its consolidated subsidiaries. The accompanying unaudited financial statements should be read in conjunction with the Company’s Form 10-K for the year ended February 25, 2017. All adjustments that are, in the opinion of management, necessary for a fair presentation of the Consolidated Financial Statements contained in this report have been made and consist only of normal recurring adjustments, except as otherwise described herein, if any. Fiscal 2018 consists of a 53-week year ending on March 3, 2018. Fiscal 2017 consisted of a 52-week year which ended on February 25, 2017. The results of operations for the three and nine months ended November 25, 2017 and November 26, 2016, are not indicative of results to be expected for the fiscal year because of, among other things, seasonality factors in the retail business. Historically, the strongest sales of the Company’s products have occurred during the holiday season beginning in November and continuing through December. The Company conducts business as one operating segment under the name Pier 1 Imports. As of November 25, 2017, the Company had no financial instruments with fair market values that were materially different from their carrying values, unless otherwise disclosed.

NOTE 1 – EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share amounts were determined by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share amounts were similarly computed, and include the effect, if dilutive, of the Company’s weighted average number of stock options outstanding and shares of unvested restricted stock. Outstanding stock options totaling 395,269 were excluded from the computation of diluted earnings per share for the three months ended November 25, 2017, as the effect would be antidilutive. Outstanding stock options and shares of unvested restricted stock totaling 1,755,991 were excluded from the computation of diluted loss per share for the nine months ended November 25, 2017, as the effect would be antidilutive. Outstanding stock options totaling 1,129,000 and 1,885,000 were excluded from the computation of diluted earnings per share for the three and nine months ended November 26, 2016, respectively, as the effect would be antidilutive. Earnings (loss) per share amounts were calculated as follows (in thousands except per share amounts):

	Three Months Ended		Nine Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
Net income (loss)	<u>\$ 7,381</u>	<u>\$ 13,577</u>	<u>\$ (3,428)</u>	<u>\$ 3,488</u>
Weighted average shares outstanding:				
Basic	79,658	80,680	80,363	80,926
Effect of dilutive stock options	—	2	—	1
Effect of dilutive restricted stock	—	1	—	—
Diluted	<u>79,658</u>	<u>80,683</u>	<u>80,363</u>	<u>80,927</u>
Earnings (loss) per share:				
Basic	<u>\$ 0.09</u>	<u>\$ 0.17</u>	<u>\$ (0.04)</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.17</u>	<u>\$ (0.04)</u>	<u>\$ 0.04</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 – MATTERS CONCERNING SHAREHOLDERS' EQUITY

Restricted stock compensation - For the three and nine months ended November 25, 2017, the Company recorded compensation expense related to restricted stock of \$489,000 and \$2,948,000, respectively. For the three and nine months ended November 26, 2016, the Company recorded compensation expense related to restricted stock of \$4,664,000 and \$7,392,000, respectively. The decrease in compensation expense is primarily related to additional expense recorded in the third quarter of fiscal 2017 for the accelerated vesting of certain restricted stock awards of approximately \$3,900,000 related to the departure of the Company's former Chief Executive Officer ("CEO"). In addition, during the third quarter of fiscal 2018, the Company reversed previously recorded compensation expense of approximately \$400,000 based on an assessment of the probability of achieving performance targets. As of November 25, 2017, there was approximately \$28,063,000 of total unrecognized compensation expense related to unvested restricted stock that may be recognized over a weighted average period of approximately 1.5 years if certain performance targets are achieved.

Share repurchase program - During the first nine months of fiscal 2018, the Company repurchased 1,926,602 shares of the Company's common stock at a weighted average cost of \$5.19 per share for a total cost of \$10,000,000, and \$26,610,000 remained available for further share repurchases under the \$200 million board-approved share repurchase program announced on April 10, 2014.

NOTE 3 – LONG-TERM DEBT AND AVAILABLE CREDIT

Revolving Credit Facility - At the end of the first quarter of fiscal 2018, the Company had a \$350,000,000 secured revolving credit facility with a \$100,000,000 accordion feature ("Revolving Credit Facility"). On June 2, 2017, during the second quarter of fiscal 2018, the Company entered into a Second Amended and Restated Credit Agreement which amended certain terms of the Revolving Credit Facility. The amended Revolving Credit Facility extended the maturity date from June 18, 2018 to June 2, 2022, and increased the amount of the accordion feature to \$150,000,000. The amended Revolving Credit Facility continues to be secured primarily by the Company's eligible merchandise inventory and third-party credit card receivables and certain related assets on a first priority basis and by a second lien on substantially all other assets of certain of the Company's subsidiaries, subject to certain exceptions.

Credit extensions under the amended Revolving Credit Facility are limited to the lesser of \$350,000,000 or the amount of the calculated borrowing base. At the Company's option, borrowings will bear interest at either (a) the adjusted LIBOR rate plus a spread varying from 125 to 150 basis points per annum, depending on the amount then borrowed under the amended Revolving Credit Facility, or (b) the prime rate plus a spread varying from 25 to 50 basis points per annum, depending on the amount then borrowed under the amended Revolving Credit Facility. Provided that there is no default and no default would occur as a result thereof, the Company may request that the amended Revolving Credit Facility be increased to an amount not to exceed \$500,000,000. The amendment did not result in any other material changes to the Revolving Credit Facility.

At the end of the third quarter of fiscal 2018, credit extensions under the amended Revolving Credit Facility were limited to the lesser of \$350,000,000 or the amount of the calculated borrowing base, which was \$404,509,000 as of November 25, 2017. The Company had no cash borrowings and \$40,081,000 in letters of credit and bankers' acceptances outstanding under the amended Revolving Credit Facility, with \$309,919,000 remaining available for cash borrowings, all as of November 25, 2017.

Term Loan Facility - The Company has a senior secured term loan facility that matures on April 30, 2021 ("Term Loan Facility"). As of November 25, 2017, February 25, 2017 and November 26, 2016, the Company had \$193,500,000, \$195,000,000 and \$195,500,000 outstanding, respectively, under the Term Loan Facility with carrying values of \$190,780,000, \$191,676,000 and \$191,974,000, respectively, net of unamortized discounts and debt issuance costs.

The fair value of the amount outstanding under the Term Loan Facility was approximately \$185,760,000 as of November 25, 2017, which was measured at fair value using the quoted market price. The fair value measurement is classified as Level 2 in the fair value hierarchy based on the frequency and volume of trading for which the price was readily available. Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – DEFINED BENEFIT PLANS

The Company maintains supplemental retirement plans for certain of its current and former executive officers. These plans provide that upon death, disability, reaching retirement age or certain termination events, a participant will receive benefits based on highest compensation, years of service and years of plan participation. The plans are not funded and thus have no plan assets.

Benefit costs are determined using actuarial cost methods to estimate the total benefits ultimately payable to executive officers, and this cost is allocated to the respective service periods. The actuarial assumptions used to calculate benefit costs are reviewed annually or in the event of a material change in the plans or participation in the plans. The three and nine months ended November 26, 2016, include a curtailment charge of \$1,562,000 for revised defined benefit plan assumptions related to the departure of the Company’s former CEO in fiscal 2017.

The components of net periodic benefit cost are shown in the table below (in thousands). The amortization of amounts related to unrecognized prior service cost and net actuarial loss was reclassified out of other comprehensive income (loss) as a component of net periodic benefit cost.

	Three Months Ended		Nine Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
Components of net periodic benefit cost:				
Service cost	\$ 72	\$ 72	\$ 217	\$ 845
Interest cost	71	199	214	586
Amortization of unrecognized prior service cost	7	7	22	37
Amortization of net actuarial loss	133	689	397	1,589
Curtailment charge	—	1,562	—	1,562
Net periodic benefit cost	\$ 283	\$ 2,529	\$ 850	\$ 4,619

NOTE 5 – INCOME TAX

The income tax provision for the third quarter of fiscal 2018 was \$3,704,000, compared to \$6,001,000 during the same period in the prior fiscal year. The effective tax rate for the third quarter of fiscal 2018 was 33.4%, compared to 30.7% in the same period during fiscal 2017. The income tax benefit for the first nine months of fiscal 2018 was \$4,201,000, compared to \$882,000 during the same period in the prior fiscal year. The effective tax rate for the first nine months of fiscal 2018 was 55.1%, compared to (33.8%) in the same period during fiscal 2017. The decrease in the income tax provision for the third quarter of fiscal 2018 primarily relates to the Company’s lower pre-tax income generated in the period as compared to the third quarter of fiscal 2017. The increase in the income tax benefit for the first nine months of fiscal 2018 is primarily related to net pre-tax losses generated in the period as compared to net pre-tax income generated in the first nine months of fiscal 2017. The higher effective tax rate for the third quarter of fiscal 2018 primarily relates to certain favorable one-time discrete items for previously expensed share-based compensation no longer subject to deduction limitations occurring in the third quarter of fiscal 2017, which decreased the effective tax rate for such period. The higher effective tax rate for the first nine months of fiscal 2018 primarily relates to the impact of certain non-deductible expenses recognized in the second quarter of fiscal 2018, including the Consumer Product Safety Commission (“CPSC”) matter referenced in *Note 6 – Commitments and Contingencies* and certain favorable discrete items primarily related to state income tax benefits that, as a result of the Company’s pre-tax losses, increased the effective tax rate for such period.

