THE CHILDREN'S PLACE

Annual Report 2002

"Our merchandising goal is to consistently create a focused assortment, which is balanced with the right mix of basics, fashion and lifestyle, appealing to a broad customer base with a commitment to style, quality and value."

Amy Hauk – Vice President, Merchandising

"A strong fashion message is a critical part of what differentiates us from the competition."

Nina L. Miner – Vice President, Design and Trend Development

"From our more focused product development process to our tightened quality assurance audits and testing, we are building substantially improved quality into every garment. When the customers see and touch the products in our stores, the high quality will suprise them. Once they own and use them, the durability and after-wash performance will continue to bring them back with confidence."

Mark L. Rose – Vice President, Merchandise Procurement

"To strengthen our brand, we are focusing communications on our compelling value position. We are leveraging our 4 miles of store windows to create impactful visual presentations that WOW the customer EVERY DAY!!!"

Jodi Barone – Vice President, Marketing


THE CHILDREN'S
PLACE

“What differentiates The Children’s Place from our competition is our ability to deliver unique, colorful and coordinated merchandise at great prices. Our customers have always responded well to that formula, and we intend to make that distinction the primary focus of our upcoming collections.”

Ezra Dabah – Chairman and Chief Executive Officer


HOPE COURAGE UNITED
AMERICA PATRIOT PEACE
LIBERTY HOPE FREEDOM
STRENGTH ONE NATION
INDEPENDENCE PATRIOT
PEACE FREEDOM HOPE
UNITED WE STAND PEACE
AMERICA STRENGTH HOPE FREEDOM COURAGE
TOGETHER PATRIOT COURAGE PEACE LIBERTY
ONE NATION HOPE LIBERTY HOPE INDEPENDENCE
UNITED STRENGTH COURAGE FREEDOM JUSTICE
WE STAND PEACE PATRIOT STRENGTH LOVE HOPE
STAND TOGETHER UNITED ONE NATION FREEDOM

To our shareholders,

We take pride in our history of extraordinary growth over the past seven years. We took a step back in fiscal 2002 in order to take two steps forward and we are keenly aware of the challenges we faced over the past year in a very unstable and volatile retail environment. We have identified opportunities across every sector of our business and have responded appropriately. By knowing our capabilities and implementing a strong focus on strategy, we are becoming a more efficient, versatile and stronger company.

We are listening intently to what our customers are telling us about their needs and the changes we are implementing are based on what they tell us. We are concentrating on the following initiatives:

- A continued commitment to deliver unique merchandise at value prices as the premise that distinguishes The Children's Place from its competition. Our customers understand this basic formula.
- A determination to drive top line sales by offering competitive assortments through better editing of our merchandise lines.
- A simplified pricing program of everyday "Best Values" with fewer coupon promotions and more emphasis on the value we deliver relative to the competition.
- A better shopping experience and enhanced communication with our customers to fortify our merchandising message and further leverage The Children's Place brand.
- An improved garment as far as styling, quality and material. Our goal is to produce the best product and deliver customer satisfaction.
- A commitment to increase the level of service in our stores and in-store initiatives designed to give our team the means to fulfill this expectation.

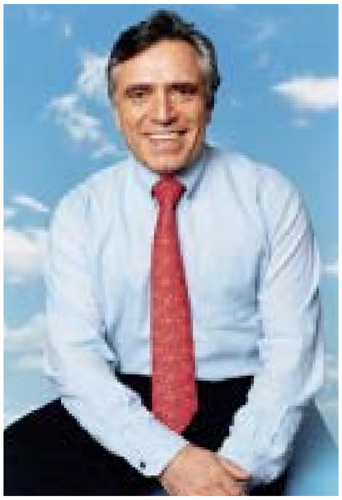
Our marketing strategy will focus on tapping demographic opportunities to intensify our brand awareness and reinforce proven traffic drivers. Industry trends show that The Children's Place brand is uniquely positioned to capitalize on the changing demographics within the US and we are focused on taking advantage of that opportunity.

In August 2002, we entered the international arena, successfully launching 28 stores in Canada. Customer acceptance of The Children's Place brand exceeded our expectations, with the Canadian customer gravitating to our fashion value equation. This resulted in selling approximately 25% more units than our average US store.

Our store expansion for 2003 continues with approximately 40 new store openings in the United States and 10 new store openings in Canada. These 50 new stores will reflect our new store prototype. California and Texas are significant growth markets for our company as they represent nearly 25% of the US children's population and only 11% of our sales.

In spite of the tough fiscal 2002 year, our financial condition remains strong. We continue to maintain a healthy balance sheet, ending 2002 with over $36 million in cash and no debt, having invested over $48 million toward our future growth.

We pause to reflect on the challenges that we overcame and look forward to the opportunities that lie before us. We are encouraged by our prospects as we enter fiscal 2003, confident about achieving our long-term objective of making The Children's Place the number one brand in children's clothing. We believe we have the right team, the right formula and the right strategies to achieve this ambitious goal. Our confidence in the future remains strong and we thank our associates and all our shareholders for being part of our vision.



Ezra Dabah
Chairman and CEO

"In 2003, we will focus our attention and energy on growing our comparable store sales. We will look to leverage the large investment we have made in our IT systems, distribution network and stores."

Mario A. Ciampi – Senior Vice President, Store Development and Logistics

Financial Overview

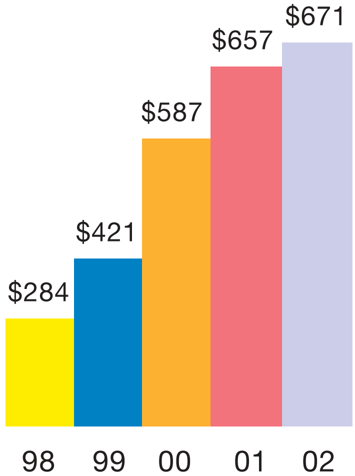
Statement of Operations Data *($000 except per share data)*	Fiscal 2002	Fiscal 2001	Fiscal 2000
Net sales	$671,409	$656,956	$587,385
percentage change year to year	*2%*	*12%*	*39%*
Operating income	14,865	76,001	71,314
percentage change year to year	*(80)%*	*7%*	*23%*
Net income	8,934	46,582	42,690
percentage change year to year	*(81)%*	*9%*	*22%*
Earnings per share	$ 0.33	$ 1.73	$ 1.60
percentage change year to year	*(81)%*	*8%*	*21%*

Selected Operating Data

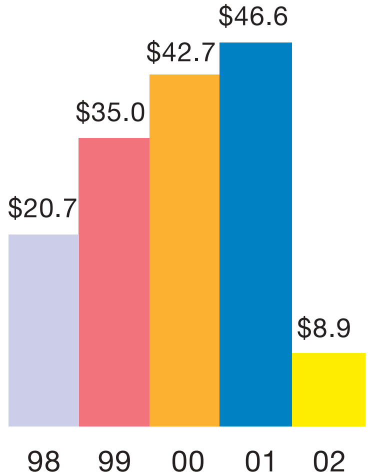
Number of stores open year end	643	520	400
Comparable store sales (decrease) increase	(16)%	(8)%	4%
Net sales per average store ($000)	$1,137	$1,389	$1,651
Net sales per average gross square foot	$ 263	$ 334	$ 403

Balance Sheet Data ($000)

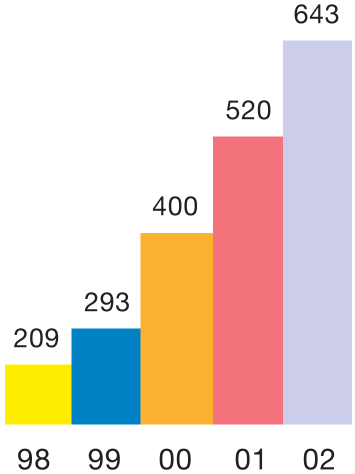
Working capital	$ 79,274	$ 77,342	$ 40,944
Total assets	309,328	282,849	231,696
Stockholders' equity	229,008	217,006	166,667



Net Sales (millions)



Net Income (millions)



Number of Stores

"We are committed to increasing the level of service in our stores. Our goal is to deliver an enjoyable shopping experience through improved service and clear presentation."

