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

FORM 10-K

(Mark One)

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

For the fifty-three weeks ended February 3, 2007

o **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)
915 Secaucus Road **Secaucus, New Jersey**	**07094**
(Address of Principal Executive Offices)	(Zip Code)

(201) 558-2400
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, $0.10 par value**

Name of each exchange on which registered**: Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 o No x

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 or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The aggregate market value of common stock held by non-affiliates was $1,301,495,610 at the close of business on July 29, 2006 (the last business day of the registrant's fiscal 2006 second fiscal quarter) based on the closing price of the common stock as reported on the Nasdaq Global Select Market. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: Common Stock, par value $0.10 per share, outstanding at October 6, 2007: 29,083,916 shares.

Documents Incorporated by Reference: None.

THE CHILDREN'S PLACE RETAIL STORES, INC.

ANNUAL REPORT ON FORM 10-K
FOR THE FIFTY-THREE WEEKS ENDED FEBRUARY 3, 2007
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EXPLANATORY NOTE

In this Annual Report on Form 10-K for the fiscal year ended February 3, 2007 ("fiscal 2006"), The Children's Place Retail Stores, Inc. (the "Company") is restating its prior period financial statements to reflect additional stock-based compensation expense relating to stock option grants made in each year from the fiscal year ended January 31, 1998 ("fiscal 1997") through the first quarter of fiscal 2006. The Company also is restating its financial statements for all periods beginning with the fiscal year ended February 2, 2002 ("fiscal 2001") through the first quarter of fiscal 2006 to reflect the correction of other errors related to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years. Specifically, the Company is restating its: (1) consolidated balance sheet as of January 28, 2006, consolidated statements of income, cash flows and changes in stockholders' equity for the fiscal years ended January 28, 2006 ("fiscal 2005") and January 29, 2005 ("fiscal 2004"); (2) selected consolidated financial data for fiscal 2005, fiscal 2004 and the fiscal years ended January 31, 2004 ("fiscal 2003") and February 1, 2003 ("fiscal 2002"); and (3) unaudited quarterly financial data for the first quarter in fiscal 2006 and for all quarters in fiscal 2005. Restated financial information for fiscal years 2005 and 2004 is set forth in Note 2—Restatement of Consolidated Financial Statements in the Notes to Consolidated Financial Statements included in Item 15.—Exhibits and Financial Statement Schedules of this report. The data for the Company's consolidated balance sheet for fiscal 2003 and consolidated statements of income and cash flows for fiscal 2003 and fiscal 2002 have been restated to reflect the impact of the adjustments. Unaudited consolidated quarterly financial information for the eight quarterly periods in fiscal 2006 and fiscal 2005, including disclosures regarding the impact of the restatement in each of the quarters in fiscal 2005 and the first quarter in fiscal 2006, is set forth in Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations — Quarterly Effects of Restatement and Note 16—Quarterly Financial Data (Unaudited) in the accompanying consolidated financial statements.

The Company has not amended and does not intend to amend its previously filed Annual Reports on Form 10-K for fiscal 2005 or fiscal 2004 or any other fiscal year or its previously filed Quarterly Reports on Form 10-Q for the first quarter of fiscal 2006 or the first three quarters of fiscal 2005 or any other fiscal quarter. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Annual Report on Form 10-K and, as previously stated by the Company, the financial statements and related financial information contained in such previously filed reports should no longer be relied upon.

The aggregate impact of the stock-based compensation adjustments on the Company's consolidated statements of income, net of forfeitures of unvested awards and taxes, between the fiscal year ended January 30, 1999 ("fiscal 1998") and the first quarter of fiscal 2006 was a decrease in net income of approximately $11.2 million. The aggregate impact of the other adjustments unrelated to stock options on the Company's consolidated statements of income, net of taxes, between fiscal 2001 and the first quarter of fiscal 2006 was an increase to net income of approximately $1.7 million. Additionally, variable rate demand note balances as of the quarter ended April 29, 2006 have been reclassified from cash to short-term investments, and certain other balance sheet amounts have been reclassified. These reclassifications do not result in any additional charges in any period and do not affect working capital for the affected periods.

On September 8, 2006, December 8, 2006, April 5, 2007 and June 15, 2007, the Company filed notifications of late filings with the Securities and Exchange Commission ("SEC") on Form 12b-25, disclosing that, due to an ongoing investigation of its stock option granting practices, it was delaying the filing of its Quarterly Reports on Form 10-Q for the second and third quarters of fiscal 2006, its Annual Report on Form 10-K for fiscal 2006, and its Quarterly Report on Form 10-Q for the first quarter of the fiscal year ending February 2, 2008 ("fiscal 2007"), respectively. In addition, on September 14, 2007, the Company filed another notification of late filing with the SEC on Form 12b-25, disclosing that the Company's Board of Directors ("Board") was reviewing circumstances surrounding certain violations of the Company's policies and procedures by two executives of the Company and was considering the appropriate actions to take regarding these matters and, therefore, the Company would be delaying the filing of its Quarterly Report on Form 10-Q for the second quarter of fiscal 2007.

Immediately prior to filing this Annual Report on Form 10-K, the Company has filed its Quarterly Reports on Form 10-Q for the second and third quarters of fiscal 2006 and the Company intends, in the near future, to file its Quarterly Reports on Form 10-Q for the first and second quarters of fiscal 2007.

Mr. Ezra Dabah resigned from his position as the Company's CEO on September 24, 2007. Mr. Dabah remains a member of the Board. The Board has named Mr. Charles Crovitz, a current Board member, as interim CEO.

STOCK OPTION INVESTIGATION

Overview of the Investigation

In light of various media reports on stock option backdating at public companies and as recommended by the Audit Committee of the Company's Board, the Company undertook a preliminary review of its stock option granting practices starting in June 2006. After considering the results of this preliminary review, on August 24, 2006, the Audit Committee retained the Company's outside counsel ("Outside Counsel") to assist it with a formal review of the Company's stock option grants. On September 6, 2006, Outside Counsel issued to the Audit Committee a preliminary report concluding that there had been errors in the grant dates of options. The report also concluded that, aside from one grant as to which the report was inconclusive, the errors in stock option dating were unintentional. The review of the Company's stock option grants continued and expanded into a full investigation. On or about September 14, 2006, the Company suspended all stock-based compensation activity, including granting stock options and other stock-based compensation and issuing shares pursuant to stock option exercises, pending completion of the review and the Company becoming current on its delinquent filings with the SEC.

In October 2006, the Audit Committee retained separate independent counsel that had not previously represented the Company ("Independent Counsel") to advise the Audit Committee regarding the matters under investigation and a forensic accounting consulting firm was retained to assist in the investigation. On October 5, 2006, the Company announced that it expected to restate its financial statements and on October 11, 2006, the Company filed with the SEC a Current Report on Form 8-K disclosing that, because of issues with regard to its accounting for stock option grants, the Company's previously issued financial statements and other historical financial information and related disclosures for periods through the first quarter of fiscal 2006 should no longer be relied upon. On November 24, 2006, a two-member special committee of independent members of the Company's Board ("Special Committee") was appointed by the Company's Board to supervise and complete the investigation commenced by the Audit Committee.

During the period from September 17, 1997 (the day before the Company first became publicly held) through the most recent grant in February 2006 ("Review Period"), separate option grant authorizing actions were undertaken by the Company on 122 occasions. For convenience of reference, each of these occasions is referred to herein as a "Recorded Grant" (regardless of the number of people who received an option award on such occasion or any variations in terms of the awards so granted). At the request of Independent Counsel, the forensic accounting firm conducted an empirical assessment of all stock option grants during the Review Period to identify grants that might warrant further investigation. Using various statistical tests, twenty Recorded Grants were selected for detailed investigation, plus one additional Recorded Grant to a family member of the Company's former Chief Executive Officer ("CEO"). Overall, the investigation involved interviews of fourteen people, representing all the individuals involved in any material respect in the option granting process, and the review of tens of thousands of paper and electronic documents from the files (including office and personal computers) of such individuals and others and from other Company files (including e-mails and other documents recovered from the Company's electronic information system). A grant made to the Company's former CEO, Mr. Ezra Dabah, in connection with the Company's initial public offering of its shares ("1997 CEO IPO Grant") also was subsequently investigated by Independent Counsel.

Findings of the Stock Option Investigation

On January 30, 2007, the Special Committee delivered its written report of investigation including recommendations ("Report of Investigation") to the Board. The Board accepted the report and resolved to adopt the Special Committee's recommendations and to take the actions necessary to implement them. Key findings of the Report of Investigation, as disclosed in a Current Report on Form 8-K filed with the SEC on February 1, 2007, included:

- There was no conclusive evidence of intentional backdating of options or other misconduct in connection with the option granting process. There was no evidence of intent to mislead about option grant dates or exercise prices.

- No member of management and no director engaged in improper self-dealing in connection with the option grants made by the Company.
- All Company personnel cooperated fully with the investigation.
- The Company did not maintain appropriate governance and other internal controls, which resulted in errors in the dating of options and other irregularities in option grants. In many instances options were dated before all grant-making processes were finalized. Consequently, in such instances the option exercise price was lower than it should have been based on the trading price on the date the grant process was completed and incorrect charges were taken for the options for financial reporting purposes. Also, in a few instances, the Company may have selected grant dates with a view toward upcoming disclosures.

The Report of Investigation further concluded that, apart from some immaterial discrepancies in grants to non-executives representing less than 1.5% of the number of shares subject to options issued over the Review Period, there were no unauthorized grants. This conclusion was based on a comparison by the Company of its grant authorizing documentation to the Company's records of options issued, which correctly reflected the documented and authorized grants in terms of who received option grants and the number of options granted. However, subsequent to the Report of Investigation being issued, it was determined that certain unauthorized actions were taken in May 2004 relating to the 1997 CEO IPO Grant. These actions were ratified by the Board in 2007.

During the Review Period, the Company used the effective date reflected in its grant approval documentation as the grant date and in its accounting for option grants used such date as the measurement date under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In many instances, that date was an "as of" date on a unanimous written consent ("UWC") of the Board or the Compensation Committee. Since the Company believed options were granted with exercise prices that equaled or exceeded their quoted market price at the date of grant, no compensation expense was recorded in the Company's financial statements for options granted prior to its adoption of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Accounting for Share-Based Payments" ("SFAS 123(R)") as of January 29, 2006, other than in connection with the acceleration of the vesting of options in fiscal 2005 and the acceleration of the vesting of options related to a terminated employee. However, the Report of Investigation concluded that, as a result of the inadequacy of the Company's governance, internal financial reporting and other controls over the option grant process, the APB 25 measurement dates ("measurement date") used by the Company for a significant portion of the stock options granted during the Review Period were incorrect, as the recipients of the grants, number of shares subject to the options granted and exercise prices were not approved and established with finality by the date the Company had recorded as the grant date.

The Company used available documentation and guidance set forth by the Office of the Chief Accountant of the SEC on September 19, 2006 ("September 2006 OCA Guidance") to determine the revised measurement dates for option grants made during the Review Period. For a discussion of the Company's historical stock option granting process and use of available information to determine the revised measurement dates, refer to Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Financial Statements and Note 2—Restatement of Consolidated Financial Statements in the accompanying consolidated financial statements.

After completion of the Report of Investigation, the Company in reviewing its accounting for options became aware of certain inconsistencies in its records concerning the terms of the 1997 CEO IPO Grant. Under the direction of the Special Committee, Independent Counsel investigated the Company's treatment of these options and reported thereon to the Special Committee. On April 11, 2007, the Special Committee reported to the Board on the 1997 CEO IPO Grant. Based on the evidence assembled in Independent Counsel's investigation, the Special Committee found that there had been confusion, resulting in inconsistencies in the Company records, in connection with the implementation of the 1997

CEO IPO Grant and over the years with regard to the terms of this grant. In considering the results of the investigation into the 1997 CEO IPO Grant, the Special Committee reconsidered the key findings it had reached in the Report of Investigation, as described above, and concluded that the evidence from the additional investigation did not lead it to different findings. The Board concurred in this conclusion.

Inadequate Internal Controls

The Company is undertaking to remediate the material weakness in internal control over financial reporting related to stock option grants found by the Special Committee, as further discussed in Item 9A.—Controls and Procedures of this Annual Report on Form 10-K. The Company has continued its suspension of the granting of all stock-based compensation, including the granting of stock options, as well as the exercise of any options, until these improved procedures have been instituted. Furthermore, the suspension of granting and exercise of stock options will continue until the Company becomes current with its SEC filings.

Resolution of Tax Consequences and Corrective Action Related to Discounted Options

Revision to the measurement dates of stock options often resulted in options with exercise prices below the fair market value of the related shares on the revised measurement date ("discounted options"). Individuals currently holding discounted options may incur an excise tax liability under Section 409A of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As recommended by the Special Committee, in order to avoid any benefit from the errors made in dating of options to any person involved in the option granting process and, also, as part of the Company's efforts to address certain tax considerations associated with outstanding options granted with an exercise price below fair market value, the Company has taken the following actions:

- The Company and its directors (including Mr. Dabah, its former CEO), its President and its former Chief Administrative Officer have agreed to amend all discounted options held by them (other than those described in the next paragraph) to increase the exercise price to the average of the high and low trading price on the date determined by the Company to be the revised measurement date applicable to the option grant to be used for financial reporting purposes. In the few instances where these individuals have exercised options as to which a revised measurement date has been determined by the Company, the individuals have agreed to return to the Company the difference between the exercise price and the trading price on the revised measurement date.

- In the three instances where the Report of Investigation found that non-executive directors received options shortly before the public disclosure of positive information, the Company and these directors further agreed to amend such options to increase the exercise price to the average of the high and low trading price over the balance of the calendar year following the recorded date of the grant.

- With respect to all other option grants, the Company has decided to honor the options as issued, consistent with the Special Committee's finding of no intentional misconduct on the part of management in the option granting process. Nevertheless, the Company and all members of senior management holding outstanding options have agreed to have their outstanding discounted options that vested after 2004 amended either to increase the exercise price to the average of the high and low trading price on the date determined by the Company to be the revised measurement date or to limit the exercise period of their options.

In addition, with respect to holders of discounted options that vested after 2004 who are employees at the time, other than members of senior management who have already agreed to amend their outstanding discounted options, the Company plans to offer as soon as practicable the opportunity to exchange their discounted options for options with the same terms except that the exercise price will be changed to the average of the high and low trading price on the revised measurement date. Option holders who agree to such amendment will receive a cash bonus in the amount of the increase in the exercise price.

The foregoing actions are expected to bring all outstanding options held by employees and non-employee directors into compliance with pertinent requirements relating to discounted options so that the 20% excise tax under Section 409A of the Internal Revenue Code does not apply to the options. To the extent such discounted options were exercised during fiscal 2006, the Company expects to bear the liability for, and has accrued during fiscal 2006, an amount estimated to equal the potential 20% excise tax under Section 409A that would be incurred by the recipient in connection with such option if such tax is applicable, and any related income tax liability that would be incurred by the recipient in respect of receiving from the Company such amount, if any.

OTHER ADJUSTMENTS

As previously mentioned in the Explanatory Note in this Annual Report on Form 10-K, in addition to the adjustments related to the stock option investigation, the restated consolidated financial statements presented herein include other adjustments related to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years. The aggregate impact of these adjustments on the Company's consolidated statements of income, net of taxes, between fiscal 2001 and the first quarter of fiscal 2006 was an increase to net income of approximately $1.7 million. Additionally, variable rate demand note balances as of the quarter ended April 29, 2006 have been reclassified from cash to short-term investments, and certain other balance sheet amounts have been reclassified. These reclassifications do not result in any additional charges in any period and do not affect working capital for the affected periods. For further discussion of these adjustments, refer to Note 2—Restatement of Consolidated Financial Statements and Note 16—Quarterly Financial Data (Unaudited) in the Notes to Consolidated Financial Statements included in Item 15.—Exhibits and Financial Statement Schedules and Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations.

CUMULATIVE ADJUSTMENTS

The following table summarizes the cumulative increase or decrease to net income from fiscal 1998 through the first quarter of fiscal 2006. These adjustments relate to the Company recognizing stock-based compensation expense as a result of determining revised measurement dates for past stock option grants as well as the other adjustments noted above (in thousands):

	Stock Option Related Adjustments			Other Adjustments(1)			
Period Ended	Expense (Increase)	Tax Benefit	Net Stock Option Related Adjustments	Expense (Increase) Decrease	Tax Benefit (Provision)	Net Other Adjustments	Total After Tax Adjustment
January 30, 1999 (fiscal 1998)	$ (59)	$ 19	$ (40)	$ —	$ —	$ —	$ (40)
January 29, 2000 (fiscal 1999)	(211)	81	(130)	—	—	—	(130)
February 3, 2001 (fiscal 2000)	(386)	131	(255)	—	—	—	(255)
February 2, 2002 (fiscal 2001)	(915)	295	(620)	240	(98)	142	(478)
February 1, 2003 (fiscal 2002)	(972)	375	(597)	772	(311)	461	(136)
January 31, 2004 (fiscal 2003)	(1,632)	486	(1,146)	1,722	(695)	1,027	(119)
January 29, 2005 (fiscal 2004)	(3,386)	772	(2,614)	589	(82)	507	(2,107)
January 28, 2006 (fiscal 2005)(2)	(8,927)	3,956	(4,971)	(853)	218	(635)	(5,606)
Cumulative effect at January 28, 2006	$ (16,488)	$ 6,115	$ (10,373)	$ 2,470	$ (968)	$ 1,502	$ (8,871)
April 29, 2006 (Q1 fiscal 2006)	$ (1,331)	$ 544	$ (787)	$ 327	$ (161)	$ 166	$ (621)

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

(2) The Company has not previously recorded stock-based compensation expense in any fiscal year other than fiscal 2005. During fiscal 2005, the Company recorded approximately $0.3 million related to the modification of stock options for a terminated employee, before taxes of approximately $0.1 million. The Company also recorded approximately $2.1 million, before taxes of approximately $0.1 million, of stock-based compensation expense related to the acceleration of the vesting of certain options. As part of the restatement process, the stock option acceleration amounts were adjusted to approximately $1.7 million of stock-based compensation expense, before taxes of approximately $0.5 million. Therefore, the restated total stock-based compensation expense for fiscal 2005 is approximately $11.3 million, before taxes of approximately $4.1 million.

PART I

ITEM 1.—BUSINESS

The Business section and other parts of this Annual Report on Form 10-K may contain certain forward-looking statements regarding future circumstances. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," and similar terms. These forward-looking statements are based upon the Company's current expectations and assumptions and are subject to various risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements including, but not limited to, those discussed in the subsection entitled "Risk Factors" under Part I, Item 1A of this Annual Report on Form 10-K. Actual results, events, and performance may differ significantly from the results discussed in the forward-looking statements. Readers of this Annual Report on Form 10-K are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The inclusion of any statement in this Annual Report on Form 10-K does not constitute an admission by the Company or any other person that the events or circumstances described in such statement are material.

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

Recent Developments

On September 24, 2007 during a meeting of the Board, Mr. Ezra Dabah resigned from his position as CEO of the Company and from all other officer positions with the Company and all positions as an officer or director of any of the Company's subsidiaries. Mr. Dabah continues to serve as a member of the Company's Board. Mr. Dabah is entitled to severance pursuant to section 5.01 of such agreement; the Company has not entered into any additional agreement with Mr. Dabah concerning additional severance benefits. Upon the resignation of Mr. Dabah, the Board named Mr. Charles Crovitz, a current Board member, as interim CEO. The Board has engaged a search firm to conduct an executive search for a permanent successor to Mr. Dabah. Ms. Sally Frame Kasaks, the Lead Director, will continue as Acting Chairman of the Board. The Company continues to search for two new independent board members and will designate a permanent Chairman of the Board as soon as possible after such new directors are appointed to the Board.

Consistent with its fiduciary duties, our Board has engaged an investment banking firm to act as its financial advisor in undertaking a review of strategic alternatives to improve operations and enhance shareholder value. As part of this review, our Board and management are assessing a wide variety of options to improve our business and competitive position, including, but not limited to, opportunities for organizational and operational improvement, a possible

recapitalization, or other transactions. The Board has not set any specific timeline for the completion of this strategic review, and there is no assurance that as a result of this review, the Board will decide to change the Company's course of action or engage in any specific transaction.

In August 2007, in connection with the application of enhanced internal controls the Company instituted as part of the changes in its governance and internal controls resulting from the stock option remediation process, the Company identified certain violations of the Company's policies and procedures by two members of senior management. On September 26, 2007, the Board completed its consideration of these violations.

One instance involved irregularities in expense reimbursement practices on the part of the Chief Creative Officer of The Children's Place business, who is a related party to the Company's former CEO and current Board member, Ezra Dabah, and another member of the Board, Stanley Silverstein. The Board concluded that the irregularities violated the Company's Code of Business Conduct, involving gross inattention to the pertinent requirements of the Company's policies but did not involve an intentional effort to obtain an improper personal benefit. The Board imposed significant sanctions on the individual involved, including requiring the individual to refund approximately $23,000 erroneously charged to the Company, changing the individual's position so that the individual will no longer be an officer of the Company, and requiring the reimbursement of approximately $160,000 to cover the Company's

out-of-pocket costs incurred in connection with its investigation of the matter, but concluded that dismissal from employment was not warranted.

The other case involved two instances where the Company's former CEO, Ezra Dabah, did not comply with the Company's internal policies related to internal securities transaction reporting and approval. In one instance, Mr. Dabah did not report to the Company an immaterial increase in his wife's ownership of Company shares as a result of a trust distribution. In the second, on two occasions, he pledged shares of Company stock pursuant to a customary margin account during a "black-out period" when the Company's policies required prior approval of the Board for such pledges. The Board concluded that these actions violated the Company's Code of Business Conduct, but that they were not done with the intent of knowingly violating the Company's policies or in order to obtain an improper personal benefit by doing so and did not result in his obtaining an improper personal benefit or result in any liability exposure to the Company. The Audit Committee also determined that the pledges at issue would be considered valid and would be permitted. The Board imposed significant sanctions for committing the violations, including imposing new requirements on transactions involving the Company's securities by the former CEO and requiring that he reimburse the Company approximately $36,600 for its out-of-pocket costs in investigating the violations.

The Company is instituting additional expense reimbursement procedures and additional training in the requirements of the Company's Code of Business Conduct and related policies and procedures to help ensure against future similar violations.

The Company has completed its investigation of the violations of the Company's policies and procedures and no other internal investigations are underway.

Overview

In this Report, the words the "Company", "we", "us", "our" and similar terms collectively refer to The Children's Place Retail Stores, Inc. and subsidiaries. The Company was incorporated in June 1988 and is a leading specialty retailer of children's merchandise. We design, contract to manufacture and sell high-quality, value-priced merchandise under our proprietary "The Children's Place" and licensed "Disney Store" brand names. As of September 1, 2007 we owned and operated 889 The Children's Place stores and 328 Disney Stores across North America and operated Internet stores at www.childrensplace.com and www.disneystore.com.

In November 2004, we acquired, through two wholly-owned subsidiaries, the Disney Store retail chain in North America (the "DSNA Business") from affiliates of The Walt Disney Company ("Disney"). (For clarification, the "DSNA Business" refers to the business we acquired from Disney as of November 21, 2004, whereas the "Disney Store business" refers to the Disney Store business we have operated since the acquisition.) As a result of the acquisition, these subsidiaries acquired a total of 313 Disney Stores, consisting of all then-existing Disney Stores in the United States and Canada, other than "flagship" stores and stores located at Disney theme parks and other Disney properties, along with certain other assets used in the Disney Store business. In addition, the lease obligations for all 313 stores and other legal obligations became obligations of our subsidiaries. Subsequently, our subsidiaries acquired two Disney Store flagship stores, one in Chicago, Illinois and the other in San Francisco, California, as well as certain Disney Store outlet stores. The Company's subsidiaries that operate the Disney Store business are referred to herein interchangeably and collectively as "Hoop."

We are structured such that our administrative functions (e.g., finance, real estate, human resources, legal, information technology, logistics) are shared by both The Children's Place and the Disney Store brands. Functions such as design, merchandising, marketing and store operations are run independently of each other to maintain clearly defined and differentiated brands. Each brand is overseen by a President who manages day-to-day operations and who reports directly to our CEO.

The Children's Place is a specialty retailer of apparel and accessories for children from newborn to ten years of age. The brand's merchandising objective is to offer a unique, colorful, coordinated and balanced lifestyle assortment of high quality, basic and fashion merchandise, at prices that represent substantial value to our customers.

Disney originated the themed specialty retail environment when it opened the first Disney store in Glendale, California in 1987. Disney Store offers immediate access to unique Disney-branded products, such as apparel, toys, plush, and souvenirs in an emporium like setting.

Our goal is to be the leading specialty retailer in the children's space by executing on our "core purpose": making the very best accessible to all children.

During fiscal 2006, we opened 69 The Children's Place stores compared to 55 store openings in fiscal 2005. We also opened 19 Disney Stores in fiscal 2006 compared to 18 in fiscal 2005. We closed five The Children's Place stores and eight Disney Stores in fiscal 2006, compared to three The Children's Place store closures and seven Disney Store closures in fiscal 2005. Our store growth plan for fiscal 2007 includes opening approximately 60 The Children's Place stores and approximately 15 Disney Stores.

License Agreement with Disney

In connection with the acquisition of the DSNA Business in 2004, Hoop entered into a License and Conduct of Business Agreement with an affiliate of Disney (as amended to date, the "License Agreement") under which our subsidiaries use certain Disney intellectual property to operate the Disney Store retail chain in exchange for ongoing royalty payments. The agreement allows our subsidiaries to operate retail stores in the United States and Canada using the "Disney Store" name and to contract, manufacture, source, offer and sell merchandise featuring Disney-branded characters, past, present and future. In accordance with the License Agreement, following a two year royalty abatement, our subsidiaries began making royalty payments to Disney in November 2006 equal to 5% of net sales from physical Disney Store locations, subject to an additional royalty holiday period with respect to a limited number of stores (the "Non-Core Stores"). The initial term of the License Agreement continues through January 2020, unless terminated sooner in accordance with the License Agreement, and if certain financial performance and other conditions are satisfied, the term of the License Agreement may be extended at our option for up to three additional ten-year terms.

In connection with our acquisition of the DSNA Business, we also entered into a Guaranty and Commitment (the "Guaranty and Commitment") dated as of November 21, 2004, in favor of Hoop and Disney. As required by the Guaranty and Commitment, we invested $50 million in Hoop concurrently with the consummation of the acquisition, and we agreed to invest up to an additional $50 million from time to time to enable Hoop to comply with their obligations under the License Agreement and otherwise fund the operations of Hoop. The Guaranty and Commitment provides that our $50 million additional commitment is subject to increase if certain distributions are made by Hoop to The Children's Place. To date, we have not invested any portion of the additional $50 million in Hoop. We also agreed in the Guaranty and Commitment to guarantee the payment and performance by Hoop of their royalty payment and other obligations to Disney under the License Agreement, subject to a maximum guaranty liability of $25 million, plus expenses.

The License Agreement obligates us to maintain the quality, appearance and presentation standards of the Disney Store chain in accordance with the highest standards prevailing in the specialty retail industry. In addition, the License Agreement, as amended in April 2006, required us to:

- Completely remodel each store within a specified period of time following expiration or termination of the initial term of the lease for such store, if such lease is renewed or extended on a long-term basis upon or following such expiration or termination;
- Completely remodel each store at least once every 12 years; and
- Completely remodel a minimum of approximately 160 of the 313 acquired stores by January 1, 2009.

During fiscal 2006, we suspended the Disney Store renovation program because of dissatisfaction with our "Mickey" store prototype from a brand, design and construction standpoint. As of February 3, 2007, we had remodeled a total of 45 Disney Stores since the 2004 acquisition. Pursuant to the provisions of the License Agreement, as amended in 2006, relating to required remodeling following lease renewals and required remodeling of stores at least once every 12 years, we were required to remodel a total of approximately 145 stores by February 3, 2007. As of February 3, 2007, we had remodeled 32 of these required stores, with the result that 113 of the store remodels required by that date under the terms of the License Agreement had not been completed by that date. The remaining 13 store remodels we had completed were not required pursuant to the provisions of the License Agreement.

During the fourth quarter of fiscal 2006, we received a letter and subsequent follow-up communications from Disney identifying various ways in which we had not complied with the store renovation and certain other requirements of the License Agreement. In response, during the fourth quarter of fiscal 2006, we commenced discussions with Disney regarding potential modifications to certain terms of the License Agreement to address our remodeling commitments as well as other concerns that had been raised by Disney in various communications with us. During the first quarter of fiscal 2007, Disney notified us that Disney viewed our failure to comply with these requirements of the License Agreement as constituting numerous material breaches of the License Agreement, entitling Disney to exercise its rights and remedies under the License Agreement.

Following discussions with Disney, in June 2007, we entered into a letter agreement with Disney (the "June Letter Agreement") which modified and superseded certain provisions of the License Agreement, including the remodeling requirements, through fiscal 2011 and created additional obligations for us and Hoop with respect to the remodeling of Disney Stores. The June Letter Agreement was entered into to address Disney's assertion that through the date of the June Letter Agreement we had committed 120 material breaches of the License Agreement. The June Letter Agreement stated that, if we fully comply with its terms, Disney would forbear from exercising any rights or remedies that it would have under the License Agreement based on the breaches of the License Agreement that were asserted by Disney and were the subject of the June Letter Agreement. However, if we were to violate any of its provisions, Disney would have the right to terminate its forbearance under the June Letter Agreement, in which case Disney would be free to exercise any or all of its rights and remedies under the License Agreement, including possibly terminating our license to operate the Disney Stores based on the occurrence of numerous material breaches and claiming breach fees, as if the June Letter Agreement had not been executed. The June Letter Agreement also stated that, if we were to breach any of its provisions on three or more occasions and Disney had not previously exercised its right to terminate the June Letter Agreement, a payment of $18.0 million to Disney would become immediately due and payable with respect to the breach fees called for by the License Agreement. If we were to violate any of the provisions of the June Letter Agreement on five or more occasions, Disney would have the right to immediately terminate the License Agreement, without any right on our part to defend, counterclaim, protest or cure. The June Letter Agreement stated that its terms would take effect immediately but that the parties anticipated the June Letter Agreement would later be replaced by a formal amendment to the License Agreement incorporating the terms of the June Letter Agreement.

The June Letter Agreement, among other things, suspended the remodel obligations in the License Agreement for the approximately 4.5 year term of the June Letter Agreement and, in lieu of those provisions, imposed new obligations on the Company with respect to the renovation and maintenance of numerous stores in the Disney Store chain between fiscal 2007 and fiscal 2011 and, for stores to be remodeled in fiscal 2007, set forth a detailed timetable for submission of plans and completion dates.

Subsequent to the execution of the June Letter Agreement, we were unable to meet several deadlines set forth in the June Letter Agreement. In addition, we determined that there were upcoming deadlines during the third and fourth quarters of fiscal 2007 specified in the June Letter Agreement that we would likely not meet. Accordingly, we and Disney engaged in further discussions during August 2007 and, based on these discussions, agreed upon changes to the requirements of the June Letter Agreement that would postpone the due dates of certain of our remodel obligations, including those originally scheduled for fiscal 2007. In connection with these postponements, we agreed to remodel two additional Disney Stores during fiscal 2009 and agreed upon changes to the original License Agreement to modify restrictions on Disney's ability to relocate its flagship retail store in Manhattan and to narrow the restrictions on Disney's ability to grant direct licenses to other specialty retailers so that these restrictions would apply only with respect to specialty retail stores focusing primarily on the sale of children's merchandise.

During August 2007, we and Disney executed a formal amendment to the License Agreement (the "Refurbishment Amendment") which incorporated the terms of the June Letter Agreement, as modified by our mutual agreement during August, and the aforementioned changes to the License Agreement. The Refurbishment Amendment by its terms superseded the June Letter Agreement and took effect retroactively as of June 6, 2007, the original effective date of the June Letter Agreement. The Refurbishment Amendment provides that our compliance in full with its terms will constitute a cure of the breaches identified in the Refurbishment Amendment and that, so long as the Refurbishment Amendment is not terminated, Disney will forbear from exercising any rights or remedies that it would have under the License Agreement based on the breaches identified in the Refurbishment Amendment.

The Refurbishment Amendment suspends the remodel obligations in the License Agreement for the approximately 4.5 year term of the Refurbishment Amendment, and, in lieu of those provisions, commits us to remodel by the end of fiscal 2011 a total of 236 existing Disney Stores into a new store prototype we have developed,

- of which the first seven remodels are required to be completed by December 31, 2007 (all of which we expect to complete on schedule);
- an additional 49 stores are required to be remodeled by the end of fiscal 2008;
- an additional 60 stores are required to be remodeled by the end of fiscal 2009;
- an additional 70 stores are required to be remodeled by the end of fiscal 2010; and
- an additional 50 stores are required to be remodeled by the end of fiscal 2011.

Under the Refurbishment Amendment, we also have agreed to open at least 18 new Disney Stores using the new store prototype by the end of fiscal 2008. Our prior obligations under the License Agreement did not require us to open a specified number of new stores.

In addition, the Refurbishment Amendment requires us to complete a "maintenance refresh" program in approximately 165 Disney Stores by June 30, 2008, including the flagship store located on Michigan Avenue in Chicago, which was completed on September 12, 2007. Some of the stores that are refreshed will subsequently be remodeled into the new store prototype. The Refurbishment Amendment obligates us to complete the remodel and refresh program described above and, as required by the Refurbishment Amendment, we have committed $175 million, on a consolidated basis, to remodel and refresh the stores as noted above through fiscal 2011, and have committed approximately $12 million to open new stores through fiscal 2008.

We expect that the Disney Stores will fund these commitments primarily from cash flow from operations and borrowings under its secured credit facility. We expect that The Children's Place business will need to provide additional capital to the Disney Stores to remain in compliance with the store remodel requirements under the License Agreement as modified by the Refurbishment Amendment.

In the Refurbishment Amendment, we also agreed with Disney to make certain other modifications to the provisions of the License Agreement, including:

- Limiting the number of new Disney Stores to be opened per year during the remodeling period (we may open up to 25 new stores in any given year after fiscal 2007, with a rollover each year of up to five new stores from prior years);
- Eliminating the extended royalty abatement for some of the Disney Stores that were identified as Non-Core Stores in the License Agreement if their leases are extended on a long-term basis and the stores are not remodeled within the timeframe that was required under the original terms of the License Agreement before giving effect to the Refurbishment Amendment;
- Requiring the potential implementation of a differentiated merchandise plan for the Disney Store outlets; and
- Modifying the provisions of the License Agreement that would apply to a potential wind-down of the Disney Store business following any termination of the License Agreement.

Like the June Letter Agreement, the Refurbishment Amendment states that, if we fully comply with the terms of the Refurbishment Amendment, Disney will forbear from exercising any rights or remedies that it would have under the License Agreement based on the breaches of the License Agreement that were asserted by Disney and were the subject of the Refurbishment Amendment. However, under the terms of the Refurbishment Amendment, if we violate any of the provisions of the Refurbishment Amendment, Disney will have the right to terminate its forbearance under the Refurbishment Amendment, in which case Disney would be free to exercise any or all of its rights and remedies under the License Agreement, including possibly terminating our license to operate the Disney Stores based on the occurrence of numerous material breaches and claiming breach fees, as if the Refurbishment Amendment had not been executed. The Refurbishment Amendment also states that, if we breach any of its provisions on three or more occasions and Disney has not previously exercised its right to terminate the Refurbishment Amendment, a payment of $18.0 million would become immediately due and payable to Disney with respect to the breach fees called for by the License Agreement. If we violate any of the provisions of the Refurbishment Amendment on five or more occasions, Disney will have the right to immediately terminate the License Agreement, without any right on our part to defend, counterclaim, protest or cure. It should be noted that the Refurbishment Amendment addresses only those breaches

specifically enumerated therein. Disney continues to retain all its other rights and remedies under the License Agreement with respect to any other breaches.

We believe that we will be able to perform our obligations under the Refurbishment Amendment as and when required. However, because our ability to meet these obligations will depend on numerous factors, some of which are beyond our control, there can be no assurance that we will be able to fully comply. Like the June Letter Agreement, the Refurbishment Amendment does not excuse us from compliance with these requirements should there be events or developments that may be beyond our control, such as contractor delays, delays in landlord or regulatory approval, natural disasters or acts of war or terrorism. Our diligent efforts may not be adequate to enable us to obtain all required approvals under the Refurbishment Amendment or to comply with every requirement or meet every deadline imposed on us under the Refurbishment Amendment. In the event we are unable to comply with any of our obligations when required, we would be in breach of our agreements with Disney, entitling Disney to exercise its remedies under the Refurbishment Amendment and the License Agreement. In the event such breaches occur, there can be no assurance that we will be able to obtain waivers or other relief from Disney, if needed, to avoid the $18.0 million payment to Disney and prevent a termination of the Refurbishment Amendment or the License Agreement. In addition, any breach by us of agreements with Disney (even if subsequently waived by Disney) would constitute a cross-default under the secured loan agreement for the Disney Store chain, entitling the lenders to exercise their contractual remedies. There can be no assurance that we will be able to obtain waivers, if needed, from our lenders in the event of any future breaches of the Refurbishment Amendment or the License Agreement.

Beginning in July 2007, our Hoop subsidiaries commenced Internet commerce operations through an alliance with a Disney affiliate in which select Disney Store merchandise is sold on the disneyshopping.com website. Customers can find our Disney Store merchandise at www.disneystore.com or www.disneyshopping.com. We anticipate entering into a formal amendment to the License Agreement relating to this Internet business. It is anticipated that this amendment to the License Agreement will supersede our obligation to launch our own Disney Store Internet store, which pursuant to the License Agreement, as modified by certain letter agreements, we are required to launch by January 31, 2008.

Refer to Item7.— Management's Discussion and Analysis for further discussion of the Refurbishment Amendment.

Key Capabilities to Our Long-Term Success

We believe that the following capabilities are critical to our long-term success:

Merchandising Strategy. The Children's Place merchandising strategy is built on offering an appealing collection of interchangeable outfits and accessories to create a coordinated look distinctive to the brand. We offer an updated, focused assortment of styles in a variety of colors and patterns, with the aim of consistently creating a fresh, youthful look at value prices that we believe distinguishes "The Children's Place" brand. We divide the year into quarterly merchandising seasons: spring, summer, back-to-school and holiday. Within each season, we typically deliver two merchandise lines. Each season is built around a color palette that includes an assortment of coordinated basic and fashion apparel with matching accessories designed to encourage multiple item purchases and wardrobe building. Within the assortments we also offer a choice of "good," "better," and "best" merchandise.

Our Disney Store merchandising strategy is to offer unique, exclusive, innovative and elevated assortments for the whole family that are high quality and showcase Disney characters. To date, the Disney Store business has been heavily concentrated in the Halloween and holiday seasons. To reduce the level of seasonality, we plan to offer more softlines merchandise during spring, summer and back-to-school. In addition, in fiscal 2006, we introduced adult apparel, offered more freshness and innovation in our hardlines business, and offered a "good," "better," "best" pricing strategy across most product categories.

High Quality/Value Pricing Strategy. We believe that our high quality, value price positioning is an important component of our long-term strategy. We offer high-quality clothing and accessories under "The Children's Place" brand name at prices below most of our direct mall-based competitors. We employ this value pricing strategy across our entire merchandise offering. Our value price points are an important factor in the broad consumer appeal that The Children's Place brand has benefited from over the years. At Disney Store, we believe that combining the strong

appeal of Disney characters with our unique merchandise offering at value prices has contributed to the Disney Store's progress.

Brand Image. We continue to build a strong brand image and customer loyalty for "The Children's Place" by:

- Offering high-quality products at value prices;
- Providing a distinctive collection of coordinated and interchangeable outfits and accessories;
- Maintaining a uniform merchandise presentation;
- Emphasizing our fashionable, youthful image in our marketing visuals;
- Utilizing our customer database to target direct mailers to customers;
- Maintaining a marketing presence in targeted print publications; and
- Selling our merchandise exclusively in our The Children's Place stores and on our website.

The Disney Store business benefits from one of the strongest emotional family brand names in North America. The Disney Store experience emphasizes the "magic" and memories of the Disney character portfolio.

Low-Cost Sourcing. We control the design, sourcing and presentation of our products sold at both The Children's Place and Disney Store. We believe that this control is essential in assuring the consistency and quality of our merchandise and the image of each of our brands, as well as our ability to deliver value to our customers. We have established long-standing relationships with our vendors and suppliers. Through these relationships and our extensive knowledge of low cost sourcing, we are able to offer our customers high-quality products at value prices. Furthermore, we believe that our integrated merchandise approach, from in-house design to in-store presentation, enables us to identify and respond to market trends, uphold rigorous product quality standards, manage the cost of our merchandise and strengthen our brands. Our offices in Hong Kong, Shanghai and New Delhi add to our ability to lower costs, capitalize on new sourcing opportunities, increase our control over product quality and enable us to respond to changing merchandise trends more effectively and efficiently.

Experienced Management Team. The members of our senior management team have an average of 19 years of retail or apparel industry experience. Our interim CEO, Mr. Charles Crovitz, an independent member of the Company's Board, was appointed interim CEO in September 2007. Mr. Crovitz has over 20 years experience in the retail industry, including 10 years at Gap, Inc. Mr. Crovitz was appointed interim CEO following the September 24, 2007 resignation of Ezra Dabah, who resigned as CEO. During his tenure as CEO, Mr. Dabah guided the management of the Company using his broad apparel merchandising and buying expertise, which included over 20 years in the children's segment of the market.

Merchandising Process

While we have separate design and merchandising teams for each brand, the process and planning schedules are similar. To execute our merchandising strategies, we rely on the coordinated efforts of our design, merchandising, planning and sourcing teams. These teams, in conjunction with senior management, "hindsight" prior season results and review fashion trends, colors and design concepts that we will offer in upcoming seasons. Merchandising selects items for production from the assortment of merchandise designs that are created by the design team. In addition, the Disney Store merchandising and design teams assess characters, are made aware of upcoming movie, DVD and television releases by the Walt Disney Company and attend toy shows and fairs to determine which merchandise to include in the assortment. Then, based upon detail design specifications, including production quantities determined by merchandising and planning, the sourcing team arranges for the issuance of purchase orders and manufacture of the selected items.

Our design and trend teams analyze and interpret current and emerging fashion trends, translating them into a broad selection of merchandise appropriate for upcoming seasons. In addition, our Disney Store design and trend teams evaluate the popularity and relevancy of existing characters, as well as the perceived customer receptivity to new characters, to create a unique and compelling merchandise assortment. Across both brands, work on each of our seasonal lines begins approximately one year before the season. However, the Company maintains, and at times

exercises, the ability to develop and deliver product on an expedited timeline. The merchandising process includes purchasing of samples and gathering market intelligence on fashion trends, which involves extensive European and domestic market research, media, trade shows, fashion magazines, the services of fashion and color forecast organizations, and analysis of prior season performance. In addition, at Disney Store, we consult with Disney as part of the normal course of operations to ensure character art and overall brand standards are properly represented. After the design teams present their ideas, the designers, with the direction of merchandising, translate those ideas into a merchandise assortment that reflects the theme of the season. These interpretations include variations in fabric and other materials, product color, decoration, character selection and age-appropriate silhouettes. Potential items are designed using computer aided design technology, which allows for a wide range of style and fashion options. Our sourcing teams and Asian offices coordinate the production of prototype samples which enable our merchandising teams to ensure that our merchandise will properly reflect our design concepts and allow us to get the most accurate understanding of an item. We have also instituted a process that involves working with prototype samples in a simulated in-store environment. This enables our design, merchandising, visual and marketing teams to create a cohesive, well balanced and fresh approach to each season.

The merchandise management teams create a detailed purchasing plan for the season covering each department, category and key item, based on historical, current and emerging category trends. The production process takes approximately five to six months from order confirmation to receipt of merchandise at our distribution facilities. Our planning teams monitor current and projected inventory levels on a weekly basis and analyze sales patterns to predict future demand for various items and categories. We regularly monitor sales and maintain some flexibility to adjust merchandise on order for future seasons or to accelerate delivery of merchandise. Our merchandise allocation teams are responsible for planning and allocating merchandise to each store based on sales levels, merchandise turns and other factors.

Sourcing and Procurement

We combine management's extensive apparel sourcing experience with a cost-based buying strategy to control merchandise costs, infuse quality features into our product and deliver value to our customers. We believe we have a thorough understanding of the economics of apparel manufacturing, including costs of materials and components. This knowledge enables us to determine the most cost-effective country and manufacturer from which to source each item and obtain high quality at low product cost. With the addition of the Disney Store business, we now source "hardlines" merchandise, including toys and home products, using the same sourcing strategies.

Four times a year, our U.S. sourcing team makes on-site visits to our independent agents and various manufacturers to negotiate product costs, finalize technical specifications for each product and confirm delivery of merchandise manufactured to our specifications. During fiscal 2006, approximately 400 independent manufacturers located primarily in Asia produced merchandise sold at The Children's Place and Disney Store to our specifications. To support our growing inventory needs and to control merchandise costs, we continue to pursue global sourcing opportunities and consider product quality and cost, reliability of the manufacturer, and service and product lead times, among other factors.

We have no exclusive or long-term contracts with our manufacturers and typically transact business on an item-by-item basis under purchase orders at freight on board cost in U.S. dollars. We are party to agency agreements with commissioned independent agents who oversee production, assist in sourcing and pre-production approval, provide quality inspection and ensure timely delivery of merchandise. During fiscal 2006, we purchased approximately 15% of our products through the support of a commissioned, independent agent in Taiwan, and approximately 15% of our products through an independent Hong Kong-based trading company. This trading company is responsible for procurements from wholly-owned facilities as well as contract manufacturers located throughout Asia. We have developed long-term, continuous relationships with key individual manufacturers and material suppliers, which have yielded numerous benefits, including quality control, low costs, and flexible working arrangements. In addition, we believe our offices in Hong Kong, Shanghai and New Delhi enable us to obtain more favorable material and manufacturing costs and quickly identify and act on new sourcing and supplier opportunities. Our Asian offices also facilitate our prototype sample production and enable us to foster stronger relationships with our suppliers, manufacturers, agents and trading companies. During fiscal 2006, we purchased approximately 50% of our merchandise without the aid of commissioned buying agents or trading companies. Approximately 50% of our goods

were sourced from China. Together with our agents and key suppliers, we use tracking systems that enable us to anticipate potential delivery delays in our orders and take action to mitigate the impact of any delays. Using our purchase order, advanced shipping notification and tracking systems, our independent agents and our sourcing department actively monitor the status of each purchase order from order confirmation to merchandise receipt.

To ensure quality and promote consumer confidence in our products, we augment our manufacturers' testing requirements with our own in-house quality assurance laboratory to test and evaluate fabric, trimming materials and pre-production samples against a comprehensive range of physical performance standards before production begins. The quality control personnel of our Asian offices, independent agents and trading company visit the various manufacturing facilities to monitor and improve the quality control and production process. Our Asian offices enhance our quality control by enabling us to monitor component and manufacturing quality at close range and address related problems at an early stage. With this focus on pre-production quality approval, we are generally able to detect and correct quality-related problems before bulk production begins. We do not accept finished goods until each purchase order receives formal certification of compliance from our own quality assurance associates, agents or appointed third party inspectors.

In addition to our quality control procedures, we administer a social compliance program designed to promote compliance with local legal regulations, as well as ethical and socially responsible business practices. The program involves on-site facility visits by either our social compliance auditors or third party providers, review of documentation, and interviews of facility management and workers. Additionally, our program includes education and training of our associates and our suppliers in order to ensure the sustainability of our program.

Company Stores

Existing Stores. As of September 1, 2007, we operated a total of 1,217 stores: 889 The Children's Place stores and 328 Disney Stores in North America. Most of The Children's Place stores are clustered in and around major metropolitan areas in regional malls, with the exception of 136 strip center, 110 outlet and 48 street stores. All of our Disney Stores are in regional malls with the exception of 19 outlet stores, two strip stores and two street locations. The following table sets forth the number of stores in each state, Puerto Rico and Canadian province as of September 1, 2007:

State	The Children's Place	Disney Store	Total Number of Stores
Alabama	9	4	13
Arizona	14	6	20
Arkansas	5	1	6
California	79	50	129
Colorado	13	5	18
Connecticut	15	7	22
Delaware	4	3	7
Florida	45	25	70
Georgia	22	6	28
Hawaii	3	1	4
Idaho	1	1	2
Illinois	41	17	58
Indiana	18	7	25
Iowa	6	1	7
Kansas	5	2	7
Kentucky	8	3	11
Louisiana	12	3	15
Maine	4	1	5
Maryland	23	6	29
Massachusetts	25	7	32
Michigan	22	10	32
Minnesota	12	2	14

State	The Children's Place	Disney Store	Total Number of Stores

Mississippi	6	0	6
Missouri	16	8	24
Montana	1	0	1
Nebraska	3	1	4
New Hampshire	5	3	8
New Jersey	46	15	61
New Mexico	3	2	5
New York	76	20	96
Nevada	7	3	10
North Carolina	21	6	27
North Dakota	1	0	1
Ohio	30	11	41
Oklahoma	3	2	5
Oregon	9	3	12
Pennsylvania	47	20	67
Rhode Island	3	1	4
South Carolina	13	1	14
South Dakota	1	0	1
Tennessee	17	7	24
Texas	55	25	80
Utah	7	0	7
Vermont	1	0	1
Virginia	19	8	27
Washington	12	3	15
West Virginia	1	2	3
Wisconsin	13	3	16
Puerto Rico	14	0	14
Total United States and Puerto Rico	**816**	**312**	**1,128**

Province	The Children's Place	Disney Store	Total Number of Stores
Alberta	7	3	10
British Columbia	7	1	8
Manitoba	2	1	3
New Brunswick	3	1	4
Nova Scotia	2	1	3
Ontario	35	9	44
Quebec	15	0	15
Saskatchewan	2	0	2
Total Canada	**73**	**16**	**89**
Total Stores	**889**	**328**	**1,217**

Store Type.

The Children's Place. Our average Children's Place store is approximately 4,700 square feet. The majority of our Children's Place stores are in our "Apple-Maple" prototype, which features light wood floors, fixtures and trim. The store is brightly lit, featuring floor-to-ceiling glass windows that allow our colorful fashions to attract customers from the outside. A customized grid system throughout the store's upper perimeter displays featured merchandise, marketing photographs and promotions.

During fiscal 2002, we introduced our "Technocolor" store prototype. The unique, fun and bright stores use color to create boutique-like settings that better differentiate the various departments within the store. The stores also feature wider aisles for customers with strollers and more wall space allowing for enhanced merchandise presentation

and ease of shopping. As of September 1, 2007, 302 stores were in this format, or approximately 34% of The Children's Place store base. In fiscal 2007, some of our new stores and remodels (except for outlets) will be in our updated Technocolor store format, and will average approximately 5,500 square feet in size to accommodate our new "store-within-a-store" shoe store which the Company launched during the Back-to-School season. Our street and strip center locations represent approximately 21% of The Children's Place store base and provide opportunities for further penetration in established markets.

Our typical outlet stores are approximately 6,700 square feet and represent approximately 12% of The Children's Place store base. Our outlet stores are mostly located in outlet centers and are strategically placed within each market to liquidate clearance merchandise from nearby stores. Given the brand's value orientation, we also sell an assortment of full-priced merchandise in our outlet stores. We view our outlet business as an important component of our future growth.

Disney Store. The average Disney Store is approximately 4,700 square feet. As of September 1, 2007, we have several Disney Store formats, as follows:

	% of Store Base
Pink and Green	36%
Piperail	30%
Mickey	17%
Millennium	6%
Castle	5%
Outlet*	6%
Total	100%

* Note: Our outlets are in various formats, 13 of which are in the Mickey store format.

Our outlet stores were introduced in fiscal 2005, are approximately 5,500 square feet and have been very successful. Our Mickey stores were also introduced in fiscal 2005. They are brightly lit and feature large red Mickey ears at the entranceway. During fiscal 2006, due to dissatisfaction with the Mickey store prototype from a brand, design, and construction standpoint, we suspended our store renovation program and determined that we would need to remodel numerous Mickey stores. In fiscal 2006 we recorded a $9.6 million charge related to the impairment of 29 such stores, or approximately 41% of the Mickey stores then in operation. We introduced a new store prototype in the third quarter of fiscal 2007 which we believe is a better reflection of the Disney brand. The new Disney Store is modern, durable and features video monitors at both the store's entrance and the middle of the store. A glittering red mirror chip stone floor is featured at the front of the store, as if to suggest a feeling of being "on stage." The back of the store features brushed chrome and wood fixtures, hard wood flooring and more intimate lighting, reminiscent of being backstage in a theater.

The Refurbishment Amendment we entered into with Disney in August 2007 commits us to remodel by the end of fiscal 2011 a total of 236 existing Disney Stores into our new store prototype. The first seven remodels must be completed by December 31, 2007, with an additional 49, 60, 70 and 50 stores required to be remodeled during each of fiscal 2008, fiscal 2009, fiscal 2010, and fiscal 2011, respectively. Under the terms of the Refurbishment Amendment, we agreed to open at least 18 new Disney Stores using the new store prototype by the end of fiscal 2008, and we have the right to open up to a specified number of additional new stores using the new store prototype during each fiscal year. In addition, under the terms of the Refurbishment Amendment, we are obligated to complete a "maintenance refresh" program in approximately 165 Disney Stores by June 30, 2008, including the flagship store located on Michigan Avenue in Chicago, which was completed on September 12, 2007. Some of the stores that are refreshed will subsequently be remodeled into the new store prototype. Refer to Item 7.—Management's Discussion and Analysis for further discussion of the Refurbishment Amendment.

Store Operations

Our store operations are organized into ten and six regions for The Children's Place and Disney Store, respectively. For The Children's Place brand, we have two Zone Vice Presidents who oversee our operations and to whom regional managers report. At this time, the Disney Store business does not have Zone Vice Presidents. For both

brands, a regional manager oversees each region and has several district managers reporting to him or her. Each district manager is responsible for approximately eight to ten stores, on average. Our stores are staffed by a store management team and approximately 10 part-time sales associates, with additional part-time associates hired to support seasonal needs. Across both brands, our store leadership teams spend a high percentage of their time on the store selling floors providing direction, motivation, and development to store personnel. To maximize selling productivity, our teams emphasize greeting, replenishment, presentation standards, procedures and controls. In order to motivate our store leadership, we offer a monthly incentive compensation plan that awards bonuses for exceeding goals.

Store Expansion Program

To determine the location of new stores, we conduct onsite visits and analyses of potential store sites, taking into account the performance of our stores and other retailers in the area, as well as the demographics of the surrounding area. In addition, we consider the store's location relative to consumer traffic patterns and proximity to other children's retailers.

The Children's Place. During fiscal 2006, we opened 69 stores and closed five, compared to opening 55 stores and closing three in fiscal 2005. We plan to open approximately 60 stores and remodel approximately 21 Children's Place stores in fiscal 2007. Over time, we believe The Children's Place brand can grow to approximately 1,200 stores across the United States, Canada and Puerto Rico.

Our new store return on investment (defined as the return on investment for stores in which the then current fiscal year was their first full year of operation) for The Children's Place chain for fiscal 2006, 2005 and fiscal 2004 approximated 87%, 81% and 87%, respectively. We define return on investment as store level operating cash flow for new stores divided by new store investment. Store level operating cash flow for new stores is comprised of direct store contribution before the amortization of deferred rent and depreciation and amortization expense. We believe new store return on investment is a relevant measurement for assessing performance because it shows how quickly our investment in new stores becomes available for reinvestment. However, it is not a measure determined in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and should not be considered by investors as an alternative to operating income or net income as an indicator of our performance. The new store return on investment disclosed here is not necessarily comparable to new store return on investment disclosed by other companies because new store return on investment is not uniformly defined.

Fiscal 2006 average store level operating cash flow for new stores approximated $407,000, a 3% decrease compared to fiscal 2005. Average store investment includes store capital expenditures, initial inventory and pre-opening costs less lease incentives and an estimate for merchandise payables. Fiscal 2006 average new store investment approximated $466,000, an 11% decrease from fiscal 2005. This decrease in average new store investment primarily reflects lower construction costs. Fiscal 2006 new stores had average net sales of approximately $1.5 million, a 6% decrease compared to fiscal 2005, which reflects lower sales at our outlet stores as well as outlets comprising a smaller percentage of our new store base compared to the prior year.

New 'Store-within-a-Store' Children's Place Shoe Store. In fiscal 2007, we launched a new 'store-within-a-store' shoe store during the back-to-school season. We believe there is a void in the marketplace for fashionable, high quality children's shoes at a value price. We have begun a 50 store rollout of the concept in fiscal 2007, and we will also offer our expanded shoe offering on our childrenplace.com website. Stores that carry the expanded shoe assortment will measure approximately 1,000 square feet larger than a typical store.

Disney Store. In fiscal 2006 we opened 19 Disney Stores, closed eight, and remodeled 14, compared to opening 18, closing seven and remodeling 31 in fiscal 2005. Our store growth plans in fiscal 2007 include opening approximately 15 Disney Stores. Of these 15 new stores, approximately 11 will be outlet stores, a growth opportunity for the Disney Store business. In addition, we are required to remodel seven Disney Stores to a new store prototype by December 31, 2007, to open at least 18 new Disney Stores using the new store prototype by the end of fiscal 2008, and to complete a maintenance refresh program in approximately 165 Disney Stores by June 30, 2008. Over time, we believe the Disney Store chain can grow to approximately 600 stores across North America.

Our new store return on investment (defined as the return on investment for stores in which the then current fiscal year was their first full year of operation) for the ten Disney Stores for which fiscal 2006 was their first full year

of operation approximated 62%. This is the first year we are calculating return on investment for our Disney Stores since there were no new Disney Stores opened by us prior to fiscal 2005. Fiscal 2006 average store level operating cash flow for the 10 new Disney Stores approximated $371,000. Average store investment approximated $599,000 and included store capital expenditures, initial inventory and pre-opening costs less lease incentives and an estimate for merchandise payables. Average net sales for these 10 Disney Stores for which fiscal 2006 was their first full year of operation were approximately $2.5 million.

Seasonality

Our business is also subject to seasonal influences, with heavier concentrations of sales during the back-to-school and holiday seasons. Our first quarter results are heavily dependent upon sales during the period leading up to the Easter holiday. Our third quarter results are heavily dependent upon back-to-school sales at The Children's Place and upon Halloween sales at Disney Store. Our fourth quarter results are heavily dependent upon sales during the holiday season. For more information regarding the seasonality of our business, refer to Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Quarterly Results and Seasonality.

Internet Sales

We believe the Internet is an effective sales, merchandising and marketing channel for our brands and is also effective in generating new customers from the portion of the U.S. population that may not have access to our store locations or who prefer to shop online. Our Internet business represented approximately 2.6% of The Children's Place sales in fiscal 2006, compared to 2.3% of sales in fiscal 2005. This profitable business continues to grow at a rapid rate and we believe it is an integral part of our customer service and brand awareness strategies.

Beginning in July 2007, our Hoop subsidiaries commenced Internet commerce operations through an alliance with a Disney affiliate in which Disney Store merchandise is sold on the disneyshopping.com website. Customers can find our Disney Store merchandise at www.disneystore.com or www.disneyshopping.com. We anticipate entering into a formal amendment to the License Agreement relating to this Internet business. It is anticipated that this amendment to the License Agreement will supersede our obligation to launch our own Disney Store Internet store, which pursuant to the License Agreement, as modified by certain letter agreements, we are required to launch by January 31, 2008.

Marketing

We strive to enhance our brands' reputation and image in the marketplace and build recognition and equity by marketing our image, product and value message primarily through our store front windows, direct mail, in-store marketing, magazine advertising and "The Children's Place" private label credit card. Our direct mail marketing programs are designed to increase sales, promote brand loyalty and create customer excitement. In fiscal 2006, we increased the frequency and depth of our direct mail campaigns which drove sales and traffic. We also increased magazine advertising as a means to communicate The Children's Place brand message to new and existing customers. We believe our Disney Store business benefits from Disney's substantial advertising efforts.

We view The Children's Place private label credit card as an important marketing and communication tool. Pursuant to a merchant services agreement, private label credit cards are issued to our customers for use exclusively at The Children's Place stores, and credit is extended to such customers through a third-party financial institution on a non-recourse basis to us. Our private label credit card accounts for approximately 11% of The Children's Place net sales. We believe that our private label 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.

Logistics

We currently support both The Children's Place stores and Disney Stores with a leased 525,000 square foot distribution center in South Brunswick Township, New Jersey; a leased 250,000 square foot distribution center in Ontario, California; a leased 95,000 square foot distribution center in Ontario, Canada; and an owned 700,000 square foot distribution center in Ft. Payne, Alabama, which we opened in August 2007 to support projected growth at both brands. Our distribution centers utilize automated warehouse systems, which employ radio frequency

technology and automated conveyor systems. Our approximately 150,000 square foot leased fulfillment center in Secaucus, New Jersey is used to support our Internet business. In addition, we operate other leased facilities on a seasonal basis to support warehousing needs.

Competition

The children's apparel, toy and media retail markets are highly competitive. We compete in substantially all of our markets with GapKids, babyGap and Old Navy (each of which is a division of The Gap, Inc.); The Gymboree Corporation; Too, Inc.; Babies "R" Us and Toys "R" Us (each of which is a division of Toys "R" Us, Inc.); J.C. Penney Company, Inc.; Sears (a division of Sears Holdings Corporation); Kohl's and other department stores as well as discount stores such as Wal-Mart Stores, Inc.; Target Corporation; and K-Mart (a division of Sears Holdings Corporation). In addition, stores like Stride Rite and Payless, as well as smaller shoe retailers, will compete with the Company's new store-within-a-store shoe store in 2007. We also compete with a wide variety of specialty stores, other national and regional retail chains, catalog companies and Internet retailers. Our Disney Store business competes with the Disney theme parks and with third parties selling Disney-branded merchandise under license. In addition, media items such as compact discs and DVDs can be purchased in virtually every retail channel. One or more of our competitors are present in substantially all of the areas in which we have stores.

We believe we have the principal factors to compete effectively in our markets: fashionable, high quality merchandise at value prices, compelling merchandise assortments, brand name recognition, good customer service, and easy-to-shop store environments.

Trademarks and Service Marks

"The Children's Place," "babyPLACE," "Place," "The Place," "TCP," "PLC" and certain other marks have been registered as trademarks and/or service marks 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. We intend to continue to use and protect our trademarks and service marks and maintain their registrations. We have also registered our trademarks in Canada and other countries and are continuing to take steps to register our trademarks in certain other foreign countries. We believe our trademarks and service marks have received broad recognition and are of significant value to our business.

The trademarks and copyrights used in the Disney Store business are licensed by Hoop from Disney for use by the Disney Store so long as the License Agreement remains in effect.

Employees

As of September 1, 2007, we had approximately 25,400 employees, of whom approximately 1,800 are based at our corporate headquarters in Secaucus, New Jersey; our Disney Store office in Pasadena, California; our distribution centers; and international offices. We have approximately 4,200 full-time store employees and approximately 19,400 part-time store employees. None of our employees are covered by a collective bargaining agreement. We believe we have good relations with our employees. In addition, as of September 1, 2007, we employed approximately 7,400 seasonal part-time employees.

Internet Access to Reports

We are a public company and are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, we file periodic reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Room 1580, Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding us and other issuers that file electronically.

Our website address is http://www.childrensplace.com. We make available, without charge, through our website, copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such reports are filed with or furnished to the SEC. References in this document to our

website are not and should not be considered part of this Report, and the information on our website is not incorporated by reference into this Report.

We also make available our corporate governance materials, including our code of business conduct, on our website. If we make any substantive amendments to our code of business conduct or grant any waiver, including any implicit waiver, from a provision of the code to our CEO, Chief Financial Officer ("CFO") or Corporate Controller, we will disclose the nature of such amendment or waiver on that website or in a Current Report on Form 8-K.