As of November 25, 2017, the Company had total unrecognized tax benefits of \$5,095,000, the majority of which, if recognized, would affect the Company’s effective tax rate. It is reasonably possible a significant portion of the Company’s gross unrecognized tax benefits could decrease within the next twelve months primarily due to settlements with certain taxing jurisdictions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Putative class action complaints were filed in the United States District Court for the Northern District of Texas – Dallas Division against Pier 1 Imports, Inc., Alexander W. Smith and Charles H. Turner in August and October 2015 alleging violations under the Securities Exchange Act of 1934, as amended. The lawsuits, which have been consolidated into a single action captioned Town of Davie Police Pension Plan, Plaintiff, v. Pier 1 Imports, Inc., Alexander W. Smith and Charles H. Turner, Defendants, were filed on behalf of a purported putative class of investors who purchased or otherwise acquired stock of Pier 1 Imports, Inc. between April 10, 2014 and December 17, 2015. The plaintiffs seek to recover damages purportedly caused by the Defendants' alleged violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint seeks certification as a class action, unspecified compensatory damages plus interest and attorneys' fees. On August 10, 2017, the court granted the Company's motion to dismiss the complaint, while providing the plaintiffs an opportunity to replead their complaint. An amended complaint was filed with the court on September 25, 2017. On November 22, 2017, the Company filed a motion to dismiss the amended complaint. Although the ultimate outcome of litigation cannot be predicted with certainty, the Company believes that this lawsuit is without merit and intends to defend against it vigorously.

The Company announced in January 2016 a voluntary recall of its Swingasan Chair and Stand in cooperation with the CPSC. In September 2016, the Company received a staff investigatory letter from the CPSC indicating that the CPSC would investigate whether the Company complied with certain reporting requirements of the Consumer Product Safety Act with respect to the recall. The Company responded to the inquiry and cooperated with the CPSC. On September 20, 2017, the Company received a letter from the CPSC proposing to resolve certain alleged violations of the Consumer Product Safety Act relating to the Swingasan recall on terms which would require, among other things, the payment of a civil money penalty. On October 27, 2017, the Company submitted its response to the CPSC letter. The Company disagrees with a number of the allegations and legal conclusions asserted by the CPSC and believes the requested civil money penalty is excessive in view of the circumstances. Given the nature of this matter and the uncertainty as to how and when it will be resolved, the Company believes that a reasonable estimate of the potential range of loss in connection with this matter is \$2,000,000 to \$6,200,000. While we anticipate that the final settlement will fall within the estimated range of outcomes, the final terms of the resolution of this matter cannot be predicted with certainty and no assurances can be given as to the specific amount that the Company may be required to pay.

The Company is a defendant in lawsuits pending in federal courts in California containing various class action allegations under California state wage-and-hour laws. These lawsuits seek unspecified monetary damages, injunctive relief and attorneys' fees. The Company has sought to settle these cases on terms favorable to the Company in view of the claims made, the continuing cost of litigation and an assessment of the risk of an adverse trial court or appellate decision. The Company has settled or agreed to settle the pending cases, subject to completion of associated procedural requirements. The Company does not believe any reasonably foreseeable resolution of these matters will have a material adverse effect on the Company's financial condition, results of operations or liquidity.

The Company recognized expense of \$6,600,000 in the second quarter of fiscal 2018 attributable to the legal and regulatory proceedings described in the two preceding paragraphs as a component of selling, general and administrative expenses.

There are various other claims, lawsuits, inquiries, investigations and pending actions against the Company incident to the operations of its business. The Company considers these other matters to be ordinary and routine in nature. The Company maintains insurance against the consolidated class action described in the first paragraph in this Note and liability insurance against most of the other matters noted in this paragraph. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such matters will not have a material adverse effect, either individually or in the aggregate, on the Company's financial condition, results of operations or liquidity.

NOTE 7 – NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date." ASU 2015-14 defers the effective date of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

revenue standard ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. During fiscal 2017, additional ASUs were issued related to this revenue guidance. In March 2016, the FASB issued ASU 2016-08, *“Revenue from Contracts with Customers: Principal versus Agent Considerations.”* ASU 2016-08 is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, *“Identifying Performance Obligations and Licensing,”* which clarifies the implementation guidance on identifying performance obligations. In December 2016, the FASB issued ASU 2016-20, *“Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.”* ASU 2016-20 allows entities not to make quantitative disclosures about remaining performance obligations in certain cases and requires entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. ASU 2016-20 also makes additional technical corrections and improvements to the new revenue standard. The amendments have the same effective date and transition requirements as the revenue standard. The above ASUs are effective for the Company beginning in the first quarter of fiscal 2019. The Company anticipates the adoption of this guidance will result in a change in the timing of revenue recognition for income related to gift card breakage; based on current redemption patterns, post-adoption recognition will begin in the month a gift card is issued, instead of when further redemptions are remote. The Company plans to adopt the above ASUs in fiscal 2019, using the modified retrospective method. Under this method, the Company expects to record a cumulative adjustment to increase retained earnings at adoption to reflect the change in gift card breakage income. Based on the Company’s preliminary assessment, we anticipate the adoption of this guidance will not have a material impact on the Company’s financial statements.

In February 2016, the FASB issued ASU 2016-02, *“Leases (Topic 842),”* which provides new guidance on accounting for leases. The Company leases its corporate headquarters, retail stores and the majority of its distribution and fulfillment centers. Under ASU 2016-02, lessees will be required to recognize most leases on the balance sheet; therefore, ASU 2016-02 is expected to have a material impact on the Company’s balance sheet. ASU 2016-02 is effective for the Company beginning in fiscal 2020. Early adoption is permitted. The Company plans to adopt this standard in fiscal 2020. ASU 2016-02 must be adopted using a modified retrospective transition, with the new guidance applied to the beginning of the earliest comparative period presented. The Company will continue to evaluate the impact of the adoption of ASU 2016-02 on its financial statements.

In April 2015, the FASB issued ASU 2015-05, *“Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.”* ASU 2015-05 provides more specific guidance related to how companies account for cloud computing costs. The Company adopted ASU 2015-05 on a prospective basis in the first quarter of fiscal 2017. The adoption of ASU 2015-05 did not have a material impact on the Company’s financial statements. In December 2016, the FASB issued ASU 2016-19, *“Technical Corrections and Improvements”* to clarify guidance, correct errors and make minor improvements to the Accounting Standards Codification (“ASC”). ASU 2016-19 amends ASC 350-40 to clarify that after ASU 2015-05 is adopted, companies are required to record an intangible asset for the license acquired in a software licensing arrangement. The asset for the software license is required to be recognized and measured at cost, which includes the present value of the license obligation if the license is to be paid for over time. Companies are required to record a liability for any of the software licensing fees that are not paid on or before the acquisition date of the license. The Company adopted the provisions of ASU 2016-19 on a prospective basis in the first quarter of fiscal 2018. ASU 2016-19 did not have a material impact on the Company’s financial statements upon adoption.

In March 2016, the FASB issued ASU 2016-09, *“Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,”* which outlines new provisions intended to simplify various aspects related to accounting for share-based payments and their presentation in the financial statements. ASU 2016-09 requires entities to record excess tax benefits and deficiencies as income tax benefit or expense in the income statement. In addition, excess tax benefits are required to be presented as an operating activity in the Statement of Cash Flows. The Company adopted these provisions of ASU 2016-09 on a prospective basis in the first quarter of fiscal 2018. ASU 2016-09 also allows an entity to make an accounting policy election to either recognize forfeitures of share-based payment awards as they occur or estimate the number of awards expected to forfeit. The Company adopted this provision of ASU 2016-09 on a modified retrospective basis in the first quarter of fiscal 2018. The Company will recognize forfeitures of share-based payment awards as they occur and recorded a cumulative adjustment to retained earnings for this change. The adoption of ASU 2016-09 did not have a material impact on the Company’s financial statements. Subsequent to the adoption of ASU 2016-09, the Company expects increased volatility of income tax expense or benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In May 2017, the FASB issued ASU 2017-09, “*Scope of Modification Accounting*.” ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. ASU 2017-09 is effective for the Company beginning in fiscal 2019. The Company is evaluating the impact of the adoption of this guidance on its financial statements but does not expect it to have a material impact.