Susan Schiller – Vice President, Store Operations

Technocolor Store Front

Department Directory Arcade

Girls Shopping Environment

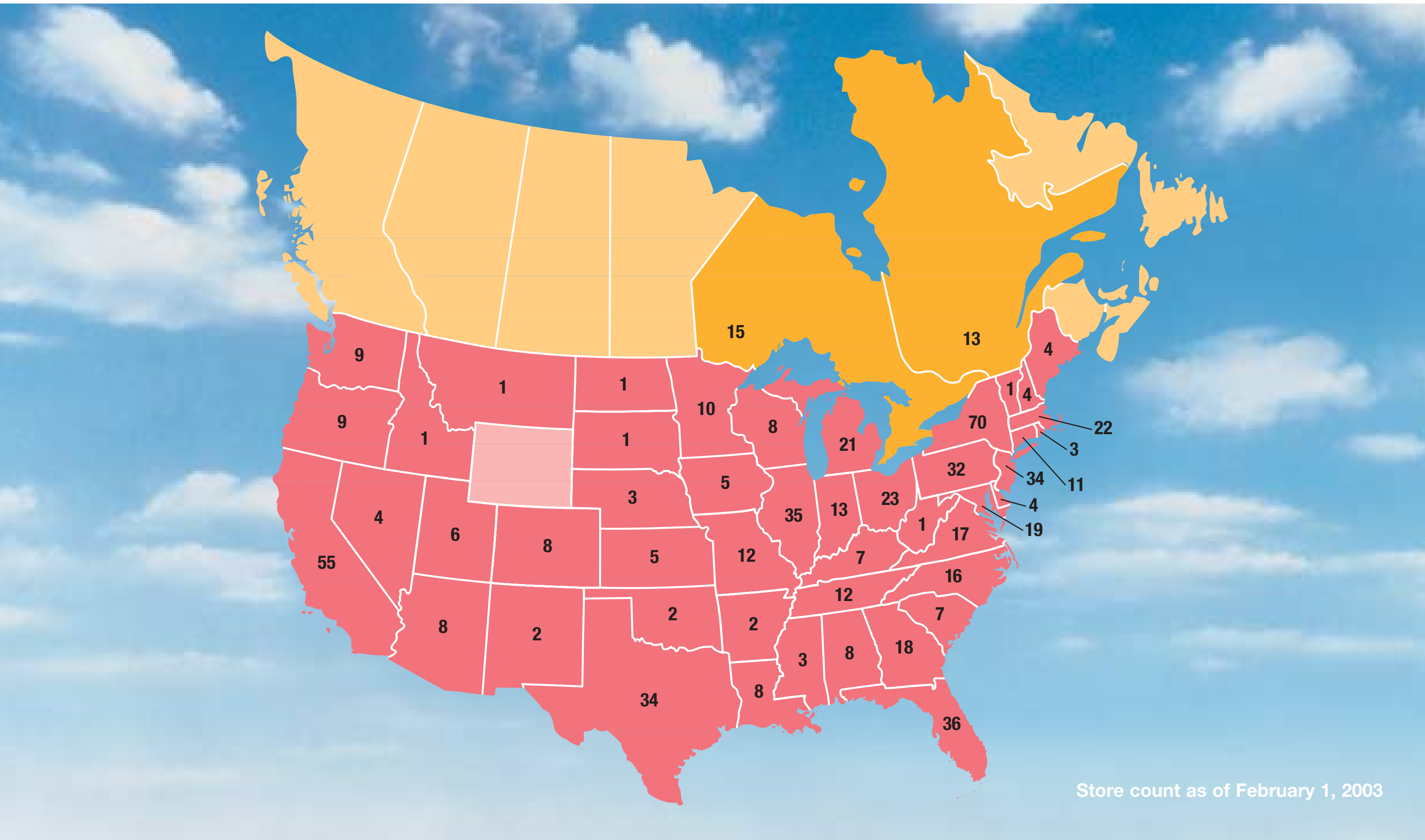
Boys Shopping Environment

Cashwrap Area

Newborn Boutique

Committed to Growth

The Children's Place became an international retailer in 2002 by expanding into Canada. The new **"technocolor"** store design was introduced in all 28 Canadian stores and 7 of the US stores. This new shopping experience helps to create individual environments for each age and gender through a color-coded design. Each shop highlights the collection and identifies key looks, making it a convenient, fun and easy shopping experience for customers.



Store count as of February 1, 2003

"While we implement our sales growth strategies, we are committed to controlling costs in all aspects of our business. Despite a difficult year in 2002, our balance sheet remains healthy."

Seth L. Udasin –
Vice President,
Chief Financial Officer
and Treasurer

Financial Contents

"Our associates are dedicated to achieving our goals. We have a team of enthusiastic and talented individuals who bring their expertise and creativity to work everyday."

Steven Balasiano –
Vice President, Human Resources,
General Counsel and Secretary

SELECTED FINANCIAL AND OPERATING DATA

The following table sets forth certain historical financial and operating data for the Company. The selected historical financial data is qualified by reference to, and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the financial statements and notes thereto included elsewhere in this report. Certain prior fiscal year balances set forth below have been reclassified to conform to fiscal 2002 presentation.

	Fiscal Year Ended (1)				
	February 1, 2003	February 2, 2002	February 3, 2001	January 29, 2000	January 30, 1999
Statement of Operations Data (in thousands, except per share data):					
Net sales	$ 671,409	$ 656,956	$ 587,385	$ 421,496	$ 283,853
Cost of sales	422,721	377,286	339,407	241,188	166,449
Gross profit	248,688	279,670	247,978	180,308	117,404
Selling, general and administrative expenses	194,907	176,103	155,784	108,622	73,343
Asset impairment charges (2)	3,170	0	0	0	0
Depreciation and amortization	35,746	27,566	20,880	13,849	8,607
Operating income	14,865	76,001	71,314	57,837	35,454
Interest (income) expense, net	(547)	252	1,163	400	434
Income before income taxes	15,412	75,749	70,151	57,437	35,020
Provision for income taxes	6,478	29,167	27,461	22,388	14,358
Net income	$ 8,934	$ 46,582	$ 42,690	$ 35,049	$ 20,662
Diluted net income per common share	$ 0.33	$ 1.73	$ 1.60	$ 1.32	$ 0.80
Diluted weighted average common shares outstanding	26,978	26,964	26,668	26,648	25,909
Selected Operating Data:					
Number of stores open at end of period	643	520	400	293	209
Comparable store sales increase (decrease) (3) (4)	(16)%	(8)%	4%	15%	14%
Average net sales per store (in thousands) (4) (5)	$ 1,137	$ 1,389	$ 1,651	$ 1,656	$ 1,569
Average square footage per store (6)	4,398	4,307	4,170	4,140	4,055
Average net sales per gross square foot (4) (7)	$ 263	$ 334	$ 403	$ 414	$ 382

	February 1, 2003	February 2, 2002	February 3, 2001	January 29, 2000	January 30, 1999
Balance Sheet Data (in thousands):					
Working capital	$ 79,274	$ 77,342	$ 40,944	$ 27,340	$ 35,531
Total assets	309,328	282,849	231,696	170,959	110,761
Long-term debt	0	0	0	0	2
Stockholders' equity	229,008	217,006	166,667	120,066	80,607

(1) All references to our fiscal years refer to the 52- or 53-week year ended on the Saturday nearest to January 31 of the following year. For example, references to fiscal 2002 mean the fiscal year ended February 1, 2003. Fiscal 2000 was a 53-week year.

(2) The asset impairment charges in fiscal 2002 represented the write down of fixed assets in 19 under performing stores to fair value.

(3) We define comparable store sales as net sales from stores that have been open for more than 14 full months and that have not been substantially remodeled during that time.

(4) For purposes of determining the comparable store sales increase, average net sales per store and average net sales per gross square foot, fiscal 2000 results were recalculated based on a 52-week year.

(5) Average net sales per store represents net sales from stores open throughout the full period divided by the number of such stores.

(6) Average square footage per store represents the square footage of stores open on the last day of the period divided by the number of such stores.

(7) Average net sales per gross square foot represents net sales from stores open throughout the full period divided by the gross square footage of such stores.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our audited financial statements and notes thereto included in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and under the caption "Risk Factors" in the Business Section of the Company's Annual Report on Form 10-K for the year ended February 1, 2003.

Overview

The Children's Place Retail Stores, Inc. is a specialty retailer of apparel and accessories for children from newborn to twelve years of age. As of April 15, 2003, we operated 656 stores in the United States and Canada. We also sell our merchandise on our website. During fiscal 2002, we opened 126 new stores, including 28 stores in Canada, our first entry into the international marketplace. We closed three stores in fiscal 2002.

Fiscal 2002 was a disappointing year for The Children's Place. Our net sales in fiscal 2002 were $671.4 million, as compared to net sales of $657.0 million reported in fiscal 2001. We experienced a comparable store sales decline of 16% in fiscal 2002, as compared to an 8% comparable store sales decline during fiscal 2001. Net income was $8.9 million in fiscal 2002, or $0.33 per diluted share, as compared to net income of $46.6 million, or $1.73 per diluted share in fiscal 2001.

Our disappointing fiscal 2002 earnings resulted from a number of factors. We believe that our merchandise assortment was too heavily weighted towards fashion and contained an over assortment of styles. During the third and fourth quarters of fiscal 2002, which encompassed our back-to-school and holiday seasons, we experienced delays in merchandise receipts, emanating from product shipment delays from our manufacturers, as well as the West Coast ports labor dispute. These shipment delays resulted in a disjointed store presentation and adversely impacted the customer's ability to purchase a coordinated outfit. In addition, we offered our customers insufficient inventory depth on our basic and "2 for" key items. These challenges were further compounded by the continued weakness in the economy during fiscal 2002, which has created a highly promotional retail environment. We believe that the weakness in the economy, combined with an increase in the amount of competition, resulted in a narrowing of the gap between our prices and those of our competitors. As a result of these factors, significant markdowns were taken throughout fiscal 2002.

As a result of our disappointing performance in fiscal 2002, we recorded a non-cash asset impairment charge of $3.2 million before taxes for the write down of leasehold improvements and fixtures in 19 underperforming stores. Impairment charges were recorded because the cash flow projections for these stores over their remaining lease terms were insufficient to recapture the net book value of their assets.

During fiscal 2002, our effective tax rate increased to 42.0% from 38.5% in fiscal 2001. Our effective tax rate increased in fiscal 2002 as a result of losses incurred by our Canadian subsidiary for which we did not recognize a tax benefit.

Over the last several years, we aggressively opened new stores to capitalize on our attractive store economics. While we continue to believe that we have the opportunity to increase our store base, in the near term we have decided to slow our growth until we improve our comparable store sales trends and see a sustainable turn in the business. As a result, our store growth plan in 2003 includes opening approximately 50 stores, 40 in the United States and 10 in Canada.

We are implementing several strategies to address the challenges we faced in fiscal 2002. We are reducing both the number of styles and the number of items offered within our stores, to present our customers with a clear and focused product assortment. We will also offer a greater percentage of basic items, in an effort to create a better balance between our fashion and basic merchandise. In addition, the quality of our garments has been and will continue to be enhanced, featuring increased fabric weight on a certain number of our styles and garment washing. While increasing our quality, we are reducing our prices to an everyday value pricing strategy. With the inception of our everyday value pricing strategy, we intend to reduce the amount of promotional activity that occurred in fiscal 2002. Together, these strategies are designed with the goal of creating a strong competitive position within the children's apparel retail market.

