SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)
/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fifty-two weeks ended January 31, 1998

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ______________ to __________________

Commission file number 0-23071

THE CHILDREN'S PLACE RETAIL STORES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	31-1241495
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

ONE DODGE DRIVE
WEST CALDWELL, NEW JERSEY 07006
(Address of Principal Executive Offices) (Zip Code)

(973) 227-8900
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None.
Securities registered pursuant to Section 12(g) of the Act: Common Stock.

Indicate by check mark whether the registrant(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes /X / No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. / /

The aggregate market value of voting stock held by non-affiliates was $40,740,244 at the close of business on April 1, 1998.

Indicate the number of outstanding shares of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, par value $0.10 per share, outstanding at April 1, 1998: 24,647,419 shares.

Documents Incorporated by Reference: (1) The Company's 1997 Annual Report to Stockholders incorporated partially in Parts I and II hereof and (2) the Company's Proxy Statement incorporated partially in Part II hereof dated May 1, 1998, for its annual meeting of stockholders to be held on May 28, 1998.

THE CHILDREN'S PLACE RETAIL STORES, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FIFTY-TWO WEEKS ENDED JANUARY 31, 1998

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PART I

ITEM 1.
BUSINESS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of federal securities laws, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, the discussions of the Company's operating and growth strategy. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, those set forth under the caption "Risk Factors" in the Business Section of this Annual Report on Form 10-K. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could prove to be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this Annual Report on Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company undertakes no obligation to publicly release any revisions to any forward-looking statements contained herein to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with the Company's audited financial statements and notes thereto filed as Exhibit 13.1 to this Annual Report on Form 10-K.

OVERVIEW

The Company is a specialty retailer of high quality, value-priced apparel and accessories for newborn to twelve year old children. The Company designs, contracts to manufacture and sells its products under "The Children's Place" brand name. As of January 31, 1998, the Company operated 155 stores, primarily located in regional shopping malls in the eastern half of the United States.

The Company believes that its value-based, proprietary brand business strategy has been and will continue to be the key to its success as a specialty retailer. The following strengths have contributed to the success of the Company's merchandising and operating strategies:

UNIQUE PRICE-VALUE POSITIONING. The Company offers quality clothing and accessories under "The Children's Place" brand name at prices 20% to 30% below most of its direct mall-based competitors. The Company believes that it has built a loyal base of customers who regularly purchase from the Company as their children grow. The Company believes that the value created by the price and quality of its merchandising has enabled The Children's Place to establish a unique market position.

MERCHANDISING STRATEGY. The Company's merchandising strategy is built on the offering of key basic items at value prices complemented by fashion items and accessories to create a fully coordinated look. The Company designs its merchandise to present a fresh and youthful image unique to "The Children's Place" brand.

STRONG BRAND IMAGE. The Company believes that it has built a strong brand image for "The Children's Place" by (i) selling its products exclusively in its own stores, (ii) creating a uniform appearance in merchandise presentation, (iii) providing a consistent selection of coordinated separates and accessories for children, and (iv) offering high quality products at value prices. These factors foster consumer loyalty to "The Children's Place" brand name.

BROAD CONSUMER APPEAL. The Company's high-quality merchandise assortment is offered at "everyday value prices," which has enabled the Company to appeal to a broad range of consumers across all socioeconomic groups and to compete successfully in a wide range of regional shopping malls, outlet centers and other locations.

VERTICALLY INTEGRATED OPERATIONS. The Company controls the design, sourcing and sale of its private label children's apparel and accessories. The Company believes that the vertical integration of the Company's operations, from in-house design to in-store presentation, enable The Children's Place to identify and respond to market trends, uphold rigorous product quality standards and control the cost of its merchandise.

EXPERT SOURCING. The Company combines management's extensive sourcing experience with a cost-based buying strategy. Management has established close, long-standing and mutually beneficial relationships with numerous manufacturers. Through these relationships and its extensive knowledge of component costs of apparel, the Company believes that it has been able to purchase high quality products at low costs.

PROVEN MANAGEMENT TEAM. The Company has a seasoned, highly experienced management team, with its most senior members having an average of 19 years in the retail and/or apparel business and an average of eight years with the Company. The Company believes that management's substantial experience favorably positions the Company for future expansion.

MERCHANDISING

MERCHANDISE OFFERING. The Company's merchandise is divided into four divisions - girlswear, boyswear, newborn and accessories. The Company's merchandise offers a balanced assortment of styles in fashionable colors and patterns, with the aim of consistently creating a fresh, youthful look that is unique to "The Children's Place" brand. Each year the Company presents four major seasonal lines (spring, summer, back-to-school, holiday) including transitional lines. Within each season, the Company offers a fresh assortment of coordinated basic and fashion apparel with complementary accessories designed to encourage multiple item purchases.

EVERYDAY VALUE PRICING. The Company's pricing strategy is to set prices that provide value to its customers and are below those of comparable quality products sold by most of its direct mall-based competitors. The Company employs this everyday value pricing strategy to attract and retain customers by allowing customers to make purchases without having to wait for special sales. The Company's mark-down policy is to systematically reduce prices on slow-moving merchandise.

MERCHANDISE EXPANSION STRATEGY. The Company periodically evaluates opportunities for selective product extensions. In fiscal 1997, the Company introduced a new layette line and expanded its big boy and big girl departments to include size 16. The Company expects to continue to seek opportunities to expand its customer base and enhance the productivity of its stores through further development of existing merchandise categories and the continued introduction of new merchandise classifications.

DESIGN AND PRODUCT DEVELOPMENT. Each of the Company's seasonal lines begins with the compilation of market intelligence regarding fashion trends approximately nine months before the season. This is done through extensive European and domestic market research, the purchase of prototype samples, media, trade shows, fashion magazines, the services of fashion and color forecast organizations and analysis of prior season performance. Potential items are designed using computer aided design ("CAD") technology, giving the Company the opportunity to consider a wide range of style and fashion options.

PLANNING AND ALLOCATION. The merchandise planning team creates a detailed purchasing plan for each season covering each department, each category and each key basic item, based on historical and current selling trends. The Company typically orders 90% of the purchasing plan five months before the season, saving 10% to respond quickly to new fashion trends and reorders of key basic items. The production process takes approximately four to five months from order confirmation to receipt of merchandise at the Company's distribution facility. The merchandise planning team also monitors current and future inventory levels on a weekly basis and analyzes sales patterns to predict future demand for various categories. The Company regularly monitors sales of each style and color and maintains some flexibility to adjust merchandise on order for future seasons or to accelerate delivery of merchandise. The merchandise planning team is also responsible for planning and allocating merchandise to each store based on sales volume levels for each department, category and key basic item and other factors.

SOURCING AND PROCUREMENT

After a product line is conceptualized and purchase levels are determined, the Company's sourcing team makes on-site visits to the Company's independent agents and various manufacturers to finalize technical specifications of each product, negotiate product costs and arrange delivery of merchandise manufactured to the Company's specifications.

COST-BASED BUYING. The Company combines management's extensive sourcing experience with a cost-based buying strategy in order to lower costs and increase margins. Management believes that it has a thorough understanding of the economics of apparel manufacturing, enabling the Company to determine the most cost-effective country and manufacturer from which to source each particular item. Relying on its supplier relationships and management's knowledge of component costs, the Company believes that it has been able to arrange for the manufacture of high quality products at low cost. One important aspect of the Company's sourcing strategy is that its Chief Executive Officer, Ezra Dabah, who has over 25 years of merchandising, apparel and buying experience, frequently travels overseas to meet with the Company's agents and manufacturers.

MANUFACTURERS. The Company's apparel is produced to its specifications by more than 50 independent manufacturers located primarily in the Far East and elsewhere in Asia. In fiscal 1997, the majority of the Company's merchandise was produced in Taiwan, China, Turkey and Hong Kong. The remainder of the Company's merchandise was produced in Thailand, the United States, the Philippines and certain other countries.

The Company has no exclusive or long-term contracts with its manufacturers and typically transacts business on an item-by-item basis under purchase orders at freight on board ("FOB") cost in United States dollars. The Company purchases merchandise through a Hong Kong-based trading company, with which the Company has no formal written agreement, for most of its procurements from manufacturers located in China, Hong Kong and the Philippines. In addition, the Company has entered into agreements with commissioned independent agents elsewhere in the Far East and in Turkey to assist in sourcing and pre-production approval, production, inspection and ensuring timely delivery of merchandise. The Company has developed long-term, continuous relationships with key individual manufacturers and raw material suppliers which have yielded numerous benefits, including quality control and favorable costs, and have afforded it flexible working arrangements and a steady flow of merchandise supply. In addition, although they are not contractually obligated to do so, the Hong Kong-based trading company and a commissioned independent agent in Taiwan each have exclusive arrangements with the Company.

SYSTEMS. The Company employs a work-in-process tracking system that enables it to anticipate potential delivery delays and take action to mitigate the impact of such delays. By using this system together with the Company's purchase order and advanced shipping notification systems, the Company and its independent agents actively monitor the status of each purchase order from order confirmation to merchandise receipt. The Company has experienced occasional shipment delays, but no such delay has had a material adverse effect on the Company. The Company is pursuing software technologies to further enhance communication of the production and pre-approval status of its work-in-process directly from its overseas agents.

QUALITY ASSURANCE. To ensure quality and promote consumer confidence in "The Children's Place" products, the Company utilizes its own, in-house quality assurance laboratory to test and evaluate all fabric and trimming materials against a comprehensive range of physical performance standards before bulk production can begin. The Company's director of quality control and/or the quality control personnel of the Company's independent agents visit the various manufacturing facilities to monitor and improve the quality control and production process. With this focus on pre-production quality approval, the Company is generally able to detect and correct quality related problems before bulk production begins. The Company does not accept its finished apparel products until each purchase order receives formal certification of compliance from its agents' inspectors.

COMPANY STORES

EXISTING STORES. As of January 31, 1998, the Company operated 155 stores, all of which are located in the eastern half of the United States. Most of the Company's stores are clustered in and around major metropolitan areas. The Company's stores are concentrated in major regional malls, with the exception of 11 outlet stores, three urban street stores and two strip center stores. The following table sets forth the number of stores in each state as of January 31, 1998:

STATE	# OF STORES	STATE	# OF STORES
Connecticut	7	Minnesota	4
Delaware	2	New Hampshire	3
Florida	1	New Jersey	20
Illinois	15	New York	29
Indiana	6	North Carolina	3
Kentucky	2	Ohio	10
Maine	2	Pennsylvania	15
Maryland	9	South Carolina	1
Massachusetts	13	Tennessee	1
Michigan	7	Virginia	5

STORE ENVIRONMENT. The Company's prototype store measures approximately 3,500 square feet and features a design that incorporates light maple wood floors, fixtures and trim set against a white color scheme, accented by the hunter green used in the Company's logo. The Company believes that the environment created by its "apple-maple" prototype store promotes a shopping experience that is inviting and friendly. The store is brightly lit, featuring floor-to-ceiling glass windows that allow the Company's colorful fashions to attract customers from the outside. A customized grid system throughout the store's upper perimeter displays featured merchandise, marketing photographs and key basic item prices. Suspended signs direct customers to departments within the store where each merchandise line is displayed as a separate collection of coordinated basic and fashion items, with matching accessories. The Company believes that its merchandise presentation effectively displays "The Children's Place" look and creates a visually attractive selling environment that maximizes customer convenience and encourages the purchase of multiple items.

To achieve uniform merchandise presentation and to maximize sales of coordinating items, store management is provided with detailed written and visual store plans that specify merchandise placement. Standardization of store design and merchandise presentation also promotes effective usage and productivity of selling space and maximizes customer convenience in merchandise selection. By seeking a uniform appearance in store design and merchandise presentation, the Company believes that it is able to maintain and enhance "The Children's Place" brand image.

As of April 1, 1998, approximately 80% of the Company's stores (excluding outlet stores) are based on the new "apple-maple" prototype. The Company generally remodels its stores to the new prototype specifications as their leases are renewed. In many cases, conversion to the new prototype involves relocation within a mall as well as a reduction in space.

STORE OPERATIONS. The Company's store operations are directed by the Company's Vice President, Store Operations, three regional managers and 22 district managers. Individual stores are managed by a store manager and up to three co-managers depending on sales volume. A typical store employs a number of full-time and part-time sales associates, and hires additional part-time associates based on seasonal needs.

Regional and district managers spend a majority of their work week on store selling floors, providing direction, motivation, training and support to field personnel. Store managers are responsible for supervising customer service, store presentation, staff scheduling, shrinkage control and seeing that the store achieves its planned sales goals. Customer service is a major focus for store management and sales associates, and continuing efforts are made to maximize selling productivity. The Company engages in an ongoing process of training management and sales associates in the areas of customer service, selling skills, merchandising, procedures and controls, utilizing visual aids, training manuals and training workshops.

Management maintains a high level of communication between the home office and stores. Frequent communication through the point-of-sale ("POS") registers, biweekly mail packs to each store, voicemail and district manager conference calls augment the frequent store visits by the regional and district managers. In addition, home office and district manager meetings engender a strong team culture. The Company is continuing to improve the communication between the home office and its stores with the use of new technology.

STORE EXPANSION PROGRAM

In mid-1996, the Company began implementing an aggressive growth strategy designed to capitalize on its business strengths and its strong store economics. In fiscal 1996 and fiscal 1997, the Company opened 18 and 47 stores, respectively. The Company intends to continue its store expansion program and currently plans to open approximately 50 stores in fiscal 1998, of which 17 stores were opened as of April 1, 1998.

The Company's expansion strategy focuses primarily on mall-based locations. The regional malls which the Company targets are typically high volume centers, generally measuring one million square feet or more, having at least three department stores or other anchor tenants and various specialty retailers, as well as several entertainment features (such as restaurants, a food court and/or movie theaters). The Company conducts extensive analyses of potential store sites, taking into account the performance of other specialty retail tenants, the existing anchor stores and other stores, the size, type and average sales per square foot of the mall and the demographics of the surrounding area. The most important consideration for the Company in evaluating a store location within a mall is placement of the store relative to mall traffic patterns. In addition, the Company continuously evaluates opportunities to add stores in other types of locations, such as outlet centers and urban street locations. The Company intends to focus its expansion by establishing clusters of stores in states in which it already has stores or in contiguous states in order to strengthen "The Children's Place" brand name recognition.

The Company believes that its value pricing and its merchandise assortment appeal to customers in all socioeconomic groups, affording it substantial expansion opportunities. There are hundreds of regional malls, street locations and outlet centers in the United States that the Company believes would be suitable sites for the Company's stores.

MARKETING

ADVERTISING AND PROMOTION. The Company strives to enhance its reputation in the marketplace and build recognition and equity in "The Children's Place" brand name by advertising its image, product and message through in-store photographs and product displays, direct mail and, to a lesser extent, regional and national print media. The Company's point of purchase marketing strategy uses high image visuals to highlight the individual departments and seasonal fashion looks, promoting key basic items at price points representing exceptional value, and focusing on store-front and window displays to attract customers into the stores. The Company primarily relies on mall-based traffic and its reputation, loyal customer base and brand image to generate sales. Moreover, instead of relying on special holiday or one-day promotions to stimulate sales, the Company relies on its everyday value pricing strategy to attract customers. To encourage larger purchases, the Company periodically distributes coupons providing a discount on purchases above a specified minimum.

PROPRIETARY CREDIT CARD. The Company views the use of a proprietary credit card as an important marketing and communication tool and introduced "The Children's Place" credit card in January 1995 with Hurley State Bank, through a third party credit card service. Pursuant to a merchant services agreement with the Company, Hurley State Bank issues to the Company's customers private label credit cards for use exclusively at the Company's stores and extends credit to such customers on a non-recourse basis to the Company. Hurley State Bank's agent, SPS, administers the approval, issuance and administration of the credit card program. For these services, the Company pays to Hurley State Bank a merchant fee which is calculated as a percentage of sales under the credit card and certain other fees related to cardholder sales volume. In fiscal 1997, the Company paid $1,360,000 to Hurley State Bank in merchant fees. The number of holders of the Company's proprietary credit card has grown to over 350,000. Sales on the proprietary credit card accounted for approximately 13% of the Company's fiscal 1997 net sales. The Company believes that its proprietary credit card promotes affinity and loyalty among those customers who use the card and facilitates communication with such customers through delivery of coupons and promotional materials. The Company markets its proprietary credit card by offering customers who apply for a card a 15% discount on their initial purchase using the card. The Company's average dollar sale to customers using "The Children's Place" card has been substantially higher than the Company's overall average dollar sale.

MANAGEMENT INFORMATION SYSTEMS

The Company's management information and electronic data processing systems consist of a full range of retail, financial and merchandising systems, including purchase order management, importing, inventory planning and control, inventory distribution, sales reporting and accounts payable. These systems operate on a Hitachi EX/27 platform mainframe computer and utilize a combination of third party and proprietary software packages. Management views technology as an important tool in efficiently supporting its rapid growth and maintaining a competitive industry position.