ITEM 1A.—RISK FACTORS

Investors in the Company should consider the following risk factors as well as the other information contained herein:

A material breach of the License Agreement and certain other events could result in termination of the License Agreement.

Upon the occurrence of certain specified events, Disney has the right to terminate the License Agreement. These events include, but are not limited to:

- An uncured breach of a royalty payment due under the License Agreement;
- Three or more uncured breaches by our subsidiaries of the provisions of the License Agreement relating to use of Disney's intellectual property (or five or more breaches of these provisions, whether cured or uncured);
- Any uncured material breach by our subsidiaries of certain other specific provisions of the License Agreement;
- Five or more uncured material breaches of the remaining provisions of the License Agreement (or seven or more material breaches of such remaining provisions, whether cured or uncured);
- A prohibited transfer of our rights under the License Agreement or a prohibited change of control (as defined in the License Agreement);
- Conduct on our part that is generally viewed by the public as offensive or reprehensible and which results in a material impairment or diminution of the good name, image or brand of Disney or its properties;
- A material breach by our parent company of the provisions of its guaranty and funding commitments;
- Material misrepresentations by us in the License Agreement;
- Bankruptcy or insolvency of Hoop or The Children's Place Retail Stores, Inc. or any affiliate engaged in the Disney Store business;
- Certain defaults by Hoop with respect to any outstanding indebtedness (other than under unsecured indebtedness in an amount less than $500,000);
- The entry of a final judgment against Hoop greater than $35 million;
- Uninsured losses by Hoop exceeding a threshold amount;
- Breaches of certain other contractual commitments by Hoop; and
- A breach of the Refurbishment Amendment to the License Agreement.

Some of these events may be beyond our control. As noted above, if the License Agreement is terminated, Disney may, at its option, require us to sell all or a portion of the Disney Store business to Disney or one of its affiliates or to a third party at a price to be determined by appraisal and/or to rapidly wind down the remaining Disney Store business in an orderly manner, within six months.

A breach of the Refurbishment Amendment could adversely affect us and jeopardize our ability to continue operating the Disney Store business.

In June 2007, we entered into a June Letter Agreement with Disney to address an assertion by Disney that we had committed numerous material breaches of the License Agreement, entitling Disney to exercise its rights and remedies under the License Agreement, including termination of the License Agreement. The June Letter Agreement, among other things, set forth a detailed timetable for submission of construction plans and completion dates for store remodels.

Subsequent to the execution of the June Letter Agreement, we were unable to meet several deadlines set forth in the June Letter Agreement. In addition, we determined that there were upcoming deadlines during the third and fourth quarters of fiscal 2007 specified in the June Letter Agreement that we would likely not meet. Accordingly, we and Disney engaged in further discussions during August 2007 and, based on these discussions, agreed upon changes to the requirements of the June Letter Agreement that would postpone the due dates of certain of our remodel obligations until later in fiscal 2007 or fiscal 2008.

During August 2007, we and Disney executed the Refurbishment Amendment, which incorporated the terms of the June Letter Agreement, as modified by our mutual agreement during August. The Refurbishment Amendment by its terms superseded the June Letter Agreement and took effect retroactively as of June 6, 2007, the original effective date of the June Letter Agreement. The Refurbishment Amendment provides that our compliance in full with its terms will constitute a cure of the breaches identified in the Refurbishment Amendment and that, so long as the Refurbishment Amendment is not terminated, Disney will forbear from exercising any rights or remedies it would have under the License Agreement based on the breaches identified in the Refurbishment Amendment. The Refurbishment Amendment suspends the remodel obligations in the License Agreement for the approximately 4.5 year term of the Refurbishment Amendment. In lieu of those provisions, the Refurbishment Amendment requires us to:

- Remodel by specified deadlines through the end of fiscal 2011 a total of 236 existing Disney Stores;
- Complete a "maintenance refresh" program in approximately 165 Disney Stores by June 30, 2008; and
- Open at least 18 new Disney Stores using the new store prototype by the end of fiscal 2008.

In accordance with the Refurbishment Amendment we have committed $175 million, on a consolidated basis, to remodel and refresh the stores as noted above through fiscal 2011, and have committed approximately $12 million to open new stores through fiscal 2008.

Like the June Letter Agreement, the Refurbishment Amendment states that, if we fully comply with the terms of the Refurbishment Amendment, Disney will forbear from exercising any rights or remedies that it would have under the License Agreement based on the breaches of the License Agreement that were asserted by Disney and were the subject of the Refurbishment Amendment. However, under the terms of the Refurbishment Amendment, if we violate any of the provisions of the Refurbishment Amendment, Disney will have the right to terminate its forbearance under the Refurbishment Amendment, in which case Disney would be free to exercise any or all of its rights and remedies under the License Agreement, including possibly terminating our license to operate the Disney Stores based on the occurrence of multiple breaches and claiming breach fees, as if the Refurbishment Amendment had not been executed. The Refurbishment Amendment also states that, if we breach any of the provisions of the Refurbishment Amendment on three or more occasions and Disney has not previously exercised its right to terminate the Refurbishment Amendment, we will be required to make an immediate payment of $18.0 million to Disney with respect to the breach fees called for by the License Agreement. If we violate any of the provisions of the Refurbishment Amendment on five or more occasions, Disney will have the right to immediately terminate the License Agreement, without any right on our part to defend, counterclaim, protest or cure. It should be noted that the Refurbishment Amendment addresses only those breaches specifically enumerated therein. Disney continues to retain all its other rights and remedies under the License Agreement with respect to any other breaches.

We believe that we will be able to perform our obligations under the Refurbishment Amendment as and when required. However, because our ability to meet these obligations will depend on numerous factors, some of which are beyond our control, there can be no assurance that we will be able to fully comply. Like the June Letter Agreement,

the Refurbishment Amendment does not excuse us from compliance with these requirements should there be events or developments that may be beyond our control, such as contractor delays, delays in landlord or regulatory approval, natural disasters or acts of war or terrorism. Our diligent efforts may not be adequate to enable us to obtain all required approvals under the Refurbishment Amendment or to comply with every requirement or meet every deadline imposed on us under the Refurbishment Amendment. In the event we are unable to comply with any of our obligations when required, we would be in breach of our agreements with Disney, entitling Disney to exercise its remedies under the Refurbishment Amendment and the License Agreement. In the event such breaches occur, there can be no assurance that we will be able to obtain waivers or other relief from Disney, if needed, to avoid our being required to make the $18.0 million payment to Disney and prevent a termination of the Refurbishment Amendment or the License Agreement. In addition, any breach by us of our agreements with Disney (even if subsequently waived by Disney) would constitute a cross-default under the secured loan agreement for the Disney Store chain, entitling the lenders to exercise their contractual remedies. There can be no assurance that we will be able to obtain waivers, if needed, from our lenders in the event of any future breaches of the Refurbishment Amendment or the License Agreement.

A change in control of the Company resulting from an acquisition proposal or attempt may permit Disney to terminate the License Agreement, compelling the Company to promptly sell or wind down the Disney Store business, and may cause an event of default under one or more of the Company's debt instruments.

Under the terms of our License Agreement for The Disney Store, a direct or indirect change in control of The Children's Place Retail Stores, Inc. or our subsidiaries that operate the Disney Store business (as defined in the License Agreement) would permit Disney to terminate the License Agreement if the new controlling person or entity was not a "Qualified Person" as defined in the License Agreement. Because the definition of "Qualified Person" includes both objective and subjective elements, the License Agreement affords Disney considerable discretion to determine, in its sole judgment, whether an individual or entity acquiring control of the Company, and thereby the Disney Store operator, is a Qualified Person. The uncertainty surrounding this provision may deter third parties from seeking to acquire the Company or our Disney Store business, even if such a transaction would be beneficial to our stockholders. Moreover, there can be no assurance that any particular person or entity, or group of persons and entities, that might desire to acquire a controlling interest in the Company would be considered a Qualified Person by Disney. In particular, our former Chairman and CEO, Mr. Ezra Dabah, who is also one of our major stockholders and a member of our Board, has publicly stated that he is considering the possibility of making an offer, in combination with others, to acquire the Company, but there can be no assurance that Disney would deem Mr. Dabah or any other parties with whom he may be acting to be "Qualified Persons." In the event that Disney were to determine that a new controlling person of the Company did not qualify for this purpose, Disney would have the right to terminate the License Agreement, subject to a right on the part of the Company under certain circumstances to attempt to arrange a prompt sale of the Disney Store to a party deemed to be a "Qualified Person." Following a change of control of the Company (and assuming the Company were not able to arrange a prompt sale of the Disney Store business to a Qualified Person on terms acceptable to the Company under the limited circumstances when such a sale were permitted), if Disney were to exercise its right to terminate the License Agreement, the Company would be required, as described above, at Disney's election, either to sell all or a portion of the Disney Store business at its then-appraised value to Disney or third party approved by Disney, and/or to wind down the remaining Disney Store business in an orderly manner within a six-month period.

In addition, under our credit facilities, an event of default is deemed to occur upon the occurrence of a change in control (as defined in each of our credit facilities). An acquisition of the Company by Mr. Dabah, acting alone or in combination, or by any other party could result in such an event of default. There can be no assurance that any such event of default would be waived by the Company's lenders. If such a waiver was needed but could not be obtained, we would be required to repay in full the outstanding indebtedness under these credit facilities, and there can be no assurance we would have funds available to make such repayment.

If the License Agreement for the Disney Store were to be terminated, we could be required to sell the Disney Store to Disney or to a buyer selected by Disney and/or to wind down the remaining Disney Store business in an orderly manner within six months. Under these circumstances our subsidiaries that operate the Disney Store business would have significant financial and other obligations to Disney, lenders, landlords, vendors and other third parties and might not be able to avoid bankruptcy proceedings.

We operate the Disney Store business in North America pursuant to the License Agreement between our subsidiaries, Hoop, and a subsidiary of The Walt Disney Company. If certain material breaches by us under the License Agreement were to occur, or if we were to experience a change of ownership of a type not permitted by the License Agreement, or if certain other events were to occur, Disney would have the right, among other things, to terminate the License Agreement. Any such material breach or any termination of the License Agreement would constitute an event of default under the secured credit facility for the Disney Store business, permitting our lenders to accelerate the amounts due. Upon any termination of the License Agreement, Disney could require us to sell all or a portion of the Disney Store business to Disney or one of its affiliates, or to a third party selected by Disney, at a price to be determined by an average of independent appraisals. While any such potential sale was pending, we would be required to continue operating the Disney Store business in the ordinary course.

In the absence of any such sale (or in the case of a partial sale), we would be obligated to wind down the remaining Disney Store business in an orderly manner over a six-month period in accordance with the wind-down provisions in the License Agreement, as amended by the Refurbishment Amendment. As part of any such wind-down, we would cancel any outstanding merchandise purchase orders that may be cancelled without a monetary penalty. In addition, the License Agreement imposes significant restrictions on the actions that we or our secured lenders (or any inventory liquidation firm that may be engaged to assist in such wind-down) may take to wind-down the Disney Store business. Among other things, the License Agreement prohibits us from promoting a “going out of business” or “liquidation sale” or from selling any Disney merchandise through distribution channels other than the Disney Stores and the Disney Store website. These restrictions may interfere with our ability to liquidate all Disney merchandise by the end of the six-month wind-down period on favorable terms, if at all. Any remaining Disney merchandise not sold by the end of the wind-down period must be destroyed and would be of no value.

In addition, if we were required to wind down the Disney Store business, Hoop would remain liable to Disney for royalties on sales of Disney merchandise through the end of the wind-down period and for any other amounts owed to Disney (such as contractual breach fees). These subsidiaries would also have substantial liabilities under Disney Store leases and for payments due to vendors, including obligations under non-cancellable purchase orders for Disney merchandise (the amount of which fluctuates based on seasonality), as well as obligations to repay outstanding amounts under the credit facility supporting the Disney Store business. By way of example, as of February 3, 2007, the total liability of Hoop under Disney Store leases through fiscal 2022 was approximately $345.2 million and the total liability of Hoop under outstanding purchase orders for merchandise was approximately $131.4 million.

In the case of a wind-down, Hoop might be unable to comply with all of their payment obligations to Disney, lenders, landlords, vendors and other third parties, in which case creditors of these subsidiaries might elect to commence involuntary bankruptcy proceedings or our subsidiaries might not be able to avoid voluntarily seeking bankruptcy protection. In the event of bankruptcy proceedings with respect to Hoop, creditors of Hoop may seek to have our parent company, The Children’s Place Retail Stores, Inc., held liable for certain obligations of Hoop.

Our parent company has expressly committed to contribute $175 million to Hoop as needed for store remodeling and renovation in accordance with the Refurbishment Amendment and $50 million (subject to increase in certain circumstances), if needed for the ongoing business of Hoop. Our parent company has also guaranteed $25 million of Hoop’s payment obligations to Disney.

Our agreements with Disney may require us to make additional investments in the Disney Store business, which could require us to seek external sources of funds or to reduce the amount of capital expenditures we make in The Children’s Place business.

The License Agreement requires the Disney Store business to maintain the stores according to the highest standards prevailing in the specialty retail industry and to otherwise fund its operations, including making royalty payments to Disney. Should the Disney Store business be unable to meet these obligations on its own, we are contractually obligated under the Guaranty and Commitment to invest up to an additional $50 million to enable it to comply with the License Agreement. In addition, the Refurbishment Amendment with Disney, entered into in August 2007, commits us, on a consolidated basis, to a remodel and refresh program for certain Disney Stores through fiscal

2011 at a total cost which we have estimated at $175 million, which our Board has approved. To the extent that the Disney Store business is unable to fund this remodel and maintenance refresh program, or otherwise fund its operations, The Children’s Place would be required to invest additional funds, not to exceed certain annual and aggregate maximum amounts under our credit facility, in the Disney Store business, which might require us to reduce our capital expenditures in The Children’s Place business or seek external sources of funds. If we are unable to generate sufficient funds to meet our Disney Store business funding obligations or are unable to obtain funds through external sources, we may be in violation of the License Agreement and the Refurbishment Amendment, in which event Disney may exercise one or more of its rights and remedies, including termination of the License Agreement. If the License Agreement is terminated, Disney may, at its option, require us to sell or wind down the Disney Store business. Upon any exercise of remedies by Disney, our financial position, results of operations and cash flows would be materially adversely impacted. For a more detailed description of the risks involved in a sale or wind down of the Disney Store business, please refer to the previous risk factor of this Form 10-K above.

We expect in the next 12 months that The Children’s Place business will need to provide additional capital to the Disney Stores to remain in compliance with the store remodel requirements under the License Agreement as modified by the Refurbishment Amendment.

If we are unable to reposition Disney Store, our results of operations and cash flows will be adversely impacted.

A significant portion of our future success involves developing and growing the Disney Store business. The realization of any revenue growth, cost savings or synergies will depend largely upon our ability to:

- Remodel and update the current store fleet and successfully operate the stores;
- Execute our strategies for Disney Store without adversely impacting the existing The Children’s Place business;
- Source hardlines merchandise at favorable prices; and
- Secure additional merchandise cost reductions from vendors and suppliers.

There can be no assurance that we can successfully operate the Disney Stores in accordance with the terms of the License Agreement, including taking the steps necessary to obtain all required consents and approvals thereunder. In addition, there can be no assurance that we can successfully execute any of the actions above or that our strategies for Disney Store will achieve the results necessary to generate profits. If we cannot successfully execute the Disney Store growth strategy, our results of operations will be adversely impacted.

Our segregation of working capital and credit facilities could lead to a liquidity need in one business despite adequate liquidity on a consolidated basis.

The terms of the License Agreement and/or our credit facilities, among other things, restrict the commingling of funds between The Children’s Place and the Disney Store businesses and restrict borrowings and certain distributions among The Children’s Place and the Disney Store businesses. Therefore, we segregate all cash receipts and disbursements, investments, credit facility borrowings and letter of credit activity. This segregation could lead to a liquidity need in one business while there is adequate liquidity in the other business, and there is no guarantee that if such a liquidity need were to arise we would have the ability to make the appropriate intercompany distributions. In addition, there can be no guarantee that external funds would be available in a timely manner, at an appropriate cost or in a manner that would meet the requirements of the parties to the License Agreements or our credit facilities. If either of our businesses is unable to generate sufficient funds to meet its own needs and is unable to obtain funds from the other business or through external sources, our financial position, results of operations and cash flows could be materially adversely impacted.

Restrictions on our Disney Store business to issue dividends to The Children’s Place Retail Stores, Inc. could lead to our inability to re-allocate capital on a consolidated basis.

Hoop cannot pay dividends to The Children’s Place Retail Stores, Inc. unless the proposed dividend payment exceeds certain cash flow or net working capital calculations defined in the License Agreement. In addition to

meeting these requirements, any dividend payment requires approval from Hoop’s independent directors or a written certification from our CFO certifying to Disney that these conditions have been satisfied. We also are restricted by our lenders from making any dividends from Hoop to The Children’s Place, other than to recover the funds we invested in connection with our obligations arising from our acquisition of the DSNA Business or we will invest in connection with the Refurbishment Amendment. Accordingly, even if we satisfy the requirements to make a dividend under the License Agreement, prior to making any such dividend, we may still be required to obtain a waiver from our lenders. Based on these restrictions, we do not foresee Hoop declaring a dividend payment to The Children’s Place within the next 12 months for either the recovery of our initial purchase price investment of the DSNA Business or any additional future investments we make in Hoop, including any investments made to support the capital expenditure commitments of Hoop pursuant to the License Agreement, as modified by the Refurbishment Amendment. Therefore, we cannot rely on any of Hoop’s capital to fund investments in The Children’s Place or in our foreign subsidiaries.

Because we are not current in our filings with the SEC, our common stock may be delisted from the Nasdaq Global Select Market, in which event we may suffer adverse business consequences.

As we did not timely file our Quarterly Reports on Form 10-Q for the quarters ended July 29, 2006 and October 28, 2006, our Annual Report on Form 10-K for fiscal 2006, and our Quarterly Reports on Form 10-Q for the quarters ended May 5, 2007 and August 4, 2007 (collectively, the “Required Reports”), we have been out of compliance with the reporting requirements of the SEC and the Nasdaq Select Market (“Nasdaq”) for more than one year. Although we have now filed this Annual Report on Form 10-K for fiscal 2006 and our Quarterly Reports on Form 10-Q for the second and third quarters of fiscal 2006, we have not yet filed our Quarterly Reports on Form 10-Q for the first and second quarters of fiscal 2007. Consequently, we continue to be in violation of the reporting requirements under the Exchange Act and the Nasdaq listing rules.

We have received various determination letters from the Staff of Nasdaq stating that, because we have not been in compliance with Nasdaq listing requirements, our common stock is subject to delisting. Since September 2006 we have been in contact with the Nasdaq Listing Qualifications Panel, Nasdaq’s Listing and Hearing Review Council, and the Board of Directors of the Nasdaq Stock Market LLC (the “Nasdaq Board”) regarding our inability to comply with Nasdaq’s listing requirements and when we might be able to again become compliant. The last communication we received from Nasdaq on this issue was from the Nasdaq Board on November 9, 2007 stating that we had until January 9, 2008 to file all of the Required Reports in order to regain compliance with Nasdaq’s listing requirements. If we have not regained compliance prior to that time, we will need to explain to the Nasdaq Staff the reasons for our inability to do so, in order for the Nasdaq Board to consider whether any further extension is warranted. We still need to file our Quarterly Reports on Form 10-Q for the quarters ended May 5, 2007 and August 4, 2007 before we will have filed all of the Required Reports. There is no assurance that we will be able to meet the January 9, 2008 deadline, and if we do not, there is no assurance that the Nasdaq Board will grant the Company additional time to become compliant. If we fail to come into compliance by January 9, 2008 or any extended deadline approved by Nasdaq, we anticipate that the Company’s shares will be delisted from Nasdaq.

If Nasdaq ceases to grant us extensions to file our periodic reports, a delisting of our common stock would have a material adverse effect on us by, among other things:

- Reducing the liquidity and market price of our common stock; and

- Reducing the number of investors willing to hold or acquire our common stock, thereby restricting our ability to obtain equity financing.

In addition, Nasdaq listing rules require that all issuers solicit proxies and hold an annual meeting of its shareholders within 12 months of the end of the issuer's fiscal year end. In order for us to comply with this rule, we must hold our annual meeting of shareholders for the fiscal year ended February 3, 2007, no later than February 3, 2008. In addition, we must be current in our SEC filings before we can solicit proxies for such annual meeting of our shareholders. Accordingly, if we are unable to become current in our SEC filings in sufficient time for us to solicit proxies for an annual meeting of our shareholders by February 3, 2008, or if we otherwise fail to hold such meeting by February 3, 2008, the Company's shares could be delisted from Nasdaq.

Our failure to be current in our filings with the SEC poses other significant risks to our business, each of which could materially and adversely affect our financial condition and results of operations.

Because of our failure to timely file our periodic reports with the SEC, we are subject to various risks in addition to the possible delisting of our common stock. These additional risks include the following:

- A breach of our credit facilities would allow our lenders to declare our outstanding loans due and payable in whole or in part. So far, our lenders have waived these breaches but there can be no assurance that they will grant any additional waivers, if requested;

- An inability to make offerings pursuant to existing Form S-8 registration statements covering our employee stock plans. Accordingly, we are restricted in our ability to issue new stock options or other equity awards to our employees and our employees are unable to exercise their outstanding options;

- An inability to have a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering a public offering of securities declared effective by the SEC. Therefore, we cannot offer and sell freely tradable securities, which prevents us from accessing the public capital markets, should we desire to do so; and

- Our failure to meet our reporting obligations under the Exchange Act is a violation of Section 13(a) of the Exchange Act and could subject us to SEC investigations and enforcement actions, which could result in injunctions and monetary penalties.

Accordingly, our inability to timely file our periodic reports with the SEC could have an adverse impact on our ability to (i) access our credit facilities, (ii) attract and retain key employees, and (iii) raise funds in the public markets, and any of these events could materially and adversely affect our financial condition and results of operations.

In addition, we have lost for at least the next 12 months our status as a "well known seasoned issuer," including the registration advantages associated with such status even if we become current with our delinquent filings with the SEC. As a result, we will not be able to register any new shares of our securities on certain short-form registration statements under the Securities Act, such as Forms S-3, until we have filed all reports required under the Exchange Act for a continuous period of 12 months.

Because the trading price of our common stock has significantly declined over the last year, it is possible that one or more parties may consider seeking to acquire the Company. There is no assurance that any proposal to acquire the Company will be made or that a sale of the Company will occur, nor has our Board determined that a sale of the Company is advisable. In the event that a sale of the Company were to occur, it is likely that following such sale our public stockholders would no longer have the benefits of ownership of our common stock.

In light of the significant decline in our stock price over the last 12 months, it is possible that one or more parties may be interested in making an offer to acquire the Company. In particular, our former Chairman and CEO, Ezra Dabah, who is also one of our major stockholders and a member of our Board, publicly stated in a Schedule 13D he filed with the SEC on October 15, 2007 that he is considering the possibility of making an offer, in combination with others, to acquire the Company and that he intends to discuss a possible acquisition of the Company with potential private equity sponsors and strategic buyers. While the Company may be approached by other parties in addition to Mr. Dabah, there can be no assurance that any proposal to acquire the Company will be made by Mr. Dabah or any other party or as to the terms of any such proposal that may be made. At this time, our Board has not made any determination to seek offers for the sale of the Company. However, consistent with its fiduciary duties, our Board has engaged an investment banking firm to act as its financial advisor in undertaking a review of strategic alternatives to improve operations and enhance shareholder value. As part of this review, our Board and management are assessing a wide variety of options to improve our business, including, but not limited to, opportunities for organizational and operational improvement, a possible recapitalization, or other transactions. The Board has not set any specific timeline for the completion of this strategic review, and there is no assurance that, as a result of this review, the Board will decide to change the Company's course of action or engage in any specific transaction.

In the event that Mr. Dabah, either acting alone or in combination with others, or any other party were to make an offer to acquire the Company, the analysis and any negotiations relating to any such offer will likely require substantial time and attention of the Company's Board and senior management that could distract them from focusing on the Company's business, as well as result in significant expense to the Company. Mr. Dabah has stated that he may commence a proxy fight to elect one or more directors to our Board. Any actions that may be taken by Mr. Dabah could require time and attention of our management and may involve significant expense on the part of the Company.

In the event that a sale of the Company were to occur, this could constitute a "going private" transaction, following which we would become a private company whose common stock would no longer be publicly traded, and we would no longer be subject to the periodic reporting requirements of the Exchange Act. If this were to occur, our current public stockholders would be selling their shares and would no longer have an opportunity to benefit from any future appreciation in the value of our stock or any of the other benefits of ownership of our common stock.

We have identified material weaknesses in our internal control over financial reporting as of February 3, 2007 that, if not remedied effectively, could result in a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis in future periods.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Our management evaluated the design and effectiveness of our internal control over financial reporting as of February 3, 2007 and identified three material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the following three material weaknesses, management has concluded that our internal control over financial reporting was not effective as of February 3 2007:

- In connection with its internal investigation of option granting practices, the Company found that it did not maintain appropriate governance and other internal controls relating to its option grants. Management has determined that the lack of adequate controls over the granting of stock options and the related documentation constituted a material weakness, which resulted in the use of incorrect accounting measurement dates for certain stock option grants and related errors in recording compensation expense of $11.2 million between fiscal 1998 and the first quarter of fiscal 2006.

- Our evaluation concluded that, although policies and procedures appropriate for a strong control environment were designed and in large part instituted, the Company has not been successful in ensuring overall adherence to them to the degree necessary for maintenance of a fully effective control environment. Management specifically considered the deficiencies in the Company's stock option granting practices discussed above, violations during fiscal 2006 of the Code of Business Conduct by two members of senior management, and certain other deficiencies noted in adherence during the year to good control practices by certain members of senior management, in reaching its conclusion that collectively, the problems found in these areas reflected a material weakness in our internal control environment.

- Due to lack of resources and the diversion of resources to the stock option investigation and the resulting restatement of our financial statements, the Company did not maintain effective controls over the period-end financial close and reporting processes. As a result, the Company identified a number of adjustments to its 2006 financial statements after their normal release date. Due to the potential effect on financial statement balances and disclosures, and the importance of the financial closing and reporting processes, management has concluded that, in the aggregate, these deficiencies result in a material weakness in the Company's financial close and reporting process.

For further information about these material weaknesses, please see Item 9A.—Controls and Procedures" included elsewhere in this Annual Report on Form 10-K. Because of these material weaknesses, management concluded that, as of February 3, 2007, our internal control over financial reporting was not effective.

We have implemented and continue to implement a number of remedial measures designed to address the material weaknesses identified as of February 3, 2007. If these remedial initiatives are insufficient to address the identified material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered in the future, we may fail to meet our future reporting obligations on a timely basis, our financial statements may contain material misstatements, our operating results may be harmed, and we may be subject to litigation. Any failure to address the identified material weaknesses or any additional material weaknesses or significant deficiencies in our internal control could also adversely affect the results of future management evaluations regarding the effectiveness of our "internal control over financial reporting" that are required under Section 404 of the Sarbanes-Oxley Act of 2002. Internal control deficiencies could also cause investors to lose confidence in our reported financial information.

We have experienced deterioration in our sales and profitability. If we are unable to anticipate and respond to merchandise trends, we may continue to suffer adverse business consequences, including loss of revenue.

We have experienced deterioration in our sales and profitability. Our continued success will depend in part on our ability to anticipate and respond to fashion trends and consumer preferences. Our design, manufacturing and distribution process generally takes up to one year, during which time fashion trends and consumer preferences may change. Failure to anticipate, identify or respond to future fashion trends may continue to adversely affect customer acceptance of our products or require substantial markdowns, which could continue to have a material adverse effect on our business.

Management and the Board are in the process of assessing the business and are re-evaluating its inventory strategy. Steps are being taken to reduce inventory levels where possible. Given the Company's merchandise buying lead times, it will likely take several quarters to make adjustments to the extent they are necessary.

Changes in comparable store sales results from period to period could have a material adverse effect on the market price of our common stock.

Numerous factors affect our comparable store sales results, including, among others, merchandise assortment, retail prices, fashion trends, weather conditions, macro-economic conditions, the retail sales environment and our success in executing our business strategy. During fiscal 2006, we reported a comparable store sales increase of 11%, on top of a 9% comparable store sales increase achieved during fiscal 2005. Our monthly comparable store sales results have fluctuated significantly in the past and we anticipate that our monthly comparable store sales will continue to fluctuate in the future. Moreover, comparable store sales for any particular period may decrease in the future. Further, Disney Stores' comparable stores sales results may be more volatile than those of The Children's Place given one time events that occur from year to year such as major theatrical movie or DVD releases. The investment community often follows comparable store sales results closely and significant fluctuations in these results may affect the price of our common stock. Any variations in our comparable store sales results could have a material adverse effect on the market price of our common stock.

The recent resignation of Ezra Dabah as our CEO, or the future loss of one or more of our other key personnel could have a material adverse effect on our business.

The leadership and expertise of Ezra Dabah, our former CEO, and his unique relationships with the Company's manufacturers and independent buying agents have been instrumental in our success. His recent resignation as CEO could have a material adverse effect on our supply chain and business. Many of the Company's executives were recruited by Mr. Dabah and of them, two executive officers have employment agreements that provide that Mr. Dabah's departure constitutes a "good reason" for such executive officers to terminate their employment agreements with us. Accordingly, Mr. Dabah's departure may make it difficult to retain these executives.

Other members of management have substantial experience and expertise in our business and have made significant contributions to its growth and success. Most of these members of management do not have employment agreements with us. The loss of services of one or more of these individuals, or the inability to attract additional qualified managers or other personnel, could have a material adverse effect on our business. We are not protected by any key-man or similar life insurance for any of our executive officers.

If we are unable to maintain profitable growth, our future operating results and cash flows will be adversely impacted.

Our future operating results will depend largely upon our ability to manage a larger business profitably and open and operate new stores successfully. We anticipate opening approximately 80 stores during fiscal 2007, which will include approximately 60 The Children's Place stores and approximately 15 Disney Stores. Our ability to open and

operate new stores successfully depends 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 successfully integrate new stores into our existing operations, the ability to hire and train store personnel and the ability to recognize and respond to regional and climate-related differences in customer preferences.

We cannot assure you that we will achieve our planned expansion on a timely and profitable basis or that we will be able to achieve results similar to those achieved in existing locations in prior periods. In fiscal 2006, our total store base grew by 7% compared to 6% during fiscal 2005, and is anticipated to grow at approximately the same rate in fiscal 2007. Operating margins may also be adversely affected during periods in which we have incurred expenses in anticipation of new store openings. We may not be able to sustain the new store return on investment we experienced in fiscal 2006 of approximately 87% for The Children's Place brand and 62% for Disney Store.

We define return on investment as store level operating cash flow for new stores divided by new store investment. Store level operating cash flow for new stores is comprised of direct store contribution before the amortization of deferred rent and depreciation and amortization expense. We believe new store return on investment is a relevant measurement for assessing performance, because it shows how quickly our investment in new stores becomes available for reinvestment. However, it is not a measure determined in accordance with U.S. GAAP and should not be considered by investors as an alternative to operating income or net income as an indicator of our performance. The new store return on investment disclosed here is not necessarily comparable to new store return on investment disclosed by other companies because new store return on investment is not uniformly defined.

Furthermore, we need to continually evaluate the adequacy of our store management and our information and distribution systems to manage our planned expansion. Any failure to successfully and profitably execute our expansion plans could have a material adverse effect on our business.

We believe that cash on hand, cash generated from operations and funds available under our credit facilities will be sufficient to fund our capital and other cash flow requirements for our business for at least the next 12 months. However, it is possible that we may be required to seek additional funds for our capital and other cash flow needs if we are not able to generate sufficient cash flows, and we cannot assure you that we will be able to obtain such funds on terms favorable to us or at all.

The success of our Disney Store business largely depends on The Walt Disney Company character franchise and brand; and any events that negatively impact the consumers' perception of Disney could hurt our future operating results and cash flows.

The Disney Store business is driven largely by customers' interests in apparel, toys and other products featuring Disney characters. New characters featured prominently in movies, television and DVDs and national marketing campaigns heighten consumers' interests and in-store traffic. While traditional licensed properties such as Mickey & Friends, the Pooh Family and Disney Princess may sustain store sales throughout the year, new characters enthuse young children and lead to increased customer traffic. Our ability to grow the Disney Store business is thus dependent on Disney's ability to continue to create new and likable characters.

The Disney Store business is strongly aligned with the "Disney" brand, the maintenance and cultivation of which is outside of our control. The Disney Store business is subject to certain risks because it relies heavily on the strong brand identification of the Disney logo, the beloved nature of the Disney characters and the Disney brand name. All of the products within the Disney Store are intrinsically tied to consumers' image of the Disney brand. While the Disney brand is among the world's most recognized and highly regarded brands, it is subject to changes in public opinion and ever changing consumer preferences. If unfavorable events occur that negatively impact the consumers' perception of Disney or the Disney brand/logo, our future results of operation and financial condition could be adversely affected.

Our future operating results and cash flows could be adversely affected by pending litigation commenced by our shareholders.

On January 17, 2007, a stockholder derivative action was filed against certain current members of the Board and certain current and former senior executives in the United States District Court, District of New Jersey. The Company has been named as a nominal defendant. The complaint alleges, among other things, that certain of the Company's

current and former officers and directors (i) breached their fiduciary duties to the Company and its stockholders and were unjustly enriched by improperly backdating certain grants of stock options to officers and directors of the Company, (ii) caused the Company to file false and misleading reports with the SEC, (iii) violated the Exchange Act and common law, (iv) caused the Company to issue false and misleading public statements, and (v) were negligent and abdicated their responsibilities to the Company and its stockholders. The complaint seeks money damages from the defendants, an accounting for the proceeds of sales of any allegedly backdated stock options, and the costs and disbursements of the lawsuit, as well as equitable relief. The defendants have moved to dismiss the action, and on or about June 15, 2007, the plaintiff filed an amended complaint adding, among other things, a claim for securities fraud under SEC rule 10b-5.

On September 21, 2007 a second stockholder class action was filed against the Company and certain current and former senior executives in the United States District Court, Southern District of New York. This complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. It alleges that more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks money damages plus interest as well as costs and disbursements of the lawsuit. The Company intends to vigorously contest these allegations and the claims made.

On October 10, 2007, a third stockholder class action was filed in the United States District Court, Southern District of New York, against the Company and certain of its current and former senior executives. This complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, thereby causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. According to this complaint, more recent disclosures establish the misleading nature of these earlier disclosures. This complaint seeks, among other relief, class certification of the lawsuit, compensatory damages plus interest, and costs and expenses of the lawsuit, including counsel and expert fees.

The outcome of the above litigations is uncertain; while we believe there are valid defenses to the claims and we will defend ourselves vigorously, no assurance can be given as to the outcome of these matters. Additionally, the above complaints and resulting litigation and other litigations could distract our management and directors from the Company's affairs, the costs and expenses of the litigation could unfavorably affect our net earnings and an unfavorable outcome could adversely affect the reputation of the Company.

An unfavorable result from the informal investigation of the SEC and the U.S. Attorney for the District of New Jersey into our historic stock option granting practices could lead to regulatory or criminal fines and penalties, adverse publicity, and other negative consequences.

The Division of Enforcement of the SEC is conducting an informal investigation into the Company's historic stock option practices, as is the Office of the U.S. Attorney for the District of New Jersey. We have cooperated with these investigations and have briefed both authorities on the results of the Special Committee's investigation. There have been no developments in these matters since that time. We cannot provide assurance that the Company will not be subject to adverse publicity, regulatory or criminal fines or penalties, as well as other sanctions or other contingent liabilities or adverse customer reactions in connection with this matter.

Because we use foreign manufacturers, an unaffiliated manufacturer's failure to comply with acceptable labor practices could have an adverse effect on our business.

Our business is subject to the risks generally associated with purchasing from foreign countries, particularly China, from where approximately 50% of our merchandise is imported. Some of these risks are 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 and Canada from other countries, pressures from non-governmental organizations, disruptions or delays in shipments and changes in economic conditions in countries in which our manufacturing sources are located. We cannot predict the effect that such factors will have on our business

arrangements with foreign manufacturing sources. If any of these factors rendered the conduct of business in a particular country undesirable or impractical, or if our current foreign manufacturing sources ceased doing business with us for any reason, our business could be materially adversely affected. Our business is also subject to the risks associated with changes in U.S. and Canadian legislation and regulations relating to imported apparel products, including quotas, duties, taxes and other charges or restrictions on imported apparel. Such changes or other changes or restrictions with regard to China could have a material adverse impact on our business. We cannot predict whether such changes or other charges or restrictions will be imposed upon the importation of our products in the future.

We require our independent manufacturers to operate in compliance with applicable laws and our internal requirements, some of which are mandated by our License Agreement. While our purchasing guidelines promote ethical business practices, we do not control these manufacturers or their labor practices. Any violation of labor or other laws by one of the independent manufacturers we use or any divergence of an independent manufacturer's labor practices from standards mandated by our License Agreement or those generally accepted as ethical in the United States and Canada could have a material adverse effect on our business.

Since a portion of our available cash is located in foreign jurisdictions, if we need such cash to fund domestic needs we may not be able to do so on favorable terms.

We manage our cash and liquidity within each business according to the country and currency of operations. Because a portion of our cash balances and working capital is located in foreign jurisdictions, we could have a liquidity issue in one country while adequate liquidity exists in other countries. If such a liquidity need were to arise in our domestic operations, there is no guarantee that we would have the ability to make the appropriate intercompany transfer from our foreign subsidiaries on favorable terms and our financial position, results of operations and cash flows could be materially adversely impacted.

Because we operate in foreign countries, some of our revenues are subject to foreign economic risks.

We have operations in Canada and Puerto Rico. We cannot assure you that we will be able to address in a timely manner the risks of operating stores in foreign countries such as governmental requirements over merchandise importation, employment, taxation and multi-lingual requirements.

Because we operate in foreign countries, some of our product costs and other expenses are subject to foreign currency fluctuations.

While our business is primarily conducted in U.S. dollars, we purchase substantially all of our products overseas, and the cost of these products may be affected by changes in the values of the relevant currencies. To date, we have not significantly hedged against foreign currency fluctuations; however, we may pursue hedging alternatives in the future. Foreign currency fluctuations could have a material adverse effect on our business and results of operations.

Disruptions in receiving and distribution could have a material adverse effect on our business.

Our merchandise is shipped directly from manufacturers through freight consolidators to our distribution and fulfillment centers. Our operating results depend in large part on the orderly operation of our receiving and distribution process, which depends on manufacturers' adherence to shipping schedules and our effective management of our distribution facilities and capacity. Furthermore, it is possible that events beyond our control, such as a military action, strike, natural disaster or other disruption, could result in delays in delivery of merchandise to our stores. Any such event could have a material adverse effect on our business.

We face significant competition in the retail industry, which could impact our ability to compete successfully against existing or future competition.

The children's apparel, toy and media retail markets are highly competitive. We compete in substantially all of our markets with GapKids, babyGap and Old Navy (each of which is a division of The Gap, Inc.); The Gymboree Corporation; Too, Inc.; Babies "R" Us and Toys "R" Us (each of which is a division of Toys "R" Us, Inc.); J.C. Penney Company, Inc.; Sears (a division of Sears Holdings Corporation); Kohl's and other department stores, as well as discount stores such as Wal-Mart Stores, Inc.; Target Corporation; and K-Mart (a division of Sears Holdings

Corporation). In addition, the Company's new store-within-a-store shoe store will compete with well-known national retailers such as Stride Rite and Payless as well as smaller shoe retailers. We also compete with a wide variety of specialty stores, other national and regional retail chains, catalog companies and Internet retailers. In our Disney Store business, we compete with the Disney theme parks and with third parties selling Disney-branded merchandise under license. In addition, media items such as compact discs and DVDs can be purchased in virtually every retail channel. One or more of our competitors are present in substantially all of the areas in which we have stores. Many of our competitors are larger than us and have access to significantly greater financial, marketing and other resources than we have. We cannot assure you that we will be able to continue to compete successfully against existing or future competition.

We depend on our relationships with unaffiliated manufacturers and independent agents.

We do not own or operate any manufacturing facilities, and therefore, are dependent upon independent third parties for the manufacture of all of our products. Our products are currently manufactured to our specifications, pursuant to purchase orders, by approximately 400 independent manufacturers located primarily in Asia. In addition, in fiscal 2006, we sourced approximately 50% of our merchandise from China. We have no exclusive or long-term contracts with our manufacturers and compete with other companies for manufacturing facilities. In addition, we have no formal written agreement with a Hong Kong-based trading company through which we purchased approximately 15% of our products in fiscal 2006. We purchase merchandise through a Hong Kong-based trading company using negotiated purchase orders. We also purchased approximately 15% of our products in fiscal 2006 through the support of a single agent in Taiwan, which has an exclusive arrangement with us, but is not obligated to sell exclusively to us. Although we believe that we have established close relationships with our trading company, independent agents and principal manufacturers, the inability to maintain such relationships or to find additional sources to support future growth could have a material adverse effect on our business.

A material disruption in our information technology systems could adversely affect our business or results of operations and cash flows.

We rely on various information systems to manage our operations and regularly make investments to upgrade, enhance or replace such systems. Any delays or difficulties in transitioning to these or other new systems, or in integrating these systems with our current systems, or any other disruptions affecting our information systems, could have a material adverse effect on our business.

Our ability to discourage, delay or prevent a takeover attempt could reduce the market value of our common stock.

Certain provisions of our Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") and Amended and Restated By-laws (the "By-laws") may have anti-takeover effects and discourage, delay or prevent a takeover attempt that a stockholder might consider in the stockholder's best interest. These provisions, among other things:

- Classify our Board into three classes, each of which will serve for different three year periods;
- Provide that only the Chairman of the Board may call special meetings of the stockholders;
- 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;
- Provide that all vacancies on our Board, 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;
- Establish certain advance notice procedures for nominations of candidates for election as directors and for stockholder proposals to be considered at stockholders' meetings; and
- Require a vote of the holders of more than three quarters of the shares entitled to vote in order to amend the foregoing provisions and certain other provisions of the Certificate of Incorporation and By-laws.

In addition, the Board, 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, we are subject to the

provisions of Section 203 of the Delaware General Corporation Law, as amended, which would require a two-thirds vote of stockholders for any business combination (such as a merger or sales of all or substantially all of our assets) between The Children's Place Retail Stores, Inc. 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 our common stock.

We are sensitive to economic, regional and other business conditions, which could adversely affect our future operating results and cash flows.

Our business is sensitive to customers' spending patterns which are subject to prevailing regional and national economic conditions such as consumer confidence, recession, interest rates, energy prices and taxation. We are, and will continue to be, susceptible to changes in national and regional economic conditions, weather conditions, demographics, hourly wage legislation, consumer preferences and other regional factors.

Recalls and post-manufacture repairs of our products and/or product liability claims against our products could harm our reputation, increase costs or reduce sales.

We are subject to regulation by the Consumer Product Safety Commission and similar state and international regulatory authorities, and our products could be subject to involuntary recalls and other actions by these authorities. Concerns about product safety, including but not limited to concerns about those manufactured in developing countries, where substantially all of our merchandise is manufactured, may lead us to recall selected products, either voluntarily, or at the direction of Disney or a governmental authority. Product safety concerns, recalls, defects or errors could result in the rejection of our products by customers, damage to our reputation, lost sales, product liability litigation and increased costs, any of which could harm our business.

A privacy breach could adversely affect our business.

The protection of customer, employee, and company data is critical. The regulatory environment surrounding information security and privacy is demanding, with the frequent imposition of new and changing requirements. In addition, customers have a high expectation that we will adequately protect their personal information. A significant breach of customer, employee, or company data could damage our reputation and result in lost sales, fines, or lawsuits.

Our profitability could be adversely affected if we are unable to successfully negotiate favorable lease terms.

We generally lease our stores for an initial term of ten years. Our operating results and cash flows could be adversely affected if we are unable to continue to negotiate favorable lease and renewal terms.

Because of conditions impacting our quarterly results of operations, including seasonality and other factors, our quarterly results fluctuate.

As is the case with many retailers, we experience seasonal fluctuations in our net sales and net income. Our net sales and net income are generally weakest during the first two fiscal quarters, and are lower during the second fiscal quarter than during the first fiscal quarter. For example, in fiscal 2006, 21%, 20%, 27% and 32% of our consolidated net sales occurred in the first, second, third and fourth quarters, respectively. In fiscal 2006 and fiscal 2007, we experienced second quarter losses. It is likely that we will continue to experience second quarter losses in future periods. It is also possible that we could experience losses in other quarters. Our first quarter results are heavily dependent upon sales during the period leading up to the Easter holiday. Our third quarter results are heavily dependent upon back-to-school sales at The Children's Place and upon Halloween sales at Disney Store. Our fourth quarter results are heavily dependent upon sales during the holiday season. Weak sales during any of these periods could have a material adverse effect on our business.

Our quarterly results of operations may also fluctuate significantly from quarter to quarter as a result of a variety of other factors, including overall macro-economic conditions, 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,

weather conditions, shifts in the timing of certain holidays, changes in our merchandise mix and pricing strategy. Any failure by us to meet our business plans for, in particular, the third and fourth quarter of any fiscal year would have a material adverse effect on our earnings, which in all likelihood would not be offset by satisfactory results achieved in other quarters of the same fiscal year. In addition, because our expense levels are based in part on expectations of future sales levels, a shortfall in expected sales could result in a disproportionate decrease in our net income.

Certain stockholders have significant influence over determining the outcome of matters submitted to a stockholder vote.

Ezra Dabah, our former CEO and a current member of our Board, and Stanley Silverstein, who is also a member of our Board, and certain members of their families beneficially own a significant percentage of our outstanding common stock. As a result, Mr. Dabah and Mr. Silverstein have, and will continue to have, significant influence on the election of our directors and on determining the outcome of any matter submitted to a vote of our stockholders for approval.

The volatility of our stock price could adversely affect the market price of our common stock.

Our common stock, which is quoted on the Nasdaq Global Select Market, has experienced and is likely to experience significant price and volume fluctuations, which could adversely affect the market price of the common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results, our comparable store sales results, announcements by other retailers or Disney, the overall economy, the geopolitical environment and the condition of the financial markets could cause the price of our common stock to fluctuate substantially.

Legislative actions and new accounting pronouncements could result in us having to increase our administrative expenses to remain compliant.

In order to comply with the Sarbanes-Oxley Act of 2002 and any subsequent guidance that may come from the Public Company Accounting Oversight Board ("PCAOB"), future changes in listing standards by Nasdaq, or future accounting guidance or disclosure requirements by the SEC, we may be required to enhance our internal controls, hire additional personnel and utilize additional outside legal, accounting and advisory services, all of which could cause our general and administrative expenses to increase. Proposed changes in the accounting rules, including legislative and other proposals could increase the expenses we report under U.S. GAAP and affect our operating results.

Any terrorist act that impacts consumer shopping could have a material adverse effect on our business.

We are dependent upon the continued popularity of malls as shopping destinations and the ability of mall anchor tenants and other attractions to generate customer traffic in the malls where our stores are located. Any terrorist act that decreases the level of mall traffic or other shopping traffic could have a material adverse effect on our business. In addition, military actions could negatively impact mall traffic, which would have a material adverse effect on our business.

ITEM 1B.—UNRESOLVED STAFF COMMENTS

None.

ITEM 2.—PROPERTIES

We currently support both The Children's Place stores and Disney Stores with a leased 525,000 square foot distribution center in South Brunswick Township, New Jersey; a leased 250,000 square foot distribution center in Ontario, California; a leased 95,000 square foot distribution center in Ontario, Canada; and an owned 700,000 square foot distribution center in Ft. Payne, Alabama, which we opened in August 2007 to support projected growth at both brands. Our distribution centers utilize automated warehouse systems, which employ radio frequency technology and automated conveyor systems. In addition, we lease our approximately 150,000 square foot fulfillment center in Secaucus, New Jersey to support our Internet business. We operate our headquarters in Secaucus, New Jersey and Pasadena, California, as well as other leased facilities to support warehousing and administrative office needs. We

also lease offices in Hong Kong, Shanghai and New Delhi to capitalize on new and existing sourcing opportunities and monitor product quality. In addition, we entered into a lease agreement for approximately 283,000 square feet of office space in Secaucus, New Jersey near our current corporate headquarters, and we plan to move our corporate headquarters into this space in fiscal 2009 after we complete its design and construction.

We lease all of our existing store locations, with the store lease terms expiring through 2023. The average unexpired store lease term for The Children's Place and Disney Store is 4.9 and 5.0 years, respectively. The leases for most of our existing stores are for initial terms of 10 years and provide for contingent rent based upon a percentage of sales in excess of specific minimums. Leases for future stores will likely include similar contingent rent provisions.

ITEM 3.—LEGAL PROCEEDINGS

On September 29, 2006, the Division of Enforcement of the SEC informed us that it had initiated an informal investigation into our stock option granting practices. In addition, the Office of the U.S. Attorney for the District of New Jersey advised us that it had commenced an investigation into the same matter. We have cooperated with these investigations and have briefed both authorities on the results of the Special Committee's investigation. There have been no developments in these matters since that time.

On January 17, 2007, a stockholder derivative action was filed in the United States District Court, District of New Jersey against certain current members of our Board and certain current and former senior executives. The Company has been named as a nominal defendant. The complaint alleges, among other things, that certain of our current and former officers and directors (i) breached their fiduciary duties to the Company and its stockholders and were unjustly enriched by improperly backdating certain grants of stock options to officers and directors of the Company, (ii) caused the Company to file false and misleading reports with the SEC, (iii) violated the Exchange Act and common law, (iv) caused the Company to issue false and misleading public statements, and (v) were negligent and abdicated their responsibilities to the Company and its stockholders. The complaint seeks money damages from the defendants, an accounting for the proceeds of sales of any allegedly backdated stock options, and the costs and disbursements of the lawsuit, as well as equitable relief. The defendants have moved to dismiss the action, and on or about June 15, 2007, the plaintiff filed an amended complaint adding, among other things, a claim for securities fraud under SEC rule 10b-5.

On September 21, 2007 a second stockholder class action was filed in the United States District Court, Southern District of New York against the Company and certain current and former senior executives. The complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. It alleges that more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks money damages plus interest as well as costs and disbursements of the lawsuit.

On October 10, 2007, a third stockholder class action was filed in the United States District Court, Southern District of New York, against the Company and certain of its current and former senior executives. The complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, thereby causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. According to the complaint, more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks, among other relief, class certification of the lawsuit, compensatory damages plus interest, and costs and expenses of the lawsuit, including counsel and expert fees.

The outcome of these three stockholder litigations is uncertain; while we believe there are valid defenses to the claims and we will defend ourselves vigorously, no assurance can be given as to the outcome of these matters. The litigations could distract our management and directors from the Company's affairs, the costs and expenses of the litigations could unfavorably affect our net earnings and an unfavorable outcome could adversely affect the reputation of the Company.

On or about February 15, 2005, Michael Scott Smith, a former co-sales manager for The Children's Place in the San Diego district, filed a lawsuit against the Company in the Superior Court of California, County of Los Angeles. The lawsuit alleges violations of the California Labor Code and California Business and Professions Code and seeks class action on behalf of Mr. Smith and other individuals similarly situated. On October 19, 2007, the Company entered into a class action settlement with the plaintiff's counsel and signed a memorandum of understanding providing for, among other things, a maximum total payment of $2.1 million, inclusive of attorneys' fees, costs and expenses, service payments to the class representative and administration costs, in exchange for a full release of all claims and dismissal of the lawsuit. The court granted preliminary approval of the settlement on November 29, 2007. The settlement was recorded in the thirteen weeks ended July 29, 2006.

On or about July 12, 2006, Joy Fong, a former Disney Store manager in the San Francisco district, filed a lawsuit against the Company in the Superior Court of California, County of Los Angeles. The lawsuit alleges violations of the California Labor Code and California Business and Professions Code and seeks class action status on behalf of Ms. Fong and other individuals similarly situated. We filed our answer on August 11, 2006 denying any and all liability, and on January 14, 2007, Ms. Fong filed an amended complaint, adding a subsidiary of Disney as a defendant. We believe we have meritorious defenses to the claims. The outcome of this litigation is uncertain; while we believe there are valid defenses to the claims and will defend ourselves vigorously, we cannot reasonably estimate the amount of loss or range of loss that might be incurred as a result of this matter.

On or about September 28, 2007, Meghan Ruggiero filed a complaint against the Company and its subsidiary, Hoop Retail Stores, LLC, in the United States District Court, Northern District of Ohio on behalf of herself and other similarly situated individuals. The lawsuit alleges violations of the Fair and Accurate Credit Transactions Act ("FACTA") and seeks class certification, an award of statutory and punitive damages, attorneys' fees and costs, and injunctive relief. The outcome of this litigation is uncertain; while we believe there are valid defenses to the claims and will defend ourselves vigorously, we cannot reasonably estimate the amount of loss or range of loss that might be incurred as a result of this matter.

In addition, we are involved in various legal proceedings arising in the normal course of our business. In the opinion of management, based on the claims asserted at this time, it is unlikely that any ultimate liability arising out of such proceedings will have a material adverse effect on our business.

ITEM 4.—SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5.—MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the Nasdaq under the symbol "PLCE." The following table sets forth the range of high and low sales prices on the Nasdaq of our common stock for the fiscal periods indicated.

	High	Low
2006		
First Quarter	$ 62.98	$ 42.33
Second Quarter	67.70	51.67
Third Quarter	71.37	53.45
Fourth Quarter	71.81	52.16

2005		
First Quarter	$ 49.15	$ 36.60
Second Quarter	52.94	37.14
Third Quarter	49.46	33.22
Fourth Quarter	54.64	41.16

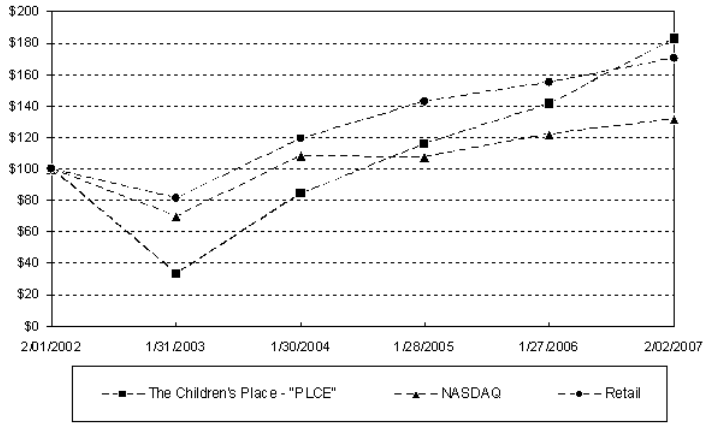
On February 3, 2007, the last reported sale price of our common stock was $58.31 per share, the number of holders of record of our common stock was approximately 105 and the number of beneficial holders of our common stock was approximately 14,000.

On November 3, 2007, the last reported sale price of common stock was $23.87 per share.

We have never paid dividends on our common stock or purchased any of our common stock. Our Board presently intends to retain any future earnings to finance our operations and the expansion of the Company. Our credit facilities and/or License Agreement prohibit or limit significantly any payment of dividends and limit the amount of purchases of our common stock. Any determination in the future to pay dividends or purchase any of our common stock will depend upon our earnings, financial condition, cash requirements, future prospects, covenants in our credit facilities and any future debt instruments and such other factors as the Board deems appropriate at the time.

Performance Graph

The following graph compares the cumulative stockholder return on our common stock with the return on the Total Return Index for the Nasdaq Stock Market (U.S.) and the Nasdaq Retail Trade Stocks. The graph assumes that $100 was invested on February 1, 2002.



DATE	THE CHILDREN'S PLACE - "PLCE"	NASDAQ	RETAIL
2/1/2002	100.000	100.000	100.000
1/31/2003	33.417	69.754	81.321
1/30/2004	84.295	108.563	119.229
1/28/2005	115.987	107.392	142.791
1/27/2006	141.348	122.314	154.850
2/2/2007	182.790	131.843	170.138

ITEM 6.—SELECTED FINANCIAL DATA

The following table sets forth certain historical financial and operating data for The Children's Place Retail Stores, Inc. and subsidiaries. The selected historical financial data is qualified by reference to, and should be read in conjunction with, Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations, and the financial statements and notes thereto included elsewhere in this report. The information presented reflects the restatement of our financial results which is more fully described in the Explanatory Note immediately preceding Part I, Item 1 and Note 2—Restatement of Consolidated Financial Statements in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

	Fiscal Year Ended (1)				
Statement of Operations Data (in thousands, except per share data):	**February 3, 2007**	**January 28, 2006(2) (As restated)**	**January 29, 2005(2)(3) (As restated)**	**January 31, 2004(2) (As restated)**	**February 1, 2003(2) (As restated)**
Net sales	$ 2,017,713	$ 1,668,736	$ 1,157,548	$ 797,938	$ 671,409
Cost of sales (exclusive of depreciation shown separately below)	1,189,300	1,008,722	705,422	476,884	415,657
Gross profit	828,413	660,014	452,126	321,054	255,752
Selling, general and administrative expenses	626,251	513,994	336,610	238,177	201,224
Asset impairment charges(4)	17,066	244	164	448	4,539
Depreciation and amortization	65,701	52,886	49,049	46,251	41,012
Operating income	119,395	92,890	66,303	36,178	8,977
Interest income (expense), net	3,933	563	(22)	255	547
Income before income taxes and extraordinary gain	123,328	93,453	66,281	36,433	9,524
Provision for income taxes	35,938	35,149	25,905	13,851	4,025
Income before extraordinary gain	87,390	58,304	40,376	22,582	5,499
Extraordinary gain, net of taxes(5)	—	1,665	273	—	—
Net income	$ 87,390	$ 59,969	$ 40,649	$ 22,582	$ 5,499
Diluted net income per common share before extraordinary gain	$ 2.92	$ 2.03	$ 1.47	$ 0.84	$ 0.20
Extraordinary gain, net of taxes(5)	—	0.06	0.01	—	—
Diluted net income per common share	$ 2.92	$ 2.09	$ 1.48	$ 0.84	$ 0.20
Diluted weighted average common shares and common share equivalents outstanding as restated	29,907	28,687	27,545	27,042	26,889
Selected Operating Data:					
Number of stores open at end of period	1,194	1,119	1,056	691	643
Comparable store sales increase (decrease)(3)(6)	11%	9%	16%	4%	(16)%
Average net sales per store (3)(7)	$ 1,707	$ 1,501	$ 1,344	$ 1,159	$ 1,137
Average square footage per store(8)	4,590	4,562	4,591	4,472	4,398
Average net sales per gross square foot(3)(9)	$ 372	$ 329	$ 300	$ 262	$ 263
Balance Sheet Data (in thousands) (as restated):					
Working capital(10)	$ 283,749	$ 230,038	$ 178,956	$ 116,589	$ 81,064
Total assets	939,486	764,048	617,844	415,548	361,508
Long-term debt	—	—	—	—	—
Stockholders' equity	521,787	395,650	303,124	248,182	219,428

(1) All references to our fiscal years refer to the 52- or 53-week year ended on the Saturday nearest to January 31 of the following year. For example, references to fiscal 2006 mean the fiscal year ended February 3, 2007. Fiscal 2006 was a 53-week year.

(2) See Note 2—Restatement of Consolidated Financial Statements in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for a discussion of the Company's restatement.

(3) The statement of operations data for fiscal 2004 includes ten weeks of operations for the Disney Stores from their acquisition date of November 21, 2004.

(4) Asset impairment charges represent the write down of fixed assets to fair value. In fiscal 2006, the Company recorded $17.1 million in asset impairment charges, including $9.6 million in impairments at 29 of our Mickey prototype stores, $7.1 million in disposals of property and equipment resulting from our decisions not to proceed with a New York City Disney Store location and infrastructure investments that were written off in conjunction with our decision to form an e-commerce alliance with a Disney affiliate in which select Disney Store merchandise is sold on the disneyshopping.com website, and $0.4 million of impairment at five underperforming stores. We impaired fixed assets in underperforming stores in one store each year in fiscal 2005, fiscal 2004 and fiscal 2003 and in 19 stores in fiscal 2002.

(5) The extraordinary gain represents the fair value of net assets acquired in excess of the purchase price paid for the DSNA Business, after all long-lived assets were written off.

(6) We define comparable store sales as net sales from stores that have been open for at least 14 full months and that have not been substantially remodeled during that time. The Disney Stores entered our comparable store base in fiscal 2006.

(7) Average net sales per store represents net sales from stores open throughout the full period divided by the number of such stores. The Disney Stores were not included in average net sales per store during fiscal 2004 since we did not own them for the full fiscal period.

(8) 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.

(9) Average net sales per gross square foot represents net sales from stores open throughout the full period divided by the gross square footage of such stores. The Disney Stores were not included in average net sales per gross square foot during fiscal 2004 since we did not own them for the full fiscal period.

(10) Working capital is calculated by subtracting the Company's current liabilities from its current assets.

Restatement Adjustments for Periods Not Presented in Consolidated Financial Statements

The following tables reflect restatement adjustments for periods not presented in the accompanying audited consolidated financial statements. For periods presented in the accompanying audited financial statements, refer to Note 2—Restatement of Consolidated Financial Statements in the accompanying consolidated financial statements.

	January 29, 2005			
Balance Sheet Data (in thousands):	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Working capital(2)	$ 177,210	$ (807)	$ 2,553	$ 178,956
Total assets	616,162	1,454	228	617,844
Stockholders' equity	300,907	647	1,570	303,124

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for our 52- and 53-week fiscal years.

(2) Working capital is calculated by subtracting the Company's current liabilities from its current assets.

	Fiscal Year Ended January 31, 2004			
Statement of Operations Data (in thousands, except per share data):	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 797,938	$ —	$ —	$ 797,938
Cost of sales (exclusive of depreciation shown separately below)	476,961	316	(393)	476,884
Gross profit	320,977	(316)	393	321,054
Selling, general and administrative expenses	238,190	1,316	(1,329)	238,177
Asset impairment charges	448	—	—	448
Depreciation and amortization	46,251	—	—	46,251
Operating income	36,088	(1,632)	1,722	36,178
Interest income (expense), net	255	—	—	255
Income before income taxes	36,343	(1,632)	1,722	36,433
Provision for income taxes	13,642	(486)	695	13,851
Net income	$ 22,701	$ (1,146)	$ 1,027	$ 22,582
Diluted net income per common share	$ 0.84	$ (0.04)	$ 0.04	$ 0.84
Diluted weighted average common shares and common share equivalents outstanding	27,099	(57)	—	27,042
Balance Sheet Data (in thousands):				
Working capital(2)	$ 114,274	$ (153)	$ 2,468	$ 116,589
Total assets	415,506	1,098	(1,056)	415,548
Stockholders' equity	245,854	945	1,383	248,182

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for our 52- and 53-week fiscal years.

(2) Working capital is calculated by subtracting the Company's current liabilities from its current assets.

	Fiscal Year Ended February 1, 2003			
Statement of Operations Data (in thousands, except per share data):	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 671,409	$ —	$ —	$ 671,409
Cost of sales (exclusive of depreciation shown separately below)	415,623	276	(242)	415,657
Gross profit	255,786	(276)	242	255,752
Selling, general and administrative expenses	201,058	696	(530)	201,224
Asset impairment charges	4,539	—	—	4,539
Depreciation and amortization	41,012	—	—	41,012
Operating income	9,177	(972)	772	8,977
Interest income (expense), net	547	—	—	547
Income before income taxes	9,724	(972)	772	9,524
Provision for income taxes	4,089	(375)	311	4,025
Net income	$ 5,635	$ (597)	$ 461	$ 5,499
Diluted net income per common share(2)	$ 0.21	$ (0.02)	$ 0.02	$ 0.20
Diluted weighted average common shares and common share equivalents outstanding	26,978	(89)	—	26,889
Balance Sheet Data (in thousands):				
Working capital(3)	$ 79,913	$ —	$ 1,151	$ 81,064
Total assets	361,550	712	(754)	361,508
Stockholders' equity	218,113	712	603	219,428

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for our 52- and 53-week fiscal years.