During the nine weeks ended April 5, 2003, we experienced a 16% comparable store sales decline, as compared to a 7% comparable store sales decline in the nine weeks ended April 6, 2002. Although we believe that we have improved our merchandise offerings, our results for the first nine weeks of 2003 were adversely impacted by continued weak consumer confidence, severe winter weather, the timing of the Easter holiday and declines in store traffic.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reported period. Actual results could differ from our estimates. The accounting policies that we believe are the most critical to aid in fully understanding and evaluating reported financial results include the following:

Revenue Recognition – Sales are recognized upon purchase by customers at our retail stores or when shipped from our distribution center if the product was purchased from our website. Our policy with respect to gift cards is to record revenue as the gift cards are redeemed for merchandise. Prior to their redemption, gift cards are recorded as a liability. Revenue is deferred for our private label credit card promotions that provide a future discount on purchases once a minimum customer purchase threshold is satisfied. Actual merchandise return rates have historically been within our expectations and the allowance established. However, in the unlikely event that the actual rate of sales returns by customers increased significantly, our operational results could be adversely affected.

Inventory Valuation – Merchandise inventories are stated at the lower of average cost or market, using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories. At any one time, inventories include items that have been marked down to our best estimate of their fair market value. We base our decision to mark down merchandise based upon its current rate of sale, the season, age and sell-through of the item. To the extent that our estimates differ from actual results, additional markdowns may have to be recorded, which could reduce our gross margins and operating results. Our success is largely dependent upon our ability to gauge the fashion taste of our customers and provide a well-balanced merchandise assortment that satisfies customer demand. Any inability to provide the proper quantity of appropriate merchandise in a timely manner could increase future markdown rates.

Impairment of Assets – We continually evaluate each store's performance and measure the carrying value of each location's fixed assets, principally leasehold improvements and fixtures, versus its projected cash flows. An impairment loss is recorded if the projected future cash flows are insufficient to recapture the net book value of their assets. To the extent our estimates of future cash flows are incorrect, additional impairment charges may be recorded in future periods.

Litigation – We are involved in various legal proceedings arising in the normal course of our business. In our opinion, any ultimate liability arising out of such proceedings will not have a material adverse effect on our business.

Stock Options – We record no compensation expense on our financial statements for stock-based compensation, since we grant stock options at prices that equal or exceed fair market value at the date of the grant. If the Company elects or is required to adopt fair value accounting for its stock-based compensation, the related compensation charge will adversely impact net income. In addition, increases to our stock price would result in more diluted shares outstanding and reduce our diluted net income per common share.

Results of Operations

The following table sets forth, for the periods indicated, selected income statement data expressed as a percentage of net sales:

	Fiscal Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
Net sales	100.0%	100.0%	100.0%
Cost of sales	63.0	57.4	57.8
Gross profit	37.0	42.6	42.2
Selling, general and administrative expenses	29.0	26.8	26.5
Asset impairment charges	0.5	–	–
Depreciation and amortization	5.3	4.2	3.6
Operating income	2.2	11.6	12.1
Interest expense, net	(0.1)	0.1	0.2
Income before income taxes	2.3	11.5	11.9
Provision for income taxes	1.0	4.4	4.7
Net income	1.3%	7.1%	7.2%
Number of stores, end of period	643	520	400

Year Ended February 1, 2003 Compared to Year Ended February 2, 2002

Net sales increased by $14.4 million or 2% to $671.4 million during fiscal 2002 from $657.0 million during fiscal 2001. Net sales for the 126 new stores opened, as well as other stores that did not qualify as comparable stores, contributed $109.3 million of the net sales increase. This net sales increase was partially offset by a 16% comparable store sales decline in fiscal 2002, which decreased our net sales by $94.9 million. Comparable store sales decreased 8% in fiscal 2001.

During fiscal 2002, our comparable store sales decline resulted from a merchandise mix that was too heavily weighted towards fashion and contained an over assortment of styles and low inventory levels partially caused by late deliveries. In the third and fourth quarters of fiscal 2002, the West Coast ports labor dispute also contributed to delivery delays of our holiday lines. These shipment delays resulted in a disjointed store presentation and adversely impacted the customers' ability to purchase a coordinated outfit. Our comparable store sales decline was also unfavorably impacted by a slowdown in store traffic that was caused in part by the difficult economic climate. As a result, we experienced a lower average transaction size and a lower number of comparable store transactions compared to fiscal 2001. In addition, our average retail price was lower as a result of aggressive markdowns taken throughout fiscal 2002, as well as our strategic decision to lower prices in order to be more competitive during the third and fourth quarters of fiscal 2002.

Gross profit decreased $31.0 million to $248.7 million during fiscal 2002 from $279.7 million during fiscal 2001. As a percentage of net sales, gross profit decreased 5.6% to 37.0% during fiscal 2002 from 42.6% during fiscal 2001. During fiscal 2002, gross profit, as a percentage of net sales, decreased due to higher occupancy costs and higher markdowns taken to clear merchandise, partially offset by higher initial markup achieved through lower product costs from our manufacturers. Occupancy costs were higher, as a percentage of net sales, due to our comparable store sales decline and increased occupancy costs from new stores that have not been open long enough to leverage their rent through an established sales base.

Selling, general and administrative expenses increased $18.8 million to $194.9 million during fiscal 2002 from $176.1 million during fiscal 2001. Selling, general and administrative expenses were 29.0% of net sales during fiscal 2002, as compared with 26.8% of net sales during fiscal 2001. The increase, as a percentage of net sales, was primarily due to higher store payroll, marketing, medical benefit and insurance costs, partially offset by insurance proceeds. These insurance proceeds approximated $2.9 million, or 0.4% of net sales, and resulted primarily from the property damage settlement and a portion of the business interruption claim from our World Trade Center store and a property damage claim from one of our distribution centers.

During fiscal 2002, we recorded an asset impairment charge of $3.2 million before taxes, or 0.5% of net sales, for the write down of leasehold improvements and fixtures in 19 underperforming stores. We determined these assets were impaired as the cash flow projections for these stores over their remaining lease terms were insufficient to recapture the net book value of their assets. During fiscal 2003, we plan to close a few of these stores.

Depreciation and amortization amounted to $35.7 million, or 5.3% of net sales, during fiscal 2002, as compared to $27.6 million, or 4.2% of net sales, during fiscal 2001. The increase in depreciation and amortization primarily was a result of our larger store base and increased software amortization, due to a full year of amortization on systems implemented in fiscal 2001.

During fiscal 2002, we recorded net interest income of $0.5 million, or 0.1% of net sales, due to our net cash investment position. During fiscal 2001, we recorded net interest expense of $0.3 million, due to borrowings under our working capital facility.

Our provision for taxes for fiscal 2002 was $6.5 million, as compared to a $29.2 million provision in fiscal 2001. The decrease in our tax provision was primarily due to our decreased profitability in fiscal 2002, partially offset by an increase in our effective tax rate. Our effective tax rate was 42.0% in fiscal 2002 as compared with an effective tax rate of 38.5% in fiscal 2001. Our effective tax rate in fiscal 2002 increased as a result of losses incurred by our Canadian subsidiary for which we did not recognize a tax benefit.

Due to the factors discussed above, net income in fiscal 2002 decreased to $8.9 million from $46.6 million during fiscal 2001.

Year Ended February 2, 2002 Compared to Year Ended February 3, 2001

Net sales increased by $69.6 million or 12% to $657.0 million during fiscal 2001 from $587.4 million during fiscal 2000. Net sales for the 121 new stores opened, as well as other stores that did not qualify as comparable stores, contributed $118.4 million of the net sales increase. This net sales increase was partially offset by an 8% comparable store sales decline in fiscal 2001, which decreased our net sales by $40.0 million. Comparable store sales increased 4% in fiscal 2000. To more closely match the same period last year, comparable stores sales calculations for fiscal 2001 have shifted fiscal 2000 sales by one week since fiscal 2000 was a fifty-three week year. In addition, the extra week in fiscal 2000 contributed $8.8 million to fiscal 2000 net sales.

Our comparable store sales decline in fiscal 2001 was attributable in part to a slowdown in store traffic caused by a weak economic climate. In addition, sales of our folding "Yaak" scooter contributed $16.1 million to fiscal 2000 sales. During fiscal 2001, sales of the Yaak folding scooter were approximately $0.6 million. Excluding sales of the Yaak folding scooter, comparable store sales decreased 5% during fiscal 2001.

Gross profit increased $31.7 million to $279.7 million during fiscal 2001 from $248.0 during fiscal 2000. As a percentage of sales, gross profit increased 0.4% to 42.6% during fiscal 2001 from 42.2% during fiscal 2000. During fiscal 2001, gross profit, as a percentage of net sales, increased due to higher initial markups achieved through effective product sourcing. These increases were partially offset by higher occupancy costs and higher markdowns. Occupancy costs were higher, as a percentage of net sales, due to our comparable store sales declines and increased occupancy costs from new stores that have not been open long enough to leverage their rent through an established sales base. Our markdowns were higher, as a percentage of net sales, due to the weak sales environment which was caused in part by a difficult economic climate.

Selling, general and administrative expenses increased $20.3 million to $176.1 million in fiscal 2001 from $155.8 million in fiscal 2000. Selling, general and administrative expenses were 26.8% of net sales during fiscal 2001, as compared with 26.5% of net sales during fiscal 2000. The increase, as a percentage of net sales, was primarily due to higher store payroll and medical costs, partially offset by lower marketing costs, and the leveraging of corporate administrative expenses. In addition, fiscal 2000 included certain one-time expenses.

Depreciation and amortization amounted to $27.6 million, or 4.2% of net sales, during fiscal 2001, as compared to $20.9 million, or 3.6% of net sales, during fiscal 2000. The increase in depreciation and amortization primarily was a result of increases to our store base.