Unit and dollar sales information is updated daily in the merchandise reporting systems by polling each store's POS terminals. Through automated nightly two-way electronic communication with each store, sales information, payroll hours and other store initiated transfers are uploaded to the host system, and price changes and other information are downloaded through the POS devices. Information obtained from such daily polling generally results in automatic merchandise replenishment in response to the specific stock keeping unit ("SKU") requirements of each store. The Company evaluates information obtained through daily reporting to identify sales trends and to implement merchandising decisions regarding markdowns and allocation of merchandise.

The Company is committed to utilizing technology to further enhance its competitive position. In this regard, the Company is scheduled to install a warehouse management system in connection with the planned relocation of its distribution facility. The Company also intends to replace its POS software during fiscal 1999 to enhance customer service and communication between the Company's home office and its stores.

DISTRIBUTION

All merchandise is currently received, inspected, processed and distributed through the Company's 65,000 square foot leased distribution facility at its headquarters in West Caldwell, New Jersey. The Company also leases a 32,000 square foot facility in Fairfield, New Jersey. In light of its stringent quality assurance procedures implemented during the manufacturing process, the Company has been able to substantially reduce the physical inspection of garments received at the distribution facility. Accordingly, most merchandise flows through the distribution facility and is shipped directly to stores each weekday by commercial carrier, reducing costs and expediting delivery to the Company's stores. The Company has experienced occasional shipment delays, but no such delay has had a material adverse effect on the Company. The Company intends to move its distribution center to a larger facility within the next 12 months to accommodate the Company's continued growth and is currently evaluating suitable sites.

COMPETITION

The children's apparel retail business is highly competitive. The Company competes in substantially all of its markets with GapKids, BabyGap and Old Navy (each of which is a division of The Gap, Inc.), The Gymboree Corporation, Limited Too (a division of The Limited, Inc.), J.C. Penney Company, Inc., Sears, Roebuck and Co. and other department stores that sell children's apparel and accessories, as well as certain discount stores such as Wal-Mart Stores, Inc. and Kids "R" Us (a division of Toys "R" Us, Inc.). The Company also competes with a wide variety of local and regional specialty stores and with other national retail chains and catalog companies. One or more of its competitors are present in substantially all of the malls in which the Company has stores. Many of the Company's competitors are larger than the Company or have access to significantly greater financial, marketing and other resources than the Company.

The Company believes that the principal factors of competition in the Company's marketplace are perceived value, price, quality, merchandise assortment, brand name recognition, customer service, and a friendly store environment. Management believes that the Company has been able to effectively compete against other retailers of children's apparel because of its reputation in the marketplace and consistent merchandise offering of high quality, everyday value-priced childrenswear, sold in a friendly environment.

TRADEMARKS AND SERVICE MARKS

Each of "The Children's Place," "Baby Place," "The Place," "TCP" and "Authentic Tiny Tee" has been registered as a trademark and/or a service mark with the United States Patent and Trademark Office. The registration of the trademarks and the service marks may be renewed to extend the original registration period indefinitely, provided the marks are still in use. The Company intends to continue to use and protect its trademarks and service marks and maintain their registrations. The Company also intends to take action to protect its trademarks in certain foreign countries. The Company believes its trademarks and service marks have received broad recognition and are of significant value to the Company's business.

EMPLOYEES

As of April 1, 1998, the Company had approximately 840 full-time employees, of whom approximately 220 are based at the Company's headquarters and distribution center, and approximately 1,890 part-time employees. None of the Company's employees is covered by a collective bargaining agreement. The Company believes its relations with its employees are good.

EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the officers of the Company:

NAME	Age	Position
Ezra Dabah..................	44	Chairman of the Board of Directors and Chief Executive Officer
Stanley B. Silver...........	59	President, Chief Operating Officer and Director
Clark Hinkley.............	56	Executive Vice President, Merchandising
Seth L. Udasin.............	41	Vice President, Chief Financial Officer and Treasurer
Steven Balasiano...........	35	Vice President, General Counsel and Secretary
Mario A. Ciampi............	37	Vice President, Real Estate & Construction
Edward DeMartino...........	46	Vice President, Management Information Systems
Robert Finkelstein.........	45	Vice President, Merchandise Planning and Allocation
Nina L. Miner..............	48	Vice President, Design and Product Development
Salvatore W. Pepitone......	50	Vice President, Distribution Center
Mark L. Rose...............	32	Vice President, Sourcing and Production
Susan F. Schiller.........	37	Vice President, Store Operations
Diane M. Timbanard........	53	Vice President, Merchandising Manager

EZRA DABAH has been Chief Executive Officer of the Company since 1991 and Chairman of the Board of Directors since purchasing the Company in 1989 with certain members of his family. Mr. Dabah has more than 25 years of merchandising, apparel and buying experience. From 1972 to May 1993, Mr. Dabah was a director and an executive officer of The Gitano Group, Inc. and its affiliates (collectively, "Gitano"), a company of which Mr. Dabah and certain members of his family were principal stockholders and which became a public company in 1988. From 1973 until 1983, Mr. Dabah was in charge of product design, merchandising and procurement for Gitano. In 1983, Mr. Dabah founded and became President of a children's apparel importing and manufacturing division for Gitano which later became an incorporated subsidiary, Eva Joia Incorporated, ("E.J. Gitano"). Mr. Dabah is Stanley Silverstein's son-in-law and Nina Miner's brother-in-law.

STANLEY B. SILVER has been President and Chief Operating Officer of the Company since June 1996 and prior to that served as the Company's Executive Vice President and Chief Operating Officer since joining the Company in 1991. Mr. Silver has been a Director of the Company since July 1996. Before joining the Company in 1991, Mr. Silver held various posts at Grand Met PLC and Mothercare PLC in the United Kingdom and The Limited, Inc. in the United States. Mr. Silver has over 25 years of retailing experience in Europe and the United States and currently serves as Chairman of the Retail Council of New York State.

CLARK HINKLEY has been Executive Vice President, Merchandising since joining the Company in February 1998. Prior to joining the Company, Mr. Hinkley was the Executive Vice President and Chief Operating Officer of The Talbots, Inc., a position he held since 1993. Mr. Hinkley has over 35 years of retailing experience with over 25 years of senior level management and merchandising experience. Prior to his 10 years with Talbots, Mr. Hinkley was with the Dayton Hudson Corporation and its predecessor company, J.L. Hudson.

SETH L. UDASIN has been Vice President, Chief Financial Officer and Treasurer since 1996. Since joining the Company in 1983, Mr. Udasin has held various other positions, including Controller from 1988 to 1994 and Vice President - Finance from 1994 to 1996.

STEVEN BALASIANO has been Vice President and General Counsel since joining the Company in December 1995 and Secretary since January 1996. Prior to joining the Company, Mr. Balasiano practiced law in the New York offices of the national law firms of Stroock & Stroock & Lavan LLP from 1992 to 1995 and Kelley Drye & Warren from 1987 to 1992.

MARIO A. CIAMPI has been Vice President, Real Estate and Construction since joining the Company in June 1996. Prior to joining the Company, Mr. Ciampi was a principal of a private consulting firm, specializing in retail and real estate restructuring, from 1991 to 1996, in which capacity he was retained as an outside consultant on the Company's real estate activities since 1991.

EDWARD DEMARTINO has been Vice President, Management Information Systems since 1991. Mr. DeMartino began his career with the Company in 1981 as a System Development Project Manager and was subsequently promoted to Director, MIS in 1989.

ROBERT FINKELSTEIN joined the Company in 1989 as Vice President, Merchandise Planning and Allocation. Immediately prior to joining the Company, Mr. Finkelstein was a Director of Distribution for Payless Shoe Stores.

NINA L. MINER has been Vice President, Design and Product Development since joining the Company in 1991. Before joining the Company, Ms. Miner held various management positions at E.J. Gitano. Ms. Miner is Stanley Silverstein's daughter and Ezra Dabah's sister-in-law.

SALVATORE W. PEPITONE has been Vice President, Distribution Center since joining the Company in 1991. Prior to joining the Company, Mr. Pepitone was employed in a similar capacity by E.J. Gitano.

MARK L. ROSE has been Vice President, Sourcing and Production since 1992. Mr. Rose joined the Company in 1990 and was promoted to Senior Product Buyer that year. Prior to joining the Company, Mr. Rose held various positions at Macy's.

SUSAN F. SCHILLER has been Vice President, Store Operations since 1994. Ms. Schiller began her career with the Company as an Assistant Store Manager in 1985 and subsequently served in various positions, including Director of Store Communications from 1991 to 1993 and Director of Store Operations from 1993 to 1994.

DIANE M. TIMBANARD has been Vice President, Merchandising Manager since joining the Company in 1990. Prior to joining the Company, Ms. Timbanard held various merchandising and management positions, including Vice President of Merchandising for Macy's.

RISK FACTORS

Investors in the Company should consider the following risk factors as well as the other information set forth or incorporated by reference herein.

AGGRESSIVE GROWTH STRATEGY

The Company's net sales have grown significantly during the past several years, primarily as a result of the opening of new stores and, to a lesser extent, increases in comparable store sales. The Company intends to continue to pursue an aggressive growth strategy for the foreseeable future, and its future operating results will depend largely upon its ability to open and operate new stores successfully and to manage a larger business profitably. The Company anticipates opening approximately 50 new stores during fiscal 1998, which will result in a significant increase in the number of stores operated by the Company.

The Company is subject to a variety of business risks generally associated with rapidly growing companies. The Company's ability to open and operate new stores successfully will depend on many factors, including, among others, the availability of suitable store locations, the ability to negotiate acceptable lease terms, the ability to timely complete necessary construction, the ability to obtain an adequate supply of finished products, the ability to hire and train qualified managers and other employees, the ability to successfully integrate new stores into the Company's existing operations and the ability to recognize and respond to regional differences in customer preferences (such as climate-related preferences).

There can be no assurance that the Company will be able to achieve its planned expansion on a timely and profitable basis or that it will be able to achieve results similar to those achieved in existing locations in prior periods. Operating margins may also be adversely affected during periods in which expenses have been incurred in anticipation of new store openings. Furthermore, the Company will need to continually evaluate the adequacy of its store management, management information and distribution systems to manage its planned expansion. Any failure to successfully and profitably execute its expansion plans could have a material adverse effect on the Company.

The Company expects to spend approximately $22 million in fiscal 1998 on capital expenditures. The Company believes that cash generated from operations and funds available under the Company's revolving line of credit will be sufficient to fund its capital requirements through fiscal 1999. However, there can be no assurance that the Company will not be required to seek additional funds for its capital needs nor can there be any assurance that the Company would be able to obtain such funds.

CHANGES IN COMPARABLE STORE SALES RESULTS FROM PERIOD TO PERIOD

Numerous factors affect comparable store sales results, including among others, weather conditions, fashion trends, the retail sales environment, economic conditions and the Company's success in executing its business strategy. The Company's quarterly comparable store sales results have fluctuated significantly in the past, and the Company anticipates that quarterly comparable store sales will fluctuate in the future. In addition, the Company does not expect its comparable store sales to continue to increase at rates similar to those achieved in recent periods. Moreover, there can be no assurance that comparable store sales for any particular period will not decrease in the future.

MERCHANDISE TRENDS

The Company's continued success will depend in part on its ability to anticipate and respond to fashion trends and consumer preferences. The Company's design, manufacturing and distribution process generally requires up to nine months, during which time fashion trends and consumer preferences may change. Any failure by the Company to anticipate, identify or respond to future fashion trends may adversely affect customer acceptance of its products or require substantial markdowns, which could have a material adverse effect on the Company.

In addition, certain public school districts in various markets in which the Company has stores are requiring that their grade school students wear uniforms. This may have a material adverse effect on the Company.

DISRUPTIONS IN RECEIVING AND DISTRIBUTION

All of the Company's merchandise is currently shipped directly from manufacturers through freight consolidators to the Company's distribution facilities in West Caldwell, New Jersey and Fairfield, New Jersey. The Company's operating results depend in large part on the orderly operation of this receiving and distribution process, which depends on manufacturers' adherence to shipping schedules and the Company's effective management of its distribution facilities. In addition, there can be no assurance that the Company has anticipated, or will be able to anticipate, all of the changing demands which its expanding operations will impose on its receiving and distribution system, nor can there be any assurance that events beyond the control of the Company, such as a strike or other disruption affecting the parcel service that delivers substantially all of the Company's merchandise to its stores, will not result in delays in delivery of merchandise to stores.

The Company intends to relocate its distribution facility during the next 12 months to accommodate future growth and is in the process of selecting a suitable site. There can be no assurance that delays, cost overruns or other complications in the relocation to a new distribution facility will not result in a significant interruption in the receipt and distribution of merchandise.

RELIANCE ON INFORMATION SYSTEMS

The Company relies on various information systems to manage its operations and regularly makes investments to upgrade, enhance or replace such systems. In connection with its planned relocation of its distribution facility, the Company intends to install a warehouse management system to facilitate more efficient receiving and distribution of inventory. The Company also intends to replace its current POS software with an upgraded system during fiscal 1999.

DEPENDENCE ON UNAFFILIATED MANUFACTURERS AND INDEPENDENT AGENTS

The Company does not own or operate any manufacturing facilities and is therefore dependent upon independent third parties for the manufacture of all of its products. The Company's products are currently manufactured to its specifications pursuant to purchase orders by more than 50 independent manufacturers located primarily in Asia. The Company has no exclusive or long-term contracts with its manufacturers and competes with other companies for manufacturing facilities. In addition, the Company has no formal written agreement with the Hong Kong-based trading company, which accounts for approximately 35% of the Company's products. The Company also purchases approximately 40% of its products from Taiwan through a single agent, which has an exclusive arrangement with the Company. Although management believes that it has established close relationships with the Company's principal manufacturers and independent agents, the inability to maintain such relationships or to find additional sources to cover future growth could have a material adverse effect on the Company.

RISKS OF USING FOREIGN MANUFACTURERS; POSSIBLE ADVERSE IMPACT OF UNAFFILIATED MANUFACTURERS' FAILURE TO COMPLY WITH ACCEPTABLE LABOR PRACTICES

The Company's business is subject to the risks generally associated with purchasing products from foreign countries, such as foreign governmental regulations, political instability, currency and exchange risks, quotas on the amounts and types of merchandise which may be imported into the United States from other countries, disruptions or delays in shipments and changes in economic conditions in countries in which the Company's manufacturing sources are located. The Company cannot predict the effect that such factors will have on its business arrangements with foreign manufacturing sources. If any such factors were to render the conduct of business in a particular country undesirable or impractical, or if the Company's current foreign manufacturing sources were to cease doing business with the Company for any reason, the Company's business and operating results could be adversely affected. The Company's business is also subject to the risks associated with changes in United States legislation and regulations relating to imported apparel products, including quotas, duties, taxes and other charges or restrictions on imported apparel. The Company cannot predict whether such changes or other charges or restrictions will be imposed upon the importation of its products in the future, or, generally, the effect any such event would have on the Company. However, if China were to lose its Most Favored Nation trading status with the United States, such event could have a material adverse effect on the Company.

The Company requires its independent manufacturers to operate in compliance with applicable laws and regulations. While the Company's purchasing guidelines promote ethical business practices, the Company does not control such manufacturers or their labor practices. The violation of labor or other laws by an independent manufacturer of the Company, or the divergence of an independent manufacturer's labor practices from those generally accepted as ethical in the United States, could have a material adverse effect on the Company.

FOREIGN CURRENCY FLUCTUATIONS

The Company conducts its business in United States dollars. However, because the Company purchases substantially all of its products overseas, the cost of these products may be affected by changes in the values of the relevant currencies. To date, the Company has not considered it necessary to hedge against foreign currency fluctuations. Although foreign currency fluctuations have had no material adverse effect on the Company in the past, there can be no assurance that such fluctuations will not have such an effect on the Company in the future.

DEPENDENCE ON KEY PERSONNEL

The leadership of Ezra Dabah, the Company's Chief Executive Officer and Chairman of the Board, and of Stanley B. Silver, the Company's President and Chief Operating Officer, has been instrumental in the Company's success. The loss of the services of either Mr. Dabah or Mr. Silver could have a material adverse effect on the Company. The Company has entered into employment agreements with Messrs. Dabah and Silver, but there can be no assurance that the Company will be able to retain their services. In addition, other members of management have substantial experience and expertise in the Company's business and have made significant contributions to its growth and success. The loss of services of one or more of these individuals, or the inability to attract additional qualified managers or other personnel as the Company grows, could have a material adverse effect on the Company. The Company is not protected by any key-man or similar life insurance for any of its executive officers.

COMPETITION

The children's apparel retail business is highly competitive. The Company competes in substantially all of its markets with GapKids, BabyGap and Old Navy (each of which is a division of The Gap, Inc.), The Gymboree Corporation, Limited Too (a division of The Limited, Inc.), J.C. Penney Company, Inc., Sears, Roebuck and Co. and other department stores that sell children's apparel and accessories, as well as certain discount stores such as Wal-Mart Stores, Inc. and Kids "R" Us (a division of Toys "R" Us, Inc.). The Company also competes with a wide variety of local and regional specialty stores and with other national retail chains and catalog companies. One or more of its competitors are present in substantially all of the malls in which the Company has stores. Many of the Company's competitors are larger than the Company and have access to significantly greater financial, marketing and other resources than the Company. There can be no assurance that the Company will be able to compete successfully against existing or future competition.

