

# THE CHILDREN'S PLACE



going places

annual report 2004



## TO OUR STOCKHOLDERS,

Fiscal 2004 was a remarkable year. With our talented and dedicated team leading the way and strong execution at all levels, The Children's Place brand achieved new heights, while the Disney Store North America acquisition gave us an extraordinary new platform for growth and earnings.

Our full year sales and earnings results reflect the continued strength of our unique formula and the broad appeal of our brand:

### FISCAL 2004 RESULTS

- Net sales increased 45%
- Sales at The Children's Place stores grew by almost \$200 million, or 25%
- Comparable store sales increased 16%
- And diluted earnings per share increased 85% to \$1.57 and 96% to \$1.67 after Disney Store acquisition-related items

In fiscal 2004, increasing productivity at The Children's Place stores was our #1 priority. To achieve this objective, we focused on merchandise quality, delivering value, strong in-stock positions and customer conversion. I'm pleased to report that all of these initiatives achieved the following results:

- Sales per square foot of \$300, a 14% increase over last year
- An 80 basis point increase in customer conversion
- A 9% increase in comparable store customer traffic
- Double-digit positive comparable store sales across all regions, all departments and all store types
- And market share of 3.2%, a 60 basis point increase over last year

### FISCAL 2004 MILESTONES

In addition to our strong financial performance, our team accomplished important milestones during fiscal 2004, which fueled the Company's momentum and will support our future growth.

- We successfully completed the acquisition of Disney Store North America from The Walt Disney Company. We believe that combining the power and creativity of the Disney brand with our merchandise, sourcing and operating expertise will result in increased sales, expense leverage, significant earnings power for our stockholders, and is consistent with our goal of being the leading player in the newborn to age ten category. Our unique combination of fashion, quality and value works extremely well in the children's arena, and we look forward to applying the same powerful value equation at Disney Store.

We were very pleased with the performance of the Disney Stores during the all-important holiday season. For the 10 weeks of the fourth quarter during which we operated the business, sales reached \$163.4 million, and generated incremental fourth quarter earnings driven by better than expected merchandise margins and lower transition costs. Importantly, we are very proud of our team, who accomplished the huge task of integrating the Disney Store operation, which went smoothly and was completed within a very short timeframe.

- We launched our first external advertising test since 1999 during the holiday season. Consistent with our ongoing brand building efforts, the test was conducted in New York, Chicago, Los Angeles and Toronto, and included television, print, and "out of home" advertising such as billboards, subways and bus shelters.

- We significantly enhanced our logistics infrastructure. We moved into a new, 95,000 square-foot, fully automated Canadian distribution center and also expanded our West Coast distribution center to support our Disney Store business. In addition, we signed a lease for a 500,000 square-foot distribution center in South Brunswick, New Jersey, which will support both brands. Scheduled to open during summer 2005, this fully automated distribution center will yield many benefits, including increased capacity, greater productivity, and operating efficiency.

- We opened our first sourcing office in India and expanded our office in Shanghai, further strengthening our product procurement capabilities. These offices, combined with our office in Hong Kong, support both brands and are critical to bringing our unique formula of high quality and value prices to our customers. During 2004, approximately 30% of our merchandise was sourced directly, compared to 25% last year. We are well-positioned to reap the benefits of quota elimination and to take full advantage of India, a clear emerging market for sourcing apparel.

- We opened 62 new The Children's Place stores in fiscal 2004 and closed three, which brought our store count to 750, an 8.5% increase over last year. During the year we expanded into new markets such as Puerto Rico and Hawaii, and further increased our presence in Canada. Importantly, in just its second full year of operation, our Canadian business surpassed the CA\$100 million mark, and delivered a mid-teen operating margin.

### FISCAL 2005 GOALS

We are intent on continuing our rapid growth in fiscal 2005. The Children's Place and Disney Store brands represent two extraordinary growth vehicles poised to generate accelerated growth and earnings power. Looking ahead, these are the priorities we have identified at The Children's Place:

1. Increasing store productivity.
2. Elevating brand awareness through external advertising. Given the success we experienced in fiscal 2004, we look forward to launching our next campaign during the 2005 Back-to-School season, as millions of consumers have yet to discover The Children's Place.
3. Continued growth in new and under-penetrated markets such as California, Texas, Canada, Puerto Rico, and the outlet arena. Through these regions and venues, we believe we can grow our square footage by 8%-10% for the foreseeable future.