(2) Diluted earnings per share may not add due to rounding

(3) Working capital is calculated by subtracting the Company's current liabilities from its current assets.

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

The following discussion should be read in conjunction with our audited financial statements and notes thereto included in Item 15.—Exhibits and Financial Statement Schedules. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this report, particularly in Item 1A—Risk Factors.

All of the financial information presented in this Item 7 has been adjusted to reflect the restatement of the Company's financial results, which is more fully described in the Explanatory Note immediately preceding Part I, Item 1 and in Note 2—Restatement of Consolidated Financial Statements and Note 16—Quarterly Financial Data (Unaudited) in the accompanying consolidated financial statements.

OVERVIEW

The Company is a leading specialty retailer of children's merchandise. We design, contract to manufacture and sell high-quality, value-priced merchandise under our proprietary "The Children's Place" and licensed "Disney Store" brand names. As of September 1, 2007 we owned and operated 889 The Children's Place stores and 328 Disney Stores across North America and Internet stores at www.childrensplace.com and www.disneystore.com.

During fiscal 2006, as a result of the execution of our strategic initiatives, we achieved strong financial results. Net sales in fiscal 2006 increased $349 million, or 21%, to $2.018 billion, compared to net sales of $1.669 billion reported in fiscal 2005. During fiscal 2006, net sales from our The Children's Place business increased $234.4 million, a 20% increase over fiscal 2005. In addition, net sales from our Disney Store business increased $114.6 million, a 23% increase over fiscal 2005. During fiscal 2006, comparable store sales of The Children's Place brand increased 10% compared to a 9% increase in fiscal 2005. In February 2006, 260 Disney Stores entered the Disney Store comparable store base and reported a comparable store sales increase of 14%. We define comparable store sales as net sales from stores that have been open at least 14 full months and that have not been substantially remodeled during that time.

Based on information from NPD Group, a consumer and retail market research firm, we believe our market share of children's apparel for The Children's Place brand increased to 4.1% in fiscal 2006 from 3.8% in fiscal 2005. (In 2005, NPD reported The Children's Place brand's 2005 market share as 4.2%. In 2006, NPD recalibrated the size and composition of this market, adjusting The Children's Place brand's 2005 market share to 3.8% to make it comparable to 2006.)

Net income in fiscal 2006 was $87.4 million, or $2.92 per diluted share, compared to $60.0 million, or $2.09 per diluted share, in fiscal 2005.

Fiscal 2006 net income reflected:

- Approximately $16.9 million in charges associated with the stock option investigation, before income tax effects, including approximately:
  - $8.1 million in legal and professional fees;
  - $6.5 million related to payroll withholding taxes and related penalties and resolution of tax consequences of discounted options (approximately $0.2 million recorded in cost of goods sold and approximately $6.3 million recorded in selling, general and administrative expenses); and
  - $2.3 million in stock-based compensation charges for recipients who have not been able to exercise options due to the suspension of option exercise activity (approximately $0.6 million recorded in cost of goods sold and approximately $1.7 million recorded in selling, general and administrative expenses).

- Approximately $9.6 million, before income tax effects, in asset impairment charges related to the Mickey store prototype renovation (refer to Note 6—Property and Equipment in the accompanying consolidated financial statements for more information).
- Approximately $7.9 million, before income tax effects, in asset impairments and certain other costs resulting from our decision not to proceed with a New York City Disney Store location and infrastructure investments that were written off in conjunction with our decision to form an e-commerce alliance with a Disney affiliate in which select Disney Store merchandise is sold on the disneyshopping.com website. Approximately $7.1 million of these charges were recorded as asset impairments with the remaining $0.8 million in costs incurred to exit these activities recorded in selling, general and administrative expenses.
- Approximately $2.0 million, before income tax effects, in charges related to: (i) the implementation of SFAS 123(R) with respect to stock options previously issued and unvested stock options, and (ii) promises to grant stock options and restricted stock. This charge was recorded in selling, general and administrative expenses.
- We received a one time cash dividend from some of our Canadian subsidiaries, which brought foreign tax credits that can be utilized to reduce U.S. income taxes. Our fiscal 2006 tax provision was reduced by approximately $9.5 million after the effect of this transaction.

Fiscal 2005 earnings included approximately $12.0 million, before income tax effects, in stock-based compensation expense, which was comprised of:

- Approximately $8.4 million related to revised measurement dates ($1.7 million recorded in cost of goods sold and $6.7 million recorded in selling, general and administrative expenses),
- Approximately $1.7 million related to the accelerated vesting of 2.1 million stock options ($0.4 million recorded in cost of goods sold and $1.3 million recorded in selling, general and administrative expenses),
- Approximately $1.6 million primarily related to the resolution of tax consequences of discounted options ($0.2 million recorded in cost of goods sold and $1.4 million recorded in selling, general and administrative expenses), and
- Approximately $0.3 million related to the modification of options for a terminated associate.

During fiscal 2006, we built on our progress at The Children's Place stores by continuing to focus on increasing store productivity and elevating our brand awareness through increased marketing efforts. We opened 69 The Children's Place stores in fiscal 2006, and closed five stores. During the year, we rolled out merchandise strategies based on the climate and weather conditions of the store location and store sales volume. We also offered a greater selection of "better" and "best" merchandise (reflecting higher fashion and higher price point items) which was successful in the third quarter. However, in the fourth quarter, our "better" and "best" merchandise was not received by the customer as we had envisioned and our earnings in fiscal 2006 suffered as a result. By offering more "better" and "best" merchandise in the fourth quarter, we reduced our investment in key items which are typically offered at a value price and therefore we did not have enough of the value priced and basic merchandise our customers desired. In fiscal 2007 we are offering more key item and value priced merchandise, particularly in the fourth quarter. Other initiatives in fiscal 2007 include the launch of our "store-within-a-store" shoe store, and the roll out of our new store prototype.

The Disney Store business' focus in fiscal 2006 was on improving gross margin through reduced product costs and better markdown control, while providing our guests with improved merchandise quality. During fiscal 2006, we opened 19 Disney Stores, remodeled 14 Disney Stores, and closed eight stores. Strategies that contributed to Disney Stores' growth included: offering more innovative and elevated merchandise, particularly in our toy category; introducing adult apparel; and offering a "good," "better," "best" merchandise offering across most product categories. In fiscal 2007, Disney Store will continue to focus on innovating and elevating its merchandise. Other strategic initiatives include increasing the number of store visitors who purchase our merchandise (i.e. customer conversion); launching e-commerce; and maximizing synergy events. In addition, in the second half of fiscal 2007 we have begun to unveil our new Disney Store prototype to our guests.

In June 2007, we amended our credit facilities with Wells Fargo and our other senior lenders for the purpose of better supporting the capital needs of our business and reducing the fees associated with our borrowings. Refer to Note 7—Credit Facilities for additional information regarding amendments to our credit facilities.

During August 2007, we entered into the Refurbishment Amendment to our License Agreement with Disney, which supersedes (through fiscal 2011) the provisions of the original License Agreement relating to required remodeling of Disney Stores with new provisions regarding store renovation and maintenance. Among other things, these new provisions obligate us, by various dates commencing in fiscal 2007 and continuing through fiscal 2011, to remodel a total of 236 existing Disney Stores into a new store prototype we have developed. We have committed $175 million to this Disney Store renovation program.

Consistent with its fiduciary duties, our Board has engaged an investment banking firm to act as its financial advisor in undertaking a review of strategic alternatives to improve operations and enhance shareholder value. As part of this review, our Board and management are assessing a wide variety of options to improve our business and competitive position, including, but not limited to, opportunities for organizational and operational improvement, a possible recapitalization, or other transactions. The Board has not set any specific timeline for the completion of this strategic review, and there is no assurance that as a result of this review, the Board will decide to change the Company's course of action or engage in any specific transaction.

RECENT OPERATING RESULTS

Due to the seasonality of our business, our annual profitability is highly dependent on sales and gross margin during the third and fourth quarters, which is when the majority of our back-to-school and holiday sales occur. Because our sales and margins did not meet our expectations during the third quarter ended November 3, 2007, and because we anticipate that those trends will continue into the fourth quarter, we anticipate that sales will be below our previous projections during those periods, which would result in a disproportionate decrease in our net income versus last year.

RESTATEMENT OF FINANCIAL STATEMENTS

Based on the conclusions of an independent investigation into our stock option granting practices by a Special Committee of our Board, we have concluded that incorrect measurement dates for option grants were previously used for financial accounting and reporting purposes on a number of occasions. In addition, we have concluded that an action taken by management in May 2004 relating to the Company's records concerning the 1997 CEO IPO Grant, without review or approval by the Compensation Committee should be treated as a new, below market grant in 2004. As a result, we are restating our fiscal 2005 consolidated balance sheet and our consolidated statements of income, cash flows and changes in stockholders' equity for fiscal 2005 and fiscal 2004 to reflect additional stock-based compensation expense relating to stock option grants, as well as to correct other errors unrelated to stock option grants.

The aggregate impact of the stock compensation adjustments on our consolidated statements of income, net of forfeitures of unvested awards and taxes, between fiscal 1998 and the first quarter of fiscal 2006 was a decrease of $11.2 million. The aggregate impact of the other adjustments unrelated to stock options on our consolidated statements of income, net of taxes, between fiscal 2001 and the first quarter of fiscal 2006 was an increase to net income of $1.7 million. Additionally, variable rate demand note balances as of the quarter ended April 29, 2006 have been reclassified from cash to short-term investments, and certain other balance sheet amounts have been reclassified. These reclassifications do not result in any additional charges in any period and do not affect working capital for the affected periods.

Determination of Revised Measurement Dates

During the Review Period, we used the effective date reflected in our grant approval documentation as the grant date and in accounting for option grants we also used this date as the measurement date under APB 25. In many instances that date was an "as of" date on a UWC of the Board or the Compensation Committee. Since we believed options were granted with exercise prices that equaled or exceeded their quoted market price at the date of grant, no compensation expense was recorded in our financial statements for options granted prior to our adoption of SFAS 123(R) as of January 29, 2006, other than in connection with the acceleration of the vesting of options in fiscal 2005

and the acceleration of the vesting of options related to a terminated employee. The investigation revealed that the measurement dates we used often occurred prior to the time when the recipients of the grant, the number of shares subject to the options granted and the exercise price were approved and established with finality. However, in many instances, we were unable to determine with certainty when the terms were established with finality. We collected all available documentation and established a documentation hierarchy to determine the best evidence of the date when the terms of the award were final and approved, and thus, the revised measurement dates for the awards. In the following sections, we will explain our process for granting, recording and administering options and the basis for determining revised measurement dates.

Option Granting Process

Under our stock option plans, our Compensation Committee was given the authority to issue options. During the Review Period, we granted stock options to our executives, employees, non-employee directors of a wholly-owned subsidiary and, as part of our director compensation program, to non-management members of our Board. Options were granted to executives and other employees upon being hired (including in one instance to a broad group of employees in connection with the acquisition of the Disney Store), and in connection with promotions, annual performance reviews, extraordinary performance and as service awards.

Option grants to executives, as recommended by our former CEO, were reviewed by the Compensation Committee on an executive-by-executive basis and were approved at a committee meeting. Usually, the committee approved the final number of shares underlying the option grant to an individual executive. However, for grants made in connection with annual performance reviews, a final determination as to the number of shares underlying the option sometimes was left to be made by our former CEO after the meeting, within an agreed upon range discussed at the meeting. The terms of executive new hire grants were generally documented either in an offer letter or formal employment agreement. It was our practice that the approval of executive option grants was formalized by means of a UWC signed by all members of our Board or Compensation Committee, even where an option grant had been approved and finalized at a meeting. As a result, for awards made in connection with annual performance reviews, the grants reflected in the UWC may have differed from the grants discussed at the committee meeting where the final determination of the amount of the grant had been left to our former CEO. In contrast, grants made in connection with new hires of executives or extraordinary performance by executives were usually finalized at a Compensation Committee meeting. Thus, all executive grants were considered and approved by the Compensation Committee, but in some instances the timing of finalization of the number of options subject to a grant occurred subsequent to the committee's meeting as a result of action by our former CEO as permitted by our Compensation Committee.

Our practice was for option grants to non-executive employees (and to non-management subsidiary board members) to be determined by our management and approved by our former CEO and subsequently formally approved by a UWC signed by all members of our Board or Compensation Committee. In the case of annual performance review awards, our Compensation Committee generally discussed in advance the aggregate number of options that would be awarded. Various individuals in our line management and our human resources function were involved in identifying employees to receive options and the number of underlying shares; however, approval by our former CEO was required with respect to all such grants. The following practices were followed with respect to new hire, promotion and service awards:

- *New Hire and Promotion Grants:* Throughout the Review Period, we followed a policy, as reflected in numerous offer letters, albeit never formalized, to grant options for non-executive new hires and promotions on a monthly basis, as of the date of hire or, later in the Review Period, as of the end of the month. Each month, a list of option recipients was compiled from employee hire and promotion letters or other information establishing a new hire or promotion.

- *Service Awards:* While we did not have a written policy or an established schedule for the granting of service awards, the number of options for which service awards were granted was consistently based upon length of service and did not change during the Review Period.

In general, these grants also were subsequently formally approved by a UWC signed by all members of our Board or Compensation Committee.

The minutes of Compensation Committee meetings usually did not specifically state the grant date and rarely reflected the exercise price for an option grant and our practice was to use the meeting date as the grant date. However, in many instances there were no minutes, and the UWC, which ordinarily reflected an "as of" date and the exercise price (usually determined as the average of the high and low trading price on the "as of" date), was the only record of Board approval of a grant. Despite diligent searching, we were unable to determine the dates on which UWCs were actually signed or returned to the Company.

The investigation established that throughout the Review Period our accepted practice, understood by both our former CEO and all of our Compensation Committee members, was that our former CEO was authorized to determine the non-executive employees who would receive option grants, the number of shares subject to each such grant, and to cause the Company to make such grants, within such broad limits for the making of grants as may have been discussed with the Compensation Committee. Although formal delegation by the Compensation Committee to our former CEO of authority to make grants was never adopted, it was also understood that our former CEO was authorized to make a final determination of the number of options that would be granted to executives, where the committee, having reviewed the overall grants, did not formally make the final determination with regard to such grants. The understanding of the Compensation Committee members was that the grant date with respect to grants to executives was the date the committee approved the executive receiving a grant (either specifically or out of the pool of awards approved by the committee) and with respect to non-executive employees was the date our former CEO finalized the grants and that in these situations, the exercise price would be the trading price on the date of grant.

Our Compensation Committee members and our former CEO understood that our option granting process, including informing recipients of their grants, would be completed before all Compensation Committee or Board members signed a UWC approving the grant. They also understood that option recipients were entitled to the grants at some time prior to the UWC being signed by all Board members. The signing of the UWCs was considered an administrative formality. It was believed by all involved, including our General Counsel's office, (i) that the signing by all members of a UWC with an "as of" date constituted sufficient corporate action to authorize an option grant effective on the "as of" date, even in those instances where there had been no prior Compensation Committee action on the grant at a meeting (e.g., most grants to non-executives), and (ii) that the UWC merely confirmed an already finalized grant process. Accordingly, consistent with the findings of the Special Committee, we have concluded that, with incidental exceptions involving non-executive grants, all option grants made during the Review Period were ultimately specifically authorized by a Compensation Committee or Board UWC, although an unauthorized action (subsequently ratified in 2007) was taken regarding the 1997 CEO IPO Grant.

With respect to option grants to non-management members of our Board, the number of options was specifically determined and approved by our Compensation Committee or the full Board at a meeting or was stated in and approved by a UWC. Where the minutes did not specify the grant date and/or the exercise price, the meeting date was used as the grant date and the exercise price was the trading price (determined as the average of the high and low trading price) on that date. Where approved by a UWC, grants to non-management Board members were usually made along with grants to employees and, consequently, were usually part of a Recorded Grant also involving an employee grant.

Stock Option Administration

Throughout the Review Period, we contracted with an independent outside service provider to maintain records of our options issued and of the vested status, forfeiture or expiration of such options and any amendments to such options and to administer the exercise of options including the issuance of shares upon exercise. Our General Counsel's office and our Human Resources Department administered the grant process once decisions were made as to the options to be granted. This process included:

- Creating a final list of option recipients and their respective option grants,
- Preparing UWCs, often accompanied by a memorandum to our Compensation Committee or Board transmitting the UWC for signature (a "Legal Department Memo"),
- Communicating stock option grants to our outside stock option plan administrator ("Stock Option Administrator"), and
- Preparing and submitting Forms 3 and 4 ("Forms 4") to the SEC for certain executive grants.

We typically communicated stock option grants to our employees in the following manner:

- New hire and employee promotion awards were typically communicated to the employee by letter or verbally by the employee's supervisor detailing terms of the grant.
- Annual performance review awards were most often communicated verbally by the employee's supervisor.
- Service awards were verbally communicated either at a Company "town hall" meeting or by the employee's supervisor.

For all types of stock option awards, we usually communicated the grants to executives and other employees prior to the time UWCs were signed by all Compensation Committee or Board members.

Basis for Use of the Documentation Hierarchy

In determining the revised measurement dates to be used in the restatement of our financial statements, we applied the guidance in APB 25, which provides that the accounting measurement date is the first date on which both of the following are known: (1) the number of shares that an individual employee is entitled to receive and (2) the option or purchase price, if any. In light of our option granting practices, we have concluded that the terms of an award were approved by the authorized body or person and final prior to completion of all formal granting actions (i.e., the signing by all Compensation Committee or Board members of a UWC). Accordingly, we have used the date when, most likely, the terms of the awards included in a Recorded Grant can be identified as approved and final, as established by the best available evidence, as the revised measurement date for accounting under APB 25, even if such date preceded the completion of all formal granting actions.

Since UWCs ordinarily were distributed for signature after the option awards were established and recorded by the Company and information as to when UWCs were signed by Board members is largely unavailable, we have looked to other documentation to establish revised measurement dates. Specifically, where our records do not include signed minutes of a Board or Compensation Committee meeting that specified the recipients of an option, the number of shares subject to the award and the exercise price, we have relied on other documentation and evidence to determine the revised measurement date for option grants. If award recipients were identified by a list attached to the Compensation Committee minutes rather than in the text of the minutes, we also sought corroborating evidence, usually metadata, indicating that such list was final on the meeting date. Metadata, obtained as part of the electronic data collection process, provides information about electronic data, such as how, when and by whom a set of data was collected, recorded or changed. If such corroborating evidence was not available, we relied on other documentation and evidence to determine the revised measurement date, using the documentation hierarchy described below.

We accumulated all relevant documentation and other information pertaining to each Recorded Grant. We evaluated the documentation and information to determine the date on which the option recipients and the number of shares underlying the options granted to a recipient, as well as other material terms, were approved and established with finality. Based on the Special Committee's findings and our review of documentation and other evidence, with the assistance of the forensic accounting firm retained by Independent Counsel, we identified revised measurement dates for certain option grants made during the Review Period.

The Documentation Hierarchy

We have developed a hierarchy of documentation as our basis for determining the revised measurement date, if applicable, for each option granted during the Review Period. In each case, the document used to establish the revised measurement date is dated and evidences the point in time when we can substantiate with finality: (i) approval of the award, (ii) the recipients of the option award, and (iii) the number of shares and the exercise price pursuant to the option awarded to that recipient. This award-by-award review occasionally resulted in different measurement dates for grants made within the same Recorded Grant. Metadata was accumulated where available to corroborate the revised

measurement date for an option award. When the metadata did not corroborate the revised measurement date (i.e., indicated that a document was created or revised later than it was dated), the metadata date was used as the date of the supporting document. If another source of support was available with an earlier date, that support was used to define the revised measurement date.

We have granted a total of approximately 8.1 million options. Approximately 1.4 million were granted in a private placement prior to our IPO, and approximately 6.7 million were granted in connection with and since our IPO and were reviewed during the investigation. Grant dates based on Board minutes were deemed appropriate in

determining the revised measurement dates if the minutes specified: (i) a list of stock option recipients, (ii) the number of options granted to each recipient, and (iii) the grant date and price. If the minutes were not determinative, we applied the following document hierarchy to determine the revised measurement dates:

1. *Offer Letters to New Employees/Promotion Letters*—We have concluded that information set forth in accepted offer letters and promotion letters, which specified the number of options to be granted at a stated date, constituted a mutual understanding between the employee and the Company. Once the employee began to render service under the terms of the employment or promotion letter, the Company had a legal liability with respect to the option grant as promised in the letter. As such, we have concluded that these letters established with finality the number of options granted to a recipient and the date to be used as a grant date, as long as the employee had commenced employment.

2. *Documentation Sent to Third Parties and the Compensation Committee Members*— If acceptable evidence was not identified in the Board minutes or offer and promotion letters, we determined that the earliest date on which a list of option recipients and number of options to each recipient was disseminated outside the Company established the finality of the grant. We have identified the following sources of documentation sent outside the Company as establishing the date on which the terms of an option became final: (i) Forms 3 and 4 filed with the SEC, (ii) archive data obtained from our Stock Option Administrator with the list of option recipients and number of options evidencing the terms of option grants that was provided by the Company and the date when our Stock Option Administrator was so advised of the grant, and (iii) Legal Department Memoranda requesting UWC approval with an attached UWC documenting with finality (either in the body of the UWC or as a referenced attachment) the option recipients, number of shares subject to each grant and the exercise price (as well as the "as of" grant date) which, in accordance with our option granting process, would not have been prepared if the related list of option recipients was not final and approved by our former CEO.

3. *Internal Documentation*— The next level of documentation used included the "last modified" date included in the metadata of a Microsoft Excel file specifying the recipient and the number of shares subject to an option grant, or email dates on comparable data prepared by the Legal or Human Resources Departments, where in each case the grant information was sent to and recorded in the Stock Option Administrator's records.

4. *Unanimous Written Consents*—Where we did not have any of the above documentation, we used the "last modified date" metadata associated with the UWC reflecting formal approval of a grant as the revised measurement date.

We have revised the measurement dates used to account for certain stock option grants since fiscal 1997 based on the hierarchy above. These changes resulted in additional stock-based compensation expense, net of forfeitures of unvested awards and before taxes, of $11.9 million affecting our consolidated financial statements for each year from fiscal 1998 through the first quarter of fiscal 2006.

Variable Accounting

During the course of the investigation and the review of the documentation for each grant, we identified instances where changes were made in our records with respect to certain Recorded Grants. In these instances, we reviewed all documents related to the grant to determine if the change was an isolated change to an individual award or if the change indicated that the granting process was not complete for the entire Recorded Grant. If the change was an isolated change, we determined whether the change represented an administrative error or a modification of a term of the award. The investigation did not reveal a practice by the Company of retracting awards or modifying the terms of awards across a group of recipients after the date determined to be the revised measurement date. Instead, changes were rare and occurred only at the individual level. We found no evidence regarding any of the changes that indicated that at the time of the change the granting process remained open for an entire Recorded Grant.

Since none of the changes indicated an incomplete granting process, we used available documentation to determine whether the changes represented administrative errors or a modification to an individual award. For changes deemed to be administrative errors (e.g., adding an individual to a list of recipients for service awards where the number of options involved in the award and the criteria required to earn the award were set prior to the issuance

of the award), we did not change the revised measurement date applicable to the individual award from that determined from the Recorded Grant as determined based on the documentation hierarchy.

If we determined based on a review of supporting documentation that the change was a modification to the original award (e.g., a change in the number of shares for which the option was granted or the exercise price of the option), we considered the appropriate accounting for the individual award in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation" ("FIN 44"). For any changes involving either the number of shares for which the option was granted or the exercise price of the option, we determined that variable accounting should be applied in accordance with FIN 44. With respect to options for 328,775 shares, we have applied variable accounting because of a modification to the terms of the award, resulting in additional stock-based compensation expense, before taxes, of approximately $2.3 million from fiscal 1998 through fiscal 2005.

The 1997 CEO IPO Grant

We granted options under our 1996 Plan on September 18, 1997 pursuant to a UWC of the Board in connection with our IPO, including a grant of options for 99,660 shares to our former CEO. Under the plan, options could be granted either as incentive stock options qualified under Section 422 of the Internal Revenue Code ("ISOs") or as options not so qualified ("NQOs"). If not otherwise specified when granted, option grants were to be classified as ISOs to the extent allowed by the tax code. Under the plan, also in accordance with tax code requirements, grants to more than 10% shareholders treated as ISOs were to have an exercise price of 110% of the fair value of the related shares at the date of the grant and a five year duration. Under the plan, NQOs were to have a ten year duration and an exercise price equal to the fair value of the related shares at the date of the grant. Our former CEO was at the relevant time, and remains, a greater than 10% shareholder of the Company.

Our actions in implementing the grant of the options to our former CEO and our records regarding the grant were at the time, and subsequently, inconsistent. The Board's 1997 action approving the grant was silent as to the options' treatment as ISOs or NQOs. Among the confusing and inconsistent records regarding this grant were the following:

- Option certificates were prepared contemporaneously with the Board's UWC. One certificate, evidencing options for 32,000 shares designated that portion of the grant as ISOs. The other certificate designated 67,660 options as NQOs. Both certificates provided for an exercise price of $15.40 per share and a duration of five years. The terms for the options classified as NQOs are inconsistent with the plan.

- Public reports, including periodic reports, proxy statements and a Form 4, included information as to the terms of the grant contradictory to the option certificates and other records.

- As early as 1998, our Stock Option Administrator's records showed a 32,465/67,195 ISO/NQO allocation and, for both portions, an exercise price of $15.40 per share and a duration of ten years.

Our management recognized the inconsistencies in the Stock Option Administrator's records by April 2004. Our former General Counsel interpreted the 1997 CEO IPO Grant to have a ten year duration in its entirety and on May 6, 2004 instructed the administrator to change its records to reflect the entire grant as NQOs with a duration of ten years. The exercise price was left in the records at $15.40. This action was taken without Board or Compensation Committee consultation, review or approval. In April 2006, our former CEO exercised a portion of the 1997 CEO IPO Grant for 84,660 shares at $15.40 per share.

In connection with our investigation into our option grants, the Special Committee in April 2007 considered the circumstances surrounding the grant and how it had been treated by the Company over the years. Upon recommendation of the Special Committee, the Compensation Committee determined that, considering the conflicting records and actions by the Company, the options should be interpreted to have a $15.40 exercise price and a ten year duration, as had been publicly reported by the Company. During fiscal 2007, the Board ratified the change in the Stock Option Administrator's records made in May 2004, the issuance of shares to the former CEO upon his exercise in part of the options and the validity of the remaining part of the option (covering 15,000 shares).

In determining the accounting for the 1997 CEO IPO Grant, we considered all the available evidence and records and concluded that the option certificates were the most reliable evidence of the terms of the grant from the time of the grant, consistent with our accounting for other option grants, with the result that the options granted in 1997 should be considered to have expired after five years as stated in the certificates. Accordingly, for accounting

purposes we are treating the 2004 actions by management as a new option grant on the terms, including a below-fair-market-value exercise price of $15.40, then recorded in the Stock Option Administrator's records. We have considered the measurement date of this grant to be May 6, 2004, requiring the recognition at such time of approximately $0.9 million in compensation expense.

We also considered the possibility that the 1997 CEO IPO Grant at the outset provided for an ISO portion with a five-year duration, consistent with the 1996 Plan's provisions pertaining to ISO grants. In that case, the ISO portion would have expired in September 2002. The remaining portion would be considered an NQO and the Company records (notably the option certificates) to the contrary would be considered administrative errors, including as to the duration of such option. In this alternative, the action taken by the former General Counsel on May 6, 2004 in changing the Stock Option Administrator's records to reflect the entire 1997 CEO IPO Grant as an NQO would be considered to have had the effect of the issuance at that time of a fully vested and exercisable option having a $15.40 exercise price to the extent of the ISO portion. The accounting consequence of this alternative would be the recognition of compensation expense in fiscal 2004 for the ISO portion of the grant, as though a new grant, in an amount between approximately $300,000 and $330,000, the variation being due to discrepancies among our records as to the ISO/NQO allocation.

Inadequate Internal Controls

We are undertaking to remediate the material weakness in internal control over financial reporting related to stock option grants found by the Special Committee, as further discussed in Item 9A.—Controls and Procedures of this Annual Report on Form 10-K. We have continued our suspension of the granting of stock options and other equity awards and the exercise of any outstanding options until these improved procedures have been instituted.

Resolution of Tax Consequences and Corrective Action Related to Discounted Options

Revisions to the measurement dates of stock options often resulted in discounted options. Individuals currently holding discounted options may incur an excise tax liability under Section 409A of the Internal Revenue Code. As recommended by the Special Committee, in order to avoid any benefit from the errors made in dating of options to any person involved in the stock option granting process and, also, as part of our efforts to address certain tax considerations associated with outstanding discounted options granted with an exercise price below fair market value, we have taken the following actions:

- Our directors (including Mr. Dabah, our former CEO), our President and our former Chief Administrative Officer agreed to amend all discounted options held by them (other than those described in the next paragraph) to increase the exercise price to the average of the high and low trading price on the date determined by the Company to be the revised measurement date applicable to the option grant to be used for financial reporting purposes. In the few instances

where these individuals have exercised options as to which a revised measurement date has been determined by the Company, the individual has returned to the Company the difference between the exercise price and the trading price on the revised measurement date.

- In the three instances where the Report of Investigation found that non-executive directors received options shortly before the public disclosure of positive information, our directors further agreed to amend such options to increase the exercise price to the average of the high and low trading price over the balance of the calendar year following the recorded date of the grant.

- With respect to all other option grants, we have decided to honor the options as issued, consistent with the Special Committee's finding of no intentional misconduct on the part of management in the option grant process. Nevertheless, all members of senior management holding outstanding options have agreed to have their outstanding discounted options that vested after 2004 amended either to increase the exercise price to the average of the high and low trading price on the date determined to be the revised measurement date or to limit the exercise period of their options.

In addition, with respect to holders of discounted options that vested after 2004 who are employees at the time, other than members of senior management who have already agreed to amend their outstanding discounted options, we plan to offer as soon as practicable the opportunity to exchange their discounted options for options with the same terms except that the exercise price will be changed to the average of the high and low trading price on the revised

measurement date. Option holders who agree to such amendment will receive a cash bonus in the amount of the increase in the exercise price.

The foregoing actions are expected to bring all outstanding options held by our employees and non-employee directors into compliance with pertinent requirements relating to discounted options so that the excise tax under Section 409A of the Internal Revenue Code does not apply to the options. To the extent such discounted options were exercised by employees during fiscal 2006, we expect to bear the liability for, and we have accrued during fiscal 2006, an amount estimated to equal the potential excise tax under Section 409A that would be incurred by the recipient in connection with such option if such tax is applicable, and any related income tax liability that would be incurred by the recipient in respect of receiving from the Company such amount, if any.

Legal and Regulatory Matters Related to Stock Option Practices and Internal Controls

As we did not timely file our Quarterly Reports on Form 10-Q for the quarters ended July 29, 2006 and October 28, 2006, our Annual Report on Form 10-K for fiscal 2006, and our Quarterly Reports on Form 10-Q for the quarters ended May 5, 2007 and August 4, 2007, we have been out of compliance with the reporting requirements of the SEC and Nasdaq for more than one year. Although we have now filed this Annual Report on Form 10-K for fiscal 2006 and our Quarterly Reports on Form 10-Q for the second and third quarters of fiscal 2006, we have not yet filed our Quarterly Reports on Form 10-Q for the first and second quarters of fiscal 2007. Consequently, we continue to be in violation of the reporting requirements under the Exchange Act and the Nasdaq listing rules.

We have received various determination letters from the Nasdaq stating that because we have not been in compliance with Nasdaq listing requirements, our common stock is subject to delisting. Since September 2006 we have been in contact with the Nasdaq Listing Qualifications Panel, Nasdaq's Listing and Hearing Review Council, and the Board of Directors of the Nasdaq Stock Market LLC (the "Nasdaq Board") regarding our inability to comply with Nasdaq's listing requirements and when we might be able to again become compliant. The last communication we received from Nasdaq on this issue was from the Nasdaq Board on November 9, 2007 stating that we had until January 9, 2008 to file all of the Required Reports in order to regain compliance with Nasdaq's listing requirements. If we have not regained compliance prior to that time, we will need to explain to the Nasdaq staff the reasons for our inability to do so, in order for the Nasdaq Board to consider whether any further extension is warranted. We still need to file our Quarterly Reports on Form 10-Q for the quarters ended May 5, 2007 and August 4, 2007 before we will have filed all of the Required Reports. There is no assurance that we will be able to meet the January 9, 2008 deadline, and if we do not, there is no assurance that the Nasdaq Board will grant us additional time to become compliant. If we fail to come into compliance by January 9, 2008 or any extended deadline approved by Nasdaq, we anticipate that the Company's shares will be delisted from Nasdaq.

In addition, Nasdaq listing rules require that all issuers solicit proxies and hold an annual meeting of shareholders within 12 months of the end of the issuer's fiscal year end. To comply with this rule, we must hold our annual meeting of shareholders for the fiscal year ended February 3, 2007, no later than February 3, 2008. In addition, we must be current in our SEC filings before we can solicit proxies for such annual meeting of our shareholders. Accordingly, if we are unable to become current in our SEC filings in sufficient time for us to solicit proxies for an annual meeting of our shareholders by February 3, 2008, or if we otherwise fail to hold such meeting by February 3, 2008, our shares could be delisted from Nasdaq.

On September 29, 2006, the Division of Enforcement of the SEC informed us that it had initiated an informal investigation into our stock option granting practices. In addition, the Office of the U.S. Attorney for the District of New Jersey advised us that it had commenced an investigation into the same matter. We have cooperated with these investigations and have briefed both authorities on the results of the Special Committee's investigation. There have been no developments in these matters since that time.

On January 17, 2007, a stockholder derivative action was filed in the United States District Court, District of New Jersey against certain current members of the Board and certain current and former senior executives. The Company has been named as a nominal defendant. The complaint alleges, among other things, that certain of our current and former officers and directors (i) breached their fiduciary duties to the Company and its stockholders and were unjustly enriched by improperly backdating certain grants of stock options to officers and directors of the Company, (ii) caused the Company to file false and misleading reports with the SEC, (iii) violated the Exchange Act and common law, (iv) caused the Company to issue false and misleading public statements, and (v) were negligent

and abdicated their responsibilities to the Company and its stockholders. The complaint seeks money damages from the defendants, an accounting for the proceeds of sales of any allegedly backdated stock options, and the costs and disbursements of the lawsuit, as well as equitable relief. The defendants have moved to dismiss the action, and on or about June 15, 2007, the plaintiff filed an amended complaint adding, among other things, a claim for securities fraud under SEC rule 10b-5.

On September 21, 2007 a second stockholder class action was filed in the United States District Court, Southern District of New York against the Company and certain current and former senior executives. The complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. It alleges that more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks money damages plus interest as well as costs and disbursements of the lawsuit.

On October 10, 2007, a third stockholder class action was filed in the United States District Court, Southern District of New York against the Company and certain of its current and former senior executives. The complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, thereby causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. According to the complaint, more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks, among other relief, class certification of the lawsuit, compensatory damages plus interest, and costs and expenses of the lawsuit, including counsel and expert fees.

The outcome of these litigations is uncertain. While we believe there are valid defenses to the claims and we will defend ourselves vigorously, no assurance can be given as to the outcome of these matters. The litigations could distract our management and directors from the Company's affairs, the costs and expenses of the litigations could unfavorably affect our net earnings and an unfavorable outcome could adversely affect the reputation of the Company.

Other Adjustments

In addition to the adjustments related to the stock option investigation, our restated consolidated financial statements presented herein include other adjustments related to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for our 52- and 53-week fiscal years. The aggregate impact of these adjustments on our consolidated statements of income, net of taxes, between fiscal 2001 and first quarter of fiscal 2006 was an increase to net income of approximately $1.7 million. Additionally, variable rate demand note balances as of the quarter ended April 29, 2006 have been reclassified from cash to short-term investments, and certain other balance sheet amounts have been reclassified. These reclassifications do not result in any additional charges in any period and do not affect working capital for the affected periods. For additional discussion of these adjustments, refer to Note 2—Restatement of Consolidated Financial Statements and Note 16—Quarterly Financial Data (Unaudited) in the accompanying consolidated financial statements.

Cumulative Adjustments

The following table summarizes the cumulative increase or decrease to net income from fiscal 1998 through the first quarter of fiscal 2006. These adjustments relate to the Company recognizing stock-based compensation expense resulting from the determination of revised measurement dates for past stock option grants as well as the other adjustments noted above (in thousands):

	Stock Option Related Adjustments			Other Adjustments(1)			
Period Ended	Expense (Increase)	Tax Benefit	Net Stock Option Related Adjustments	Expense (Increase) Decrease	Tax Benefit (Provision)	Net Other Adjustments	Total After Tax Adjustment
January 30, 1999 (fiscal 1998)	$ (59)	$ 19	$ (40)	$ —	$ —	$ —	$ (40)
January 29, 2000 (fiscal 1999)	(211)	81	(130)	—	—	—	(130)
February 3, 2001 (fiscal 2000)	(386)	131	(255)	—	—	—	(255)
February 2, 2002 (fiscal 2001)	(915)	295	(620)	240	(98)	142	(478)
February 1, 2003 (fiscal 2002)	(972)	375	(597)	772	(311)	461	(136)
January 31, 2004 (fiscal 2003)	(1,632)	486	(1,146)	1,722	(695)	1,027	(119)
January 29, 2005 (fiscal 2004)	(3,386)	772	(2,614)	589	(82)	507	(2,107)
January 28, 2006 (fiscal 2005)(2)	(8,927)	3,956	(4,971)	(853)	218	(635)	(5,606)
Cumulative effect at January 28, 2006	$ (16,488)	$ 6,115	$ (10,373)	$ 2,470	$ (968)	$ 1,502	$ (8,871)
April 29, 2006 (Q1 fiscal 2006)	$ (1,331)	$ 544	$ (787)	$ 327	$ (161)	$ 166	$ (621)

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for our 52- and 53-week fiscal years.

(2) We have not previously recorded stock-based compensation expense in any fiscal year other than fiscal 2005. During fiscal 2005, we recorded approximately $0.3 million related to the modification of stock options for a terminated employee, before taxes of approximately $0.1 million. We also recorded approximately $2.1 million, before taxes of approximately $0.1 million, of stock-based compensation expense related to the acceleration of the

vesting of certain options. As part of the restatement process, the stock option acceleration amounts were adjusted to approximately $1.7 million of stock-based compensation expense, before taxes of approximately $0.5 million. Therefore, the restated total stock-based compensation expense for fiscal 2005 is $11.3 million, before taxes of $4.1 million.

License Agreement with Disney

In connection with the acquisition of the DSNA Business in 2004, Hoop entered into a License Agreement with an affiliate of Disney under which our subsidiaries have the right to use certain Disney intellectual property to operate the Disney Store retail chain in exchange for ongoing royalty payments. The agreement allows our subsidiaries to operate retail stores in the United States and Canada using the "Disney Store" name and to contract, manufacture, source, offer and sell merchandise featuring Disney-branded characters, past, present and future. In accordance with the License Agreement, following a two year royalty abatement, our subsidiaries began making royalty payments to Disney in November 2006 equal to 5% of net sales from physical Disney Store locations, subject to an additional royalty holiday period with respect to the Non-Core Stores. The initial term of the License Agreement continues through January 2020, unless terminated sooner in accordance with the License Agreement, and if certain financial performance and other conditions are satisfied, the term of the License Agreement may be extended at our option for up to three additional ten-year terms.

In connection with our acquisition of the DSNA Business, we also entered into a Guaranty and Commitment dated as of November 21, 2004, in favor of Hoop and Disney. As required by the Guaranty and Commitment, we invested $50 million in Hoop concurrently with the consummation of the acquisition, and we agreed to invest up to an additional $50 million to enable Hoop to comply with their obligations under the License Agreement and otherwise fund the operations of Hoop. The Guaranty and Commitment provides that our $50 million additional commitment is subject to increase if certain distributions are made by Hoop to The Children's Place. To date, we have not invested any portion of the additional $50 million in Hoop. We also agreed in the Guaranty and Commitment to guarantee the payment and performance by Hoop of their royalty payment and other obligations to Disney under the License Agreement, subject to a maximum guaranty liability of $25 million, plus expenses.

The License Agreement obligates us to maintain the quality, appearance and presentation standards of the Disney Store chain in accordance with the highest standards prevailing in the specialty retail industry. In addition, the License Agreement, as amended in April 2006, required us to:

- Completely remodel each store within a specified period of time following expiration or termination of the initial term of the lease for such store, if such lease is renewed or extended on a long-term basis upon or following such expiration or termination;
- Completely remodel each store at least once every 12 years; and
- Completely remodel a minimum of approximately 160 of the 313 acquired stores by January 1, 2009.

During fiscal 2006, we suspended the store renovation program because of dissatisfaction with our "Mickey" store prototype from a brand, design and construction standpoint. As of February 3, 2007, we had remodeled a total of 45 Disney Stores since the 2004 acquisition. Pursuant to the provisions of the License Agreement, as amended in 2006, relating to required remodeling following lease renewals and required remodeling of stores at least once every 12 years, we were required to remodel a total of 145 stores as of February 3, 2007. As of February 3, 2007, we had remodeled 32 of these required stores, with the result that 113 of the store remodels required by that date under the terms of the License Agreement had not been completed by that date. The remaining 13 store remodels we had completed were not required pursuant to the provisions of the License Agreement.

During the fourth quarter of fiscal 2006, we received a letter and subsequent follow-up communications from Disney identifying various ways in which we had not complied with the store renovation and certain other requirements of the License Agreement. In response, during the fourth quarter of fiscal 2006, we commenced discussions with Disney regarding potential modifications to certain terms of the License Agreement to address our remodeling commitments as well as other concerns that had been raised by Disney in various communications with us. During the first quarter of fiscal 2007, Disney notified us that Disney viewed our failure to comply with these requirements of the License Agreement as constituting numerous material breaches of the License Agreement, entitling Disney to exercise its rights and remedies under the License Agreement.

Following discussions with Disney, in June 2007, we entered into a June Letter Agreement with Disney which modified and superseded certain provisions of the License Agreement, including the remodeling requirements, through fiscal 2011 and created additional obligations for us and Hoop with respect to the remodeling of Disney Stores. The June Letter Agreement was entered into to address Disney's assertion that through the date of the June Letter Agreement we had committed 120 material breaches of the License Agreement. The June Letter Agreement stated that if we fully comply with its terms, Disney would forbear from exercising any rights or remedies that it would have under the License Agreement based on the breaches of the License Agreement that were asserted by Disney and were the subject of the June Letter Agreement. However, if we were to violate any of the provisions of the June Letter Agreement, Disney would have the right to terminate its forbearance under the June Letter Agreement, in which case Disney would be free to exercise any or all of its rights and remedies under the License Agreement, including possibly terminating our license to operate the Disney Stores based on the occurrence of numerous material breaches and claiming breach fees, as if the June Letter Agreement had not been executed. The June Letter Agreement also stated that, if we were to breach any of its provisions on three or more occasions and Disney had not previously exercised its right to terminate the June Letter Agreement, a payment of $18.0 million to Disney would become immediately due and payable with respect to the breach fees called for by the License Agreement. If we were to violate any of the provisions of the June Letter Agreement on five or more occasions, Disney would have the right to immediately terminate the License Agreement, without any right on our part to defend, counterclaim, protest or cure. The June Letter Agreement stated that its terms would take effect immediately but that the parties anticipated the June Letter Agreement would later be replaced by a formal amendment to the License Agreement incorporating the terms of the June Letter Agreement.

The June Letter Agreement, among other things, suspended the remodel obligations in the License Agreement for the approximately 4.5 year term of the June Letter Agreement and, in lieu of those provisions, imposed new obligations on the Company with respect to the renovation and maintenance of numerous stores in the Disney Store chain between fiscal 2007 and fiscal 2011 and, for the stores to be remodeled in fiscal 2007, set forth a detailed timetable for submission of plans and completion dates.

Subsequent to the execution of the June Letter Agreement, we were unable to meet several deadlines set forth in the June Letter Agreement. In addition, we determined that there were upcoming deadlines during the third and fourth quarters of fiscal 2007 specified in the June Letter Agreement that we would likely not meet. Accordingly, we and Disney engaged in further discussions during August 2007 and, based on these discussions, agreed upon changes to the requirements of the June Letter Agreement that would postpone the due dates of certain of our remodel

obligations until later in fiscal 2007 or fiscal 2008. In connection with these postponements, we agreed to remodel two additional Disney Stores during fiscal 2009 and agreed upon changes to the original license agreement to modify restrictions on Disney's ability to relocate its flagship retail store in Manhattan and to narrow the restrictions on Disney's ability to grant direct licenses to other specialty retailers so that these restrictions would apply only with respect to specialty retail stores focusing primarily on the sale of children's merchandise.

During August 2007, we and Disney executed the Refurbishment Amendment, which incorporated the terms of the June Letter Agreement, as modified by our mutual agreement during August, and the aforementioned changes to the License Agreement. The Refurbishment Amendment by its terms superseded the June Letter Agreement and took effect retroactively as of June 6, 2007, the original effective date of the June Letter Agreement. The Refurbishment Amendment provides that our compliance in full with its terms will constitute a cure of the breaches identified in the Refurbishment Amendment and that, so long as the Refurbishment Amendment is not terminated, Disney will forbear from exercising any rights or remedies it would have under the License Agreement based on the breaches identified in the Refurbishment Amendment.

The Refurbishment Amendment suspends the remodel obligations in the License Agreement for the approximately 4.5 year term of the Refurbishment Amendment, and, in lieu of those provisions, commits us to remodel by the end of fiscal 2011 a total of 236 existing Disney Stores into a new store prototype we have developed,

- of which the first seven remodels are required to be completed by specifically agreed upon dates in fiscal 2007;
- an additional 49 stores are required to be remodeled by the end of fiscal 2008;
- an additional 60 stores are required to be remodeled by the end of fiscal 2009;
- an additional 70 stores are required to be remodeled by the end of fiscal 2010; and
- an additional 50 stores are required to be remodeled by the end of fiscal 2011.

Under the Refurbishment Amendment, we also have agreed to open at least 18 new Disney Stores using the new store prototype by the end of fiscal 2008. Our prior obligations under the License Agreement did not require us to open a specified number of new stores.

In addition, the Refurbishment Amendment requires us to complete a "maintenance refresh" program in approximately 165 Disney Stores by June 30, 2008, including the flagship store located on Michigan Avenue in Chicago, which was completed on September 12, 2007. Some of the stores that are refreshed will subsequently be remodeled into the new store prototype. The Refurbishment Amendment obligates us to complete the remodel and refresh program described above and, in accordance with the Refurbishment Amendment, we have committed $175 million, on a consolidated basis, to remodel and refresh the stores as noted above through fiscal 2011, and have committed approximately $12 million to open the new stores through fiscal 2008.

We expect that the Disney Stores will fund these commitments primarily from cash flow from operations and borrowings under its secured credit facility. Over the next 12 months, we expect that The Children's Place business will need to provide additional capital to the Disney Stores to remain in compliance with the store remodel requirements under the License Agreement as modified by the Refurbishment Amendment.

In the Refurbishment Amendment, we also agreed with Disney to make certain other modifications to the provisions of the License Agreement, including:

- Limiting the number of new Disney Stores to be opened per year during the remodeling period (we may open up to 25 new stores in any given year after fiscal 2007, with a rollover each year of up to five new stores from prior years);
- Eliminating the extended royalty abatement for some of the Disney Stores that were identified as Non-Core Stores in the License Agreement if their leases are extended on a long-term basis and the stores are not remodeled within the timeframe that was required under the original terms of the License Agreement before giving effect to the Refurbishment Amendment;
- Requiring the potential implementation of a differentiated merchandise plan for the Disney Store outlets; and
- Modifying the provisions of the License Agreement that would apply to a potential wind-down of the Disney Store business following any termination of the License Agreement.

Like the June Letter Agreement, the Refurbishment Amendment states that, if we fully comply with the terms of the Refurbishment Amendment, Disney will forbear from exercising any rights or remedies that it would have under the License Agreement based on the breaches of the License Agreement that were asserted by Disney and were the subject of the Refurbishment Amendment. However, under the terms of the Refurbishment Amendment, if we violate any of its provisions, Disney will have the right to terminate its forbearance under the Refurbishment Amendment, in which case Disney would be free to exercise any or all of its rights and remedies under the License Agreement, including possibly terminating our license to operate the Disney Stores based on the occurrence of multiple material breaches and claiming breach fees, as if the Refurbishment Amendment had not been executed. The Refurbishment Amendment also states that, if we breach any of its provisions on three or more occasions and Disney has not previously exercised its right to terminate the Refurbishment Amendment, a payment of $18.0 million to Disney becomes immediately due and payable with respect to the breach fees called for by the License Agreement. If we violate any of the provisions of the Refurbishment Amendment on five or more occasions, Disney will have the right to immediately terminate the

License Agreement, without any right on our part to defend, counterclaim, protest or cure. It should be noted that the Refurbishment Amendment addresses only those breaches specifically enumerated therein. Disney continues to retain all its other rights and remedies under the License Agreement with respect to any other breaches.

We believe that we will be able to perform our obligations under the Refurbishment Amendment as and when required. However, because our ability to meet these obligations will depend on numerous factors, some of which are beyond our control, there can be no assurance that we will be able to fully comply. Like the June Letter Agreement, the Refurbishment Amendment does not excuse us from compliance with these requirements should there be events or developments that may be beyond our control, such as contractor delays, delays in landlord or regulatory approval, natural disasters or acts of war or terrorism. Our diligent efforts may not be adequate to enable us to obtain all required approvals under the Refurbishment Amendment or to comply with every requirement or meet every deadline imposed on us under the Refurbishment Amendment. In the event we are unable to comply with any of our obligations when required, we would be in breach of our agreements with Disney, entitling Disney to exercise its remedies under the Refurbishment Amendment and the License Agreement. In the event such breaches occur, there can be no assurance that we will be able to obtain waivers or other relief from Disney, if needed, to avoid the $18.0 million payment to Disney and prevent a termination of the Refurbishment Amendment or the License Agreement. In addition, any breach by us of our agreements with Disney (even if subsequently waived by Disney) would constitute a cross-default under the secured loan agreement for the Disney Store chain, entitling the lenders to exercise their contractual remedies. There can be no assurance that we will be able to obtain waivers, if needed, from our lenders in the event of any future breaches of the Refurbishment Amendment or the License Agreement.

Where Disney would have the right to terminate the License Agreement and compel us to rapidly wind down the Disney Store business in accordance with the wind-down provisions of the License Agreement as a result of our breach or breaches thereof, our subsidiaries that operate the Disney Store business may be unable to comply with all of their obligations to landlords and other third parties, in which case these subsidiaries might not be able to avoid seeking bankruptcy protection.

Beginning in July 2007, our Hoop subsidiaries commenced Internet commerce operations through an alliance with a Disney affiliate in which select Disney Store merchandise is sold on the disneyshopping.com website. Customers can find our Disney Store merchandise at www.disneystore.com or www.disneyshopping.com. We anticipate entering into a formal amendment to the License Agreement relating to this Internet business. It is anticipated that this amendment to the License Agreement will supersede our obligation to launch our own Disney Store Internet store, which pursuant to the License Agreement, as modified by certain letter agreements, we are required to launch by January 31, 2008.

Refer to Note 5—License Agreement with Disney in the accompanying consolidated financial statements for additional information regarding the June Letter Agreement and the Refurbishment Amendment.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition—Sales are recognized upon purchase by customers at our retail stores or when received by the customer if the product was purchased via the Internet, net of coupon redemptions and anticipated sales returns. Actual sales return rates have historically been within our expectations and the allowance established. However, in the event that the actual rate of sales returns by customers increased significantly, our operational results could be adversely affected.

For the Disney Store, we act as an agent on behalf of a subsidiary of The Walt Disney Company for the sale of Walt Disney World® Resort and Disneyland® Resort tickets, and our net sales include only the 7% commission we receive from a subsidiary of The Walt Disney Company on such ticket sales.

Our policy with respect to gift cards is to record revenue as gift cards are redeemed for merchandise. Prior to their redemption, unredeemed gift cards for The Children's Place business are recorded as a liability, included within accrued expenses and other current liabilities. We recognize income from gift cards that are not expected to be redeemed based upon an extended period of dormancy where statutorily permitted. For the Disney Store, we act as an agent on behalf of a subsidiary of The Walt Disney Company for gift cards sold to customers. Therefore, we do not record a customer gift card liability for the Disney Store. However, we recognize a trade payable to Disney for the net purchase of Disney gift cards.

We offer a private label credit card to our The Children's Place customers that provides a discount on future purchases once a minimum annual purchase threshold has been exceeded. We estimate the future discounts to be provided based on history, the number of customers who have earned or are likely to earn the discount and current year sales trends on the private label credit card. We defer a proportionate amount of revenue from customers based on an estimated value of future discounts. We recognize such deferred revenue as future discounts are taken on sales above the minimum. We accomplish this by utilizing estimates based upon sales trends and the number of customers who have earned the discount privilege. Our private label customers must earn the discount privilege on an annual basis and this privilege expires at our fiscal year end. Accordingly, all deferred revenue is recognized by the end of the fiscal year.

Inventory Valuation—Merchandise inventories are stated at the lower of average cost or market, using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio by merchandise department to the retail value of inventories. At any one time, inventories include items that have been marked down to our best estimate of their fair market value and an estimate of our inventory shrinkage.

We base our decision to mark down merchandise upon its current rate of sale, the season, and the age and sell-through of the item. To the extent that our markdown estimates are not adequate, additional markdowns may have to be recorded, which could reduce our gross margins and operating results. Our success is largely dependent upon our ability to gauge the fashion taste of our customers, including the popularity and relevancy of the Disney characters, and to provide a well-balanced merchandise assortment that satisfies customer demand. Any inability to provide the proper quantity of appropriate merchandise in a timely manner could increase future markdown rates.

We adjust our inventory based upon an annual physical inventory and shrinkage is estimated in interim periods based upon the historical results of physical inventories in the context of current year facts and circumstances. To the extent our shrinkage estimate is not adequate, we would be required to reduce our gross profits and operating results.

Equity Compensation—Effective January 29, 2006, we adopted the provisions of SFAS No. 123(R) using the modified prospective transition method. In applying SFAS 123(R), we use the Black-Scholes option pricing model based on a Monte Carlo simulation, which requires extensive use of accounting judgment and financial estimates, including estimates of how long employees will hold their vested stock options before exercise, the estimated volatility of the Company's common stock over the expected term, and the number of options that will be forfeited prior to the completion of vesting requirements. Application of other assumptions could result in significantly different estimates of fair value of stock-based compensation and consequently, the related expense recognized in our financial statements. The provisions of SFAS 123(R) apply to new stock options and stock options outstanding, but not yet vested, as of the effective date. Prior to January 29, 2006, we accounted for stock option grants under the recognition and measurement provisions of APB 25 and related interpretations.

Prior to fiscal 2006, equity compensation for key management consisted only of stock option awards. Upon consideration of several factors in fiscal 2006, including the anticipated impact of SFAS 123(R), we also began

awarding key management performance share awards ("Performance Awards") which, if earned, would be satisfied by the issuance of shares of common stock ("Performance Shares").

Historic Stock Option Measurement Dates—As discussed in "Restatement of Financial Statements" of this section and in Note 2—Restatement of Consolidated Financial Statements, we applied our documentation hierarchy to determine revised measurement dates under APB 25 for past stock option grants. This application involved judgment and careful consideration of all documentation and facts related to each grant. We believe the hierarchy provides the best evidence of approval and finality for determining revised measurement dates under APB 25. However, we also performed a sensitivity analysis to estimate potential non-cash stock based compensation expense based on minimum and maximum stock prices during the period between the Recorded Grant date and the revised measurement date.

Using the maximum stock price between Recorded Grant date and the revised measurement date would increase the cumulative non-cash stock based compensation expense relating to option issuances by $3.1 million, before taxes, over the eight year restatement period. The most significant impact in any year would have been $0.8 million, before taxes, in fiscal 2005, primarily due to the Company's acceleration of the vesting of approximately 2.1 million options and because more than 40% of the Company's total stock option compensation charges related to a single grant made during fiscal 2005 on April 29, 2005. Using the minimum stock price between the originally recorded grant date and the revised measurement date results in no compensation charge, as the trading price on the Recorded Grant date was the lowest price during the period.

In addition, we evaluated our documentation hierarchy to determine if different judgments in the determination of measurement dates would materially affect our restatement charge relating to option issuances. Specifically, we considered the following:

1. The application of the documentation hierarchy resulted in multiple measurement dates for awards recorded as part of a single Recorded Grant. If the measurement date for all recipients of awards made as part of a single Recorded Grant was the last date determined under our documentation hierarchy as a measurement date, the restatement charge would increase by approximately $0.5 million, before taxes.

2. The Legal Department Memo was used to support the measurement date for approximately 13% of the options issued during the Review Period. If the Legal Department Memo were viewed as less authoritative support that an award was final than the transmission of award information to our Stock Option Administrator or the signing of a Form 4, the restatement charge would increase by approximately 4% or $0.5 million, before taxes.

3. Of the options for 328,775 shares to which we have applied variable accounting in accordance with FIN 44, options for 75,075 shares are options as to which the number of shares were modified. Given that there is a diversity in practice with regard to the interpretation of FIN 44 as it relates to the application of variable accounting when modifications are subsequently made only to the number of shares, we determined the impact on the restatement if these options were treated as fixed option awards and we had applied our documentation hierarchy to determine revised measurement dates. We have determined that this treatment would have decreased the restatement charge by approximately $0.2 million, before taxes.

Accounting for Royalties—In exchange for the right to use certain Disney intellectual property, we are required to pay a Disney subsidiary royalty payments pursuant to the License Agreement. Minimum royalty commitments are recorded on a straight-line basis over the life of the initial 15 year term of the License Agreement. During each period, amounts due in excess of the minimum royalty commitment are recorded as an expense if we expect to surpass the minimum royalty commitment on an annual basis, even if the contingency threshold has not been surpassed in that particular period. The amortization of the estimated value of the two-year royalty holiday under the License Agreement is recognized on a straight-line basis as a reduction of royalty expense over the term of the License Agreement. Royalty expense, and the associated amortization of the royalty holiday, is recorded in selling, general and administrative expenses. The royalty percentage does not increase over the term of the License Agreement.

In accordance with the License Agreement, following a two year royalty abatement, our subsidiaries began making royalty payments to Disney in November 2006 equal to 5% of net sales from physical Disney Store locations, subject to an additional royalty holiday period with respect to a limited number of stores. The initial term of the License Agreement is through January 2020, and if certain financial performance and other conditions are satisfied, it

may be extended at our option for up to three additional ten-year terms. In fiscal 2006, net royalty expense was approximately 4.1% of Disney Store net sales.

Insurance and Self-Insurance Liabilities—Based on our assessment of risk and cost efficiency, we self-insure and purchase insurance policies to provide for workers' compensation, general liability, and property losses, as well as director's and officer's liability, vehicle liability and employee medical benefits. We estimate risks and record a liability based upon historical claim experience, insurance deductibles, severity factors and other actuarial assumptions. While we believe that our risk assessments are appropriate, to the extent that future occurrences and claims differ from our historical experience, additional charges for insurance may be recorded in future periods.

Accounting for Acquisitions—The acquisition of the DSNA Business was accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"). As such, we analyzed the fair value of identified tangible and intangible assets acquired and liabilities assumed, and determined the excess of fair value of net assets acquired over cost. This excess was recorded as an extraordinary gain in fiscal 2005 and fiscal 2004.

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

Income Taxes—We compute income taxes using the liability method. This method 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 depreciation and amortization differences between book and tax and the non-deductibility of certain reserves and accruals in the current tax period for tax purposes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite our belief that its tax return positions are supportable, we believe that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. We believe that our accruals for tax liabilities are adequate for all open audit years based on our assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Newly Issued Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement 109" ("FIN 48") which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48, effective for fiscal years beginning after December 15, 2006, requires that the tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The amount of tax benefits recognized from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. We have substantially completed the process of evaluating the effect of FIN 48 on our consolidated financial statements as of the beginning of the period of adoption, February 4, 2007. We estimate that the cumulative effects of applying this interpretation will be recorded as a decrease of approximately $6.6 million to beginning retained earnings. In addition, in accordance with the provisions of FIN 48, we will reclassify an estimated $6.2 million of unrecognized tax benefits from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157") which provides guidance for using fair value to measure assets and liabilities, defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective

for fiscal years beginning after November 15, 2007 for interim periods within those years. We are currently evaluating the potential impact of adopting SFAS 157 on our consolidated balance sheets and results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires registrants to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relative quantitative and qualitative factors. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. We have applied SAB 108 and restated our consolidated financial statements contained in this Annual Report on Form 10-K.

In June 2006, the FASB ratified the consensuses reached by the Emerging Issues Task Force in Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross Versus Net Presentation)" ("EITF 06-3"). EITF 06-3 requires disclosure of an entity's accounting policy regarding the presentation of taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer including sales, use, value added and some excise taxes. Since we present such taxes on a net basis (excluded from net sales) as permitted under EITF 06-3, there will be no impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities"—Including an Amendment of FASB Statement No. 115 ("SFAS 159"). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently evaluating the effect that adoption of this statement will have on our consolidated balance sheets and results of operations.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected income statement data expressed as a percentage of net sales. We primarily evaluate the results of our operations as a percentage of net sales rather than in terms of absolute dollar increases or decreases by analyzing the year over year change in our business expressed as a percentage of net sales (i.e. "basis points"). For example, our selling, general and administrative expenses increased approximately 20 basis points to 31.0% of net sales during the fiscal year ended February 3, 2007 from 30.8% during the fiscal year ended January 28, 2006. Accordingly, to the extent that our sales have increased at a faster rate than our costs (i.e. "leveraging"), the more efficiently we have utilized the investments we have made in our business. Conversely, if our sales decrease or if our costs grow at a faster pace than our sales (i.e. "de-leveraging"), we have less efficiently utilized the investments we have made in our business.

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006(1) (As restated)	January 29, 2005(1) (As restated)
Net sales	100.0%	100.0%	100.0%
Cost of sales	58.9	60.4	60.9
Gross profit	41.1	39.6	39.1
Selling, general and administrative expenses	31.0	30.8	29.1
Asset impairment charges	0.8	—	—
Depreciation and amortization	3.3	3.2	4.2
Operating income	5.9	5.6	5.7
Interest income, net	0.2	—	—
Income before income taxes and extraordinary gain	6.1	5.6	5.7
Provision for income taxes	1.8	2.1	2.2
Income before extraordinary gain	4.3	3.5	3.5
Extraordinary gain, net of taxes	—	0.1	—
Net income	4.3%	3.6%	3.5%
Number of stores, end of period	1,194	1,119	1,056

Table may not add due to rounding.

(1) See the "Explanatory Note" immediately preceding Part I, Item 1 and Note 2, "Restatement of Consolidated Financial Statements," in Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Year Ended February 3, 2007 Compared to Year Ended January 28, 2006

Net sales increased $349 million, or 21%, to $2.018 billion during fiscal 2006 from $1.669 billion during fiscal 2005. Sales for fiscal 2006 were comprised of $1.405 billion from The Children's Place business, a 20% increase over the $1.171 billion reported in fiscal 2005 and $612.3 million in sales from the Disney Store business, a 23% increase over the $497.7 million reported in fiscal 2005. Consolidated comparable store sales increased 11% and contributed $163.7 million of our net sales increase in fiscal 2006. Net sales from our new stores, as well as other stores that did not qualify as comparable stores, increased our sales by $159.1 million. Our closed stores partially offset our consolidated sales increase by approximately $3.4 million. Consolidated comparable store sales increased 9% during fiscal 2005. During fiscal 2006, our consolidated comparable store sales increase was the result of a 7% increase in the number of comparable store sales transactions and a 4% increase in our average dollar transaction size. Comparable store sales increased 10% for The Children's Place business as compared to a 9% comparable store sales increase in fiscal 2005. Disney Stores reported a 14% comparable store sales increase. In addition, fiscal 2006 was a 53-week year, with the extra week contributing approximately $29.5 million to fiscal 2006 net sales.