FLUCTUATIONS IN QUARTERLY RESULTS AND SEASONALITY

As is the case with many apparel retailers, the Company experiences seasonal fluctuations in its net sales and net income, with the greater amount of the Company's net sales and net income typically realized during the third and fourth quarters of the fiscal year, which include the back-to-school and holiday seasons. Net sales and net income are generally weakest during the first two fiscal quarters and are often lower during the second fiscal quarter than during the first fiscal quarter. The Company has experienced first and second quarter losses in prior years and expects to experience second quarter losses, and may experience first quarter losses, in the future.

The Company's quarterly results of operations may also fluctuate significantly from quarter to quarter as a result of a variety of other factors, including the timing of new store openings and related pre-opening and other start-up costs, net sales contributed by new stores, increases or decreases in comparable store sales, adverse weather conditions, shifts in timing of certain holidays, changes in the Company's merchandise mix and overall economic conditions. Any failure by the Company to meet its business plans for the third and fourth quarter of any fiscal year would have a material adverse effect on the Company's earnings, which in all likelihood would not be offset by satisfactory results achieved in other quarters of the same fiscal year. In addition, because the Company's expense levels are based in part on expectations of future sales levels, a shortfall in expected sales could result in a disproportionate decrease in the Company's net income.

NET OPERATING LOSS CARRYFORWARDS

The Company reported net operating loss carryforwards ("NOLs") of $57.3 million on its fiscal 1995 income tax return. The Company utilized $11.6 million and $8.1 million of these NOLs to offset taxable income earned by the Company in its 1996 taxable year and 1997 taxable year, respectively, leaving approximately $38 million to be utilized in subsequent taxable years. The Company does not believe that the Company's initial public offering in September 1997 affected the Company's ability to utilize these NOLs. However, because the amount and availability of these NOLs are subject to review by the Internal Revenue Service, there can be no assurance that the NOLs would not be reduced or their use limited as the result of an audit of the Company's tax returns. In addition, future events, including certain transactions involving outstanding shares of the Company's Common Stock, could affect the Company's ability to utilize its NOLs. If the amount of these NOLs were reduced or their availability limited, the Company could be liable for additional taxes with respect to its 1996 and 1997 taxable years, and its tax liability could be increased for its current and subsequent taxable years.

CONTROL BY CERTAIN STOCKHOLDERS

As of April 1, 1998, Ezra Dabah and certain members of his family beneficially own 11,944,872 shares of the Company's Common Stock, constituting approximately 47.2% of the outstanding Common Stock. Two funds managed by Saunders Karp & Megrue, L.P. ("SKM"), The SK Equity Fund, L.P. and SK Investment Fund, L.P. (collectively, the "SK Funds"), together with a former consultant to SKM (collectively with the SK Funds, the "SKM Investors"), own approximately 7,659,889 shares or 30.3% of the outstanding Common Stock. Pursuant to an amended stockholders agreement, the SKM Investors and certain other stockholders, who own in the aggregate 79.0% of the outstanding Common Stock have agreed to vote for the election of two nominees of the SKM Investors and three nominees of Ezra Dabah to the Company's Board of Directors. As a result, the SKM Investors and Ezra Dabah are able to control the election of the Company's directors. In addition, if the SKM Investors and Mr. Dabah were to vote together, they would be able to determine the outcome of any matter submitted to a vote of the Company's stockholders for approval.

STOCK PRICE VOLATILITY

The Company's Common Stock is quoted on the Nasdaq National Market, which has experienced and is likely to experience in the future significant price and volume fluctuations which could adversely affect the market price of the Common Stock without regard to the operating performance of the Company. In addition, the Company believes that factors such as quarterly fluctuations in the financial results of the Company, the Company's comparable store sales results, announcements by other apparel retailers, the overall economy and the condition of the financial markets could cause the price of the Common Stock to fluctuate substantially.

ANTI-TAKEOVER MATTERS

Certain provisions of the Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") and Amended and Restated Bylaws (the "Bylaws") may be deemed to have anti-takeover effects and may discourage, delay or prevent a takeover attempt that a stockholder might consider in its best interest. These provisions, amount other things, (i) classify the Company's Board of Directors into three classes, each of which will serve for different three year periods, (ii) provide that only the Chairman of the Board of Directors may call special meetings of the stockholders, (iii) provide that a director may be removed by stockholders only for cause by a vote of the holders of more than two-thirds of the shares entitled to vote, (iv) provide that all vacancies on the Company's Board of Directors, including any vacancies resulting from an increase in the number of directors, may be filled by a majority of the remaining directors, even if the number is less than a quorum, (v) establish certain advance notice procedures for nominations of candidates for election as directors and for stockholder proposals to be considered at stockholders' meetings, and (vi) require a vote of the holders of more than two-thirds of the shares entitled to vote in order to amend the foregoing provisions and certain other provisions of the Certificate of Incorporation and Bylaws. In addition, the Board of Directors, without further action of the stockholders, is permitted to issue and fix the terms of preferred stock which may have rights senior to those of the Common Stock. Moreover, the Company is subject to the provisions of Section 203 of the Delaware General Corporation Law (the "DGCL") which would require a two-thirds vote of stockholders for any business combination (such as a merger or sale of all or substantially all of the Company's assets) between the Company and an "interested stockholder," unless such transaction is approved by a majority of the disinterested directors or meets certain other requirements. In certain circumstances, the existence of these provisions which inhibit or discourage takeover attempts could reduce the market value of the Common Stock.

ITEM 2.
PROPERTIES

The Company's home office and distribution facility are located in West Caldwell, New Jersey, and are occupied under the terms of a lease covering approximately 91,000 square feet. The Company also leases a 32,000 square feet facility in Fairfield, New Jersey. The Company expects to relocate its offices and distribution facility over the next 12 months but may continue to be obligated on its current lease until its expiration in March 1999.

All of the Company's existing store locations are leased by the Company, with lease terms expiring between 1998 and 2009 and with an average unexpired lease term of 7.2 years. The leases for most of the existing stores are for terms of ten years and provide for contingent rent based upon a percent of sales in excess of specified minimums. Leases for future stores will likely include similar contingent rent provisions.

ITEM 3.
LEGAL PROCEEDINGS

On October 16, 1997, Stephen Brosious and Rudy Pallastrone, who allegedly purchased shares of the Company's common stock in an initial public offering on or about September 19, 1997 (the "IPO"), filed a lawsuit against the Company, several of the Company's directors and officers, and the underwriters of the IPO (the "Defendants") in the United States District Court for the District of New Jersey (the "Court"). The named plaintiffs purport to maintain a class action on behalf of all persons, other than the Defendants, who purchased the Company's common stock issued in connection with the IPO on or about September 19, 1997 through October 13, 1997. The complaint alleges that the Defendants violated federal securities laws by making materially false or misleading statements and/or omissions in connection with the IPO. The plaintiffs seek monetary damages of an unspecified amount, rescission or rescissory damages and fees and costs. Since October 16, 1997, fifteen additional putative class actions making substantially similar allegations and seeking substantially similar relief have been filed against some or all of the Defendants. On January 13, 1998, the sixteen putative class actions were consolidated in the Court and on February 26, 1998, the plaintiffs served and filed their amended consolidated complaint. No discovery has been taken. The Company has filed a motion to dismiss this complaint which is currently pending before the Court. The Company believes that the allegations made in this complaint are untrue and totally without merit and intends to defend them vigorously.

On October 27, 1997, Bulldog Capital Management, L.P., a limited partnership that serves as a general partner for a series of investment funds which allegedly purchased shares of the Company's common stock issued in connection with the IPO, also filed a lawsuit against the Company and several of the Company's directors and officers in the Superior Court of New Jersey, Essex County Division. The complaint alleges that by making materially false or misleading statements and/or omissions in connection with the IPO, the Company and several of the Company's directors and officers violated provisions of federal and state law. The plaintiff seeks monetary damages of an unspecified amount, rescission or rescissory damages and fees and costs. On November 20, 1997, the plaintiff filed its first request for production of documents from the defendants. No discovery has been taken. This action is presently stayed, pending resolution of the defendant's motion to dismiss in the federal lawsuit described above. The Company believes that the allegations made in this complaint are untrue and totally without merit and intends to defend them vigorously.

The Company is also 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.

ITEM 4.

SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5.
MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq National Market under the symbol "PLCE". The following table sets forth the quarterly high and low sale prices per share, as reported on the Nasdaq National Market.

	FISCAL 1997	
	High	Low
Third Quarter, beginning September 19, 1997.......	16 1/8	4 1/2
Fourth Quarter....................................	7 7/8	4 3/8

On April 1, 1998, the last price of the Common Stock as reported on the Nasdaq National Market was $8.875 per share. As of April 1, 1998, the approximate number of holders of record of the Company's Common Stock was 1,800.

The Company has never declared or paid cash dividends on its Common Stock and anticipates that all future earnings will be retained for development of its business. The Company's revolving credit facility has a financial covenant which currently prohibits the payment of dividends. The payment of any future dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, future earnings, capital requirements, the securing of a waiver from the Company's revolving credit lender, the financial condition of the Company and general business conditions.

ITEM 6.
SELECTED FINANCIAL DATA

The information required by this item is incorporated herein by reference to page 13 through 14 of the 1997 Annual Report to Stockholders filed as Exhibit 13.1 to this Annual Report on Form 10-K.

ITEM 7.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is incorporated herein by reference to pages 15 through 19 of the 1997 Annual Report to Stockholders filed as Exhibit 13.1 to this Annual Report on Form 10-K.

ITEM 7A.
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 8.
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated herein by reference to pages 20 through 35 of the 1997 Annual Report to Stockholders filed as Exhibit 13.1 to this Annual Report on Form 10-K.

ITEM 9.
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10.
DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated herein by reference to the sections entitled "Election of Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the 1997 Proxy Statement. See also Item 1.

ITEM 11.
EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections entitled "Information Regarding the Board of Directors - Compensation of Directors" and "Executive Compensation" in the 1997 Proxy Statement.

ITEM 12.
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated herein by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the 1997 Proxy Statement.

ITEM 13.
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The information required by this item is incorporated herein by reference to the sections entitled "Executive Compensation - Employment Agreements" and "Compensation Committee Interlocks and Insider Participation" in the 1997 Proxy Statement.

PART IV

ITEM 14.
EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

(A)(1) FINANCIAL STATEMENTS

The following documents are incorporated by reference to pages 20 through 35 of the 1997 Annual Report to Stockholders filed as Exhibit 13.1 to this Annual Report on Form 10-K.

Report of Independent Public Accountants
Balance Sheets as of January 31, 1998 and February 1, 1997
Statements of Income for each of the three fiscal years ended January 31, 1998
Statements of Changes in Stockholders' Equity (Deficit) for the three fiscal years ended January 31, 1998
Statements of Cash Flows for the three fiscal years ended January 31, 1998
Notes to Financial Statements

(A)(2) FINANCIAL STATEMENT SCHEDULES

Financial statement schedules have been omitted because they are not required or are not applicable.

(A)(3) EXHIBITS

3.1*	Form of Amended and Restated Certificate of Incorporation of the Company.
3.2*	Form of Amended and Restated ByLaws of the Company.
4.1*	Form of Certificate for Common Stock of the Company.
9.1*	Form of Amended and Restated Stockholders Agreement, dated as of September 18, 1997.
10.1*	1996 Stock Option Plan of The Children's Place Retail Stores, Inc.
10.2*	Form of 1997 Stock Option Plan of The Children's Place Retail Stores, Inc.
10.3*	The Children's Place Retail Stores, Inc. 401(k) Plan.
10.4*	Form of The Children's Place Retail Stores, Inc. Employee Stock Purchase Plan.
10.5*	The Children's Place Retail Stores, Inc. Management Incentive Plan.
10.6*	Form of Amended and Restated Loan and Security Agreement dated as of July 31, 1997, between the Company and Foothill Capital Corporation.
10.7*	Merchant Services Agreement dated December 12, 1994 between the Company and Hurley State Bank.
10.8*	Employment Agreement dated as of June 27, 1996 between the Company and Ezra Dabah.
10.9*	Employment Agreement dated as of June 27, 1996 between the Company and Stanley B. Silver.
10.10*	Form of Indemnification Agreement between the Company and the members of its Board of Directors.
10.11*	Lease Agreement dated August 11, 1993 between the Company and Suburban Mall V Associates, as amended by First Amendment to Lease, dated October 21, 1994 between the Company and Suburban Mall V Associates.
10.12*	Form of Amended and Restated Registration Rights Agreement, dated as of September 18, 1997.
10.13*	Letter Agreement as to employment, dated January 18, 1991, between the Company and Diane M. Timbanard.
10.14*	Letter Agreement as to severance pay, dated January 22, 1991, between the Company and Diane M. Timbanard.
10.17*	Buying Agency Agreement dated September 17, 1996 between the Company and KS Best International.
10.18*	Advisory Agreement dated June 28, 1996 between the Company and Saunders Karp & Megrue, L.P.
10.19**	Amendment as of October 27, 1997 to Merchant Services Agreement dated December 12, 1994 between the Company and Hurley State Bank.
10.20**	Employee Stock Servicing Agreement between the Company and Merrill Lynch, Pierce, Fenner and Smith Incorporated dated October 30, 1997.
10.21	Employment Agreement dated as of January 30, 1998 between the Company and Clark Hinkley.
11.1	Statement re computation of per share earnings.
13.1	Pages 13 - 35 of the 1997 Annual Report to Stockholders.
27.1	Financial Data Schedule.

* Incorporated by reference to the registrant's Registration Statement on Form S-1 (No. 333-31535). Exhibit numbers are identical to the exhibit numbers incorporated by reference to such registration on statement.

** Incorporated by reference to the registrant's quarterly report on Form 10-Q for the period ended November 1, 1997. Exhibit 10.19 was filed previously as Exhibit 10.1, and Exhibit 10.20 was filed previously as Exhibit 10.2 in such quarterly report.

(B) REPORTS ON FORM 8-K

No reports were filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Children's Place Retail Stores, Inc.

By: /s/ EZRA DABAH
Ezra Dabah
Chairman of the Board and
Chief Executive Officer

May 1, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ EZRA DABAH Ezra Dabah	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	May 1, 1998
/s/ STANLEY B. SILVER Stanley B. Silver	President, Chief Operating Officer and Director	May 1, 1998
/s/ SETH L. UDASIN Seth L. Udasin	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 1, 1998
/s/ STANLEY SILVERSTEIN Stanley Silverstein	Director	May 1, 1998
/s/ JOHN MEGRUE John Megrue	Director	May 1, 1998
/s/ DAVID J. ODDI David J. Oddi	Director	May 1, 1998

EXHIBIT 10.21

THE CHILDREN'S PLACE RETAIL STORES, INC.

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of January 30, 1998, between Clark Hinkley (Executive) and THE CHILDREN'S PLACE RETAIL STORES, INC., a Delaware corporation (Employer).

SECTION 1
EMPLOYMENT OF EXECUTIVE

1.01. Employer hereby agrees to employ Executive and Executive hereby agrees to be and remain in the employ of Employer upon the terms and conditions hereinafter set forth.

SECTION 2
EMPLOYMENT PERIOD

2.01. The terms of Executive's employment under this Agreement (the Employment Period) shall commence on February 2, 1998, and shall continue unless terminated in accordance with the provisions of Section 5. Executive's employment is conditioned upon consent by Talbots, that Executive's employment with Employer does not violate any agreement Executive has with Talbots.

SECTION 3
DUTIES AND RESPONSIBILITIES

3.01. GENERALLY. During the Employment Period, Executive (i) shall be employed as Executive Vice President-Merchandising, and (ii) shall devote his full attention and expend his efforts, energies and skills on a full-time basis to the business of Employer and other enterprises controlled by, or under common control with Employer (collectively, the Company). Without limiting the generality of the foregoing, Executive shall have all such duties as may be delegated to him by the Chief Executive Officer and all such other duties and responsibilities customarily undertaken and performed by persons in his position in similar businesses to that of Employer. Executive's employment by Employer shall constitute his exclusive employment during the Employment period. In no event shall Executive serve as a director of any other business corporation or as a general partner of any partnership or as a consultant to any other business except with the prior approval of the Chief Executive Officer of Employer.

3.02. REPORTING. Executive shall report directly to the Chief Executive Officer of Employer. During the Employment Period, Executive will be subject to all of the policies, rules and regulations of which Executive is given notice applicable to senior executives of Employer and will comply with all directions and instructions of the Chairman of the Board and the Chief Executive Officer.

3.03. PLACE OF EMPLOYMENT. Executive shall perform his duties primarily at the Company's headquarters.

SECTION 4
COMPENSATION

4.01. COMPENSATION, GENERALLY. For all services rendered and required to be rendered by covenants of, and restrictions imposed on, Executive under this Agreement, Employer shall pay to Executive during and with respect to the Employment Period, and Executive agrees to accept (in full payment) Base Salary and Performance Bonus, all as more fully described on Exhibit A (collectively, the "Compensation").