Interest expense, net, for fiscal 2001 was $0.3 million, or 0.1% of net sales, as compared to $1.2 million, or 0.2% of net sales, during fiscal 2000. The decrease in interest expense, net, was due to lower borrowings under our working capital facility, lower interest rates and interest income recorded on our investments.

Our provision for income taxes in fiscal 2001 was $29.2 million, as compared to a provision for income taxes of $27.5 million in fiscal 2000. The increase in our provision for income taxes during fiscal 2001 was due to our increased profitability. Our effective tax rate was 38.5% and 39.1%, during fiscal 2001 and fiscal 2000, respectively.

Fiscal 2001 net income increased to $46.6 million from $42.7 million in fiscal 2000.

Liquidity and Capital Resources

Debt Service/Liquidity

Our primary uses of cash are financing new store openings and providing for working capital, which primarily represents the purchase of inventory. Our working capital needs follow a seasonal pattern, peaking during the second and third quarters when inventory is purchased for the back-to-school and holiday seasons. We have been able to meet our cash needs principally by using cash on hand, cash flow from operations and borrowings under our working capital facilities. As of February 1, 2003, we had no long-term debt obligations nor any borrowings on our working capital facility.

During fiscal 2002, our principal working capital facility provided for borrowings up to $75 million (including a sublimit for letters of credit of $60 million). Foothill Capital Corporation acted as our agent bank for a syndicated group of lenders on this facility. This working capital facility also contained provisions to increase borrowings up to $100 million (including a sublimit for letters of credit of $80 million), subject to sufficient collateralization and the syndication of the incremental line of borrowing. The amount that could be borrowed under our working capital facility depended upon our levels of inventory and accounts receivable. Amounts outstanding under the facility bore interest at a floating rate equal to the prime rate or, at our option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread was 1.25% to 2.50%, depending upon our financial performance from time to time. Borrowings under the facility matured in July 2003 and the facility provided for one year renewal options. The working capital facility contained certain financial covenants, including among others, the maintenance of minimum levels of earnings and current ratios, and imposed certain limitations on our annual capital expenditures, as well as the prohibition on the payment of dividends. Credit extended under the working capital facility was secured by a first priority interest in our present and future assets, as well as the assets of our subsidiaries. We were in compliance with all of the financial covenants under our working capital facility as of February 1, 2003.

As of February 1, 2003 and February 2, 2002, there were no borrowings under our working capital facility with Foothill Capital. In addition, as of February 1, 2003 and February 2, 2002, we had outstanding $32.6 million and $9.4 million, respectively, in letters of credit under this working capital facility. The maximum outstanding balance on this working capital facility was $1.3 million and $31.0 million during fiscal 2002 and fiscal 2001, respectively. Availability under this working capital facility as of February 1, 2003 and February 2, 2002 was $42.4 million and $57.2 million, respectively. The interest rates charged under the working capital facility were 4.25% and 4.75% per annum as of February 1, 2003 and February 2, 2002, respectively.

During fiscal 2002, we amended our principal working capital facility to provide for direct borrowings of our Canadian subsidiary. We also entered into a $6.6 million facility with Toronto Dominion Bank for our Canadian subsidiary that is secured by a standby letter of credit. Our Canadian credit facility is currently collateralized to provide for $3.3 million in borrowings. As of February 1, 2003, we had no borrowings under our Canadian credit facility and had outstanding letters of credit of $0.1 million. The maximum outstanding balance on our Canadian credit facility was $1.6 million since the inception of the facility in July 2002. Availability under our Canadian credit facility was $3.2 million as of February 1, 2003. Interest rates charged under the Canadian credit facility were 4.5% as of February 1, 2003.

In April 2003, we amended, restated and extended our principal working capital facility. Previously, Foothill Capital Corporation had assigned its rights under this facility to Wells Fargo Retail Finance, LLC. The amended and restated working capital facility with Wells Fargo (the “Wells Fargo Credit Facility”) provides for borrowings up to $75 million (including a sublimit for letters of credit of $75 million). The Wells Fargo Credit Facility also contains provisions to increase borrowings up to $120 million (including a sublimit for letters of credit of $100 million), subject to sufficient collateralization and the syndication of the incremental line of borrowing. The amount that may be borrowed under the Wells Fargo Credit Facility depends on our levels of inventory and accounts receivable. Amounts outstanding under the facility bear interest at a floating rate equal to the prime rate or, at our option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread is 1.50% to 2.75%, depending on our level of collateral from time to time. Borrowings mature in April 2006 and provide for one year renewal options. The Wells Fargo Credit Facility contains financial covenants, including, among others, certain limitations on our annual capital expenditures, and maintenance of certain levels of excess collateral, as well as a prohibition on the payment of dividends. Credit extended under the Wells Fargo Credit Facility is secured by a first priority security interest in all our assets, except for our inventory in Canada.

Cash Flows/Capital Expenditures

Cash flows provided by operating activities were $37.7 million, $86.8 million and $61.8 million in fiscal 2002, fiscal 2001 and fiscal 2000, respectively. In fiscal 2002, cash flows from operating activities decreased primarily as a result of lower operating earnings, higher inventory levels and increases in current assets, partially offset by increases in current liabilities. In fiscal 2001, cash flows from operating activities increased as a result of lower inventory levels and increased operating earnings.

Cash flows used in investing activities were $48.5 million, $49.1 million and $55.2 million in fiscal 2002, fiscal 2001 and fiscal 2000, respectively. Cash flows used in investing activities relate primarily to store openings and remodelings. In fiscal 2002, fiscal 2001 and fiscal 2000, we opened 126, 121 and 108 stores while remodeling 11, 14 and 14 stores, respectively. Cash flows used in investing activities in 2001 decreased primarily due to capital expenditures made in fiscal 2000 to equip and furnish our West Coast distribution center.

Cash flows provided by financing activities were $2.1 million in fiscal 2002, reflecting funds received from the exercise of employee stock options and employee stock purchases. In fiscal 2001 and fiscal 2000, cash flows used in financing activities reflected the net repayment of borrowings under our working capital facility, offset partially by funds received from the exercise of employee stock options and employee stock purchases.

We anticipate that total capital expenditures will approximate $25 million to $30 million in fiscal 2003. These expenditures will relate primarily to the opening of approximately 50 stores and store remodels. We believe that cash on hand, cash generated from operations and funds available under our working capital facilities will be sufficient to fund our capital and other cash flow requirements for at least the next 12 months. In addition, we will consider additional sources of financing to fund our long-term growth. Our ability to meet our capital requirements will depend on our ability to generate cash from operations and successfully implement our fiscal 2003 strategic initiatives.

Contractual Obligations and Commercial Commitments

The following tables summarize our contractual and commercial obligations as of February 1, 2003:

Contractual Obligations (dollars in thousands)	Payments Due By Period Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term Debt	$ 0	$ 0	$ 0	$ 0	$ 0
Capital Leases	0	0	0	0	0
Operating Leases	786,515	96,287	292,589	171,611	226,028

Other Commercial Commitments (dollars in thousands)	Total Amounts Committed	Amounts of Commitment Expiration Per Period Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Working Capital Facility	$ 0	$ 0	$ 0	$ 0	$ 0
Merchandise Letters of Credit	27,686	27,686	0	0	0
Standby Letters of Credit (1)	4,970	4,641	250	79	0

(1) Represents letters of credit issued to landlords, banks and insurance companies. We do not expect a cash outlay for these stand-by letters of credit during 2003.

Quarterly Results and Seasonality

Our quarterly results of operations have fluctuated and are expected to continue to fluctuate materially depending on a variety of factors, including overall economic conditions and recession, the timing of new store openings and related pre-opening and other startup costs, net sales contributed by new stores, increases or decreases in comparable store sales, weather conditions, shifts in timing of certain holidays, changes in our merchandise mix and pricing strategy.

Our business is also subject to seasonal influences, with heavier concentrations of sales during the back-to-school and holiday seasons. As is the case with many retailers of apparel and related merchandise, we typically experience lower net sales and net income during the first two fiscal quarters, and net sales and net income are lower during the second fiscal quarter than during the first fiscal quarter. Our first quarter results are heavily dependent upon sales during the period leading up to the Easter holiday. In fiscal 2003, we anticipate that the late timing of the Easter holiday will shift our customers purchasing patterns to later on in the first quarter as compared to the first quarter of 2002. Our third quarter results are heavily dependent upon back-to-school sales and our fourth quarter results are heavily dependent upon sales during the holiday season. We experienced losses in the second quarter of 2002 and the second quarter of 2001 and expect to experience a second quarter loss in fiscal 2003. It is also possible we could experience losses in other quarters. Because of these fluctuations in net sales and net income (loss), the results of operations of any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year or any future quarter.

The following table sets forth certain statement of operations data and operating data for each of our last eight fiscal quarters. The quarterly statement of operations data and selected operating data set forth below were derived from our unaudited financial statements and reflect, in our opinion, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results of operations for these fiscal quarters.