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Item 2. [Management's Discussion and Analysis of Financial Condition and Results of Operations.](#)

The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources should be read in conjunction with the Company's Consolidated Financial Statements as of February 25, 2017, and for the fiscal year then ended, the related Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, all contained in the Company's Annual Report on Form 10-K for the fiscal year ended February 25, 2017.

Management Overview

Pier 1 Imports, Inc. (together with its consolidated subsidiaries, the "Company") is dedicated to offering customers exclusive, one-of-a-kind products that reflect high quality at a great value. Starting with a single store in 1962, Pier 1 Imports' product is now available in retail stores throughout the U.S. and Canada and online at pier1.com. The Company directly imports merchandise from many countries, and sells a wide variety of decorative accessories, furniture, candles, housewares, gifts and seasonal products. Fiscal 2018 consists of a 53-week year ending on March 3, 2018. Fiscal 2017 consisted of a 52-week year which ended on February 25, 2017. The results of operations for the three and nine months ended November 25, 2017 and November 26, 2016, are not indicative of results to be expected for the fiscal year because of, among other things, seasonality factors in the retail business. Historically, the strongest sales of the Company's products have occurred during the holiday season beginning in November and continuing through December. The Company conducts business as one operating segment. As of November 25, 2017, the Company operated 1,011 stores in the U.S. and Canada.

As an omni-channel retailer, the Company's strategy is to ensure that customers have an extraordinary experience, regardless of how they shop. By enabling the customer to interact with the brand both in-store and online, the Company expects to maximize selling opportunities, extend brand reach and capture greater market share. The Company's strategy has required, and is expected to continue to require, investment in systems, distribution and fulfillment centers, brand development and consulting, and distribution network and store development, including new in-store selling tools such as computers and tablets.

During the third quarter of fiscal 2018, net sales decreased 1.4% from the prior year third quarter, and company comparable sales decreased 0.7%. The company comparable sales decrease for the third quarter of fiscal 2018 resulted primarily from decreased traffic and average ticket, partially offset by higher conversion. The Company's third quarter financial performance was impacted by the hurricanes in Texas and Florida, as well as deeper than expected promotional activity. During the third quarter of fiscal 2018, e-Commerce sales accounted for approximately 26% of net sales compared to 20% in the same period of the previous fiscal year. A significant portion of e-Commerce sales touch the retail stores, either by originating on in-store PCs and tablets, or through in-store pick-up.

Gross profit for the third quarter of fiscal 2018 was \$176.7 million, or 37.7% of sales, compared to \$196.4 million, or 41.3% of sales, in the same period last year, a decrease of 360 basis points. For the third quarter of fiscal 2018, merchandise margin (the result of adding back delivery and fulfillment net costs and store occupancy costs to gross profit — see "*Reconciliation of Non-GAAP Financial Measures*") was \$269.0 million, or 57.3% of sales, compared to \$286.4 million, or 60.2% of sales, for the same period last year. The year-over-year decline in merchandise margin is primarily attributable to higher promotional activity. Delivery and fulfillment net costs for the third quarter of fiscal 2018 were \$20.5 million, or 4.4% of sales, compared to \$17.3 million, or 3.6% of sales, in the same period last year. The increase reflects the increase in direct-to-customer (as defined below) sales as compared to prior year. To the extent these sales have grown and continue to grow, delivery and fulfillment net costs have also increased and are expected to continue to increase. For the third quarter of fiscal 2018, store occupancy costs were \$71.8 million, compared to \$72.7 million during the same period last year. As a percentage of sales, store occupancy costs remained flat at 15.3%. For the three months ended November 25, 2017, contribution from operations (gross profit less compensation from operations and operational expenses — see "*Reconciliation of Non-GAAP Financial Measures*") totaled \$94.0 million, compared to \$111.4 million during the same period last year.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (continued)

Operating income for the third quarter of fiscal 2018 was \$13.4 million, or 2.9% of sales, compared to \$22.3 million, or 4.7% of sales, for the same period in the prior year. For the third quarter of fiscal 2018, the Company reported net income of \$7.4 million, or \$0.09 per share, compared to \$13.6 million, or \$0.17 per share, and adjusted net income (non-GAAP) of \$17.6 million, or \$0.22 per share, in the third quarter of fiscal 2017. Adjusted net income for the third quarter of fiscal 2017 excludes costs related to the departure of the Company's former Chief Executive Officer ("CEO"). EBITDA (earnings before interest, taxes, depreciation and amortization) for the third quarter of fiscal 2018 was \$26.7 million, compared to EBITDA of \$35.9 million and, after excluding costs related to the departure of the Company's former CEO, adjusted EBITDA of \$43.9 million, in the third quarter of fiscal 2017. See "*Reconciliation of Non-GAAP Financial Measures*" below.

As an omni-channel retailer, the Company's strategies and plans are being enhanced to address sales trends, restore merchandise margin and reduce costs across the organization. These enhancements include, but are not limited to: refining the brand positioning while also improving the value proposition; reinventing marketing programs; improving the supply chain, sourcing and inventory management; bolstering information technology capabilities; improving the effectiveness of promotional programs; reducing store and administrative expenses; and managing capital expenditures. Profitability in fiscal 2018 will continue to be challenged by store traffic declines and promotional and clearance activity.

The Company is on track to close approximately 17 stores by the end of fiscal 2018. These closures are consistent with, and a part of, the real estate optimization plan previously announced by the Company. The real estate optimization plan includes three parts: (1) closure of approximately 100 stores over a three to four fiscal-year period which commenced in fiscal 2016, primarily through natural lease expirations and relocations; (2) a more modest new store opening and relocation program; and (3) ongoing renegotiations of rent commitments.

During the first nine months of fiscal 2018, the Company utilized \$41.1 million for capital expenditures, which was deployed toward technology and infrastructure initiatives, new and existing stores and distribution centers. Capital spend in fiscal 2018 is expected to be approximately \$60 million to support ongoing investments in technology, stores and distribution centers.

On April 10, 2014, the Company announced a \$200 million board-approved share repurchase program ("April 2014 program"). During the first nine months of fiscal 2018, the Company repurchased 1,926,602 shares of its common stock under the April 2014 program at a weighted average cost of \$5.19 per share for a total cost of \$10.0 million, and \$26.6 million remained available for further repurchases under the program. During the first nine months of fiscal 2018, the Company paid quarterly cash dividends totaling approximately \$16.8 million. On December 13, 2017, subsequent to quarter end, the Company announced a \$0.07 per share quarterly cash dividend payable on January 31, 2018, to shareholders of record on January 17, 2018.

[Table of Contents](#)Item 2. [Management's Discussion and Analysis of Financial Condition and Results of Operations](#), (continued)**Results of Operations**

Management reviews a number of key performance indicators to evaluate the Company's financial performance. The following table summarizes those key performance indicators:

Key Performance Indicators	Three Months Ended		Nine Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
Total sales decline	(1.4%)	(0.4%)	(1.1%)	(3.7%)
Company comparable sales growth (decline)	(0.7%)	1.8%	0.2%	(1.5%)
Gross profit as a % of sales	37.7%	41.3%	36.4%	37.7%
Contribution from operations as a % of sales ⁽¹⁾	20.0%	23.4%	17.9%	18.6%
Selling, general and administrative expenses as a % of sales	32.1%	33.8%	33.3%	33.8%
Operating income (loss) as a % of sales	2.9%	4.7%	0.0%	0.8%
Net income (loss) (in millions)	\$7.4	\$13.6	(\$3.4)	\$3.5
Net income (loss) as a % of sales	1.6%	2.9%	(0.3%)	0.3%
EBITDA (in millions) ⁽¹⁾	\$26.7	\$35.9	\$41.2	\$52.1
EBITDA as a % of sales	5.7%	7.5%	3.2%	4.0%
Total retail square footage (in thousands)	7,995	8,077	7,995	8,077

(1) See reconciliation of Gross Profit to Contribution from Operations and Net Income (Loss) to EBITDA in "Reconciliation of Non-GAAP Financial Measures."

Company Comparable Sales Calculation - The company comparable sales calculation includes all in-store sales, including direct-to-customer (as defined below), provided that the store was open prior to the beginning of the preceding fiscal year and was still open at period end. In addition, company comparable sales include all orders placed online outside of a store as direct-to-customer sales. Remodeled or relocated stores are included if they meet specific criteria. Those criteria include the following: the new store is within a specified distance serving the same market, no significant change in store size, and no significant overlap or gap between the store closing and reopening. Such stores are included in the company comparable sales calculation in the first full month after the reopening. If a relocated or remodeled store does not meet the above criteria, it is excluded from the calculation until it meets the Company's established definition as described above.