Our 10% comparable store sales increase for The Children's Place business was primarily the result of an 8% increase in the number of comparable store sales transactions and a 2% increase in our average dollar transaction size. Our increased dollar transaction size was driven primarily by an increase in the number of items sold in each transaction. During the fiscal 2006, we achieved comparable store sales increases in The Children's Place business across all geographical regions, departments and store types.

For the Disney Store, our 14% comparable store sales increase was primarily the result of a 9% increase in our average dollar transaction size and a 5% increase in the number of comparable store sales transactions. Our increase in dollar transaction size in fiscal 2006 compared to fiscal 2005 was driven by an increase in the number of items sold in each transaction and new merchandise that commanded a higher price point. During fiscal 2006, all geographical regions, departments and store types experienced comparable store sales increases.

During fiscal 2006, we opened 69 The Children's Place stores, 60 in the United States, seven in Canada and two in Puerto Rico. We also opened 19 Disney Stores, 18 in the United States and one in Canada. We closed five The Children's Place stores and eight Disney Stores in fiscal 2006.

Consolidated gross profit increased by $168.4 million to $828.4 million during fiscal 2006 from $660.0 million during fiscal 2005. As a percentage of net sales, gross profit increased 150 basis points to 41.1% during fiscal 2006 from 39.6% during fiscal 2005. This increase in consolidated gross profit, as a percentage of net sales, resulted from

the leveraging of occupancy costs of approximately 120 basis points, a higher initial markup of approximately 120 basis points, partially offset by higher markdowns of approximately 80 basis points and higher distribution and production and design costs of approximately 10 basis points. Our increase in gross margin as a percentage of net sales was primarily driven by the Disney Stores. At the Disney Store, our gross margin, as a percentage of net sales, was higher in fiscal 2006 than in fiscal 2005 due to a higher initial markup, the leveraging of occupancy costs and lower markdowns. For The Children's Place business, our gross margin, as a percentage of net sales, was flat in fiscal 2006 as compared to fiscal 2005. At The Children's Place business, the leveraging of occupancy costs and a higher initial markup was offset by higher markdowns. While Disney Store continues to have a lower gross margin structure than The Children's Place business, it has benefited from increased full price selling and the implementation of our low-cost sourcing strategies.

Selling, general and administrative expenses increased $112.3 million to $626.3 million during fiscal 2006 from $514.0 million during 2005. As a percentage of net sales, selling, general and administrative expenses increased approximately 20 basis points to 31.0% during fiscal 2006 from 30.8% during fiscal 2005. Selling, general and administrative expenses were unfavorably impacted in fiscal 2006 primarily as a result of:

- Stock option investigation costs which approximated $16.1 million, or 80 basis points, and included legal, forensic accounting and other professional fees of $8.1 million, the tax consequences associated with discounted employee stock options, which approximated $6.3 million, as well as non-cash compensation expense associated with option terms that were extended due to the suspension of option exercises during the investigation, which approximated $1.7 million;
- Increased store incentives and management bonuses which approximated $6.2 million, or approximately 20 basis points;
- Equity compensation expense for (i) the implementation of SFAS 123(R) and (ii) promises to grant stock options and restricted stock, which approximated $2.0 million, or 10 basis points;
- Increased legal settlement expenses, primarily due to the settlement of two class action litigations, which represented approximately $2.9 million or 20 basis points; and
- Increased marketing of approximately $10.9 million, which approximated 10 basis points, due to increased marketing efforts to promote our brands.

As a percentage of net sales, these increases in selling, general and administrative expenses were partially offset by equity compensation and other stock option related expenses of approximately $9.7 million recorded in fiscal 2005, or approximately 60 basis points, consisting of approximately:

- $6.7 million for revised measurement dates on stock options;
- $1.4 million for the resolution of tax consequences associated with discounted options;
- $1.3 million for the accelerated vesting of approximately 2.1 million stock options; and
- $0.3 million for the modification of options for a terminated associate.

In addition, while we incurred approximately $44.8 million more in store and administrative payroll and benefits costs in fiscal 2006, we leveraged these costs as a percentage of net sales by approximately 40 basis points. In fiscal 2006, due to our increased store base, we incurred approximately $34.5 million more in utilities, supplies, repair and maintenance and other variable store expenses to support our business.

During fiscal 2006, we recorded asset impairment charges of $17.1 million, or approximately 0.8% of net sales, as compared to $0.2 million recorded in fiscal 2005 for one underperforming store. During fiscal 2006, our asset impairment charge was comprised of a $9.6 million charge related to the renovation of 29 Mickey stores and $7.1 million related to our decision not to proceed with a New York City Disney Store location and infrastructure investments that were written off in conjunction with our decision to form an e-commerce alliance with a Disney affiliate in which select Disney Store merchandise is sold on the disneyshopping.com website. The remaining $0.4 million related to the write down of leasehold improvements and fixtures in five underperforming The Children's Place stores. During 2005, we introduced the Mickey store prototype at the Disney Store but we became dissatisfied with the prototype from a brand, design and construction standpoint. The impairment charge for the 29 Mickey stores reflects stores that were unable to generate sufficient cash flow prior to their renovation to cover the carrying value of

these long-term assets. We currently have a total of 70 Mickey stores in our store base, of which we plan to renovate 37 and refresh the remainder during fiscal 2007 and fiscal 2008.

Depreciation and amortization amounted to $65.7 million or 3.3% of net sales, during fiscal 2006, as compared to $52.9 million, or 3.2% of net sales, during fiscal 2005. The $12.8 million increase in depreciation expense in fiscal 2006 is due primarily to our new stores and remodels, as well as investments made in our distribution facilities and our new administrative office in Pasadena, California.

Interest income, net, was $3.9 million, or approximately 20 basis points, of net sales, during fiscal 2006 as compared to $0.6 million during fiscal 2005. The increase in interest income, net, during fiscal 2006 resulted from higher net cash investment position and higher interest rates during fiscal 2006. Additionally, during fiscal 2005, because we are required to manage liquidity for our businesses separately, we incurred interest expense on borrowings under our credit facility for The Children's Place business while we earned interest on our net cash investment position for the Disney Store.

Our income tax provision was approximately $35.9 million during fiscal 2006 as compared to $35.1 million during fiscal 2005. Our effective tax rate was 29.1% during fiscal 2006 versus 37.6% in fiscal 2005. The reduction in our effective tax rate in fiscal 2006 primarily resulted from a one time cash dividend from some of our Canadian subsidiaries, which also brought foreign tax credits that can be utilized to reduce U.S. income taxes. Our fiscal 2006 tax provision was reduced by approximately $9.5 million after the effect of this transaction.

During fiscal 2005, we recorded a $1.7 million extraordinary gain, net of taxes. This extraordinary gain represented the incremental gain recognized upon the finalization of purchase accounting for the DSNA Business. The extraordinary gain arose because the fair value of net assets acquired was in excess of the amounts paid to acquire the DSNA Business.

Due to factors discussed above, net income for fiscal 2006 increased $27.4 million to $87.4 million from $60.0 million in fiscal 2005.

Year Ended January 28, 2006 Compared to Year Ended January 29, 2005

Net sales increased $511.2 million, or 44%, to $1.669 billion during fiscal 2005 from $1.158 billion during fiscal 2004. Sales for fiscal 2005 were comprised of $1.171 billion from The Children's Place business, an 18% increase over the $994.1 million reported in fiscal 2004 and $497.7 million in sales from the Disney Store business, a 205% increase over the $163.4 million reported in fiscal 2004. Disney Store results in fiscal 2005 reflect a full year of operation versus 10 weeks of operations in fiscal 2004. Our fiscal 2005 net sales increase resulted from $429.5 million in net sales from new stores and other stores that did not qualify as comparable stores, $81.5 million in net sales from comparable stores and $0.2 million in sales from closed stores. Comparable store sales increased 9% as compared to a 16% comparable store sales increase in fiscal 2004. During fiscal 2005, our comparable store sales increase was the result of a 6% increase in our average dollar transaction size and a 3% increase in the number of comparable store sales transactions. Due to the acquisition of the DSNA Business in fiscal 2004, the Disney Store business did not have any comparable stores in fiscal 2005.

During fiscal 2005, we achieved comparable store sales increases across all geographical regions, departments, and store types in The Children's Place business. Our West, Southwest, Southeast, and Canadian regions reported the strongest comparable store sales increases. By department, our comparable store sales increases were in line with the chain average, except for our newborn department, which reported a low single-digit comparable store sales increase.

During fiscal 2005, we opened 55 The Children's Place stores, 41 in the United States, 10 in Canada and four in Puerto Rico. We also opened 18 Disney Stores, 16 in the United States and two in Canada. We closed three The Children's Place stores and seven Disney Stores in fiscal 2005.

Consolidated gross profit increased by $207.9 million to $660.0 million during fiscal 2005 from $452.1 million during fiscal 2004. As a percentage of net sales, gross profit increased 50 basis points to 39.6% during fiscal 2005 from 39.1% during fiscal 2004. This increase in gross profit, as a percentage of net sales, was comprised primarily of a higher merchandise margin of approximately 110 basis points and the impact of the sell through of acquired Disney Store inventory, which was favorable to fiscal 2004 by approximately 30 basis points, partially offset by higher distribution and occupancy costs which were approximately 90 basis points unfavorable due to costs associated with our new distribution center facility. In accounting for the acquisition of the DSNA Business, we were required to

write-up acquired inventory to its fair value as of the acquisition. The subsequent sell through of this written up inventory unfavorably impacted gross margins by $1.2 million, or approximately 10 basis points, during fiscal 2005 and $5.0 million, or approximately 40 basis points, during fiscal 2004. For The Children's Place business, our gross margin was higher in fiscal 2005 than in fiscal 2004 due to a higher initial markup, lower markdowns and the leveraging of occupancy expenses, partially offset by higher distribution costs.

Selling, general and administrative expenses increased $177.4 million to $514.0 million during fiscal 2005 from $336.6 million during 2004. Approximately $125.6 million of our dollar increase in selling, general and administrative expenses was attributable to the Disney Stores, which we operated for the full year in fiscal 2005 as compared to ten weeks during fiscal 2004. The remainder of our dollar increase in selling, general and administrative expenses is attributable to our The Children's Place business and relates primarily to our increased store base.

As a percentage of net sales, selling, general and administrative expenses increased 170 basis points to 30.8% during fiscal 2005 from 29.1% during fiscal 2004. This increase as a percentage of net sales increase was due primarily to:

- Disney Store expenses we did not have in fiscal 2004 which were approximately $16.2 million higher than last year, or approximately 80 basis points, and included increased royalty expense of approximately $12.9 million, with the remainder primarily due to increased remodeling expense resulting from the remodeling of 31 Disney Stores during fiscal 2005;
- Increased repair, maintenance and utility expenses, which were approximately $18.7 million, or 60 basis points, higher on a consolidated basis than last year due to our continued focus on enhancing the store environment and increased utility costs;
- Store and administrative payroll, which increased on a consolidated basis approximately $72.2 million, or 40 basis points, partially offset by favorable medical costs, which were approximately 30 basis points lower in fiscal 2005 as compared to fiscal 2004.
- Equity compensation expense increased approximately 30 basis points in fiscal 2005, as compared to fiscal 2004. Equity compensation expense during fiscal 2005 was approximately $9.7 million, or approximately 60 basis points of net sales, and consisted of:
    - Approximately $6.7 million for revised measurement dates on stock options;
    - Approximately $1.4 million for the resolution of tax consequences associated with discounted options;

- Approximately $1.3 million for the accelerated vesting of approximately 2.1 million stock options; and
- Approximately $0.3 million for the modification of options for a terminated associate.

Equity compensation expense in fiscal 2004, was approximately $2.8 million, or approximately 30 basis points of net sales, and consisted of:

- Approximately $2.4 million related to revised measurement dates on stock options; and
- Approximately $0.4 million for the resolution of tax consequences of discounted options.

Depreciation and amortization amounted to $52.9 million or 3.2% of net sales, during fiscal 2005, as compared to $49.0 million, or 4.2% of net sales, during fiscal 2004. Excluding the $1.7 million of depreciation expense associated with the Disney Store business, depreciation and amortization as a percentage of The Children's Place brand sales approximated 4.4% in fiscal 2005, which reflects higher fiscal 2005 infrastructure capital expenditures such as our new distribution center and enterprise software platforms. Fiscal 2005 depreciation and amortization expense for the Disney Store business represents the expense for assets put in service during fiscal 2005 as we remodeled and opened new stores. No depreciation expense was recorded on acquired property and equipment since the fair value of net assets acquired exceeded the amounts paid for the DSNA Business.

Our income tax provision was $35.1 million during fiscal 2005 as compared to $25.9 million during fiscal 2004 due to our increased profitability. Our effective tax rate was 37.6% during fiscal 2005 versus 39.1% in fiscal 2004. The improvement in the effective tax rate reflects a larger portion of our income derived from lower tax jurisdictions,

partially offset by the $1.9 million expense associated with our approximately $45 million repatriation under the American Jobs Creation Act.

Due to factors discussed above, net income for fiscal 2005 increased $19.4 million to $60.0 million from $40.6 million in fiscal 2004.

LIQUIDITY AND CAPITAL RESOURCES

Debt Service/Liquidity

Our working capital requirements follow a seasonal pattern, peaking during the second and third quarters when inventory is purchased for the back-to-school and holiday selling seasons. Our primary uses of cash are financing new store openings and providing working capital, principally used for inventory purchases. We have been able to meet our cash needs principally by using cash on hand, cash flows from operations and seasonal borrowings under our credit facilities, and we believe that this will be sufficient to fund our capital and other cash flow requirements for at least the next 12 months. Our ability to meet our capital requirements will depend on our ability to generate cash flows from operations.

The terms of the License Agreement and our credit facilities, among other things, restrict the commingling of funds between The Children's Place and Hoop and limit borrowings by Hoop from The Children's Place as well as distributions from Hoop to The Children's Place, other than payment for the allocated costs of shared services. Therefore, we have segregated all cash receipts and disbursements, investments, and credit facility borrowings and letter of credit activity. This segregation could lead to a liquidity need in one business even while there is adequate liquidity in the other business. We believe that cash flow from operations and availability and borrowings under our amended credit facilities will be adequate to fund the growth needs and operations of each division. During the next 12 months, it is probable that The Children's Place business will provide additional capital to the Disney Store business for that business to meet its growth objectives or operating commitments (including our obligations under the Refurbishment Amendment).

Further, we anticipate that The Children's Place business might need to provide additional capital to the Disney Stores thereafter, to support the Company's commitment in the Refurbishment Amendment to remodel and maintain the Disney Stores over the next five years. With respect to the total capital commitment of $175 million that we have made for the work required by the Refurbishment Amendment, we expect to fund these amounts through cash flow from operations of the Disney Store business, borrowings and availability under our credit facilities and capital contributions from The Children's Place business to the Disney Store business.

In connection with our acquisition of the Disney Store business in 2004, we entered into a Guaranty and Commitment dated as of November 21, 2004, in favor of Hoop and Disney. As required by the Guaranty and Commitment, we invested $50 million in Hoop concurrently with the consummation of the acquisition, and agreed to invest up to an additional $50 million to enable Hoop to comply with its obligations under the License Agreement and otherwise fund the operations of Hoop. The Guaranty and Commitment provides that our $50 million additional commitment is subject to increase if certain distributions are made by Hoop to The Children's Place. To date, we have not invested any portion of the additional $50 million in Hoop. We also agreed in the Guaranty and Commitment to guarantee the payment and performance of Hoop (for its royalty payment and other obligations to Disney), subject to a maximum guaranty liability of $25 million, plus expenses.

In connection with our acquisition of the DSNA Business, Hoop and Disney's subsidiaries entered into a License Agreement under which Hoop has the right to use certain Disney intellectual property in the DSNA Business in exchange for ongoing royalty payments. The License Agreement limits Hoop's ability to make cash dividends or other distributions. Specifically, Hoop's independent directors must approve payment of any dividends or other distributions, other than payments of:

- Amounts due under terms of the tax sharing and intercompany services agreements;
- Approximately $61.9 million which represents a portion of the purchase price paid by the Company to Disney (limited to cumulative cash flows since the date of the acquisition); and

- Certain other dividend payments, subject to satisfaction of additional operating conditions and limited to 50% of cumulative cash flows up to $90 million, and 90% of cumulative cash flows thereafter (provided that at least $90 million of cash and cash equivalents is maintained at Hoop).

In the normal course of business, Hoop has reimbursed intercompany services but has not paid any dividends or made other distributions. We do not expect Hoop to pay dividends or reimburse all or a portion of the $61.9 million described above to the Company during the next 12 months. Hoop's cash on hand and cash generated from operations will be utilized to finance store remodels and provide working capital.

Under the License Agreement, Hoop may not incur indebtedness or guarantee indebtedness without written approval from TDS Franchising LLC ("TDSF"), an affiliate of The Walt Disney Company, except in permitted circumstances as outlined by the License Agreement. The License Agreement provides that trade letters of credit to fund inventory purchases are permitted without limitation; borrowings under all term and revolving loans are limited to $35.0 million, with a maximum of $7.5 million for term loan borrowings; and the aggregate amount outstanding under all term and revolving loans must be reduced to $10.0 million or less at least once annually.

2004 Amended Loan Agreement

In October 2004, we amended and restated our credit facility (the "2004 Amended Loan Agreement") with Wells Fargo Retail Finance, LLC, ("Wells Fargo") as senior lender and syndicated and administrative agent, and certain other lenders, partly in connection with our acquisition of the DSNA Business. The 2004 Amended Loan Agreement provided for borrowings up to $130 million (including a sublimit for letters of credit of $100 million), depending on our levels of inventory and accounts receivable relating to the Children's Place business. The term of the facility under the 2004 Amended Loan Agreement was scheduled to end on November 1, 2007 with successive one-year renewal options.

Advances under the 2004 Amended Loan Agreement were secured by a first priority security interest in substantially all of our assets, other than assets in Canada and Puerto Rico and assets owned by our subsidiaries that were formed in connection with the acquisition of the DSNA Business. Amounts outstanding under the 2004 Amended Loan Agreement bore interest at a floating rate equal to the prime rate or, at our option, a LIBOR rate plus a pre-determined margin. The LIBOR margin was 1.50% to 3.00%, and the unused line fee under the 2004 Amended Loan Agreement was 0.38%.

As of February 3, 2007 and January 28, 2006, there were no outstanding borrowings under the 2004 Amended Loan Agreement. During fiscal 2006, various letters of credit were issued pursuant to the 2004 Amended Loan Agreement, but there were no borrowings under the 2004 Amended Loan Agreement, other than letters of credit that cleared after business hours. The average loan balance under the 2004 Amended Loan Agreement during fiscal 2006 was approximately $0.6 million. During fiscal 2006, our maximum borrowings under the 2004 Amended Loan Agreement were $7.5 million. Availability under the 2004 Amended Loan Agreement as of February 3, 2007 was $78.5 million as compared to availability of $74.1 million as of January 28, 2006. Letters of credit outstanding under the 2004 Amended Loan Agreement as of February 3, 2007 were $51.5 million as compared with $49.2 million as of January 28, 2006. The interest rates charged under the 2004 Amended Loan Agreement were 8.25% and 7.25% per annum as of February 3, 2007 and January 28, 2006, respectively.

The 2004 Amended Loan Agreement contained various covenants, which included limitations on our annual capital expenditures, maintenance of certain levels of excess collateral and a prohibition on the payment of dividends. The 2004 Amended Loan Agreement also contained covenants limiting the amount of funds we can invest in Hoop to $20 million in fiscal 2007 and $15 million in fiscal 2008.

Primarily as a result of our restatement and the delay in completing our financial statements caused by our stock option investigation, we were not in compliance with the financial reporting covenants under the 2004 Amended Loan Agreement as of February 3, 2007, nor have we been in compliance since that time. However, we obtained waivers from our lenders for such noncompliance. As discussed below, in June 2007, we entered into an amended and restated loan and security agreement with Wells Fargo and other lenders, which amended and restated the 2004 Amended Loan Agreement. There were no fees associated with obtaining the waivers through June 28, 2007, the date the 2004 Amended Loan Agreement was amended and restated. In the amended and restated loan agreement, we received forbearance of these reporting requirements through July 31, 2007 and subsequently we were granted a waiver through August 30, 2007, which was extended through January 1, 2008. There were no fees associated with

obtaining the waiver through August 30, 2007; however, we were required to pay a fee of $102,000 to extend the waiver from August 30, 2007 through the date this Annual Report on Form 10-K was filed with the SEC.

As discussed below, in June 2007, we entered into an amended and restated loan and security agreement with Wells Fargo and other lenders, which amended and restated the 2004 Amended Loan Agreement.

2007 Amended Loan Agreement; Letter of Credit Agreement

In June 2007, we entered into a Fifth Amended and Restated Loan and Security Agreement (the "2007 Amended Loan Agreement") and a new letter of credit agreement with Wells Fargo and our other senior lenders (the "Letter of Credit Agreement") for the purpose of better supporting the capital needs of our business and reducing the fees associated with our credit facility borrowings. Wells Fargo continues to serve as the administrative agent under all these facilities.

The 2007 Amended Loan Agreement reduced the facility maximum to $100 million for borrowings and letters of credit, with a $30 million "accordion" feature that enables us to increase the facility to an aggregate amount of $130 million at our option. There is also a seasonal over-advance feature that enables us to borrow up to an additional $20 million from July 1 through October 31, subject to satisfying certain conditions, including a condition relating to our earnings before interest, taxes, depreciation and amortization ("EBITDA") on a trailing 12 month basis based upon the most recent financial statements furnished to Wells Fargo and our estimate of projected pro forma EBITDA for the over-advance period. The term of the facility ends on November 1, 2010. If we terminate the 2007 Amended Loan Agreement during the first year there is a termination fee of 0.5% of the $100 million facility maximum ($130

million if the accordion feature is in use) plus any seasonal over-advance amounts in effect. Under the 2007 Amended Loan Agreement the LIBOR margin has been reduced to 1.00% to 1.50%, depending upon our average excess availability, and the unused line fee has been reduced to 0.25%.

Credit extended under the 2007 Amended Loan Agreement continues to be secured by a first priority security interest in substantially all of our assets, other than assets in Canada and Puerto Rico and assets owned by Hoop. The amount that can be borrowed under the 2007 Amended Loan Agreement depends on our levels of inventory and accounts receivable relating to The Children's Place business. The 2007 Amended Loan Agreement contains covenants, which include limitations on our annual capital expenditures, maintenance of certain levels of excess collateral, and a prohibition on the payment of dividends. The 2007 Amended Loan Agreement also contains covenants limiting the amount of funds we can invest in Hoop to $20 million, $55 million, $36 million and $52 million in fiscal years 2007, 2008, 2009 and 2010, respectively, not to exceed a maximum aggregate of $175 million over the term of the credit facility.

Under the new Letter of Credit Agreement, we can issue letters of credit for inventory purposes for up to $60 million to support The Children's Place business. The Letter of Credit Agreement can be terminated at any time by either us or Wells Fargo. Interest is paid at the rate of 0.75% on the aggregate undrawn amount of all letters of credit outstanding. Our obligations under the Letter of Credit Agreement are secured by a security interest in substantially all of our assets for The Children's Place business, other than assets in Canada and Puerto Rico and assets of Hoop. Upon any termination of the Letter of Credit Agreement, we would be required to fully collateralize all outstanding letters of credit issued thereunder and, if we failed to do so, our outstanding liability under the letter of credit agreement would reduce our borrowing capacity under the 2007 Amended Loan Agreement.

On November 2, 2007, we entered into an amendment of the 2007 Amended Loan Agreement (the "First Amendment"), extending the period of the over-advance feature of the credit facility until November 30 for fiscal 2007. We were required to pay a fee of $30,000 in connection with this amendment.

Hoop Loan Agreement

As of November 21, 2004, the domestic Hoop entity entered into a Loan and Security Agreement (the "Hoop Loan Agreement") with Wells Fargo as senior lender and syndicated and administrative agent, and certain other lenders, establishing a senior secured credit facility for Hoop. Through fiscal 2006, the Hoop Loan Agreement provided for borrowings up to $100 million (including a sublimit for letters of credit of $90 million), subject to the amount of eligible inventory and accounts receivable of the domestic Hoop entity. The term of the facility extended until November 21, 2007.

Credit extended under the Hoop Loan Agreement is secured by a first priority security interest in substantially all the assets of Hoop as well as a pledge of a portion of the equity interests in Hoop Canada. Borrowings and letters of credit under the Hoop Loan Agreement are used by Hoop for working capital purposes for the Disney Store business. Amounts outstanding under the Hoop Loan Agreement bear interest at a floating rate equal to the prime rate plus a pre-determined margin or, at Hoop's option, the LIBOR rate plus a pre-determined margin. The prime rate margin was 0.25% and the LIBOR margin was 2.00% or 2.25%, depending on the domestic Hoop entity's level of excess availability. The unused line fee was 0.30%.

As of February 3, 2007 and as of January 28, 2006, there were no borrowings under the Hoop Loan Agreement. Letters of credit outstanding were $16.6 million and $25.8 million as of February 3, 2007 and January 28, 2006, respectively. Availability under the Hoop Loan Agreement was $31.6 million and $16.3 million as of February 3, 2007 and January 28, 2006, respectively. During fiscal 2006, various letters of credit were issued pursuant to the Hoop Loan Agreement, but there were no borrowings under the Hoop Loan Agreement other than letters of credit that cleared after business hours. The average loan balance under the Hoop Loan Agreement during fiscal 2006 approximated $0.4 million. The maximum overnight borrowings during fiscal 2006 were $1.7 million. The interest rate charged under the Hoop Loan Agreement was 8.50% and 7.50% per annum as of February 3, 2007 and January 28, 2006, respectively.

The Hoop Loan Agreement contains various covenants, including limitations on indebtedness, maintenance of certain levels of excess collateral and restrictions on the payment of dividends and indebtedness. In addition, an event of default under the Disney License Agreement would create a cross-default under the Hoop Loan Agreement. Primarily as a result of the delay in completion of our financial statements caused by our stock option investigation and our discussions with Disney regarding breaches of the License Agreement, we were not in compliance as of February 3, 2007 or thereafter with the financial reporting covenants under the Hoop Loan Agreement or the provision requiring Hoop to comply with the License Agreement. However, we obtained waivers from our lenders for such noncompliance. There were no fees associated with obtaining the waivers through August 30, 2007. However, we were required to pay a fee of $48,000 to extend the waiver from August 30, 2007 through the date this Annual Report on Form 10-K was filed with the SEC.

As discussed below, in June 2007 and August 2007, we entered into amendments to the Hoop Loan Agreement.

Amendments to Hoop Loan Agreement

In June 2007, concurrently with the execution of the 2007 Amended Loan Agreement, and in August 2007, we entered into Second and Third Amendments to the Hoop Loan Agreement, both with Wells Fargo and the other lenders under the Hoop Loan Agreement (collectively, the "Amendments to the Hoop Loan Agreement"). The Amendments to the Hoop Loan Agreement reduced the facility maximum to $75 million for borrowings and provide for a $25 million accordion feature that enables us to increase the facility to an aggregate amount of $100 million. The accordion feature is available at our option, subject to the amount of eligible inventory and accounts receivable of the domestic Hoop entity. In addition, in the Amendments to the Hoop Loan Agreement, we extended the termination date of the facility from November 21, 2007 to November 21, 2010 and reduced the interest rates that we are charged on the outstanding borrowings and letters of credit. Amounts outstanding under the Amendments to the Hoop Loan Agreement bear interest at a floating rate equal to the prime rate or, at Hoop's option, the LIBOR rate plus a pre-determined margin. Depending on the domestic Hoop entity's level of excess availability, the LIBOR margin has been reduced to 1.50% or 1.75%, commercial letter of credit fees have been reduced to 0.75% or 1.00%, and standby letter of credit fees have been reduced to 1.25% or 1.50%. The unused line fee has been reduced to 0.25%.

The Amendments to the Hoop Loan Agreement continue the covenants included in the Hoop Loan Agreement, including limitations on indebtedness, maintenance of certain levels of excess collateral and restrictions on the payment of dividends and indebtedness. Credit extended under the Amendments to the Hoop Loan Agreement continues to be secured by a first priority security interest in substantially all the assets of the domestic Hoop entity as well as a pledge of a portion of the equity interests in Hoop Canada.

Cash Flows/Capital Expenditures

Cash flows provided by operating activities were $135.6 million, $115.9 million, and $209.2 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. In fiscal 2006, cash flows from operating activities were driven by net income of $87.4 million. Significant non-cash expenses included approximately $65.7 million in depreciation and amortization expense as well as $18.8 million in net royalty expense, $17.1 million in asset impairment charges, including $9.6 million in impairments at 29 of our Mickey prototype stores, $7.1 million in disposals of property and equipment resulting from our decisions not to proceed with a New York City store location and infrastructure investments that were written off in conjunction with our decision to form an e-commerce alliance with a Disney

affiliate in which select Disney Store merchandise is sold on the disneyshopping.com website, and $0.4 million of impairment at five underperforming stores. During fiscal 2006, we made cash payments of approximately $92.5 million for taxes. These payments included payments related to income earned in fiscal 2005 and estimated tax payments for fiscal 2006. Our primary use of operating cash was the purchase of inventories, which accounted for $26.2 million.

In fiscal 2005, cash flows from operating activities were driven by net income of $60.0 million. Significant non-cash expenses included $52.9 million of depreciation and amortization expense and $20.0 million of net royalty expense. In fiscal 2005, we were in the royalty holiday period for our Disney Stores, and therefore, all of the royalty expense was non-cash. The major operating asset that was used in operating activities was inventories, which accounted for approximately $50.5 million. This increase in inventories primarily reflected the earlier flow of our spring inventory for both businesses, and for Disney Stores, our planned unit increase in support of our value pricing strategy. Offsetting this use of cash flows in operating activities were a $41.3 million increase in taxes payable resulting from our higher taxable income in fiscal 2005 and estimated tax payments made during fiscal 2006 related to income earned in fiscal 2005, and a $23.6 million increase in deferred rent liabilities primarily reflecting the growth in landlord incentives received for new stores opened at The Children's Place.

Cash flows used in investing activities were $229.2 million, $89.0 million, and $142.9 million, in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. During 2006, cash flows used in investing activities increased $140.2 million, primarily as a result of a $75.2 million increase in our investments and a $65.9 million increase in capital expenditures. During fiscal 2006, we had net investments of approximately $75.2 million related to Variable Rate Demand Notes ("VRDNs"). Our fiscal 2006 investments in VRDNs were part of our investment strategy to increase our interest income. During fiscal 2005, our cash flows used in investing activities represented investments made during the year that were sold and used for working capital needs. During fiscal 2006, our capital expenditures were approximately $155.1 million as compared to $89.2 million in fiscal 2005.

Capital expenditures increased in fiscal 2006 as a result of our new stores and remodels and investments in our distribution and administrative facilities. During fiscal 2005, capital expenditures increased $31.4 million due to our increased number of new stores and remodels; investments made for our new distribution center in South Brunswick, New Jersey; upgrades in our other distribution centers to support the Disney Store acquisition; our new office facility in Pasadena, California; and other information technology infrastructure investments required to operate our significantly larger business. During fiscal 2004, cash flows used in investing activities increased primarily due to the acquisition of the DSNA Business for $107.3 million; capital expenditures related to store openings and remodelings; and investments in our logistics and information technology infrastructure, partially offset by the net sale of $22.3 million of investments. The number of new store openings and remodelings has a significant impact on our cash flows used in investing activities. In fiscal 2006, fiscal 2005, and fiscal 2004, we opened 88, 73, and 62 stores, respectively while remodeling 33, 38, and 13 stores, respectively.

Cash flows provided by (used in) financing activities were $38.2 million, $(21.3) million, and $44.3 million in fiscal 2006, fiscal 2005, and fiscal 2004, respectively. In fiscal 2006, cash flows provided from financing activities reflected the funds and tax benefits received from the exercise of employee stock options and employee stock purchases. Prior to the adoption of SFAS 123(R), we presented the tax deductions resulting from the exercise of stock options as an operating cash flow, in accordance with Emerging Issues Task Force ("EITF") Issue No.00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Stock Option." SFAS 123(R) now requires us to reflect the tax savings resulting from tax deductions in excess of expense as a financing cash flow. During fiscal 2005, cash flows used in financing activities represented the repayment of borrowings under our revolving credit facilities, which reflects repayments of borrowings to fund the acquisition of the DSNA Business, partially offset by exercises of employee stock options and employee stock purchases. During fiscal 2004, cash flows provided by financing activities reflected funds received from borrowings under our revolving credit facilities, partly used to fund the acquisition of the DSNA Business, and funds received from the exercise of employee stock options and employee stock purchases.

We anticipate that total capital expenditures will approximate $200 million in fiscal 2007. We also anticipate receiving approximately $20 million in lease incentives in fiscal 2007. These capital expenditures will provide for the opening of approximately 60 The Children's Place stores and approximately 15 Disney Stores, and the remodeling of approximately 21 The Children's Place stores and seven Disney Stores. During fiscal 2007, a significant portion of our capital expenditures were used to open a distribution center in Ft. Payne, Alabama, to commence construction on

our new office facilities in Secaucus, New Jersey and to make information technology infrastructure investments. The total project cost of our Ft. Payne distribution center was approximately $68.0 million, of which approximately $14.6 million was expended in fiscal 2006, with the remaining approximately $53.4 million spent in fiscal 2007. Our Ft. Payne distribution center, including the material handling equipment, may be leased or used as collateral for financing in the future.

For our Emerson Lane administrative offices, we originally estimated the total project would cost approximately $65.0 million, of which approximately $4.7 million was expended in fiscal 2006, approximately $11.7 million has been spent to date in fiscal 2007, with the remaining approximately $48.6 million expected to be spent in fiscal 2008 and fiscal 2009. We are currently reviewing the project to determine if there is a more cost effective plan to construct the administrative facility.

We believe that cash on hand, cash generated from operations and funds available under our amended credit facilities will be sufficient to fund our capital and other cash flow requirements for at least the next 12 months. Our ability to meet our capital requirements will depend on our ability to generate cash flows from operations. In addition, we may consider additional sources of financing to fund our long-term growth.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following tables summarize our contractual and commercial obligations as of February 3, 2007 (in thousands):

	Payments Due By Period				
Contractual Obligations (dollars in thousands)	**Total**	**1 year or less**	**1—3 years**	**3—5 years**	**More than 5 years**
Operating leases(1)	$ 1,146,782	$ 183,272	$ 334,837	$ 271,364	$ 357,309
Employment contracts (2)(3)(4)	—	—	—	—	—
Minimum Disney Store royalty (5)	260,000	20,000	40,000	40,000	160,000
Disney Store remodel and maintenance obligations(6)	237,206	16,250	35,750	26,000	159,206
Disney Store remodels in arrears(7)	73,450	73,450	—	—	—
New store and remodel capital expenditure commitments – The Children's Place(8)	24,101	20,477	3,624	—	—
New store capital expenditure commitments – The Disney Store(8)	6,404	6,404			
Long-term debt	—	—	—	—	—
Capital leases	—	—	—	—	—
Total – Contractual Obligations	$ 1,747,943	$ 319,853	$ 414,211	$ 337,364	$ 676,515

		Amounts of Commitment Expiration Per Period			
Other Commercial Commitments (dollars in thousands)	**Total Amounts Committed**	**1 year or less**	**1—3 years**	**3—5 years**	**More than 5 years**
Credit facilities	$ —	$ —	$ —	$ —	$ —
Purchase commitments (9)	453,971	453,971	—	—	—
Merchandise letters of credit	55,364	55,364	—	—	—
Standby letters of credit (10)	12,732	12,732	—	—	—
Total – Other Commercial Commitments	$ 522,067	$ 522,067	$ —	$ —	$ —
Total - Contractual Obligations and Other Commercial Commitments	$ 2,270,010	$ 841,920	$ 414,211	$ 337,364	$ 676,515

(1) Certain of our operating leases include common area maintenance charges in our monthly rental expense. For other leases which do not include these charges in our monthly rental expense, we record the expense in cost of goods sold.

(2) We have entered into employment agreements with certain executives which provide for the payment of severance up to three times the executive's salary and certain benefits following any termination without cause. These contracts commit the Company in the aggregate to approximately $5.6 million of employment termination costs, of which $5.0 million represents severance payments.

(3) Steven Balasiano resigned his position as Senior Vice President of the Company effective July 20, 2007. We entered into a severance agreement with him on July 9, 2007, under which Mr. Balasiano will receive a severance payment of $438,000 and certain other severance benefits. In addition, the Performance Award agreement between Mr. Balasiano and the Company was amended to provide that, if the Company meets the performance goals applicable to the Performance Awards previously granted to him, he will receive a prorated portion (30/36) of the number of shares he would be entitled to receive had he been employed by the Company. The Company currently expects that it will not meet the performance criteria established for these awards.

(4) Ezra Dabah resigned his position as CEO on September 24, 2007. Pursuant to his employment agreement, he is entitled to receive a cash payment of $3.0 million and over the next three years he is entitled to receive non-cash benefits of $0.4 million, subject to final determination by the Board. In addition, two executive officers have employment agreements that provide that Mr. Dabah's departure constitutes "good reason" for such executives to terminate their employment agreements with us and receive severance.

(5) Royalty payments commenced in November 2006 for certain stores. We became subject to minimum royalties at the beginning of fiscal 2007. See Note 11—Commitments and Contingencies in the accompanying consolidated financial statements for a description of the computation of the minimum royalty. In accordance with the terms of the License Agreement, the Company has averaged its eligible Disney Store sales for the previous two years and used that amount to impute the minimum royalty due over the remainder of the 15-year term of the License Agreement. This estimate does not include future increases or decreases in Disney Store sales and cost of living adjustments since these are unknown contingencies. The actual minimum royalty may differ materially from the amount currently estimated.

(6) Contractual amounts for our Disney Store renovations are estimated based on License Agreement provisions as to the number of Disney Stores required to be remodeled each year. The License Agreement, among other things, requires us to remodel stores within a specified time period following a long-term lease renewal or at least once every 12 years.

(7) Represents 113 store remodels required under the License Agreement to be completed by February 3, 2007 which had not been completed by that date. Since this commitment relates to prior years, we assumed for purposes of this table that the full amount, estimated at $650,000 per store, would be required in one year or less. However, as of February 3, 2007, we were in negotiations with Disney regarding potential modifications to the License Agreement to address our remodeling commitment. Refer to the paragraphs below for a discussion of the Refurbishment Amendment entered into in August 2007, which modified, supplemented and superseded certain provisions of the License Agreement, including our remodeling commitments through fiscal 2011.

(8) As of February 3, 2007, we had executed 40 leases for new stores and major remodels (30 for The Children's Place business and 10 for the Disney Store). This amount represents our estimate of the capital expenditures required to open and begin operating these stores. We also expect to receive landlord lease incentives of approximately $12.5 million for these stores, approximately $10.0 million for The Children's Place and approximately $2.5 million for the Disney Store.

(9) Represents purchase orders for merchandise for re-sale of approximately $388.3 million and equipment and construction commitments of approximately $65.7 million, including commitments related to our Ft. Payne, Alabama distribution center and our new administrative offices at 2 Emerson Lane in Secaucus, NJ.

(10) Represents letters of credit issued to landlords, banks, insurance companies and Disney subsidiaries. We do not expect a cash outlay for these stand-by letters of credit during 2007.

In August 2007, following lengthy discussions between the parties, the Company and a Disney subsidiary entered into a Refurbishment Amendment, which modified, supplemented and superseded the store renovation provisions of the License Agreement, effective through January 31, 2012. The Refurbishment Amendment sets forth specific requirements regarding Disney Stores to be remodeled and otherwise refreshed over the period the Refurbishment Amendment is in effect and obligates not only Hoop but also our parent company (which operates The Children's Place business), among other things, to commit $175 million to remodel and refresh these stores through fiscal 2011. While the original provisions of the License Agreement obligated Hoop to remodel Disney Stores under certain circumstances and at certain times, as reflected in the table above, the original License Agreement did not obligate our parent company beyond the original purchase price and amounts payable pursuant to the Guaranty and

Commitment, nor did the original License Agreement establish a specific dollar commitment for our store remodel obligations. Accordingly, the amounts in the table above as of February 3, 2007 are based on our internal estimates of the costs that would have been incurred by Hoop to give effect to the store remodels required by the original License Agreement. Additionally, as part of our $175 million capital commitment, the Refurbishment Amendment requires that we complete a "maintenance and refresh" program (which includes the Mickey retrofits) in approximately 165 Disney Stores by June 30, 2008 (including the flagship store located on Michigan Avenue in Chicago, which was completed on September 12, 2007). Although the original License Agreement generally required us to maintain the physical appearance of the Disney Stores in accordance with the highest standards prevailing in specialty retailing, the "maintenance and refresh" program under the Refurbishment Amendment imposes specific requirements for timing, numbers of stores and the type of work to be performed. This "maintenance and refresh" program was considered necessary to upgrade the quality of the Disney Stores to the standard required under the License Agreement and is incremental to the original License Agreement. The "maintenance and refresh" program is expected to cost approximately $16 million over the 12 month period. Some of the stores required to be refreshed under this program will also be remodeled at a later date in accordance with the Refurbishment Amendment. With respect to the total capital commitment of $175 million that we have made for the work required by the Refurbishment Amendment, we expect to fund these amounts through cash flow from operations of the Disney Store business, borrowings and availability under our credit facilities and capital contributions from The Children's Place business to the Disney Store business.

Pursuant to the Refurbishment Amendment, we are obligated to remodel a total of 236 existing Disney Stores by the end of fiscal 2011 into a new store prototype the Company developed, of which the first seven remodels must be completed during fiscal 2007, with an additional 49, 60, 70 and 50 stores required to be remodeled during fiscal 2008, fiscal 2009, fiscal 2010 and fiscal 2011, respectively. The Refurbishment Amendment also limits the number of new Disney Stores to be opened during the remodeling period. However, under the Refurbishment Amendment, we agreed to open at least 18 new Disney Stores using the new store prototype by the end of fiscal 2008, the majority of which will open in fiscal 2007, and we have the right to open up to a specified number of additional new stores using the new store prototype during each fiscal year. The following table summarizes our remodel and maintenance refresh obligations between fiscal 2007 and fiscal 2011 under the terms of the Refurbishment Amendment (amounts in thousands):

	Store Remodel		Mickey Retrofit		Maintenance Refresh			
Fiscal Year	**Stores (#)**	**Estimated Cost ($)**	**Stores (#)**	**Estimated Cost ($)**	**Stores (#)**	**Estimated Cost ($)**	**Contingency ($)**	**Total Estimated Cost ($)**
2007	7	$ 4,250	7	$ 1,050	6	$ 950	$ 1,245	$ 7,495

2008	49	31,650	28	4,200	129	9,675	1,245	46,770
2009	60	39,000	—	—	—	—	1,245	40,245
2010	70	45,500	—	—	—	—	1,245	46,745
2011	50	32,500	—	—	—	—	1,245	33,745
2007 - 2011	236	$ 152,900	35	$ 5,250	135	$ 10,625	$ 6,225	$ 175,000

The table above reflects the requirements of the Refurbishment Amendment, under which we must complete a maintenance refresh in approximately 170 Disney Stores by June 30, 2008 and then remodel certain of those stores at a later date. However, in the event we were to remodel or close any such store prior to the time when it is due for a maintenance refresh, we would no longer be obligated to refresh that store. Accordingly, we anticipate that not all of the 170 stores reflected in the table will need to be refreshed, and at the time the Refurbishment Amendment was executed, we estimated that 165 stores would be refreshed.

As mentioned above, in addition to the remodel and maintenance costs shown in the above table, the Refurbishment Amendment obligates us to open a total of 18 new Disney Stores by January 31, 2009, which we estimate will cost approximately $11.7 million in capital expenses. The majority of these costs will be incurred in fiscal 2007 and are included in our capital expenditure plans. In addition to these 18 new Disney Stores, during the term of the Refurbishment Amendment we may elect to open additional new Disney Stores, subject to certain limitations under the Refurbishment Amendment and the original License Agreement. The costs of any such other Disney Stores we may voluntarily elect to open are not reflected as commitments in the tables in this section.

The following table represents our store opening, remodeling and maintenance commitments for the Disney Store business for the remainder of the initial term of the License Agreement (through fiscal 2019) taking into account

the requirements of the Refurbishment Amendment that apply through fiscal 2011as if the Refurbishment Amendment had been in effect at February 3, 2007:

	Payments Due By Period				
(dollars in thousands)	Total	1 year or less	1—3 years	3—5 years	More than 5 years
Disney Store new store capital expenditure, remodel and maintenance and refresh obligations (1)	$ 341,296	$ 17,245	$ 88,965	$ 80,490	$ 154,596

(1) Our Disney Store obligation of approximately $341.3 million is comprised of the $175 million remodel, retrofit and maintenance and refresh obligation noted above through fiscal 2011, approximately $11.7 million in new store capital expenditures (18 stores estimated at $650,000 each) as provided for in the Refurbishment amendment, and our remaining estimated obligation of approximately $154.6 million as provided for by the terms of the original License Agreement.

QUARTERLY RESULTS AND SEASONALITY

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

Our business is also subject to seasonal influences, with heavier concentrations of sales during the back-to-school and holiday seasons. Our first quarter results are heavily dependent upon sales during the period leading up to the Easter holiday. Our third quarter results are heavily dependent upon back-to-school sales at The Children's Place and upon Halloween sales at Disney Store. Our fourth quarter results are heavily dependent upon sales during the holiday season. As is the case with many retailers of apparel and related merchandise, we typically experience lower net sales and net income during the first two fiscal quarters, and net sales and net income are lower during the second fiscal quarter than during the first fiscal quarter. We experienced losses in the second quarters of fiscal 2007, fiscal 2006 and fiscal 2005. It is also possible that we could experience losses in other quarters. Because of these fluctuations in net sales and net income (loss), the results of operations of any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year or any future quarter.

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

	Fiscal Year Ended February 3, 2007			
	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 426,509	$ 395,614	$ 550,410	$ 645,180
Gross profit	166,963	137,314	242,148	281,988
Operating income (loss)	22,942	(21,791)	64,988	53,256
Net income (loss)	14,720	(13,519)	41,528	44,661
Basic net income (loss) per common share	$ 0.52	$ (0.47)	$ 1.43	$ 1.54
Diluted net income (loss) per common share	$ 0.50	$ (0.47)	$ 1.38	$ 1.48
Comparable store sales increase	9%	16%	14%	6%
Stores open at end of period	1,125	1,142	1,182	1,194

	Fiscal Year Ended January 28, 2006(1)			
	First Quarter	Second Quarter	Third Quarter(2)	Fourth Quarter
Net sales	$ 369,217	$ 318,750	$ 441,051	$ 539,718
Gross profit	141,981	98,754	185,420	233,858
Operating income (loss)	16,532	(33,222)	42,018	67,652
Net income (loss)	$ 10,042	$ (20,119)	$ 28,738	$ 41,308
Basic net income (loss) per common share	$ 0.37	$ (0.73)	$ 1.04	$ 1.48
Diluted net income (loss) per common share	$ 0.35	$ (0.73)	$ 1.01	$ 1.42
Comparable store sales increase	13%	4%	6%	11%
Stores open at end of period	1,059	1,075	1,107	1,119

(1) See the "Explanatory Note" immediately preceding Part I, Item 1, Note 2, "Restatement of Consolidated Financial Statements," in Notes to Consolidated Financial Statements in this Annual Report on Form 10-K and Note 16, "Quarterly Financial Data (Unaudited)."

(2) Third quarter of fiscal 2005 includes an extraordinary gain net of taxes of $1.7 million, or $0.06 per share, resulting from the finalization of the fair value of the DSNA Business acquired versus the amount we paid.

QUARTERLY EFFECTS OF RESTATEMENT

The quarterly effects of the restatement on selected income statement line items for the first quarter of fiscal 2006 and the quarters in fiscal 2005 are as follows:

	Fiscal Year Ended February 3, 2007	
Increase/(Decrease) in financial statement line items (in thousands)	April 29, 2006	Fiscal Year
Cost of sales	$ 620	$ 620
Selling, general & administrative	384	384
Operating income	(1,004)	(1,004)
Provision for income taxes	(383)	(383)
Net income	$ (621)	$ (621)

	Fiscal Year Ended January 28, 2006				
Increase/(decrease) in financial statement line items (in thousands)	April 30, 2005	July 30, 2005	October 29, 2005	January 28, 2006	Fiscal Year
Cost of sales	$ (451)	$ 321	$ (252)	$ 1,609	$ 1,227
Selling, general & administrative	(99)	1,588	670	6,395	8,554
Operating income	550	(1,909)	(418)	(8,004)	(9,781)
Provision for income taxes	306	(701)	(163)	(3,617)	(4,175)
Net income	$ 244	$ (1,208)	$ (255)	$ (4,387)	$ (5,606)

ITEM 7A.—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, the Company's financial position and results of operations are routinely subject to market risk associated with interest rate movements on borrowings and investments and currency rate movements on non-U.S. dollar denominated assets, liabilities and income. The Company utilizes cash from operations and short-term borrowings to fund our working capital and investment needs.

Cash, cash equivalents and investments are normally invested in short-term financial instruments that will be used in operations within a year of the balance sheet date. Because of the short-term nature of these investments, changes in interest rates would not materially affect the fair value of these financial instruments.

The Company's credit facilities with Wells Fargo provide a source of financing for its working capital requirements. The Company's credit facilities bear interest at either a floating rate equal to the prime rate or a floating rate equal to the prime rate plus a pre-determined spread. At the Company's option, it could also borrow at a LIBOR rate plus a pre-determined spread. As of February 3, 2007, the Company had no borrowings under the Amended Loan Agreement or the Hoop Loan Agreement. The Company amended its Wells Fargo credit facilities in June 2007. For a discussion of the amended facilities, please refer to Note 7—Credit Facilities in the accompanying consolidated financial statements.

Assets and liabilities outside the United States are primarily located in Canada and Hong Kong. The Company's investment in foreign subsidiaries with a functional currency other than the U.S. dollar are generally considered long-term. The Company does not generally hedge these net investments. As of February 3, 2007, the Company is not a party to any derivative financial instruments.

As of February 3, 2007, the Company had approximately $54.1 million of its cash and investment balances held in foreign countries, of which approximately $23.5 million was in Canada and approximately $30.6 million in Hong Kong. While the Company does not have substantial financial assets in China, it imports a large percentage of its merchandise from that country. Consequently, any significant or sudden change in China's political, foreign trade, financial, banking or currency policies and practices could have a material adverse impact on the Company's financial position or results of operations.

In addition to the Company's Asian operations, the Company has a growing business in Canada. While currency rates with the Canadian dollar moved in the Company's favor for the first and third quarters of the fiscal year, they moved against the Company in the second and fourth quarters of fiscal 2006 and there can be no guarantee that the exchange rate will move in the Company's favor in the future. Foreign currency fluctuations could have a material adverse effect on our business and results of operation.

The Company is sensitive to customers' spending patterns which are subject to prevailing regional and national economic conditions such as consumer confidence, recession, interest rates, energy prices, taxation, and unemployment to name a few. The Company is, and will continue to be, susceptible to changes in weather conditions, national and regional economic conditions, raw material costs, demographic and population characteristics, hourly wage legislation, consumer preferences and other regional factors.

As is the case with many retailers, the Company experiences seasonal fluctuations in net sales and net income. Net sales and net income are generally weakest during the first two fiscal quarters, and are lower during the second fiscal quarter than during the first fiscal quarter. First quarter results at The Children's Place are heavily dependent upon sales leading up to the Easter holiday. Third quarter results are heavily dependent on back-to-school sales at The Children's Place stores and the Disney Store is heavily dependent on Halloween sales. Fourth quarter results are heavily dependent upon sales during the holiday season. Weak sales during any of these periods could have a material adverse effect on the Company.

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:

- Increases or decreases in comparable stores sales,
- Changes in our merchandise mix or pricing strategy,
- Weather conditions,
- Overall macro-economic conditions,
- The timing of new store openings and related pre-opening and other start-up costs,
- Net sales contributed by new stores, and
- Shifts in the timing of certain holidays.

Moreover, a significant portion of Disney Store net sales are generated during the third and fourth quarters of the fiscal year, which may, therefore, make the seasonality of the total Company more heavily weighted to those quarters. Any failure to meet the Company's business plans for, in particular, the third and fourth quarter of any fiscal year would have a material adverse effect on full year 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 net income.

Under the provisions of SFAS 123(R), the Company is required to record compensation costs for its various equity plans for employees and directors. Under the measurement provisions of SFAS 123(R), interest rates, the Company's stock price and the volatility of the Company's stock price each have a significant impact on the determination of equity value; changes in these factors could have a material adverse impact on the determination of equity compensation costs and, therefore, impact future results of operations. The Company's risk mitigation for these factors is to limit or cease its equity compensation plans, which the Company does not feel is reasonable given the competition for highly talented and qualified employees.

ITEM 8.—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated herein by reference to the consolidated financial statements and supplementary data listed in Item 15 of Part IV of this report.

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

On October 9, 2007, we were advised by Deloitte & Touche LLP ("Deloitte"), our independent registered public accounting firm, that Deloitte will not stand for re-election as our independent registered public accounting firm for the fiscal year ending February 2, 2008 ("fiscal 2007"). Deloitte agreed to complete its engagement as auditor of our consolidated financial statements for the three fiscal years in the period ended February 3, 2007, which are included in this Annual Report on Form 10-K.

On October 15, 2007, the Company, as approved by the Audit Committee of the Board of Directors, engaged BDO Seidman, LLP ("BDO") as the Company's independent registered public accounting firm for fiscal 2007.

Prior to the resignation of the Company's former CEO on September 24, 2007, Deloitte advised the Company that it had determined, in its professional judgment, that it was no longer willing to rely on his representations in connection with its audits.

Other than as described below, during our two most recent fiscal years ended January 28, 2006 and February 3, 2007, and during the subsequent interim periods to the date of this filing, there has been no disagreement between the Company and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure that, if not resolved to Deloitte's satisfaction, would have caused Deloitte to make reference to the subject matter of the disagreement in connection with its audit report.

Deloitte has informed us that the difference in judgment between the Company and Deloitte, which resulted in the modification of Deloitte's report with respect to management's assessment of the Company's internal control over financial reporting relating to the Company's disclosure of its material weaknesses (which report is included in Item 9A of this report on Form 10-K), represents, in Deloitte's professional judgment, a disagreement with the Company under Item 304 of Regulation S-K of the SEC and the Company agrees that the difference in judgment should be so treated. The Company does not believe that its disclosure regarding its material weaknesses, as contained in Item 9A of this Annual Report on Form 10-K, was not fairly presented in all material respects as referred to in such report of Deloitte.

ITEM 9A.—CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Management, including our principal executive officers (our Interim CEO and our Executive Vice President — Finance and Administration, who is also our interim CFO), evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of fiscal 2006. Based on this review, our principal executive officers concluded that our disclosure controls and procedures were not effective as of February 3, 2007 because of the material weaknesses in internal control over financial reporting discussed below.

In light of these material weaknesses, the Company performed additional analyses and other post-closing procedures to ensure the Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly represent in all material respects the Company's financial condition, results of operations and cash flows for the periods presented.

(b) Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f). Our system of internal control is evaluated on a cost benefit basis and is designed to provide reasonable, not absolute, assurance that reported financial information is materially accurate.

Under the supervision and with the participation of our management, including our principal executive officers, we conducted an evaluation of the design and effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). During this evaluation, management identified three material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the following three material weaknesses, management has concluded that our internal control over financial reporting was not effective as of February 3, 2007 based upon the criteria issued by COSO.

Control Environment

We conducted an evaluation of the design and effectiveness of our control environment, including the control consciousness of our executives and other personnel, as a foundation for all other components of internal control over financial reporting. Among other factors, the matters we considered in assessing the control environment included:

- The existence and implementation of our Code of Business Conduct and related policies and procedures regarding compliance with law, avoidance and mitigation of conflicts of interest, stock trading and expected standards of ethical and moral behavior, including dealings with other employees, suppliers, customers, investors, creditors, insurers and competitors;

- The existence and implementation of other policies and procedures pertaining to internal governance and business processes such as expense reimbursement and expenditure authorization, as well as those pertaining to the Company's stock option grant practices discussed below;

- The actions of senior management throughout the year in adhering to good control practices and fostering adherence by other employees with such practices; and

- The effect on the control consciousness of management and other employees of sanctions imposed and other remedial actions taken when violations of Company policies and procedures occur.

Our Code of Business Conduct, which is overseen by our Audit Committee, is intended to ensure that the Company conducts business on a high ethical plane and employees and others representing the Company pay proper attention to ethical issues. We consider proper attention to compliance with the code and other policies and procedures, actions by our senior management during the year in dealing with governance practices and matters affecting internal control, and sanctions imposed and other remedial actions taken when violations of our policies and procedures occur key to maintaining the "tone at the top" requisite in order for the code and our other policies and procedures to be taken seriously and fully implemented throughout our organizational structure.

Our evaluation concluded that, although policies and procedures appropriate for a strong control environment were designed and in large part instituted, the Company has not been successful in ensuring overall adherence to them to the degree necessary for maintenance of a fully effective control environment. Matters important to the conclusion reached in our evaluation included:

- The findings regarding deficiencies in the Company's stock option granting practices made in the Company's investigation;
- Violations during fiscal 2006 of the Code of Business Conduct by two members of senior management; and
- Certain other deficiencies noted in adherence during the year to good control practices by certain members of senior management.

Management has concluded, and the Audit Committee of the Board agrees, that collectively the problems found in these areas reflected a material weakness in our internal control environment.

Stock Options

As discussed in Note 2 in Notes to Consolidated Financial Statements of this Annual Report on Form 10-K, on September 7, 2006 the Company announced that an internal

review had discovered irregularities related to the issuance of certain past stock option grants. On or about September 14, 2006, the Company suspended the granting of stock options or other equity awards to employees and directors and the exercise of outstanding options until it implements new practices for equity awards and becomes current in its periodic reporting to the SEC. This suspension continues currently.

The Company subsequently announced that a special committee of outside directors (the "Special Committee") had been formed and had hired independent counsel to conduct a comprehensive investigation of the Company's past stock option granting practices. As a result of the independent investigation, management has concluded, and the Audit Committee of the Board agrees, that the lack of adequate controls over the granting of stock options and related documentation constituted a material weakness in internal control over financial reporting. Specifically, we identified a material weakness comprising the following internal control deficiencies:

- A formal policy for approving and granting options was not in place.
- There was a lack of oversight by executive management with respect to the issuance and administration of the Company's stock options.
- The record keeping in connection with the authorization and issuance of stock options was inadequate.
- Our procedures were insufficient to ensure that all option grants complied with our stock option plans and were recorded in accordance with applicable accounting rules.

This weakness resulted in the use of incorrect accounting measurement dates for certain stock option grants and related errors in recording compensation expense. Accordingly, the Company is restating previously filed financial statements in this Annual Report on Form 10-K.

Financial Closing and Reporting Process

Due to a lack of resources and the diversion of resources to the stock option investigation and the resulting restatement of our financial statements, the Company did not maintain effective controls over the period-end financial close and reporting processes. As a result, the Company identified a number of adjustments to its 2006 financial statements after their normal release date. Due to the actual and potential effect on financial statement balances and disclosures, and the importance of the financial closing and reporting processes, management has concluded, and the Audit committee of the Board agrees, that, in the aggregate, these deficiencies in internal controls over the period end financial close and reporting process constituted a material weakness in internal control over financial reporting. The specific deficiencies contributing to these adjustments were that:

- The Company did not maintain effective controls over the review and analysis of period-end account balances and the monitoring of account activity, resulting in an incorrect balance in certain accrual accounts and related adjustments. In addition, this deficiency had the potential to affect all significant financial statement accounts and could result in a material adjustment to the financial statements;
- The Company did not maintain effective controls to ensure the accuracy of the supporting calculations for certain routine and non-routine transactions. As a result, immaterial errors in spreadsheets resulted in the incorrect recording of certain transactions; and
- While accounting reconciliations were performed, the Company did not maintain effective controls to ensure that they were performed and reviewed on a timely basis and that the analyses and decisions around some reconciling items were properly documented.

Deloitte & Touche, LLP, an independent registered public accounting firm, has issued an audit report on management's assessment of internal control over financial reporting, which is included immediately following Item 9A(d) to this Annual Report on Form 10-K.

(c) Changes in Internal Controls Over Financial Reporting

The following significant changes in our internal control over financial reporting have occurred during our fourth fiscal quarter ended February 3, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The following governance and management changes were implemented:

- The positions of Chair of the Board and CEO were separated. Our Lead Director is serving as acting Chair until a permanent Chair is selected.
- The new position of Executive Vice President, Finance and Administration was established, reporting to the CEO and the Board. Our former Senior Vice President and CFO was elected to this position and currently also serves on an interim basis as our principal financial and accounting officer. Responsibilities of this position include supervising our finance, treasury, accounting, legal and human resource functions and serving along with our CEO as a principal executive officer for purposes of certifying our SEC reports and similar matters.
- At our Board's request, our former Chief Administrative Officer, General Counsel and Secretary resigned from such positions. However, he continued as a Senior Vice President with supervisory responsibility for our real estate, construction and facilities, store design, and non-merchandise purchasing until he mutually agreed with the Company to resign such position in July 2007.

Subsequent to February 3, 2007, the following additional governance and management changes were implemented or are in process:

- Our Board is conducting a search for at least two new independent directors. It is anticipated that, after this expansion of our Board, an independent director will be selected to serve as our Chair of the Board on an ongoing basis.
- We have hired a new Senior Vice President, Finance, who is expected to become CFO shortly after this filing. In the interim, our Executive Vice President, Finance and Administration, is serving as our CFO. In addition, we have hired a new General Counsel.
- Our Board has commenced a comprehensive review, with the assistance of independent counsel, of our governance system and processes and the Company's internal controls. As a result, amendments to several committee charters and to our Corporate Governance Guidelines were adopted. In addition, improvements in our internal policies and procedures were instituted, including amendments to the Code of Business Conduct, Securities Law Compliance Guidelines and Related Party Transaction Control Procedures. Additional improvements are under review.

In addition, the specific violations of our Code of Business Conduct by senior management referred to above were uncovered and investigated under the authority of the Audit Committee, and the Board imposed significant sanctions on the two members of management who committed the violations. To help strengthen the overall control environment, the Company is instituting a formal training program for all Corporate personnel, including executive management, regarding compliance with the Company's Code of Business Conduct and other Company policies and procedures.

Additionally, under the supervision of our Compensation Committee, we are instituting more rigorous policies, procedures and practices governing the approval and granting of stock options and other equity incentive awards and related accounting and internal controls. The Board in June 2007 adopted a formal Policy Regarding Awards of Equity-Based Incentives to Executive Officers and Other Employees, which is further discussed below and, consistent with that policy, procedures, practices and controls to the following effect will generally be applied to all such grants:

- Grants will be dated on the date that all required approvals have been obtained or a future date, not later than one month after the approval date, specified when approval is given. The exercise price for each option granted will not be less than the closing price of our stock on the date of grant.
- Equity grants will generally be approved only at duly convened, regularly scheduled meetings of our Compensation Committee or pursuant to a formal, limited delegation by the committee of grant-making authority to a committee of specified senior officers, as discussed below. Minutes of such meetings will be kept which shall reflect the specifics of any equity grants approved at the meeting. If in extenuating circumstances grants are to be made by unanimous written consent of the members of the Compensation Committee, the grant date will be no earlier than the date the last member signs the consent and the consent

is received by the Company. We will no longer use "as of" dating for written consents approving equity grants.