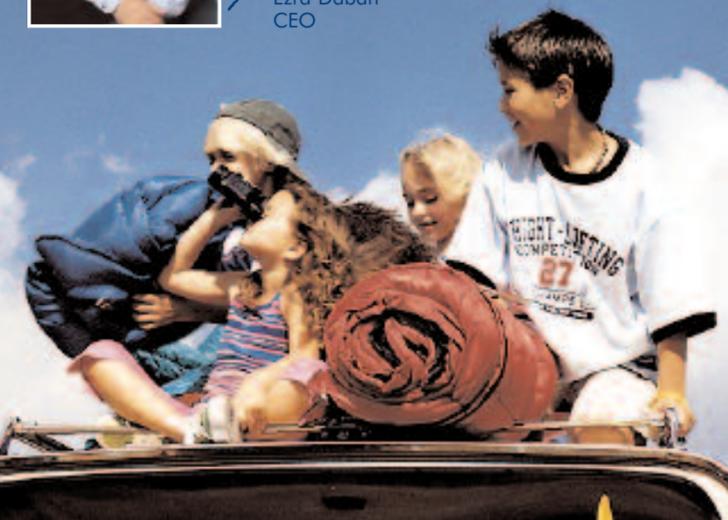
At Disney Store, we are excited about applying our powerful value equation to this business and have identified the following priorities:

1. Increasing gross margin. Our buying trips to Asia have validated that, even with lower retail prices and enhanced quality, we can significantly increase gross margin through reduced sourcing costs.
2. Improving the merchandise assortment and presentation so the visual look and feel of Disney Store is more impactful and easier to shop.
3. Remodeling 30 to 35 stores into our new prototype to create customer excitement.

In closing, I am very pleased with our performance this year. Especially gratifying is that we achieved our strong results while consummating and integrating the Disney Store business. This is a testament to our team, their teamwork, and the quality of infrastructure we have in place. We are confident that our business is positioned to achieve long-term, profitable growth. I extend my heartfelt thanks to all our associates, customers and stockholders for their continued support.



Ezra Dabah  
CEO





# FINANCIAL HIGHLIGHTS

## STATEMENT OF OPERATIONS DATA

(\$000 except per share data)

	FISCAL 2004	FISCAL 2003 <sup>3</sup>	FISCAL 2002 <sup>3</sup>
NET SALES	\$ 1,157,548	\$ 797,938	\$ 671,409
percentage change year to year	45%	19%	2%
OPERATING INCOME <sup>1</sup>	69,952	36,414	13,395
percentage change year to year	92%	172%	(82)%
NET INCOME <sup>1</sup>	43,280	22,905	8,081
percentage change year to year	89%	183%	(83)%
DILUTED EARNINGS PER SHARE <sup>1</sup>	\$ 1.57	\$ 0.85	\$ 0.30
percentage change year to year	85%	183%	(83)%

## SELECTED OPERATING DATA

NUMBER OF STORES OPEN YEAR END	1,056	691	643
COMPARABLE STORE SALES INCREASE (DECREASE) <sup>2</sup>	16%	4%	(16)%
AVERAGE NET SALES PER STORE (\$000) <sup>2</sup>	\$ 1,344	\$ 1,159	\$ 1,137
AVERAGE NET SALES PER GROSS SQUARE FOOT <sup>2</sup>	\$ 300	\$ 262	\$ 263

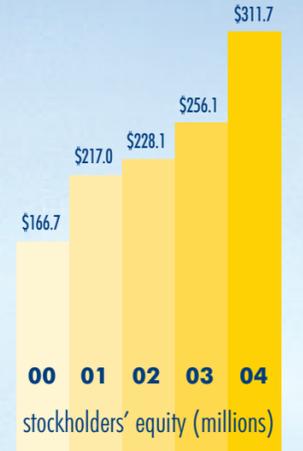
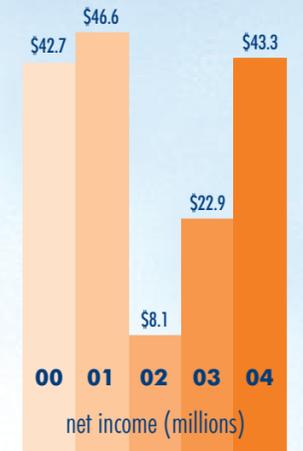
## BALANCE SHEET DATA (\$000)