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Net Sales - Net sales consisted almost entirely of sales to retail customers, net of discounts and returns, but also included delivery revenues, wholesale sales and royalties, and gift card breakage. Net sales during the period were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
Retail sales	\$ 465,803	\$ 473,073	\$ 1,276,282	\$ 1,290,119
Other (1)	3,358	2,828	10,011	9,975
Net sales	<u>\$ 469,161</u>	<u>\$ 475,901</u>	<u>\$ 1,286,293</u>	<u>\$ 1,300,094</u>

- (1) The Company supplies merchandise and licenses the Pier 1 Imports name to Grupo Sanborns, which sells Pier 1 Imports merchandise primarily in a "store within a store" format in Mexico and El Salvador and online in Mexico. Other sales consisted primarily of these wholesale sales and royalties received from Grupo Sanborns and gift card breakage.

Net sales for the third quarter of fiscal 2018 were \$469.2 million, a decrease of 1.4%, compared to \$475.9 million for the third quarter of fiscal 2017. At the end of the third quarter of fiscal 2018, the Company operated 11 fewer stores than at the end of the third quarter of fiscal 2017. Company comparable sales for the third quarter of fiscal 2018 decreased 0.7%, compared to the same period last year primarily resulting from decreased traffic and average ticket, partially offset by higher conversion. Net sales for the year-to-date period of fiscal 2018 were \$1.286 billion, a decrease of 1.1%, compared to \$1.300 billion for the first nine months of fiscal 2017. Company comparable sales for the year-to-date period of fiscal 2018 increased 0.2%, compared to the same period last year primarily resulting from increased brand traffic and conversion.

The Company's e-Commerce sales accounted for approximately 26% of net sales for both the three and nine months ended November 25, 2017, and approximately 20% for the three and nine months ended November 26, 2016. E-Commerce sales are comprised of customer orders placed online which were delivered directly to the customer ("direct-to-customer") or those picked up by the customer at a store location.

Sales at the Company's Canadian stores are subject to fluctuations in currency conversion rates. For the third quarter of fiscal 2018, the year-over-year change in the value of the Canadian Dollar, relative to the U.S. Dollar, positively impacted net sales and company comparable sales by approximately 30 basis points. For the first nine months of fiscal 2018, the year-over-year change in the value of the Canadian Dollar, relative to the U.S. Dollar, had no impact on net sales and company comparable sales. Sales on the Pier 1 credit card comprised 37.0% of U.S. sales for the trailing twelve months ended November 25, 2017, compared to 35.6% for the comparable period in fiscal 2017. The Company's proprietary credit card program provides both economic and strategic benefits to the Company.

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The decrease in net sales for the period was comprised of the following incremental components (in thousands):

	Net Sales
Net sales for the nine months ended November 26, 2016	\$1,300,094
Incremental sales growth (decline) from:	
Company comparable sales	2,823
New stores opened during fiscal 2018	808
Stores opened during fiscal 2017	1,434
Closed stores and other	(18,866)
Net sales for the nine months ended November 25, 2017	<u>\$1,286,293</u>

A summary reconciliation of the Company's stores open at the beginning of fiscal 2018 to the number open at the end of the third quarter is as follows (openings and closings include relocated stores):

	United States	Canada	Total
Open at February 25, 2017	941	77	1,018
Openings	1	—	1
Closings	(8)	—	(8)
Open at November 25, 2017	<u>934</u>	<u>77</u>	<u>1,011</u>

Gross Profit and Merchandise Margin - In the third quarter of fiscal 2018, gross profit was \$176.7 million, or 37.7% of sales, compared to \$196.4 million, or 41.3% of sales, for the same period last year, a decrease of 360 basis points. In the first nine months of fiscal 2018, gross profit was \$468.4 million, or 36.4% of sales, compared to \$490.4 million, or 37.7% of sales, for the same period last year, a decrease of 130 basis points. Merchandise margin (see "*Reconciliation of Non-GAAP Financial Measures*") in the third quarter of fiscal 2018 was \$269.0 million, or 57.3% of sales, compared to \$286.4 million, or 60.2% of sales, for the same period last year. The year-over-year decline in merchandise margin is attributable to higher promotional activity. For the first nine months of fiscal 2018, merchandise margin was \$741.4 million, or 57.6% of sales, compared to \$748.7 million, or 57.6% of sales, for the same period last year. The year-over-year decline in merchandise margin is primarily attributable to higher promotional activity, partially offset by supply chain cost savings. Delivery and fulfillment net costs for the third quarter of fiscal 2018 were \$20.5 million, or 4.4% of sales, compared to \$17.3 million, or 3.6% of sales, for the same period last year. Delivery and fulfillment net costs for the first nine months of fiscal 2018 were \$55.9 million, or 4.3% of sales, compared to \$38.8 million, or 3.0% of sales, in the same period last year. The year-to-date increase in delivery and fulfillment net costs is primarily due to free shipping promotions. The increase for both the quarter and year-to-date periods reflects the increase in direct-to-customer sales as compared to prior year. For the third quarter and year-to-date periods, store occupancy costs decreased in dollars; however, as a percentage of sales, these costs remained flat at 15.3% and 16.9%, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (continued)

Selling, General & Administrative Expenses, Depreciation and Operating Income (Loss) - In the third quarter of fiscal 2018, selling, general and administrative ("SG&A") expenses were \$150.4 million, or 32.1% of sales, compared to \$160.8 million, or 33.8% of sales, for the same period in fiscal 2017. For the third quarter of fiscal 2018, reductions in store compensation were partially offset by increases in operational expenses and marketing. For the third quarter of fiscal 2017, other selling, general and administrative expenses included approximately \$8 million related to the departure of the Company's former CEO. SG&A expenses are summarized in the table below (in millions):

	Three Months Ended			
	November 25, 2017		November 26, 2016	
	Expense	% of Sales	Expense	% of Sales
Compensation for operations	\$ 59.6	12.7%	\$ 63.5	13.3%
Operational expenses	23.1	4.9%	21.5	4.5%
Marketing	34.0	7.2%	32.5	6.8%
Other selling, general and administrative	33.7	7.2%	43.4	9.1%
Total selling, general and administrative	\$150.4	32.1%	\$160.8	33.8%

Year-to-date SG&A expenses were \$428.7 million, or 33.3% of sales, compared to \$439.3 million, or 33.8% of sales, for the same period in fiscal 2017. For the first nine months of fiscal 2018, reductions in store compensation were offset by marketing, legal and regulatory costs relating to a California wage-and-hour matter and an ongoing Consumer Product Safety Commission ("CPSC") inquiry referenced in *Note 6* of the *Notes to Consolidated Financial Statements*, and investments in brand consulting. For the first nine months of fiscal 2017, other selling, general and administrative expenses include approximately \$8 million related to the departure of the Company's former CEO. SG&A expenses are summarized in the table below (in millions):

	Nine Months Ended			
	November 25, 2017		November 26, 2016	
	Expense	% of Sales	Expense	% of Sales
Compensation for operations	\$174.1	13.5%	\$185.2	14.2%
Operational expenses	64.4	5.0%	63.6	4.9%
Marketing	82.6	6.4%	80.2	6.2%
Other selling, general and administrative	107.6	8.4%	110.4	8.5%
Total selling, general and administrative (1)	\$428.7	33.3%	\$439.3	33.8%

(1) The period ended November 25, 2017, includes legal and regulatory costs and investments in brand consulting totaling approximately \$11 million incurred in the second and third quarters of fiscal 2018.

Depreciation expense for the third quarter of fiscal 2018 was \$12.8 million, compared to \$13.3 million in the same period last year. Depreciation expense for the first nine months of fiscal 2018 was \$40.0 million, compared to \$41.0 million in the same period last year. The decrease was primarily due to certain assets becoming fully depreciated and store closures, partially offset by capital expenditure additions.

Operating income for the third quarter of fiscal 2018 was \$13.4 million, or 2.9% of sales, compared to \$22.3 million, or 4.7% of sales, for the same period last year. Operating loss for the first nine months of fiscal 2018 was \$0.2 million, compared to operating income of \$10.1 million for the same period last year.