- All grants made to executive officers will be specifically approved by our Compensation Committee as will grants to employees in other positions designated by the committee.

- If the making of any grants to non-executives is to be delegated to a committee of senior officers, the overall terms of such grants will be approved in advance by the Committee. Terms will include annual limits as to the number of shares subject to all such delegated grants including a limit as to the number of shares available for grant to any particular employee and may include guidelines for grants that may be made to specified levels of employees. Actions taken pursuant to delegated authority will be required to be in writing, dated and signed by the executive delegated authority to make the grant and will be regularly reported to the Committee.

- Annual grants will be considered and approved by our Compensation Committee at its meeting most closely preceding or following the first meeting of the Board following the filing of the Company's Annual Report on Form 10-K. The same grant date will apply to annual grants made to executive officers and other employees.

- Designated members of our legal and accounting staffs will oversee the documentation, accounting and disclosure of all equity awards. Standard forms will be established and used for grant documentation (e.g., option agreements and award notices).

- Recipients will be advised of awards within a reasonable time period after the grant date.

- There will be no changes to grants after approval, other than to withdraw a grant to an individual in its entirety to reflect changes in circumstances between approval and issuance or to correct clear clerical errors. Any other changes will require approval in accordance with the requirements for making new grants.

No further equity grants will be made until the new policies, procedures and controls are instituted.

The Company has hired a Senior Vice President, Finance, who is expected to assume the role of CFO shortly after this filing, and has filled substantially all open positions in the accounting department, which the Company expects will help to remediate the material weakness in the financial closing and reporting process. In addition, the Company's management and its Audit Committee are taking steps to:

- Conduct a review of accounting processes to incorporate technology enhancements and strengthen the design and operation of controls;

- Formalize the process, analytics and documentation around the monthly analysis of actual results against forecasts conducted within the finance department;

- Document and communicate a detailed comprehensive financial reporting timeline and checklist process to assist in the timely gathering and review of financial information;

- Improve quality control reviews within the accounting function to ensure reconciliations are completed accurately, in a timely manner and with proper management review;

- Reinforce the thresholds required for management review and approval of account reconciliations and journal entries; and

- Formalize and expand the documentation of certain of the Company's procedures with respect to review and oversight of financial reporting.

These remediation steps are currently being implemented. The material weakness will not be considered remediated until the applicable remedial procedures operate for a period of time, such procedures are tested and management has concluded that the procedures are operating effectively.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that The Children's Place Retail Stores, Inc. and subsidiaries (the "Company") did not maintain effective internal control over financial reporting as of February 3, 2007, because of the effect of material weaknesses identified in management's assessment based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing

similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following material weaknesses have been identified and included in management's assessment:

Control Environment - The Company's controls did not operate to maintain a fully effective control environment. Specifically, the following deficiencies resulted in this conclusion: (a) the findings regarding deficiencies in the Company's stock option granting practices made in the Company's investigation, (b) violations during fiscal 2006 of the Code of Business Conduct by two members of senior management, and (c) certain other deficiencies noted in adherence during the year to good control practices by certain members of senior management.

Stock Options - - The Company did not design adequate controls over the granting of stock options and the related documentation. Specifically, the following deficiencies existed: (a) formal policy for granting and approving options was not in place, (b) there was a lack of oversight in the issuance and administration of the Company's stock options, (c) the record keeping in connection with the authorization and issuance of stock options was inadequate, and (d) the Company's procedures were insufficient to provide reasonable assurance that all option grants complied with stock option plans and applicable accounting rules. This weakness resulted in the use of incorrect accounting measurement dates for certain stock option grants and related errors in recording compensation expense. Accordingly, the Company is restating previously filed financial statements in this Annual Report on Form 10-K.

Financial Closing and Reporting - The Company did not design adequate controls over the financial closing and reporting process. Specifically, due to the lack of and diversion of resources to the stock option investigation and the resulting restatement of the Company's financial statements, the Company did not maintain effective controls over the period-end financial close and reporting processes. As a result, the Company identified a number of adjustments to its 2006 financial statements before their release date. Due to the actual and potential effect on the financial statements and disclosures, it was concluded that these deficiencies in internal control over the period end reporting process result in a reasonable possibility that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected on a timely basis.

In addition, while the Control Environment material weakness described above was identified and included in management's assessment, the disclosure of such material weakness is not fairly presented in all material respects. Specifically, the Company's disclosure was incomplete with respect to describing an inadequate tone at the top resulting not only from the matters identified above, but also from insufficient

remediation actions imposed by those charged with governance in response to violations of Company policies and other actions of senior management.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the financial statements and financial statement schedule of the Company as of and for the year ended February 3, 2007, and this report does not affect our reports on such financial statements and financial statement schedule.

In our opinion, because of the incomplete disclosure of the Company's control environment material weakness as described above, management's assessment regarding the effectiveness of the Company's internal control over financial reporting as of February 3, 2007, is not fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of February 3, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended February 3, 2007, of the Company and our report dated, December 5, 2007 expressed an unqualified opinion on those financial statements and included explanatory paragraphs relating to (i) the restatement as discussed in Note 2 to the consolidated financial statements, (ii) adoption of the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" as discussed in Note 3 to the consolidated financial statements, and (iii) a refurbishment amendment to the Company's license agreement for the Disney Store chain in North America relating to non-compliance by the Company with certain provisions of the license agreement, as discussed in Note 5 to the consolidated financial statements.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
December 5, 2007

ITEM 9B.—OTHER INFORMATION

None.

PART III

ITEM 10.—DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers and Directors

The following table lists the current executive officers and directors of the Company:

NAME	AGE	POSITION
Sally Frame Kasaks	63	Acting Chairman of the Board, Lead Director
Charles Crovitz	54	Director; Interim Chief Executive Officer
Susan Riley	49	Executive Vice President, Finance & Administration, Interim Chief Financial Officer
Neal Goldberg	48	President
Tara Poseley	42	President, Disney Store North America
Richard Flaks	45	Senior Vice President, Planning, Allocation and Information Technology
Mark L. Rose	42	Senior Vice President, Chief Supply Chain Officer
Ezra Dabah	54	Director (1)
Malcolm Elvey	66	Director
Robert Fisch	57	Director
James Goldman	49	Director
Stanley Silverstein	82	Director

(1) Mr. Ezra Dabah served as our CEO until his resignation on September 24, 2007.

Sally Frame Kasaks has served as a director of the Company since 2000, as our lead director since 2005, and as our acting-chairman since January 2007. Ms. Kasaks is a member of the Company's audit and compensation committees and is chairman of the Company's corporate governance committee. Ms. Kasaks served as Interim Chief Executive Officer of Pacific Sunwear of California, Inc. from October 2006 through May 2007 when she became Chairman and Chief Executive Officer. Since 1997, she has served as a business consultant to a number of retailers through ISTA Incorporated. In addition to being a director of Pacific Sunwear of California, Inc., Ms. Kasaks is also a director of Crane & Co., Inc.

Charles Crovitz was appointed as our interim CEO in September 2007 and has served as a director of the Company since 2004. Upon becoming our interim CEO, Mr. Crovitz resigned as chairman of the compensation committee and as a member of the corporate governance committee. Since 2003 Mr. Crovitz has operated Crovitz Consulting Co. From 1993 to 2003, Mr. Crovitz served in several senior executive positions, including as the Executive Vice President & Chief Supply Chain Officer for Gap Inc. He is also a director of United Stationers, Inc.

Susan Riley has served as our Executive Vice President, Finance and Administration and as our interim Chief Financial Officer since January 2007. From April 2006 to January 2007, Ms. Riley served as our Senior Vice President, Chief Financial Officer. From March 2006 to April 2006, Ms. Riley served as our Senior Vice President, Finance. Prior to joining us, from July 2005 to February 2006, Ms. Riley served as the Chief Financial Officer of Klinger Advanced Aesthetics. From February 2004 to April 2005, Ms. Riley served as Senior Vice President and Chief Financial Officer of Abercrombie & Fitch and from August 2002 to November 2003, she served as Chief Financial Officer of The Mount Sinai Medical Center. Prior to Mount Sinai, she served as Vice President and Treasurer of Colgate Palmolive Company from January 2001 to August 2002.

Neal Goldberg has served as our President since January 2004. Prior to joining us, from September 2001 to October 2003, Mr. Goldberg served as President of Gap Inc.'s Outlet Division, overseeing 220 stores across the Gap, Old Navy and Banana Republic brands.

Tara Poseley has served as our President, Disney Store since September 2006. Prior to joining us, from August 2004 to May 2006 Ms. Poseley served as President and Chief Executive Officer of Design Within Reach. Prior to Design Within Reach, Ms. Poseley held various management positions within merchandising and operations for Gap Inc., most recently serving as Senior Vice President of GapKids/babyGap.

Richard Flaks has served as our Senior Vice President, Planning, Allocation and Information Technology since November 2004. Mr. Flaks served as Vice President, Planning and Allocation from March 2003 through November 2004. Prior to joining us, from May 2001 to March 2003, Mr. Flaks held various positions within Victoria's Secret Stores division of Limited Brands, Inc. most recently serving as Vice President, Planning and Allocation.

Mark Rose has served as our Senior Vice President, Chief Supply Chain Officer since November 2004. Mr. Rose previously served as our Vice President, Merchandising Procurement since 1992.

Ezra Dabah has served as a director of the Company since 1989. From 1991 to September 2007, Mr. Dabah served as our CEO. From 1989 to 2006, Mr. Dabah served as our Chairman of the Board. Mr. Dabah is the son-in-law of Stanley Silverstein, another of our directors.

Malcolm Elvey has served as a director of the Company since 2002. Mr. Elvey is the chairman of the audit committee and is a member of the corporate governance committee. Mr. Elvey is the Chief Executive Officer of the U.S. licensee of The International Academy for Chief Executives, a UK—based executive education business. From 2004 to 2006, Mr. Elvey served as the Chief Executive Officer of QLIMO, a ground transportation company he helped found in New York. Since 1999, he has also served as Managing Partner of Collaborative Capital, a venture capital fund focused on early-stage technology companies.

Robert Fisch has served as a director of the Company since 2004 and is a member of the audit committee. Since 2001 Mr. Fisch has served as the President, Chief Executive Officer and Chairman of the Board of rue21, a leading specialty retailer of value priced apparel for young women and men with over 300 stores across the United States.

James Goldman has served as a director of the Company since 2006 and is a member of the compensation committee. Mr. Goldman has served as President, Worldwide of Godiva Chocolatier, Inc., a wholly owned subsidiary of the Campbell Soup Company, Inc. since 2004. From 2001 to 2004, Mr. Goldman served as President, North America Food and Beverage of Campbell Soup Company.

Stanley Silverstein has served as a director since 1996. Since 1952 Mr. Silverstein has served as Chairman of the Board of Directors of Nina Footwear, a company he founded with his brother. Mr. Silverstein is the father-in-law of Ezra Dabah, our former CEO and another of our directors.

Board Committees

Our Board of Directors has three standing committees: the compensation committee, the corporate governance committee and the audit committee. In addition to the duties described below and contained in their respective charters, each committee may be assigned additional duties by our Board from time to time, and each is charged with reporting its activities to our Board. The Board has also established a special committee composed of all of our independent directors to convene from time to time when considered warranted by the members to discuss strategic and governance matters. In addition, in November 2006 our Board appointed a special committee to investigate our stock option granting practices, the work of which was completed in April 2007.

Compensation Committee

The compensation committee discharges the responsibilities of our Board relating to compensation of our executive officers and other members of management. The compensation committee establishes our management compensations policies, reviews and recommends to the Board the terms of the Company's incentive compensation plans and programs, oversees the implementation of these plans and programs, including the making of all equity awards, and determines all aspects of the compensation of our executive officers. For more information on the role played by the compensation committee in setting the compensation of our executives, see "Compensation Disclosure and Analysis — Role of the Compensation Committee, the CEO and Other Executives" below. In addition, the compensation committee reviews and approves any of our "related-person" transactions.

Messrs. Crovitz and Goldman and Ms. Kasaks served on the compensation committee throughout fiscal 2006, each of whom our Board determined to be independent within the meaning of Rule 4200(a)(15) of the National Association of Securities Dealers' Marketplace Rules and under Rule 10A-3 of the Exchange Act and who qualifies as an outside director for purposes of Section 162(m) of the Internal Revenue Code and as a non-management director for purposes of SEC Rule 16b-3. Mr. Crovitz served as this committee's Chairman throughout fiscal 2006. In September 2007, the

Board named Mr. Crovitz interim CEO. In connection with this appointment, Mr. Crovitz resigned from the compensation committee.

The compensation committee operates pursuant to a charter which can be viewed under the "Investor Relations" section of our website at www.childrensplace.com.

Corporate Governance Committee

The corporate governance committee acts as a nominating committee to select the Board's nominees for election by the stockholders as directors and recommends candidates for election by our Board to fill vacancies. The committee determines the qualifications that should be satisfied by members of our Board and recommends to the Board the membership of the Board's standing committees. The corporate governance committee also assists our Board with oversight of other corporate governance matters, including the evaluation of the effectiveness of each member of our Board and the performance of the Board as a whole. Each year, the corporate governance committee administers an assessment of our Board, which includes: (1) a self assessment, pursuant to which our Board evaluates itself as a whole; (2) a peer assessment, pursuant to which our Board evaluates the effectiveness of each of its members; and (3) a committee assessment pursuant to which each member of our Board evaluates the effectiveness of its committees.

Ms. Kasaks and Messrs. Crovitz and Elvey served on the corporate governance committee throughout fiscal 2006, each of whom our Board determined to be independent within the meaning of Rule 4200(a)(15) of the National Association of Securities Dealers' Marketplace Rules and under Rule 10A-3 of the Exchange Act. Ms. Kasaks serves as the corporate governance committee's Chairperson. In September 2007, the Board named Mr. Crovitz interim CEO. In connection with this appointment, Mr. Crovitz resigned from the corporate governance committee.

The corporate governance committee operates pursuant to a charter which can be viewed under the "Investor Relations" section of our website at www.childrensplace.com.

Audit Committee

The audit committee monitors the preparation and integrity of our financial statements, our other financial reports and our overall disclosure practices; the soundness of our system of internal financial controls and our compliance with good accounting practices, and the appointment, qualifications, independence and performance of our independent registered public accounting firm. Additionally, the audit committee has oversight responsibility for the performance of our internal audit function and compliance with related legal and regulatory requirements.

Messrs. Elvey and Fisch and Ms. Kasaks currently serve on the audit committee, each of whom our Board has determined to be independent within the meaning of Rule 4200(a)(15) of the National Association of Securities Dealers' Marketplace Rules and under Rule 10A-3 of the Exchange Act. Mr. Elvey serves as the audit committee's Chairperson. In addition, our Board of Directors has determined that all three members meet the "financial sophistication" requirement of Rule 4350(d)2(a)(i) of the NASDAQ listing standards and that Messrs. Elvey and Fisch are each an "audit committee financial expert," as such term is defined in Item 401(h) of Regulation S-K of the Exchange Act.

The audit committee operates pursuant to a charter which can be viewed under the "Investor Relations" section of our website at www.childrensplace.com.

Special Committee

As discussed above under "Stock Option Investigation—Overview of the Investigation," in October 2006 our Audit Committee commenced an investigation into our stock option grant practices. On November 24, 2006, the Board determined to establish a two-member special committee of independent members of our Board (the "Special Committee") to supervise and complete the investigation commenced by the audit committee. The Special Committee retained separate outside counsel to conduct the balance of the investigation. The Special Committee completed its work in April 2007. The report and recommendations of the Special Committee and the remedial actions and governance initiatives undertaken by the Board based on the report and recommendation are discussed above.

Code of Business Conduct

The Board has adopted a Code of Business Conduct which is applicable to all employees, directors and officers of the Company and its subsidiaries and affiliates. The Code of Business Conduct is posted under the "Corporate

Governance" tab under the "Investor Relations" section of our website at www.childrensplace.com and is available in print upon request by contacting our Assistant Secretary by email at corporatesecretary@childrensplace.com or by mail at the Company's principal executive offices. We intend to satisfy the disclosure requirement regarding any amendment to, or a waiver of, a provision of the Code of Business Conduct for the Company's principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions, by posting such information on the Company's website or by filing a Current Report on Form 8-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who own more than 10% of a registered class of our equity securities to file statements on Form 3, Form 4 and Form 5 of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% stockholders are required by the regulation to furnish us with copies of all Section 16(a) reports that they file.

Based solely upon a review of Forms 3 and 4 and amendments to these forms furnished to us during the most recent fiscal year, and written representations that no Form 5 was required, all parties subject to the reporting requirements of Section 16(a) filed all such required reports during and with respect to the fiscal year ended January 28, 2006, except for the following late filings: (i) on May 23, 2006, Malcolm Elvey exercised and held 5,000 shares of common stock, which was reported on Form 4 on June 13, 2006; (ii) on August 17, 2006, James Goldman was elected to our Board of Directors, which was reported on Form 3 on September 22, 2006; and (iii) it is our understanding that on March 8, 2006 Renee Dabah, the wife of our former CEO, received a distribution of 66,500 shares of common stock from a trust, which to date has not been reported on a Section 16(a) report.

ITEM 11.—EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

In this section we discuss the objectives of our executive compensation programs, the policies we follow in pursuing those objectives and the material elements of the compensation provided for fiscal 2006 to our senior executives. Specifically, we describe how we have implemented our compensation policies in determining each material element of the compensation we provided for fiscal 2006 to the following seven individuals who, in accordance with rules of the SEC, were considered, based on their positions during fiscal 2006, our "named executive officers" ("NEOs"):

- Ezra Dabah, CEO until September 24, 2007;
- Neal Goldberg, President;
- Susan Riley, Executive Vice President, Finance & Administration and interim CFO;
- Richard Flaks, Senior Vice President, Planning, Allocation and Information Technology;
- Mark Rose, Senior Vice President, Chief Supply Chain Officer;
- Steven Balasiano, Senior Vice President, Store Planning, Maintenance and Purchasing through July 2007 and, through January 31, 2007, Senior Vice President, Chief Administrative Officer, General Counsel and Secretary; and
- Hiten Patel, Senior Vice President, CFO until April 15, 2006.

Following this section, we present tabular and narrative information concerning the compensation of each of the NEOs and the terms of their employment and other compensatory arrangements with the Company. The following compensation discussion and analysis should be read together with such additional information.

Our Principal Executive Compensation Policies

The fundamental objective of our executive compensation programs is to attract, retain and motivate the performance of the executive management talent needed to advance both the short-term and long-term interests of our

stockholders. We have used the following principles in developing and implementing compensation programs to achieve this fundamental objective.

- *Pay for Performance:* We establish each executive's compensation on terms intended to reward his or her individual contribution to the Company's performance and the attainment of the Company's business goals over the short-term and the long-term.
- *Competitive Pay:* We design a total compensation package for each executive that is intended to be competitive with the compensation provided to executives with comparable responsibilities at other companies in order to attract and retain executives with the skills and experience needed to achieve our business goals.
- *Stockholder Value Creation:* We use equity awards to motivate executives to build stockholder value on a consistent basis over time.
- *Clarity:* We use clear and understandable performance objectives in our compensation programs that can be readily assessed by our executives and stockholders.

We applied these principles to determine the main elements we used in our compensation programs in fiscal 2006, as in prior years: salary, annual cash bonuses and equity awards. We also provided other commonly offered benefits on terms and conditions that we consider consistent with providing competitive compensation; however, individually and in the aggregate, none of these other benefits were of the same magnitude as the main elements. Additionally, we have provided for severance benefits where we determined appropriate, including as part of a package of benefits designed to recruit and retain an executive.

We rely heavily on incentive compensation to encourage superior performance. In general, we believe that short-term incentive compensation should be based primarily on achieving specified business goals that further stockholder interests (even where not yet recognized in the price of the Company's common stock) and that long-term incentive compensation should correlate with changes in stockholder returns. Consequently, we use annual performance-based cash bonuses to provide short-term incentive compensation and equity awards to provide long-term incentive compensation. We measure our performance historically over time and in comparison to our peer group companies. In addition, we believe that a substantial portion of an executive's compensation should be based on performance factors that management can control.

We strive to achieve an appropriate mix of elements to meet our business objectives, applying our annual bonus and equity-based award programs so as to balance achievement of short-term business goals with value creation for stockholders over the long-term. These elements are intended to work together to attract and retain the top talent needed to advance both the short-term and long-term interests of our stockholders by rewarding exceptional performance sustained over time with a higher level of compensation.

In implementing our executive compensation objectives and principles, we have applied the following standards when determining the amounts of compensation of our executives:

- Base compensation (salary and customary benefits) should be targeted at the median level for executives having comparable responsibilities at peer group companies, considering variations in size and business complexity;
- Annual cash bonuses should be based significantly on achievement of our annual business plan goals and should be targeted at a level that is in the 50% to 75% quartile of executives having comparable responsibilities at peer group companies if the Company achieves business plan goals that reflect performance in such quartile in comparison to the historical performance of peer group companies, and should be scaled to produce bonuses at a level at the upper end of such range if superior performance in comparison to our business plan is achieved;
- The potential value of equity awards should be targeted somewhat above the median for executives with comparable responsibilities at peer group companies and equity awards should be designed, taking into account performance vesting and other performance criteria, so as to generate value for executives if the Company achieves its business plan goals and should target a potential value in

line with the top quartile of awards made to executives with comparable responsibilities at peer group companies if the Company exceeds its business plan goals over the performance period; and

- Total potential compensation (i.e., the aggregate of base compensation, cash bonuses and equity awards) should generally be targeted in the 50% to 75% quartile of compensation provided to executives with comparable job responsibilities at peer group companies if the Company achieves its business plan goals consistently over time and designed, when taking into account the expected value of equity awards, to produce total compensation in the top quartile if the Company exceeds its business plan goals consistently over time.

In general, in applying these standards we contemplate a level of potential incentive compensation for senior executives, assuming Company performance meets business plan objectives, that will constitute roughly two-thirds of total annual compensation, of which half of total compensation will be in the form of equity awards, with the potential for executives to receive higher total compensation and a higher portion of their total compensation from equity awards as the market value of the Company's common stock appreciates.

We generally do not adhere to formulaic financial or other performance or comparative metrics in determining the total amount of an executive's compensation, the amount of salary or incentive awards or the mix of elements used in our compensation programs. In general, in determining incentive awards, we review the performance of each executive officer against performance goals we set for the executive and for the Company in advance in connection with the development of our business plans and goals. In particular, in determining annual cash bonuses we consider, as discussed below, satisfaction of objective performance measures for the year determined at the beginning of the year and establish a minimum target level of performance that must be attained by the Company in order for executives to receive any bonus and a target bonus amount (in the form of a percentage of annual salary) that an executive may receive if Company performance meets a pre-established target, with larger bonus amounts possible (subject to a maximum) if the target performance measure is exceeded. However, we also take into account other factors in determining annual bonuses. We consider in determining each element of the compensation for an executive his or her demonstrated leadership qualities including the ability to respond to unexpected circumstances. Specific non-quantitative factors affecting compensation decisions for our executive officers include:

- Identified and evolving job responsibilities, including changes in the scope of the executive's responsibilities,
- The degree and quality of an executive's Company-specific, industry and management experience,
- Proven performance over several years,
- Competitive considerations pertinent to the Company's need to retain an executive in light of alternative employment opportunities believed to be available and the compensation practices of other companies, and
- Compliance with, and leadership in motivating employees in general to comply with, Company policies, including our code of business conduct, and good business practices.

We exercise judgment on a discretionary basis in determining the appropriate amount of each type of compensation and the total value of all compensation provided to each executive after considering the relevant performance metrics and these factors.

Peer Group Companies

In order to assess the competitiveness of the Company's compensation practices, we compare our compensation programs, particularly salary, incentive compensation awards and total compensation levels, against companies in the same or similar lines of business and of comparable size. Specifically, for fiscal 2006 we have identified the following as peer group companies and use available information on their compensation practices in assessing our own practices: Abercrombie & Fitch; Aeropostle; American Eagle; Ann Taylor; Bon-Ton; Charming Shoppes; Chico's; Dress Barn; Gymboree; Mothers Work; Pacific Sunwear of California; Phillips Van Heusen; Polo Ralph Lauren; Talbots; and The Men's Wearhouse. These companies were identified as appropriate peer group companies with the assistance of the independent compensation consulting firm retained by the Company to assist it, initially in connection with the development of our 2005 Equity Incentive Plan (the "2005 Equity Plan"), which is further

discussed below. The Compensation Committee of the Board (the "Committee") reviews the disclosed salary, bonus and equity compensation for executives with comparable job responsibilities at these companies in determining the compensation levels it uses in setting the main elements of our executive compensation program.

Role of the Compensation Committee, the CEO and Other Executives

Each member of the Committee is independent, in accordance with applicable rules of The Nasdaq Stock Market. For more information about the Committee's composition, responsibilities and practices, see "Part III, Item 10.—Directors and Executive Officers of the Registrant, Board Committees."

The Committee reviews and recommends to the Board the terms of the Company's incentive compensation plans and programs for management personnel, determines the total amounts to be awarded each year under such plans and programs, establishes and oversees the implementation of our executive compensation policies and programs, and evaluates the performance of and approves the salary, target annual bonus level, actual annual bonus payments, equity incentive awards and other benefits provided to all executive officers of the Company, as well as other senior management personnel selected by the Committee. Accordingly, the Committee approved the compensation for each of our NEOs in fiscal 2006. The Committee also reviews and approves the compensation paid to any individual who in the judgment of the Committee has a close familial relationship with a director or executive officer, generally applying the standard used in the rules of the SEC with respect to the identification of related person transactions (as discussed in "Part III, Item 13.—Certain Relationships and Related Transactions").

In fiscal 2004, the Committee, with advice and assistance from its independent compensation consultant, began a comprehensive review of the Company's executive compensation programs, including the competitiveness of each element of the program, with a focus on redesigning the Company's performance-based annual cash bonus program and long-term equity incentive program. This review led to the recommendation by the Committee to the Board and the approval by the Board and subsequently by our stockholders at our 2005 annual meeting of the Company's 2005 Equity Plan, which expanded the range of equity incentive awards available to be granted beyond stock options. In addition, the review resulted in the adoption of the Company's 2006 Annual Management Incentive Bonus Plan ("2006 Bonus Plan") which was approved by the Committee, the Board and subsequently by the stockholders at our 2006 annual meeting. Both the 2005 Equity Plan and the 2006 Bonus Plan were intended for application to all senior management and bonus-eligible employees, not only our executive officers. During the current year, the Committee further reviewed the Company's annual bonus program, with the assistance of outside counsel to the Company, and determined that a revised program should be instituted. As further discussed below, the Committee recommended to the Board and the Board approved discontinuing the 2006 Bonus Plan and adopting the 2007 Annual Management Incentive Bonus Plan (the "2007 Bonus Plan") and the Annual Management Supplemental Bonus Program (the "Supplemental Bonus Program") to be applied in fiscal 2007 and subsequent years. The 2007 Bonus Plan is subject to stockholder approval and will be presented for a vote at our 2007 annual meeting.

In addition, during the current year, the Committee, after considering the review of the Company's historical stock option practices by the Special Committee of the Board and its recommendations, as discussed in "Explanatory Note, Stock Option Investigation, Findings of the Stock Option Investigation", developed with the assistance of independent counsel to the Committee and recommended to the Board, and the Board adopted, new equity grant practices, including policies with respect to the timing of equity grants. These policies are discussed below.

The Committee works with the Company's CEO, CFO and Senior Vice President, Human Resources in establishing the Company's management compensation principles, policies and programs and in making specific executive compensation decisions. Compensation decisions regarding executive officers, other than the CEO, are made after the Committee reviews performance evaluations and recommendations with respect to salary adjustments, annual bonuses and incentive awards prepared by the CEO. The Committee then exercises its discretion in deciding whether or not to modify any such recommended adjustments or awards. The Committee, along with the other independent members of the Board, evaluated the former CEO's performance and the Committee determined his salary, annual bonus and incentive awards. The Committee, along with the other independent members of the Board have determined the interim CEO's compensation package. For a detailed description of Mr. Crovitz's compensation package, see "Employment and Severance Agreements with NEOs" below. Compensation decisions with respect to the Company's former and interim CEOs and, where determined by the Committee, other executive officers are made by the Committee in executive session (without the participation of any member of management).

Role of Compensation Consultants and Counsel

The Company starting in 2004 engaged F. W. Cook & Co., a nationally recognized compensation consulting firm, to provide information and analysis to the Company on specified management compensation matters and to act as an independent consultant to the Committee, reporting to it on the matters on which it provides advice. F. W. Cook & Co. provided the Committee with information, analysis and advice, including the identification of peer group companies and comparison of their compensation practices to those of the Company, in connection with the design and implementation of the Company's 2005 Equity Plan and the initial implementation of that plan by the making of Performance

Awards early in fiscal 2006, as further discussed below. The Committee has also used the information provided by F. W. Cook & Co. in connection with the 2005 Equity Plan in making other compensation decisions. Although F. W. Cook & Co.'s role in providing these services has primarily involved advising the Committee, the firm also interacted with management to gather relevant data and to assist in the implementation of compensation plans and programs. Recently, it has been retained to advise the Committee in making compensation decisions and to assist in the preparation of disclosures regarding compensation in the Company's proxy statement and other public filings. When considered appropriate in connection with the design of the Company's compensation programs or other decisions regarding the compensation of the Company's executives, the Committee has also been advised by outside counsel to the Company and/or, recently, counsel to the Committee.

Role of Employment Agreements

The Committee has approved the Company entering into employment agreements with executives when it has considered such agreements necessary or appropriate to recruit or retain these executives. In general, such agreements establish an annual salary level subject to increase upon annual review and provide for the executive's participation in the Company's management cash bonus and equity compensation programs but do not provide the specific terms on which bonus or equity grants may be made to the executive, other than to provide in some instances for an initial equity grant and that the executive will be eligible to receive a bonus under our bonus program at a minimum target level. The agreements usually are of indefinite duration, terminable upon advance notice by the executive or the Company. In addition, the agreements usually provide for severance benefits if the executive's employment is terminated by the Company without cause. For more information on our employment agreements with our NEOs, see "Employment and Severance Agreements with NEOs" below.

Accounting and Tax Considerations

During fiscal 2005 and 2006, the Committee established a new program for providing equity incentive awards to management, which included an April 2005 award of options to most members of the management team, the acceleration of the vesting of many previously issued stock options, the adoption of the 2005 Equity Plan and the making of Performance Awards. In establishing this program (particularly in providing for the accelerated vesting of previously granted options), the Company considered the accounting rules that require that stock options and other equity awards be expensed. The Company's equity incentive program, including the action taken to accelerate the vesting of certain options, is described below.

We consider the tax consequences of our compensation programs on both employees and the Company. In particular, we consider the effects of Sections 162(m), 280G (and the related provision of Sections 4999) and 409A of the Internal Revenue Code of 1986, as amended (the "Code").

Section 162(m) bars corporations from deducting compensation in excess of $1 million paid to certain executive officers unless the compensation satisfies certain requirements. Excluded from the $1 million limitation is compensation that, among other tax code requirements, meets pre-established performance criteria that have been approved by stockholders. The Company's objective is to structure our compensation programs to permit the deductibility under Section 162(m) of the incentive compensation we provide our executives to the extent consistent with the efficacy of the programs, but the Committee retains the flexibility to provide compensation that may not be tax deductible when it determines that doing so is in the Company's best interests.

In fiscal 2005, we were unable to deduct approximately $500,000 of bonus compensation that we paid to certain of our executive officers because we had not obtained at the time we made bonus awards stockholder approval of the performance criteria used in our bonus program. At the 2006 annual meeting of stockholders, upon recommendation of the Committee and the Board, the stockholders approved the 2006 Bonus Plan, including a variety of performance

criteria which could be used in the discretion of the Committee under the plan. As further discussed below, for fiscal 2006, the Committee determined to pay bonuses to our executive officers in part under the 2006 Bonus Plan based on the Company's fiscal 2006 earnings per share, one of the objective performance criteria provided for by such plan, and in certain cases in part based on a subjective evaluation of the executives' performance. In the case of certain of our executive officers, the Committee also determined to pay additional bonus amounts determined by adjusting our earnings per share to reflect the exclusion of certain expenses but otherwise on the same pre-established bonus terms as applied under the 2006 Bonus Plan. To the extent bonuses were paid to certain of our executive officers based on the subjective evaluation of their performance or based on these adjustments, such bonus compensation does not qualify for deduction under Section 162(m) because it did not reflect the application of pre-established and shareholder-approved performance criteria. Approximately $0.2 million of an aggregate of $2.4 million of bonus compensation paid for fiscal 2006 to our executive officers who are subject to Section 162(m) will, accordingly, not be deductible by the Company. The Committee and the Board in April 2007 approved, subject to stockholder approval at our 2007 annual meeting of stockholders, the 2007 Bonus Plan to replace the 2006 Bonus Plan. Bonuses paid pursuant to the 2007 Bonus Plan are intended to qualify for deduction under Section 162(m). The Committee and the Board have also approved the Supplemental Bonus Program, which provides a framework for the award of bonuses based on criteria that do not qualify under Section 162(m). Accordingly, if bonuses are paid under the Supplemental Bonus Program, they will not qualify for deduction under Section 162(m).

Section 280G imposes in certain circumstances an excise tax and certain other unfavorable tax results on certain payments or benefits made to certain executives in connection with a change in control of the Company if the aggregate amount of such payments, after certain exclusions, exceed a certain level, which, subject to certain qualifications, depends principally on the executive's average annual taxable compensation from the Company over the five years preceding the change of control. Under Section 280G, as applied to amounts potentially payable by the Company, the bulk of such payments would not be deductible to the Company. The compensation payable by the Company to some of its NEOs in connection with a change of control of the Company as discussed below could reach the level where such excise tax or loss of deductibility would apply. The Company has undertaken no obligation to pay any excise tax on behalf of, or otherwise compensate it executives, for unfavorable tax consequences under Section 280G.

Section 409A imposes, commencing December 31, 2004 and subject to certain transitional exemptions, in certain circumstances an excise tax and certain other unfavorable tax results on certain payments that are considered deferred compensation but that do not satisfy the requirements of Section 409A. In fiscal 2006, the Company entered into amendments to the employment agreements with two of its NEOs, Ezra Dabah and Neal Goldberg, intended to assure that payments under such agreements conform to the requirements of Section 409A. The Company believes that it has no deferred compensation arrangements with any of its executive officers or other employees that are subject to Section 409A that do not meet its requirements, except as described below with respect to certain option grants, and is under no obligation to any employee to make him or her whole against the application of Section 409A despite the Company's belief regarding the applicability of Section 409A and whether its requirements have been satisfied.

The vesting after December 31, 2004 of options that have an exercise price that is less than the fair market value of the related shares on the date of grant ("discounted options") is considered a deferred compensation arrangement subject to, and not qualified under, Section 409A, unless certain transitional exemptions are applicable. As a result of the Company's investigation of its historical stock option grant practices, the Company has determined that many of the option grants that it made, including certain options which vested after December 31, 2004, had an exercise price less than the fair market value of the Company's common stock related to the option on the measurement date applicable to such grants under U.S. GAAP (the "revised measurement date") and, if such revised measurement date is considered the date of grant for purposes of Section 409A, then such grants will be considered discounted options subject to the excise tax and other unfavorable tax results provided under Section 409A, absent the availability of a transitional exemption.

In the case of officers of the Company subject to reporting under Section 16(a) of the Exchange Act, as amended, in order to be eligible for a transitional exemption, any discounted options held by such officer were required to be amended before December 31, 2006 to change the exercise price or the exercise period of such options so as to comply with Section 409A. The Company in December 2006 offered to amend the terms of all discounted options that vested after December 31, 2004 held by such officers and certain other Vice Presidents and Senior Vice Presidents of the Company (a total of 13 individuals) so as to satisfy such requirements and all of such officers

irrevocably agreed before the end of 2006 to either amend all such discounted options to increase the exercise price to the average of the high and low trading price on the date the Company determined to be the revised measurement date for the option grant or to limit the period in which such options may be exercised so as to satisfy the requirements of Section 409A. The Company intends to provide in the near future, subject to satisfaction of certain regulatory requirements, to all current employees, other than those that agreed in December 2006 to amend their discounted options, who hold options that vested after December 31, 2004 and that have an exercise price below the revised measurement date price determined by the Company to be applicable to such options an offer to exchange such options for options with an exercise price increased to the revised measurement date price determined by the Company and, if the recipient elects to accept such offer, to receive a cash payment in the amount by which the aggregate exercise price of all such options have been increased. In addition, in the case of such employees who have exercised discounted options during 2006 before the Company suspended option issuances and exercises starting on September 14, 2006, if the exercise of the option subjects the employee to the 409A excise tax, the Committee has approved the Company paying to or on behalf of the recipient an amount sufficient so that, after paying the 20% excise tax required under Section 409A and any applicable income tax on such payments, he or she will have the benefit of the amount by which the exercise price was less than the revised measurement date price (but such individual will be responsible for the amount of income tax that he or she would normally have incurred upon the exercise of such discounted options absent the applicability of Section 409A).

Other Policies Relating to Executive Compensation

Equity Award Policy. On June 21, 2007, the Board, upon recommendation of the Committee, adopted a formal Policy Regarding Awards of Equity-Based Incentives to Executive Officers and Other Employees (the "Equity Grant Policy"). The Equity Grant Policy applies to all awards by the Company of equity-based compensation to employees and consultants and sets forth policies and procedures with respect to granting, reporting, documenting and disclosing awards. The policy is intended to remedy in part the governance and control deficiencies found in the Special Committee's investigation of the Company's historical stock option grant practices and implements in part the Special Committee's recommendations regarding the manner in which equity awards should be made, as discussed in "Explanatory Note, Stock Option Investigation, Findings of the Stock Option Investigation." In particular, the policy is intended to help ensure that all equity awards are made in accordance with applicable law, are properly accounted for and disclosed and are otherwise handled in accordance with the Board's intentions and good business practice. Subject to oversight by the Board, the Committee is charged with supervising the application by management of the Equity Grant Policy.

Under the policy, shares of the Company are to be valued or priced for purposes of all awards, including for purposes of setting the exercise price of options, at not less than the fair market value of the shares on the date the award is granted, determined by the closing market price on the date of grant or, if the shares are not traded on such date, on the most recent trading day. All awards must be approved by the Committee, which must approve before the award is given effect the recipient, the number of shares involved in the award (or a formula for determining the number of shares) and all other material terms, except that the Committee may delegate the making of awards as described below. The Committee may delegate to a committee of at least three senior officers the making of awards to employees other than executive officers or a committee member, subject to various limitations provided by the Equity Grant Policy, including the establishment by the Committee when making a delegation of a maximum number of shares that may be subject to all such awards, and that may be subject to awards made to any one recipient, in any fiscal year. All awards made by the Committee's delegate must be reported to the Committee at its next regularly scheduled meeting. All awards shall be on standard terms (subject to variations among recipients in award amounts and vesting schedules) approved by the Committee, except where otherwise specifically provided by the Committee, including where the Committee has specifically delegated the authority to make exceptions to a committee of officers.

The Equity Grant Policy also establishes guidelines as to the timing for making awards. Awards to executive officers and other senior managers designated by the Committee are to be made on an annual basis and are to be approved at the meeting of the Committee most closely preceding or following the first regularly scheduled Board meeting following the filing with the SEC of the Company's Annual Report on Form 10-K, except where made in connection with the hiring or promotion of an executive. Awards to other employees or to consultants will also be made on an annual basis at or about the same time as awards to executives. Awards will be made at other times only where specifically approved by the Committee in light of extraordinary circumstances. Awards will be considered granted when approved unless when the approval is given a future date within one month is specified as the date of

grant, except that awards made in connection with the hiring or promotion of an executive or other employee will be considered granted on the first business day of the month following approval and the recipient's commencement of employment or promotion and that awards may become effective at a later date where made subject to satisfaction of conditions such as stockholder approval. Actions by the Committee regarding awards will generally be made at minuted meetings of the Committee and may be made by unanimous written consent only in extenuating circumstances, in which event the action by consent will be given effect only after all committee members have signed and dated the consent; "as of" consents will not be used. Awards may be made at a time when the Company has material undisclosed information if the Company has such information at the time scheduled in accordance with the Equity Grant Policy for the making of such awards and the timing is not motivated by an intention to improperly use such information for the benefit of a recipient.

The Equity Grant Policy also establishes requirements governing the reporting and documentation of awards, including requirements for the prompt reporting of all granting actions to members of the Company's Legal and Accounting Departments who are specifically designated as responsible for supervising the administration of awards. In addition, awards once approved by the Committee or its delegate may not be modified (other than to reflect correction of a clerical error) unless such modification is approved in the same manner as required for the making of a new award.

The requirements and guidelines established by the Equity Grant Policy are subject to waiver or modification from time to time by action of the Committee (but not its delegate) or the Board.

Recovery of Compensation Upon a Restatement. The Company has not established a policy with respect to the recovery or other adjustment of compensation to be provided to executives or other employees in the event of a restatement of its financial statements. In fiscal 2005, we were required to restate our financial statements to reflect the reclassification of certain investments previously classified as cash equivalents, the accounting treatment of certain minimum lease payments. The Committee did not consider the circumstances surrounding that restatement to warrant any adjustment to compensation to be provided executives for such year or any effort to recover compensation provided for that year. As a result of the Company's recent investigation of its historical option grant practices, the Company has recently restated its financial statements for the fiscal years 2005 and 2006 and the first quarter ended April 29, 2006. As the Board, upon recommendation of a special committee of independent directors, determined that the circumstances leading to this statement did not involve any misconduct by any executive (see the discussion under "Explanatory Note, Stock Option Investigation, Findings of the Stock Option Investigation."), the Committee has also determined not to adjust the compensation otherwise to be provided executives for fiscal 2006 or to recover any compensation provided for prior years, except that, as described above, the executive officers of the Company have agreed to increase the exercise price of their discounted options to the revised measurement date price determined by the Company or to limit the exercise period of their options so as to comply with Section 409A.

Under certain circumstances, the Company may in the future have the right or the duty to adjust compensation before it is paid to its then NEOs or to recover compensation after it is paid to its then NEOS. Under Section 304 of the Sarbanes-Oxley Act of 2002, if we are required to prepare an accounting restatement due to a material noncompliance, as a result of misconduct, with any financial reporting requirement under the securities laws, our CEO and CFO must reimburse the Company for any bonus or other incentive-based or equity-based compensation received by them during the 12-month period following the first public issuance or filing with the SEC (whichever first occurs) of the document embodying that financial reporting requirement and any profits realized by them from the sale of our securities during that 12-month period. We will rely on an evaluation by the Board, after receiving advice of counsel, as to whether the circumstances giving rise to any restatement of the Company's financial restatement and the interpretation of the requirements of Section 304 warrant application in the case of any particular future restatement.

Elements of Compensation

General.

The compensation packages we provide our NEOs are designed to generate total compensation at levels that are sufficient in light of competitive considerations to attract and retain executives with the skills and experience required for the successful conduct of the Company's business and that reflect the performance of the executive and the Company's business performance, financial results and stock performance over time. In setting total compensation for

fiscal 2006, the Compensation Committee reviewed the total compensation for each NEO for each of the prior three fiscal years, if available, as well as the total compensation of executives with similar job responsibilities at peer group companies. To achieve our executive compensation objectives and in applying our compensation policies, we used for fiscal 2006 primarily three forms of compensation:

- salary;
- a performance-based annual cash bonus, with objective and subjective components; and
- long-term equity incentives in the form of performance shares or restricted stock grants or deferred stock awards.

Base Salary.

The Committee sets annual salaries at a level designed to attract and retain superior leaders. An annual salary is agreed upon when an executive is hired, as part of the recruitment process and taking into account the specific competitive factors regarding the candidate and general competitive factors as reflected in salary and total compensation levels for persons with similar job responsibilities at peer group companies, determined based on publicly available information compiled by the Company's Human Resources Department. When an annual salary is set forth in an agreement, it is usually established as a minimum and is subject to annual review and adjustment. Except in the case of Ms. Riley, who was hired during fiscal 2006 and whose salary for the year was set forth in her employment agreement, the fiscal 2006 salary of each of our NEOs were set by the Committee at the beginning of the year as part of its annual review of the executive's compensation package and considering his performance during the previous year. Due to the variation in the number of pay periods during a fiscal year, the salary amounts reflected on the Summary Compensation table below and shown in prior years may vary slightly from the annual salary levels established for the executives.

In setting an executive's salary, the Committee considers the executive's scope of responsibilities (including changes in responsibility made during the year or slated to be made), his or her expertise in matters pertinent to the Company, the executive's level of experience with the Company, in its industry and with business affairs and the executive's performance over several years, and also benchmarks salary levels and total compensation against the salary and total compensation of executives with similar job responsibilities at our peer group companies, using information from publicly available sources. Generally, the Committee targets each executive's salary to be within the 50% to 75% quartile of salaries of executives with comparable responsibilities at peer group companies, considering variation in size and business complexity among the peer group companies.

Annual Bonuses.

Creation of Pre-Established 2006 Bonus Program

In accordance with the 2006 Bonus Plan, the Committee in the first quarter of fiscal 2006 selected earnings per share before equity compensation expense as the objective performance measure to be used in the Company's annual cash bonus program for such year. Consistent with the plan's provisions, the Committee established during the first quarter a target bonus amount for each NEO based on a percentage of the NEO's annual salary and established a range of earnings per share levels that it believed would support awarding bonuses to the NEOs (and other bonus plan participants). If earnings per share before equity compensation expense were below this range, no bonuses would be paid under the plan and, if above the minimum, bonuses of between 1% and up to 200% of the target bonus amount would be considered, with a target level of earnings specified at which bonuses of 100% of the target bonus amount would be considered. The minimum level of earnings for fiscal 2006 established for bonus plan purposes was $2.53 per share and the target level at which bonuses of 100% of the target bonus amount would be paid was set at $3.10 per share.

For each NEO either Company-wide earnings per share before equity compensation expense or in part Company-wide and in part divisional earnings per share before equity compensation expense was specified as the performance measure applicable to such NEO under the 2006 Bonus Plan, with the weight to be given to the Company-wide and divisional earnings per share targets varying from executive to executive. For this purpose, divisional earnings per share would be determined, generally speaking, by allocating against the Disney Stores division's operating profit a portion of the costs of distribution shared services the Company incurred with respect to both the Disney Stores and The Children's Place divisions.

In setting earnings per share targets, the Committee considered the Company's business plan and historical earnings and earnings growth rate, as well as the earnings growth rates of peer group companies, and targeted a level of earnings performance for bonus plan purposes that it anticipated would be in the 50% to 75% quartile of earnings growth performance of peer group companies based on their historical performance.

In setting target bonus amounts for executives, the Committee determined that for each NEO (other than the former CEO) a portion of the award equal to 10% or 20% of the target bonus amount would be based on the Committee's assessment of the NEO's personal performance, although achievement of the objective performance measures would be paramount. Notwithstanding the Committee's establishment of target bonus amounts and objective performance criteria for the award of bonuses, the Committee retained flexibility to award bonuses in a greater or lesser amount or to determine bonuses using different or additional criteria.

Determination of Bonuses Paid Pursuant to the Pre-Established 2006 Bonus Program

Since the Company's earnings per share before equity compensation expense (Company-wide and divisional) for fiscal 2006 was within the range of targeted earnings it had established for purposes of the 2006 Bonus Plan, the Committee determined that the objective performance measures had been met and made a bonus award to each NEO (other than Mr. Patel, whose employment had terminated during the year). In the case of the former CEO the Committee applied the Company's earnings level to the range of targeted earnings it had established and his individualized earnings target and his target bonus amount in order to determine the amount of his bonus for fiscal 2006. In the case of each of the other NEOs, the Committee applied the Company's earnings level to the range of targeted earnings it had established and the NEO's individualized earnings portion of 80% or 90% of his or her target bonus amount in order to determine the amount of such NEO's bonus under the 2006 Bonus Plan for fiscal 2006. After considering the personal performance evaluation of each NEO by the former CEO, the Committee (with the assistance of the Senior Vice President, Human Resources) also determined that each NEO had satisfied his or her personal performance measurement and made a bonus award to each NEO (other than the former CEO and Mr. Patel). The actual bonus amount each NEO received was based on his or her actual performance score and was limited to the remaining 10% or 20% of such NEO's target bonus amount that he or she would have received if his or her bonus was determined based solely on the Company's earnings performance and the earnings targets the Committee had established under the 2006 Bonus Plan.

Determination of Additional Discretionary Bonus

In addition, in the first quarter of fiscal 2007, based on available financial information, the Committee approved additional bonuses for certain senior management and other bonus-eligible employees beyond the targeted amounts originally determined in the first quarter of fiscal 2006. In particular, for purposes of determining the additional bonus amounts, the Committee decided to adjust the amount to be reported as the Company's earnings to exclude certain unusual items arising in the fourth quarter of fiscal 2006, and to approve additional discretionary bonuses determined based on the amount that would have been available for fiscal 2006 bonus under the 2006 Bonus Plan given the earnings per share targets established for the year if such unusual items had not affected the Company's earnings per share. Two expense items were excluded in calculating the Company's earnings per share for purposes of determining these additional bonus amount: (i) costs paid or accrued in connection with the investigation of the Company's historical stock option grant practices and in tax costs accrued for planned remedial actions plus (ii) write-offs arising out of asset impairment charges related to fixed assets at 29 recently remodeled Disney Stores. The effect of excluding these expense items on earnings per share was reduced by also excluding the portion of the tax benefit received by the Company due to certain foreign tax credits that the Company was able to utilize in fiscal 2006 but had not anticipated utilizing under its 2006 business plan. The matters giving rise to the items for which the adjustments were made arose primarily out of events occurring before fiscal 2006 and were not anticipated when the earnings per share targets were set and the Committee concluded, consistent with our principal compensation policies, that, in general, the management team was not in a position to control these matters and the related accounting charges or benefits did not reflect the level of management's performance. This additional discretionary bonus was not awarded to Messrs. Dabah and Balasiano. For all employees, the additional discretionary bonus amounts awarded totaled approximately $2.2 million, as determined by the Committee in the first quarter of fiscal 2007, based on available financial information.

In general, the Company applied the same procedures and criteria as described above in setting annual cash bonus amounts for the Company's other employees who received bonuses for fiscal 2006.

Creation of Pre-Established 2007 Bonus Program

In applying the 2006 Bonus Plan over the past year and in otherwise determining the bonuses appropriate for fiscal 2006, the Committee determined that certain refinements of the Company's bonus program should be instituted. Accordingly, on April 25, 2007 the Committee decided to recommend to the Board, and the Board approved, termination of the 2006 Bonus Plan after fiscal 2006 and adoption of a new bonus plan, the 2007 Bonus Plan, for use in fiscal 2007 and subsequent years and, also, adoption of the Supplemental Bonus Program for use in fiscal 2007 and subsequent years. The 2007 Bonus Plan, which will be submitted for stockholder approval at the 2007 annual meeting of stockholders, is similar to the 2006 Bonus Plan and provides for performance-based bonuses for members of management selected by the Committee in amounts that are to be determined (subject to the Committee's discretion to reduce such amounts) based upon the attainment of any of a variety of objective performance criteria established in the first quarter of the year, including Company-wide and divisional earnings per share as was used by the Committee in determining fiscal 2006 bonuses. The total bonuses payable under the 2007 Bonus Plan for a fiscal year to all employees participating in the plan are limited to 25% of income from continuing operations, determined on a consolidated basis, adjusted to exclude restructuring and disposition-related charges or credits, net of tax effects, and incremental and non-recurring integration costs and other financial effects related to business operations of any entity acquired by the Company (the "maximum bonus pool"). The plan provides that the maximum bonus for any participating employee may not exceed $5 million in any performance period and, to the extent the total of all bonuses payable to participating employees for a performance period exceeds the maximum bonus pool, all participants' bonuses will be prorated. Bonuses payable under the 2007 Bonus Plan are intended to constitute performance-based compensation deductible under Section 162(m) of the Code, subject to shareholder approval of the plan. See "Accounting and Tax Considerations" above. The Compensation Committee has selected Company-wide and divisional earnings per share as the performance criteria the Committee will apply under the 2007 Bonus Plan in fiscal 2007.

The Supplemental Bonus Program is intended to provide a framework for the making of bonuses based on factors not considered under the 2007 Bonus Plan including the Committee's assessment of the performance of individual employees and extraordinary contributions to the Company. The program provides an individualized performance-based bonus opportunity for those employees selected by the Committee to participate in the program for a fiscal year. Under the program, an individual target bonus amount will be established by the Committee for a participating employee and will be payable only if (i) a minimum score is achieved on the employee's individual performance review, which is scored from 0 to 5.0, and (ii) a threshold objective Company (or divisional) performance target is achieved for the fiscal year. No individual performance component is paid to any bonus-eligible employee who does not achieve a minimum score of 3.0 on their annual performance review. Additional performance criteria may be established by the Committee. The actual bonus earned by an eligible employee under the Supplemental Bonus Program may be less than, or greater than, the target bonus amount depending upon the extent to which the applicable performance targets are met or exceeded and any additional factors the Committee determines to take into account in making bonus determinations under the program. Although for fiscal 2007 all the Company's executives are eligible to participate in the Supplemental Bonus Program, the Committee currently intends that all of the annual bonus awards for executive officers in fiscal 2007 will be made under the 2007 Bonus Plan.

In addition, the Compensation Committee has recommended certain compensation arrangements designed to retain our NEOs and other key employees. The Board has already adopted a cash retention bonus program for our employees other than our senior management and we anticipate that the Board may adopt a cash retention bonus for our senior management, including our NEOs, shortly after we become current in our SEC filings. For a more detailed description of the compensation programs that we anticipate the Board will adopt please see "Compensation Programs for NEOs and Other Key Employees Currently under Consideration" below.

Equity Awards.

General – As discussed under "Our Principal Executive Compensation Policies" above, a significant portion of the total package of executive compensation we provide is in the form of equity-based incentive awards. In the past we have provided equity-based incentives in the form of stock options, which generally were granted to members of the senior management team, as well as other employees, on an annual basis in connection with annual performance reviews, upon hiring or promoting employees and, occasionally, in other instances. However, early in fiscal 2006, we made Performance Awards to members of the senior management team. These awards were made in connection with a modification of our equity award programs, and, in combination with the 2005 option awards, were intended to

provide a multi-year incentive. They were conditioned on satisfaction of performance criteria for both fiscal 2007 and the fiscal 2005 through 2007 period, and have been viewed as a substitute for the option grants that under previous policies would have been awarded to senior management in fiscal 2006 and fiscal 2007. The Company currently expects that it will not satisfy the performance criteria for the Performance Awards and that no shares will be issued pursuant to the awards.

In addition, we anticipate that the Board will, shortly after we become current in our SEC filings, (1) make a grant of equity awards that the Company had previously promised to certain key employees in connection with their hiring or promotion, (2) adopt a new long term equity incentive program for our NEOs and certain other key employees to replace the above mentioned performance share program that expires at the end of fiscal 2007, and (3) make an annual equity compensation grant (of deferred shares or restricted stock) to all eligible employees covering the 2006 and 2007 (and possibly 2008) annual grant periods. For a more detailed description of the compensation programs that we anticipate the Board will adopt please see "Compensation Programs for NEOs and Other Key Employees Currently under Consideration" below.

Stock Options – The most recent option award we have made to members of senior management generally was on April 29, 2005, when we granted options for a total of 926,500 shares to senior management and other employees. These options were granted pursuant to our 1997 Stock Option Plan in connection with our review of our equity-based compensation program. Each such option has a ten year duration and, at the time they were granted, vested over a four year period.

On January 27, 2006, the Committee, upon management's recommendation and after discussion with the Board, approved the acceleration of vesting of most of the outstanding in- and out-of-the-money stock options held by our employees, collectively involving the right, subject to certain conditions, to purchase a total of approximately 2.1 million shares of our common stock. We decided to accelerate the vesting of these stock options to reduce equity compensation expense that would have been recorded in future periods following our adoption as of the start of fiscal 2006 of SFAS 123(R). Under accounting guidance effective during fiscal 2005 (APB 25 and other relevant accounting guidance), we recorded an expense in the fourth quarter of fiscal 2005 of approximately $1.7 million, which represents our estimate of the intrinsic value that would have been forfeited had the acceleration not occurred. See the table of "Outstanding Equity Awards at Fiscal Year-End" below. The vesting of stock options for a total of 355,000 shares previously granted to our non-employee directors and certain of our executives was, however, not changed by this action.

As part of our action accelerating the vesting of options, holders of unvested options for 5,000 or more shares agreed that if they exercised options prior to the time such accelerated options would have vested under their original vesting schedule, they would not sell or otherwise transfer the shares they acquired until such time as the shares would have otherwise vested under their original vesting schedule. However, this restriction lapses upon the option holder's disability, death or in the event of a change in control of the Company. Unless the transfer restriction is waived by the Company, in the event such holder ceases to be employed by us for any reason other than death, disability or retirement, the transfer restrictions continue to apply for the remainder of the original vesting period as if such holder's employment with us had not ceased or terminated. Except as described above, all other terms and conditions of each accelerated option remained unchanged.

We suspended the issuance of options and other equity awards, and the issuance of shares upon the exercise of options, in September 2006, in connection with the investigation of our historical option granting practices, pending the adoption of new equity grant policies and procedures and the Company becoming current in its periodic reporting. As discussed under "Explanatory Note—Resolution of Tax Consequences and Corrective Action Related to Discounted Options" above, as a result of the investigation into our stock option granting practices, we determined that the exercise price of many of our outstanding stock options, including those granted on April 29, 2005, were set below the fair market value of the related shares on the date of grant, contrary to our policies. As also discussed above, all officers of the Company subject to reporting under Section 16(a) of the Exchange Act, as amended, and certain other vice presidents and senior vice presidents of the Company agreed in December 2006 with respect to all options held by them

that vested after December 31, 2004 and that the Company determined had an exercise price less than the fair market value of the related shares on the date the Company determined to be the appropriate measurement date for such options to be used in the preparation of its restated financial statements to the fair market value of the shares on such measurement date to increase the exercise price or to limit the exercise period of such options. In addition, our former CEO, President and former General Counsel agreed as to all the options held by them that, where the exercise price was less than the fair market value on the date determined by the Company in connection with the restatement of its financial statements to be the measurement date for the option, the exercise price would be increased to the fair market value on such date. The information provided below regarding options held by our NEOs reflects this repricing action. We did not consider the effect of the repricing in setting fiscal 2006 bonuses for the NEOs or otherwise in determining the fiscal 2006 compensation of the NEOs and have not done so in the actions we have taken regarding the fiscal 2007 compensation of the NEOs.

2006 Performance Awards – On January 30, 2006, the Committee granted Performance Awards under our 2005 Equity Plan to the senior management team and certain other employees, including our NEOs then employed by the Company. This was the first equity-based incentive award made by the Company other than a stock option award. We made additional Performance Awards later in 2006, including to Susan Riley in connection with her employment as our Chief Financial Officer. Except for the number of shares that may be received pursuant to an award, the same award terms applied to all award recipients.

In general, under the award terms, shares of common stock will be issued to an award recipient if certain Company-wide performance criteria are exceeded and the recipient remains in the Company's employ at the time shares are to be delivered to recipients. To be eligible for an award, each employee (other than Mr. Dabah and Mr. Goldberg, who were already parties to such agreements) was required to enter into a non-competition and confidentiality agreement with the Company. Issuance of shares pursuant to an award is contingent upon the Company meeting a specified consolidated minimum earnings per share level for fiscal 2007 and a cumulative earnings per share level for the three fiscal years 2005 through 2007. A target number of shares was designated for each recipient and, depending on the extent to which the minimum fiscal 2007 earnings per share level is met or exceeded, the recipient is entitled (subject to the other award terms) to receive a number of shares up to a maximum of 200% of the target number of shares. The aggregate target number of shares which may be issued pursuant to the awards (after giving effect to forfeitures of awards that have already occurred) is 543,979 shares and the maximum number of shares is 1,087,958 shares. In general, to the extent shares are earned pursuant to the Performance Awards upon satisfaction of the minimum performance levels, 50% of the shares earned will be delivered promptly following the Committee's determination that the performance standards have been met and 50% one year later. Under the terms of the 2005 Equity Plan, if a change of control of the Company occurs before the end of 2007, an award recipient (unless his or her employment by the Company has already terminated) would be entitled to receive at such time a pro rated portion of his or her target number of shares determined based on the number of full months that have elapsed from the beginning of fiscal 2005 until the change of control divided by 36. The terms of the awards are intended to further our policy of utilizing equity based incentives in order to retain key executive talent. For more detail on the Performance Awards made during fiscal 2006, see the discussion below under "Grants of Plan-Based Awards."

The Performance Awards we made in 2006 were intended to provide a major part of the equity incentives we would provide the management team with respect to fiscal 2006 and 2007. The awards made to our NEOs and other executives were determined taking into account competitive (including retention) considerations, based primarily on the nature and level of the equity awards and total compensation levels provided executives of peer group companies with comparable job responsibilities and the standards for setting incentive compensation discussed above, and the executive's prior performance and compensation level in previous years.

The Company currently expects that minimum earnings per share level in fiscal 2007 will not be met and that no performance shares will be issued. In addition, we anticipate that the Board will, shortly after we become current in our SEC filings, adopt a new long term equity incentive program for our NEOs and certain other key employees to replace the above mentioned performance share program that expires at the end of fiscal 2007. For a more detailed description of the compensation programs that we anticipate the Board will adopt please see "Compensation Programs for NEOs and Other Key Employees Currently under Consideration" below.

Employee Stock Purchase Plan – The Company's 2005 Employee Stock Purchase Plan authorizes the issuance of up to 360,000 shares of common stock for purchase by employees through payroll deductions. 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's outstanding common stock. The purchase price for common stock under the plan is 95% of the stock's fair market value at the time of purchase.

Other Benefits.

401(k) Plan – The Company has adopted The Children's Place 401(k) Savings Plan (the "401(k) Plan"), which qualifies under Section 401(k) of the Code. The 401(k) Plan is a defined contribution plan established to provide retirement benefits for all employees who have completed 90 days of service with the Company. The 401(k) Plan is employee funded up by an annual amount elected by the employee that is limited to the maximum amount provided by the Code, and also provides for the Company to make matching contributions to the 401(k) Plan. Company matching contributions for non-highly compensated employees, as defined in the Code, are equal to 100% of the employee's

contribution up to 3% of compensation plus 50% of the employee's contribution between 3% and 5% of compensation. Matching contributions for non-highly compensated employees are immediately vested. Company matching contributions for highly compensated employees, as defined in the Code, are equal to the lesser of 50% of the employee's contribution or 2.5% of the employee's covered compensation. Matching contributions for highly compensated employees vest over five years.

Life Insurance – In addition to the perquisites described below, we paid $20,000 in annual premiums due on an individual life insurance policy for our former CEO. All of our NEOs, including our former CEO, received life insurance coverage under a program that is generally available to all employees.

Perquisites – We provide our NEOs with limited perquisites that we believe are reasonable and appropriate on a competitive basis in comparison to peer companies, such as participation in group health insurance program available to all of our employees. In fiscal 2006 we provided our former CEO with an allowance of $4,000 each month, to be applied to lease payments and insurance costs on a car available for his exclusive personal as well as business use and the balance of which he applied in his discretion to expenses which were not reimbursable under the Company's normal business expense reimbursement policies, which included the cost of items provided through Company programs that are used for personal purposes. We also provided our former CEO with a driver and paid our former CEO for the income tax payable by him (calculated at a rate of 40%) with respect to the income he accrued by reason of our providing him with a driver for personal as well as business use and making such payments in respect of income taxes to him. The Committee reviews at least annually the perquisites provided to our NEOs. Costs associated with perquisites are included in the "All Other Compensation" column in the "Summary Compensation Table" below.