CASH AND CASH EQUIVALENTS	\$ 165,196	\$ 74,772	\$ 36,645
WORKING CAPITAL	177,210	114,275	79,274
TOTAL ASSETS	627,388	426,203	372,044
STOCKHOLDERS' EQUITY	311,663	256,085	228,141

<sup>1</sup> Fiscal 2004 operating income, net income and earnings per share include approximately \$5.0 million relating to the higher cost of sales due to the write-up of the acquired Disney Store inventory sold during the fourth quarter to its fair value, from the value determined under the retail inventory method. Fiscal 2004 results also include an extraordinary gain of \$273,000, after taxes, representing the fair value of assets acquired and liabilities assumed in excess of amounts paid to acquire Disney Store North America. Adjusting for these acquisition-related items, fiscal 2004 operating income, net income and earnings per share equaled \$75.0 million, \$46.1 million and \$1.67, respectively. The Company is providing adjusted financial information as an addition to, and not as a substitute for, financial measures presented in accordance with generally accepted accounting principles ("GAAP") because it believes that the adjusted information is a better indicator of the core business, and that the adjusted information is a beneficial supplemental disclosure to investors in analyzing its past and future performance.

<sup>2</sup> The statement of operations data for fiscal 2004 includes ten weeks of operations for the Disney Stores North America from its acquisition date of November 21, 2004. Disney Stores North America is not included in comparable store sales, average net sales per store and average net sales per gross foot since we did not own them for the full period.

<sup>3</sup> In fiscal 2004, we re-stated our previously issued financial statements in connection with certain lease-related accounting matters. For more information, please see our annual report on Form 10-K included herein.





On November 21, 2004, The Children's Place acquired through a wholly-owned subsidiary the Disney Store North America business from The Walt Disney Company, one of the most important milestones in our history. We believe that combining the power and creativity of the Disney brand with our merchandising, sourcing and operating expertise will result in increased sales, significant margin expansion and expense leverage – resulting in increased earnings power for our stockholders.

The Disney brand is among the most highly recognized in the world. Across the globe, Mickey Mouse is a beloved symbol of American culture and we are delighted to be associated with this icon.

Leading Disney Store's team is Mario Ciampi, who has been named President of Disney Store. Mario is a proven leader who, over the past 13 years, has played a pivotal role in building and growing The Children's Place, and spearheaded our successful expansion into Canada and Puerto Rico.

## STRATEGIC FIT

- Disney Store's profile is strikingly similar to that of The Children's Place – it is a proprietary, mall-based, vertically integrated specialty retailer, and the customer demographic is comparable.
- Disney Store produces strong sales volumes, driven by significant customer traffic, with approximately 60% of customers shopping in the Disney Store 12 times per year.
- Access to the entire vault of Disney-branded characters as well as certain other Disney-owned characters such as Lizzie McGuire and Power Rangers gives us the ability to showcase the breadth, depth and appeal of Disney merchandise that cannot be found at any other mall-based retailer.
- The transaction has also given us instant access to the growing children's licensed character apparel market and licensed toy businesses.
- While 70% of sales are of classic characters such as Mickey & Friends, Winnie the Pooh and Disney Princess, upcoming theatrical releases such as *Chicken Little*, the recent acquisition of the Muppets and the highly anticipated novel introducing *Disney Fairies* provides us with an abundance of creative content.

## OPERATIONS

Our operating plan is comprised of four key initiatives:

- Enhance the in-store experience through a substantial store remodeling initiative and improved visual merchandising.
- Utilize our sourcing expertise and infrastructure to reduce product costs and increase gross margin.
- Strengthen the value equation by offering quality merchandise at affordable prices.
- Leverage existing back office functions and technology systems to lower operating expenses as a percentage of sales.

We are proud to have successfully completed the integration of the Disney Store operations in just a few short months. In January, we began receiving and distributing Disney Store merchandise through our West Coast and Canadian distribution centers. In addition, all technology platforms have now been fully transitioned from Disney to The Children's Place, including our planning and allocation, store and merchandising systems.