Income Taxes - The income tax provision for the third quarter of fiscal 2018 was \$3.7 million, compared to \$6.0 million during the same period in the prior fiscal year. The effective tax rate for the third quarter of fiscal 2018 was 33.4%, compared to 30.7% in the same period during fiscal 2017. The income tax benefit for the first nine months of fiscal 2018

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (continued)

was \$4.2 million, compared to \$0.9 million during the same period in the prior fiscal year. The effective tax rate for the first nine months of fiscal 2018 was 55.1%, compared to (33.8%) in the same period during fiscal 2017. The decrease in the income tax provision for the third quarter of fiscal 2018 primarily relates to the Company's lower pre-tax income generated in the period as compared to the third quarter of fiscal 2017. The increase in the income tax benefit for the first nine months of fiscal 2018 is primarily related to net pre-tax losses generated in the period as compared to net pre-tax income generated in the first nine months of fiscal 2017. The higher effective tax rate for the third quarter of fiscal 2018 primarily relates to certain favorable one-time discrete items for previously expensed share-based compensation no longer subject to deduction limitations occurring in the third quarter of fiscal 2017, which decreased the effective tax rate for such period. The higher effective tax rate for the first nine months of fiscal 2018 primarily relates to the impact of certain non-deductible expenses recognized in the second quarter of fiscal 2018, including the CPSC matter referenced in *Note 6* of the *Notes to Consolidated Financial Statements* and certain favorable discrete items primarily related to state income tax benefits that, as a result of the Company's pre-tax losses, increased the effective tax rate for such period.

The Tax Cuts and Jobs Act of 2017 ("Tax Act"), as signed by the President of the United States on December 22, 2017, significantly revises U.S. tax law. The legislation will positively impact the Company's ongoing effective tax rate due to the reduction of the U.S. federal corporate tax rate from 35% to 21%. The Company expects to record a non-cash tax benefit in the fourth quarter of fiscal 2018 to reflect the impact of remeasurement of the Company's net U.S. federal deferred tax liability at the lower tax rate, currently estimated to be in the range of \$0.5 million to \$2.1 million. The estimated impact of the Tax Act is based on a preliminary review of the new law and projected future financial results and is subject to revision based upon further analysis and interpretation of the Tax Act and to the extent that future results differ from currently available projections.

Net Income (Loss) and EBITDA - For the third quarter of fiscal 2018, the Company reported net income of \$7.4 million, or \$0.09 per share, compared to \$13.6 million, or \$0.17 per share, and adjusted net income (non-GAAP) of \$17.6 million, or \$0.22 per share, in the third quarter of fiscal 2017. Adjusted net income in the third quarter of fiscal 2017 excludes costs related to the departure of the Company's former CEO and the related tax benefit. For the first nine months of fiscal 2018, the Company reported a net loss of \$3.4 million, or (\$0.04) per share. Adjusted net income (non-GAAP) for the first nine months of fiscal 2018, which excludes the legal and regulatory costs referenced in *Note 6* of the *Notes to Consolidated Financial Statements*, totaled \$0.3 million, or \$0.01 per share. This compares to net income of \$3.5 million, or \$0.04 per share, and adjusted net income (non-GAAP) of \$7.5 million, or \$0.09 per share, for the first nine months of fiscal 2017. Adjusted net income for the fiscal 2017 period excludes costs related to the departure of the Company's former CEO and the related tax benefit. EBITDA for the third quarter of fiscal 2018 was \$26.7 million, compared to EBITDA of \$35.9 million and, after excluding costs related to the departure of the Company's former CEO, adjusted EBITDA of \$43.9 million, in the third quarter of fiscal 2017. For the first nine months of fiscal 2018, EBITDA was \$41.2 million, and after excluding the legal and regulatory costs referenced in *Note 6* of the *Notes to Consolidated Financial Statements*, adjusted EBITDA was \$47.8 million. This compares to EBITDA of \$52.1 million, and adjusted EBITDA of \$60.1 million, for the first nine months of fiscal 2017 as adjusted for costs related to the departure of the Company's former CEO. See "*Reconciliation of Non-GAAP Financial Measures*" below.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (continued)

Reconciliation of Non-GAAP Financial Measures

The Company reports its financial results in accordance with U.S. generally accepted accounting principles ("GAAP"). This Quarterly Report on Form 10-Q references non-GAAP financial measures including merchandise margin, contribution from operations, EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share.

The Company believes the non-GAAP financial measures referenced in this Quarterly Report on Form 10-Q allow management and investors to understand and compare results in a more consistent manner for the three- and nine-month periods ended November 25, 2017 and November 26, 2016. Non-GAAP financial measures should be considered supplemental and not a substitute for the Company's results reported in accordance with GAAP for the periods presented.

Merchandise margin represents the result of adding back delivery and fulfillment net costs and store occupancy costs to gross profit. Contribution from operations represents gross profit, less compensation for operations (which includes store and customer service payroll) and operational expenses. EBITDA represents earnings before interest, taxes, depreciation and amortization. Management believes merchandise margin, contribution from operations and EBITDA are meaningful indicators of the Company's performance which provide useful information to investors regarding its financial condition and results of operations. Management uses merchandise margin, contribution from operations and EBITDA, together with financial measures prepared in accordance with GAAP, to assess the Company's operating performance, to enhance its understanding of core operating performance and to compare the Company's operating performance to other retailers. These non-GAAP financial measures should not be considered in isolation or used as an alternative to GAAP financial measures and do not purport to be an alternative to net income (loss) or gross profit as a measure of operating performance. A reconciliation of net income (loss) to EBITDA to contribution from operations to merchandise margin is shown below (in millions).

	Three Months Ended				Nine Months Ended			
	November 25, 2017		November 26, 2016		November 25, 2017		November 26, 2016	
	\$ Amount	% of Sales	\$ Amount	% of Sales	\$ Amount	% of Sales	\$ Amount	% of Sales
Merchandise margin (non-GAAP)	\$ 269.0	57.3%	\$ 286.4	60.2%	\$ 741.4	57.6%	\$ 748.7	57.6%
Less: Delivery and fulfillment net costs	20.5	4.4%	17.3	3.6%	55.9	4.3%	38.8	3.0%
Store occupancy costs	71.8	15.3%	72.7	15.3%	217.0	16.9%	219.6	16.9%
Gross profit (GAAP)	176.7	37.7%	196.4	41.3%	468.4	36.4%	490.4	37.7%
Less: Compensation for operations	59.6	12.7%	63.5	13.3%	174.1	13.5%	185.2	14.2%
Operational expenses	23.1	4.9%	21.5	4.5%	64.4	5.0%	63.6	4.9%
Contribution from operations (non-GAAP)	94.0	20.0%	111.4	23.4%	230.0	17.9%	241.6	18.6%
Less: Other nonoperating income	(0.4)	(0.1%)	(0.3)	(0.1%)	(1.4)	(0.1%)	(1.1)	(0.1%)
Marketing and other SG&A	67.7	14.4%	75.9	15.9%	190.2	14.8%	190.6	14.7%
EBITDA (non-GAAP)	26.7	5.7%	35.9	7.5%	41.2	3.2%	52.1	4.0%
Less: Income tax provision (benefit)	3.7	0.8%	6.0	1.2%	(4.2)	(0.3%)	(0.9)	(0.1%)
Interest expense, net	2.8	0.6%	3.0	0.6%	8.9	0.7%	8.6	0.7%
Depreciation	12.8	2.7%	13.3	2.8%	40.0	3.1%	41.0	3.1%
Net income (loss) (GAAP)	\$ 7.4	1.6%	\$ 13.6	2.9%	\$ (3.4)	(0.3%)	\$ 3.5	0.3%

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (continued)

This Quarterly Report on Form 10-Q also references adjusted EBITDA, adjusted net income and adjusted earnings per share, each of which excludes legal and regulatory costs relating to a California wage-and-hour matter and an ongoing CPSC inquiry in fiscal 2018 and costs related to the departure of the Company's former CEO in fiscal 2017. Management believes these non-GAAP financial measures are useful in comparing the Company's year-over-year operating performance and should be considered supplemental and not a substitute for the Company's net income (loss) and earnings (loss) per share results reported in accordance with GAAP for the periods presented.