4.02. OTHER BENEFITS. During the Employment Period, Executive shall be entitled to receive such benefits as are at least as favorable as those provided by the Employer to Employer's other executives (other than those benefits provided under or pursuant to separately negotiated individual employment agreements or arrangements) under any pension or retirement plan, stock purchase plan, disability plan or insurance, group life insurance, medical insurance, or other similar plan or program of Employer. Executive's Base Salary shall constitute the compensation on the basis of which the amount of Executive's benefits under any such plan or program shall be fixed and determined.

4.03. STOCK OPTIONS. Employer shall receive options to acquire 200,000 shares of common stock of the Company at the price of the stock at the close of the market on January 30, 1998. The options shall vest 20% on August 1, 1998 and each additional 20% of the shares shall vest on the first, second, third and fourth anniversaries thereafter. Such options shall be subject to the terms of the Company's 1997 Stock Option Plan.

4.04. EXPENSE REIMBURSEMENT. Employer shall reimburse Executive for all business expenses (other than living expenses, travel expenses to and from work and expenses of the type for which an allowance is provided pursuant to the following sentence) and travel expenses reasonably incurred by him in the performance of his duties under this Agreement upon his presentation, not less frequently than monthly, of signed, itemized accounts of such expenditures all in accordance with Employer's procedures and policies as adopted and in effect from time to time and applicable to its employees of comparable status. Employer shall also provide Executive with an allowance of $833.33 each month during the Employment Period to cover expenses associated with Executive's ownership and operation of an automobile in connection with the business conducted by him. Employer shall also reimburse Executive for temporary local housing expenses (up to one month) during the time in which Executive locates permanent housing.

4.05. VACATIONS. Executive shall be entitled to two weeks vacation each year, which shall be taken at such time or times as shall not unreasonably interfere with Executive's performance of his duties under this Agreement.

SECTION 5

TERMINATION OF EMPLOYMENT PERIOD

5.01. TERMINATION WITHOUT CAUSE. At any time during the Employment Period, by notice to the other, Employer or Executive may terminate Executive's employment under this Agreement without cause. Such notice shall specify the effective date of termination which in the case of termination by Executive shall not be less than 60 days after the date of such notice.

5.02. BY EMPLOYER: CAUSE. At any time during the Employment Period, by notice to Executive, Employer may terminate Executive's employment under this Agreement for cause, effective immediately. Such notice shall specify the cause for termination. For the purposes of this Section 5.02, for cause means:

(i) a breach by Executive of any of the material provisions of this Agreement that Executive fails to remedy or cease within 10 days after notice thereof to Executive;

(ii) any conduct, action or behavior by Executive that has or may reasonably be expected to have a material adverse effect on the reputation of the Company or on Executive's reputation or that is not befitting of a senior executive of the Company; or

(iii) the commission by Executive of an act involving moral turpitude or dishonesty, whether or not in connection with Executive's employment hereunder; or

(iv) Executive shall have committed any act of fraud against the Employer or engaged in any other willful misconduct in connection with his duties hereunder; or

(v) Executive shall have been convicted of a crime (other than a misdemeanor relating to motor vehicle laws). Notwithstanding the foregoing, no Cause for termination shall be deemed to exist with respect to the Executive's acts described in clause (ii) above unless the Chief Executive Officer shall have given prior written notice to the Executive specifying the Cause with reasonable particularity and, within thirty (30) days after such notice, the Executive shall not have cured or eliminated the problem or thing giving rise to such Cause.

SECTION 6
TERMINATION COMPENSATION

6.01. ENTITLEMENT TO PAYMENT. (a) Subject to the provisions of Section 7.04, if Executive's employment hereunder is terminated pursuant to Section 5.01, at any time hereafter by the Employer, then Employer will pay to Executive an amount equal to the Base Salary for one year following such termination. (The amount to be paid pursuant to this Section 6.01 is referred to as the Termination Compensation and the period for which such compensation is to be paid is referred to as the Relevant Period). Such Termination Compensation shall be paid to Executive in equal consecutive monthly installments during the Relevant Period, with the first such installment paid on the first day of the month next following the effective date of termination of Executive's employment hereunder. Upon such termination, Executive shall also be entitled to any accrued but unpaid bonus compensation. In addition, during the Relevant Period, Executive shall be entitled to medical benefits and all other benefits, referred to in Section 4.02.

6.02. NO OTHER TERMINATION COMPENSATION. Executive shall not be entitled to any benefit or compensation following termination of his employment hereunder, except as set forth in Section 6.01, if applicable.

SECTION 7
EXCLUSIVITY OF SERVICES, CONFIDENTIAL
INFORMATION AND RESTRICTIVE COVENANTS

7.01. EXCLUSIVITY OF SERVICES. During the Employment Period and continuing through the second anniversary of the date in which Executive ceases to be an employee of the Company (the "Covenant Period"), Executive will not:

(i) Promote, participate or engage in any business on behalf of any Competitor of the Company, whether Executive is acting as owner, partner, stockholder, employee, broker, agent, principal, trustee, corporate officer, director, consultant or in any other capacity whatsoever; provided, however, that this will not prevent Executive from holding for investment up to 1% of any class of stock or other securities quoted or dealt in on a recognized stock exchange or on Nasdaq. For purposes of this Section, a Direct Competitor of the Company means (A) The Gap, Inc. or any Person under common control with The Gap, Inc., (B) The Limited, Inc. or any Person under common control with The Limited, Inc., (C) Gymboree or Kids R Us or any Person under common control with Gymboree or Kids R Us, as the case may be, or (D) any Person engaged in the sale of children's apparel other than department stores.

(ii) Directly or indirectly employ (other than on behalf of the Company), solicit or entice away any director, officer or employee of the Company or any of its subsidiaries; or

(iii) Take any action to interfere, directly or indirectly, with the goodwill of the Company or any of its subsidiaries, or induce or attempt to induce any Person doing business with the Company to cease doing business with the Company.

7.02. CONFIDENTIAL INFORMATION. During the Covenant Period Executive will not (except in furtherance of the Company's business or as required by law) furnish confidential information relating to the business or affairs of the Company, its subsidiaries or any Person having dealings therewith, or permit or encourage the use of such confidential information by another. During the Covenant Period, Executive will not use the name of the Company or its subsidiaries in the conduct of any business activities (except in furtherance of the Company's business) or for Executive's personal use without the prior written consent of the Company.

7.03. MUTUALLY NON-DISPARAGEMENT. Neither Executive nor Employer will make or authorize any public statement disparaging the other in its or his business interests and affairs. Notwithstanding the foregoing, neither party shall be (i) required to make any statement that it or he believes to be false or inaccurate, or (ii) restricted in connection with any litigation, arbitration or similar proceeding or with respect to its response to any legal process.

7.04. BREACHES OF PROVISIONS. If Executive breaches any of the provisions of this Section 7 then, and in any such event, in addition to other remedies available to Employer, Executive shall not be entitled to any Termination Compensation, if any, made to him hereunder prior to Employer's discovery of such breach.

SECTION 8
MISCELLANEOUS

8.01. NOTICES. Any notice, consent, or authorization required or permitted to be given pursuant to this Agreement shall be in writing and sent to the party for or to whom intended, at the address of such party set forth below, by certified mail, postage paid, or at such other address as either party shall designate by notice given to the other in the manner provided herein.

If to Employer:

Attention: Steven Balasiano
Vice President & General Counsel
The Children's Place Retail Stores, Inc.
1 Dodge Drive
West Caldwell, New Jersey 07006

With Copies to:

Ezra Dabah
CEO/ Chairman
The Children's Place Retail Stores, Inc.
1 Dodge Drive
West Caldwell, New Jersey 07006

If to Executive:

Clark Hinkley
154 Washington Street
Duxbury, MA 02332

8.02. TAXES. Employer is authorized to withhold from payments made hereunder to Executive such amounts for income tax, social security, unemployment compensation and other judgment of Employer to comply with applicable laws and regulations.

8.03. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New Jersey applicable to agreements made and to be performed therein.

8.04. HEADINGS. All descriptive headings in this Agreement are inserted for convenience only and shall be disregarded in construing or applying any provision of this Agreement.

8.05. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

8.06. SEVERABILITY. If any provision of this Agreement or part thereof, is held to be unenforceable, the remainder of such provisions of this Agreement, as the case may be, shall nevertheless remain in full force and effect.

8.07. ENTIRE AGREEMENT AND INTEGRATION. This Agreement contains the entire agreement and understanding between Employer and Executive with respect to the subject matter hereof. Such agreement supersedes any prior agreement between the parties relating to the subject matter hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

THE CHILDREN'S PLACE RETAIL STORES, INC.

By: /S/ EZRA DABAH
Ezra Dabah, Chairman and Chief Executive Officer

/S/ CLARK HINKLEY
Clark Hinkley

EXHIBIT A
COMPENSATION

1. BASE SALARY: At the initial rate of $400,000 per year, payable in equal installments not less frequently than monthly during each year of the Employment Period. Base Salary shall be subject to annual review, as the Compensation Committee may determine.

2. PERFORMANCE BONUS: Following each Bonus Period (as defined below), Executive shall be entitled to receive a Performance Bonus based upon the Earnings of Employer during such Bonus Period as established by the Compensation Committee. The Performance Bonus for each such Period will be payable within 90 days after the end of such period. The amount of the Performance Bonus for each Bonus Period will be equal to a product equal to (a) Employee's semi-annual Base Salary, times (b) 30%, times (c) the Bonus Percentage (as hereinafter defined). The following provisions shall apply to determinations relating to Performance Bonus.

Bonus Percentage shall mean, for each Bonus Period, a percentage for such period that is determined based upon Earnings in accordance with a schedule adopted by the Compensation Committee for all senior executives prior to commencement of such period or as soon thereafter as possible, and no more than 200% for any Bonus Period. For the first two years of Executive's employment, the Company shall guarantee Executive 50% of the target bonus payout ($60,000 per annum). This amount shall be paid in equal monthly installments.

"Bonus Period" shall mean each of the two periods of approximately six months duration within each fiscal year of the Employer, one beginning on the first day of the fiscal year and ending on the Saturday on or nearest (whether following or preceding) July 31, of the calendar year in which it commenced, and the other beginning on the Sunday following such Saturday and ending on the last day of such fiscal year.

EXHIBIT 11.1

THE CHILDREN'S PLACE RETAIL STORES, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

CALCULATION OF PRO FORMA BASIC AND DILUTED EARNINGS PER SHARE

(In thousands, except for per share data)

	For the Fifty-Two Weeks Ended	
	January 31, 1998	February 1, 1997
Income before extraordinary item.........	$6,984	$30,441
Extraordinary item.......................	1,743	--
Net income...............................	$5,241	$30,441
Pro forma basic weighted average common shares outstanding (1)............	21,821	20,421
Pro forma basic income per common share:		
Income before extraordinary item.........	$0.32	$1.49
Extraordinary item.......................	(0.08)	--
Pro forma basic net income per common share (1)..............................	$0.24	$1.49
Pro forma diluted weighted average common shares outstanding (2)..................	24,358	23,804
Pro forma diluted income per common share:		
Income before extraordinary item...........	$0.29	$1.28
Extraordinary item.........................	(0.07)	--
Pro forma diluted net income per common share (2).........................	$0.22	$1.28

(1) Pro forma basic income per common share for the fifty-two weeks ended January 31, 1998 was calculated by dividing net income by the pro forma basic weighted average common shares outstanding as if the Stock Split, the Series B Conversion and the Reclassification (as discussed in Note 2-Initial Public Offering), occurred on the first day of fiscal 1997. Pro forma basic net income per common share for the fifty-two weeks ended February 1, 1997 was calculated by dividing net income by the pro forma basic weighted average common shares outstanding as if (i) the Stock Split, the Series B Conversion and the Reclassification, (ii) the 1996 Private Placement of Common Stock (as discussed in Note 3-1996 Private Placement), and (iii) the cancellation of outstanding preferred shares (as discussed in Note 9-Stockholders' Equity), occurred on the first day of fiscal 1996.

(2) Pro forma diluted income per common share for the fifty-two weeks ended January 31, 1998 was calculated by dividing net income by the pro forma diluted weighted average common shares and common share equivalents outstanding as if the Stock Split, the Series B Conversion and the Reclassification occurred on the first day of fiscal 1997. Pro forma diluted net income per common share for the fifty-two week ended February 1, 1997 was calculated by dividing net income by the pro forma diluted weighted average common shares outstanding and common share equivalents as if (i) the Stock Split, Series B Conversion and Reclassification, (ii) the 1996 Private Placement of Common Stock, (iii) the cancellation of the outstanding preferred shares, and (iv) the granting of management options in conjunction with the 1996 Private Placement, occurred on the first day of fiscal 1996. For the fifty-two weeks ended January 31, 1998, common share equivalents included the Noteholder Warrant and Legg Mason Warrant prior to their exercise and management options to purchase common stock under the 1996 Plan and the 1997 Plan using the treasury stock method. For the fifty-two weeks ended February 1, 1997, common share equivalents included the Noteholder Warrant and the Legg Mason Warrant (as discussed in Note 3-1996 Private Placement), and management options to purchase common stock under the 1996 Plan calculated using the treasury stock method. Prior to the Offering, the Offering price was utilized for the treasury stock calculations due to the lack of a public market. Subsequent to the Offering, the average market price was utilized in accordance with FAS No. 128.

EXHIBIT 11.1
THE CHILDRENS PLACE RETAIL STORES, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

CALCULATION OF PRO FORMA BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

Fifty-two weeks ended January 31, 1998	# of Shares Outstanding	#of Months	Weighted Average

Outstanding common stock..............	12,760,800	8	8,507,200
Series B conversion to common stock...	7,659,889	8	5,106,593
			13,613,793
Outstanding common stock(a)...........	24,622,103	4	8,207,367
			21,821,160

Fifty-two weeks ended February 1, 1997	# of Shares Outstanding	#of Months	Weighted Average
Outstanding common stock...............	12,760,800	12	12,760,800
Series B conversion to common stock....	7,659,889	12	7,659,889
			20,420,689

(a) Outstanding stock includes the 12,760,800 outstanding shares prior to the initial public offering, the conversion of 7,659,889 shares of Series B Common Stock into Common Stock, the initial public offering of 4,000,000 shares of Common Stock, and 201,414 shares of Common Stock issued upon the exercise of one-third of the Legg Mason Warrant.

EXHIBIT 11.1
THE CHILDREN'S PLACE RETAIL STORES, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

CALCULATION OF PRO FORMA DILUTED WEIGHTED AVERAGE COMMON
SHARES OUTSTANDING

Fifty-two weeks ended January 31, 1998	# of Shares Outstanding	# of Months	Weighted Average
Outstanding common stock................	12,760,800	8	8,507,200
Series B conversion to common stock.....	7,659,889	8	5,106,593
Legg Mason Warrant (a)..................	604,240	8	402,827
Noteholder Warrant (b)..................	1,611,305	8	1,074,203
1996 Management Options (c).............	1,167,951	8	778,634
			15,869,457
Outstanding common stock (g)............	24,622,103	4	8,207,368
1996 Management Options (i).............	(i)	4	280,830
1997 Management Options (e).............	--	4	--
Options issued to a 10% owner (f).......	--	4	--
			8,488,198
			24,357,655

Options or Warrants outstanding prior to initial public offering	# of Shares under Option or Warrant	Exercise Price	Initial Public Offering Price	Common Share Equivalents
(a) Legg Mason Warrant..................	747,096	$2.677	$14.00	604,240
(b) Noteholder Warrant..................	1,992,252	2.677	14.00	1,611,305
(c) 1996 Management Options.............	1,444,080	2.677	14.00	1,167,951

Options subsequent to the initial public offering for the 13 weeks ended November 1, 1997	# of Shares under Option	Exercise Price	Average Market Price	Common Share Equivalents
(d) 1996 Management Options..............	1,444,080	$2.677	$10.84	1,087,456(i)
(e) 1997 Management Options..............	451,600	14.00	10.84	(j)
(f) 1997 Options issued to a 10% owner...	99,660	15.40	10.84	(j)

Options subsequent to the initial public offering for the 13 weeks ended January 31, 1998	# of Shares under Option	Exercise Price	Average Market Price	Common Share Equivalents
(h) 1996 Management Options.............	1,444,080	$2.677	$5.66	760,835(i)
(e) 1997 Management Options.............	451,600	14.00	5.66	(j)
(f) 1997 Options issued to a 10% owner..	99,660	15.40	5.66	(j)

(g) Outstanding stock includes the 12,760,800 outstanding shares prior to the initial offering, the conversion of 7,659,889 shares of Series B Common Stock into Common Stock, the initial public offering of 4,000,000 shares of Common Stock, and 201,414 shares of Common Stock issued upon the exercise of one-third of the Legg Mason Warrant.

(i) For the fifty two weeks ended January 31, 1998, the 1996 Management Options have a weighted average value of:

	Treasury Stock Method	# of Months	Common Share Equivalents
(d) 13 weeks ended November 1, 1997	1,087,456	1	90,621
(h) 13 weeks ended January 31, 1998	760,835	3	190,209
			280,830

(j) The 1997 Management Options and 1997 Management Options issued to a 10% owner are anti-dilutive since the exercise price is greater than the average market price.