	Fiscal Year Ended February 1, 2003			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	(dollars in thousands, except for per share data)			
Net sales	$ 173,047	$ 128,295	$ 173,403	$ 196,664
Gross profit	79,128	36,386	61,740	71,434
Operating income (loss)	24,485	(16,652)	2,491	4,541
Net income (loss)	15,208	(10,167)	1,604	2,289
Basic net income (loss) per common share	$0.58	$(0.38)	$0.06	$0.09
Diluted net income (loss) per common share	$0.56	$(0.38)	$0.06	$0.09
Comparable store sales (decrease)	(11)%	(9)%	(21)%	(19)%
Stores open at end of period	554	600	629	643

	Fiscal Year Ended February 2, 2002			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	(dollars in thousands, except for per share data)			
Net sales	$ 160,461	$ 116,318	$ 181,433	$ 198,744
Gross profit	68,162	40,819	84,070	86,619
Operating income (loss)	21,041	(6,267)	30,898	30,329
Net income (loss)	12,818	(3,892)	18,719	18,937
Basic net income (loss) per common share	$0.49	$(0.15)	$0.71	$0.72
Diluted net income (loss) per common share	$0.48	$(0.15)	$0.70	$0.70
Comparable store sales (decrease)	(2)%	(16)%	(9)%	(6)%
Stores open at end of period	437	481	513	520

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
The Children's Place Retail Stores, Inc.:

We have audited the accompanying consolidated balance sheet of The Children's Place Retail Stores, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of February 1, 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of February 2, 2002 and for the years ended February 2, 2002 and February 3, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 28, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of The Children's Place Retail Stores, Inc. and subsidiaries at February 1, 2003, and the results of their operations and their cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the consolidated financial statements of The Children's Place Retail Stores, Inc. as of February 2, 2002 and for the fiscal years ended February 2, 2002 and February 3, 2001 were audited by other auditors who have ceased operations. As described in Note 1, these financial statements have been revised to include the disclosures as required by Statement of Financial Accounting Standards No. 148, Accounting For Stock-Based Compensation –Transition and Disclosure, an Amendment of FASB Statement No. 123. Our audit procedures with respect to the disclosures in Note 1 with respect to the years ended February 2, 2002 and February 3, 2001 included (1) comparing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing compensation expense, net of tax, as calculated under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, to the Company's underlying analysis obtained from management, and (2) testing the mathematical accuracy of the reconciliation of reported net income to pro forma net income and the related earnings per share amounts. In our opinion, the disclosures relating to stock based compensation for the fiscal years ended February 2, 2002 and February 3, 2001 in Note 1 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements as of February 2, 2002 and for the fiscal years ended February 2, 2002 and February 3, 2001 of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as of February 2, 2002 and for the fiscal years ended February 2, 2002 and February 3, 2001 taken as a whole.

Deloitte + Touche LLP

DELOITTE & TOUCHE LLP

Parsippany, New Jersey
March 10, 2003 (except for Note 12 and Note 13 – as to which the date is April 25, 2003).

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with our filing on Form 10-K for the fiscal year ended February 2, 2002. This report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 10-K.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
The Children's Place Retail Stores, Inc.:

We have audited the accompanying consolidated balance sheets of The Children's Place Retail Stores, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of February 2, 2002 and February 3, 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended February 2, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Place Retail Stores, Inc. and subsidiaries as of February 2, 2002 and February 3, 2001, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 2, 2002, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

New York, New York
February 28, 2002

THE CHILDREN'S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	February 1, 2003	February 2, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,645	$ 45,191
Accounts receivable	13,571	11,895
Inventories	75,417	59,095
Prepaid expenses and other current assets	19,277	11,997
Deferred income taxes	293	3,847
Total current assets	145,203	132,025
Property and equipment:		
Leasehold improvements	118,252	98,864
Store fixtures and equipment	116,980	96,710
Capitalized software	20,284	14,760
Construction in progress	973	4,461
	256,489	214,795
Less accumulated depreciation and amortization	(101,489)	(70,138)
Property and equipment, net	155,000	144,657
Deferred income taxes	8,288	5,332
Other assets	837	835
Total assets	$ 309,328	$ 282,849
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 30,805	$ 22,177
Taxes payable	198	6,195
Accrued expenses and other current liabilities	34,926	26,311
Total current liabilities	65,929	54,683
Other long-term liabilities	14,391	11,160
Total liabilities	80,320	65,843
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $0.10 par value	2,657	2,637
Preferred stock, $1.00 par value	0	0
Additional paid-in capital	98,765	95,982
Accumulated other comprehensive income (loss)	253	(12)
Retained earnings	127,333	118,399
Total stockholders' equity	229,008	217,006
Total liabilities and stockholders' equity	$ 309,328	$ 282,849

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

THE CHILDREN'S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Fiscal Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
Net sales	$ 671,409	$ 656,956	$ 587,385
Cost of sales	422,721	377,286	339,407
Gross profit	248,688	279,670	247,978
Selling, general and administrative expenses	194,907	176,103	155,784
Asset impairment charges	3,170	0	0
Depreciation and amortization	35,746	27,566	20,880
Operating income	14,865	76,001	71,314
Interest (income) expense, net	(547)	252	1,163
Income before income taxes	15,412	75,749	70,151
Provision for income taxes	6,478	29,167	27,461
Net income	$ 8,934	$ 46,582	$ 42,690
Basic net income per common share	$ 0.34	$ 1.77	$ 1.65
Basic weighted average common shares outstanding	26,501	26,262	25,847
Diluted net income per common share	$ 0.33	$ 1.73	$ 1.60
Diluted weighted average common shares outstanding	26,978	26,964	26,668

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

THE CHILDREN'S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE FISCAL YEARS ENDED, FEBRUARY 3, 2001, FEBRUARY 2, 2002 AND FEBRUARY 1, 2003

(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity	Comprehensive (Loss) Income
	Shares	Amount					
BALANCE, January 29, 2000	25,698	$ 2,570	$ 88,376	$ 29,127	$ (7)	$ 120,066	
Exercise of stock options and employee stock purchases	397	40	2,585	—	—	2,625	
Tax benefit of stock option exercises	—	—	1,291	—	—	1,291	
Change in cumulative translation adjustment	—	—	—	—	(5)	(5)	$ (5)
Net income	—	—	—	42,690	—	42,690	42,690
Comprehensive income							$ 42,685
BALANCE, February 3, 2001	26,095	2,610	92,252	71,817	(12)	166,667	
Exercise of stock options and employee stock purchases	277	27	2,689	—	—	2,716	
Tax benefit of stock option exercises	—	—	1,041	—	—	1,041	
Net income	—	—	—	46,582	—	46,582	$ 46,582
Comprehensive income							$ 46,582
BALANCE, February 2, 2002	26,372	2,637	95,982	118,399	(12)	217,006	
Exercise of stock options and employee stock purchases	198	20	2,034	—	—	2,054	
Tax benefit of stock option exercises	—	—	749	—	—	749	
Change in cumulative translation adjustment	—	—	—	—	265	265	$ 265
Net income	—	—	—	8,934	—	8,934	8,934
Comprehensive income							$ 9,199
BALANCE, February 1, 2003	26,570	$ 2,657	$ 98,765	$127,333	$ 253	$ 229,008	

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

THE CHILDREN'S PLACE RETAIL STORES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 8,934	$ 46,582	$ 42,690
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	35,746	27,566	20,880
Deferred financing fee amortization	51	62	57
Loss on disposals of property and equipment	466	819	1,124
Asset impairment charges	3,170	0	0
Deferred taxes	830	490	1,886
Deferred rent	3,901	2,328	1,680
Changes in operating assets and liabilities:			
Accounts receivable	(1,676)	(2,777)	(4,006)
Inventories	(16,322)	9,010	(12,084)
Prepaid expenses and other current assets	(7,280)	(943)	(2,527)
Other assets	(53)	417	(619)
Accounts payable	8,628	(6,168)	8,184
Accrued expenses, and other current liabilities	1,276	9,386	4,524
Total adjustments	28,737	40,190	19,099
Net cash provided by operating activities	37,671	86,772	61,789
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment purchases, lease acquisition and software costs	(48,536)	(49,114)	(55,167)
Net cash used in investing activities	(48,536)	(49,114)	(55,167)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit facility	47,441	571,898	613,623
Repayments under revolving credit facility	(47,441)	(575,222)	(616,806)
Exercise of stock options and employee stock purchases	2,054	2,716	2,625
Deferred financing costs	0	0	(122)
Net cash provided by (used in) financing activities	2,054	(608)	(680)
Effect of exchange rate changes on cash	265	0	(5)
Net increase (decrease) in cash and cash equivalents	(8,546)	37,050	5,937
Cash and cash equivalents, beginning of period	45,191	8,141	2,204
Cash and cash equivalents, end of period	$ 36,645	$ 45,191	$ 8,141
OTHER CASH FLOW INFORMATION:			
Cash paid during the year for interest	$ 197	$ 904	$ 1,983
Cash paid during the year for income taxes	14,896	25,555	25,907

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Children's Place Retail Stores, Inc., ("the Company,") is a specialty retailer of apparel and accessories for children from newborn to twelve years of age. The Company designs, sources and markets its products under "The Children's Place" brand name for sale exclusively in its stores and on its website. As of February 1, 2003, the Company operated 643 stores in the United States and Canada. The Company also has offices in Asia which enables the Company to capitalize on new sourcing opportunities, respond to changing merchandise trends and ensure product quality assurance.

Fiscal Year

The Company's fiscal year is a 52-week or 53-week period ending on the Saturday nearest to January 31. The results for fiscal 2002, fiscal 2001 and fiscal 2000 represent the 52-week period ended February 1, 2003, the 52-week period ended February 2, 2002 and the 53-week period ended February 3, 2001, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and amounts of revenues and expenses reported during the period. Actual results could differ from the estimates made by and assumptions used by management.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Reclassifications

The Company separately disclosed the change in deferred rent on its consolidated statement of cash flows for the fiscal years ended February 2, 2002 and February 1, 2001 in order to conform to the current year's presentation. The Company also separately disclosed accrued marketing and accrued insurance in Note 4 – Accrued Expenses and Other Current Liabilities as of February 2, 2002 in order to conform to the current year presentation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of average cost or market, calculated using the retail inventory method.

Revenue Recognition

The Company recognizes revenue, including shipping and handling fees billed to customers, upon purchase at the Company's retail stores or when shipped from a distribution center if the product was purchased on the Company's website. An allowance for estimated sales returns is recorded and is reflected in accrued expenses in the accompanying consolidated balance sheets. The allowance for estimated sales returns were approximately $860,000 and $861,000 as of February 1, 2003 and February 2, 2002, respectively. The Company's policy with respect to gift cards is to record revenue as the gift cards are redeemed for merchandise. Prior to their redemption, gift cards are recorded as a liability. Additionally, a portion of revenue is deferred for our private label credit card promotions that provide a future discount on purchases once a minimum customer purchase threshold is satisfied.