	Three Months Ended		Nine Months Ended	
	November 25, 2017	November 26, 2016	November 25, 2017	November 26, 2016
EBITDA (Non-GAAP)	\$ 26.7	\$ 35.9	\$ 41.2	\$ 52.1
Add back:				
CEO departure-related costs	—	8.0	—	8.0
Legal and regulatory matters	—	—	6.6	—
Adjusted EBITDA (Non-GAAP)	\$ 26.7	\$ 43.9	\$ 47.8	\$ 60.1
Net income (loss) (GAAP)	\$ 7.4	\$ 13.6	\$ (3.4)	\$ 3.5
Add back:				
CEO departure-related costs, net of tax (1)	—	4.0	—	4.0
Legal and regulatory matters, net of tax (2)	0.1	—	3.7	—
Adjusted net income (Non-GAAP)	\$ 7.5	\$ 17.6	\$ 0.3	\$ 7.5
Earnings (loss) per share (GAAP)	\$ 0.09	\$ 0.17	\$ (0.04)	\$ 0.04
Add back:				
CEO departure-related costs, net of tax (1)	—	0.05	—	0.05
Legal and regulatory matters, net of tax (2)	—	—	0.05	—
Adjusted earnings per share (Non-GAAP)	\$ 0.09	\$ 0.22	\$ 0.01	\$ 0.09

- (1) For the three and nine months ended November 26, 2016, costs related to the departure of the Company's former CEO totaled \$8.0 million, or \$4.0 million after adjusting for the tax impact.
- (2) For the nine months ended November 25, 2017, legal and regulatory costs relating to a California wage-and-hour matter and an ongoing CPSC inquiry totaled \$6.6 million, or \$3.7 million after adjusting for the tax impact.

Liquidity and Capital Resources

The Company ended the first nine months of fiscal 2018 with \$80.2 million in cash and cash equivalents, compared to \$154.5 million at the end of fiscal 2017 and \$86.2 million at the end of the first nine months of fiscal 2017. The decrease from the end of fiscal 2017 was primarily the result of the utilization of cash to fund the Company's capital expenditures of \$41.1 million and to return excess capital to shareholders, including \$16.8 million for cash dividends and \$10.0 million to repurchase shares of the Company's common stock under the April 2014 program. In addition, cash used in operating activities totaled \$7.0 million during the first nine months of fiscal 2018.

Cash Flows from Operating Activities

During the first nine months of fiscal 2018, operating activities used \$7.0 million of cash, primarily as a result of an increase in inventories, federal and state income tax payments and a supplemental retirement plan lump sum distribution payment to the Company's former CEO. These items were partially offset by adjustments for non-cash items. Inventory levels at the end of the third quarter of fiscal 2018 were \$418.9 million, an increase of \$17.9 million, or 4.5%, from the end of fiscal 2017. The increase in inventories was primarily due to the seasonal build of inventory for the holiday selling season. Inventory levels at the end of the third quarter of fiscal 2018 decreased 12.7% from \$479.8 million at the end of the third quarter last year.

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Item 2. [Management's Discussion and Analysis of Financial Condition and Results of Operations.](#) (continued)

Cash Flows from Investing Activities

During the first nine months of fiscal 2018, investing activities used \$39.3 million of cash, which were primarily related to capital expenditures deployed toward technology and infrastructure initiatives, new and existing stores and distribution centers. Of those capital expenditures, \$7.9 million related to timing differences between receipt of fixed asset purchases and cash payment of invoices. Capital spend in fiscal 2018 is expected to be approximately \$60 million to support ongoing investments in technology, stores and distribution centers.

Cash Flows from Financing Activities

During the first nine months of fiscal 2018, financing activities used \$27.9 million of cash, primarily resulting from cash outflows of \$16.8 million for the payment of dividends and \$10.0 million for repurchases of the Company's common stock pursuant to the April 2014 program. See "*Share Repurchase Program*" below for more information.

Revolving Credit Facility

On June 2, 2017, during the second quarter of fiscal 2018, the Company entered into a Second Amended and Restated Credit Agreement which amended certain terms of its \$350 million secured revolving credit facility ("Revolving Credit Facility"). The amended Revolving Credit Facility extended the maturity date from June 18, 2018 to June 2, 2022, and increased the amount of the accordion feature to \$150 million. The amended Revolving Credit Facility continues to be secured primarily by the Company's eligible merchandise inventory and third-party credit card receivables and certain related assets on a first priority basis and by a second lien on substantially all other assets of certain of the Company's subsidiaries, subject to certain exceptions.

At the end of the third quarter of fiscal 2018, credit extensions under the amended Revolving Credit Facility were limited to the lesser of \$350.0 million or the amount of the calculated borrowing base, which was \$404.5 million as of November 25, 2017. The Company had no cash borrowings and \$40.1 million in letters of credit and bankers' acceptances outstanding, with \$309.9 million remaining available for cash borrowings, all as of November 25, 2017. See *Note 3* of the *Notes to Consolidated Financial Statements* for more information regarding the amended Revolving Credit Facility.

Term Loan Facility

The Company has a senior secured term loan facility that matures on April 30, 2021 ("Term Loan Facility"). As of November 25, 2017, the Company had \$193.5 million outstanding under the Term Loan Facility with a carrying value of \$190.8 million, net of unamortized discounts and debt issuance costs. See *Note 3* of the *Notes to Consolidated Financial Statements* for more information regarding the Term Loan Facility.

Share Repurchase Program

During the first nine months of fiscal 2018, the Company repurchased 1,926,602 shares of its common stock at a weighted average cost of \$5.19 per share for a total cost of \$10.0 million, and as of November 25, 2017, \$26.6 million remained available for further repurchases under the April 2014 program.

Dividends Payable

On December 13, 2017, subsequent to quarter end, the Company announced a \$0.07 per share quarterly cash dividend on the Company's outstanding shares of common stock. The \$0.07 quarterly cash dividend will be paid on January 31, 2018, to shareholders of record on January 17, 2018.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (continued)

Sources of Working Capital

Working capital requirements are expected to be funded with cash from operations, available cash balances and, as needed, borrowings against the Company's amended Revolving Credit Facility and Term Loan Facility. Given the Company's cash position and the various liquidity options available, the Company believes it has sufficient liquidity to fund its obligations for the foreseeable future, including debt-related payments, capital expenditure requirements, cash dividends and share repurchases.

Impact of Inflation

Inflation has not had a significant impact on the operations of the Company. However, the Company's management cannot be certain of the effect inflation may have on the Company's operations in the future.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There are no material changes to the Company's market risk as disclosed in its Annual Report on Form 10-K for the fiscal year ended February 25, 2017.

Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures, as defined in Rule 13a-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 by the Company in its reports filed or furnished under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is (b) accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding the required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, an evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of November 25, 2017. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded, with reasonable assurance, that the Company's disclosure controls and procedures were effective as of such date.

There has not been any change in the Company's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

Putative class action complaints were filed in the United States District Court for the Northern District of Texas – Dallas Division against Pier 1 Imports, Inc., Alexander W. Smith and Charles H. Turner in August and October 2015 alleging violations under the Securities Exchange Act of 1934, as amended. The lawsuits, which have been consolidated into a single action captioned Town of Davie Police Pension Plan, Plaintiff, v. Pier 1 Imports, Inc., Alexander W. Smith and Charles H. Turner, Defendants, were filed on behalf of a purported putative class of investors who purchased or otherwise acquired stock of Pier 1 Imports, Inc. between April 10, 2014 and December 17, 2015. The plaintiffs seek to recover damages purportedly caused by the Defendants' alleged violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint seeks certification as a class action, unspecified compensatory damages plus interest and attorneys' fees. On August 10, 2017, the court granted the Company's motion to dismiss the complaint, while providing the plaintiffs an opportunity to replead their complaint. An amended complaint was filed with the court on September 25, 2017. On November 22, 2017, the Company filed a motion to dismiss the amended complaint. Although the ultimate outcome of litigation cannot be predicted with certainty, the Company believes that this lawsuit is without merit and intends to defend against it vigorously.

The Company announced in January 2016 a voluntary recall of its Swingasan Chair and Stand in cooperation with the CPSC. In September 2016, the Company received a staff investigatory letter from the CPSC indicating that the CPSC would investigate whether the Company complied with certain reporting requirements of the Consumer Product Safety Act with respect to the recall. The Company responded to the inquiry and cooperated with the CPSC. On September 20, 2017, the Company received a letter from the CPSC proposing to resolve certain alleged violations of the Consumer Product Safety Act relating to the Swingasan recall on terms which would require, among other things, the payment of a civil money penalty. On October 27, 2017, the Company submitted its response to the CPSC letter. The Company disagrees with a number of the allegations and legal conclusions asserted by the CPSC and believes the requested civil money penalty is excessive in view of the circumstances. Given the nature of this matter and the uncertainty as to how and when it will be resolved, the Company believes that a reasonable estimate of the potential range of loss in connection with this matter is \$2.0 million to \$6.2 million. While we anticipate that the final settlement will fall within the estimated range of outcomes, the final terms of the resolution of this matter cannot be predicted with certainty and no assurances can be given as to the specific amount that the Company may be required to pay.