We plan to move our Disney Store headquarters to Pasadena, California in the Fall of 2005, which will give our team a world-class work environment designed to support creativity and innovation.

## GROWTH

Over the next three years, we plan to remodel a substantial number of stores into our new prototype. The new store design is experiential, bright, and brings the magic of the Disney brand to life.

Once the majority of store remodels are complete, we look forward to growing the chain beyond its current base:

- Disney Store thrives wherever good customer traffic exists. Therefore, we will expand into 'A' and 'B' malls and lifestyle centers.
- With only 300+ stores, several major markets such as metro New York, Houston, San Diego, Salt Lake City, and Canada have little, if any, Disney Store penetration.
- In March, the first Disney Store Outlet opened at Woodbury Commons Outlet Center in New York. Given the power of the Disney brand and our experience in this channel, we believe the outlet venue is a great way to grow the business.

Through these various channels, we believe we can successfully grow the chain to approximately 600 Disney Stores across the US and Canada.

Disney Store gives The Children's Place instant access to one of the most magical brands in the world, and is consistent with our goal of being the leading player in the newborn to age 10 category. Disney Store's growth potential is an excellent complement to the strong trends The Children's Place brand is enjoying, and we are confident Disney Store will contribute to our continued growth and long-term success.





# OUR TEAM

Great companies thrive because of passionate people who work smart as a team and with a clear vision for the brand. Put this winning formula together and a company will surely go places.

The success of The Children's Place is a direct reflection of our talented associates, their tireless energy and enthusiasm for the business. Whether it's something as simple as a cotton T-shirt, or complex as a 4-in-1 winter jacket, each item requires the same level of care, creativity and commitment.

At the store level, our associates are the ambassadors of our brands. Day in and day out, their energy and excitement bring our brands to life.

At the executive level, we are proud to say that our management team includes some of the best and the brightest in their fields. Our team is the successful combination of people who have grown with The Children's Place and individuals who have come to us from other leading companies.

Together, our talented team provides the expertise, knowledge and leadership we need to successfully execute our growth strategy.





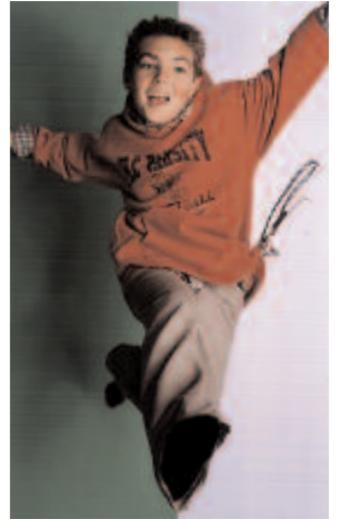
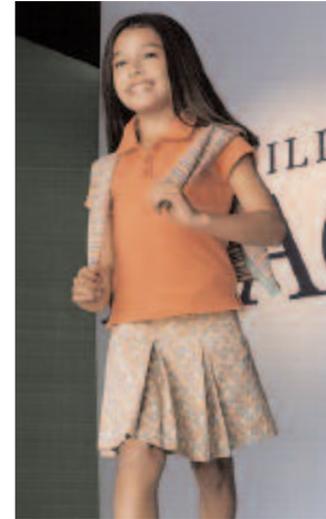
# OUR BRAND

Consumers are embracing The Children's Place brand like never before. In 2004, we achieved double-digit positive comparable store sales results across all geographic regions, all departments, and all store types, demonstrating our brand's broad appeal.

Clearly, our unique combination of fashion, quality, value and fun is resonating with moms and kids. Our market share increased approximately 45% in two years, and approximately 137 million consumers walked through our doors in 2004 alone.