EXHIBIT 11.1
THE CHILDREN'S PLACE RETAIL STORES, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

CALCULATION OF PRO FORMA DILUTED WEIGHTED AVERAGE COMMON
SHARES OUTSTANDING

Fifty-two weeks ended February 1, 1997	# of Shares Outstanding	# of Months	Weighted Average

Outstanding common stock...................	12,760,800	12	12,760,800
Series B conversion to common stock........	7,659,889	12	7,659,889
Legg Mason Warrant (a).....................	604,240	12	604,240
Noteholder Warrant (b).....................	1,611,305	12	1,611,240
1996 Management Options (c)................	1,167,951	12	1,167,951
			23,804,185

Option or Warrants outstanding prior to the initial public offering	# of Shares under Option of Warrant	Exercise Price	Initial Public Offering Price	Common Share Equivalents
(a) Legg Mason Warrant	747,096	$2.677	$14.00	604,240
(b) Noteholder Warrant................	1,992,252	2.677	14.00	1,611,305
(c) 1996 Management Options...........	1,444,080	2.677	14.00	1,167,951

EXHIBIT 13.1
THE CHILDREN'S PLACE RETAIL STORES, INC.
PAGES 13-35 OF THE 1997 ANNUAL REPORT TO STOCKHOLDERS

SELECTED FINANCIAL DATA

The following table sets forth certain historical and pro forma financial and operating data for the Company. The selected historical financial data for the Company 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 herein.

	FISCAL YEAR ENDED(1)				
	January 31, 1998	February 1, 1997	February 3, 1996	January 28, 1995	January 29, 1994
STATEMENT OF OPERATIONS DATA: (in thousands, except per share data)					
Net sales	$192,557	$143,838	$122,060	$107,953	$96,649
Gross profit	69,092	54,052	38,626	33,724	28,874
Selling, general and administrative expenses	46,542	36,251	30,757	27,873	24,156
Pre-opening costs	2,127	982	311	178	79
Depreciation and amortization	5,958	4,017	3,496	3,344	3,275
Operating income	14,465	12,802	4,062	2,329	1,364
Interest expense, net	2,647	2,884	1,925	1,303	1,150
Other expense, net	139	396	447	0	0
Income before income taxes, extraordinary item and cumulative effect of accounting change	11,679	9,522	1,690	1,026	214
Provision (benefit) for income taxes (2)	4,695	(20,919)	36	54	53
Income before extraordinary item	6,984	30,441	1,654	972	161
Extraordinary (loss) gain (3)	(1,743)	0	0	490	15,169
Net income (4)	$5,241	$30,441	$1,654	$1,462	$14,780
Pro forma diluted income per common share before extraordinary item	$0.29	$1.28			
Extraordinary item	(0.07)	--			
Pro forma diluted net income per common share (5)	$0.22	$1.28			
Pro forma diluted weighted average common shares outstanding (5)	24,358	23,804			
Selected Operating Data:					
Number of stores open at end of period	155	108	91	87	87
Comparable store sales increase (decrease) (6) (7)	2%	9%	10%	13%	(2%)
Average net sales per store (in thousands) (7) (8)	$1,487	$1,479	$1,362	$1,264	$1,124
Average square footage per store (9)	4,123	4,284	4,528	4,786	4,954
Average net sales per gross square foot (7) (10)	$350	$335	$292	$259	$226
BALANCE SHEET DATA (IN THOUSANDS):					
Working capital (deficit)	$20,238	$11,951	($17,630)	($10,398)	($11,621)
Total assets	79,353	64,479	32,073	26,556	26,600
Long-term debt	26	20,504	15,735	21,626	23,719
Stockholders' equity (deficit)	58,467	27,298	(11,735)	(13,388)	(15,338)

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(1) All references to the Company's 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 1997 mean the fiscal year ended January 31, 1998. Fiscal 1995 was a 53-week year.

(2) The provision (benefit) for income taxes for fiscal 1996 reflected the reversal of a valuation allowance of $21.0 million on a net deferred tax asset.

(3) Extraordinary gains during fiscal 1993 and fiscal 1994 represented forgiveness of debt in connection with a debt restructuring undertaken with the consent of the Company's creditors. Extraordinary loss in fiscal 1997 represented the write-off of unamortized deferred financing costs and unamortized debt discount as a result of the repayment of the senior subordinated notes in conjunction with the Company's initial public offering.

(4) Net income for fiscal 1993 included a $550,000 charge related to the cumulative effect of a change in accounting for inventory capitalization.

(5) Pro forma diluted net income per common share is calculated by

dividing net income by the pro forma diluted weighted average common shares and common share equivalents outstanding. The pro forma weighted average common shares outstanding and common share equivalents used in computing diluted net income per common share for fiscal 1997 are based on the number of common shares and common share equivalents as if the Stock Split, the Series B Conversion and the Reclassification had occurred on the first day of fiscal 1997. The pro forma weighted average common shares outstanding and common share equivalents used in computing pro forma diluted net income per common share for fiscal 1996 are based on the number of common shares and common share equivalents outstanding as if (i) the Stock Split, the Series B Conversion and the Reclassification, (ii) the 1996 Private Placement of Common Stock, (iii) the cancellation of the outstanding preferred shares, and (iv) the granting of management options in conjunction with the 1996 Private Placement, had occurred on the first day of fiscal 1996.

(6) The Company defines comparable store sales as net sales from stores that have been open for more than 14 full months and have not been substantially remodeled during that time.

(7) For purposes of determining comparable store sales increase (decrease), average net sales per store and average net sales per gross square foot, fiscal 1995 results were recalculated based on a 52-week year.

(8) Represents net sales from stores open throughout the full period divided by the number of such stores.

(9) 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.

(10) 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

THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF FEDERAL SECURITIES LAWS, WHICH ARE INTENDED TO BE COVERED BY THE SAFE HARBORS CREATED THEREBY. THOSE STATEMENTS INCLUDE, BUT MAY NOT BE LIMITED TO, THE DISCUSSIONS OF THE COMPANY'S OPERATING AND GROWTH STRATEGY. INVESTORS ARE CAUTIONED THAT ALL FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES INCLUDING, WITHOUT LIMITATION, THOSE SET FORTH UNDER THE CAPTION "RISK FACTORS" IN THE BUSINESS SECTION OF THE COMPANY'S ANNUAL REPORT ON FORM10-K FOR THE YEAR ENDED JANUARY 31, 1998. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THE ASSUMPTIONS COULD PROVE TO BE INACCURATE, AND THEREFORE, THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS INCLUDED IN THIS ANNUAL REPORT WILL PROVE TO BE ACCURATE. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD-LOOKING STATEMENTS INCLUDED HEREIN, THE INCLUSION OF SUCH INFORMATION SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES AND PLANS OF THE COMPANY WILL BE ACHIEVED. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLICLY RELEASE ANY REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN TO REFLECT EVENTS AND CIRCUMSTANCES OCCURRING AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS ANNUAL REPORT.

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		
	January 31, 1998	February 1, 1997	February 3, 1996
Net sales	100.0%	100.0%	100.0%
Cost of sales	64.1	62.4	68.4
Gross profit	35.9	37.6	31.6
Selling, general and administrative expenses	24.2	25.2	25.2
Pre-opening costs	1.1	0.7	0.3
Depreciation and amortization	3.1	2.8	2.8
Operating income	7.5	8.9	3.3
Interest expense, net	1.4	2.0	1.6
Other expense, net	0.1	0.3	0.3
Income before income taxes and extraordinary item	6.0	6.6	1.4
Provision (benefit) for income taxes	2.4	(14.5)	--
Extraordinary loss	0.9	--	--
Net income	2.7%	21.1%	1.4%

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YEAR ENDED JANUARY 31, 1998 COMPARED TO YEAR ENDED FEBRUARY 1, 1997

Net sales increased by $48.7 million, or 33.9%, to $192.5 million during fiscal 1997 from $143.8 million during fiscal 1996. Net sales for the 47 new stores opened, as well as the stores opened and remodeled during fiscal 1997 and fiscal 1996 that did not qualify as comparable stores, contributed $46.1 million of the sales increase, partially offset by the closing of one store during 1996 which contributed $0.4 million of net sales during fiscal 1996. The Company's comparable store sales increased 2% and contributed $3.0 million of the sales increase during fiscal 1997. Comparable store sales increased 9% during fiscal 1996. The Company defines its 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. The Company's fiscal 1997 comparable store sales increase was primarily attributable to strength in the infant and big girls' departments, partially offset by weaker sales in the little boy and little girl departments.

Gross profit increased by $15.0 million to $69.1 million during fiscal 1997 from $54.1 million during fiscal 1996. As a percentage of net sales, gross profit decreased to 35.9% during fiscal 1997 from 37.6% during fiscal 1996. The decrease in gross profit as a percentage of net sales was principally due to higher markdowns which were required to clear excess inventory. As a percentage of net sales, gross profit was also unfavorably impacted by higher store occupancy costs partially offset by a higher initial markup. The increased store occupancy costs resulted from new stores that had not been open long enough to leverage their rent through an established sales base.

Selling, general and administrative expenses increased $10.2 million to $46.5 million during fiscal 1997 from $36.3 million during fiscal 1996. As a percentage of net sales, selling, general and administrative expenses decreased to 24.2% of net sales during fiscal 1997 from 25.2% of net sales during fiscal 1996. The decrease as a percentage of net sales was primarily due to lower corporate administrative expenses which benefited from the leverage of the increased sales base, partially offset by higher store payroll and other store expenses.

During fiscal 1997, pre-opening costs were $2.1 million, or 1.1% of net sales, as compared to $1.0 million, or 0.7% of net sales, during fiscal 1996. The increase in pre-opening costs in fiscal 1997 reflected the opening of 47 stores during fiscal 1997 as compared to 18 stores during fiscal 1996, partially offset by cost saving measures implemented in fiscal 1997 to reduce store pre-opening costs.

Depreciation and amortization amounted to $6.0 million, or 3.1% of net sales, during fiscal 1997 as compared to $4.0 million, or 2.8% of net sales, during fiscal 1996. The increase in depreciation and amortization primarily was a result of the increase in stores.

Interest expense, net, for fiscal 1997 was $2.6 million, or 1.4% of net sales, as compared to $2.9 million, or 2.0% of net sales, during fiscal 1996. The decrease in interest expense was primarily due to the repayment of the Senior Subordinated Notes with a portion of the proceeds from the Company's initial public offering (the "Offering").

Other expense, net, for fiscal 1997 amounted to $0.1 million, or 0.1% of net sales, as compared to $0.4 million, or 0.3% of net sales, during fiscal 1996. During fiscal 1997 and fiscal 1996, other expenses were comprised primarily of an anniversary and other miscellaneous fees related to the Company's credit facility with Foothill Capital (the "Foothill Credit Facility"). During fiscal 1996, other expenses also contained credit agreement amendment fees related to the Foothill Credit Facility.

The Company recorded income before income taxes and extraordinary item of $11.7 million during fiscal 1997 as compared with $9.5 million in the comparable prior year period. As a percentage of net sales, the Company's income before income taxes and extraordinary item decreased to 6.0% during fiscal 1997 from 6.6% during fiscal 1996 due to the factors discussed above.

The Company's provision for income taxes for fiscal 1997 was $4.7 million, as compared with an income tax benefit of $20.9 million in the prior year. The Company's provision for income taxes for fiscal 1997 reflect a provision based on effective statutory rates. Throughout fiscal 1996, the Company's provision for income taxes provided for the payment of federal taxes based on the alternative minimum tax ("AMT"), at an effective rate of 2% and minimum taxes in most states due to the Company's utilization of its net operating loss ("NOL") carryforwards. During the fourth quarter of fiscal 1996, the Company reversed a $21.0 million valuation allowance on the Company's deferred tax asset on its balance sheet. Until the NOL is fully utilized or expires, the majority of this tax provision will not be paid in cash, but will reduce the deferred tax asset on the balance sheet. However, the Company expects to make cash tax payments for the federal AMT, state minimum taxes and state taxes where the Company is not in an NOL status.

As a result of the repayment of the Company's Senior Subordinated Notes with a portion of the net proceeds from the Offering, the Company recorded a non-cash extraordinary item of $1.7 million, net of taxes, that represented the write-off of unamortized deferred financing costs and unamortized debt discount.

The Company had net income of $5.2 million and $30.4 million in fiscal 1997 and fiscal 1996, respectively.

YEAR ENDED FEBRUARY 1, 1997 COMPARED TO YEAR ENDED FEBRUARY 3, 1996

Net sales increased by $21.8 million, or 17.8% to $143.8 million during fiscal 1996 from $122.1 million in fiscal 1995. Net sales for the 18 new stores opened, as well as the stores opened or remodeled during fiscal 1996 and fiscal 1995 not yet qualifying as comparable stores, contributed $17.9 million of the increase in net sales. Comparable store sales, restated to reflect a comparable 52-week period, increased by 9% and contributed approximately $8.6 million of the increase in net sales. Comparable store sales increased by 10% in fiscal 1995. The increase in comparable store sales reflected the strength of the Company's newborn, underwear and accessory departments. The above increases were offset by the closure of five stores during fiscal 1995 and one store during fiscal 1996, which in the aggregate generated a net sales decrease of $3.5 million in fiscal 1996 as compared to fiscal 1995. In addition, fiscal 1995 was a 53-week year, with the extra week contributing $1.2 million to fiscal 1995 net sales.

Gross profit increased by $15.4 million to $54.1 million during fiscal 1996 from $38.6 million during fiscal 1995. As a percentage of net sales, gross profit increased to 37.6% during fiscal 1996 from 31.6% during fiscal 1995. Merchandise margins improved 4.9% from the previous year primarily due to higher initial markups and a reduction in the markdown rate. In addition, the Company's buying, distribution and occupancy expenses decreased as a percentage of net sales due to the increased store base and sales volume.

Selling, general and administrative expenses increased by $5.5 million to $36.3 million during fiscal 1996 from $30.8 million during fiscal 1995, but remained constant at 25.2% of net sales in both fiscal years. The $5.5 million increase was primarily due to the operation of an increased number of stores. In addition, there were increased management incentive bonuses, advertising costs and expenses related to the expansion of the real estate and store construction functions to support the Company's growth strategy. However, as a result of the increased store base and sales volume, these additional expenses did not increase selling, general and administrative expenses as a percentage of net sales.

During fiscal 1996, pre-opening costs were $1.0 million, or 0.7% of net sales, as compared to $0.3 million, or 0.3% of net sales, during fiscal 1995. The increase in pre-opening costs reflects the opening of 18 stores in fiscal 1996 as compared to nine stores in fiscal 1995.

Depreciation and amortization amounted to $4.0 million in fiscal 1996, or 2.8% of net sales, as compared to $3.5 million, or 2.8% of net sales, in fiscal 1995. The increase in depreciation and amortization was primarily due to new stores.

Interest expense, net, for fiscal 1996 totaled $2.9 million, or 2.0% of net sales, as compared to $1.9 million, or 1.6% of net sales, in the prior year. The increase in interest expense in fiscal 1996 was due primarily to interest on the Senior Subordinated Notes issued during fiscal 1996, partially offset by reduced borrowings under the Foothill Credit Facility and the elimination of interest expense on various loans repaid by the Company with proceeds from the 1996 Private Placement.

Other expense, net, for fiscal 1996 amounted to $0.4 million, or 0.3% of net sales, as compared to $0.4 million, or 0.3% of net sales, in fiscal 1995. During fiscal 1996, other expenses consisted primarily of anniversary and credit agreement amendment fees related to the Foothill Credit Facility. During fiscal 1995, other expenses consisted primarily of $0.4 million in fees and related legal and professional costs associated with the Foothill Credit Facility.

Income before income taxes and extraordinary item increased by $7.8 million to $9.5 million during fiscal 1996 from $1.7 million during fiscal 1995 and increased to 6.6% of net sales in fiscal 1996 from 1.4% of net sales in fiscal 1995 due to the factors discussed above.

During fiscal 1996, the Company recorded an income tax benefit of $20.9 million. This income tax benefit primarily resulted from the reversal of a valuation allowance of $21.0 million on a net deferred tax asset, based on the Company's results of operations in fiscal 1996 and projected future results. For fiscal 1995, the Company recorded a tax provision for state minimum taxes and the federal AMT. No other federal tax provision was recorded by the Company in fiscal 1995 due to its NOL.

The Company had net income of $30.4 million and $1.7 million for fiscal 1996 and fiscal 1995, respectively.

LIQUIDITY AND CAPITAL RESOURCES

DEBT SERVICE/LIQUIDITY

During fiscal 1997, the Company's primary uses of cash have been to finance new store openings, provide for working capital, which primarily represents the purchase of inventory, and to make required interest payments on its debt. The Company has been able to meet its cash needs, including those associated with the opening of new stores, principally by using cash flow from operations, borrowings under the Foothill Credit Facility and proceeds from the Offering.