The Company is a defendant in lawsuits pending in federal courts in California containing various class action allegations under California state wage-and-hour laws. These lawsuits seek unspecified monetary damages, injunctive relief and attorneys' fees. The Company has sought to settle these cases on terms favorable to the Company in view of the claims made, the continuing cost of litigation and an assessment of the risk of an adverse trial court or appellate decision. The Company has settled or agreed to settle the pending cases, subject to completion of associated procedural requirements. The Company does not believe any reasonably foreseeable resolution of these matters will have a material adverse effect on the Company's financial condition, results of operations or liquidity.

The Company recognized expense of \$6.6 million in the second quarter of fiscal 2018 attributable to the legal and regulatory proceedings described in the two preceding paragraphs as a component of other selling, general and administrative expenses.

There are various other claims, lawsuits, inquiries, investigations and pending actions against the Company incident to the operations of its business. The Company considers these other matters to be ordinary and routine in nature. The Company maintains insurance against the consolidated class action described in the first paragraph in this Item and liability insurance against most of the other matters noted in this paragraph. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such matters will not have a material adverse effect, either individually or in the aggregate, on the Company's financial condition, results of operations or liquidity.

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Item 1A. Risk Factors.

In addition to the other information in this report, carefully consider the discussion under “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended February 25, 2017 (the “FY2017 10-K”). The Company has described, in the FY2017 10-K, the primary risks related to its business, and periodically updates those risks for material developments. Provided below are material changes to the Company’s risk factors as previously disclosed in the FY2017 10-K.

The Tax Cuts and Jobs Act could have material effects on the Company.

The Tax Cuts and Jobs Act of 2017 (“Tax Act”), which was signed into law on December 22, 2017, makes significant changes to the taxation of U.S. business entities. These changes include a permanent reduction to the federal corporate income tax rate and changes in the deductibility of interest on corporate debt obligations, among others. The Company is currently evaluating the Tax Act with its professional advisers; the full impact of the Tax Act on the Company in future periods cannot be predicted at this time and no assurances in that regard are made by the Company.

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Item 2. [Unregistered Sales of Equity Securities and Use of Proceeds.](#)

The following table provides information with respect to purchases of common stock of the Company made during the three months ended November 25, 2017, by the Company or any “affiliated purchaser” as defined in Rule 10b-18(a)(3) under the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including fees)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Aug 27, 2017 through Sep 30, 2017	1,302	\$ 4.22	1,302	\$ 26,610,135
Oct 1, 2017 through Oct 28, 2017	—	—	—	26,610,135
Oct 29, 2017 through Nov 25, 2017	—	—	—	26,610,135
	<u>1,302</u>	<u>\$ 4.22</u>	<u>1,302</u>	<u>\$ 26,610,135</u>

The share purchases in the table above were made under the April 2014 program and as of November 25, 2017, \$26.6 million remained available for further purchases under the program. There is no expiration date on the current authorization and no determination has been made by the Company to suspend or cancel purchases under the program.

Item 3. [Defaults upon Senior Securities.](#)

None.

Item 4. [Mine Safety Disclosures.](#)

Not applicable.

Item 5. [Other Information.](#)

The Company has entered into an Indemnity Agreement with Alasdair James in substantially the form set forth in Exhibit 10.1 to the Company’s Form 10-K for the year ended February 26, 2011 (File No. 001-07832), which is incorporated herein by reference.

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Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
3.1	<u>Restated Certificate of Incorporation of Pier 1 Imports, Inc. as filed with the Delaware Secretary of State on October 12, 2009, incorporated herein by reference to Exhibit 3(i) to the Company's Form 10-Q for the quarter ended November 28, 2009 (File No. 001-07832).</u>
3.2	<u>Amended and Restated Bylaws of Pier 1 Imports, Inc. (as amended through June 20, 2014), incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on June 24, 2014 (File No. 001-07832).</u>
10.1*	<u>First Amendment to the Private Label Credit Card Plan Agreement between Comenity Bank, formerly known as World Financial Network Bank, and Pier 1 Imports (U.S.), Inc., dated November 13, 2017.</u>
10.2*	<u>Pier 1 Imports, Inc. Deferred Compensation Plan Amendment No. 2, effective January 1, 2018.</u>
31.1*	<u>Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).</u>
31.2*	<u>Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).</u>
32.1**	<u>Certification of the 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.</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith

SIGNATURES

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

PIER 1 IMPORTS, INC.

Date: January 3, 2018

By: /s/ Alasdair B. James

Alasdair B. James, President and
Chief Executive Officer

Date: January 3, 2018

By: /s/ Darla D. Ramirez

Darla D. Ramirez, Interim Chief Financial Officer and
Principal Accounting Officer

**FIRST AMENDMENT TO THE PRIVATE LABEL
CREDIT CARD PLAN AGREEMENT**

This First Amendment to the Private Label Credit Card Plan Agreement (“First Amendment”) is entered into on this 13th day of November, 2017, (the “First Amendment Effective Date”) by and between **PIER 1 IMPORTS (U.S.), INC.**, with its principal office at 100 Pier 1 Place, Fort Worth, Texas 76102 (hereinafter being referred to as “Pier 1”) and **COMENITY BANK**, formerly known as World Financial Network Bank, with its principal offices located at One Righter Parkway, Suite 100, Wilmington, DE 19803 (hereinafter referred to as “Bank”).

RECITALS:

WHEREAS, Pier 1 and Bank entered into a Private Label Credit Card Plan Agreement dated as of October 5, 2011 (“Agreement”);

WHEREAS, Pier 1 and Bank desire to add provisions that address sales tax recovery obligations for Written - Off Accounts and sharing of Recoverable Sales Tax (as defined below);

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

1. **Definitions; References.** Each term used herein which is not defined herein shall have the meaning assigned to such term in the Agreement. Each reference to “hereof”, “hereunder”, “herein” and “hereby” and each other similar reference and each reference to “this Agreement” and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement amended hereby.

2. **Section 10.18 Taxes.** Section 10.18 is hereby deleted in its entirety and replaced with a new Section 10.18, as follows:

10.18 Taxes.

(a) **General.** Pier 1 will be responsible for, and agrees to pay, all sales, use, excise, and value-added taxes, or taxes of a similar nature (excluding personal property taxes and taxes based on Bank’s income which shall be borne by Bank), imposed by the United States, any state or local government, or other taxing authority, on all services provided by Bank under this Agreement. Provided, however, that if/when Bank seeks payment from Pier 1, Bank shall deliver a written invoice (or other comparable form of written documentation requesting payment and basis therefor) to Pier 1 in a timely manner relative to when (i) Bank received an invoice or other statement for payment from the subject taxing authority, or (ii) Bank determined (or should have determined, based on Bank’s normal accounting reviews and preparation of tax documents of which such matter should have been a part) that Pier 1 should pay such amount. The parties agree to cooperate with each other to minimize any applicable sales, use, or similar tax and, in connection therewith, the parties shall provide each other with any relevant tax information as reasonably requested (including without limitation, resale or exemption certificates, multi-state exemption certificates, information concerning the use of assets, materials and notices of assessments). All amounts set forth in this Agreement are expressed and shall be paid in U.S. dollars.

(b) **Recoverable Sales Tax on Written-Off Accounts.** Bank shall notify Pier 1 of any amounts written-off by Bank for federal income tax purposes on Accounts (“Written-Off Accounts”), identified by Account, and shall sign such forms and provide any such other information as is reasonably necessary to enable Pier 1 to recover any sales tax charged to any such Written-Off Account (“Recoverable Sales Taxes”). Regardless of whether a jurisdiction permits either Bank or Pier 1, or only Pier 1 to make a claim for Recoverable Sales Taxes, Pier 1 will use reasonable efforts to claim a deduction on its sales tax returns for the maximum Recoverable Sales Tax amount associated with Bank’s Written-Off Accounts as permitted by Applicable Law. Pier 1 shall provide Bank with documentation of the amount of Recoverable Sales Taxes claimed in each jurisdiction where Pier 1 makes such a claim. For clarity, Bank shall not file a claim for any Recoverable Sales Taxes with any state. Pier 1 shall pay to Bank an amount equal to Fifty Percent (50%) of the Recoverable Sales Taxes (“Bank’s Tax Share”), and Pier 1 shall pay Bank the Bank’s Tax Share at the time Pier 1 claims a deduction on its required sales tax filing with a jurisdiction permitting such deduction. If Pier 1 is required to file a claim for refund, rather than claiming a deduction as set forth above, then Pier 1 shall pay the Bank’s Tax Share to Bank at the time Pier 1 receives such refund from the state. In the event

Pier 1 is audited or assessed by a state in which Recoverable Sales Taxes have been claimed, and such audit specifically identifies Revocable Sales Taxes as being an area under review, then Pier 1 shall timely notify Bank when Pier 1 receives such notice, and Bank shall be permitted to participate with Pier 1 and shall cooperate in any such audit or assessment. In the event Pier 1 is audited or assessed by a state, and as a result any portion of the Bank's Tax Share is repaid to the state, Bank shall repay such amount (including any penalties and interest in respect of such amount) to Pier 1. Notwithstanding any provision to the contrary, if Pier 1 fails to notify Bank of an audit in which Recoverable Sales Taxes are disallowed by the state, or if Pier 1 fails to permit Bank to participate in such an audit, then Bank shall not be required to repay any amount of Recoverable Sales Taxes (inclusive of penalties and interest related thereto) repaid to the state. Pier 1 may, in its sole and absolute discretion, following ninety (90) days' prior written notice to Bank, cease filing claims for Recoverable Sales Taxes as required by this Section 10.18(b). If Pier 1 ceases filing claims, Pier 1 shall timely provide Bank any and all documents, including assignments of any rights Pier 1 may have in Recoverable Sales Taxes, necessary for Bank to file claims directly with states that allow such claims. Notwithstanding any provision to the contrary, if Bank files claims directly with a state or states, Pier 1 shall not be entitled to any portion of the Recoverable Sales Taxes.