Determination of Fiscal 2006 NEO Compensation

Discussed below are the compensation decisions we made with regard to the fiscal 2006 compensation of each of the NEOs. Each of the principal elements of our executive compensation programs (salary, annual bonus and equity awards) is addressed where applicable. Except as specified below, the NEOs did not receive any other material element of compensation and each of them received only the additional benefits and perquisites discussed above and in the "Summary Compensation" table below. When the Company has entered into an employment agreement with the NEO and this was a factor in the Compensation Committee's decision-making, this factor is discussed.

Except when the particular circumstances relating to the NEO led the Compensation Committee's decision-making to differ as indicated below, the Committee determined the annual salary level of each NEO for fiscal 2006 in the spring of 2006 in connection with his or her annual performance review for fiscal 2005, determined his or her annual bonus in the spring of the current year as part of his or her annual performance review for fiscal 2006, and with regard to equity awards made a Performance Award to the executive at the end of January 2006 (the beginning of fiscal 2006). Other than to Susan Riley in connection with her hiring as our CFO in April 2006 and her promotion in January 2007, we did not make stock option grants or other equity incentive awards to any of the NEOs during fiscal 2006 nor have we done so afterwards to date.

In making decisions about the fiscal 2006 compensation of each NEO, the Committee applied the policies and standards discussed above and determined that the salary, annual bonus, equity awards and total compensation of the NEO was appropriate, in furtherance of the objectives of our compensation programs and in the best interest of the Company and its stockholders. In making these compensation decisions the Committee took into account the performance of the Company and the executive in fiscal 2006 and (where applicable) in previous years, the executive's experience and expertise and competitive (including retention) considerations, assessed principally in relation to our practice of benchmarking our executive's compensation to that provided executives with comparable responsibilities at the peer group companies identified above.

The Committee considered, in particular, in setting the incentive awards provided to each NEO in fiscal 2006 the Company's financial, strategic and operational performance and the goals with respect to these matters the Board had established for the year under the Company's business plan. With respect to Performance Awards made to certain of our NEOs at the beginning of fiscal 2006, in considering such NEO's bonus for fiscal 2005 early in fiscal 2006 and for fiscal 2006 early in fiscal 2007 and in considering the NEO's total annual compensation for such years, the Committee considered a range of values that the NEO might receive from the Performance Awards. In particular, the Committee considered the value of the awards based on three measures: (i) the fair market value of the awards at the time of the Committee's consideration of such matters, (ii) the estimated value of the shares that the executive would receive if only the target number of shares were issued pursuant to such awards and (iii) the estimated value of the shares that the executive would receive if the maximum number of shares permitted to be issued pursuant to such awards were issued.

The Committee concluded that the incentive award made to each NEO was in each case important to provide appropriate short- and long-term incentives for such NEO's continued performance in his or her position and considers them consistent with the Company's objectives of attracting and retaining appropriate management talent, aligning the executive's incentives with corporate goals and the interests of stockholders and motivating his or her best performance.

Mr. Dabah.

During fiscal 2006, Mr. Dabah served as the CEO of the Company. Mr. Dabah resigned as CEO on September 24, 2007. Mr. Dabah remains a member of the Board. On May 12, 2006, the Company entered into an amended and restated employment agreement with Mr. Dabah, which revised the agreement that had been entered into on, and had been in effect since, June 27, 1996. The changes made from the 1996 agreement were primarily intended to assure compliance with the new deferred compensation requirements established under Section 409A of the Code, which was enacted in 2004. The other terms of Mr. Dabah's amended and restated employment agreement did not differ materially from the terms of the 1996 agreement. For details on the terms of Mr. Dabah's amended and restated employment agreement, see "Employment Agreements" below. However, in connection with the amended and restated employment agreement, Mr. Dabah's annual salary was set at $1,000,000, which was his salary level during the previous fiscal year as set during his fiscal 2005 performance review and Mr. Dabah was paid at this salary level in fiscal 2006. The 1996 agreement had provided for an annual salary of $480,000 but Mr. Dabah's annual salary had been increased over the years as the Committee had determined such increases were appropriate to ensure that Mr. Dabah's compensation package remained competitive with that provided to CEOs of peer group companies. Mr. Dabah's salary for fiscal 2007 was $1,000,000. All other components of Mr. Dabah's annual cash compensation have been determined, as described below.

His amended and restated employment agreement provided for Mr. Dabah's participation in the incentive programs the Company makes available to its executives but did not require any specific bonus or equity or other incentive awards. Mr. Dabah received for fiscal 2006 an annual cash bonus of $1,050,000. This bonus was established under the Company's 2006 Bonus Plan, which is discussed above, based upon his target bonus amount for the year, which the Committee had set in the spring of 2006 at 100% of his annual salary rate, and the Company's achievement of the Company-wide earnings per share target for fiscal 2006 that the Company had established for him under the program. While the Committee assessed Mr. Dabah's performance for the year in determining fiscal 2006 bonus, his bonus was in the amount that would have resulted based entirely upon the objective performance criteria set for him under the bonus plan. After benchmarking Mr. Dabah's total compensation level against that of the CEOs of peer group companies, the Committee in the spring of 2007 determined that it was appropriate to increase Mr. Dabah's target bonus amount for fiscal 2007 from 100% to 137% of his annual salary rate in order to target his total compensation at the level of the peer group mean. On January 28, 2006, the Committee made a Performance Award to Mr. Dabah with a target number of shares of 57,429, determined based on the factors discussed above. The other terms of the award are as described above.

In connection with his resignation as the Company's CEO, Mr. Dabah is to receive severance benefits as provided by his employment agreement; the Company has not entered into any additional agreements with Mr. Dabah concerning additional severance benefits. Mr. Dabah is to receive a lump sum cash payment of $3.0 million (three times his base salary). Mr. Dabah is not entitled to any bonus payment for fiscal 2007. In addition, Mr. Dabah is entitled to continue to receive (i) all of his health and welfare benefits, (ii) the use of the services of a driver and (iii) a $20,000 premium for a life insurance policy, through September 24, 2010.

For more detail on Mr. Dabah's compensation for fiscal 2006, see the "Summary Compensation" table and "Employment and Severance Agreements with NEOs" below.

Mr. Goldberg.

On January 22, 2004 we entered into an employment agreement with Mr. Goldberg pursuant to which he serves as our President. Pursuant to the agreement his annual salary was set at $625,000. On May 12, 2006 we entered into an amended and restated employment agreement with Mr. Goldberg. The changes made from the 2004 agreement were primarily intended to assure compliance with the new deferred compensation requirements established under Section 409A of the Code. The other terms of Mr. Goldberg's amended and restated employment agreement do not differ materially from the terms of the 2004 agreement. However, in connection with the execution of Mr. Goldberg's amended and restated employment agreement, Mr. Goldberg's annual salary was set at $690,000, subject to annual review, an increase the Committee considered appropriate based on competitive considerations and Mr. Goldberg's performance in the prior year. For details on the terms of Mr. Goldberg's amended and restated employment agreement, see "Employment Agreements" below. In connection with his fiscal 2006 performance review and based on similar considerations, Mr. Goldberg's annual salary was increased to $715,000, effective beginning March 25, 2007 and for the remainder of fiscal 2007, unless otherwise modified by the Committee.

Mr. Goldberg's amended and restated employment agreement provides for his participation in the Company's executive incentive programs but, other than certain initial awards, does but not require any specific bonus or equity or other incentive awards. His 2004 agreement provided for an option grant upon commencement of his employment covering 300,000 shares, although, as discussed below, the Company initially was able to grant to him options for only 250,000 shares and agreed to make an adjustment payment to him in connection with the delay in granting him the additional 50,000 shares. As amended and restated, his employment agreement also provides that he shall be eligible for an incentive bonus on the terms of our incentive bonus program at a target level of at least 60% of his annual salary and, depending on satisfaction of performance criteria, ranging up to at least 200% of such amount.

Mr. Goldberg received for fiscal 2006 an annual cash bonus of $581,256. This bonus was established under the Company's annual performance bonus program, based upon his target bonus amount for the year, which the Committee had set in the spring of 2006 at 60% of his annual salary, and the Company's achievement of each of the Company-wide and divisional earnings per share targets for fiscal 2006 that the Company had established for him under the program, as well as the Committee's evaluation of his performance over the past year and an additional bonus amount calculated as described above. The Committee has determined that for fiscal 2007 Mr. Goldberg's target bonus amount will be 60% of his annual salary rate.

In, addition, in fiscal 2006, Mr. Goldberg received $260,000 as part of an agreed-upon cash adjustment relating to the exercise price of an option grant for 50,000 shares that the Company agreed to make to him at the time his employment as President of the Company commenced but was not able to make until April 2005 because of limits under the applicable option plan. The adjustment amount was intended to reflect the increase in the market price of our shares and correspondingly the exercise price of the options from the time the Company had promised to grant the options to him until the time the options were granted and was agreed in April 2005 to be paid in installments as the options vested. On January 28, 2006, the Committee made a Performance Award to Mr. Goldberg with a target number of shares of 57,429, determined based on the factors discussed above. The other terms of the award are as described above. For more detail on Mr. Goldberg's compensation for fiscal 2006, see the "Summary Compensation" table below.

Ms. Riley.

In April 2006, Ms. Riley accepted an offer letter from the Company pursuant to which she was employed as our Senior Vice President, CFO. Under the terms of Ms. Riley's offer letter, her annual salary was set at $400,000 and a target bonus amount was set for her under the 2006 Bonus Plan at 40% of her annual salary. In addition, the Committee made a Performance Award to Ms. Riley on March 13, 2006 with a target number of shares of 25,000, determined based on the factors discussed above applied in the context of the negotiation of her retention. The other terms of the award are as described above.

On January 31, 2007, Ms. Riley was promoted to Executive Vice President, Finance and Administration. On April 16, 2007 we entered into an employment agreement with Ms. Riley, effective as of February 4, 2007, the beginning of our current fiscal year. This agreement provides for an annual salary of $525,000, subject to annual

review starting in fiscal 2008, and for an award of 15,000 shares of common stock, to be made as soon as practicable after the Company has become current in its periodic reporting and vesting one third on each of the first three anniversaries of the date of grant. The agreement provides for her participation in our equity incentive programs on a basis no less favorable than provided for any other executive officer other than the CEO but not for any specific incentive compensation level, except that she shall be eligible for an incentive bonus on the terms of our incentive bonus program in fiscal 2007 of at least 50% of her annual salary at target. For details on the terms of Ms. Riley's employment agreement, see "Employment Agreements" below. The Committee determined that the target bonus amount provided to her, taken in the context of her new position and the equity award promised to her under her employment

agreement, was important to provide appropriate short-term and long-term incentives for Ms. Riley's continued performance as Executive Vice President and considers them consistent with the Company's objective to reward, retain and motivate Ms. Riley in the performance of her job responsibilities.

In considering the terms of Ms. Riley's initial retention as Senior Vice President and CFO and her employment as Executive Vice President, Finance and Administration, the Compensation Committee considered, with the assistance of the Senior Vice President, Human Resources, the compensation provided to executives having similar positions at comparable companies. However, among our peer group companies there are few, if any, executives who have a set of responsibilities comparable to those she has as Executive Vice President. We also considered the employment terms of other senior executives of the Company. We determined that the terms of Ms. Riley's employment agreement, including the severance provisions, were necessary and appropriate in order to retain and to reward Ms. Riley.

Ms. Riley received $234,880 as a cash bonus for fiscal 2006. This reflected the Company's achievement of the Company-wide earnings per share target for fiscal 2006 that the Company had established for her under the 2006 Bonus Plan, as well as the Compensation Committee's evaluation of her performance over the past year and an additional bonus amount calculated as described above. For more detail on Ms. Riley's compensation for fiscal 2006, see "Summary Compensation" below.

Mr. Flaks.

The Company has not entered into an employment agreement with Mr. Flaks. For fiscal 2006, Mr. Flaks was paid an annual salary of $450,000. The Committee established Mr. Flaks' fiscal 2006 salary in connection with his 2005 performance review and determined that it was reasonable and in the best interest of the Company based on Mr. Flaks' job responsibilities and compared to the base salaries of executives at our peer group companies with comparable responsibilities. In connection with his fiscal 2006 performance review and in light of similar considerations, Mr. Flaks' annual salary was increased to $490,500, effective beginning March 25, 2007 and for the remainder of fiscal 2007, unless otherwise modified by the Committee.

For fiscal 2006, Mr. Flaks received an annual cash bonus of $282,240. This bonus was established under the 2006 Bonus Plan, based upon his target bonus amount for the year, which the Committee had set in the spring of 2006 at 40% of his annual salary, and the Company's achievement of the Company-wide earnings per share targets for fiscal 2006 that the Committee established for him under the program, as well as the Committee's evaluation of his performance over the past year, and also includes an additional bonus amount calculated as described above. Based upon the factors described above, the Committee has determined that for fiscal 2007, unless otherwise modified by the Committee, Mr. Flaks' target bonus amount is appropriate at 40% of his annual salary rate. On January 28, 2006, the Committee made a Performance Award to Mr. Flaks with a target number of shares of 36,180, determined based on the factors discussed above. The other terms of the award are as described above. For more detail on Mr. Flaks' compensation for fiscal 2006, see "Summary Compensation" below.

Mr. Rose.

The Company has not entered into an employment agreement with Mr. Rose. For fiscal 2006, Mr. Rose was paid an annual salary rate of $400,000. The Committee established Mr. Rose's fiscal 2006 salary in connection with his 2005 performance review and determined that it was reasonable and in the best interest of the Company based on Mr. Rose's job responsibility and compared to the base salaries of executives at our peer group companies with comparable responsibilities. In connection with his fiscal 2006 performance review and in light of similar considerations, Mr. Rose's annual salary was increased to $436,000, effective beginning March 25, 2007 and for the remainder of fiscal 2007, unless otherwise modified by the Committee.

For fiscal 2006, Mr. Rose received an annual cash bonus of $234,880. This bonus was established under the Company's 2006 Bonus Plan, based upon his target bonus amount for the year, which the Committee had set in the spring of 2006 at 40% of his annual salary, and the Company's achievement of the Company-wide earnings per share targets for fiscal 2006 that the Committee established for him under the plan, as well as the Committee's evaluation of his performance over the past year and an additional bonus amount calculated as described above. Based upon the factors described above, the Committee has determined that for fiscal 2007, unless otherwise modified by the Committee, Mr. Rose's target bonus amount is appropriate at 40% of his annual salary rate. On January 28, 2006, the Committee made a Performance Award to Mr. Rose with a target number of shares of 36,180, determined based on the factors discussed above. The other terms of the award are as described above. For more detail on Mr. Rose's compensation for fiscal 2006, see "Summary Compensation" below.

Mr. Balasiano.

During fiscal 2006 Mr. Balasiano served as a Senior Vice President of the Company and (until January 31, 2007) as Chief Administrative Officer, General Counsel and Secretary. Mr. Balasiano was initially employed by the Company as a Vice President and General Counsel in 1995 pursuant to an offer letter. Under the terms of Mr. Balasiano's offer letter, his annual salary was set at $140,000, subject to annual review. For fiscal 2006, Mr. Balasiano was paid an annual salary of $430,000, which was set by the Committee in connection with his 2005 performance review. The Committee determined that this salary was reasonable and in the best interest of the Company based on Mr. Balasiano's job responsibilities and compared to the salaries of executives with comparable responsibilities at our peer group companies. On January 31, 2007, at the request of the Board of Directors, Mr. Balasiano resigned all positions held by him with the Company and was appointed as Senior Vice President with responsibility for store development, construction and non-merchandise strategic sourcing. The Committee did not increase Mr. Balasiano's annual salary rate for such position from his prior position; therefore, his annual salary rate for fiscal 2007 remained at $430,000.

Mr. Balasiano received a cash bonus for fiscal 2006 of $220,590. This bonus was established under the 2006 Bonus Plan, based upon his target bonus amount for the year, which the Committee had set in the spring of 2006 at 45% of his annual salary, and the Company's achievement of the Company-wide earnings per share target for fiscal 2006 that the Committee established for him under the program, as well as the Committee's evaluation of his performance over the past year. Based upon the factors described above, the Committee determined that it was appropriate for fiscal 2007, unless otherwise modified by the Committee, to reduce Mr. Balasiano's target bonus amount from 45% to 40% of his annual salary rate. On January 28, 2006, the Committee made a Performance Award to Mr. Balasiano with a target number of shares of 36,180, determined based on the factors discussed above. The other terms of the award were as described above. For more detail about Mr. Balasiano's compensation for fiscal 2006, see the "Summary Compensation" table below.

Effective July 20, 2007, Mr. Balasiano resigned his position as Senior Vice President of the Company to pursue other opportunities. The Company entered into a severance agreement with him on July 9, 2007. Under the severance agreement, Mr. Balasiano will receive a severance payment in the amount of $438,000 and certain other severance benefits, and the transfer restrictions applicable to the shares underlying the vested options to acquire 50,300 shares held by him have been waived and, upon lifting of the temporary suspension on the exercise of options, he will be afforded the same period in which to exercise his options as is afforded current employees (as the Compensation Committee may determine in its discretion). In addition, the performance share agreement between Mr. Balasiano and the Company was amended to provide that, if the Company meets the performance goals applicable to the Performance Awards previously granted to him, he will receive, promptly after satisfaction of the performance criteria is certified by the committee, a prorated portion (30/36) of the number of shares he would otherwise be entitled to receive thereunder, even though he no longer continues in the Company's employ at the time such shares are to be delivered pursuant to the awards. Further information regarding Mr. Balasiano's severance agreement is contained below under "Employment and Severance Agreements with NEOs" below. The terms of Mr. Balasiano's termination of employment were negotiated on behalf of the Company primarily by Mr. Dabah and were determined by the Committee to be reasonable and appropriate. For further information regarding the considerations involved in setting Mr. Balasiano's severance benefits, see below.

Mr. Patel.

Mr. Patel served as Senior Vice President, CFO of the Company from April 2005 through April 15, 2006, when the Company and Mr. Patel mutually agreed that Mr. Patel would leave the Company. The Company did not enter into an employment agreement with him in connection with hiring him or subsequently. In connection with hiring Mr. Patel in 2005, the Committee set his annual salary at $360,000 per year, at which salary rate he was paid during the portion of fiscal 2006 in which he was employed. Mr. Patel was awarded in April 2005 options for 50,000 shares, the vesting of which was accelerated in January 2006 as discussed above.

In connection with Mr. Patel's resignation, the Company entered into a severance agreement with him. Pursuant to such agreement, Mr. Patel received a severance payment during fiscal 2006 of $180,000 and certain other benefits he also received $27,692 for accrued but unused vacation and personal days, and the Company waived the transfer restrictions that were applicable with respect to the shares that he could acquire pursuant to vested options he held to purchase 50,000 shares of our common stock. In consideration for these benefits, Mr. Patel agreed to certain non-competition, non-solicitation, non-interference, non-disparagement and confidentiality restrictions with the Company and to release any claims against the Company he might have arising out of his employment or the termination of his employment. Further information regarding Mr. Patel's severance agreement is contained below under "Employment and Severance Agreements with NEOs." The terms of Mr. Patel's termination of employment were negotiated on behalf of the Company primarily by Mr. Dabah and were determined by the Committee to be reasonable and appropriate. For further information regarding the considerations involved in setting Mr. Patel's severance benefits, see below. Mr. Patel did not receive any other compensation of a material amount from the Company in fiscal 2006. For more detail on Mr. Patel's compensation, see the "Summary Compensation" table below.

Compensation Programs for NEOs and Other Key Employees Currently Under Consideration

Because we have not been current in our SEC filings since September 2006, our ability to effectively address compensation matters impacting our NEOs and other key employees has been adversely affected. In particular, we have not made our customary annual equity compensation grants since the spring of 2005. In addition, over the past year we have faced several additional challenges that have impacted our ability to retain and motivate our employees.

Accordingly, the Board is considering a comprehensive strategy to address the retention and appropriate compensation of our NEOs and other key employees. Based on recommendations from Frederick W. Cook & Co., Inc. and management, the Compensation Committee has recommended certain compensation arrangements designed to retain our NEOs and other key employees, as well as to address our objective of maintaining competitive compensation programs. We anticipate that the Board may adopt some or all of these compensation arrangements being recommended by the Compensation Committee shortly after we become current in our SEC filings. These new compensation arrangements for NEOs and other key employees may include some or all of the following components:

- A new long term equity incentive program for our NEOs and certain other key employees to replace the performance share program that expires at the end of fiscal 2007;
- A cash retention bonus for our NEOs;
- Change in control and severance agreements for our NEOs and other key employees;
- An equity compensation grant to all eligible employees covering the 2006 and 2007 (and possibly 2008) annual grant periods covering the grants that customarily would have been made for such years;
- A severance policy for our NEOs and other key employees; and
- The granting of equity awards the Company previously promised to certain key employees in connection with their hiring or promotion, including 15,000 shares of restricted stock that we promised to Ms. Riley in connection with her promotion to Executive Vice President in the spring of 2007.

If the Board approves any of the above compensation programs for, or that include, our NEOs, we will disclose the material terms of such programs as required in a Form 8-K filing.

Compensation Upon Termination of Employment Including After a Change in Control

We have entered into employment and severance agreements with certain of our NEOs that require us to make payments and provide various benefits to these officers in the event of termination of his or her employment. The severance provisions of the employment agreements of Mr. Goldberg and Ms. Riley provide for severance payments and other benefits upon termination of employment by the Company without cause or by the executive for "good reason" and additional benefits are provided upon a termination of employment in connection with a change in control. Mr. Goldberg and Ms. Riley's agreements provided for acceleration of vesting of option awards upon their death or disability. For a summary of the terms of the agreements, including the change in control provisions, see "Employment and Severance Agreements with NEOs" below. For further information regarding the possible payments under these agreements in the event of a termination of employment or change in control, see "Potential Payments Upon Termination or a Change in Control" below.

In connection with their resignations, we entered into severance agreements with Mr. Patel and Mr. Balasiano. For information on the severance payments and benefits provided to them under such agreements and the other material terms of the agreements, see "Determination of Fiscal 2006 NEO Compensation – Mr. Balasiano" and "– Mr. Patel" above and "Employment and Severance Agreements with NEOs" below. In connection with the resignation of Mr. Dabah, Mr. Dabah is entitled to receive severance pursuant to Section 5.01 of his employment agreement.

The Committee has determined that the change in control and other severance arrangements provided Mr. Goldberg and Ms. Riley in connection with their employment agreements are appropriate in order to recruit and retain, including to obtain a long-term commitment to employment from, these executives. We also believe that these severance arrangements will provide our executives with appropriate incentives to remain employed with us in the event of a change in control of the Company becomes imminent or occurs. In determining the appropriate severance benefits to be provided to Messrs. Balasiano and Patel, we considered that severance arrangements of the type granted are common arrangements among our peer group companies in dealing with senior management and consistent with arrangements we have provided other executives in the past and were appropriate to maintain and enhance the ability of the Company to recruit talented executives in future and in light of the non-competition restrictions, releases and other benefits obtained by the Company in connection with the severance arrangements.

Summary Compensation Table

The following table summarizes the compensation for fiscal 2006 for our NEOs:

Name and Principal Position	Year	Salary(1)	Bonus	Stock Awards (2)	Option Awards	Non-Equity Incentive Plan Compensation (3)	All Other Compensation	Total
Ezra Dabah Chief Executive Officer(4)	2006	$ 1,028,846	$ —	$ —	$ —	$ 1,050,000	$ 197,484(5)	$ 2,276,330
Susan Riley Executive Vice President, Finance & Administration and interim CFO	2006	353,846	100,480(6)	—	—	134,400	485(7)	589,211
Neal Goldberg President	2006	709,808	170,154(8)	—	776,891	411,102	279,177(9)	2,347,132
Richard Flaks Senior Vice President, Planning, Allocation and Information Technology	2006	459,616	131,040(6)	—	—	151,200	6,512(10)	748,368
Mark Rose Senior Vice President, Chief Supply Chain Officer	2006	409,615	100,480(6)	—	—	134,400	13,413(11)	657,908
Steven Balasiano Senior Vice President, Real Estate (12)	2006	436,923	58,050(13)	—	—	162,540	14, 482(14)	671,995
Hiten Patel Senior Vice President, Chief Financial Officer (15)	2006	90,000	—	—	—	—	214,600(16)	304,600

(1) Since fiscal 2006 was a 53-week year, amounts shown include compensation for the extra week.

(2) Performance Awards were made under our 2005 Equity Plan. SFAS 123(R) requires that we recognize as compensation expense the value of all stock-based awards granted to employees in exchange for services over the requisite service period, which is typically the vesting period. However, because the Company currently expects that it will not satisfy the performance criteria established for these awards, no Performance Shares will be issued and no compensation expense will be recognized for the Performance Awards granted under the 2005 Equity Plan. Performance Shares were granted on January 30, 2006, except for those granted to Susan Riley, which were granted on March 13, 2006, in connection with the commencement of her employment by the Company. For more information, see Note 3—Equity Compensation and Stock Purchase Plans in the accompanying Notes to Consolidated Financial Statements.

(3) Amounts shown were bonuses granted pursuant to the 2006 Bonus Plan. Bonuses were earned in fiscal 2006 and paid in fiscal 2007.

(4) Mr. Dabah resigned from his position as CEO on September 24, 2007. Regarding the terms of Mr. Dabah's resignation from the Company, see "Employment and Severance Agreements with NEOs" below.

(5) Amount shown consists of $48,000, representing a $4,000 per month allowance for car lease, insurance and other expenses, $72,562 in costs incurred by us in providing a driver and $48,374 in payments for related income taxes, all as discussed above, $21,990 in insurance premiums paid by us with respect to life insurance for the benefit for the executive and $6,558 in matching contributions under the 401(k) Plan.

(6) Amount shown consists of (a) the personal performance and divisional portion of the cash bonus paid in connection with our Pre-Established 2006 Bonus Program and (b) the additional discretionary bonus paid to the executive based on the Company's adjusted earnings per share targets.

(7) Amount shown consists of insurance premiums paid by us with respect to life insurance for the benefit of the executive.

(8) Amount shown consists of (a) the personal performance and divisional portion of the cash bonus paid in connection with our Pre-Established 2006 Bonus Program and (b) the additional discretionary bonus paid to the executive based on the Company's adjusted earnings per share targets.

(9) Amount shown consists of an $18,000 car allowance and $1,177 in insurance premiums paid by us with respect to life insurance for the benefit for the executive. In addition, Mr. Goldberg received two $130,000 installment payments in fiscal 2006 in connection with a cash adjustment relating to an April 2005 grant to him of options for 50,000 shares. See above for more information regarding this cash adjustment.

(10) Amount shown consists of $502 in insurance premiums paid by us with respect to life insurance for the benefit for the executive and $6,010 in matching contributions under the 401(k) Plan.

(11) Amount shown partially consists of an $8,000 in car allowance, $425 in insurance premiums paid by us with respect to life insurance for the benefit for the executive and $4,988 in matching contributions under the 401(k) Plan.

(12) Mr. Balasiano resigned from his position as our Chief Administrative Officer, General Counsel and Secretary effective January 31, 2007 but continued as a Senior Vice President with responsibility for store development, construction and non-merchandise strategic sourcing until his resignation from that position on July 20, 2007. Regarding the terms of Mr. Balasiano's severance from the Company, see "Employment and Severance Agreements with NEOs" below.

(13) Amount shown consists of the personal performance portion of the cash bonus paid in connection with our Pre-Established 2006 Bonus Program.

(14) Amount shown consists of an $8,000 in car allowance, $473 in insurance premiums paid by us with respect to life insurance for the benefit for the executive and $6,009 in matching contributions under the 401(k) Plan.

(15) Mr. Patel resigned from his position as Senior Vice President and CFO, effective April 15, 2006. Regarding the terms of Mr. Patel's severance from the Company, see "Employment and Severance Agreements with NEOs" below.

(16) Amount shown consists of $207,692 in severance payments, $4,791 in accrued vacation and personal time, $77 in insurance premiums paid by us with respect to life insurance for the benefit for the executive and $2,040 in premium payments for medical insurance coverage for the executive.

Grants of Plan-Based Awards

Performance Shares

In fiscal 2006 the compensation committee made equity incentive grants to our executive officers and other key employees in the form of Performance Awards. Under the terms of these awards, shares of our common stock will be issued to an award recipient if, among other conditions, the Company achieves a minimum earnings per share level in fiscal 2007 (the "threshold target level") and a minimum cumulative earnings per share level for fiscal 2005, 2006 and 2007 (together with the threshold target the "minimum performance target"). For purposes of the awards, earnings per share will be calculated on a consolidated basis as reported in the Company's audited financial statements but before extraordinary items and equity compensation expense and the committee may in its discretion disregard the effects on reported earnings of a business acquisition or a disposition of assets or a line of business occurring after the award date, as long as such adjustment would not cause the award to cease to be treated as "qualified performance-based compensation" for purposes of Section 162(m) of the Code. If the minimum performance target is achieved, recipients of the Performance Awards will earn (i.e., become entitled to receive, subject to certain conditions) 50% of a target number of shares established by the compensation committee for each recipient and, if the Company's fiscal 2007 earnings per share are above the threshold target level, and the number of shares to be issued to each recipient of the awards will increase (at varying rates) up to a maximum of 200% of the recipient's target number of shares to the extent that fiscal 2007 earnings per share exceed the threshold target level. In the aggregate, the target number of shares that may be earned pursuant to Performance Awards is 543,979 shares and recipients may earn up to a maximum of 1,087,958 shares if the level of fiscal 2007 earnings per share reach or exceed the 200% target performance level (such numbers of shares being calculated after giving effect to forfeitures of awards that have already occurred).

If after the end of fiscal 2007 the compensation committee determines that the requisite performance level has been achieved, 50% of the shares earned under the Performance Awards will be delivered to award recipients promptly following the date of such determination. The remaining 50% of the earned shares will be delivered one year later. In each case, delivery of such shares is contingent, unless the committee otherwise determines, on the award recipient remaining employed by us at the time of delivery, unless the recipient's employment ended due to his or her death or disability. If the recipient died or became disabled before the end of fiscal 2007, he or she will be entitled to receive when shares are first delivered pursuant to the awards only a pro rated portion of the shares he or she is considered to have earned, determined based on the number of full months of employment since the beginning of fiscal 2005 divided by 36. In addition, if a change in control of the Company occurs before the end of fiscal 2007, an award recipient (unless his or her employment by the Company has already terminated) will be entitled to receive at such time a pro rated portion of his or her target number of shares determined based on the number of full months that have elapsed from the beginning of fiscal 2005 until the change of control divided by 36. Prior to the delivery of shares pursuant to the awards, no award recipient will have any ownership or stockholder rights (including, without limitation, dividend and voting rights) with respect to shares to be delivered nor may the recipient sell or otherwise transfer any interest in the shares.

Each Performance Award is subject to the terms and conditions of our 2005 Equity Plan and an agreement between the award recipient and us in a standard form. In addition, each Performance Award was conditioned upon the recipient entering into a confidentiality, non-competition and non-solicitation agreement with us.

The Company currently expects that it will not satisfy the performance criteria established for these awards and that no shares will be issued pursuant to this program.

For more information on the Performance Awards made during fiscal 2006, see "Compensation Discussion and Analysis – Elements of Compensation – Equity Awards – 2006 Performance Awards" above. See also, Note 3—Equity Compensation and Stock Purchase Plans in the accompanying Notes to Consolidated Financial Statements.

No other equity incentive awards were made to executive officers in fiscal 2006. As discussed above, we suspended making equity awards in September 2006 and the only awards other than the Performance Awards

referred to above made during fiscal 2006 were option grants made earlier in the year to certain non-executive employees. However, after the suspension went into effect we did promise to make certain equity awards to directors, executives and other employees when the suspension was lifted, including, as discussed above, to Susan Riley in connection with her employment as Executive Vice President.

The following table sets forth information regarding grants of incentive awards made to our NEOs during fiscal 2006. Specifically, grants were made to our NEOs of Performance Awards under our 2005 Equity Plan and cash bonuses under our 2006 Bonus Plan. No stock options were granted during fiscal 2006. As discussed above, additional cash bonus awards were also made to certain NEOs on a basis similar to the bonuses paid under the 2006 Bonus Plan.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (In Shares)			Grant Date Fair Value of Stock Awards (2)
Name	Grant Date	Threshold ($)	Target (1) ($)	Maximum (1) ($)	Threshold (#)	Target (#)	Maximum (#)	
Ezra Dabah	1/30/06 6/22/06 (3)	0	1,000,000	2,000,000	0	57,429	114,858	$ 2,533,767
Susan Riley	3/13/06 6/22/06 (3)	0	128,000	256,000	0	25,000	50,000	1,247,375
Neal Goldberg	1/30/06 6/22/06 (3)	0	124,200	248,400	0	57,429	114,858	2,533,767
Richard Flaks	1/30/06 6/22/06 (3)	0	144,000	288,000	0	36,180	72,360	1,596,262
Mark Rose	1/30/06 6/22/06 (3)	0	128,000	256,000	0	36,180	72,360	1,596,262
Steven Balasiano	1/30/06 6/22/06 (3)	0	154,800	309,600	0	36,180	72,360	1,596,262
Hiten Patel	1/30/06 6/22/06 (3)	—	—	—	—	—	—	—

(1) These amounts only include the amount of bonus payable under the 2006 Bonus Plan which does not include amounts actually paid to the executives based upon the NEOs' personal performance, divisional earnings per share, or at the Compensation Committee's discretion.

(2) Determined in accordance with SFAS 123(R) based on the target number of shares involved in the Performance Awards multiplied by the closing trading price on the grant date. See Note 3 — Equity Compensation and Stock Purchase Plans in the accompanying Notes to Consolidated Financial Statements.

(3) This is the date the stockholders approved the 2006 Bonus Plan.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding outstanding equity awards held by our NEOs at the end of fiscal 2006.

	Option Awards(1)				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable(2)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (3)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(4)
Ezra Dabah(5)	15,000(6)	—	$ 15.40	9/18/2007	57,429	$ 3,348,685
	100,000		20.29	8/14/2009		
	85,000		44.95	4/29/2010		
Susan Riley	—	—			25,000	1,457,750
Neal Goldberg	70,750	100,000(7)	27.65	1/22/2014	57,429	3,348,685
	38,750		40.65	4/21/2015		
	63,750		44.95	4/29/2015		
Richard Flaks	4,000		9.35	3/31/2013	36,180	2,109,656
	12,000	—	17.92	8/15/2013		
	15,000		25.63	12/5/2013		
	20,000		31.91	11/3/2014		
	27,500		37.66	12/31/2007		
	13,750		37.66	12/31/2008		
	13,750		37.66	12/31/2009		
Mark Rose	3,600	—	19.03	12/31/2007	36,180	2,109,656
	6,189		19.03	11/8/2010		
	3,143		23.94	12/31/2007		
	6,081		11.23	1/31/2013		
	15,000		25.63	12/5/2013		
	20,000		31.91	11/3/2014		
	55,000		44.95	4/29/2015		
Steven Balasiano(8)	12,000	—	15.94	12/31/2009	36,180	2,109,656
	18,000		26.94	11/8/2010		
	12,000		27.6	11/1/2011		
	6,882		11.23	1/31/2013		
	20,000		25.63	12/5/2013		
	20,000		31.91	11/3/2014		
	55,000		44.95	4/29/2015		
Hiten Patel	—	—	—	—	—	—

(1) In connection with our investigation of our option granting practices, certain of our NEOs agreed to increase the exercise price of options held by them to the fair market value of the related shares on the date determined by the Company to be the appropriate measurement date to be used in accounting for the option awards in the Company's restatement of its financial statements where the market price on such date was higher than the exercise price at which the option was awarded subject to final determination by the Board. In other instances, the NEOs agreed to limit the future time when such options held by them may be exercised. For more information on such increases in option exercise prices and changes in exercise periods, see "Explanatory Note—Resolution of Tax Consequences and Corrective Action Related to Discounted Options" and "Compensation Discussion and Analysis – Accounting and Tax Considerations" above. The table above reflects such increases in option exercise prices and limits on option exercise periods.

(2) In September 2006, the Company suspended the issuance of shares of common stock pursuant to the exercise of stock options. This suspension remained in effect through February 3, 2007 and thereafter.

(3) The amounts shown reflect the target number of shares of common stock to be issued to each executive if the performance goals are met. If these goals are met during the performance period, the executives will be entitled to receive at least 50% of such participant's target number of shares of common stock and if these goals are exceeded during the performance period, the executives may be entitled to receive up to 200% of such participant's target number of shares of common stock.

(4) Based on the $58.31 closing price of our common stock on February 2, 2007, the last business day of our fiscal year end. The Company currently expects that it will not satisfy the performance criteria established for the Performance Awards and that no shares will be issued pursuant to this program. See Note 3 – Equity Compensation and Stock Purchase Plans in the accompanying Notes to Consolidated Financial Statements.

(5) Mr. Dabah resigned as CEO on September 24, 2007. The Compensation Committee has determined that pursuant to the 2005 Equity Incentive Plan that Mr. Dabah's options shall continue to remain effective through the earlier of, (i) 90 days after he no longer is a member of the Board, or, (ii) the expiration date of such options.

(6) These 15,000 options expired on September 18, 2007 and were forfeited.

(7) 50,000 of such options vest per year.

(8) Mr. Balasiano resigned from the Company on July 20, 2007. All of Mr. Balasiano's options that remain unexercised 90 days from the date that the Company becomes current in its SEC filings will automatically expire.

Option Exercises and Stock Vested

The following table sets forth information regarding options exercised by our NEOs during fiscal 2006:

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Ezra Dabah	84,660	$ 3,746,172(1)	—	—
Susan Riley	—	—	—	—
Neal Goldberg	91,750	2,587,202(1)	—	—
Richard Flaks	2,000	89,310(2)	—	—
Mark Rose	57,400	3,213,777(2)	—	—
Steven Balasiano	17,118	873,147(1)	—	—
Hiten Patel	50,000	1,232,245(2)	—	—

(1) This amount is the aggregate difference in the exercise price and what the shares were actually sold for on the date of exercise.

(2) This amount is the aggregate difference between the exercise price and the per share market price of our common stock on the date of the exercise.

Employment and Severance Agreements with NEOs

Employment Agreements

Ezra Dabah, former CEO

During fiscal 2006, Mr. Dabah served as the CEO of the Company. Mr. Dabah resigned as CEO, at the request of the Board on September 24, 2007. Mr. Dabah remains a member of the Board.

Mr. Dabah entered into an amended and restated employment agreement on May 12, 2006 providing for him to serve as our CEO until May 12, 2009, a term that was to be automatically renewed for successive three year periods,

subject to termination by either party on 60 days' notice (or lesser notice in the event of a termination by the Company for cause or by Mr. Dabah for "good reason" as further discussed below). Mr. Dabah's annual salary was set at $1,000,000 under the agreement, subject to annual review by the compensation committee. The agreement provided for Mr. Dabah to receive annually during his employment a bonus based on the Company's performance during the year in an amount equal to the product of (a) Mr. Dabah's annual salary for the year times (b) a percentage equal to or greater than 100% as directed by the compensation committee times (c) a bonus percentage of not more than 200% that shall be determined based on a schedule set by the committee at the beginning of the year for the purpose of determining bonuses for all senior executives and varying with the level of our performance during such year.. In addition, during his employment Mr. Dabah was entitled under the agreement to a $4,000 a month allowance to be applied to the costs of a car that he could use for personal as well as business purposes and/or other personal expenses, and also to the services of a personal driver. Other benefits provided to Mr. Dabah pursuant to the terms of his employment agreement included individual life insurance coverage in the amount that may be obtained by a $20,000 a year premium and retirement, stock purchase, group life, medical and disability insurance and other benefits on a basis no less favorable than generally made available to other senior executives of the Company.

At the time it asked for his resignation, the Board determined that Mr. Dabah's resignation would be treated for purposes of his employment agreement as a termination of his employment by the Company without cause. Upon such a termination of his employment, the agreement provides that, if Mr. Dabah complies with certain non-competition and other restrictions, as described below, he is to receive a severance payment of three times his annual salary, payable in a lump-sum. The agreement further provides for Mr. Dabah to receive for the next 36 months life and medical insurance benefits and other benefits substantially as previously provided to him, as well as the services of a driver and payment of $20,000 per year of life insurance premiums during such period. Under the employment agreement Mr. Dabah agreed that for a period of five years following the termination of his employment he would not participate in or promote, directly or indirectly, any businesses directly competing with the Company's business or solicit our directors or employees to provide services to any other company or interfere with any person doing business with the Company or disparage the Company or furnish confidential information of the Company to any other person (except as required by law). Assuming compliance by Mr. Dabah with his obligations to the Company, including those referred to above and other obligations arising out of his past employment and continued service as a director, the Company currently expects to provide Mr. Dabah the severance benefits provided for by the agreement.

Susan Riley, Executive Vice President, Finance and Administration and Interim Chief Financial Officer

Ms. Riley's employment agreement, entered into in April 2007, effective as of February 2007, provides that she will serve as our Executive Vice President, Finance and Administration, reporting dually to the CEO and the Board, for an indefinite period, subject to termination by either party (in the case of the Company by action of a majority of the independent directors) on 30 days' notice (or lesser notice in the event of a termination by the Company for cause or by Ms. Riley for "good reason" as further discussed below). Under her employment agreement with us, Ms. Riley's annual salary is set at $525,000 for the initial year of her employment, subject to annual review by the compensation committee. Ms. Riley is also entitled to participate annually in, and eligible to receive an annual performance bonus pursuant to, the Company's annual management incentive plan (and any other bonus plan for executives the Company may establish) and will be eligible for a bonus thereunder to a degree no less favorable than any other executive of the Company, other than the CEO, and to a minimum bonus eligibility of 50% of her then annual salary (subject to achievement of the performance targets established under plan). In addition, as soon as practicable (but in no event before such time as we determine that we are in compliance with the periodic reporting requirements of Section 13(a) of the Exchange Act), Ms. Riley will be granted, pursuant to and subject to the provisions of the 2005 Equity Plan, an award for 15,000 shares of common stock, with 5,000 of such shares vesting on the first anniversary of the date of grant and 5,000 vesting on each of the next two anniversaries thereof. In respect of our 2008 fiscal year and subsequent fiscal years, Ms. Riley is entitled to participate in our equity incentive plans on a basis no less favorable than that on which any our other executive officer, other than the CEO, is permitted to participate. The agreement also provides for Ms. Riley to participate in other benefit plans made available by the Company to its senior executives on the same basis on which such benefits are from time to time generally made available to other senior executives.

The employment agreement provides that if Ms. Riley's employment is terminated by us without cause or by Ms. Riley with "good reason" or without "good reason" within one year following a change in control (as each such term s defined in the agreement), Ms. Riley will be entitled to (i) continuation of her annual salary then in effect for a period of one year following the termination of her employment, plus (ii) a pro rata portion of the performance bonus she

would have been entitled to receive for the year in which her employment terminated, calculated based on the target bonus established for her for the year under the applicable bonus plan or, if such target bonus has not been established at the time of termination of employment, on the basis of the target bonus for the previous year. Upon a change in control, the restricted stock awards Ms. Riley is entitled to receive in connection with entering into the employment agreement will, in accordance with their terms and the 2005 Equity Plan, vest and be delivered to her immediately. In addition, with respect to the Performance Award previously made to Ms. Riley under the 2005 Equity Plan (as described above), if the performance criteria for such performance shares are satisfied, the delivery of such shares to her will be accelerated upon a termination of her employment by us without cause or by Ms. Riley for good reason. In general, a material breach by us of the agreement or the assignment to Ms. Riley of duties inconsistent with her status as Executive Vice President – Finance and Administration or a significant relocation of the place of her employment will constitute "good reason" for Ms. Riley to terminate her employment. In the event Ms. Riley's employment terminates by reason of death disability or normal retirement, she shall be entitled to any then accrued but unpaid salary and bonus and a prorated portion of the performance bonus for the year in which her employment so terminates based on the portion of the year in which she was employed. The employment agreement also provides that Ms. Riley will not for a period of one year following any termination of her employment participate in or promote, directly or indirectly, any businesses directly competing with the Company's business or solicit our directors or employees to provide services to any other company or interfere with any person doing business with the Company or at any time disparage the Company or furnish confidential information of the Company to any other person (except as required by law).

Neal Goldberg, President

Mr. Goldberg's amended and restated employment agreement, entered into on May 16, 2007, provides that he will serve as our President for an indefinite period, subject to termination by either party upon notice (in the case of the Company of at least 30 days' or lesser notice in the event of a termination by the Company for cause or by Mr. Goldberg for "good reason" as further discussed below). Pursuant to his employment agreement, Mr. Goldberg's annual salary was set at $690,000 per year, which his subject to annual review by the compensation committee. Mr. Goldberg is also entitled to receive each year a bonus, provided he remains in the Company's employ at the time the bonus is payable, in an amount equal to the product of (a) Mr. Goldberg's annual salary for the year, times (b) a percentage equal to or greater than 60% as directed by the compensation committee, times (c) a bonus percentage of not more than 200% that shall be determined based on a schedule set by the committee at the beginning of the year for the purpose of determining bonuses for all senior executives and varying with the level of our operating income during such year. Mr. Goldberg's previous employment agreement provided for the grant of an aggregate 250,000 stock options which were granted on January 22, 2004 and vest over a five year period. In addition, Mr. Goldberg was promised and additional 50,000 stock options in connection with the commencement of his employment, also to vest over a five year period, but such options could not be granted at that time because of limitations under the applicable option plan and were granted to him on April 21, 2005 and we separately agreed to pay Mr. Goldberg a cash adjustment in the amount of $650,000, representing the difference between the aggregate exercise price for the 50,000 options granted on April 21, 2005 and the aggregate exercise price for such options that would have applied if such options had been granted on January 22, 2004. The $650,000 was made payable in five equal installments of $130,000 as the options vest. We made the first installment payment within ten days of May 12, 2005 and the second and third installment payment on January 31, 2006 and January 31, 2007, respectively. The subsequent $130,000 payments will be paid on each of January 31, 2008 and January 31, 2009, subject to Mr. Goldberg's continued employment.

The employment agreement provides that if Mr. Goldberg's employment is terminated by us without cause or by Mr. Goldberg with "good reason" or without "good reason" following a change in control (as such term is defined in the agreement), Mr. Goldberg will be entitled to continuation of his annual salary then in effect for a period of one year following the termination of his employment. In addition, if his employment terminates for any such reason, the portion of the 300,000 stock options granted to him in connection with his employment as our President that will vest by the next anniversary date following the date of termination of his employment will vest to the extent of the pro rated portion thereof equal to the portion of that year in which he was employed and he shall have the next three months in which to exercise such options before they expire. In addition, it the termination of employment occurs following a change in control of the Company all then remaining unvested stock options held by him shall immediately vest and may be exercised during the next three months before they expire. In general, a material breach by us of the agreement or the assignment to Mr. Goldberg of duties inconsistent with his status as President or a significant relocation

of the place of his employment or Mr. Dabah ceasing to hold the position of CEO will constitute "good reason" for Mr. Goldberg to terminate his employment. Since Mr. Dabah has resigned as our CEO, Mr. Goldberg has the right at any time to terminate the employment agreement for "good reason" and will then be entitled to the above mentioned severance. If Mr. Goldberg's employment is terminated by reason of death or his disability, all unvested stock options held by him will immediately vest and remain exercisable for a period of one year. The employment agreement also provides that Mr. Goldberg will not for a period of one year following any termination of his employment participate in or promote, directly or indirectly, any businesses directly competing with the Company's business or solicit our directors or employees to provide services to any other company or interfere with any person doing business with the Company or at any time disparage the Company or furnish confidential information of the Company to any other person (except as required by law). Mr. Goldberg's employment agreement also provides that Mr. Goldberg will not engage or be engaged in a competing business or solicit our directors, officers and employees for a period of one year following termination of his employment.

Steven Balasiano, former Senior Vice President

Mr. Balasiano and the Company in 1995 entered into an offer letter that provided for his employment as Vice President and General Counsel at an annual salary of $140,000 and that in the event his employment was terminated without cause he would be entitled to six months' salary as a severance payment. In fiscal 2005, Mr. Balasiano was promoted to Senior Vice President and also Chief Administrative Officer. The compensation provided to Mr. Balasiano in fiscal 2006 is discussed above.

In connection with the termination of Mr. Balasiano's employment by the Company in July 2007, the Company entered into a severance agreement with him. Under the severance agreement, (i) Mr. Balasiano will receive a severance payment in the amount of $438,000 in accordance with the Company's regular payroll practices in 26 biweekly installments, $24,808 as compensation for unused vacation and personal days, and no later than April 15, 2008, a pro rated portion of the cash bonus he would have received under the Company's annual management incentive program for fiscal 2007 determined based on the portion of fiscal 2007 he continued in the Company's employ, (ii) the transfer restrictions applicable to the shares underlying the vested options to acquire 50,300 shares held by him have been waived and, upon lifting of the temporary suspension on the exercise of options, he will be afforded the same period in which to exercise his options as is afforded current employees (as the Compensation Committee may determined in its discretion), (iii) the Company will waive all premium costs that Mr. Balasiano would otherwise be required to pay for continuation of the existing group heath and dental coverage provided to him and his family for a period of 12 months or the earlier date on which he commences full-time employment that provides to him health coverage comparable to the medical, dental and vision benefits he would be entitled to receive under the Company's programs through COBRA. In addition, the performance share agreement between Mr. Balasiano and the Company was amended to provide that, if the Company meets the performance goals applicable to the Performance Awards previously granted to him, he will receive, promptly after satisfaction of the performance criteria is certified by the committee, a prorated portion (30/36) of the number of shares he would otherwise be entitled to receive thereunder, even though he no longer continues in the Company's employ at the time such shares are to be delivered pursuant to the awards. Mr. Balasiano will remain subject to the non-competition and confidentiality agreement with the Company he entered into in connection with receiving the Performance Award and in connection with his severance agreement releases any claims against the Company he might have arising out of his employment or the termination of his employment. For further information regarding the considerations involved in setting Mr. Balasiano's severance benefits, see above.

Hiten Patel, former Chief Financial Officer

In connection with Mr. Patel's resignation in April 2006, the Company entered into a severance agreement with him. Pursuant to such agreement, Mr. Patel received a severance payment during fiscal 2006 of $180,000 and $27,692 for accrued but unused vacation and personal days, and the Company waived the transfer restrictions that were applicable with respect to the shares that he could acquire pursuant to vested options he held to purchase 50,000 shares of our common stock. In consideration for these benefits, Mr. Patel agreed to certain non-competition, non-solicitation, non-interference, non-disparagement and confidentiality restrictions with the Company and released any claims against the Company he might have arising out of his employment or the termination of his employment. For further information regarding the considerations involved in setting Mr. Patel's severance benefits, see above.

Other Executive Compensation Information

Charles Crovitz, Interim CEO

On November 20, 2007, in connection with his election as Interim CEO, the Company entered into an employment agreement term sheet (the "Term Sheet") with Mr. Crovitz outlining the compensatory arrangements that he shall receive for serving as Interim CEO.

The Term Sheet provides that Mr. Crovitz will serve as our Interim CEO commencing as of October 1, 2007 until the earlier of (i) the end of fiscal 2008 or (ii) the selection and commencement of service of a permanent CEO. Pursuant to the Term Sheet, Mr. Crovitz shall receive an annual salary of $1 million, payable in accordance with the Company's normal payroll practices. However, in all events, salary payments will be made for a minimum of six months (through March 2008), even if Mr. Crovitz's employment period ends earlier. If Mr. Crovitz's employment ends before the end of fiscal 2008 because a permanent CEO commences service, the Company shall retain him as a consultant for the two months following the termination of employment to provide assistance as requested in transitioning the chief executive responsibilities. Mr. Crovitz shall receive a consulting fee for each of these months equal to his pro rated monthly salary of $83,333. If Mr. Crovitz's employment continues into fiscal 2008, he will be entitled to participate in the Company's annual management incentive bonus program in which other senior executives participate for fiscal 2008. His target bonus will be $1 million and his bonus will be based on the same performance criteria and other terms applicable to other senior executives including payment of any bonus earned at the beginning of fiscal 2009 but without a requirement for continued employment at the time of payment. If Mr. Crovitz's employment terminates before the end of fiscal 2008, he shall be entitled to a pro rated portion of any bonus otherwise earned.

As soon as practicable after the Company is legally able to resume making equity awards, and whether or not Mr. Crovitz's employment has then terminated, Mr. Crovitz is entitled to receive a restricted stock grant of the number of shares then having a fair market value of $1 million. The shares shall vest ratably on a monthly basis over the 36 month period starting in October 2007 as long as employment continues or, after termination of employment (unless by reason of dismissal for cause or resignation without good reason), service as a director. If Mr. Crovitz's service as a director is terminated as result of Mr. Crovitz not being re-nominated for election as a director or, if re-nominated, he is not re-elected to serve as a director, any shares then remaining unvested will vest. In addition, the entire award shall vest upon a change in control of the Company. Notwithstanding this vesting schedule, Mr. Crovitz is not allowed to sell any of the shares until the beginning of fiscal 2010, except that if all such restricted stock grant has become fully vested for any reason or upon the one year anniversary of Mr. Crovitz's termination of employment for any reason, all of the then vested shares will become immediately saleable.

Mr. Crovitz will be entitled to participate in all executive benefit plans, and will be provided substantially the same benefits and perquisites, from time to time maintained by the Company for senior executives, except that additional incentive awards will not be provided and, in lieu of the Company providing a car to Mr. Crovitz, the Company will provide him with (or reimburse him for) a car service to/from Manhattan to the Company's offices on an as-needed and reasonable basis.

In connection with his appointment as Interim CEO, Mr. Crovitz will be required to temporarily relocate to the New York metropolitan area. Accordingly, Mr. Crovitz's employment agreement also provides that he is entitled to a $15,500 a month housing allowance. In addition, the Company is responsible for commissions, security deposit and

any lease termination costs associated with such housing arrangements. Mr. Crovitz shall also receive a furniture rental allowance of, up to $2,000 per month. Mr. Crovitz shall also receive round trip airfare (business class) to his permanent residence twice per month during fiscal 2007 and once per month during fiscal 2008. The Company will also make "gross up" payments to Mr. Crovitz sufficient to cover the income taxes he will incur as a result of the Company bearing these costs and his receiving such payments.

In addition, the Company has agreed to indemnify Mr. Crovitz and provide him with directors and officers' liability insurance to the same extent provided for other senior executives. Upon termination of his employment, Mr. Crovitz shall provide the Company a release of all claims against the Company in the form customarily provided to the Company by departing executives. Following termination of his employment, Mr. Crovitz will be subject to substantially the same (i) confidentiality and (ii) non-competition and non-solicitation restrictions as apply under the Company's form of agreement used in connection with its Performance Award plan, for a term not in excess of one year in the case of the obligations under clause (ii).

It is expected that the Company and Mr. Crovitz will promptly enter into definitive employment and equity award agreements reflecting terms consistent with the Term Sheet, at which time such agreements shall supersede the Term Sheet.

Tara Poseley, President

Ms. Poseley's employment agreement provides that she will serve as our President, Disney Store North America until such time as her employment is terminated in accordance with the termination provisions thereof. Ms. Poseley reports directly to our CEO. Pursuant to her employment agreement, Ms. Poseley's annual salary was set at $625,000, subject to annual review by our compensation committee. Ms. Poseley is entitled to receive an annual bonus, pursuant to the Annual Management Incentive Bonus Plan, in an amount equal to the product of (a) Ms. Poseley's annual base salary, times (b) a percentage equal to or greater than 50% as determined by the compensation committee in their discretion, times (c) a bonus percentage of not more than 200% that shall be determined in accordance with the Annual Management Incentive Bonus Plan. Subject to the terms of the Annual Management Incentive Bonus Plan, the minimum bonus that Ms. Poseley was entitled to receive for (a) fiscal 2006 was $156,250 and (b) fiscal 2007 is $312,500.

Ms. Poseley's employment agreement provided that we (a) pay her $10,000 for relocation incidentals, (b) provide her and her family with housing in the Los Angeles, California area from September 18, 2006 through December 31, 2006 (which was later amended by the compensation committee to extend through May 31, 2007; provided that the aggregate cost of such extension, including gross up, shall not significantly exceed $75,000), and (c) pay the cost of roundtrip airfare for either Ms. Poseley or her family to travel to Los Angeles each week from September 18, 2006 through December 31, 2006.

Ms. Poseley's employment agreement provides that if Ms. Poseley's employment is terminated by us "without cause", or by Ms. Poseley for "good reason" or following a "change in control" (as each such term is defined in the agreement), we will be required to pay Ms. Poseley her base salary then in effect for one year following such termination, which amount will be payable in bi-weekly installments following her termination. Since Mr. Dabah has resigned as our CEO, Ms. Poseley has the right at any time to terminate the employment agreement for "good reason" and will then be entitled to the above mentioned severance. If Ms. Poseley's employment is terminated due to a change of control, all of her outstanding unvested stock options and restricted shares, if any, excluding any equity-based compensation granted to Ms. Poseley pursuant to any long term compensation program which shall be governed by the terms of such program, will immediately vest.

Mario Ciampi Severance Agreement and Release

Mario Ciampi served as President of Disney Store until April 30, 2006, as of which the Company and Mr. Ciampi entered into a severance agreement and release dated April 14, 2006 and effective April 30, 2006. Until such time, he received during fiscal 2006 salary payments totaling $144,231 and other benefits, comparable to those provided our other executives during fiscal 2006 as discussed above.

Pursuant to such agreement, (i) Mr. Ciampi received a severance payment in the total amount of $510,000, (ii) transfer restrictions with respect to Mr. Ciampi's vested options to acquire 30,400 shares of our common stock were

waived, (iii) 10,000 unvested stock options scheduled to vest on April 29, 2007 were accelerated to vest on April 27, 2006, (iv) we waived all applicable premium costs that Mr. Ciampi would otherwise be required to pay for continuation of the existing group health coverage provided to him and his family under its medical and dental plans for a period of 12 months or the date on which Mr. Ciampi commences full time employment with another company that provides health benefits to Mr. Ciampi and his family which are comparable to the medical, dental and vision benefits available to Mr. Ciampi and his family through COBRA, whichever date is sooner, (v) through June 30, 2006, Mr. Ciampi and his family were permitted to continue to reside in a residence in California leased by us, we paid the costs associated with the lease, and we paid Mr. Ciampi an additional amount intended to be sufficient to cover the income taxes payable by him (calculated at a rate of 40%) on the amounts paid by us in connection with this lease and such additional payments that are reported as income to Mr. Ciampi, and (vi) we reimbursed Mr. Ciampi $12,125 for costs incurred by Mr. Ciampi and his family to relocate from California to New York.

In consideration for these benefits, Mr. Ciampi agreed to certain non-competition, non-solicitation, non-interference, non-disparagement and confidentiality restrictions with the Company and released any claims against the Company he might have arising out of his employment or the termination of his employment.

The terms of Mr. Ciampi's termination of employment were negotiated on behalf of the Company primarily by Mr. Dabah and were determined by the compensation committee to be reasonable and appropriate in light of the practices the Company had followed in the past of providing severance benefits upon the termination of employment of other executives, the severance benefit practices followed by comparable companies and the restrictive covenants Mr. Ciampi agreed to and his release of possible claims against the Company.

Potential Payments on Account of Retirement, Termination without Cause, Termination for Good Reason, Change in Control, Death/Disability or Resignation

We have entered into employment and severance arrangements with certain of our named NEOs that require us to make payments and provide various benefits to these officers in the event of termination of his or her employment. The severance provisions of the employment agreements of Mr. Goldberg and Ms. Riley provide for severance payments and other benefits upon termination of employment by the Company without cause or by the executive for good reason and additional benefits are provided upon a termination of employment in connection with a change of control. In April 2006, in connection with his resignation, the Company and Mr. Patel entered into a severance agreement that provided for him to receive certain severance payments and other benefits. In July 2007, in connection with his resignation, the Company and Mr. Balasiano entered into a severance agreement that provides for him to receive severance payments and other benefits. In September 2007, Mr. Dabah resigned as the Company's CEO. The Board has determined that Mr. Dabah's resignation was deemed to be a termination by the Company without cause. Therefore, Mr. Dabah is entitled to severance pursuant to Sections 5.01 and 6.01 of his employment agreement. Further information regarding the termination of employment arrangements pertaining to these NEOs is provided above. The other NEOs do not have employment or severance agreements with the Company. The Company since the start of fiscal 2006 has agreed to severance benefits in connection with the resignation of other executives or in hiring other executives, as also discussed above. The amount of compensation potentially payable to our NEOs in each termination of employment situation, assuming the termination of employment had occurred on the last day of fiscal 2006, is listed in the table below.

Termination without Cause, for Good Reason or following a Change in Control

The following sets forth compensation due the NEO if we terminate the NEO's employment without cause, if the NEO terminates the NEO's employment for "good reason" or the NEO's employment terminates following a Change in Control of the Company. Payment of compensation is generally conditioned on the NEO executing a general release of claims and the NEO's compliance with certain confidentiality, non-compete and non-disparagement provisions contained therein.

Susan Riley

- One times her annual base salary payable in accordance with normal payroll practices;
- Earned but not yet paid Performance Bonus;
- Prorated portion of her target Performance Bonus for the year in which her termination takes place;

- Except in the event of a Change in Control, all of her Performance Shares vest as long as performance criteria satisfied and delivery of such shares occurs promptly after termination; and
- Only in the event of a Change in Control, (i) a prorated portion of the target number of Performance Shares and (ii) non-performance restricted shares immediately vest.

Neal Goldberg

- One times his annual base salary payable in equal monthly installments;
- Except in the event of a Change in Control, outstanding, unvested stock options granted to him on January 22, 2004, that are scheduled to vest on the next anniversary date following his termination date, will immediately vest; and
- Only in the event of a Change in Control, (i) a prorated portion of target number of Performance Shares; (ii) all of his outstanding, unvested stock options immediately vest; and (iii) transfer restrictions on stock options granted pursuant to the Transfer Restriction Agreement immediately lapse.

Richard Flaks and Mark Rose

- Only in the event of a Change in Control, a prorated portion of Performance Shares are awarded as long as performance criteria are satisfied and transfer restrictions on stock options granted pursuant to the Transfer Restriction Agreement immediately lapse.

Termination due to Retirement, Resignation, Death or Disability

The following sets forth compensation due the NEO if the NEO's employment is terminated because of retirement, resignation, death or disability. Payment of certain compensation hereunder is generally conditioned on the NEO executing a general release of claims and the NEO's compliance with certain confidentiality, non-compete and non-disparagement provisions contained therein.

Susan Riley

- Except in the event of resignation, a prorated portion of her target Performance Bonus for the year in which her termination takes place; and
- Only in the event of disability or death, a prorated portion of Performance Shares are awarded as long as performance criteria are satisfied and non-performance restricted shares immediately vest.

Neal Goldberg

- Only in the event of disability or death, (i) a prorated portion of Performance Shares are awarded as long as performance criteria are satisfied; (ii) all outstanding, unvested stock options immediately vest, and (iii) transfer restrictions on stock options granted pursuant to the Transfer Restriction Agreement immediately lapse.

Richard Flaks and Mark Rose

- Only in the event of disability or death, (i) a prorated portion of Performance Shares are awarded as long as performance criteria are satisfied; and (ii) transfer restrictions on stock options granted pursuant to the Transfer Restriction Agreement immediately lapse.