Pursuant to its Offering on September 18, 1997, the Company received net proceeds of $50.7 million, after deducting the underwriters' discount of $3.9 million and estimated transaction expenses of $1.4 million. The Company used the net proceeds from the Offering to (i) repay the principal amount of, and accrued interest on, its Senior Subordinated Notes of $20.6 million, (ii) repurchase a warrant held by Nomura Holding America Inc., (the "Noteholder Warrant"), for $20.6 million, (iii) repurchase two-thirds of a warrant held by Legg Mason Wood Walker Inc., (the "Legg Mason Warrant"), for $5.2 million and (iv) reduce borrowings outstanding under the Foothill Credit Facility with the remainder of the proceeds. Since the Offering, the Company has had no long-term debt obligations other than obligations under capital leases.

In July 1996, the Company consummated the 1996 Private Placement with the

SKM Investors and the Noteholder, which resulted in net proceeds to the Company of $37.4 million. These net proceeds were used to repay certain outstanding indebtedness and to redeem certain outstanding shares of Common Stock. The successful completion of the 1996 Private Placement enabled the Company to implement a growth strategy built on opening new stores through the reinvestment of operating cash flow which had previously been dedicated to debt repayment obligations.

The Company has a working capital revolving credit facility with Foothill Capital. The Company amended its credit facility with Foothill Capital on July 31, 1997 to increase the Foothill Credit Facility from $20.0 million to $30.0 million (including an increase in the sublimit for letters of credit from $10.0 million to $20.0 million). The amount that may be borrowed by the Company under the amended Foothill Credit Facility depends upon the levels of inventory and accounts receivable. Amounts outstanding under the amended facility bear interest at a floating rate equal to the prime rate or, at the Company's option, the 30-day LIBOR Rate plus a pre-determined spread. The LIBOR spread is 1 1/2% or 2%, depending upon the Company's financial performance from time to time. Borrowings under the amended facility mature in July 2000 and provide for one year automatic renewal options.

As of January 31, 1998, there was $1.1 million borrowed under the Foothill Credit Facility and, as of February 1, 1997, there were no amounts borrowed under the Foothill Credit Facility. In addition, as of January 31, 1998 and February 1, 1997, the Company had outstanding $5.7 million and $4.7 million, respectively, in letters of credit under the Foothill Credit Facility. Availability under the Foothill Credit Facility as of January 31, 1998 and February 1, 1997 was $15.8 million and $11.9 million, respectively. As of January 31, 1998 and February 1, 1997 the interest rates charged under the Foothill Credit Facility were 8.5% and 10.75% per annum, respectively.

The amended Foothill Credit Facility contains certain financial covenants including, among others, the maintenance of minimum levels of tangible net worth, working capital and current ratios, and imposes certain limitations on the Company's annual capital expenditures, as defined in the amended Foothill Credit Facility, as well as a prohibition on the payment of dividends. Management believes that the Company will be able to comply with the financial covenants contained in the amended facility and does not believe that compliance with these covenants will interfere with its business or the implementation of its growth strategy. Credit extended under the amended Foothill Credit Facility continues to be secured by a first priority security interest in the Company's present and future assets, intellectual property and other general intangibles.

The Company obtained a waiver from Foothill Capital and an amendment from the Noteholder with respect to the capital expenditure limitations for fiscal 1996 under the Foothill Credit Facility and the Senior Subordinated Notes. The waiver and amendment enabled the Company to open additional stores in connection with its expansion. The Company was in compliance with all of its financial covenants under the Foothill Credit Facility as of January 31, 1998.

CASH FLOWS/CAPITAL EXPENDITURES

Cash flows provided by operating activities were $11.3 million, $7.8 million and $7.7 million in fiscal 1997, 1996 and 1995, respectively. In fiscal 1997, cash flows from operating activities increased as a result of an increase in operating earnings and accounts payable, partially offset by an increased inventory investment. In fiscal 1996, cash flows from operating activities increased primarily as a result of an increase in net income, partially offset by a decrease in payables.

Cash flows used in investing activities were $17.2 million, $8.5 million and $6.9 million in fiscal 1997, 1996 and 1995, respectively. Cash flows used in investing activities relate primarily to store openings and remodelings and computer equipment for the Company's home office. In fiscal 1997, 1996 and 1995, the Company opened 47, 18 and 9 stores while remodeling 10, 5 and 12 stores, respectively.

Cash flows provided by (used in) financing activities were $3.3 million, $3.5 million and $(0.5) million in fiscal 1997, 1996 and 1995, respectively. In fiscal 1997, the increase in cash flows provided by financing activities reflects the Company's Offering, the repayment of the Senior Subordinated Notes and the repurchase of the Noteholder Warrant and two-thirds of the Legg Mason Warrants. In fiscal 1996, cash flows from financing activities increased as a result of the 1996 Private Placement with the SKM Investors and the Noteholder. The net proceeds of the 1996 Private Placement were used to redeem certain outstanding shares of Common Stock, repay existing long-term debt and reduce outstanding borrowings under the Foothill Credit Facility.

During fiscal 1997, 1996 and 1995, the Company incurred capital expenditures of $17.2 million, $8.5 million and $6.9 million, respectively. In a typical new store, capital expenditures (net of landlord contribution) approximate $0.2 million. In addition, a new store typically requires a $0.1 million investment in inventory (net of payables) and other pre-opening costs. Management anticipates that total capital expenditures will approximate $22 million in fiscal 1998. These expenditures relate primarily to the opening of approximately 50 stores, store remodelings, ongoing store maintenance programs and computer and warehouse equipment. Management plans to fund these capital expenditures primarily from cash flow from operations.

The Company expects to enter into a commitment with respect to a new distribution center and corporate headquarters during the next twelve months for additional space needed to support its continued growth. The Company's lease for its current distribution center and headquarters facility is scheduled to expire in March 1999. Consequently, the Company is seeking a suitable site to relocate its distribution center and headquarters. The Company has not selected a site or determined whether it would purchase or lease such a facility. During the third quarter of fiscal 1997, the Company entered into a one year lease for interim warehouse space at an annual cost of approximately $200,000.

If the Company purchases a new facility for its distribution center and corporate headquarters, the Company would expect to finance most of the purchase price through a mortgage. The Company believes that its current financing arrangements under the Foothill Credit Facility and its anticipated level of internally generated funds will be adequate to fund its other capital requirements for at least the next 18 to 24 months. The Company's ability to meet these capital requirements, and its continued need for external financing, will depend on its ability to generate cash from operations and successfully implement its store expansion plans.

QUARTERLY RESULTS AND SEASONALITY

The Company's quarterly results of operations have fluctuated and are expected to continue to fluctuate materially depending on a variety of factors, including 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, adverse weather conditions, shifts in timing of certain holidays, changes in the Company's merchandise mix and overall economic conditions.

The Company's business is also subject to seasonal influences, with heavier concentrations of sales during the holiday and back-to-school seasons. As is the case with many retailers of apparel and related merchandise, the Company typically experiences lower net sales during the first two fiscal quarters and are often lower during the second fiscal quarter than during the first fiscal quarter. The Company has experienced first and second quarter losses in the past and may experience such losses in the future. 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 the Company's last twelve fiscal quarters. The quarterly statement of operations data and selected operating data set forth below were derived from unaudited financial statements of the Company and reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results of operations for these fiscal quarters.

	FISCAL 1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$39,203	$33,534	$54,489	$65,331
Operating income (loss)	2,618	(1,922)	6,656	7,113
Comparable store sales increase (decrease)	5%	(1%)	0%	5%
Stores open at end of period	119	134	151	155

	FISCAL 1996			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$30,438	$25,974	$40,353	$47,073
Operating income (loss)	1,557	(1,438)	6,347	6,336
Comparable store sales increase	10%	6%	8%	10%
Stores open at end of period	93	95	104	108

	FISCAL 1995			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$25,433	$23,181	$33,713	$39,733
Operating income (loss)	(440)	(2,423)	3,065	3,860
Comparable store sales increase	26%	19%	1%	4%
Stores open at end of period	90	90	94	91

YEAR 2000 COMPLIANCE

Although the Company has upgraded certain computer software for Year 2000 compliance, the Company continues to assess the impact of the Year 2000 on its systems and operations and the costs and programming efforts to fully address this issue. The Year 2000 issue exists because many computer applications currently use two-digit date fields to designate a year. As the century date occurs, date sensitive systems may not properly recognize and process the year 2000. Any disruptions on its operations, whether caused by the Company's computer systems or those of its manufacturers, suppliers and financial institutions, could have a material adverse effect on the Company's financial position or results of operation.

During fiscal 1997, the Company has utilized its existing management information systems staff to modify existing computer systems and applications to ensure systems are Year 2000 compliant, and expects to continue to utilize internal resources during fiscal 1998 and 1999. Management expects to have its computer systems Year 2000 compliant by the second quarter of 1999. However, there can be no assurances that the Company will not experience significant cost overruns in connection with upgrading software or the program changes required to address this issue.

INDEX TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 1998

THE CHILDREN'S PLACE RETAIL STORES, INC.

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 balance sheets of The Children's Place Retail Stores, Inc. (a Delaware corporation) as of January 31, 1998 and February 1, 1997 and the related statements of income, changes in stockholders' equity (deficit) and cash flows for each of the three fiscal years in the period ended January 31, 1998. 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 generally accepted auditing standards. 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. as of January 31, 1998 and February 1, 1997, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

New York, New York
March 9, 1998

THE CHILDREN'S PLACE RETAIL STORES, INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	JANUARY 31, 1998	FEBRUARY 1, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$887	$3,422
Accounts receivable	1,904	890
Inventories	20,334	14,425
Prepaid expenses and other current assets	4,612	3,163
Deferred income taxes	10,653	5,788
Total current assets	38,390	27,688
Property and equipment:		
Leasehold improvements	27,226	19,226
Store fixtures and equipment	16,219	12,246
Construction in progress	1,464	910
	44,909	32,382
Less accumulated depreciation and amortization	(12,788)	(12,083)
Property and equipment, net	32,121	20,299
Deferred income taxes	8,244	14,711
Other assets	598	1,781
Total assets	$79,353	$64,479

LIABILITIES AND STOCKHOLDERS' EQUITY

	JANUARY 31, 1998	FEBRUARY 1, 1997
LIABILITIES:		
Current liabilities:		
Revolving credit facility	$1,089	$0
Current portion of long-term debt	0	600
Current maturities of obligations under capital leases	24	772
Accounts payable	9,471	8,322
Accrued expenses, interest and other current liabilities	7,568	6,043
Total current liabilities	18,152	15,737
Long-term debt	0	19,040
Obligations under capital leases	2	92
Other long-term liabilities	2,732	2,312
Total liabilities	20,886	37,181
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $.10 par value	2,462	0
Common stock, Series A, $.10 par value	0	1,276
Common stock, Series B, $.10 par value	0	5
Additional paid-in capital	82,589	57,842
Accumulated deficit	(26,584)	(31,825)
Total stockholders' equity	58,467	27,298
Total liabilities and stockholders' equity	$79,353	$64,479

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

THE CHILDREN'S PLACE RETAIL STORES, INC.

STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FISCAL YEAR ENDED		
	JANUARY 31, 1998	February 1, 1997	February 3, 1996
Net sales	$192,557	$143,838	$122,060
Cost of sales	123,465	89,786	83,434
Gross profit	69,092	54,052	38,626
Selling, general and administrative expenses	46,542	36,251	30,757
Pre-opening costs	2,127	982	311
Depreciation and amortization	5,958	4,017	3,496
Operating income	14,465	12,802	4,062
Interest expense, net	2,647	2,884	1,925
Other expense, net	139	396	447
Income before income taxes and extraordinary item	11,679	9,522	1,690

Provision (benefit) for income taxes	4,695	(20,919)	36
Income before extraordinary item	6,984	30,441	1,654
Extraordinary loss on extinguishment of debt	1,743	0	0
Net income	$5,241	$30,441	$1,654
Pro forma basic income per common share before extraordinary item	$0.32	$1.49	
Extraordinary item	(0.08)	--	
Pro forma basic net income per common share	$0.24	$1.49	
Pro forma basic weighted average common shares outstanding	21,821	20,421	
Pro forma diluted income per common share before extraordinary item	$0.29	$1.28	
Extraordinary item	(0.07)	--	
Pro forma diluted net income per common share	$0.22	$1.28	
Pro forma diluted weighted average common shares outstanding	24,358	23,804	

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

THE CHILDREN'S PLACE RETAIL STORES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE FISCAL YEARS ENDED FEBRUARY 3, 1996,
FEBRUARY 1, 1997 AND JANUARY 31, 1998
(In thousands)

	Preferred Stock		Common Stock		Series A Common Stock		Series B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		Total Stock holders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount	
BALANCE, January 28, 1995	10	$10	137	$14	0	$0	0	$0	$50,557	$(63,920)	(3)	$(50)	$(13,389)
Net income......	0	0	0	0	0	0	0	0	0	1,654	0	0	1,654
BALANCE, February 3, 1996	10	10	137	14	0	0	0	0	50,557	(62,266)	(3)	(50)	(11,735)
Surrendered preferred stock..	(10)	(10)	0	0	0	0	0	0	10	0	0	0	0
Exercise of stock options...	0	0	3	0	0	0	0	0	123	0	3	50	173
Issuance of warrants........	0	0	0	0	0	0	0	0	1,501	0	0	0	1,501
Conversion of common stock to Series A Common Stock...	0	0	(140)	(14)	16,800	1,680	0	0	(1,666)	0	0	0	0
Issuance of Series B Common Stock, net of transaction costs.	0	0	0	0	0	0	47	5	18,758	0	0	0	18,763
Redemption of Series A Common Stock............	0	0	0	0	(4,039)	(404)	0	0	(11,441)	0	0	0	(11,845)
Net income.......	0	0	0	0	0	0	0	0	0	30,441	0	0	30,441
BALANCE, February 1, 1997.........	0	0	0	0	12,761	1,276	47	5	57,842	(31,825)	0	0	27,298
Return of funds toward common stock subscription.....	0	0	0	0	0	0	0	0	(488)	0	0	0	(488)
Series B Common Stock conversion.......	0	0	0	0	7,660	766	(47)	(5)	(761)	0	0	0	0
Series A Common Stock conversion.......	0	0	20,421	2,042	(20,421)	(2,042)	0	0	0	0	0	0	0
Issuance of Common stock....	0	0	4,000	400	0	0	0	0	51,680	0	0	0	52,080
Transaction fees.	0	0	0	0	0	0	0	0	(1,350)	0	0	0	(1,350)
Redemption of Noteholder Warrant..........	0	0	0	0	0	0	0	0	(20,605)	0	0	0	(20,605)
Redemption of two-thirds Legg Mason Warrant...	0	0	0	0	0	0	0	0	(4,269)	0	0	0	(4,269)
Exercise of one third-of Legg Mason Warrant.........	0	0	201	20	0	0	0	0	540	0	0	0	560
Net income......	0	0	0	0	0	0	0	0	0	5,241	0	0	5,241
BALANCE, January 31, 1998	0	$0	24,622	$2,462	0	$0	0	$0	$82,589	$(26,584)	0	$0	$58,467

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

THE CHILDREN'S PLACE RETAIL STORES, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FISCAL YEAR ENDED January 31, 1998	February 1, 1997	February 3, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$5,241	$30,441	$1,654
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,958	4,017	3,496
Deferred financing fee amortization	405	359	0
Loss on disposals of property and equipment	164	0	156
Extraordinary loss	1,743	0	0
Deferred taxes	4,205	(21,263)	0
Changes in operating assets and liabilities:			
Accounts receivable	(1,014)	(249)	(146)
Inventories	(5,909)	(1,812)	(1,601)
Prepaid expenses and other current assets	(1,449)	(814)	(243)
Other assets	(445)	(128)	(29)
Accounts payable	1,149	(4,536)	5,691
Accrued expenses, interest and other current liabilities	1,299	2,045	530
Payment of restructuring charges	0	(214)	(1,854)
Total adjustments	6,106	(22,595)	6,000
Net cash provided by operating activities	11,347	7,846	7,654
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment purchases	(17,183)	(8,492)	(6,935)
Net cash used in investing activities	(17,183)	(8,492)	(6,935)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from the sale of Common Stock	50,730	0	0
Repurchase of Noteholder and Legg Mason Warrants	(25,757)	0	0
Borrowings under revolving credit facility	193,210	141,907	76,919
Repayments under revolving credit facility	(192,121)	(150,596)	(73,596)
Proceeds from issuance of long-term debt	0	20,000	0
Repayment of long-term debt	(21,360)	(12,821)	(3,436)
Payment of obligations under capital leases	(838)	(690)	(387)
Return of funds toward common stock subscription	(488)	0	0
Redemption of Series A Common Stock	0	(11,845)	0
Net proceeds from sale of Series B Common Stock	0	18,763	0
Exercise of stock options	0	173	0
Deferred financing costs	(75)	(1,392)	0
Net cash provided by (used in) financing activities	3,301	3,499	(500)
Net increase (decrease) in cash and cash equivalents	(2,535)	2,853	219
Cash and cash equivalents, beginning of period	3,422	569	350
Cash and cash equivalents, end of period	$887	$3,422	$569
OTHER CASH FLOW INFORMATION:			
Cash paid during the year for interest	$2,551	$2,369	$1,916
Cash paid during the year for income taxes	607	70	58

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

THE CHILDREN'S PLACE RETAIL STORES, INC.
NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Company is a specialty retailer of high quality, value-priced apparel and accessories for newborn to twelve year old children. The Company designs, contracts to manufacture and sells its products under "The Children's Place" brand name. As of January 31, 1998, the Company operated 155 stores, primarily located in regional shopping malls in the eastern half of the United States.