3. While the provisions of Section 10.18. (b) shall be effective as of the First Amendment Effective Date, both parties shall take such actions as necessary to seek Recoverable Sales Tax for prior years to the maximum extent permitted by applicable law and in accordance with the provisions of Section 10 (b).

4. **Order of Precedence.** This First Amendment is supplementary to and modifies the Agreement. All terms and conditions of the Agreement shall remain unchanged and in full force and effect except as amended by this First Amendment.

5. **Counterparts.** This First Amendment may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document. Additionally, a fully executed PDF of this First Amendment shall be deemed to constitute an original document.

IN WITNESS WHEREOF, the parties have caused this First Amendment to be executed by their duly authorized officers.

PIER 1 IMPORTS (U.S.), INC.

By: /s/ Darla Ramirez

Name: Darla Ramirez

Title: VP — Controller & Interim CFO

COMENITY BANK

By: /s/ John Marion

Name: John Marion

Title: President

PIER 1 IMPORTS, INC. DEFERRED COMPENSATION PLAN

AMENDMENT NO. 2

This Amendment No. 2 is made to the Pier 1 Imports, Inc. Deferred Compensation Plan (the “Plan”). The Plan was made effective January 1, 2011 by Pier 1 Imports, Inc. a Delaware corporation (the “Company”) and was amended by the Company effective January 1, 2013. This Amendment No. 2 is made effective January 1, 2018 by the Company.

WHEREAS, the Company desires to (i) amend the vesting schedule from the 6-year graded schedule based on years of service under the Company’s 401(k) plan to a 3-year cliff vesting schedule based on years of service to be defined under the Plan, (ii) amend the valuation date for distributions upon termination of employment or service under Section 7.03 of the Plan, (iii) amend the Plan to remove the age requirement for installment distributions under Section 7.05 of the Plan with respect to deferrals and matching contributions (plus earnings thereon) made on or after January 1, 2018, and (iv) amend the Plan to allow participants to make more than one change to their distribution elections under Section 7.06 of the Plan; and

WHEREAS, pursuant to Section 12.04 of the Plan, the Company may amend the Plan at any time, in whole or in part.

NOW, THEREFORE, the Plan is hereby amended effective as of January 1, 2018, as follows:

1. Section 2.30 is added to the Plan to read as follows:

Section 2.30 Years of Service. “Years of Service” shall mean a Participant’s continuous period of service with the Company measured in full years from the Participant’s most recent date of hire. A Participant shall receive credit for one full “Year of Service” on each anniversary of his most recent date of hire provided he is employed by the Company on such anniversary.

2. Section 5.02 of the Plan is amended in its entirety to read as follows:

Section 5.02 Vesting of Deferral Match. An Executive Participant is vested (that is, the whole of the Deferral Match becomes nonforfeitable) in any Deferral Match arising under Section 5.01 of this Plan (plus earnings thereon pursuant to Section 6.03) according to the following vesting schedule:

<u>Years of Service</u>	<u>Percent of Deferral Match that is Vested</u>
Less than 3	0%
3 or more	100%

The portion of an Executive Participant’s Deferral Match which is vested shall be referred to herein as the “Vested Deferral Match.”

Notwithstanding the foregoing, an Executive Participant who has an Annual Account balance greater than zero on December 31, 2017, and has thereafter remained continuously employed by the Company until a given determination date, is vested (that is, the whole or portion of the Deferral Match becomes nonforfeitable) in any Deferral Match arising under Section 5.01 of this Plan (plus earnings thereon pursuant to Section 6.03), as of any such given determination date, according to either (i) the vesting schedule set forth above; or (ii) the provisions of the 401(k) Plan, as in effect on January 1, 2018, that are applicable to the vesting of Company matching contributions under such 401(k) Plan, irrespective of whether a Participant is actually participating in the 401(k) Plan; whichever of (i) or (ii) above results in the highest Vested Deferral Match as of such determination date.

3. Section 7.02A is added to the Plan to read as follows:

Section 7.02A Valuation of Certain Distributions. Notwithstanding the provisions of Sections 7.03, 7.04 and 7.05 below related to valuation of accounts for distribution purposes, any Aggregate Account or Annual Account that is to be distributed under Section 7.03, 7.04 or 7.05 of the Plan upon the death of the Participant or upon the termination of a Participant's employment with the Company or service as a member of the Board of Directors will be valued as of the last business day of the calendar month immediately following the calendar month in which the Participant's death occurs or the Participant's employment or service as a member of the Board of Directors ends, as applicable.

4. Section 7.05 of the Plan is amended by adding the following paragraph to the end thereof:

Notwithstanding the foregoing provisions related to conditions applicable to distributions under this Section 7.05, the distribution of a Participant's Annual Account resulting from Deferrals and Deferral Match (plus earnings thereon pursuant to Section 6.03) credited to such Annual Account with respect to Plan Years beginning on or after January 1, 2018, shall be conditioned only upon the condition stated in (b) above, and any reference to the satisfaction of the condition stated in (a) above shall be disregarded with respect to such Annual Account. For purposes of clarification, the distribution of a Participant's Annual Account resulting from Deferrals and Deferral Match (plus earnings thereon pursuant to Section 6.03) credited to such Annual Account with respect to Plan Years beginning before January 1, 2018, shall remain conditioned upon the condition stated in (a) above, and thus, the foregoing sentence may result in a portion of the balance of the Participant's Aggregate Account for which a Participant elected an installment payment being paid in

accordance with Section 7.03 above and another portion of such balance being paid in the annual installments the Participant so elected to be paid upon termination of employment or service.

5. The first sentence of the second paragraph of Section 7.06 of the Plan is amended in its entirety to read as follows:

For purposes of application of the above change limitations, installment payments shall be treated as a single payment and only one change shall be allowed to be made by a Participant with respect to form of benefits to be received by such Participant under Sections 7.03 and Section 7.05.

6. This Amendment No. 2 shall not operate or be construed to alter, modify or amend the Plan except as expressly set forth herein. All capitalized terms used in this Amendment No. 2, unless specifically defined herein, have the same meanings attributed to them in the Plan. The terms and provision of the Plan, as expressly amended hereby, shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 2 to be executed effective January 1, 2018.

PIER 1 IMPORTS, INC.

/s/ Gregory S. Humenesky

Gregory S. Humenesky
Executive Vice President - Human Resources
December 18, 2017

Exhibit 31.1

Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)

I, Alasdair B. James, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pier 1 Imports, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 3, 2018

By: /s/ Alasdair B. James

Alasdair B. James, President and
Chief Executive Officer

Exhibit 31.2

Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)

I, Darla D. Ramirez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pier 1 Imports, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 3, 2018

By: /s/ Darla D. Ramirez

Darla D. Ramirez, Interim Chief Financial Officer and
Principal Accounting Officer

Exhibit 32.1

Certification of 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

Each of the undersigned officers of Pier 1 Imports, Inc., hereby certifies that:

1. The Quarterly Report on Form 10-Q of Pier 1 Imports, Inc. for the period ended November 25, 2017, fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the above-mentioned report fairly presents, in all material respects, the financial condition and results of operations of Pier 1 Imports, Inc. for the period covered by the report.

Date: January 3, 2018

By: /s/ Alasdair B. James

Alasdair B. James, President and
Chief Executive Officer

Date: January 3, 2018

By: /s/ Darla D. Ramirez

Darla D. Ramirez, Interim Chief Financial Officer and
Principal Accounting Officer