Cost of Sales

In addition to the cost of inventory sold, the Company includes its buying, distribution and occupancy expenses in its cost of sales, as well as shipping and handling costs on merchandise sold directly to customers.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost. Property and equipment is depreciated on a straight-line basis based upon their estimated useful lives, which range from three to ten years.

In accordance with AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), internal use software and other related costs are capitalized. The Company capitalized approximately $1,069,000, $1,180,000 and $788,000 in programming and development costs of employees in fiscal 2002, fiscal 2001 and fiscal 2000, respectively. The Company also capitalized approximately $4,455,000, $6,953,000 and $1,258,000 in external software costs in fiscal 2002, fiscal 2001 and fiscal 2000, respectively.

Deferred Financing Costs

The Company capitalizes costs directly associated with acquiring third-party financing. Deferred financing costs are included in other assets and are amortized over the term of the indebtedness. As of February 1, 2003, unamortized deferred financing costs represent the cost of acquiring the Company's working capital facility and were approximately $259,000, net of accumulated amortization of $243,000. As of February 2, 2002, unamortized deferred financing costs were approximately $259,000, net of accumulated amortization of $192,000.

Accounting for Impairment of Long-Lived Assets

Effective February 3, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). In accordance with SFAS 144, the Company evaluates each store's performance (after a store has been open a full fiscal year) and measures the carrying value of each location's fixed assets, principally leasehold improvements and fixtures, versus its estimated future cash flows. When the evaluation of a store location indicates that the cash flows are not sufficient to recover the carrying value of the long-term assets at the store, the store assets are deemed to be impaired and are adjusted to their fair values. As certain stores have recently experienced declining performance in fiscal 2002 and management estimates that future cash flows will be insufficient to recover the carrying value of their assets, the Company has recorded a $3.2 million pre-tax provision for the impairment of leasehold improvements and fixtures located in 19 stores.

Pre-opening Costs

Store pre-opening costs, which consist primarily of payroll, supply and marketing expenses, are expensed as incurred and are included in selling, general and administrative expenses.

Marketing Costs

The Company expenses the cost of marketing when the marketing is first run or displayed. Included in selling, general and administrative expenses for fiscal 2002, fiscal 2001 and fiscal 2000 are marketing costs of approximately $14,508,000, $12,049,000 and $12,943,000, respectively.

Deferred Rent

Rent expense is recognized on a straight-line basis over the term of the lease. Rent abatements are recognized on a straight-line basis as a reduction to rent expense over the lease term. The unamortized portion of deferred rent is included in accrued expenses and other long-term liabilities. As of February 1, 2003, the current and long-term portions of deferred rent were approximately $474,000 and $12,060,000, respectively. As of February 2, 2002, the current and long-term portions of deferred rent were approximately $320,000 and $8,313,000, respectively.

Income Taxes

The Company computes income taxes using the liability method. This standard requires recognition of deferred tax assets and liabilities, measured by enacted rates, attributable to temporary differences between financial statement and income tax basis of assets and liabilities. Temporary differences result primarily from accelerated depreciation and amortization for tax purposes and various accruals and reserves being deductible for future tax periods.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Values of Financial Instruments" ("SFAS 107"), requires entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value is based on quoted market prices for the same or similar financial instruments.

As cash and cash equivalents, accounts receivable and payable, and certain other short-term financial instruments are all short-term in nature, their carrying amount approximates fair value.

Accounting for Stock Based Compensation

The Company accounts for its 1996 Stock Option Plan (the "1996 Plan"), its 1997 Stock Option Plan (the "1997 Plan") and its Employee Stock Purchase Plan (the "ESPP") under the provisions of Accounting Principles Bulletin No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, no compensation expense has been recognized for stock-based compensation, since the options granted were at prices that equaled or exceeded their estimated fair market value at the date of grant. If compensation expense for the Company's stock options and employee stock purchases issued in fiscal 2002, fiscal 2001 and fiscal 2000 had been determined based on the fair value method of accounting, in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"), the Company's net income would have been reduced to the pro forma amounts indicated below for the three fiscal years in the period ended February 1, 2003:

	Fiscal Year Ended		
	February 1, 2003	**February 2, 2002**	**February 3, 2001**
Net income -			
As reported	$ 8,934,000	$ 46,582,000	$ 42,690,000
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	3,642,000	3,230,000	3,044,000
Pro forma	$ 5,292,000	$ 43,352,000	$ 39,646,000
Earnings per share -			
Basic – as reported	$0.34	$1.77	$1.65
Basic – pro forma	$0.20	$1.65	$1.53
Diluted – as reported	$0.33	$1.73	$1.60
Diluted – pro forma	$0.20	$1.61	$1.49

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for Stock Based Compensation (continued)

The fair value of issued stock options were estimated on the date of grant using the Black-Scholes option pricing model, incorporating the following assumptions:

	February 1, 2003	February 2, 2002	February 3, 2001
Dividend yield	0%	0%	0%
Volatility factor	60.00%	59.00%	60.00%
Weighted average risk-free interest rate	3.44%	4.45%	6.21%
Expected life of options	5 years	5 years	5 years
Weighted average fair value on grant date	$9.07 per share	$ 13.90 per share	$18.63 per share

Pro forma compensation expense for the Company's ESPP is calculated by multiplying the number of shares issued by the spread between the fair market value of the stock on day of the ESPP purchase and the purchase price paid by employees, which is 85% of the fair market value. During fiscal 2002, fiscal 2001 and fiscal 2000, pro forma compensation expense for the ESPP was approximately $78,000, $79,000 and $79,000, respectively.

Net Income per Common Share

The Company reports its earnings per share in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS 128"), which requires the presentation of both basic and diluted earnings per share on the statements of income.

In accordance with SFAS 128, the following table reconciles income and share amounts utilized to calculate basic and diluted net income per common share:

	For the Fiscal Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
Net income (in thousands)	$ 8,934	$ 46,582	$ 42,690
Basic weighted average common shares	26,501,315	26,262,173	25,846,517
Dilutive effect of stock options	476,412	701,489	821,828
Diluted weighted average common shares	26,977,727	26,963,662	26,668,345
Antidilutive options	891,117	257,237	356,740

Antidilutive options consist of the weighted average of stock options for the respective periods ended February 1, 2003, February 2, 2002 and February 3, 2001 that had an exercise price greater than the average market price during the period. Such options are therefore excluded from the computation of diluted shares.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Instruments

In June 1999, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. Changes in the derivative's fair value should be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement or other comprehensive income and requires that a company must formally document, designate and assess the effectiveness of transactions that qualify as hedging.

Effective February 4, 2001, the Company adopted SFAS 133, as amended. The adoption of SFAS 133, as amended, did not have a material effect on the Company's consolidated financial statements, as the Company has not entered into any derivative contracts.

Foreign Currency Translation

The Company has determined that the local currencies of its Canadian and Hong Kong subsidiaries are their functional currencies. In accordance with SFAS No. 52, "Foreign Currency Translation," the assets and liabilities denominated in foreign currency are translated into U.S. dollars at the current rate of exchange existing at period-end and revenues and expenses are translated at average monthly exchange rates. Related translation adjustments are reported as a separate component of stockholders' equity.

Newly Issued Accounting Pronouncements

On February 3, 2002, the Company adopted SFAS No. 141, "Business Combinations" ("SFAS 141"), and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and is effective for all business combinations initiated after June 30, 2001. SFAS 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets that have indefinite useful lives are not amortized, but rather are tested at least annually for impairment.

SFAS 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001 be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives should be tested for impairment. Goodwill recognized on or before June 30, 2001 shall be tested for impairment as of the beginning of the fiscal year in which SFAS 142 is initially applied in its entirety. The adoption of SFAS 141 and SFAS 142 did not have a material impact on the Company's results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends SFAS No. 13 "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The adoption of this new principle did not have a material impact on the Company's results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also established that fair value is the objective for initial measurement of the liability. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 did not have a significant impact on the Company's results of operations or financial position.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Newly Issued Accounting Pronouncements (continued)

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to SFAS 123 contained in SFAS 148 are effective for financial statements for fiscal years ending after December 15, 2002. See this note and Note 9 – Stock Option and Purchase Plans for the required disclosures.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company has implemented the disclosure provisions of FIN 45 in its February 1, 2003 financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities (an interpretation of APB No. 51)" ("FIN 46"). FIN 46 addresses consolidation by business enterprises of certain Variable Interest Entities ("VIE"), commonly referred to as special purpose entities. The Company will be required to implement the other provisions of FIN 46 in fiscal 2003. The Company does not believe that FIN 46 will have a material impact on its financial statements as the Company has not entered into any transactions involving VIEs.

2. SHORT-TERM BORROWINGS

Foothill Credit Facility

The Company has a working capital facility (the "Foothill Credit Facility") with Foothill Capital Corporation ("Foothill Capital"). The Foothill Credit Facility provides for up to $75 million in borrowings which includes a sublimit of up to $60 million in letters of credit. Foothill Capital acts as our agent bank for a syndicated group of lenders on this facility. This working capital facility also contains provisions to increase borrowings up to $100 million (including a sublimit for letters of credit of $80 million), subject to sufficient collateralization and the syndication of the incremental line of borrowing. The amount that can be borrowed under the working capital facility depends on the Company's levels of inventory and accounts receivable.

The Foothill Credit Facility expires in July 2003 and provides for one year renewal options. In April 2003, the Company amended, restated and extended its working capital facility with Wells Fargo Retail Finance LLC ("Wells Fargo"). Previously, Foothill Capital had assigned its rights under this facility to Wells Fargo. Refer to Note 13 – Subsequent Event.