During the fiscal year ended January 31, 1998 ("Fiscal 1997"), the Company opened 47 stores and remodeled 10 stores. During the fiscal year ended February 1, 1997 ("Fiscal 1996"), the Company opened 18 stores and remodeled 5 stores. During the fiscal year ended February 3, 1996 ("Fiscal 1995"), the Company opened 9 stores and remodeled 12 stores.

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 1997, 1996 and 1995 represent the 52-week period ended January 31, 1998, the 52-week period ended February 1, 1997 and the 53-week period ended February 3, 1996, respectively.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates made by and assumptions used by management.

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 as determined by the retail inventory method.

COST OF SALES

The Company includes its buying, distribution and occupancy expenses in its cost of sales.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, except for store fixtures and equipment under capital leases which are recorded at the present value of the future lease payments as of lease inception. Property and equipment is depreciated on a straight-line basis based upon their estimated useful lives, which range from three to ten years. Amortization of property and equipment under capital leases and leasehold improvements is computed on a straight-line basis over the term of the lease or the estimated useful life, whichever is shorter.

DEFERRED FINANCING COSTS

The Company capitalizes costs directly associated with acquiring long-term third-party financing. Deferred financing costs are included in other assets and are amortized over the term of the indebtedness. As of January 31, 1998 unamortized deferred financing costs represent the cost of acquiring the Company's revolving credit facility and were approximately $75,000, net of accumulated amortization of $13,000. See Note 2- Initial Public Offering for a discussion of the write-off of unamortized deferred financing costs in conjunction with the Company's initial public offering.

ACCOUNTING FOR IMPAIRMENTS IN LONG-LIVED ASSETS

The Company continually evaluates the carrying value and the economic useful life of its long-lived assets based on the Company's operating performance and the expected future net cash flows and would adjust the carrying amount of assets which may not be recoverable. The Company does not believe that any impairment exists in the recoverability of its long-lived assets.

PRE-OPENING COSTS

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

ADVERTISING COSTS

The Company expenses the cost of advertising over the period when the advertising is run or displayed. Included in selling, general and administrative expenses for fiscal 1997, 1996 and 1995 are $2,004,000, $1,706,000, and $1,253,000 respectively, in advertising costs.

RESTRUCTURING

The payment of restructuring costs included in the statement of cash flows for fiscal 1996 and fiscal 1995 reflects the payments of restructuring charges which were recorded by the Company prior to fiscal 1994. These payments represented the resolution of lease and vendor payment agreements.

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 tax periods in future periods.

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Values of Financial Instruments," 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 ("APB") No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), establishes a fair value based method of accounting for stock-based compensation plans and requires adoption or pro forma disclosure for all options granted after December 15, 1994.

PRO FORMA NET INCOME PER COMMON SHARE

The Company reports its earnings per share in accordance with the Statement of Financial Accounting Standards No. 128, "Earnings per Share," ("SFAS No. 128"). Under SFAS No. 128, the presentation of both basic and diluted earnings per share is required on the statements of income. The Company adopted SFAS No. 128 as of the fourth quarter of 1997 and has restated previously reported earnings per share for all periods presented.

Pro forma basic income per common share for fiscal 1997 was calculated by dividing net income by the pro forma basic weighted average common shares outstanding as if the Stock Split, the Series B Conversion and the Reclassification (as discussed in Note 2-Initial Public Offering), occurred on the first day of fiscal 1997. Pro forma basic net income per common share for fiscal 1996 was calculated by dividing net income by the pro forma weighted average common shares outstanding as if (i) the Stock Split, the Series B Conversion and the Reclassification, (ii) the 1996 Private Placement of Common Stock (as discussed in Note 3-1996 Private Placement), and (iii) the cancellation of outstanding preferred shares occurred on the first day of fiscal 1996.

Pro forma diluted income per common share for fiscal 1997 was calculated by dividing net income by the pro forma diluted weighted average common shares and common share equivalents outstanding as if the Stock Split, the Series B Conversion and the Reclassification occurred on the first day of fiscal 1997. Pro forma diluted net income per common share for fiscal 1996 was calculated by dividing net income by the pro forma weighted diluted average common shares and common share equivalents outstanding as if (i) the Stock Split, the Series B Conversion and the Reclassification, (ii) the 1996 Private Placement of Common Stock, (iii) the cancellation of outstanding preferred shares and (iv) the granting of management options in conjunction with the 1996 Private Placement occurred on the first day of fiscal 1996. For fiscal 1997, common share equivalents included the Noteholder Warrant and Legg Mason Warrant prior to their exercise and management options to purchase common stock under the 1996 Plan and the 1997 Plan calculated using the treasury stock method at an assumed public offering price of $14.00 prior to the initial public offering and, after the initial public offering, at the average market price in accordance with SFAS No. 128. For fiscal 1996, common share equivalents included the Noteholder Warrant, the Legg Mason Warrant (as discussed in Note 3 - 1996 Private Placement) and management options to purchase common stock under the 1996 Plan calculated using the treasury stock method at an assumed initial public offering price of $14.00 per share due to the lack of a public market.

2. INITIAL PUBLIC OFFERING

On September 18, 1997, the Company sold 4,000,000 shares of Common Stock at $14.00 per share in an initial public offering (the "Offering") pursuant to a registration statement filed on Form S-1 (No. 333-31535) with the Securities and Exchange Commission and in its prospectus dated September 18, 1997 (the "Prospectus"). The Company used the net proceeds of $50.7 million, after deducting the underwriters' discount of $3.9 million and estimated transaction expenses of $1.4 million from this Offering to (i) pay the principal amount of, and accrued interest on, the Senior Subordinated Notes held by Nomura Holding America Inc., (the "Noteholder") of $20.6 million, (ii) repurchase a warrant held by Nomura Holding America Inc. (the "Noteholder Warrant"), for $20.6 million, (iii) repurchase two-thirds of a warrant held by Legg Mason Wood Walker Inc. (the "Legg Mason Warrant") for $5.2 million, and (iv) reduce borrowings outstanding under the Company's revolving credit facility (the "Foothill Credit Facility") with the remainder of the net proceeds. The Senior Subordinated Notes, the Noteholder Warrant and the Legg Mason Warrant were issued in conjunction with a 1996 recapitalization of the Company (as discussed in Note 3-1996 Private Placement).

The Senior Subordinated Notes were prepaid without a prepayment premium since concurrent with the prepayment the Noteholder was afforded the opportunity to sell its Noteholder Warrant. As a result of the Offering, the Company has no long-term debt as of January 31, 1998.

As a result of the repayment of the Senior Subordinated Notes, the Company incurred a non-cash, extraordinary charge to earnings during the third quarter of Fiscal 1997 of $1.7 million, resulting from the write-off of unamortized deferred financing costs of $1.4 million and unamortized debt discount of $1.5 million, net of a $1.2 million tax benefit. The repurchase of the Noteholder Warrant and two-thirds of the Legg Mason Warrant was accounted for as a reduction of additional paid-in capital.

The repurchase price of the Noteholder Warrant and two-thirds of the Legg Mason Warrant was equal to the initial public offering price of $14.00 per share, less the per share underwriting discount and exercise price of $2.677 per warrant, multiplied by the number of shares covered by the warrant (or portion thereof) being repurchased.

Concurrent with the Offering, the Company effected a 120-for-one stock split of the Series A Common Stock (the "Stock Split"), and converted all outstanding shares of the Series B Common Stock into 7,659,889 shares of Series A Common Stock (the "Series B Conversion") and redesignated the Series A Common Stock as Common Stock ("the Reclassification"). The Company also issued 201,414 shares of Common Stock upon the exercise of one-third of the Legg Mason Warrant.

The Company also amended and restated its certificate of incorporation and bylaws in order to, among other things, (i) effect the Stock Split, the Series B Conversion and the Reclassification, (ii) authorize 100,000,000 shares of Common Stock, $.10 par value per share, (iii) authorize 1,000,000 shares of Preferred Stock, $1.00 par value per share, and (iv) provide for certain anti-takeover provisions.

The Company entered into an amended and restated stockholder's agreement with all of its existing stockholders. In addition, the Company adopted the 1997 Plan and the ESPP.

3. 1996 PRIVATE PLACEMENT

During fiscal 1996, the Company employed the services of Legg Mason Wood Walker, Incorporated ("Legg Mason") to assist, as its placement agent, in the recapitalization of the Company. As a result, pursuant to a note and warrant purchase agreement dated June 28, 1996 (the "Note and Warrant Purchase Agreement") between the Company and Nomura Holding America Inc., the Company sold, for a purchase price of $20 million, the Company's 12% Senior Subordinated Notes due 2002 (the "Senior Subordinated Notes") in the principal amount of $20 million, together with a Noteholder Warrant representing the right to purchase 1,992,252 shares of Common Stock at an exercise price of $2.677 per share. This warrant was valued for financial reporting purposes by an independent appraisal firm at approximately $1.9 million. This amount was accounted for as a credit to additional paid-in capital, net of income tax effect of $0.8 million, and a discount to the Senior Subordinated Notes, and was being amortized over the six year term of the Senior Subordinated Notes. The Company also paid the Noteholder funding and structuring fees in the aggregate amount of $300,000.

Concurrent with the sale of the Senior Subordinated Notes, Legg Mason assisted the Company in its sale of its newly issued Series B Common Stock to two funds managed by Saunders Karp & Megrue L.P. ("SKM"). The aggregate proceeds from the sale of the Series B Common Stock were approximately $20.5 million, before deducting transaction costs of approximately $1.7 million. Concurrently with the 1996 Private Placement, the Company paid a transaction fee of $250,000 to SKM and reimbursed SKM for $50,000 of out-of-pocket expenses.

Net proceeds from the sale of the Senior Subordinated Notes and the issuance of the Series B Common Stock (collectively, the "1996 Private Placement"), were used to (i) redeem certain outstanding shares of Common Stock ($11.8 million), (ii) repay certain indebtedness and related interest ($13.5 million), (iii) pay transaction costs ($3.1 million), (iv) reduce borrowings under the Company's revolving credit facility and (v) for other general corporate purposes.

In conjunction with the 1996 Private Placement, Legg Mason received $1.6 million in cash fees and a warrant to purchase 747,096 shares of Common Stock at an exercise price of $2.677 per share (the "Legg Mason Warrant"). This warrant was valued for financial reporting purposes by an independent appraisal firm at approximately $0.7 million. An amount equal to 49.4% of the value of the warrant, determined on the basis of gross proceeds from the 1996 Private Placement, was attributable to the placement of the Senior Subordinated Notes. This amount was credited to additional paid-in capital and capitalized as deferred financing costs in other assets, and was amortized over the term of the Senior Subordinated Notes.

As discussed in Note 2-Initial Public Offering, the Company paid the principal and accrued interest on its Senior Subordinated Notes and repurchased the Noteholder Warrant and two-thirds of the Legg Mason Warrant with a portion of the net proceeds of the Offering. In addition, the Company issued 201,414 shares of Common Stock upon exercise of the remaining one-third of the Legg Mason Warrant and also effected the Series B Conversion of the stock issued to SKM.

4. SHORT AND LONG-TERM BORROWINGS

SHORT-TERM BORROWINGS

THE FOOTHILL CREDIT FACILITY

The Company has a revolving credit facility (the "Foothill Credit Facility") with Foothill Capital Corporation ("Foothill Capital"). In May 1996, the Foothill Credit Facility was amended to provide for up to $20 million in borrowings with a sublimit of up to $10 million in letters of credit. In July, 1997, the Foothill Credit Facility was further amended to provide for up to $30 million in borrowings with a sublimit of up to $20 million in letters of credit. The amended Foothill Credit Facility expires in July, 2000 and provides for one year automatic renewal options. As of January 31, 1998 and February 1, 1997, the Company had $1.1 million and $0.0 million, respectively, outstanding under the Foothill Credit Facility. Letters of credit outstanding as of January 31, 1998 and February 1, 1997 were $5.7 million and $4.7 million, respectively. Availability as of January 31, 1998 and February 1, 1997 was $15.8 million and $11.9 million, respectively.

The availability of borrowings under the amended Foothill Credit Facility are determined as an amount equal to the sum of (i) 90% of eligible accounts receivable, (ii) 30% of the selling price of eligible inventory (not to exceed 65% of the cost of eligible inventory) and (iii) 30% of the retail selling price of inventory to be acquired pursuant to the outstanding letters of credit not to exceed the lower of (a) the face value of the outstanding letters of credit or (b) 65% of the cost of inventory to be acquired pursuant to the outstanding letters of credit. The Company's obligations under the amended Foothill Credit Facility are secured by a first priority security interest on the Company's present and future assets, intellectual property and other general intangibles.

The amended Foothill Credit Facility also contains certain financial covenants, including, among others, the maintenance of minimum levels of tangible net worth, working capital and current ratios and imposes certain limitations on the Company's annual capital expenditures, as defined in the amended Foothill Credit Facility, as well as a prohibition on the payment of dividends. The Company obtained a waiver from Foothill Capital with respect to the capital expenditure limitations for fiscal 1996, which enabled the Company to open additional stores in connection with its expansion program. As of January 31, 1998, the Company was in compliance with all of its covenants under the Foothill Credit Facility. The Company anticipates that the availability for capital expenditures under this covenant will be adequate to support the Company's capital requirements. Noncompliance with these covenants could result in additional fees or could affect the availability of the facility.

Amounts outstanding under the amended credit facility bear interest at a floating rate equal to the prime rate or, at the Company's option, the 30-day LIBOR Rate plus a pre-determined spread. As of January 31, 1998 and February 1, 1997, the interest rate charged under the Foothill Credit Facility was 8.5% and 10.75%, respectively. In addition, the Company was also required to pay an anniversary fee of $100,000 during fiscal 1997 and $150,000 during fiscal 1996.

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

	FOR THE FISCAL YEAR ENDED	
	January 31, 1998	February 1, 1997
Weighted average balances outstanding......	$5,266	$5,403
Weighted average interest rate.............	9.40%	10.75%
Maximum balance outstanding................	$16,440	$12,687

LONG-TERM BORROWINGS

The Company had no long-term debt as of January 31, 1998. The components of the Company's long-term debt as of January 31, 1998 and February 1, 1997 were as follows (dollars in thousands):

	January 31, 1998	February 1, 1997
Senior Subordinated Notes..................	$ 0	$20,000
Installment Notes..........................	0	1,360
	0	21,360
Less: Current portion......................	0	(600)
Less: Unamortized discount of Senior Subordinated Notes........................	0	(1,720)
Total long-term debt.......................	$ 0	$19,040

THE SENIOR SUBORDINATED NOTES

The Company used $20.6 million of the net proceeds from the Offering to pay the principal and accrued interest on its Senior Subordinated Notes. The Senior Subordinated Notes, which matured in 2002, were in the principal amount of $20.0 million and bore interest at a rate of 12% per annum, payable quarterly in arrears. Since the Noteholder was afforded the opportunity to sell at least 75% of the stock underlying its Noteholder Warrant in the Offering, the Senior Subordinated Notes were prepaid without a prepayment premium.

The Senior Subordinated Notes were governed by the terms of a Note and Warrant Purchase Agreement which provided for certain operating restrictions and financial covenants. The Company obtained an amendment from the Noteholder with respect to the capital expenditure limitations for fiscal 1996, which enabled the Company to open additional stores in connection with its expansion. The Company was in compliance with these operating restrictions and financial covenants throughout fiscal 1997 when the Senior Subordinated Notes were repaid in conjunction with the Offering.

THE INSTALLMENT NOTES

On December 28, 1993, the Company agreed to be a co-maker of two installment notes issued as of that date by the Chairman of the Board and certain of his family members in connection with their bankruptcy proceedings. The Company agreed to be a co-maker of these installment notes in consideration for the waiver of certain claims in the amount of $20.0 million for repayment of funds previously loaned to the Company by its stockholders. One such installment note, in the principal amount of $2,650,000 ("Note A"), was non-interest bearing and provided for three annual principal payments. Note A was repaid by the Company on July 1, 1996 with a portion of the net proceeds from the 1996 Private Placement. The other installment note, in the principal amount of $2,110,000 ("Note B" and collectively with Note A, the "Installment Notes"), provided for monthly principal payments of $50,000, commencing November 30, 1995 and continuing through October 31, 1998, with the remaining balance of $310,000 due on November 30, 1998. Interest on Note B accrued at the rate of 5% per annum for the first two years only, of which 3% per annum was payable monthly and the remaining 2% was added to the principal balance, to be paid at final maturity. The Company repaid Note B on May 28, 1997.