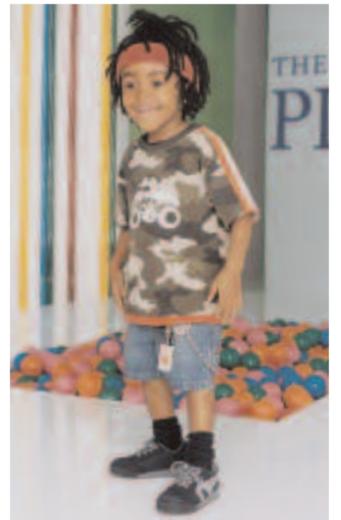
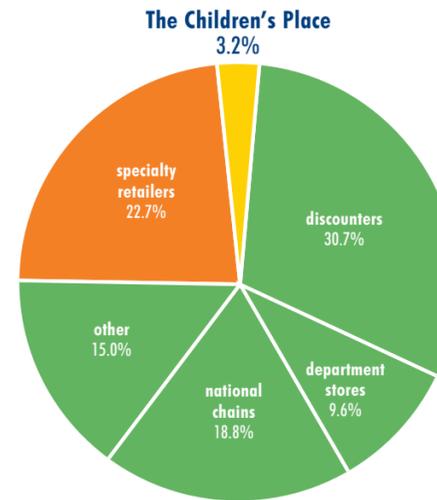
Driving our brand's momentum is our unwavering commitment to merchandise quality. Throughout 2004, we challenged ourselves to push the "quality bar" to new heights, creating an even stronger value equation for our customers. From garment washing all of our merchandise, to increasing fabric weights and adding adjustable waists to our bottoms, our quality is exceeding our customers' expectations. Together with our one-of-a-kind fashion sensibility, it's no wonder our customers continue to come back again and again.

In 2005, we are committed to propelling our brand even further, exploring new ways to delight our customers with compelling merchandise at unmatched value.

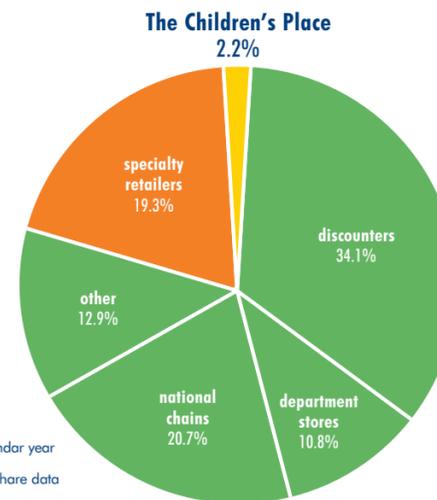


## TOTAL U.S. CHILDREN'S APPAREL MARKET

2004  
\$28.9 BILLION



2002  
\$27.2 BILLION



source: NPDFashionworld – 2004 & 2002 data represents calendar year

note: The Children's Place market share data excludes sales from Disney Store.



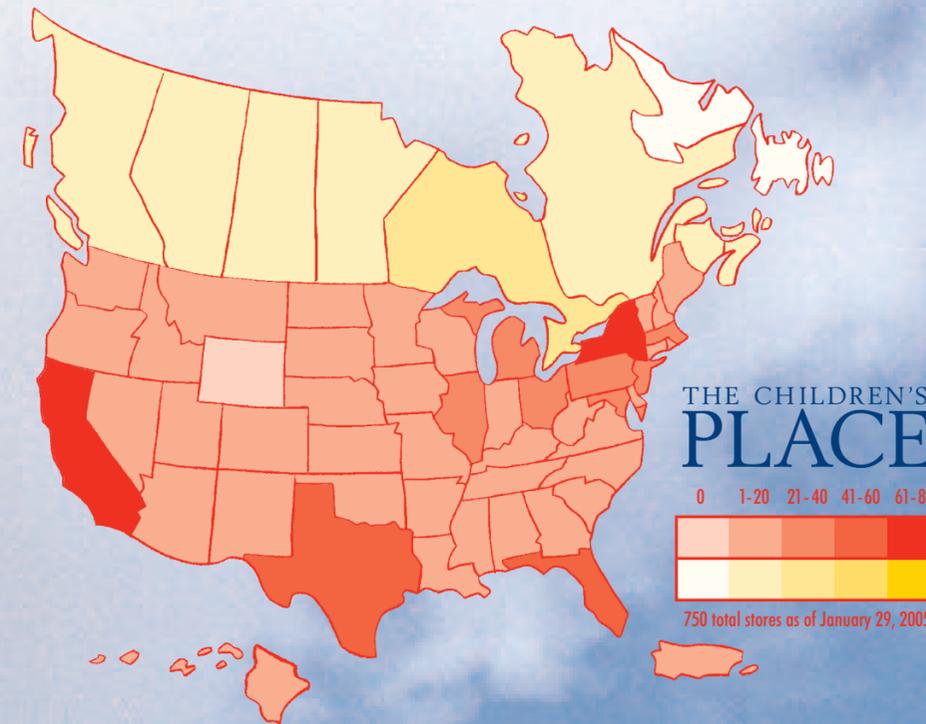


# OUR GROWTH

Increased store productivity. New store growth. New regions. Gross margin expansion. Across both brands, plenty of growth remains:

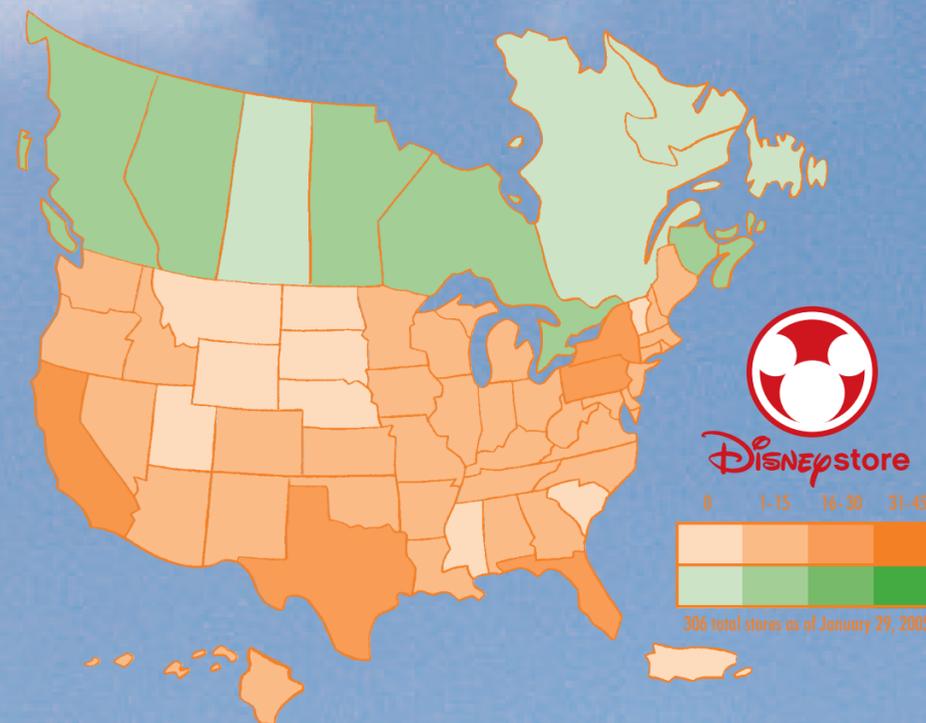
## THE CHILDREN'S PLACE

- We remain focused on achieving our sales per square foot goal of \$350, up from our current level of \$300.
- We plan to open a total of 60 new stores in 2005, moving us closer to our goal of over 1,000 stores across the US and Canada:
  - We expect to open 15 new stores in Canada this year, an exciting new market which can support over 100 stores.
  - We intend to open seven new stores in Puerto Rico, which we believe can grow to 20 to 25 stores over time.
  - We will focus on key markets such as California and Texas, where only 14% of our stores are located yet 25% of kids under the age of 10 reside.
  - Twelve outlets will open in 2005, in an effort to further capitalize on the strength of that business.



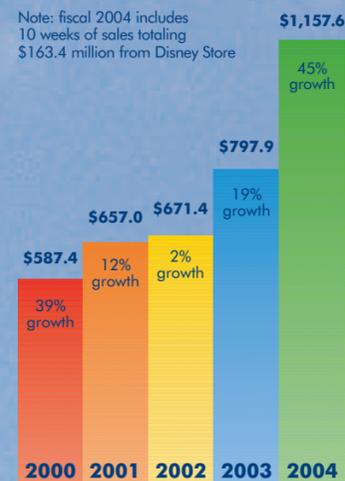
## DISNEY STORE

- Increasing gross margin is our #1 priority, which we plan to accomplish through better sourcing and reducing the level of promotional activity.
- We plan to remodel 30 to 35 stores into our new prototype in 2005, which should result in increased sales and once again make Disney Store a top destination inside the mall.
- We will open approximately 10 new stores this year, in line with our long term goal of increasing the store base to approximately 600 stores.