Summary of Potential Severance Payments

The following table summarizes the Company's potential obligations under employment and severance arrangements with certain of the Company's NEOs upon termination of his or her employment as if such termination had occurred on February 3, 2007 (Mr. Dabah and Mr. Balasiano both resigned from the Company subsequent to February 3, 2007 and received severance as described above):

Executive	Termination Reason	Salary	Accrued but Unpaid Performance Bonus	Accelerated Vesting of Stock Option Awards	Payment of Performance Shares	Health and Welfare Benefits
Ezra Dabah(1)	By Company without cause	$ 3,000,000	$ 1,050,000	$ —	$ —	$ 407,028
	By Executive for Good Reason	3,000,000	1,050,000	—	—	407,028
	Following Change in Control	3,000,000	1,050,000	—	2,232,457	407,028
	Retirement	—	1,050,000	—	—	—
	Resignation	—	—	—	—	—
	Death	—	—	—	2,232,457	—
	Disability	3,000,000	1,050,000	—	2,232,457	407,028
Susan Riley(2)	By Company without cause	200,000	—	—	1,457,750	—
	By Executive for Good Reason	200,000	—	—	1,457,750	—
	Following Change in Control	200,000	—	—	1,239,088	—
	Retirement	—	—	—	—	—
	Resignation	—	—	—	—	—
	Death	—	—	—	1,239,088	—
	Disability	—	—	—	1,239,088	—
Neal Goldberg	By Company without cause	690,000	—	1,533,000	—	—
	By Executive for Good Reason	690,000	—	1,533,000	—	—

	Following Change in Control	690,000	—	3,066,000	2,232,457	—
	Retirement	—	—	—	—	—
	Resignation	—	—	—	—	—
	Death	—	—	3,066,000	2,232,457	—
	Disability	—	—	3,066,000	2,232,457	—
Steven	By Company without cause	215,000	—	—	—	—
Balasiano	By Executive for Good Reason	—	—	—	—	—
	Following Change in Control	—	—	—	1,406,437	—
	Retirement	—	—	—	—	—
	Resignation	—	—	—	—	—
	Death	—	—	—	1,406,437	—
	Disability	—	—	—	1,406,437	—
Richard	By Company without cause	—	—	—	—	—
Flaks	By Executive for Good Reason	—	—	—	—	—
	Following Change in Control	—	—	—	1,406,437	—
	Retirement	—	—	—	—	—
	Resignation	—	—	—	—	—
	Death	—	—	—	1,406,437	—
	Disability	—	—	—	1,406,437	—
Mark	By Company without cause	—	—	—	—	—
Rose	By Executive for Good Reason	—	—	—	—	—
	Following Change in Control	—	—	—	1,406,437	—
	Retirement	—	—	—	—	—
	Resignation	—	—	—	—	—
	Death	—	—	—	1,406,437	—
	Disability	—	—	—	1,406,437	—

(1) The amount of Mr. Dabah's Health and Welfare Benefits are subject to final determination by the Board.

(2) These amounts are pursuant to Ms. Riley's offer letter which was in effect as of February 3, 2007. In April 2007, Ms. Riley executed an employment agreement which provides for additional compensation to be paid under certain circumstances upon termination.

Compensation of Directors

We pay each of our non-employee directors an annual retainer, attendance fees and a committee chair retainer (if applicable). In 2007, the Board, with the advice of a compensation consultant, revised the director compensation

program for fiscal 2007, effective as of February 4, 2007, and subsequent years. With respect to the equity portion of the new program, such changes are subject to and only effective upon our stockholders' approval of an amendment to our 2005 Equity Plan.

	Fiscal 2006	Fiscal 2007
Initial Equity Grant	Options for 15,000 shares(1)	Pro rated portion of $100,000 worth of restricted stock(2)
Annual Retainer		
Cash	$ 30,000	$ 35,000
Equity Grant	Options for 6,000 shares(3)	$100,000 worth of(4) restricted stock
Annual Retainer for Committee Chairs		
Lead Director	—	$ 65,000(5)
Audit Committee	$ 10,000	$ 15,000
Compensation Committee	7,500	10,000
Corporate Governance Committee	7,500	10,000
Fee per Board Meeting	1,250	1,500
Fee per Committee Meeting	1,000	1,500

(1) Our 2005 Equity Plan provides for issuance of these options, which are to have an exercise price equal to the fair market value of our shares on the date of grant and are to vest over a three year period. Mr. Goldman did not receive his initial option grant.

(2) Any new non-employee director appointed prior to stockholder approval of the amendment to the 2005 Equity Plan shall receive 15,000 options as described in the Fiscal 2006 column of this table. Subject to and effective only upon such stockholder approval, each new Director appointed after such stockholder approval shall receive as of the date of appointment to the Board a portion of the annual retainer of $100,000 worth of restricted common stock, pro rated according to the number of days left in our fiscal year. The number of shares of restricted common stock will be calculated using the fair market value of our common stock on the third business day following the date we file our first periodic report with the SEC (Form 10-Q or Form 10-K) after such director's initial appointment to the Board. The restricted common stock will be issued pursuant to our 2005 Equity Plan, as proposed to be amended, and shall vest one year from the date of grant.

(3) Our 2005 Equity Plan, provides for issuance of these options, which are to have an exercise price equal to the fair market value of our shares on the date of grant and are to vest over a three year period.

(4) Until our stockholders approve an amendment to our 2005 Equity Plan, our non-employee directors will continue to receive 6,000 options on an annual basis as described in the Fiscal 2006 column. Subject to and effective only upon such stockholder approval, on the first day of our fiscal year, each director shall receive an award of restricted shares of our common stock, the aggregate value of which shall be $100,000, based on the fair market value of our common stock on the date of issuance. The common stock will be issued pursuant to our 2005 Equity Plan as proposed to be amended, and shall vest one year from the date of grant.

(5) The Board approved an annual retainer for the Lead Director/Chairman which shall apply for fiscal 2007 as of the beginning of the year.

In light of the extraordinary effort and time expended by our independent directors during the recent investigation of the Company's stock option granting practices, the Board determined that each independent director should receive an additional fee of $1,000 per meeting of the special committee he or she attended. Each of our non-employee directors earned a fee of: (a) $1,000 for each meeting of a standing committee of the Board and (b) $1,250 for each

meeting of the Board, attended by such non-employee director in connection with the stock option investigation. In addition, the Board determined that Malcolm Elvey and Charles Crovitz should receive an additional fee of $5,000 for the considerable amount of time spent on the investigation outside of committee or board meetings. Lastly, the Board determined that Mr. Elvey, Mr. Crovitz and James Goldman should each receive an additional fee equal to a prorated portion of the annual retainer of $30,000, based on the number of months of additional time served by each of them respectively in connection with the Investigation.

Accordingly, through July 15, 2007, each of our non-employee directors has earned the amounts listed in the following table for services performed in connection with the investigation of the Company's stock option granting practices.

Director	Amount Earned in Connection with Investigation during fiscal 2006	Amount Earned in Connection with Investigation during fiscal 2007	Total Amount Earned in Connection with Investigation
Sally Frame Kasaks	$ 10,500	$ 2,250	$ 12,750
Charles Crovitz	26,000	10,750	36,750
Malcolm Elvey	32,000	9,750	41,750
Robert Fisch	10,500	2,250	12,750
James Goldman	21,000	10,750	31,750
Stanley Silverstein	2,500	1,250	3,750

We also pay for or reimburse directors for travel expenses related to attending meetings of our Board or its committees, company business meetings and approved educational seminars. All directors and their immediate families are eligible to receive discounts on our merchandise in accordance with our employee merchandise discount policy.

Employee directors are not eligible for the annual retainer or attendance fees or to serve on any committees of our Board.

As discussed above under "Explanatory Note—Resolution of Tax Consequences and Corrective Action Related to Discounted Options," the Company and its non-employee directors have agreed to amend all options held by them that were issued with a lower exercise price to increase the exercise price to the trading price on the date determined by the Company to be the revised measurement date with respect to the option award or in some instances to a higher price.

2006 Board of Director Compensation

The following table summarizes director compensation earned during fiscal 2006:

Non-Employee Director	Fees Earned or Paid in Cash ($) (1)	Option Awards (2)	All Other Compensation ($)	Total (3)
Sally Frame Kasaks	$ 78,250	—	—	$ 78,250
Charles Crovitz	82,000	—	—	82,000
Malcolm Elvey	101,250	—	—	101,250
Robert Fisch	65,000	—	—	65,000
James Goldman	41,669(4)	(5)	—	41,669
Stanley Silverstein	40,000	—	—	40,000

(1) Includes annual retainer, annual retainer for service as a committee chair, if any, fees for each board meeting attended, fees for each committee meeting attended and the fees earned in connection with resolving our stock option granting practices ($10,500 for Ms. Kasaks, $26,000 for Mr. Crovitz, $32,000 for Mr. Elvey, $10,500 for Mr. Fisch, $21,000 for Mr. Goldman and $2,500 for Mr. Silverstein).

(2) Each non-employee director should have been issued 6,000 options on the last day of fiscal 2006. However, due to the investigation of our stock option granting practices, we did not grant the non-employee directors these options. When the Company becomes current in its periodic reports to the SEC its suspension on granting equity awards will end and the compensation committee will recommend to the Board how to compensate the non-employee directors for these equity awards.

(3) Does not include reimbursement for travel and merchandise discount.

(4) Mr. Goldman joined the Board on August 17, 2006; therefore his annual retainer was pro rated.

(5) Mr. Goldman was elected to our Board on August 17, 2006 and pursuant to the 2005 Equity Plan should have been issued 15,000 options that would vest over three years. However, due to the investigation of our stock option granting practices, we did not grant Mr. Goldman his options upon election to our Board. When the Company becomes current in its periodic reports to the SEC, its suspension on granting equity awards will end, and the compensation committee will then determine how to compensate Mr. Goldman for this equity award.

Compensation Committee Interlocks and Insider Participation

Members of the compensation committee for the fiscal year ended February 3, 2007 were Messrs. Crovitz and Goldman and Ms. Kasaks. No member of the compensation committee was, during the fiscal year ended February 3, 2007, an officer or employee of our Company or any of our subsidiaries, was formerly an officer of our Company or any of our subsidiaries or had any relationships requiring disclosure under the heading "Certain Relationships and Related Transactions." None of our executive officers serves as a member of the Board or compensation committee of any entity that has one or more of its executive officers serving as member(s) of our Board or compensation committee.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007 by Item 402(b) of Regulation S-K with management and, based on this review and discussion, the Compensation Committee recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report.

Submitted by the Compensation Committee

Sally Frame Kasaks

James Goldman

ITEM 12.—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding ownership of shares of our common stock, as of October 6, 2007:

- by each person known by us to be the beneficial owner of 5% or more of our common stock;
- by each of our current directors and named executive officers; and
- by all of our current directors and executive officers as a group.

Except as otherwise indicated, each person and each group shown in the table below has sole voting and investment power with respect to the shares of common stock indicated. For purposes of the table below, in accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner of any shares of common stock over which he or she has or shares, directly or indirectly, voting or investment power; or of which he or she has the right to acquire beneficial ownership at any time within 60 days after October 6, 2007. As used herein, the term "voting power" means the power to vote or direct the voting of shares and the term "investment power" includes the power to dispose or direct

the disposition of shares. Percentage ownership has been calculated based on 29,083,916 shares of our common stock outstanding as of October 6, 2007.

Name and Address of Beneficial Owner (1)	Shares Beneficially Owned	Percent of Class (2)
Ezra Dabah (3)	5,027,310	17.2%
Stanley Silverstein (4)	3,360,180	11.6%
Sally Frame Kasaks (5)	32,000	*
Malcolm Elvey (6)	22,000	*
Charles Crovitz (7)	21,000	*
Robert Fisch (8)	21,000	*
James Goldman (9)	—	*
Neal Goldberg (10)	173,250	*
Susan Riley	—	*
Richard Flaks (11)	106,000	*
Mark Rose(12)	147,713	*
Steven Balasiano (13)	168,940	*
Hiten Patel (14)	—	*
All directors and executive officers as a Group (12 persons) (15)	6,045,573	20.3%
Wellington Management Company, LLP (16)	1,976,540	6.8%

* Less than 1%

(1) The address of all directors and executive officers is c/o The Children's Place Retail Stores, Inc., 915 Secaucus Road, Secaucus, New Jersey 07094.

(2) The percentage of stock outstanding for each stockholder is calculated by dividing (i) the number of shares deemed to be beneficially held by such stockholder as of October 6, 2007 by (ii) the sum of (A) the number of shares of common stock outstanding as of October 6, 2007 plus (B) the number of shares issuable upon exercise of options held by such stockholder which were exercisable as of October 6, 2007 or which will become exercisable within 60 days after October 6, 2007.

(3) Includes (i) 1,371,250 shares held by Mr. Dabah, (ii) 2,879,360 shares held by trusts or custodial accounts for the benefit of Mr. Dabah's relatives, (iii) 104,100 shares held by Mr. Dabah's wife, as to which Mr. Dabah disclaims beneficial ownership, (iv) 445,600 shares held by Mr. Dabah and his wife as joint tenants with right of survivorship, (v) 185,000 shares subject to options exercisable within 60 days after October 6, 2007, (vi) 22,000 shares held by the Renee and Ezra Dabah Charitable Foundation, Inc., and (vii) 20,000 shares held by The Dabah Children Charitable Foundation, Inc. Of the shares held by Mr. and Mrs. Dabah, 1,358,750 of these shares have been pledged as collateral in margin accounts. Does not include 2,125,630 shares beneficially owned by relatives of Mr. Dabah, including Mr. Dabah's father-in-law, Stanley Silverstein.

(4) Includes (i) 2,864,880 shares that are also deemed to be beneficially owned by Ezra Dabah and are held by trusts or custodial accounts for the benefit of Mr. Silverstein's relatives, and as to which shares Mr. Silverstein disclaims beneficial ownership; (ii) 72,000 shares that are held by trusts for the benefit of Mr. Silverstein's relatives and are not deemed to be beneficially owned by Mr. Dabah; (iii) 383,300 shares held by Mr. Silverstein; (iv) 5,000 shares held in Mr. Silverstein's profit sharing account; (v) 15,000 shares held by the Raine & Stanley Silverstein Charitable Foundation; and (vi) 20,000 shares issuable to Mr. Silverstein upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007. Of the shares held by Mr. and Mrs. Silverstein, 383,300 of these shares have been pledged as collateral in margin accounts. Does not include 6,000 shares held by Mr. Silverstein subject to options not yet vested.

(5) Includes 32,000 shares issuable to Ms. Kasaks upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007. Does not include 6,000 shares subject to options not yet vested.

(6) Includes (i) 5,000 shares held by Mr. Elvey and (ii) 17,000 shares issuable to Mr. Elvey upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007. Does not include 6,000 shares subject to options not yet vested.

(7) Includes 21,000 shares issuable to Mr. Crovitz upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007. Does not include 6,000 shares subject to options not yet vested.

(8) Includes 21,000 shares issuable to Mr. Fisch upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007. Does not include 6,000 shares subject to options not yet vested.

(9) Mr. Goldman was elected to our Board on August 17, 2006 and pursuant to the 2005 Equity Plan should have been issued 15,000 options that would vest over three years. However, due to the investigation of our stock option granting practices, we did not grant Mr. Goldman his options upon election to our Board. When the Company becomes current in its periodic reports to the SEC, its suspension on granting equity awards will end and the compensation committee will then determine how to compensate Mr. Goldman for this equity award.

(10) Includes 173,250 shares issuable to Mr. Goldberg upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007. Does not include 100,000 shares subject to options not yet vested.

(11) Includes 106,000 shares issuable to Mr. Flaks upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007.

(12) Includes (i) 38,700 shares held by Mr. Rose, and (ii) 109,013 shares issuable to Mr. Rose upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007.

(13) Includes (i) 24,040 shares held by Mr. Balasiano, (ii) 1,018 shares held in Mr. Balasiano's 401(k) account and (iii) 143,882 shares issuable upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007. Mr. Balasiano resigned from the Company effective July 20, 2007. Accordingly, the number of shares beneficially owned by Mr. Balasiano is based on information available to us on the date of his resignation.

(14) Mr. Patel resigned effective April 15, 2006; therefore the Company is unable confirm Mr. Patel's beneficial ownership.

(15) Includes the aggregate number of shares held by all of our non-employee directors (Ezra Dabah, Stanley Silverstein, Sally Frame Kasaks, Malcolm Elvey, Robert Fisch and James Goldman) and our executive officers (Charles Crovitz, Neal Goldberg, Tara Poseley, Susan Riley, Richard Flaks, and Mark Rose), in each case as of October 6, 2007. Includes shares issuable upon exercise of outstanding stock options exercisable within 60 days of October 6, 2007.

(16) The information set forth with respect to Wellington Management Company, LLP is based on information contained in a statement on Schedule 13G filed with the SEC on February 14, 2007. The shares may be deemed beneficially owned by Wellington Management Company, LLP as an investment adviser to the owners of record.

Equity Plan Compensation Information

The following table provides information as of February 3, 2007 about our common stock, which may be issued upon the exercise of options granted to employees or members of our Board under all of our existing equity compensation plans, including our 1996 Stock Option Plan, 1997 Stock Option Plan, 2005 Equity Plan and Employee Stock Purchase Plan.

Equity Plan Summary

Plan Category	Column (A) Securities to be Issued Upon Exercise of Outstanding Options	Column (B) Weighted Average Exercise Price of Outstanding Options	Column (C) Securities Remaining Available for Future Issuances Under Equity Compensation Plans (Excluding Securities Reflected in Column (A))
Equity Compensation Plans Approved by Security Holders	2,321,805(1)	$ 30.36(2)	2,071,093(3)
Equity Compensation Plans Not Approved by Security Holders	N/A	N/A	N/A
Total	2,321,805	$ 30.36	2,071,093

(1) Amount consists of 3,300 shares issuable under our 1996 Stock Option Plan, 2,220,505 shares issuable under our 1997 Stock Option Plan, 98,000 shares issuable under our 2005 Equity Plan and zero shares under our Employee Stock Purchase Plan.

(2) Represents shares issuable upon exercise of stock options granted under our 1996 Stock Option Plan, 1997 Stock Option Plan and 2005 Equity Plan.

(3) Includes 1,896,400 shares issuable upon grant of equity awards under our 2005 Equity Plan and 174,693 issuable under Employee Stock Purchase Plan. We have also made Performance Awards and if the performance targets are met at 100%, we will be required to issue 543,979 shares, leaving 1,352,421 shares available under our 2005 Equity Plan. If targets for our Performance Awards are met at 200%, we will be required to issue an aggregate of 1,087,958 shares, leaving 808,442 shares available under our 2005 Equity Plan. As previously discussed, we do not currently expect to meet the performance criteria established for these awards. In addition, during fiscal 2006, we made promises to award 25,000 shares of stock options, 2,500 shares of restricted stock.

Effective upon approval of our 2005 Equity Plan by our stockholders at our annual meeting held on June 23, 2005, we agreed not to make any further grants under our 1996 Stock Option Plan and 1997 Stock Option Plan. As of the date hereof, the compensation committee intends to grant restricted shares under our 2005 Equity Plan to eligible employees rather than stock options.

ITEM 13.—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review and Approval of Related Person Transactions

Pursuant to formal policies adopted by our Board and implemented in the charter of our compensation committee, the committee approves all related person transactions, included related person compensation arrangements. In addition, the compensation committee reviews all on-going related person transactions on at least an annual basis to ensure that such transactions are being pursued in accordance with the understandings made at the time such transactions were originally approved. With respect to employment relationships, the Company, with the approval of the compensation committee, has set up a written procedure by which all new employees must submit a questionnaire that is intended to identify any potential related person relationship. All new compensation arrangements and any changes to existing compensation arrangements for employees who are related persons must be approved by the compensation committee. With respect to vendor relationships, the Company, with the approval of the compensation committee, has developed written procedures whereby all new vendor forms include a "check" box stating that such vendor is not a related person. The Vice Presidents who are in charge of new vendor relationships work to ensure that these forms are filled out accurately. In the event a related person relationship is identified, the engagement with the vendor must be pre-approved by the compensation committee.

Transactions With Related Persons

Ezra Dabah, our former CEO, is the son-in-law of Stanley Silverstein, a member of our Board.

Nina Miner, Mr. Silverstein's daughter and Mr. Dabah's sister-in-law, is employed by us as our Chief Creative Director. For the 2006 fiscal year, Ms. Miner received cash compensation of $575,962 in base salary, a $390,195 bonus, $10,000 in car allowance, $2,615 in insurance premiums paid by us with respect to life insurance for the benefit of Ms. Miner and $5,035 in matching contributions under our 401(k) Plan. On January 30, 2006, we granted Ms. Miner a Performance Award with a target number of shares of 56,498 shares, subject to the terms and conditions of a Performance Award agreement between Ms. Miner and us. Depending on the level of achievement of the performance targets pertaining to the Performance Awards, Ms. Miner may be entitled to receive a maximum of up to 112,996 shares of our common stock pursuant to the award.

Jason Yagoda, Mr. Dabah's son-in-law and Mr. Silverstein's granddaughter's husband, left the employ of the Company as Vice President, Marketing, Disney Store effective as of January 19, 2007. During fiscal 2006, Mr. Yagoda received cash compensation of $288,558 in base salary, and $305,624 in housing allowance and relocation expense (including payments to cover income taxes to which he became liable in respect of such allowance) and $5,108 in 401(k) matching contributions. In connection with his departure from the Company, we offered Mr. Yagoda a severance package. Since Mr. Yagoda did not respond to our severance proposal, we determined that he has rejected our offer and we have withdrawn our proposal.

During fiscal 2006, we purchased approximately $3.2 million of footwear from Nina Footwear Corporation. Stanley Silverstein, who is a member of the Board and the father-in-law of Ezra Dabah, our former CEO, owns Nina

Footwear Corporation with his brother. Mr. Silverstein is not actively involved in the Nina Footwear business. Our compensation committee determined that, the transactions with Nina Footwear Corporation were on terms no less favorable than could have been obtained from an unaffiliated third party.

In September 2007, we hired Gary Flaks as our Vice President, Footwear. Mr. Flaks is the brother of Richard Flaks, who is a named executive officer and serves as our Senior Vice President, Planning, Allocation and Information Technology. The compensation committee granted him a $45,000 signing bonus, set his annual salary at $250,000 per year and that for fiscal 2007, Mr. Flaks' target bonus amount is 25% of his annual salary. He is also entitled to participate in the other benefit plans made available by the Company to other executives of the Company. In addition, as soon as practicable (but in no event before such time as we determine that we are in compliance with the periodic reporting requirements of Section 13(a) of the Exchange Act), Mr. Flaks will be granted, pursuant to and subject to the provisions of the 2005 Equity Plan, an award of shares of common stock. The number of shares Mr. Flaks is to receive will determined by the compensation committee at a later date.

Our compensation committee has reviewed and approved each of the foregoing compensation arrangements and transactions.

ITEM 14.—PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our Board has appointed BDO as our independent registered public accounting firm for the fiscal year ending February 2, 2008. Our independent registered public accounting firm for the fiscal years 2004, 2005 and 2006 was Deloitte & Touche LLP.

Fees Paid to Deloitte & Touche LLP for Services Rendered During the Last Two Fiscal Years

The following table summarizes the aggregate fees billed to us by Deloitte & Touche LLP.

	Fiscal Year Ended February 3, 2007		Fiscal Year Ended January 28, 2006	
	Amount	% of Total Fees for Year	Amount	% of Total Fees for Year
	(in thousands)		(in thousands)	
Audit fees	$ 3,954	93%	$ 1,560	86%
Audit-related fees	6	—%	28	2%
Tax fees	277	7%	216	12%
All other fees	4	—%	—	—%
TOTAL	$ 4,241	100%	$ 1,804	100%

Audit Fees

Fees for audit services billed by Deloitte & Touche LLP in fiscal 2006 and fiscal 2005 consisted of fees related to:

- Audits of our annual financial statements,
- Audit of the restatement of our historical financial statements to reflect additional stock-based compensation expense relating to stock option grants made in each year during the period from fiscal year ended January 31, 1997 through the first quarter of fiscal 2006,
- Reviews of our quarterly financial statements,
- Planning and attestation of management's assessment of internal control, as required by the Section 404 of the Sarbanes-Oxley Act of 2002, and
- Statutory audits of our subsidiaries.

Audit-Related Fees

Fees for audit-related services billed by Deloitte & Touche LLP in fiscal 2006 consisted of fees related to the preparation of our registration statement on Form S-8 and in fiscal 2005 consisted of employee benefit plan audits.

Tax Fees

Fees for tax compliance services totaled approximately $124,000 and $86,000 in fiscal 2006 and fiscal 2005, respectively. Tax compliance services are services rendered to document, compute and obtain government approval for amounts to be included in tax filings and consisted of Federal, state and local income tax return assistance, assistance with tax return filings in certain foreign jurisdictions, and assistance with tax audits.

Fees for tax planning and advice billed by Deloitte & Touche LLP totaled approximately $153,000 and $130,000 in fiscal 2006 and fiscal 2005, respectively. Tax planning and advice services include tax advice related to international regulations and structuring of foreign operations and tax advice on the impact of new legislation on the Company, including advice relating to the impact of adopting FIN 48.

All Other Fees

All other fees in 2006 consisted of seminars and a subscription to an online research tool. Other than those specified above, we did not have any fees billed by Deloitte & Touche LLP in fiscal 2005.

It is the audit committee's policy to monitor and limit, as appropriate, non-audit related services performed by our independent registered public accounting firm. In considering the nature of the services provided by Deloitte & Touche LLP, the audit committee determined that such services are compatible with the provision of independent audit services. The audit committee discussed these services with management, with advice from Deloitte & Touche LLP to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC and the Public Company Accounting Oversight Board to implement the Sarbanes-Oxley Act of 2002, as well as by the professional standards established by the American Institute of Certified Public Accountants.

PART IV

ITEM 15.—EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following documents are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of February 3, 2007 and January 28, 2006 (as restated)

Consolidated Statements of Income for the fiscal years ended February 3, 2007, January 28, 2006 (as restated) and January 29, 2005 (as restated)

Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended February 3, 2007, January 28, 2006 (as restated) and January 29, 2005 (as restated)

Consolidated Statements of Cash Flows for the fiscal years ended February 3, 2007, January 28, 2006 (as restated) and January 29, 2005 (as restated)

Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of The Children's Place Retail Stores, Inc. and subsidiaries (the "Company") as of February 3, 2007 and January 28, 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended February 3, 2007. Our audits also included the financial statement schedule included in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of The Children's Place Retail Stores, Inc. and subsidiaries as of February 3, 2007 and January 28, 2006, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2, the accompanying consolidated financial statements have been restated.

As discussed in Note 3 to the consolidated financial statements, the Company adopted the provision of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," effective January 29, 2006.

As discussed in Note 5 to the consolidated financial statements, on August 29, 2007, the Company entered into a refurbishment amendment to its license agreement for the Disney Store chain in North America relating to non-compliance by the Company with certain provisions of the license agreement.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of February 3, 2007 based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 5, 2007 expressed adverse opinions on (i) management's assessment relating to the disclosure of the Company's control environment material weakness and (ii) the effectiveness of the Company's internal control over financial reporting because of material weaknesses.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
December 5, 2007

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

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

	February 3, 2007	January 28, 2006(1) (As restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 116,991	$ 173,323
Short-term investments	75,175	—
Accounts receivable	35,173	29,121
Inventories	239,039	213,665
Prepaid expenses and other current assets	42,817	38,550
Deferred income taxes	16,410	5,387
Total current assets	525,605	460,046
Property and equipment, net	341,739	248,628
Deferred income taxes	69,039	50,168
Other assets	3,103	5,206
Total assets	$ 939,486	$ 764,048
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 82,970	$ 81,620
Taxes payable	20,116	52,707
Accrued expenses, interest and other current liabilities	138,770	95,681
Total current liabilities	241,856	230,008
Deferred rent liabilities	123,585	105,560
Deferred royalty	45,941	27,152
Other long-term liabilities	6,317	5,678
Total liabilities	417,699	368,398
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.10 par value, 100,000,000 shares authorized, 29,083,916 and 27,954,386 shares issued and outstanding at February 3, 2007 and January 28, 2006, respectively	2,909	2,796
Preferred stock, $1.00 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at February 3, 2007 and January 28, 2006	—	—
Additional paid-in capital	188,566	147,065
Accumulated other comprehensive income	4,344	7,211
Retained earnings	325,968	238,578
Total stockholders' equity	521,787	395,650
Total liabilities and stockholders' equity	$ 939,486	$ 764,048

(1) See Note 2—Restatement of Consolidated Financial Statements in the accompanying Notes to Consolidated Financial Statements.

See accompanying notes to these consolidated financial statements

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

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

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006(1) (As restated)	January 29, 2005(1) (As restated)
Net sales	$ 2,017,713	$ 1,668,736	$ 1,157,548
Cost of sales (exclusive of depreciation shown separately below)	1,189,300	1,008,722	705,422
Gross profit	828,413	660,014	452,126
Selling, general and administrative expenses	626,251	513,994	336,610
Asset impairment charges	17,066	244	164
Depreciation and amortization	65,701	52,886	49,049
Operating income	119,395	92,890	66,303
Interest income (expense), net	3,933	563	(22)
Income before income taxes and extraordinary gain	123,328	93,453	66,281
Provision for income taxes	35,938	35,149	25,905
Income before extraordinary gain	87,390	58,304	40,376
Extraordinary gain, net of taxes	—	1,665	273
Net income	$ 87,390	$ 59,969	$ 40,649
Basic net income per common share before extraordinary gain	$ 3.03	$ 2.11	$ 1.50
Extraordinary gain, net of taxes	—	0.06	0.01
Basic net income per common share	$ 3.03	$ 2.17	$ 1.51
Basic weighted average common shares outstanding	28,828	27,676	26,919
Diluted net income per common share before extraordinary gain	$ 2.92	$ 2.03	$ 1.47
Extraordinary gain, net of taxes	—	0.06	0.01
Diluted net income per common share	$ 2.92	$ 2.09	$ 1.48
Diluted weighted average common shares and common share equivalents outstanding	29,907	28,687	27,545

(1) See Note 2—Restatement of Consolidated Financial Statements in the accompanying Notes to Consolidated Financial Statements.

See accompanying notes to these consolidated financial statements

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount					

BALANCE, January 31, 2004 (As reported)	26,733	$ 2,673	$ 101,288	$ 139,118	$ 2,775	$ 245,854	
ADJUSTMENTS related to stock-based compensation expense and other adjustments for periods ended prior to January 31, 2004			3,733	(1,158)	(247)	2,328	
BALANCE, January 31, 2004 (As restated)(1)	26,733	2,673	105,021	137,960	2,528	248,182	
Exercise of stock options and employee stock purchases	485	49	7,570			7,619	
Tax benefit of stock option exercises			2,099			2,099	
Stock based compensation expense (As restated)(1)			2,732			2,732	
Change in cumulative translation adjustment, net of taxes of $567 (As restated)(1)					1,843	1,843	$ 1,843
Net income (As restated)(1)				40,649		40,649	40,649
Comprehensive income							$ 42,492
BALANCE, January 29, 2005 (As restated)	27,218	2,722	117,422	178,609	4,371	303,124	
Exercise of stock options and employee stock purchases	736	74	15,854			15,928	
Tax benefit of stock option exercises			3,715			3,715	
Stock based compensation, including acceleration charges (As restated) (1)			10,371			10,371	
Modifications of stock options - reclassification from equity to liability award			(297)			(297)	
Change in cumulative translation adjustment, net of taxes of $1,038 (As restated)(1)					2,840	2,840	$ 2,840
Net income (As restated)				59,969		59,969	59,969
Comprehensive income							$ 62,809
BALANCE, January 28, 2006 (As restated)(1)	27,954	2,796	147,065	238,578	7,211	395,650	

See accompanying notes to these consolidated financial statements

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount					
Exercise of stock options and employee stock purchases	1,130	113	27,048			27,161	
Tax benefit of stock option exercises			11,001			11,001	
Equity based compensation expense - stock options			3,452			3,452	
Change in cumulative translation adjustment, net of taxes of $1,038					(2,867)	(2,867)	$ (2,867)
Net income				87,390		87,390	87,390
Comprehensive income							$ 84,523
BALANCE, February 3, 2007	29,084	$ 2,909	$ 188,566	$ 325,968	$ 4,344	$ 521,787	

(1) See Note 2—Restatement of Consolidated Financial Statements in the accompanying Notes to Consolidated Financial Statements.

See accompanying notes to these consolidated financial statements

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006(1) (As restated)	January 29, 2005(1) (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 87,390	$ 59,969	$ 40,649
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	65,701	52,886	49,049
Deferred financing fee amortization	319	370	108
Amortization of lease buyouts	260	168	158
Loss on disposals of property and equipment	1,770	625	457
Asset impairment charges	17,066	244	164
Stock-based compensation and acceleration of stock option vesting	3,452	10,371	2,732
Stock-based compensation related to liability awards	929	—	—
Deferred royalty, net	18,789	20,046	7,097
Extraordinary gain	—	(2,774)	(444)
Deferred taxes	(30,001)	(37,120)	1,644
Deferred rent expense and lease incentives	(7,616)	(10,061)	(8,583)
Changes in operating assets and liabilities:			
Accounts receivable	(6,123)	(5,065)	(6,552)
Inventories	(26,168)	(50,473)	39,612
Prepaid expenses and other current assets	(3,723)	1,082	(4,089)
Prepaid income taxes	(5,958)	—	—
Other assets	(435)	—	—
Accounts payable	(1,642)	265	30,524
Accrued expenses, interest and other current liabilities	22,888	11,341	34,181
Income taxes payable	(32,593)	41,344	8,838
Deferred rent liabilities	30,669	23,586	15,246
Other liabilities	638	(908)	(1,552)
Total adjustments	48,222	55,927	168,590
Net cash provided by operating activities	135,612	115,896	209,239
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment purchases, lease acquisition and software costs	(155,069)	(89,229)	(57,804)
Acquisition of Disney Stores, net of acquired cash	—	2,240	(107,256)
Purchase of investments	(1,869,519)	(52,515)	(43,930)
Sale of investments	1,794,344	52,515	66,270
Other investing activities	1,023	(2,030)	(157)
Net cash used in investing activities	(229,221)	(89,019)	(142,877)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit facilities	246,967	577,344	300,235
Repayments under revolving credit facilities	(246,967)	(614,612)	(262,967)
Exercise of stock options and employee stock purchases	27,161	15,928	7,619
Net excess tax benefit for stock option exercises	11,001	—	—
Deferred financing costs	—	—	(626)
Net cash (used in) provided by financing activities	38,162	(21,340)	44,261
Effect of exchange rate changes on cash	(885)	2,590	2,141
Net increase in cash and cash equivalents	(56,332)	8,127	112,764
Cash and cash equivalents, beginning of period	173,323	165,196	52,432
Cash and cash equivalents, end of period	$ 116,991	$ 173,323	$ 165,196

See accompanying notes to these consolidated financial statements

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In thousands)

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006(1) (As restated)	January 29, 2005(1) (As restated)
OTHER CASH FLOW INFORMATION:			
Cash paid during the year for income taxes	$ 92,459	$ 29,462	$ 18,734
Cash paid during the year for interest	1,063	848	209
Accrued purchases of property and equipment, lease acquisition and software costs	19,915	7,976	(454)

(1) See Note 2—Restatement of Consolidated Financial Statements in the accompanying Notes to Consolidated Financial Statements.

See accompanying notes to these consolidated financial statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Children's Place Retail Stores, Inc. and subsidiaries (the "Company") is primarily a specialty retailer of merchandise for children from newborn to ten years of age. The Company designs, contracts to manufacture and sells high-quality, value priced apparel and accessories and other children's-oriented merchandise under two brands and store concepts—"The Children's Place" and "Disney Store." As of February 3, 2007, the Company operated 866 The Children's Place stores in the United States, Canada and Puerto Rico and 328 Disney Stores in the United States and Canada. In addition, the Company operated Internet stores at www.childrensplace.com and www.disneystore.com. In addition to corporate offices and distribution facilities in the United States and Canada, the Company also has business operations in Asia.

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 2006 represents the 53-week period ended February 3, 2007 ("fiscal 2006"). The results for fiscal 2005 and fiscal 2004 represent the 52-week periods ended January 28, 2006 and January 29, 2005, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and amounts of revenues and expenses reported during the period. Actual results could differ from the assumptions used and estimates made by management, which could have a material impact on the Company's financial position or results of operations.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated. As of February 3, 2007, the Company does not have any investments in unconsolidated affiliates. The principles of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" and Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements" are considered when determining whether an entity is subject to consolidation.

Cash and Cash Equivalents

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

Revenue Recognition

The Company recognizes revenue, including shipping and handling fees billed to customers, upon purchase at the Company's retail stores or when received by the customer if the product was purchased via the Internet, net of coupon redemptions and anticipated sales returns. The Company deferred approximately $0.3 million and $0.2 million as of February 3, 2007 and January 28, 2006, respectively, for Internet shipments sent but not yet received by the customer.

An allowance for estimated sales returns is recorded and is reflected in accrued expenses and other current liabilities. The allowance for estimated sales returns was approximately $3.4 million and $1.8 million as of February 3, 2007 and January 28, 2006, respectively.

The Company acts as an agent on behalf of a subsidiary of The Walt Disney Company, for the sale of Walt Disney World® Resort and Disneyland® Resort tickets sold in the Disney Stores. The Company includes in net sales the 7% commission it receives for the sale of these theme park tickets. The Company recorded commission income of approximately $5.0 million and $4.8 million during fiscal 2006 and fiscal 2005, respectively. During the ten weeks

the Company operated the Disney Store business ended January 29, 2005, the Company recorded commission income of approximately $1.4 million. (For clarification, the "DSNA Business" refers to the business the Company acquired from Disney as of November 21, 2004, whereas the "Disney Store business" refers to the Disney Store business the Company has operated since the acquisition. See Note 4—Acquisition of the DSNA Business. The Walt Disney Company and/or its subsidiaries are referred to interchangeably as "Disney.")

The Company's policy with respect to gift cards is to record revenue as the gift cards are redeemed for merchandise. For The Children's Place, prior to their redemption, gift cards are recorded as a liability, included in accrued expenses and other current liabilities. The Company recognizes income from gift cards that are not expected to be redeemed based upon an extended period of dormancy where statutorily permitted. The Company recognized income for gift card dormancy of approximately $0.4 million, $0.3 million and $0.4 million during fiscal 2006, fiscal 2005 and fiscal 2004, respectively. The Disney Store business acts as an agent on behalf of Disney for gift cards sold to customers. Therefore, the Company does not record a customer gift card liability for the Disney Store business. However, the Company recognizes a trade payable to Disney for the net purchases and redemptions of Disney gift cards.

The Company offers a private label credit card to its Children's Place customers that provides a discount on future purchases once a minimum annual purchase threshold has been exceeded. The Company estimates the future discounts to be provided based on history, the number of customers who have earned or are likely to earn the discount and current year sales trends on the private label credit card. The Company defers a proportionate amount of revenue from customers based on an estimated value of future discounts. The Company recognizes such deferred revenue as future discounts are taken on sales above the annual minimum. This is done by utilizing estimates based upon sales trends and the number of customers who have earned the discount privilege. The Company's private label customers must earn the discount privilege on an annual basis, and such privilege expires at fiscal year end. Accordingly, all deferred revenue is recognized by the end of the fiscal year.

Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of average cost or market, calculated using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio by merchandise department to the retail value of inventories. Inventory includes items that have been marked down to the Company's best estimate of their fair market value and an estimate for inventory shrinkage. The Company bases its decision to mark down merchandise upon its current rate of sale, the season and the sell-through of the item. The Company adjusts its inventory based upon an annual physical inventory and shrinkage is estimated in interim periods based upon the historical results of physical inventories in the context of current year facts and circumstances.

Cost of Sales

In addition to the cost of inventory sold, the Company includes buying and distribution expenses, shipping and handling costs on merchandise sold directly to customers, and letter of credit fees in its cost of sales. The Company records all occupancy costs in its cost of sales, except administrative office buildings, which are recorded in selling, general and administrative expenses.

Accounting for Equity Compensation and Stock Purchase Plans

The Company maintains several equity compensation plans, which are administered by the Compensation Committee of the Board of Directors (the "Compensation Committee"). The Compensation Committee is composed of independent members of the Board of Directors (the "Board"). The Company has granted stock options under its 1996 Stock Option Plan (the "1996 Plan"), its 1997 Stock Option Plan (the "1997 Plan"), and its 2005 Equity Incentive Plan (the "2005 Equity Plan") (collectively, the "Plans"). The 2005 Equity Plan, which was approved at the June 23, 2005 Annual Meeting of Stockholders, enabled the Compensation Committee to grant multiple forms of equity compensation such as stock options, stock appreciation rights, restricted stock awards, deferred stock awards and performance awards. In connection with the adoption of the 2005 Equity Plan, the Compensation Committee agreed not to issue any additional stock options under the 1996 Plan or the 1997 Plan and to limit the aggregate grant

of awards under the 2005 Equity Plan during fiscal years 2005, 2006 and 2007 to less than 2.5% of the aggregate number of shares of the Company's common stock outstanding on the last day of the 2005, 2006, and 2007 fiscal years, respectively. The Company also maintains an Employee Stock Purchase Plan (the "ESPP").

Stock Options

At the discretion of the Compensation Committee, the Plans provide for granting incentive stock options ("ISOs") qualified under Section 422 of the Internal Revenue Code and non-qualified stock options ("NQOs"). Options granted under the Plans have a maximum term of ten years. Exercise prices of options granted under the 2005 Equity Plan may not be less than the fair market value of the underlying shares at the date of the grant. The Plans also contain certain provisions requiring that the exercise price of ISOs granted to stockholders owning greater than 10% of the Company be at least 110% of the fair market value of the underlying shares and a maximum term of five years. Unless otherwise specified by the Compensation Committee:

- Options granted prior to April 2005 under the 1996 Plan and the 1997 Plan vest at 20% a year over a five-year period; and

- Options granted subsequent to April 2005 under the 1997 Plan and the 2005 Equity Plan vest at 25% a year over a four-year period.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Accounting for Share-Based Payments," ("SFAS 123(R)"), the Company recognizes equity compensation expense for its stock options on a straight-line basis.

Effective January 29, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R) using the modified prospective transition method. Under this method, prior periods are not restated. In applying SFAS 123(R), the Company uses the Black-Scholes option pricing model based on a Monte Carlo simulation, which requires extensive use of accounting judgment and financial estimates, including estimates of how long an employee will hold their vested stock options before exercise, the estimated volatility of the Company's common stock over the expected term, and the number of options that will be forfeited prior to the completion of vesting requirements. Application of other assumptions could result in significantly different estimates of fair value of stock-based compensation and the related expense recognized in the Company's financial statements. The provisions of SFAS 123(R) apply to new stock options and stock options outstanding, but not yet vested, as of the effective date. SFAS 123(R) requires disclosure of pro forma financial information for periods prior to adoption. Refer to Note 3—Equity Compensation and Stock Purchase Plans for the Company's pro forma disclosure as required by SFAS 123(R).

Prior to January 29, 2006, in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" and the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure," the Company accounted for its stock option plans and its ESPP under the intrinsic value method described in the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related accounting interpretations. Under APB 25, options granted at prices that equaled or exceeded their quoted market price at the date of grant generally required no compensation expense to be recorded at the date of the grant.

On January 27, 2006, the Company accelerated the vesting of approximately 2.1 million stock options, excluding approximately 355,000 options held by non-executive members of the Board of Directors, certain executives of the Company, and a subsidiary board member, in order to eliminate the impact of approximately $24.5 million of share-based compensation expense on future operating results related to past option grants. As a result, in the fourth quarter of fiscal 2005, in accordance with APB 25, the Company recognized a share-based compensation charge of approximately $1.7 million, which represents the Company's estimate of intrinsic value that would have been forfeited had the acceleration not occurred. For option holders with 5,000 or more unvested options that were accelerated, the Company imposed restrictions on their sale or transfer until the time the option would have vested under its original vesting schedule. However, these vesting restrictions lapse upon the option holder's disability, death or in the event of a change in control of the Company. Transfer restrictions will not apply after the original vesting date for the accelerated options with respect to any shares acquired upon the exercise of accelerated options, whether or not the transfer restriction agreement was signed.

Prior to the adoption of SFAS 123(R), the Company presented the tax savings resulting from tax deductions resulting from the exercise of stock options as an operating cash flow, in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Stock Option." SFAS 123(R) now requires the Company to reflect the tax savings resulting from tax deductions in excess of expense in its financial statements as a financing cash flow.

Performance Awards

Prior to fiscal 2006, equity compensation for key management consisted only of stock option awards. Upon consideration of several factors, including the impact of SFAS 123(R), the Company decided in fiscal 2006 to begin awarding to members of key management selected by the Compensation Committee (the "Participants") performance awards ("Performance Awards"). Performance Awards are shares of our common stock ("Performance Shares") to be issued to Participants if, among other conditions, the Company achieves a minimum earnings per share level in fiscal 2007 (the "Threshold Target") and a minimum cumulative earnings per share level for fiscal 2005, 2006 and 2007 (together with the Threshold Target, the "Minimum Performance Target"). At the time the Performance Awards were granted, the fiscal 2005 earnings per share component of the Company's three year cumulative target was known. If the Minimum Performance Target is achieved, Participants may earn (i.e., become entitled to receive) 50% of a target number of shares established by the Compensation Committee. To the extent the Company's fiscal 2007 earnings per share exceed the Threshold Target, the number of shares to be issued to each Participant will increase (at varying rates) from a minimum of 50% to a maximum of 200% of the recipient's target number of shares. Compensation expense for Performance Awards is determined by the fair market value of the Company's stock on the date of grant, as determined by the average of the high and low trading price.

Based on the Company's estimate of the level of performance targets for which attainment is probable, Performance Awards are expensed on a straight line basis as follows:

- The first 50% of the awards are expensed over a two year vesting period from fiscal 2006 to fiscal 2007 and are earned based on the Company meeting the Minimum Performance Target; and
- The remaining 50% of the awards are expensed over a three year vesting period from fiscal 2006 through fiscal 2008 based on the Participant's continued service to the Company through that period.

Restricted Stock

In addition to granting Performance Shares, the Company began awarding shares of restricted stock to key management during fiscal 2006. Shares of restricted stock vest equally over four years from the date of grant. Compensation expense for restricted stock is determined by the fair market value of the Company's stock on the date of grant, as determined by the average of the high and low trading price, and is expensed on a straight-line basis over the service period. During fiscal 2006, the Company recognized expense related to restricted stock awards the Company has agreed to make but has been unable to grant, pending becoming current in its periodic SEC reporting.

Stock Purchase Plan

The Company also administers an ESPP. Under the ESPP, eligible employees are permitted to subscribe to purchase shares of Company common stock through payroll deductions of up to 10% of eligible compensation, subject to limitations. The purchase price is 95% of the average high and low prices of the Company's common stock on the last trading day of each monthly offering period, which is deemed to be non-compensatory.

Net Income per Common Share

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

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

	For the Fiscal Year Ended		
	February 3, 2007	January 28, 2006	January 29, 2005
Net income	$ 87,390	$ 59,969	$ 40,649
Basic weighted average common shares	28,828	27,676	26,919
Dilutive effect of stock options	1,079	1,011	626
Diluted weighted average common shares	29,907	28,687	27,545
Antidilutive options	23	57	829

Antidilutive options consist of the weighted average of stock options that had an exercise price greater than the average market price during the period. Such options are therefore excluded from the computation of diluted shares.

Accounting for Royalties Due Under the License Agreement

In fiscal 2004, the Company entered into a License and Conduct of Business Agreement (the "License Agreement") to secure the right to use certain Disney intellectual property in the Disney Store business in exchange for ongoing royalty payments. (See Note 5—License Agreement with Disney.)

Minimum royalty commitments are recorded on a straight-line basis over the life of the initial 15 year term of the License Agreement. During each period, amounts due in excess of the minimum royalty commitment are recorded as an expense if management expects to surpass the minimum royalty commitment on an annual basis, even if the contingency threshold has not been surpassed in that particular period. The royalty percentage does not increase over the initial term of the License Agreement.

In accordance with the License Agreement, following a two year royalty abatement, the Company began making royalty payments to Disney in November 2006 equal to 5% of net sales from physical Disney Store locations, subject to an additional royalty holiday period of up to eight years from the date of the License Agreement with respect to a limited number of stores. Total payments in 2006 were $6.1 million. The amortization of the royalty holiday is recognized on a straight-line basis as a reduction of royalty expense over the term of the License Agreement. Royalty expense, and the associated amortization of the royalty holiday, is recorded in selling, general and administrative expenses. In August 2007, the Company and Disney entered into an agreement which modified certain provisions of the License Agreement and created certain additional obligations on the part of the Company (the "Refurbishment Amendment"). The Refurbishment Amendment, among other things, ended the royalty abatement at certain locations identified in the original License Agreement. Refer to Note 5—License Agreement with Disney for additional information regarding the Refurbishment Amendment.

As of February 3, 2007, management's estimate of the value of the earned net royalty holiday of $45.9 million has been recorded in deferred royalties. The actual value of the royalty holiday is not determinable until the completion of the royalty holiday period, and may differ materially from the Company's current estimate. Estimates for the royalty holiday are adjusted on a periodic basis, and the cumulative adjustment is recorded in such period. Royalty expense of $25.0 million, $20.0 million, and $7.1 million has been included in selling, general and administrative expenses for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. The Company's classification of royalty expense in selling, general and administrative expenses may not be comparable to the classification of such costs at other companies.

Accounts Receivable

Accounts receivable consist of credit card receivables, landlord construction incentive receivables and other miscellaneous receivables. Landlord construction incentive receivables were approximately $19.3 million and $11.6 million at February 3, 2007 and January 28, 2006, respectively.

Investments

Investments are classified in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's short-term investments are principally composed of

Auction Rate Securities ("ARS") and Variable Rate Demand Notes ("VRDN"). The Company had short-term investments in VRDN of approximately $75.2 million as of February 3, 2007 and had no short-term investments as of January 28, 2006. ARS and VRDN are classified as available-for-sale and are stated at fair value. Interest rates reset periodically and the investments typically are settled within 35 days. As a result, there are no cumulative gross unrealized holding gains or losses related to these securities. All income from these investments is recorded as interest income.

Derivative Instruments

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133"), as amended and interpreted, requires that each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability and measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings in either income from continuing operations or accumulated other comprehensive income, depending on whether the derivative qualifies for hedge accounting treatment.

During fiscal 2006, the Company was not party to any derivative financial instruments. In the second quarter of 2004, the Company used foreign currency forward contracts for the specific purpose of reducing the exposure to variability in forecasted cash flows associated primarily with inventory purchases for the Company's Canadian operations. These instruments were not designated as hedges and, in accordance with SFAS No. 133, the changes in fair value were recorded in period earnings. As of January 29, 2005, the Company's forward contracts had matured and a realized loss of $0.6 million and was recorded in selling, general and administrative expenses in fiscal 2004.

Insurance and Self-Insurance Reserves

The Company self-insures and purchases insurance policies to provide for workers' compensation, general liability and property losses, as well as director and officer's liability, vehicle liability and employee medical benefits. The Company estimates risks and records a liability based on historical claim experience, insurance deductibles, severity factors and other actuarial assumptions. As of February 3, 2007 and January 28, 2006, the Company recorded $6.6 million and $5.6 million in accrued expenses and other current liabilities for the current portions of employee medical benefits, workers compensation and general liability reserves, and $5.8 million and $5.3 million for the long-term portion of employee medical benefits, workers' compensation and general liability reserves, respectively.

Property and Equipment

Property and equipment are stated at cost. Leasehold improvements are depreciated on a straight line basis over the life of the lease or the estimated useful life of the asset, whichever is shorter. All other property and equipment is depreciated on a straight-line basis based upon their estimated useful lives, which generally range from three to ten years. Interest costs related to the construction of property and equipment are capitalized as incurred as part of the cost of the constructed asset. Repairs and maintenance are expensed as incurred.

The Company accounts for internally developed software intended for internal use in accordance with SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Company capitalizes development-stage costs such as direct external costs, direct payroll related costs and interest costs incurred to develop the software prior to implementation. When development is substantially complete, the Company amortizes the cost of the software on a straight-line basis over the expected life of the software. Preliminary project costs and post-implementation costs such as training, maintenance and support are expensed as incurred.

Accounting for Impairment of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the Company evaluates each store's performance (in the fiscal year after a store has been opened) and measures the carrying value of each location's fixed assets, principally leasehold improvements and certain fixtures, versus its undiscounted estimated future cash flows. When the evaluation of a store location indicates that the cash flows are not sufficient to recover the carrying value of the long-term assets at the store, the store assets are deemed to be impaired and are adjusted to their fair values.

Deferred Financing Costs

The Company capitalizes costs directly associated with acquiring third-party financing. Deferred financing costs are included in other assets and are amortized on a straight line basis as interest expense over the term of the related indebtedness. As of February 3, 2007, deferred financing costs were approximately $1.1 million, before accumulated amortization of approximately $0.9 million. As of January 28, 2006 deferred financing costs were approximately $1.1 million, before accumulated amortization of approximately $0.5 million.

Pre-opening Costs

Store pre-opening costs, which consist primarily of occupancy costs, payroll, supply, and marketing expenses, are expensed as incurred, and are included in selling, general and administrative expenses. Occupancy costs incurred during construction, prior to and during store pre-opening activities are considered pre-opening costs, not rent expense.

Advertising and Marketing Costs

The Company expenses the cost of advertising when the advertising is first run or displayed. Included in selling, general and administrative expenses for fiscal 2006, fiscal 2005 and fiscal 2004 are advertising and other marketing costs of approximately $57.2 million, $46.4 million and $30.8 million, respectively.

Landlord Construction Allowances

The Company accounts for landlord construction allowances as lease incentives and records them as a component of deferred rent, which is amortized as a reduction of rent expense over the lease term.

Rent Expense and Deferred Rent

Rent expense and lease incentives, including landlord construction allowances, are recognized on a straight-line basis over the lease term, commencing generally on the date the Company takes possession of the leased property. The Company records rent expense and the impact of lease incentives for its stores and distribution centers as a component of cost of sales. The unamortized portion of deferred rent is included in deferred rent liabilities.

Income Taxes

The Company computes income taxes using the liability method. This method 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 depreciation and amortization differences for book and tax purposes and the non-deductibility of certain reserves and accruals for tax purposes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities when they become probable and estimable, and the Company's estimates include taxes and interest. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. As of February 3, 2007, the Company recorded approximately $6.2 million in taxes payable related to various tax contingencies.

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.

Foreign Currency Translation

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

Legal Contingencies

The Company reserves for litigation settlements and contingencies when it can determine the probability of outcome and can estimate losses. Estimates are adjusted as facts and circumstances require. The Company is involved in various legal proceedings arising in the normal course of its business. In the opinion of management, any ultimate liability arising out of such proceedings will not have a material adverse effect on the Company's financial position or results of operations. The Company expenses the costs to settle litigation as incurred.

Newly Issued Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement 109" ("FIN 48") which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48, effective for fiscal years beginning after December 15, 2006, requires that the tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The amount of tax benefits recognized from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company has substantially completed the process of evaluating the effect of FIN 48 on its consolidated financial statements as of the beginning of the period of adoption, February 4, 2007. The Company estimates that the cumulative effects of applying this interpretation will be recorded as a decrease of approximately $6.6 million to beginning retained earnings. In addition, in accordance with the provisions of FIN 48, the Company will reclassify an estimated $6.2 million of unrecognized tax benefits from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157") which provides guidance for using fair value to measure assets and liabilities, defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 for interim periods within those years. The Company is currently evaluating the potential impact of adopting SFAS 157 on its consolidated balance sheets and results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires registrants to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relative quantitative and qualitative factors. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company has applied SAB 108 in its restatement of its consolidated financial statements contained in this Annual Report on Form 10-K.

In June 2006, the FASB ratified the consensuses reached by the Emerging Issues Task Force in Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income

Statement (That is, Gross Versus Net Presentation)" ("EITF 06-3"). EITF 06-3 requires disclosure of an entity's accounting policy regarding the presentation of taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer including sales, use, value added and some excise taxes. Since the Company presents such taxes on a net basis (excluded from net sales) as permitted under EITF 06-3, there will be no impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities", applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the effect that adopting this statement will have on its consolidated balance sheets and results of operations.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

As a result of an investigation into its stock option granting process, the Company is restating its consolidated balance sheet as of January 28, 2006 ("fiscal 2005") and its consolidated statements of income, cash flows and changes in stockholders' equity for fiscal years ended January 28, 2006 and January 29, 2005 ("fiscal 2004") to reflect additional stock-based compensation expense relating to stock option grants and to correct other errors unrelated to stock option grants.

The Company discovered errors in the dating of its stock options. In many instances, options were dated before all grant-making processes were finalized. Consequently, in some instances the option exercise price was lower than it should have been based on the trading price on the date the grant process was completed. In those instances, compensation expense related to those options was not recognized for financial reporting purposes when it should have been.

Basis for Use of the Company's Documentation Hierarchy

APB 25 provides that the accounting measurement date is the first date on which both of the following are known: (1) the number of shares that an individual employee is entitled to receive and (2) the option or purchase price, if any. In light of the Company's option granting practices, the Company has concluded that there was a mutual understanding that the terms of an award were approved by the authorized body or person and final prior to completion of all formal granting actions. The Company therefore has used the date when, most likely, the terms of the awards can be identified as approved and final, as established by the best available evidence, as the revised measurement date for accounting under APB 25. (Each of these grant authorizing occasions is referred to herein as a "Recorded Grant", regardless of the number of people who received an option award on such occasion or any variations in terms of the awards so granted.)

The Company's Documentation Hierarchy

The Company has developed a hierarchy of documentation as its basis for determining the revised measurement date for stock option grants. In each case, the document used to establish the revised measurement date is dated and evidences the point in time when the Company can substantiate with finality approval of the award, the recipients of the option award, and the number of shares purchasable pursuant to the option awarded to that recipient. This award-by-award review resulted in different measurement dates in some instances for grants made within the same Recorded Grant. Metadata was accumulated where available to corroborate the revised measurement date for an option award. Metadata, obtained as part of the electronic data collection process, provides information about electronic data, such

as how, when and by whom a set of data was collected, recorded or changed. When the metadata did not corroborate the revised measurement date (i.e., indicated that a document was created or revised later than it was dated), the metadata date was used as the date of the supporting document. If another source of support was available with an earlier date, that support was used to define the revised measurement date.

Grant dates based on Board minutes were deemed appropriate in determining the revised measurement dates if the minutes specified: (i) a list of stock option recipients, (ii) the number of options granted to each recipient, and (iii) the grant date and price. If the minutes were not determinative, the Company applied the following document hierarchy to determine the revised measurement dates:

1. *Offer Letters to New Employees/Promotion Letters*—The Company has concluded that information set forth in accepted offer letters and promotion letters, which specified the number of options to be granted at a stated date, constituted a mutual understanding between the employee and the Company. Once the employee began to render service under the terms of the employment or promotion letter, the Company believes it had a legal liability to grant the option as promised in the letter. As such, the Company has concluded that these letters established with finality the number of options granted to a recipient and the date to be used as a grant date, as long as the employee had commenced employment.

2. *Documentation Sent to Third Parties and the Compensation Committee Members*—If acceptable evidence was not identified in the Board minutes or offer and promotion letters, the Company determined that the earliest date on which a list of option recipients and number of options to each recipient was disseminated outside the Company established the finality of the grant. The Company has identified the following sources of documentation sent outside the Company as establishing the date on which the terms of an option became final: (i) Forms 3 and 4 filed with the Securities and Exchange Commission ("SEC"), (ii) archive data obtained from the Company's outside stock option plan administrator ("Stock Option Administrator") with the list of option recipients and number of options evidencing the terms of option grants that was provided by the Company and the date when the Stock Option Administrator was so advised of the grant, and (iii) Legal Department Memoranda requesting unanimous written consent ("UWC") approval with an attached UWC documenting with finality (either in the body of the UWC or as a referenced attachment) the option recipients, number of shares subject to each grant and the exercise price (as well as the "as of" grant date) which, in accordance with the Company's option granting process, would not have been prepared if the related list of option recipients was not final and approved by the former Chief Executive Officer ("CEO").

3. *Internal Documentation*—The next level of documentation used included the "last modified" date metadata of a Microsoft Excel file specifying the recipient and the number of shares subject to an option grant, or email dates on comparable data prepared by the Legal or Human Resources Departments where in each case the grant was recorded in the Stock Option Administrator's records.

4. *Unanimous Written Consents*—If no other support was available, the Company used the "last modified" date metadata associated with the UWC reflecting formal approval of a grant as the revised measurement date.

The Company has revised the measurement dates used to account for certain stock option grants since fiscal year ended January 31, 1998 ("fiscal 1997") based on the hierarchy above.

Variable Accounting

During the course of the investigation and the review of the documentation for each grant, the Company identified instances where changes were made in its records respecting certain Recorded Grants. In these instances, the Company reviewed all documents related to the grant to determine if the change was an isolated change to an individual award or if the change indicated that the granting process was not complete for the entire Recorded Grant. If the change was an isolated change, the Company determined whether the change represented an administrative error or a modification of a term of the award. The investigation did not reveal a practice by the Company of retracting awards or modifying the terms of awards across a group of recipients after the date determined to be the revised measurement date. Instead, changes were rare and occurred only at the individual level. The Company found

no evidence regarding any of the changes that indicated that at the time of the change the granting process remained open for an entire Recorded Grant.

Since none of the changes indicated an incomplete granting process, the Company used available documentation to determine whether the changes represented administrative errors or a modification to an individual award. For changes deemed to be administrative errors (e.g., adding an individual to a list of recipients for service awards where the number of options involved in the award and the criteria required to earn the award were set prior to the issuance of the award), the Company did not change the revised measurement date applicable to the individual award from that determined from the Recorded Grant as determined based on the documentation hierarchy.

If the Company determined based on a review of supporting documentation that the change was a modification to the original award (e.g., a change in the number of shares for which the option was granted or the exercise price of the option), the Company considered the appropriate accounting for the individual award in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation" ("FIN 44"). For any changes involving either the number of shares for which the options was granted or the exercise price of the option, the Company determined that variable accounting should be applied in accordance with FIN 44. With respect to options for 328,775 shares, the Company has applied variable accounting because of a modification to the terms of the award, resulting in additional stock-based compensation expense.

The 1997 CEO IPO Grant

The Company granted to Ezra Dabah, its former CEO, who owned more than 10% of the Company's outstanding shares, options under its 1996 Plan for 99,660 shares in connection with its initial public offering in September 1997 (the "1997 CEO IPO Grant"). Under the plan, options could be granted as either ISOs or as NQOs. The plan required grants to more than 10% shareholders treated as ISOs to have an exercise price of 110% of the fair market value of the stock on the grant date and to have a five year duration. The plan required NQOs to have a ten year duration and an exercise price determined by the Compensation Committee. At the time of the grant, the Company issued two certificates in Mr. Dabah's name reflecting the 1997 CEO IPO Grant as bifurcated partly into ISOs and partly into NQOs, both parts having a five year duration and an exercise price of 110% of the initial public offering price. However, other Company records reflected the options as having different terms. In 2004, the Company realized there were inconsistencies in the Company's records regarding the duration, exercise price and ISO/NQO status related to the 1997 CEO IPO Grant. On May 6, 2004, management, without review or approval of the Compensation Committee, interpreted the grant to have a ten year duration in its entirety and changed the Company's records of outstanding options to reflect the entire grant as NQOs with a duration of ten years. In April 2007, after an investigation of the circumstances, the Company's Board of Directors ratified the change to the records made in May 2004. The Company considers the accounting consequence of the now ratified 2004 action to be the equivalent of a grant to Mr. Dabah for a "below market", fully vested option, since, based on the certificates, the options would have expired on September 17, 2002. Accordingly, the Company has recognized in its restatement of its financial statements a charge to compensation expense of approximately $0.9 million in fiscal 2004.