The Company had no outstanding borrowings outstanding under the Foothill Credit Facility as of February 1, 2003 and February 2, 2002, respectively. Letters of credit outstanding as of February 1, 2003 and February 2, 2002 were $32.6 million and $9.4 million, respectively. Availability as of February 1, 2003 and February 2, 2002 was $42.4 million and $57.2 million, respectively.

The Foothill Credit Facility also contains certain financial covenants, including, among others, the maintenance of minimum levels of earnings and current ratios and imposes certain limitations on the Company's annual capital expenditures, as defined in the Foothill Credit Facility, as well as a prohibition on the payment of dividends. As of February 1, 2003, the Company was in compliance with all of its covenants under the Foothill Credit Facility. Noncompliance with these covenants could result in additional fees or could affect the availability of the facility.

2. SHORT-TERM BORROWINGS (continued)

Foothill Credit Facility (continued)

Amounts outstanding under the Foothill Credit Facility bear interest at a floating rate equal to the prime rate or, at the Company's option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread is 1.25% to 2.50% depending on the Company's financial performance from time to time. The interest rate charged under the Foothill Credit Facility was 4.25% and 4.75% as of February 1, 2003 and February 2, 2002, respectively. In addition, the Company was also required to pay an anniversary fee of $93,750 in each of the last three fiscal years.

Borrowing activity under the Foothill Credit Facility was as follows (dollars in thousands):

	For the Fiscal Year Ended	
	February 1, 2003	February 2, 2002
Weighted average balances outstanding	$ 196	$ 9,307
Weighted average interest rate	4.61%	5.57%
Maximum balance outstanding	$ 1,259	$ 31,034

Toronto Dominion Credit Facility

During fiscal 2002, the Company amended its working capital facility to provide for direct borrowings of its Canadian subsidiary. The Company entered into a $6.6 million facility with Toronto Dominion Bank for its Canadian subsidiary that is secured by a standby letter of credit. The Canadian facility is currently collateralized to provide $3.3 million in borrowings. As of February 1, 2003, there were no borrowings under the Canadian credit facility and there were outstanding letters of credit of $0.1 million. Availability under the Canadian credit facility was $3.2 million as of February 1, 2003. Interest rates charged under the Canadian credit facility were 4.5% as of February 1, 2003. The Toronto Dominion Bank can demand repayment and cancel the availability of the Toronto Dominion Credit Facility at any time.

Borrowing activity under the Toronto Dominion Credit Facility was as follows (dollars in thousands):

	For the Fiscal Year Ended February 1, 2003
Weighted average balances outstanding	$ 992
Weighted average interest rate	4.5%
Maximum balance outstanding	$ 1,647

3. CANADIAN LEASE ACQUISITION

On May 1, 2002, the Company acquired the leases for 23 stores and other assets from Au Coin des Petits/Young Canada, the children's division of Comark, Inc., for an immaterial amount. The Company successfully negotiated to extend the terms of all the acquired leases to provide for full lease terms of approximately 10 years. The stores are based in regional malls located in the provinces of Ontario and Quebec. The Company converted the acquired locations into The Children's Place stores and reopened 13 stores in July 2002. The remaining 10 stores opened in August 2002. To facilitate this expansion, the Company has leased an approximately 30,000 square foot distribution center in Mississauga, Ontario.

4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities is comprised of the following (dollars in thousands):

	February 1, 2003	February 2, 2002
Accrued salaries and benefits	$ 9,315	$ 7,881
Accrued real estate expenses	3,558	3,058
Customer liabilities	6,395	4,927
Sales taxes and other taxes payable	3,471	2,810
Accrued insurance	2,166	325
Accrued marketing	989	548
Asset accruals	1,577	389
Other accrued expenses	7,455	6,373
Accrued expenses, interest and other current liabilities	$ 34,926	$ 26,311

5. COMMITMENTS AND CONTINGENCIES

The Company leases all of its stores and distribution facilities, and certain office equipment, store fixtures and automobiles, under leases expiring at various dates through 2023. Certain leases include options to renew. The leases require fixed minimum annual rental payments plus, under the terms of certain leases, additional payments for taxes, other expenses and additional rent based upon sales.

Rent expense is as follows (dollars in thousands):

	For the Fiscal Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
Store and distribution facilities rent:			
Minimum rentals	$ 78,743	$ 62,521	$ 47,314
Additional rent based upon sales	161	528	848
Total rent expense	$ $78,904	$ 63,049	$ 48,162

Future minimum annual lease payments under the Company's operating leases at February 1, 2003, are as follows (dollars in thousands):

	Operating Leases
Fiscal year	
2003	$ 96,287
2004	98,667
2005	98,047
2006	95,875
2007	89,223
Thereafter	308,416
Total minimum lease payments	$ 786,515

6. LITIGATION

The Company is involved in various legal proceedings arising in the normal course of its business. In the opinion of management, any ultimate liability arising out of such proceedings, will not have a material adverse effect on the Company's financial position or results of operations.

7. INCOME TAXES

Components of the Company's provision for income taxes consisted of the following (dollars in thousands):

	Fiscal Year Ended		
	February 1, 2003	**February 2, 2002**	**February 3, 2001**
Current -			
Federal	$ 4,405	$ 25,480	$ 21,477
Foreign	702	679	694
State	772	5,466	4,278
Deferred -			
Federal	1,268	(2,099)	311
State	(669)	(359)	701
Provision for income taxes	$ 6,478	$ 29,167	$ 27,461

A reconciliation between the calculated tax provision on income based on the statutory rates in effect and the effective tax rate follows (dollars in thousands):

	Fiscal Year Ended		
	February 1, 2003	**February 2, 2002**	**February 3, 2001**
Calculated income tax provision	$ 5,394	$ 26,512	$ 24,553
State income taxes, net of federal benefit	68	3,320	3,236
Foreign tax	(554)	(718)	(733)
Losses for which no tax benefit is recognized	1,589	0	0
Nondeductible expenses	10	38	16
Other	(29)	15	389
Tax provision as shown on the statements of income	$ 6,478	$ 29,167	$ 27,461

7. INCOME TAXES (continued)

Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes as measured by tax laws. As of February 1, 2003, there are accumulated unremitted earnings of approximately $11.2 million from the Company's Hong Kong subsidiary on which deferred taxes have not been provided as the undistributed earnings of the Hong Kong subsidiary are indefinitely reinvested. The Company has not recognized a tax benefit on the losses of its Canadian subsidiary in fiscal 2002. This tax benefit expires in 2009.

Temporary differences which give rise to deferred tax assets and liabilities are as follows (dollars in thousands):

	February 1, 2003	February 2, 2002
Current -		
Uniform inventory capitalization	$ 2,599	$ 2,430
Inventory	345	804
Prepaid expenses and other reserves	(2,651)	613
Total current	293	3,847
Noncurrent -		
State tax net operating losses and credits	886	0
Depreciation	2,558	1,924
Canada net operating loss	1,589	0
Valuation allowance	(1,589)	0
Deferred rent	4,844	3,408
Total noncurrent	8,288	5,332
Total deferred tax asset	$ 8,581	$ 9,179

8. STOCKHOLDERS' EQUITY

The Company's stockholders' equity is comprised of the following:

	February 1, 2003	February 2, 2002
Common stock:		
Authorized number of shares, $0.10 par value	100,000,000	100,000,000
Issued and outstanding number of shares	26,569,864	26,372,144
Preferred stock:		
Authorized number of shares, $1.00 par value	1,000,000	1,000,000
Issued and outstanding number of shares	0	0

9. STOCK OPTION AND PURCHASE PLANS

Stock Option Plans

The Company has two stock option plans: the 1996 Plan and the 1997 Plan. The 1996 Plan authorized the granting of incentive stock options with respect to 1,743,240 shares of Common Stock. The 1997 Plan was authorized and amended to grant options with respect to 4,000,000 shares of Common Stock. As of February 1, 2003, there were 57,300 shares available for grant under the 1996 Plan and 1,754,360 shares available for grant under the 1997 Plan.

9. STOCK OPTION AND PURCHASE PLANS (continued)

Both the 1996 Plan and the 1997 Plan are administered by the Board of Directors. Options granted under the 1996 Plan and the 1997 Plan have exercise prices established by the Board of Directors provided that the exercise price of incentive stock options may not be less than the fair market value of the underlying shares at the date of grant. The 1996 Plan and the 1997 Plan also contain certain provisions that require the exercise price of incentive stock options granted to stockholders owning greater than 10% of the Company be at least 110% of the fair market value of the underlying shares. Unless otherwise specified by the Board of Directors, options vest at 20% a year over a five year period.

Changes in common shares under option for the three fiscal years in the period ended February 1, 2003 are summarized below:

	February 1, 2003		February 2, 2002		February 3, 2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning of year	2,080,643	$ 18.49	1,900,732	$ 15.41	1,965,856	$ 12.21
Granted	291,700	16.66	565,800	25.43	552,150	18.55
Exercised	(166,218)	9.77	(255,769)	8.84	(371,474)	5.86
Canceled	(120,860)	24.62	(130,120)	23.04	(245,800)	11.44
End of year	2,085,265	$ 18.59	2,080,643	$ 18.49	1,900,732	$ 15.41
Exercisable at end of year	960,644	$ 15.85	839,383	$ 12.95	768,800	$ 10.01

The following table summarizes information regarding options outstanding at February 1, 2003:

	Options Outstanding			Options Exercisable	
Exercise Prices	Outstanding at February 1, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at February 1, 2003	Weighted Average Exercise Price
$ 2.68 – 2.68	158,680	3.4	$ 2.68	158,680	$ 2.68
$ 8.70 – 12.48	437,705	7.6	10.06	188,335	9.29
$ 13.97 – 20.31	687,950	6.7	16.86	378,670	16.39
$ 21.63 – 30.97	632,330	8.4	25.49	163,479	25.38
$ 32.80 – 41.47	168,600	7.1	36.84	71,480	37.76
$ 2.68 – 41.47	2,085,265	7.2	$ 18.59	960,644	$ 15.85

Stock Purchase Plans

The Company's ESPP is authorized to issue up to 360,000 shares of Common Stock for employee purchase through payroll deductions at 85% of fair market value. As of February 1, 2003, there were 258,554 shares available for grant under the ESPP. All employees of the Company, who have completed at least 90 days of employment and attained 21 years of age, are eligible to participate, except for employees who own Common Stock or options on such Common Stock which represents 5% or more of the Company. During fiscal 2002, fiscal 2001 and fiscal 2000, there were 31,902 shares, 20,679 shares and 25,702 shares issued under the ESPP.