5. ACCRUED EXPENSES, INTEREST AND OTHER CURRENT LIABILITIES

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

	January 31, 1998	February 1, 1997
Accrued salaries and benefits	$2,034	$1,878
Accrued interest	7	298
Accrued real estate expenses	1,317	1,000
Customer liabilities	836	716
Accrued taxes other than income	358	342
Accrued capital expenditures	855	207
Income taxes payable	186	303
Other accrued expenses	1,975	1,299
Accrued expenses, interest and other current liabilities	$7,568	$6,043

6. COMMITMENTS AND CONTINGENCIES

The Company leases all of its stores, distribution facilities, and certain office equipment and store fixtures under leases expiring at various dates through 2009. Certain of the leases include options to renew. The leases require fixed minimum annual rentals plus, under the terms of certain leases, additional payments for taxes, other expenses and rentals based upon sales.

Rent expense is as follows (dollars in thousands):

	FOR THE FISCAL YEAR ENDED		
	January 31, 1998	February 1, 1997	February 3, 1996
Store and distribution facility rent			
Minimum rentals	$16,037	$11,221	$9,946
Additional rent based upon sales	242	195	175
Total store rent	16,279	11,416	10,121
Store fixtures and equipment rent	673	727	712
Total rent expense	$16,952	$12,143	$10,833

Future minimum annual lease payments under the Company's operating and capital leases with initial or remaining terms of one year or more, at January 31, 1998, are as follows (dollars in thousands):

	Operating Leases	Capital Leases
Fiscal year -		
1998	$22,309	$25
1999	22,807	2
2000	22,217	0
2001	19,677	0
2002	19,278	0
Thereafter	73,412	0
Total minimum lease payments	$179,700	27
Less: Interest and executory costs		(1)
Present value of net minimum lease payments		26
Less: Current portion of obligations under capital lease		(24)
Long-term obligations under capital lease		$2

7. LITIGATION

CLASS ACTION SUITS

On October 16, 1997, Stephen Brosious and Rudy Pallastrone, who allegedly purchased shares of the Company's common stock in an initial public offering on or about September 19, 1997 (the "IPO"), filed a lawsuit against the Company, several of the Company's directors and officers, and the underwriters of the IPO (the "Defendants") in the United States District Court for the District of New Jersey (the "Court"). The named plaintiffs purport to maintain a class action on behalf of all persons, other than the Defendants, who purchased the Company's common stock issued in connection with the IPO on or about September 19, 1997 through October 13, 1997. The complaint alleges that the Defendants violated federal securities laws by making materially false or misleading statements and/or omissions in connection with the IPO. The plaintiffs seek monetary damages of an unspecified amount, rescission or rescissory damages and fees and costs. Since October 16, 1997, fifteen additional putative class actions making substantially similar allegations and seeking substantially similar relief have been filed against some or all of the Defendants. On January 13, 1998, the sixteen putative class actions were consolidated in the Court and on February 26, 1998 the plaintiffs served and filed their amended consolidated complaint. No discovery has been taken. The Company has filed a motion to dismiss this complaint which is currently pending before the Court. The Company believes that the allegations made in this complaint are untrue and totally without merit and intends to defend them vigorously.

On October 27, 1997, Bulldog Capital Management, L.P., a limited partnership that serves as a general partner for a series of investment funds which allegedly purchased shares of the Company's common stock issued in connection with the IPO, also filed a lawsuit against the Company and several of the Company's directors and officers in the Superior Court of New Jersey, Essex County Division. The complaint alleges that by making materially false or misleading statements and/or omissions in connection with the IPO, the Company and several of the Company's directors and officers violated provisions of federal and state law. The plaintiff seeks monetary damages of an unspecified amount, rescission or rescissory damages and fees and costs. On November 20, 1997 the plaintiff filed its first request for production of documents from the defendants. No discovery has been taken. This action is presently stayed, pending resolution of the defendant's motion to dismiss in the federal lawsuit described above. The Company believes that the allegations made in this complaint are untrue and totally without merit and intends to defend them vigorously.

The Company is also 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.

8. INCOME TAXES

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

	FOR THE FISCAL YEAR ENDED		
	January 31, 1998	February 1, 1997	February 3, 1996
Current -			
Federal...............	$158	$244	$36
State........	332	100	0
Deferred -			
Federal...............	3,679	859	0
State.................	526	249	0
Valuation allowance...	0	(22,371)	0
Provision (benefit) for income taxes..	$4,695	$(20,919)	$36

The deferred portion of the tax provision excludes (i) a tax benefit of $1.2 million recorded against the extraordinary charge to earnings resulting from the write-off of deferred financing costs and unamortized debt discount (see Note 2-Initial Public Offering), and (ii) a tax benefit of $1.4 million resulting from the repurchase and exercise of the Legg Mason Warrant recorded as paid-in capital.

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

	FOR THE FISCAL YEAR ENDED		
	January 31, 1998	February 1, 1997	February 3, 1996
Calculated income tax provision......	$4,088	$3,333	$575
Reversal of valuation allowance......	0	(21,042)	0
Utilization of operating loss carryforwards	0	(3,540)	(537)
State income taxes, net of federal benefit	583	259	27
Nondeductible expenses....................	30	24	21
Other....................................	(6)	47	(50)
Tax provision (benefit) as shown on the statements of income................	$4,695	$(20,919)	$36

Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes as measured by tax laws.

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

	JANUARY 31, 1998		FEBRUARY 1, 1997	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Current -				
Uniform inventory capitalization......	$247	$0	$258	$0
Inventory............................	70	0	16	0
Expenses not currently deductible.....	456	0	514	0
Net operating loss carryforwards......	9,880	0	5,000	0
Total current..................	$10,653	0	$5,788	0
Noncurrent -				
Amortization of debt issue costs...	$0	$0	$66	$0
Depreciation.......................	1,496	0	921	0
Deferred rent......................	1,093	0	925	0
Imputed interest on loans..........	0	0	139	0
Discount on Senior Subordinated Notes	0	0	0	688
Net operating loss carryforwards...	5,230	0	13,348	0
Alternative minimum tax credit.....	425	0	0	0
Total noncurrent..................	8,244	$0	15,399	$688
Net noncurrent....................	8,244		14,711	
Total deferred taxes..............	$18,897		$20,499	

At January 31, 1998, the Company had net operating loss carryforwards ("NOLs") totaling approximately $38 million which expire for federal income tax purposes during the fiscal years 2003 through 2006. The tax benefit of such NOLs can be recorded as an asset as long as it is more likely than not that the deferred tax asset will be utilized. However, to the extent that management cannot assess that the utilization of all or a portion of such deferred tax assets is more likely than not to be realized, a valuation allowance should be recorded.

During fiscal 1996, the Company consummated the 1996 Private Placement, which enabled the Company to access capital to expand its business and achieve greater profitability. As a result of the Company's improved operating results during the second half of fiscal 1996, as well as its projected results for fiscal 1997 and thereafter, the Company reversed its valuation allowance of $21.0 million in the fourth quarter of fiscal 1996, as it was deemed to be more likely than not that the deferred tax assets will be utilized. Accordingly, the Company's net income for fiscal 1997 and future years will require calculation of a tax provision based on statutory rates in effect. Until the NOLs are fully utilized or expire, the majority of this tax provision will not be paid in cash, but will reduce the deferred tax asset on the balance sheet. However, the Company expects to make cash tax payments for the federal Alternative Minimum Tax (the "AMT"), state minimum taxes and state taxes where the Company is not in an NOL status. The amount and availability of these NOLs are subject to review by the Internal Revenue Service.

Under the provisions of the Internal Revenue Code, the occurrence of certain events may affect the Company's ability to utilize its NOLs. The Company does not believe any such events occurred during the periods presented.

9. STOCKHOLDERS' EQUITY

The Company's stockholders' equity is comprised of the following and retroactively reflects the 120-for-one stock split (dollars in thousands):

	January 31, 1998	February 1, 1997
Common stock:		
Authorized number of shares.............	100,000,000	n/a
Issued and outstanding number of shares..	24,622,103	n/a
Preferred stock:		
Authorized number of shares.............	1,000,000	10,000
Issued and outstanding number of shares..	0	0
Series A Common Stock:		
Authorized number of shares.............	n/a	27,600,000
Issued and outstanding number of shares...	n/a	12,760,800
Series B Common Stock:		
Authorized number of shares..............	n/a	70,000
Issued and outstanding number of shares...	n/a	47,238
Liquidation preference....................	n/a	$22,001
Warrants:		
Number of shares of Series A Common Stock..	n/a	2,739,348

COMMON STOCK

As of January 31, 1998 the Common Stock outstanding reflects: (i) the Stock Split, the Series B Conversion and the Reclassification, (ii) the sale of 4,000,000 shares in the Offering and (iii) the issuance of 201,414 shares to Legg Mason upon exercise of one-third of the Legg Mason Warrant. In conjunction with the Offering, the Company also authorized 100,000,000 shares of Common Stock.

PREFERRED STOCK

In conjunction with the Offering, the Company authorized 1,000,000 shares of preferred stock, without designation. No shares had been issued as of January 31, 1998. At February 1, 1997, 10,000 shares of preferred stock were available for future issuance by the Company as a result of the surrender of the outstanding shares of preferred stock, in conjunction with the 1996 Private Placement. The authorized preferred shares as of February 1, 1997 were non-voting and had provided for cumulative dividends. The preferred stock was surrendered for no consideration on June 28, 1996.

SERIES A COMMON STOCK

In conjunction with the Offering, the Company effectuated a 120-for-one split of its Series A Common Stock and re-designated the Series A Common Stock as Common Stock. The above table retroactively reflects such stock split. During fiscal 1996, the Company converted all outstanding shares of its common stock to 16,800,000 shares of Series A Common Stock. Pursuant to a Redemption Agreement dated June 28, 1996, the Company redeemed a total of 4,039,200 shares of its Series A Common Stock from certain stockholders of the Company for the aggregate amount of $11.8 million.

SERIES B COMMON STOCK

In conjunction with the Offering, the Series B Common Stock was converted into 7,659,889 shares of Series A Common Stock which was then re-designated into Common Stock. The Company had issued 47,238 shares of Series B Common Stock to SKM in conjunction with the 1996 Private Placement, which was convertible into 7,659,889 shares of Series A Common Stock, or 30.8% of the outstanding shares of the Series A Common Stock on a fully diluted basis. The Series B Common Stock had special voting rights and a liquidation preference initially equal to its purchase price, increasing 12.5% per annum. The liquidation preference and the special voting rights of the Series B Common Stock terminated 30 days after the Offering.

WARRANTS

In the conjunction with the Offering, the Company repurchased the Noteholder Warrant and two-thirds of the Legg Mason Warrant. The Company also issued 201,414 shares of Common Stock upon exercise of the remaining one-third of the Legg Mason Warrant. See Note 3-1996 Private Placement and Note 2-Initial Public Offering for further discussion of the Noteholder Warrant and the Legg Mason Warrant.

10. STOCK OPTION AND PURCHASE PLANS

On June 28, 1996, the Company approved the adoption of the 1996 Plan, which authorized the granting of incentive stock options and nonqualified stock options to key employees of the Company. The 1996 Plan provided for the granting of options with respect to 1,743,240 shares of Common Stock. On June 28, 1996, options to purchase 1,444,080 shares were granted at the exercise price of $2.677 per share. The remaining 299,160 options available for grant under the 1996 Plan were granted in conjunction with the Company's Offering. Except for the 99,660 options that were issued to a stockholder holding more than 10% of the Company, the options were granted at $14.00 per share. The options granted to the stockholder holding more than 10% of the Company were granted at an exercise price of $15.40 per share, or 110% of the market price on the date of the grant.

On September 17, 1997, the Company approved adoption of the 1997 Plan, which also authorizes the granting of incentive stock options and nonqualified stock options to key employees of the Company with respect to 1,000,000 shares of Common Stock. In conjunction with the Company's Offering, the Company issued options to purchase 252,100 shares of Common Stock to key employees at the Offering price of $14.00 per share.

Both the 1996 Plan and the 1997 Plan are administered by a committee of the Board of Directors (the "Committee"). Options granted under the 1996 Plan and the 1997 Plan have exercise prices established by the Committee 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 shareholders owning greater than 10% of the Company be at least 110% of the fair market value of the underlying shares. As of February 1, 1997, no options had been exercised under the 1996 Plan and options to purchase 288,816 shares were exercisable. As of January 31, 1998, no options had been exercised under the 1996 Plan or the 1997 Plan and options to purchase 684,576 shares were exercisable.

Unless otherwise specified by the Committee, options granted under the 1996 Plan and the 1997 Plan vest at 20% six months from the date of grant and 20% on each of the first, second, third and fourth anniversaries of the date of the grant. The options granted in conjunction with the Offering vest at 20% on December 31, 1997 and 20% on each of the first, second, third and fourth anniversaries of the date of the grant.

Effective February 1, 1997, the Company adopted the provisions of SFAS 123. As permitted by SFAS 123, the Company has elected to continue to account for stock-based compensation using the intrinsic value method under Accounting Principles Board Opinion No. 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 issued in 1996 and 1997 had been determined based on the fair value method of accounting, for fiscal 1997 and fiscal 1996 the Company's net income would have been reduced to the pro forma amounts indicated below:

	JANUARY 31, 1998	FEBRUARY 1, 1997
Net income		
As reported...............	$5,241,000	$30,441,000
Pro forma.................	$4,385,000	$30,210,000
Pro forma net income per share-		
As reported................	$0.22	$1.28
Pro forma..................	$0.18	$1.27

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:

	JANUARY 31, 1998	FEBRUARY 1, 1997
Dividend yield..................	0%	0%
Volatility factor...............	36.56%	0%
Risk-free interest rate.........	6.02%	6.46%
Expected life of options........	5 years	5 Years
Weighted average fair value on grant date...................	$5.82 per share	$0.74 per share

On September 17, 1997, the Company approved the adoption of the ESPP, which authorized up to 360,000 shares of Common Stock for employee purchase through payroll deductions at 85% of fair market value. 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.

11. SAVINGS AND INVESTMENT PLAN

The Company has adopted The Children's Place 401(k) Savings and Investment Plan (the "401(k) Plan"), which is intended to qualify 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.

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. The Company did not exercise its discretionary contribution option during 1995 and 1996. In January 1997, the 401(k) Plan was amended whereby the Company will match the lesser of 50% of the participant's contribution or 2.5% of the participant's compensation. During fiscal 1997 and fiscal 1996, the Company's matching contributions on the 401(k) Plan were approximately $247,000 and $19,000, respectively.

12. 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 JANUARY 31, 1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$39,203	$33,534	$54,489	$65,331
Gross profit	14,018	9,802	21,408	23,864
Net income (loss)	1,011	(1,744)	1,754(2)	4,220
Pro forma basic net income (loss) per common share	$0.05	$(0.09)	$ 0.08	$0.17
Pro forma diluted net income (loss) per common share	$0.04	$(0.07)	$ 0.07	$0.17

	FISCAL YEAR ENDED FEBRUARY 1, 1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$30,438	$25,974	$40,353	$47,073
Gross profit	10,238	7,873	16,976	18,965
Net income (loss)	637	(2,099)	5,312	26,591(1)
Pro forma basic net income (loss) per common share	$0.03	$(0.10)	$0.26	$1.30
Pro forma diluted net income (loss) per common share	$0.03	$(0.09)	$0.22	$1.12

	FISCAL YEAR ENDED FEBRUARY 3, 1996			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$25,433	$23,181	$33,713	$39,733
Gross profit	7,224	5,530	11,640	14,232
Net income (loss)	(1,116)	(2,959)	2,382	3,347

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(1) Includes a reversal of a valuation allowance on a net deferred tax asset of $21,042. (see Note 8 - Income Taxes).

(2) Includes an extraordinary loss on the extinguishment of debt of $1,743. (see Note 2 - Initial Public Offering).

13. RELATED PARTY TRANSACTIONS

Concurrently with the 1996 Private Placement, 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 advisory agreement, the Company incurred fees and expenses to SKM of approximately $153,000 in fiscal 1997 and approximately $93,000 during fiscal 1996.

14. SUBSEQUENT EVENTS (UNAUDITED)

On March 26, 1998, the Committee authorized the repricing of certain options granted in conjunction with the Offering under the 1996 Plan and the 1997 Plan to the average market price on March 27, 1998 of $8.70 per share. The repricing re-established the options granted to employees as an incentive to improve the overall performance of the Company. Options granted to officers were not repriced.

EXHIBIT 27.1 THE CHILDREN'S PLACE RETAIL STORES, INC. FINANCIAL DATA SCHEDULE.
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF THE CHILDREN'S PLACE RETAIL STORES, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	YEAR
JAN-31-1998	FEB-01-1997
FEB-02-1997	FEB-04-1996
JAN-31-1998	FEB-01-1997
887	3,422
0	0
1,904	890
0	0
20,334	14,425
38,390	27,688
44,909	32,382
12,788	12,083
79,353	64,479
18,152	15,737
0	0
0	0
0	0
2,462	1,281
56,005	26,017
79,353	64,479
192,557	143,838
192,557	143,838
123,465	89,786
48,669	37,233
139	396
0	0
2,647	2,884
11,679	9,522
4,695	(20,919)
6,984	30,441
0	0
1,743	0
0	0
5,241	30,441
0.24	1.49
0.22	1.28