## NET SALES

Note: fiscal 2004 includes 10 weeks of sales totaling \$163.4 million from Disney Store



## DIRECTORS

Ezra Dabah, Chairman  
Chuck Crovitz, Compensation Committee Chair  
Malcolm Elvey, Audit Committee Chair  
Robert Fisch  
Sally Frame Kasaks, Corporate Governance Committee Chair  
John F. Megrue  
Stanley Silverstein

## OFFICERS

EZRA DABAH  
Chairman and Chief Executive Officer

NEAL GOLDBERG  
President, The Children's Place

MARIO A. CIAMPI  
President, Disney Store North America

STEVEN BALASIANO  
Senior Vice President, General Counsel  
and Chief Administrative Officer

RICHARD FLAKS  
Senior Vice President, Store Planning, Allocation  
and Information Technology

AMY HAUKE  
Senior Vice President, General Merchandise Manager

BRIAN KLEINBERG  
Senior Vice President, Marketing

NINA L. MINER  
Senior Vice President, Design and Trend Development

HITEN PATEL  
Senior Vice President, Chief Financial Officer

MARK L. ROSE  
Senior Vice President, Chief Supply Chain Officer

## CORPORATE OFFICES

The Children's Place  
915 Secaucus Road  
Secaucus, NJ 07094  
201 558 2400

## STORE LOCATIONS

Call 1 877 PLACE USA or visit us @ [childrensplace.com](http://childrensplace.com)

## TRANSFER AGENT AND REGISTRAR

American Stock Transfer  
New York, NY

## CORPORATE COUNSEL

Stroock & Stroock & Lavan LLP  
New York, NY

## INDEPENDENT AUDITORS

Deloitte & Touche LLP  
New York, NY

## STOCK EXCHANGE LISTING

NASDAQ National Market  
Symbol: PLCE

## INVESTOR RELATIONS

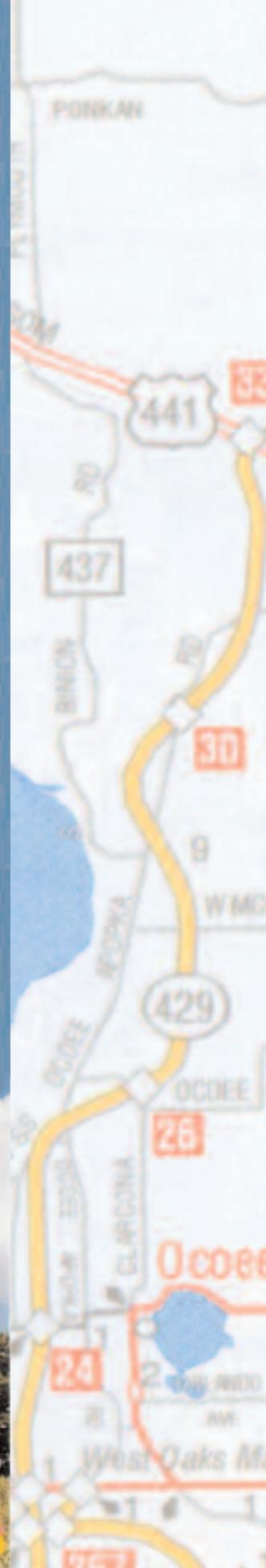
Call 201 558 2400 or e-mail  
[investor\\_relations@childrensplace.com](mailto:investor_relations@childrensplace.com)

## ANNUAL MEETING

The Annual Meeting of Stockholders will be held at 10:00 am on Thursday, June 23, 2005 at Company Headquarters, 915 Secaucus Road, Secaucus, NJ 07094. You are cordially invited to attend.

## FORM 10K AND PROXY STATEMENT

A copy of the Company's 2004 Annual Report on Form 10K and the Company's proxy statement as filed with the Securities and Exchange Commission are enclosed. You may also obtain copies of these documents as well as the Company's corporate governance materials, ethics policy and periodic filings with the SEC by calling or writing Investor Relations, or by logging onto [childrensplace.com](http://childrensplace.com).



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