10. SAVINGS AND INVESTMENT PLAN

The Company has adopted The Children's Place 401(k) Savings and Investment Plan (the "401(k) Plan"), which qualifies under Section 401(k) of the Internal Revenue Code of 1986, as amended. The 401(k) Plan is a defined contribution plan established to provide retirement benefits for all employees who have completed one year of service with the Company and attained 21 years of age.

10. SAVINGS AND INVESTMENT PLAN (continued)

The 401(k) Plan is employee funded up to an elective annual deferral and also provides an option for the Company to contribute to the 401(k) Plan at the discretion of the 401(k) Plan's trustees. During fiscal 2002, fiscal 2001 and fiscal 2000, the Company matched the lesser of 50% of the participant's contribution or 2.5% of the participant's compensation. During fiscal 2002, fiscal 2001 and fiscal 2000, the Company's matching contributions to the 401(k) Plan were approximately $1,053,000, $888,000 and $605,000, respectively.

11. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table summarizes the quarterly financial data for the periods indicated (dollars in thousands, except for per share amounts):

	Fiscal Year Ended February 1, 2003			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Net sales	$ 173,047	$ 128,295	$ 173,403	$ 196,664
Gross profit	79,128	36,386	61,740	71,434
Net income (loss)	15,208	(10,167)	1,604	2,289
Basic net income (loss) per common share	$ 0.58	$ (0.38)	$ 0.06	$ 0.09
Diluted net income (loss) per common share	$ 0.56	$ (0.38)	$ 0.06	$ 0.09

	Fiscal Year Ended February 2, 2002			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Net sales	$ 160,461	$ 116,318	$ 181,433	$ 198,744
Gross profit	68,162	40,819	84,070	86,619
Net income (loss)	12,818	(3,892)	18,719	18,937
Basic net income (loss) per common share	$ 0.49	$ (0.15)	$ 0.71	$ 0.72
Diluted net income (loss) per common share	$ 0.48	$ (0.15)	$ 0.70	$ 0.70

12. RELATED PARTY TRANSACTIONS

SKM Financial Advisory Services

In conjunction with a 1996 private placement, the Company sold common stock to two funds, the SK Equity Fund, L.P. and the SK Investment Fund, L.P. (collectively, the "SK Funds") managed by Saunders, Karp & Megrue, L.P. ("SKM"). As of February 1, 2003, the SK Funds owned 6,704,053 shares or approximately 25.2% of the Company's outstanding common stock.

In addition, the Company entered into a management agreement with SKM which provides for the payment of an annual fee of $150,000, payable quarterly in advance, in exchange for certain financial advisory services. This management agreement remains in effect until SKM or any of its affiliates' total ownership of the Company's Common Stock is less than 10% on a fully diluted basis. Pursuant to the management agreement, the Company incurred fees and expenses of approximately $151,000, $160,000 and $150,000 during fiscal 2002, fiscal 2001 and fiscal 2000, respectively.

12. RELATED PARTY TRANSACTIONS (continued)

Stockholders Agreement

The Company and certain of its stockholders, who as of February 1, 2003 own in the aggregate a majority of the Common Stock, are parties to a Stockholders Agreement (the "Stockholders Agreement"). The Stockholders Agreement places certain limitations upon the transfer, in privately negotiated transactions, of shares of Common Stock beneficially owned by Ezra Dabah, CEO, and the SK Funds. In addition, the Stockholders Agreement provides that (1) so long as Ezra Dabah, together with members of his family, beneficially owns shares representing at least 25% of the shares of Common Stock owned by such parties on the date of the Stockholders Agreement, the stockholders party to the Stockholders Agreement will be obligated to vote all shares as to which they have voting rights in a manner such that the Board of Directors will at all times include three directors nominated by Ezra Dabah and (2) so long as the SK Funds beneficially own shares representing at least 25% of the shares of Common Stock owned by such parties on the date of the Stockholders Agreement, the stockholders party to the Stockholders Agreement will be obligated to vote all shares as to which they have voting rights in a manner such that the Board of Directors will at all times include two directors nominated by the SK Funds. Should the number of directors comprising the Board of Directors be increased, nominees for the remaining director positions will be designated by the Board of Directors.

The Stockholders Agreement provides that so long as the SK Funds beneficially own shares representing at least 25% of the outstanding Common Stock, the Company will not, without the affirmative vote of at least one director nominated by the SK Funds, engage in specified types of transactions with certain of its affiliates (not including the SK Funds), take action to amend the By-Laws or Certificate of Incorporation or increase or decrease the size of the entire Board of Directors. The Stockholders Agreement also provides that certain specified types of corporate transactions and major corporate actions will require the approval of at least two-thirds of the members of the Board of Directors.

Under the terms of the Stockholders Agreement, the rights of any party thereunder will terminate at the time that such party's Common Stock constitutes less than 25% of the shares of Common Stock owned by such party on the date of the Stockholders Agreement. All the provisions of the Stockholders Agreement will terminate when no party to the Stockholders Agreement beneficially owns shares representing at least 25% of the outstanding Common Stock owned by such party on the date of the Stockholders Agreement.

Employment Agreements

The Company has entered into employment agreements with certain of its executive officers which provide for the payment of severance up to three times the officer's salary and certain benefits following any termination without cause.

Executive Officers

On or about April 15, 2000, the Company made loans to seven executive officers ranging from $200,000 to $500,000. The aggregate amount of these loans totaled $2.2 million. The loans matured on or about April 15, 2001 and bore interest at the prime rate as quoted by Chase Manhattan Bank. The loans were secured by the principal residences of these executive officers. With the exception of one loan, the executive loans were repaid prior to their maturity. In April 2001, the Company extended the term on one executive loan to April 15, 2002 and in April 2002 the Company further extended the term to April 15, 2003. As of February 2, 2003, this loan had principal and accrued interest outstanding totaling approximately $550,000. The principal balance and accrued interest on this loan was repaid as of April 3, 2003.

Shareholder Receivable

In August, 1999, the Company incurred approximately $227,000 in legal, accounting, printing and other costs for a secondary offering that was subsequently canceled. SKM, Ezra Dabah and Stanley Silverstein, a member of the Board of Directors, have agreed to reimburse the Company for these costs, which are included herein as a component of other assets.

13. SUBSEQUENT EVENT

Wells Fargo Credit Facility

In April 2003, the Company amended, restated and extended its principal working capital facility. Previously, Foothill Capital Corporation had assigned its rights under this facility to Wells Fargo. The amended and restated working capital facililty with Wells Fargo (the "Wells Fargo Credit Facility") provides for borrowings up to $75 million (including a sublimit for letters of credit of $75 million). The Wells Fargo Credit Facility also contains provisions to increase borrowings up to $120 million (including a sublimit for letters of credit of $100 million), subject to sufficient collateralization and the syndication of the incremental line of borrowing. The amount that may be borrowed under the Wells Fargo Credit Facility depends on the Company's levels of inventory and accounts receivable. Amounts outstanding under the facility bear interest at a floating rate equal to the prime rate or, at the Company's option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread is 1.50% to 2.75%, depending on the Company's level of collateral from time to time. Borrowings mature in April 2006 and provide for one year renewal options. The Wells Fargo Credit Facility contains financial covenants, including, among others, certain limitations on the Company's annual capital expenditures, maintenance of certain excess levels of collateral, as well as a prohibition on the payment of dividends. Credit extended under the Wells Fargo Credit Facility is secured by a first priority security interest in all the assets of the Company, except for its inventory in Canada.

Directors

Ezra Dabah, Chairman
Malcolm Elvey
Sally Frame Kasaks
John F. Megrue
David J. Oddi
Stanley Silverstein

Officers

Ezra Dabah
Chairman and Chief Executive Officer

Mario A. Ciampi
Senior Vice President, Store Development and Logistics

Seth L. Udasin
Vice President, Chief Financial Officer and Treasurer

Steven Balasiano
Vice President, Human Resources,
General Counsel and Secretary

Jodi Barone
Vice President, Marketing

Edward DeMartino
Vice President, Information Technology

Richard Flaks
Vice President, Planning and Allocation

Amy Hauk
Vice President, Merchandising

Marcy Kent
Vice President, Real Estate Development

Michael Kule
Vice President, Asian Operations

Nina L. Miner
Vice President, Design and Trend Development

Salvatore W. Pepitone
Vice President, Logistics

Mark L. Rose
Vice President, Merchandise Procurement

Susan Schiller
Vice President, Store Operations

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

Transfer Agent and Registrar

American Stock Transfer
New York, NY

Corporate Counsel

Stroock & Stroock & Lavan LLP
New York, NY

Independent Auditors

Deloitte & Touche LLP
Parsippany, NJ

Stock Exchange Listing

NASDAQ National Market
Symbol: PLCE

Investor Relations

Call 201 558 2400 or e-mail
investor_relations@childrensplace.com

Annual Meeting

The annual meeting of Stockholders will be held at 10:00 am on Tuesday, June 17, 2003 at the Company Headquarters, 915 Secaucus Road, Secaucus, NJ 07094.
You are cordially invited to attend.

Form 10K

A copy of the Company's 2002 Form 10K as filed with the SEC may be obtained by calling or writing Investor Relations at the Corporate Offices.