Other Adjustments

In addition to the adjustments related to the stock option investigation, the restated consolidated financial statements presented herein include other adjustments to correct errors related to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years. The aggregate impact of these adjustments on the Company's consolidated statements of income, net of taxes, between fiscal year ended February 2, 2002 ("fiscal 2001") and fiscal 2005 was an increase to net income of approximately $1.7 million. Additionally, variable rate demand note balances as of the quarter ended April 29, 2006 have been reclassified from cash to short-term investments, and certain other balance sheet amounts have been reclassified. These reclassifications do not result in any additional charges in any period and do not affect working capital for the affected periods.

The following table reconciles as reported net income to as restated net income and retained earnings (in thousands):

	Net Income for the fiscal year ended		Retained Earnings as of February 1, 2004
	January 28, 2006	January 29, 2005	
As previously reported	$ 65,575	$ 42,756	$ 139,118
Increase/(decrease) to net income and retained earnings			
Stock based compensation expense(1)	(7,955)	(2,732)	(4,022)
Payroll withholding expense and penalties related to stock options	(1,549)	(654)	(153)
Other stock option related expenses	577	—	—
Total additional stock option related expense	(8,927)	(3,386)	(4,175)
Other adjustments(2)	(853)	589	2,734
Income tax benefit (provision) related to stock compensation			
	3,956	772	1,387
Income tax benefit (provision) related to other adjustments	218	(82)	(1,104)
Total	(5,606)	(2,107)	(1,158)
As restated	$ 59,969	$ 40,649	$ 137,960

(1) The Company has not previously recorded stock-based compensation expense in any fiscal year other than fiscal 2005. During fiscal 2005, the Company recorded approximately $0.3 million related to the modification of stock options for a terminated employee, before taxes of approximately $0.1 million. The Company also recorded approximately $2.1 million, before taxes of approximately $0.1 million, of stock-based compensation expense related to the acceleration of the vesting of certain options. As part of the restatement process, the stock option acceleration amounts were adjusted to approximately $1.7 million of stock-based compensation expense, before taxes of approximately $0.5 million. Therefore, the restated total stock-based compensation expense for fiscal 2005 is approximately $11.3 million, before taxes of approximately $4.1 million.

(2) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

The following table details the components of the beginning retained earnings adjustment as of February 1, 2004 (in thousands):

	Stock Option Related Adjustments(1)			Other Adjustments(2)			
Period Ended	Expense (Increase)	Tax Benefit	Net Stock Option Related Adjustments	Expense Decrease	Tax (Provision)	Net Other Adjustments	Total After Tax Adjustment
January 30, 1999 (fiscal 1998)	$ (59)	$ 19	$ (40)	$ —	$ —	$ —	$ (40)
January 29, 2000 (fiscal 1999)	(211)	81	(130)	—	—	—	(130)
February 3, 2001 (fiscal 2000)	(386)	131	(255)	—	—	—	(255)
February 2, 2002 (fiscal 2001)	(915)	295	(620)	240	(98)	142	(478)
February 1, 2003 (fiscal 2002)	(972)	375	(597)	772	(311)	461	(136)
January 31, 2004 (fiscal 2003)	(1,632)	486	(1,146)	1,722	(695)	1,027	(119)
Cumulative at January 2004	$ (4,175)	$ 1,387	$ (2,788)	$ 2,734	$ (1,104)	$ 1,630	$ (1,158)

(1) There was no stock-based compensation expense previously recorded by the Company during the period from fiscal 1998 through fiscal 2003.

(2) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

The following tables reconcile the Company's consolidated results of operations and financial position from the previously reported consolidated financial statements to the restated consolidated financial statements. Refer to Note 16 —Quarterly Financial Data (Unaudited) for changes to the Company's quarterly results for fiscal 2005 and the first quarter of fiscal 2006.

Consolidated Balance Sheet Impact

The following table reconciles the consolidated balance sheet previously reported to the restated amounts as of January 28, 2006 (in thousands):

	January 28, 2006			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 173,323	$ —	$ —	$ 173,323
Accounts receivable	28,971	—	150	29,121
Inventories	214,702	—	(1,037)	213,665
Prepaid expenses and other current assets	36,955	—	1,595	38,550
Deferred income taxes	6,043	—	(656)	5,387
Total current assets	459,994	—	52	460,046
Property and equipment, net	248,628	—	—	248,628
Deferred income taxes	43,492	4,397	2,279	50,168
Other assets	5,206	—	—	5,206
Total assets	$ 757,320	$ 4,397	$ 2,331	$ 764,048
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Current liabilities:				
Accounts payable	$ 82,826	$ —	$ (1,206)	$ 81,620
Income taxes payable	49,078	—	3,629	52,707
Accrued expenses, interest and other current liabilities	94,160	2,077	(556)	95,681
Total current liabilities	226,064	2,077	1,867	230,008
Deferred rent liabilities	105,560	—	—	105,560
Deferred royalty	27,152	—	—	27,152
Other long-term liabilities	5,678	—	—	5,678
Total liabilities	364,454	2,077	1,867	368,398
COMMITMENTS AND CONTINGENCIES (NOTE 11)				
STOCKHOLDERS' EQUITY:				
Common stock, $0.10 par value	2,796	—	—	2,796
Preferred stock, $1.00 par value	—	—	—	—
Additional paid-in capital	134,372	12,693	—	147,065
Accumulated other comprehensive income	8,249	—	(1,038)	7,211
Retained earnings	247,449	(10,373)	1,502	238,578
Total stockholders' equity	392,866	2,320	464	395,650
Total liabilities and stockholders' equity	$ 757,320	$ 4,397	$ 2,331	$ 764,048

(1) Other adjustments relate to personal property taxes certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years and inventory adjustments.

Consolidated Statements of Income Impact

The following table reconciles the consolidated statement of income previously reported to the restated amounts as of January 28, 2006 (in thousands):

	Fiscal Year Ended January 28, 2006			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 1,668,736	$ —	$ —	$ 1,668,736
Cost of sales (exclusive of depreciation shown separately below)	1,007,496	2,232	(1,006)	1,008,722
Gross profit	661,240	(2,232)	1,006	660,014
Selling, general and administrative expenses	505,440	6,695	1,859	513,994
Asset impairment charges	244	—	—	244
Depreciation and amortization	52,886	—	—	52,886
Operating income	102,670	(8,927)	(853)	92,890
Interest income (expense), net	563	—	—	563
Income before income taxes and extraordinary gain	103,233	(8,927)	(853)	93,453
Provision for income taxes	39,323	(3,956)	(218)	35,149
Income before extraordinary gain	63,910	(4,971)	(635)	58,304
Extraordinary gain, net of taxes	1,665	—	—	1,665
Net income	$ 65,575	$ (4,971)	$ (635)	$ 59,969
Basic net income per common share before extraordinary gain	$ 2.31	$ (0.18)	$ (0.02)	$ 2.11
Extraordinary gain, net of taxes	0.06	—	—	0.06
Basic net income per common share	$ 2.37	$ (0.18)	$ (0.02)	$ 2.17
Basic weighted average common shares outstanding	27,676			27,676
Diluted net income per common share before extraordinary gain	$ 2.21	$ (0.17)	$ (0.01)	$ 2.03
Extraordinary gain, net of taxes	0.06	—	—	0.06
Diluted net income per common share	$ 2.27	$ (0.17)	$ (0.01)	$ 2.09
Diluted weighted average common shares and common share equivalents outstanding	28,877	(190)	—	28,687

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

The following table reconciles the consolidated statement of income previously reported to the restated amounts as of January 29, 2005 (in thousands):

	Fiscal Year Ended January 29, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 1,157,548	$ —	$ —	$ 1,157,548
Cost of sales (exclusive of depreciation shown separately below)	705,681	601	(860)	705,422
Gross profit	451,867	(601)	860	452,126
Selling, general and administrative expenses	333,554	2,785	271	336,610
Asset impairment charges	164			164
Depreciation and amortization	49,049	—	—	49,049
Operating income	69,100	(3,386)	589	66,303
Interest income (expense), net	(22)	—	—	(22)
Income before income taxes and extraordinary gain	69,078	(3,386)	589	66,281
Provision for income taxes	26,595	(772)	82	25,905
Income before extraordinary gain	42,483	(2,614)	507	40,376
Extraordinary gain, net of taxes	273	—	—	273
Net income	$ 42,756	$ (2,614)	$ 507	$ 40,649
Basic net income per common share before extraordinary gain	$ 1.58	$ (0.10)	$ 0.02	$ 1.50
Extraordinary gain, net of taxes	0.01	—	—	0.01
Basic net income per common share	$ 1.59	$ (0.10)	$ 0.02	$ 1.51
Basic weighted average common shares outstanding	26,919			26,919
Diluted net income per common share before extraordinary gain	$ 1.54	$ (0.09)	$ 0.02	$ 1.47
Extraordinary gain, net of taxes	0.01	—	—	0.01
Diluted net income per common share	$ 1.55	$ (0.09)	$ 0.02	$ 1.48
Diluted weighted average common shares and common share equivalents outstanding	27,633	(88)	—	27,545

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

Consolidated Statements of Cash Flows Impact

The following table reconciles the consolidated statement of cash flows previously reported to the restated amounts as of January 28, 2006 (in thousands):

	Fiscal Year Ended January 28, 2006			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 65,575	$ (4,971)	$ (635)	$ 59,969
Reconciliation of net income to net cash provided by operating activities:				
Depreciation and amortization	52,886	—	—	52,886
Deferred financing fee amortization	370	—	—	370
Amortization of lease buyouts	168	—	—	168
Loss on disposals of property and equipment	625	—	—	625
Asset impairment charges	244	—	—	244
Stock based compensation & acceleration	2,416	7,955	—	10,371
Deferred royalty, net	20,046	—	—	20,046
Extraordinary gain	(2,774)	—	—	(2,774)
Deferred taxes	(30,276)	(3,956)	(2,888)	(37,120)
Deferred rent expense and lease incentives	(9,167)	—	(894)	(10,061)
Changes in operating assets and liabilities:				
Accounts receivable	(5,065)	—	—	(5,065)
Inventories	(51,401)	—	928	(50,473)
Prepaid expenses and other current assets	832	—	250	1,082
Other assets	—	—	—	—
Accounts payable	1,155	—	(890)	265
Accrued expenses, interest and other current liabilities	8,411	972	1,958	11,341
Taxes payable	38,673	—	2,671	41,344
Deferred rent liabilities	24,086	—	(500)	23,586
Other liabilities	(908)	—	—	(908)
Total adjustments	50,321	4,971	635	55,927
Net cash provided by operating activities	115,896	—	—	115,896
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property and equipment purchases, lease acquisition and software costs	(89,229)	—	—	(89,229)
Acquisition of Disney Stores, net of acquired cash	2,240	—	—	2,240
Purchase of investments	(52,515)	—	—	(52,515)
Sale of investments	52,515	—	—	52,515
Other investing activities	(2,030)	—	—	(2,030)
Net cash used in investing activities	(89,019)	—	—	(89,019)

	Fiscal Year Ended January 28, 2006			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings under revolving credit facilities	577,344	—	—	577,344
Repayments under revolving credit facilities	(614,612)	—	—	(614,612)
Exercise of stock options and employee stock purchases	15,928	—	—	15,928
Net excess tax benefit for stock option exercises	—	—	—	—
Deferred financing costs	—	—	—	—
Net cash (used in) provided by financing activities	(21,340)	—	—	(21,340)
Effect of exchange rate changes on cash	2,590			2,590
Net increase in cash and cash equivalents	8,127	—	—	8,127
Cash and cash equivalents, beginning of period	165,196	—		165,196
Cash and cash equivalents, end of period	$ 173,323	$ —	$ —	$ 173,323

(1) Other adjustments relate to personal property taxes certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years and inventory adjustments.

The following table reconciles the consolidated statement of cash flows previously reported to the restated amounts as January 29, 2005 (in thousands):

	Fiscal Year Ended January 29, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 42,756	$ (2,614)	$ 507	$ 40,649
Reconciliation of net income to net cash provided by operating activities:				
Depreciation and amortization	49,049	—	—	49,049
Deferred financing fee amortization	108	—	—	108
Amortization of lease buyouts	158	—	—	158
Loss on disposals of property and equipment	457	—	—	457
Asset impairment charges	164	—	—	164
Stock based compensation & acceleration	—	2,732	—	2,732
Deferred royalty, net	7,097	—	—	7,097
Extraordinary gain	(444)	—	—	(444)
Deferred taxes	2,256	(772)	160	1,644
Deferred rent expense and lease incentives	(7,930)	—	(653)	(8,583)
Changes in operating assets and liabilities:				
Accounts receivable	(6,552)	—	—	(6,552)
Inventories	39,504	—	108	39,612
Prepaid expenses and other current assets	(3,689)	—	(400)	(4,089)
Other assets	—	—	—	—
Accounts payable	30,840	—	(316)	30,524
Accrued expenses, interest and other current liabilities	33,354	654	173	34,181
Taxes payable	8,917	—	(79)	8,838
Deferred rent liabilities	14,746	—	500	15,246
Other liabilities	(1,552)	—	—	(1,552)
Total adjustments	166,483	2,614	(507)	168,590
Net cash provided by operating activities	209,239	—	—	209,239
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property and equipment purchases, lease acquisition and software costs	(57,804)	—	—	(57,804)
Acquisition of Disney Stores, net of acquired cash	(107,256)	—	—	(107,256)
Purchase of investments	(43,930)	—	—	(43,930)
Sale of investments	66,270	—	—	66,270
Other investing activities	(157)	—	—	(157)
Net cash used in investing activities	(142,877)	—	—	(142,877)

	Fiscal Year Ended January 29, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings under revolving credit facilities	300,235	—	—	300,235
Repayments under revolving credit facilities	(262,967)	—	—	(262,967)
Exercise of stock options and employee stock purchases	7,619	—	—	7,619
Net excess tax benefit for stock option exercises	—	—	—	—
Deferred financing costs	(626)	—	—	(626)
Net cash (used in) provided by financing activities	44,261	—	—	44,261
Effect of exchange rate changes on cash	2,141			2,141
Net increase in cash and cash equivalents	112,764	—	—	112,764
Cash and cash equivalents, beginning of period	52,432		—	52,432
Cash and cash equivalents, end of period	$ 165,196	$ —	$ —	$ 165,196

(1) Other adjustments relate to personal property taxes certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years and inventory adjustments.

3. EQUITY COMPENSATION AND STOCK PURCHASE PLANS

The Company maintains several equity compensation plans. The Company has granted stock options under its 1996 Plan, its 1997 Plan and its 2005 Equity Plan. Under its 2005 Equity Plan, the Company also has granted, or has agreed to grant, other forms of equity compensation, including restricted stock awards and Performance Awards. In addition, the Company maintains an ESPP, in which participants purchase stock at 95% of fair market value, which is deemed to be non-compensatory.

The following tables summarize the Company's equity and other stock-based compensation expense, which in fiscal 2006 was determined in accordance with SFAS 123(R) and in fiscal 2005 and fiscal 2004 was determined in accordance with APB 25 (in thousands):

	Fiscal Year Ended February 3, 2007		
	Cost of Goods Sold	Selling, General & Administrative	Total
Stock option expense	$ —	$ 1,944	$ 1,944
Performance Award expense(1)	—	—	—
Stock compensation expense related to the issuance of liability awards(2)	—	97	97
Expense related to the modification of previously issued stock options (i.e. tolling)(3)	26	1,482	1,508
Tolled stock options accounted for as liability awards and related fair market value adjustments(3)	552	280	832
Total stock-based compensation expense	$ 578	$ 3,803	$ 4,381

(1) The Company determined that it is not probable that the Minimum Performance Target will be met. Accordingly, the Company has not recognized compensation expense related to Performance Awards.

(2) Compensation expense for awards of restricted stock and stock options promised for which the Company has not completed the granting process due to the suspension of equity award grants and related fair market value adjustments.

(3) Terminated employees have 90 days from date of termination to exercise their vested options. Due to the suspension of stock option exercises, the Company modified options held by terminated employees to extend their expiration dates to 30 days after the date the suspension is lifted (i.e., tolled stock options). Options for terminated employees that were

tolled after the Company suspended option activity on September 14, 2006 were accounted for as liability awards because the option holders were no longer employees at the time of the modification. Options that were tolled after September 14, 2006 were accounted for as equity awards because their options were tolled in conjunction with their termination.

	Fiscal Year Ended January 28, 2006		
	Cost of Goods Sold	Selling, General & Administrative	Total
Stock compensation expense related to revised measurement dates	$ 1,701	$ 6,664	$ 8,365
Stock compensation expense related to acceleration of vesting	394	1,258	1,652
Expense related to the modification of previously issued stock options(1)	—	354	354
Total stock-based compensation expense	$ 2,095	$ 8,276	$ 10,371

(1) Compensation expense associated with the modification of a stock option award related to a terminated employee.

	Fiscal Year Ended January 29, 2005		
	Cost of Goods Sold	Selling, General & Administrative	Total
Stock compensation expense related to revised measurement dates	$ 353	$ 2,379	$ 2,732

The Company recognized a tax benefit related to equity compensation expense of approximately $1.7 million, $3.9 million and $0.5 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

As of February 3, 2007, the Company had the following shares available for grant under its 2005 Equity Plan, assuming Performance Award targets are not met, are met at 100% and are met at 200%:

Performance Award target assumption(1)	0%	100%	200%
Shares available at January 29, 2005	2,000,000	2,000,000	2,000,000
Stock options granted during fiscal 2005	(100,600)	(100,600)	(100,600)
Shares available at January 28, 2006	1,899,400	1,899,400	1,899,400
Equity awards made during fiscal 2006:			
Stock options granted	3,000	3,000	3,000
Performance Awards granted	—	566,500	1,133,000
Performance Awards cancelled	—	(22,521)	(45,042)
Total equity awards granted during fiscal 2006	3,000	546,979	1,090,958
Shares available at February 3, 2007(2)	1,896,400	1,352,421	808,442

(1) The Company determined that it is not probable that the Minimum Performance Target will be met. Accordingly, the Company has not recognized compensation expense related to Performance Awards.

(2) During fiscal 2006, the Company made promises to award 25,000 stock options and 2,500 shares of restricted stock. When the equity award suspension is lifted and these awards are granted, the resulting shares available will be reduced by 27,500 shares.

Stock Option Plans

As a result of the January 29, 2006 adoption of SFAS 123(R), the Company recognized approximately $1.9 million in equity compensation expense during the fiscal 2006 related to stock options granted under the Plans. Accordingly, net income was reduced by approximately $1.1 million, and basic and diluted net income per common share was reduced by approximately $0.04 per share.

SFAS 123(R) also requires disclosure of pro forma financial information for periods prior to adoption. The following table sets forth the effects on net income and earnings per share as if the fair value accounting method under SFAS 123 had been applied to all outstanding and unvested stock option awards and employee stock purchases in the fiscal years ended January 28, 2006 and January 29, 2005 (in thousands, except per share amounts):

	Fiscal Year Ended	
	January 28, 2006	January 29, 2005
Net income -		
As restated (1)	$ 59,969	$ 40,649
Add: Stock-based compensation expense included in restated net income, net of related tax effects(2)	6,158	2,202
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(28,857)	(7,608)
Pro forma	$ 37,270	$ 35,243
Earnings per share -		
Basic—as restated	$ 2.17	$ 1.51
Basic—pro forma	1.35	1.31
Diluted—as restated	2.09	1.48
Diluted—pro forma	$ 1.30	$ 1.28

(1) See Note 2—Restatement of Consolidated Financial Statements.

(2) Includes effects of stock option vesting acceleration recognized in advance of adoption of SFAS 123(R).

Pro forma income per common share excludes the effect of approximately 57,000 and 829,000 stock options for the fiscal years ended January 28, 2006 and January 29, 2005, respectively, which would have been antidilutive as a result of the impact of unamortized stock-based compensation expense determined under fair value-based methods. The above pro forma results are not indicative of equity compensation expense reported under the requirements of SFAS 123(R).

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

	February 3, 2007	January 28, 2006	January 29, 2005
Dividend yield	0%	0%	0%
Volatility factor(1)	41.4%	44.7%	57.3%
Weighted average risk-free interest rate(2)	4.35%	3.94%	3.59%
Expected life of options(3)	4.8 years	4.8 years	5 Years
Weighted average fair value on grant date	$19.37 per share	$21.14 per share	$14.64 per share

(1) Commencing in fiscal 2005 expected volatility is based on a 50:50 blend of the historical and implied volatility with a two-year look back on the date of each grant. For options issued in the fourth quarter of fiscal 2004, the Company used the average of the implied volatility from the Company's market-traded options and the historical volatility of its stock price to compute the volatility factor, which approximated 52% in the fourth quarter of fiscal 2004.

(2) The risk-free interest rate is based on the risk-free rate corresponding to the grant date and expected term.

(3) Commencing in fiscal 2005, the expected option term used in the Black-Scholes calculation is based on a Monte Carlo simulation incorporating a forward-looking stock price model and a historical model of employee exercise and post-vest forfeiture behavior.

Changes in stock options under equity plans for the three fiscal years in the period ended February 3, 2007 are summarized below:

	Fiscal Year Ended					
	February 3, 2007		January 28, 2006		January 29, 2005	
	Options	Weighted Average Exercise Price(4)	Options	Weighted Average Exercise Price(5)	Options	Weighted Average Exercise Price(5)
Options outstanding at beginning of year	3,494,061	$ 28.34	3,225,685	$ 22.67	3,013,985	$ 20.16
Granted	3,000	46.24	1,182,900	39.27	881,725	27.64
Exercised(1)	(1,117,286)	23.77	(716,940)	21.10	(460,235)	15.31
Forfeited	(57,970)	36.01	(197,584)	25.93	(209,790)	29.81
Options outstanding at end of year(2)	2,321,805	$ 30.36	3,494,061	$ 28.34	3,225,685	$ 22.67

Options exercisable at end of year(3)	2,172,138	$ 30.32	3,101,058	$ 27.95	1,104,899	$ 18.91
Options available for grant at end of year(4)	1,896,400					

(1) The aggregate intrinsic value of options exercised was approximately $37.0 million, $18.6 million and $7.9 million for fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

(2) The aggregate intrinsic value of options outstanding at the end of fiscal 2006 was approximately $63.2 million.

(3) The aggregate intrinsic value of options exercisable at the end of fiscal 2006 was approximately $60.8 million.

(4) Assumes the issuance of Performance Shares at 0% of target. Options available for grant would be 1,352,421 and 808,442 if Performance Shares were issued at 100% and 200% of target, respectively.

(5) Does not reflect certain option repricings resulting from the stock option investigation, pending Board approval and the Company becoming current in its filings with the SEC.

The following table summarizes information regarding options outstanding at February 3, 2007:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$8.70–$12.88	160,883	$ 11.12	5.6	160,883	$ 11.12	5.6
$14.00–$20.55	285,663	18.41	4.0	285,663	18.41	4.0
$21.20–$31.63	815,925	26.82	6.7	702,592	26.73	6.6
$32.80–$49.41	1,059,334	39.24	7.3	1,023,000	39.12	7.3
$8.70–$49.41	2,321,805	$ 30.36	6.6	2,172,138	$ 30.32	6.5

During fiscal 2006, the Company recognized an expense of approximately $0.1 million related to stock option awards the Company promised but has not granted due to the suspension of equity awards. In addition, the Company has recognized a stock-based compensation expense of $2.3 million related to options which recipients have not been able to exercise due to the Company's suspension of option exercises until it becomes current in its periodic reports to the SEC.

Changes in the Company's unvested stock options for the fiscal year ended February 3, 2007 were as follows:

	Number of Options (in thousands)	Weighted Average Grant Date Fair Value
Unvested options, beginning of year	390	$ 16.69
Granted	3	19.37
Vested	(193)	16.07
Forfeited	(50)	22.13
Unvested options, end of year	150	$ 15.73

Total unrecognized equity compensation expense related to unvested stock options approximated $2.1 million as of February 3, 2007, which will be recognized over a weighted average period of approximately 1.9 years.

Prior to the adoption of SFAS 123(R), the Company presented the tax deductions resulting from the exercise of stock options as an operating cash flow, in accordance with Emerging Issues Task Force ("EITF") Issue No.00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Stock Option." SFAS 123(R) now requires the Company to reflect the tax savings resulting from tax deductions in excess of expense as a financing cash flow. In fiscal 2006, cash flow provided by financing activities included $11.0 million related to excess tax benefits from the Company's equity compensation plans.

Performance Awards

During the fiscal year ended February 3, 2007, under the 2005 Equity Plan, the Company granted Performance Awards pursuant to which 566,500 Performance Shares may be issued to Participants at 100% of target (1,133,000 Performance Shares at maximum). The issuance of Performance Shares is contingent upon, among other things, meeting the Minimum Performance Target. If the Company's performance falls below the Minimum Performance Target, no Performance Shares will be earned by or issued to Participants. If the Company's performance satisfies the Minimum Performance Target. Participants may earn 50% of a target number of the Performance Shares, and if financial targets are exceeded, Participants may earn up to a maximum of 200% of a target number of Performance Shares. The shares automatically vest on a pro-rata basis if there is a change in control (as defined) of the Company prior to the end of fiscal 2007. The Company determined that it is not probable that the Minimum Performance Target will be met. Accordingly, the Company has not recognized compensation expense related to the Performance Awards. The remaining unvested shares will be automatically canceled at the end of fiscal 2007, assuming there is not a change in control of the Company.

Changes in the Company's unvested Performance Awards for the fiscal year ended February 3, 2007 were as follows:

	Number of Performance Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested performance shares, beginning of year	—	$ —
Granted	567	46.60
Vested	—	—
Forfeited	(23)	44.12
Unvested performance shares, end of year	544	$ 46.70

Stock Purchase Plans

The Company's ESPP is authorized to issue up to 360,000 shares of common stock for employee purchase through payroll deductions. During fiscal 2006 and fiscal 2005, employees purchased stock at 95% of fair market

value and during fiscal 2004 at 85% of fair market value. As of February 3, 2007, there were 174,693 shares available for grant under the ESPP. All employees of the Company who have completed at least 90 days of employment and attained 21 years of age are eligible to participate, except for employees who own common stock or options on such common stock which represents 5% or more of the Company's outstanding common stock. On September 14, 2006, as a result of the Company's investigation into its stock option practices, the Company suspended employee deductions and related stock purchases under the ESPP. During fiscal 2006, fiscal 2005 and fiscal 2004, there were 11,744 shares, 19,051 shares and 24,847 shares, respectively, issued under the ESPP.

For fiscal 2006 and 2005, no pro forma compensation expense was calculated for the Company's ESPP because the ESPP purchase price was 95% of the fair market value of the stock on the day of the ESPP purchase, which is deemed to be non-compensatory. For fiscal 2004, pro forma compensation expense for the Company's ESPP was calculated by multiplying the number of shares issued by the spread between the fair market value of the stock on the day of the ESPP purchase and the purchase price paid by employees, which was 85% of the fair market value. During fiscal 2004, pro forma compensation expense for the ESPP was approximately $0.1 million.

4. ACQUISITION OF THE DSNA BUSINESS

On November 22, 2004, effective as of November 21, 2004 (the "Closing Date"), two of the Company's wholly-owned subsidiaries acquired the DSNA Business consisting of all existing Disney Stores in the United States and Canada, other than "flagship" stores and certain stores located at Disney theme parks and other Disney properties, along with certain other assets used in the Disney Store business. All store leases and certain other legal obligations of the acquired entities remain the obligations of the acquired subsidiaries. Subsequently, the Company's subsidiaries acquired two Disney Store flagship stores, one in Chicago, Illinois and the other in San Francisco, California, as well as certain Disney Store outlet stores. The Disney Store business' results of operations subsequent to the Closing Date have been included in the Company's consolidated financial statements. The Company's subsidiaries that operate the Disney Store business are referred to herein interchangeably and collectively as "Hoop".

The Company and one of its subsidiaries entered into a Guaranty and Commitment (the "Guaranty and Commitment") dated as of November 21, 2004, in favor of Hoop and Disney. As required by the Guaranty and Commitment and the Acquisition Agreement, the Company invested $50 million in Hoop concurrently with the consummation of the acquisition, and agreed to invest up to an additional $50 million to enable Hoop to comply with its obligations under the license and conduct of business ("License Agreement") (Note 5—License Agreement with Disney), and otherwise fund the operations of Hoop. The Guaranty and Commitment provides that the $50 million additional commitment is subject to increase if certain distributions are made by Hoop. To date, the Company has not invested any portion of the additional $50 million in Hoop. The Company also agreed in the Guaranty and Commitment to guarantee the payment and performance of Hoop (for their royalty payment and other obligations to Disney), subject to a maximum guaranty liability of $25 million, plus expenses.

The DSNA Business was acquired for a total acquisition cost of $105.0 million, including transaction costs. During the third quarter of 2005, the Company finalized the post-closing purchase price adjustment and purchase accounting for the acquisition of the DSNA Business.

Purchase Price Allocation

This acquisition was accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"). As such, the Company analyzed the fair value of tangible and intangible assets acquired and liabilities assumed, and determined the excess of fair value of net assets acquired over cost. The Company's purchase price allocation is as follows (in thousands):

Acquisition cost:		
Acquisition payment, inclusive of the post-closing adjustment	$	98,611
Transaction costs		6,405
Total acquisition cost		105,016
Fair value of assets acquired and liabilities assumed:		
Inventories		104,212
Prepaid expenses and other assets		29,520
Property and equipment		48,293
Accounts payable and accrued expenses		(17,955)
Leasehold interests and other long-term liabilities		(7,543)
Total fair value of net assets		156,527
Excess of fair value of net assets acquired over cost		51,511
Allocation of excess of fair value of net assets acquired over cost to long-lived assets		48,293
Extraordinary gain on the acquisition of DSNA Business	$	3,218
Extraordinary gain on the acquisition of DSNA Business, net of tax	$	1,938

As the fair value of the acquired assets and liabilities assumed exceeded the acquisition price, in accordance with SFAS 141, the valuation of the long-lived assets acquired was reduced. Accordingly, no basis was assigned to property and equipment or any other long-lived assets and the remaining excess was recorded as an extraordinary gain, net of taxes. Of the $1.9 million net extraordinary gain, approximately $0.3 million was recognized in the fourth quarter of fiscal 2004 based upon the Company's preliminary purchase price allocation, and approximately $1.7 million was recognized in the third quarter of fiscal 2005 when the purchase price allocation was finalized subsequent to the post-closing adjustment.

Accrued expenses as of the Closing Date were approximately $0.8 million related to the estimated cost of exiting certain Disney Store facilities, stores and operations. Through February 3, 2007, the Company has utilized all of these exit activity reserves.

5. LICENSE AGREEMENT WITH DISNEY

Royalty Payments

Under the License Agreement entered into in November 2004, Hoop has the right to use certain Disney intellectual property, subject to Disney approval, in the DSNA Business in exchange for ongoing royalty payments. Pursuant to the terms of the License Agreement, Hoop operates retail stores in North America using the "Disney Store" name and contract to manufacture, source, offer and sell merchandise featuring Disney-branded characters, past, present and future. The initial term of the License Agreement is 15 years and, if certain financial performance and other conditions are satisfied, the License Agreement may be extended at the Company's option for up to three additional ten-year terms. Following an initial two-year royalty holiday, Hoop began making royalty payments to Disney in November 2006 equal to 5% of net sales at physical Disney Store retail locations, subject to an additional royalty holiday with respect to a limited number of stores (the "Non-Core Stores").

Beginning in fiscal 2007, under the License Agreement, the royalty payments are also subject to minimum royalties. The minimum royalty payment is computed as the greater of:

- 60% of the royalty that would have been payable under the terms of the License Agreement for acquired stores in the base year, which was the year ended October 2, 2004, as if the License Agreement had been in effect in that year, increased at the rate of the Consumer Price Index, or
- 80% of the average of the royalty amount payable in the previous two years.

During fiscal 2006, fiscal 2005 and fiscal 2004, the Company recorded $25.0 million, $20.0 million and $7.1 million, respectively, for royalty expense and had an accrued liability of $45.9 million and $27.2 million on its fiscal 2006 and fiscal 2005 balance sheets, respectively. The Company commenced royalty payments under the License Agreement in November 2006 and paid $6.1 million in royalties during fiscal 2006 and, due to the royalty holiday discussed above, made no royalty payments in fiscal 2005 and fiscal 2004.

Liquidity Restrictions

The License Agreement limits Hoop's ability to make cash dividends or other distributions. Hoop's independent directors must approve payment of any dividends or other distributions, other than payments of:

- Amounts due under the terms of the tax sharing and intercompany services agreements;
- Approximately $61.9 million which represents a portion of the purchase price paid by the Company to Disney (limited to cumulative cash flows, as defined, since the date of the acquisition); and
- Certain other dividend payments, subject to satisfaction of certain additional operating conditions, and limited to 50% of cumulative cash flows up to $90 million, and 90% of cumulative cash flows thereafter (provided that at least $90 million of cash and cash equivalents is maintained at Hoop).

In the normal course of business, Hoop has reimbursed the Company for intercompany services but has not paid any dividends or made other distributions. Under the License Agreement, Hoop may not incur indebtedness or guarantee indebtedness without written approval from Disney, except in permitted circumstances as outlined by the License Agreement. The License Agreement provides that trade letters of credit to fund inventory purchases are permitted without limitation; borrowings under all term and revolving loans are limited to $35.0 million, with a maximum of $7.5 million for term loan borrowings; and the aggregate amount outstanding under all term and revolving loans must be reduced to $10.0 million or less at least once annually.

Business Review and Approvals

The License Agreement includes provisions regarding the manner in which Hoop will operate the Disney Store business and requires that approvals be obtained from a Disney affiliate for certain matters, including all uses of the intellectual property of Disney and its affiliates and the opening or closing of Disney Stores beyond certain parameters set forth in the License Agreement.

The License Agreement also entitles Disney to designate a representative to attend meetings of the Board of the Company as an observer. Upon the occurrence of certain specified events, including an uncured royalty breach and other repeated material breaches by Hoop of the terms of the License Agreement, certain material breaches by the Company of the terms of the Guaranty and Commitment, and certain changes in ownership or control of the Company or Hoop, Disney will have the right to terminate the License Agreement, in which event Disney may require the Company to sell the Disney Store business to Disney or one of its affiliates or to a third party at a price to be determined by appraisal or, in the absence of such sale, to wind down the Disney Store business in an orderly manner.

Remodeling Obligations

The License Agreement obligates the Company to maintain the quality, appearance and presentation standards of the Disney Store chain in accordance with the highest standards prevailing in the specialty retail industry. In addition, under the License Agreement, the Company has a remodel commitment, which is subject to revision depending upon what actions management takes regarding, among other things, the timing and nature of lease renewals for acquired stores. The License Agreement, as amended in April 2006, required the Company to:

- Completely remodel each store within a specified period of time following expiration or termination of the initial term of the lease for such store, if such lease is renewed or extended on a long-term basis upon or following such expiration or termination;
- Completely remodel each store at least once every 12 years; and
- Completely remodel a minimum of approximately 160 of the 313 acquired stores by January 1, 2009.

During fiscal 2006, the Company suspended the store renovation program because of dissatisfaction with the "Mickey" store prototype. As of February 3, 2007, the Company had remodeled a total of 45 Disney Stores since the 2004 acquisition. Pursuant to the provisions of the License Agreement, as amended in 2006, relating to required remodeling following lease renewals and remodeling of stores at least once every 12 years, the Company was required to remodel a total of approximately 145 stores by February 3, 2007. As of February 3, 2007, the Company had remodeled 32 of these required stores, with the result that 113 of the store remodels required by that date under

the terms of the License Agreement had not been completed by that date. The remaining 13 store remodels the Company had completed were not required pursuant to the provisions of the License Agreement.

Modifications of the Disney License Agreement

The Company, its subsidiaries Hoop Retail Stores, LLC and Hoop Canada, Inc. (collectively, "Hoop") and TDS Franchising LLC ("TDSF"), an affiliate of The Walt Disney Company, entered into a letter agreement on June 7, 2007 (dated as of June 6, 2007) (the "June Letter Agreement"), addressing issues that had been raised by TDSF, as previously disclosed by the Company, relating to the compliance by Hoop with certain provisions of the Disney License Agreement. The June Letter Agreement set forth TDSF's position that Hoop has committed 120 uncured material breaches of the License Agreement, primarily relating to Hoop's obligations with respect to store remodeling and store maintenance. TDSF asserted that the existence of these breaches would permit TDSF to exercise its rights and remedies under the License Agreement, which could include termination of the License Agreement.

The June Letter Agreement, among other things, suspended the remodel obligations in the License Agreement for the approximately 4.5 year term of the June Letter Agreement and, in lieu of those provisions, committed the Company to remodel by the end of fiscal 2011 a total of 234 existing Disney Stores into a new store prototype the Company developed. The June Letter Agreement contained specific deadlines for submission of construction documents to Disney and completion of construction with respect to those stores required to be remodeled during fiscal 2007. The June Letter Agreement imposed new obligations on the Company with respect to the renovation and maintenance of numerous stores in the Disney Store chain between fiscal 2007 and fiscal 2011 and, for the stores to be remodeled in fiscal 2007, set forth a detailed timetable for submission of plans and completion dates.

Subsequent to the execution of the June Letter Agreement, the Company was unable to meet several of the deadlines set forth in the June Letter Agreement. In addition, the Company determined that there were upcoming deadlines during the third and fourth quarters of fiscal 2007 specified in the June Letter Agreement that the Company would likely not meet. Accordingly, the Company and Disney engaged in further discussions during August 2007 and, based on these discussions, agreed upon changes to the requirements of the June Letter Agreement that would postpone the due dates of certain remodel obligations until later in fiscal 2007 or fiscal 2008. In connection with these postponements, the

Company agreed to remodel two additional Disney Stores during fiscal 2009 and agreed upon changes to the original License Agreement to modify restrictions on Disney's ability to relocate its flagship retail store in Manhattan and to narrow the restrictions on Disney's ability to grant direct licenses to other specialty retailers so that these restrictions would apply only with respect to specialty retail stores focusing primarily on the sale of children's merchandise.

During August 2007, the Company and Disney formally amended the License Agreement by executing the Refurbishment Amendment, which incorporated the terms of the June Letter Agreement, as modified by mutual agreement during August, and the aforementioned changes to the License Agreement. The Refurbishment Amendment by its terms superseded the June Letter Agreement and took effect retroactively as of June 6, 2007, the original effective date of the June Letter Agreement. Like the June Letter Agreement, the Refurbishment Amendment states that, if the Company fully complies with its terms, Disney will forbear from exercising any rights or remedies it would have under the License Agreement based on the breaches of the License Agreement that were asserted by Disney and were the subject of the Refurbishment Amendment. However, under the terms of the Refurbishment Amendment, if the Company violates any of its provisions, Disney will have the right to terminate its forbearance under the Refurbishment Amendment, in which case Disney would be free to exercise any or all of its rights and remedies under the License Agreement, including possibly terminating the Company's license to operate the Disney Stores based on the occurrence of numerous material breaches and claiming breach fees, as if the Refurbishment Amendment had not been executed. The Refurbishment Amendment also states that, if the Company breaches any of the provisions of the Refurbishment Amendment on three or more occasions and Disney has not previously exercised its right to terminate the Refurbishment Amendment, a payment of $18.0 million to Disney becomes immediately due and payable with respect to the breach fees called for by the License Agreement. If the Company violates any of the provisions of the Refurbishment Amendment on five or more occasions, Disney will have the right to immediately terminate the License Agreement, without any right by the Company to defend, counterclaim, protest or cure. It should be noted that the Refurbishment Amendment addresses only those breaches specifically enumerated therein.

Disney continues to retain all its other rights and remedies under the License Agreement with respect to any other breaches.

The Refurbishment Amendment sets forth specific requirements regarding the Disney Stores to be remodeled and otherwise refreshed over the period the Refurbishment Amendment is in effect and obligates the parent company, The Children's Place Retail Stores, Inc., among other things, to commit $175 million to remodel and refresh these stores through fiscal 2011. While the original provisions of the License Agreement obligated Hoop to remodel Disney Stores under certain circumstances and at certain times, as reflected in the table above, the original License Agreement did not establish a specific dollar commitment for this obligation. Although the original License Agreement generally required Hoop to maintain the physical appearance of the Disney Stores in accordance with the highest standards prevailing in specialty retailing, the "maintenance and refresh" program under the Refurbishment Amendment imposes specific requirements for timing, numbers of stores and the type of work to be performed. This "maintenance and refresh" program was considered necessary to upgrade the quality of the Disney Stores to the standard required under the License Agreement and is incremental to the original License Agreement. The "maintenance and refresh" program is expected to cost approximately $16 million over the 12 month period. Some of the stores required to be refreshed under this program will also be remodeled at a later date in accordance with the Refurbishment Amendment. The Refurbishment Amendment commits the Company to a capital commitment of $175 million to remodel, refresh and maintain the Disney Stores and to open 18 new stores which will cost approximately $11.7 million. The Company expects to fund these amounts through cash flow from operations of the Disney Store business, borrowings and availability under the Company's credit facilities and capital contributions from The Children's Place business to the Disney Store business.

The following reflects additional information regarding the Refurbishment Amendment and certain additional obligations on the part of the Company and Hoop:

1. Hoop developed a new store prototype for Disney Store and for Disney Store outlets and obtained TDSF's approval of these new store prototypes. The Refurbishment Amendment requires Hoop to convert seven existing Disney Stores identified in the Refurbishment Amendment to the new store prototype by December 31, 2007, based upon a detailed timeline for each of these stores. In addition, under the Refurbishment Amendment, by the end of fiscal 2008, Hoop is required to convert at least 49 additional existing Disney Stores identified in the Refurbishment Amendment to the new store prototype and to open at least 18 new Disney Stores using the new prototype. Hoop is required to convert to the new prototype at least 60 additional existing stores by the end of fiscal 2009, at least 70 additional existing stores by the end of fiscal 2010, and at least 50 additional existing stores by the end of fiscal 2011. In addition to the 18 new stores to be opened by the end of fiscal 2008 using the new store prototype, Hoop has the right to open up to a specified number of additional new stores using the new store prototype during each fiscal year.

2. Hoop conducted a review of all existing Disney Stores bearing the "Mickey" store design (excluding those "Mickey" stores that are to be converted to the new store prototype), as well as all existing Disney Stores bearing the "Castle" design that were constructed after November 2004, and delivered to TDSF a written report on this review, along with an enhanced maintenance and remodel plan for these stores and a detailed timeline for implementation of this plan. Hoop is required to implement this plan at a minimum of five existing stores by December 31, 2007, at a minimum of 14 additional stores by March 31, 2008, and at all remaining stores bearing these store designs by June 30, 2008.

3. Similarly, Hoop conducted a review of all existing Disney Stores bearing the "pink and green" store design, as well as all existing Disney Stores bearing the "Castle" design that were constructed prior to November 2004, and delivered to TDSF an enhanced maintenance and remodel plan for these stores and a detailed timeline for implementation of this plan. Hoop is required to implement this plan at one-half of these store locations by March 31, 2008 and at the remaining stores bearing these store designs by June 30, 2008.

4. Hoop also agreed to prepare a refresh and enhancement plan for the Disney Store flagship location on Michigan Avenue in Chicago and to expend at least $200,000 on this store by October 31, 2007. The refresh and enhancement of this store was completed on September 12, 2007.

5. As required by both the June Letter Agreement and the Refurbishment Amendment, the Company's Board of Directors approved the Refurbishment Amendment and committed $175 million over the period between

June 6, 2007 and January 31, 2012 to implement the renovation and maintenance plans called for by the Refurbishment Amendment. The following table summarizes the Company's remodel and maintenance refresh obligations under the terms of the Refurbishment Amendment (amounts in thousands):

	Store Remodel		Mickey Retrofit		Maintenance Refresh			
Fiscal Year	Stores (#)	Estimated Cost ($)	Stores (#)	Estimated Cost ($)	Stores (#)	Estimated Cost ($)	Contingency ($)	Total Estimated Cost ($)
2007	7	$ 4,250	7	$ 1,050	6	$ 950	$ 1,245	$ 7,495
2008	49	31,650	28	4,200	129	9,675	1,245	46,770
2009	60	39,000	—	—	—	—	1,245	40,245
2010	70	45,500	—	—	—	—	1,245	46,745
2011	50	32,500	—	—	—	—	1,245	33,745
2007 - 2011	236	$ 152,900	35	$ 5,250	135	$ 10,625	$ 6,225	$ 175,000

6. The Refurbishment Amendment states that the maintenance and store renovation requirements of the Refurbishment Amendment supersede the store renovation provisions in Section 9.3.5(b)(i) and (ii) of the original License Agreement through January 31, 2012, so long as the Refurbishment Amendment remains in effect and is not terminated by TDSF in accordance with its terms. Following January 31, 2012 (or a termination of the Refurbishment Amendment), the store renovation provisions in Section 9.3.5(b)(i) and (ii) of the original License Agreement will become effective again.

7. Hoop also agreed in the Refurbishment Amendment that, with respect to those Disney Stores that were identified as "Non-Core Stores" for purposes of the original License Agreement, for which Hoop was entitled to an extended royalty abatement under the License Agreement, to the extent that the lease for any such store was or is renewed but the store is not remodeled within a specified time period after such lease renewal, Hoop will no longer be entitled to the royalty abatement for these stores.

8. The parties also agreed in the Refurbishment Amendment to amend the License Agreement in order to reduce certain of the restrictions on TDSF's ability to grant direct merchandising licenses to other specialty retail store chains.

9. Hoop agreed to conduct consumer research regarding the need for a differentiated merchandising plan for Disney Store outlets and, if requested by TDSF based on such research and mutually agreed upon, to develop and implement such a plan during fiscal 2008.

10. Finally, TDSF and Hoop agreed to certain modifications of the provisions of the License Agreement establishing standards for Disney Store merchandise based upon Disney merchandise available through other retailers and to modify the provisions that would apply to a potential wind-down of the Disney Store business following any termination of the License Agreement.

The table above reflects the requirements of the Refurbishment Amendment, under which the Company must complete a maintenance and refresh in approximately 170 Disney Stores (which includes the Mickey retrofits) by June 30, 2008 and then remodel certain of those stores at a later date. However, in the event the Company were to remodel or close any such store prior to when it is due for a maintenance refresh, the Company would no longer be obligated to refresh that store. Accordingly, the Company anticipates that not all of the 170 stores reflected in the table will need to be refreshed, and at the time the Refurbishment Amendment was executed, the Company estimated that 165 stores would be refreshed.

As mentioned above, in addition to the remodel and maintenance costs shown in the above table, the Refurbishment Amendment obligates the Company to open a total of 18 new Disney Stores by January 31, 2009, which the Company estimates will cost approximately $11.7 million in capital expenses. The majority of these costs will be incurred in fiscal 2007 and are included in the Company's capital expenditure plans. Refer to Footnote 11—Commitments and Contingencies for a discussion of the Company's capital commitments under the License Agreement as amended by the Refurbishment Amendment.

Internet Agreement

Beginning in July 2007, the Company's Hoop subsidiaries commenced Internet commerce operations through an alliance with a Disney affiliate in which certain Disney Store merchandise is sold on the disneyshopping.com website. Disney Store merchandise is accessible through either www.disneystore.com or www.disneyshopping.com. The Company anticipates entering into a formal amendment to the License Agreement relating to this Internet business. It is anticipated that this amendment to the License Agreement will supersede the Company's obligation to launch its own Disney Store Internet store, which pursuant to the License Agreement, as modified by certain letter agreements, the Company is required to launch by January 31, 2008.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	February 3, 2007	January 28, 2006
Property and equipment:		
Leasehold improvements	$ 321,019	$ 259,789
Store fixtures and equipment	229,880	186,683

Capitalized software	43,116	34,949
Construction in progress	58,529	20,809
	652,544	502,230
Less accumulated depreciation and amortization	(310,805)	(253,602)
Property and equipment, net	$ 341,739	$ 248,628

During the last three fiscal years, certain stores experienced declining performance and management estimated that future cash flows were insufficient to recover the carrying value of their assets. During fiscal 2006, the Company recorded asset impairment charges of $17.1 million. The fiscal 2006 asset impairment charges included a $9.6 million charge related to the renovation of 29 Mickey prototype stores, $7.1 million related to the Company's decision not to proceed with a New York City Disney Store location and infrastructure investments that were written off in conjunction with the Company's decision to form an e-commerce alliance with a Disney affiliate in which select Disney Store merchandise is sold on the disneyshopping.com website, and the remaining $0.4 million related to the write down of leasehold improvements and fixtures in five underperforming stores. The Company introduced the Mickey store prototype at the Disney Store in fiscal 2005 but was dissatisfied with the prototype from a brand, design and construction standpoint. The impairment charge for the 29 Mickey stores reflects stores that were unable to generate sufficient cash flow to cover the carrying value of their fixed assets prior to their renovation. During fiscal 2005 and fiscal 2004, the Company impaired certain fixed assets by $0.2 million and $0.2 million, respectively for one store deemed to be impaired in each of those years.

The Company capitalized approximately $1.0 million, $0.4 million and $0.5 million in programming and development costs of employees in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. The Company also capitalized approximately $9.8 million, $9.6 million and $2.5 million in external software costs in fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

During fiscal 2006 the Company capitalized no interest costs. During fiscal 2005, the Company capitalized approximately $0.3 million of interest costs relating primarily to the construction of its new distribution center facility.

As of February 3, 2007, the Company had $28.8 million in property and equipment for which payment had not been made, compared to $8.0 million as of January 28, 2006. These amounts are included in accounts payable and accrued expenses and other current liabilities.

7. CREDIT FACILITIES

2004 Amended Loan Agreement

In October 2004, the Company amended and restated its credit facility (the "2004 Amended Loan Agreement") with Wells Fargo Retail Finance, LLC ("Wells Fargo") as senior lender and syndicated and administrative agent, and certain other lenders, partly in connection with its acquisition of the Disney Store retail chain. The 2004 Amended Loan Agreement provided for borrowings up to $130 million (including a sublimit for letters of credit of $100 million). The term of the facility under the 2004 Amended Loan Agreement was scheduled to end on November 1, 2007 with successive one-year renewal options. The amount available for extensions of credit under the 2004 Amended Loan Agreement depended on the level of inventory and accounts receivable relating to the Children's Place business.

Advances under the 2004 Amended Loan Agreement were secured by a first priority security interest in substantially all the assets of the Company and its subsidiaries, other than assets in Canada and Puerto Rico and assets owned by the Company's subsidiaries that were formed in connection with the acquisition of the DSNA Business. Amounts outstanding under the 2004 Amended Loan Agreement bore interest at a floating rate equal to the prime rate or, at the Company's option, a LIBOR rate plus a pre-determined margin. The LIBOR margin was 1.50% to 3.00%. The unused line fee under the Amended Loan Agreement was 0.38%.

The Company had no outstanding borrowings under the 2004 Amended Loan Agreement as of February 3, 2007 or January 28, 2006. During the fiscal year ended February 3, 2007, various letters of credit were issued pursuant to the 2004 Loan Agreement, but there were no borrowings other than letters of credit that cleared after business hours. Letters of credit outstanding as of February 3, 2007 and January 28, 2006 were $51.5 million and $49.2 million, respectively. Availability as of February 3, 2007 and January 28, 2006 was $78.5 million and $74.1 million, respectively. The interest rate charged under the 2004 Amended Loan Agreement was 8.25% and 7.25% as of February 3, 2007 and January 28, 2006, respectively.

The 2004 Amended Loan Agreement contained covenants, which included limitations on the Company's annual capital expenditures, the maintenance of certain levels of excess collateral, and a prohibition on the payment of dividends. The 2004 Amended Loan Agreement also contained covenants limiting the amount of funds the Company can invest in Hoop to $20 million in fiscal 2007 and $15 million in fiscal 2008. Noncompliance with these covenants could result in additional fees, could affect the Company's ability to borrow or could require the Company to repay the outstanding balance.

Primarily as a result of the Company's restatement and the delay in completing its financial statements caused by the stock option investigation, the Company was not in compliance with the financial reporting covenants under the 2004 Amended Loan Agreement as of February 3, 2007. However, the Company obtained waivers from its lenders for such noncompliance. There were no fees associated with obtaining these waivers during fiscal 2006.

Borrowing activity under this agreement was as follows (in thousands, except percentages):

	For the Fiscal Year Ended	
	February 3, 2007	January 28, 2006
Average balance outstanding	$ 640	$ 18,906
Weighted average interest rate	8.16%	6.49%
Maximum balance outstanding	$ 7,516	$ 58,157

See below for information related to the Company's June 2007 and November 2007 amendments and restatement of the 2004 Amended Loan Agreement.

2007 Amended Loan Agreement; Letter of Credit Agreement

In June 2007, the Company entered into a Fifth Amended and Restated Loan and Security Agreement (the "2007 Amended Loan Agreement") and a new letter of credit agreement with Wells Fargo and the Company's other senior lenders (the "Letter of Credit Agreement") for the purpose of better supporting the Company's capital needs and reducing the fees associated with its credit facility borrowings. Wells Fargo continues to serve as the administrative agent under all these facilities.

The 2007 Amended Loan Agreement reduced the facility maximum to $100 million for borrowings and letters of credit, with a $30 million "accordion" feature that enables the Company to increase the facility to an aggregate amount of $130 million at its option. There is also a seasonal over-advance feature that enables the Company to borrow up to an additional $20 million from July 1 through October 31, subject to satisfying certain conditions, including a condition relating to earnings before interest, taxes, depreciation and amortization ("EBITDA") on a trailing 12 month basis based upon the most recent financial statements furnished to Wells Fargo and the Company's estimate of projected pro forma EBITDA for the over-advance period. The term of the facility ends on November 1, 2010. If the Company terminates the 2007 Amended Loan Agreement during the first year, there is termination fee of 0.5% of the $100 million facility maximum ($130 million if the accordion feature is in use) plus any seasonal over-advance amounts in effect. Under the 2007 Amended Loan Agreement the LIBOR margin has been reduced to 1.00% to 1.50%, depending upon the Company's average excess availability, and the unused line fee has been reduced to 0.25%.

Credit extended under the 2007 Amended Loan Agreement continues to be secured by a first priority security interest in substantially all of the Company's assets, other than assets in Canada and Puerto Rico and assets owned by Hoop. The amount that can be borrowed under the 2007 Amended Loan Agreement depends on levels of inventory and accounts receivable relating to The Children's Place business. The 2007 Amended Loan Agreement also contains covenants, which include limitations on annual capital expenditures, maintenance of certain levels of excess collateral, and a prohibition on the payment of dividends. The 2007 Amended Loan Agreement also contains covenants limiting the amount of funds the Company can invest in Hoop to $20 million, $55 million, $36 million and $52 million in fiscal years 2007, 2008, 2009 and 2010, respectively, not to exceed a maximum aggregate of $175 million over the term of the credit facility.

Under the Letter of Credit Agreement, the Company can issue letters of credit for inventory purposes for up to $60 million to support The Children's Place business. The Letter of Credit Agreement can be terminated at any time by either the Company or Wells Fargo. Interest is paid at the rate of 0.75% on the aggregate undrawn amount of all letters of credit outstanding. The Company's obligations under the Letter of Credit Agreement are secured by a security interest in substantially all of the assets of The Children's Place business, other than assets in Canada and Puerto Rico, and assets of Hoop. Upon any termination of the Letter of Credit Agreement, the Company would be required to fully collateralize all outstanding letters of credit issued thereunder and, if the Company failed to do so, its outstanding liability under the Letter of Credit Agreement would reduce its borrowing capacity under the 2007 Amended Loan Agreement.

On November 2, 2007, the Company entered into an amendment of the 2007 Amended Loan Agreement (the "First Amendment"), extending the period of the over-advance feature of the credit facility until November 30 for fiscal 2007. The Company paid a fee of $30,000 in connection with this amendment.

As discussed above, the Company was not in compliance with the financial reporting covenants under the 2004 Amended Loan Agreement when it executed the amendment and restatement. However, in the 2007 Amended Loan Agreement the Company received forbearance of these reporting requirements through July 31, 2007 and was subsequently granted a waiver through August 30, 2007, which was extended through January 1, 2008. There were no fees associated with obtaining the waiver through August 30, 2007; however, the Company was required to pay a fee of $102,000 to extend the waiver from August 30, 2007 through the date this Annual Report on Form 10-K was filed with the SEC.

Hoop Loan Agreement

As of November 21, 2004, the domestic Hoop entity entered into a Loan and Security Agreement (the "Hoop Loan Agreement") with Wells Fargo, as senior lender and syndicated and administrative agent, and certain other lenders, establishing a senior secured credit facility for Hoop. Through fiscal 2006, the Hoop Loan Agreement

provided for borrowings up to $100 million (including a sublimit for letters of credit of $90 million). The term of the facility extended until November 21, 2007. The amount that could be borrowed under the Hoop Loan Agreement depended on the domestic Hoop entity's level of inventory and accounts receivable.

Credit extended under the Hoop Loan Agreement is secured by a first priority security interest in substantially all the assets of Hoop as well as a pledge of a portion of the equity interests in the Canada Hoop entity. Borrowings and letters of credit under the Hoop Loan Agreement are used by Hoop for working capital purposes for the Disney Store business. Amounts outstanding under the Hoop Loan Agreement bear interest at a floating rate equal to the prime rate plus a pre-determined margin or, at Hoop's option, the LIBOR rate plus a pre-determined margin. During fiscal 2006, the prime rate margin was 0.25% and the LIBOR margin was 2.00% or 2.25%, depending on the domestic Hoop entity's level of excess availability. The unused line fee was 0.30%.

There were no borrowings under the Hoop Loan Agreement as of February 3, 2007 and January 28, 2006, respectively. During fiscal 2005 and fiscal 2006, letters of credit were issued pursuant to the Hoop Loan Agreement, but there were no borrowings under the Hoop Loan Agreement other than letters of credit that cleared after business hours. Letters of credit outstanding as of February 3, 2007 and January 28, 2006 were $16.6 million and $25.8 million, respectively. Availability as of February 3, 2007 and January 28, 2006 was $31.6 million and $16.3 million, respectively. The interest rate charged under the Hoop Loan Agreement was 8.50% and 7.50% as of February 3, 2007 and January 28, 2006, respectively.

The Hoop Loan Agreement contained various covenants, including limitations on indebtedness, maintenance of certain levels of excess collateral and restrictions on the payment of intercompany dividends and indebtedness. In addition, an event of default under the Disney License Agreement would create a cross-default under the Hoop Loan Agreement. Non-compliance with these covenants could result in additional fees, could affect Hoop's ability to borrow or could require Hoop to repay the outstanding balance.

Primarily as a result of the delay in completion of the Company's financial statements caused by the stock option investigation and its discussions with Disney regarding breaches of the License Agreement, the Company was not in compliance as of February 3, 2007 or thereafter with the financial reporting covenants under the Hoop Loan Agreement or the provision requiring Hoop to comply with the License Agreement. However, the Company obtained waivers from its lenders for such noncompliance. There were no fees associated with obtaining these waivers during fiscal 2006.

See below for information related to the Company's June 2007 and August 2007 amendments and restatement of the Hoop Loan Agreement.

Borrowing activity under the Hoop Loan Agreement was as follows (in thousands, except percentages):

	For the Fiscal Year Ended	
	February 3, 2007	January 28, 2006
Average balance outstanding	$ 365	$ 435
Weighted average interest rate	8.45%	6.91%
Maximum balance outstanding	$ 1,671	$ 4,848

Amendments to Hoop Loan Agreement

In June 2007, concurrently with the execution of the 2007 Amended Loan Agreement, and in August 2007, the Company entered into Second and Third Amendments to the Hoop Loan Agreement, both with Wells Fargo and the other lenders under the Hoop Loan Agreement (collectively, the "Amendments to the Hoop Loan Agreement"). The Amendments to the Hoop Loan Agreement reduced the facility maximum to $75 million for borrowings and provide for a $25 million accordion feature that enables the Company to increase the facility to an aggregate amount of $100 million. The accordion feature is available at the Company's option, subject to the amount of eligible inventory and accounts receivable of the domestic Hoop entity. In addition, in the Amendments to the Hoop Loan Agreement the Company extended the termination date of the facility from November 21, 2007 to November 21, 2010 and reduced the interest rates charged on the outstanding borrowings and letters of credit. Amounts outstanding under the Amendments to the Hoop Loan Agreement bear interest at a floating rate equal to the prime rate or, at Hoop's option, the LIBOR rate plus a pre-determined margin. Depending on the domestic Hoop entity's level of excess availability, the LIBOR margin has been reduced to 1.50% or 1.75%, commercial letter of credit fees have been reduced to 0.75% or 1.00%, and standby letter of credit fees have been reduced to 1.25% or 1.50%. The unused line fee has been reduced to 0.25%.

The Amendments to the Hoop Loan Agreement continue the covenants included in the Hoop Loan Agreement, including limitations on indebtedness, maintenance of certain levels of excess collateral and restrictions on the payment of dividends and indebtedness. Credit extended under the Amendments to the Hoop Loan Agreement continues to be secured by a first priority security interest in substantially all the assets of the domestic Hoop entity as well as a pledge of a portion of the equity interests in Hoop Canada.

As discussed above, the Company obtained waivers for its non-compliance with its reporting requirements under the Hoop Loan Agreement. There were no fees associated with obtaining these waivers through August 30, 2007. However, the Company was required to pay a fee of $48,000 to extend the waiver from August 30, 2007 through the date this Annual Report on Form 10-K was filed with the SEC.

Toronto Dominion Credit Facility

The Company had a credit facility with Toronto Dominion Bank (the "Toronto Dominion Credit Facility") to support the Canadian subsidiary which operates The Children's Place stores in Canada. The Toronto Dominion Credit Facility expired in fiscal 2005 and the Company does not plan to replace the facility. The Company did not borrow under the Toronto Dominion Credit Facility in fiscal 2005.

Letter of Credit Fees

Letter of credit fees approximated $0.8 million, $0.9 million and $0.5 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. Letter of credit fees are included in cost of sales.

8. INTEREST INCOME (EXPENSE), NET

The following table presents the components of the Company's interest income (expense), net (in thousands):

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006	January 29, 2005
Interest income	$ 2,387	$ 1,035	$ 352
Tax-exempt income	2,944	1,728	496
Total interest income	5,331	2,763	848
Less:			
Interest expense – credit facilities	97	1,002	399
Unused line fee	541	460	188
Amortization of deferred financing fees	349	370	109
Other fees	411	368	174
Interest income (expense), net	$ 3,933	$ 563	$ (22)

9. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets are comprised of the following (in thousands):

	February 3, 2007	January 28, 2006
Prepaid property expense	$ 21,512	$ 23,838
Prepaid income taxes	5,958	—
Disney dollars and theme park tickets	7,096	8,744
Prepaid insurance	1,538	918
Prepaid supplies	1,097	495
Prepaid maintenance contracts	2,861	1,872
Other prepaid expenses	2,755	2,683
Prepaid expenses and other current assets	$ 42,817	$ 38,550

Disney dollars are a form of corporate scrip purchased by Hoop and sold in the Disney Stores. The scrip is considered legal tender in the Disney theme parks and Disney Stores. Disney theme park tickets are also purchased by Hoop and sold in the Disney Stores.

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	February 3, 2007	January 28, 2006
Accrued salaries and benefits	$ 37,053	$ 23,934
Accrued real estate expenses	7,420	7,362
Customer liabilities	18,292	13,154
Accrued professional fees	6,265	3,431
Accrued store expenses	8,157	8,884
Sales taxes and other taxes payable	16,355	10,469
Accrued marketing	3,155	5,555
Accrued construction-in-progress	23,719	6,966
Accrued freight	2,328	4,029
Accrued insurance	3,518	2,662
Other accrued expenses	12,508	9,235
Accrued expenses and other current liabilities	$ 138,770	$ 95,681

11. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases all of its stores, offices and distribution facilities (except the Ft. Payne distribution center which the Company owns), and certain office equipment, store fixtures and automobiles, under operating leases expiring through 2023. Certain leases include options to renew and certain leases require additional rent once a sales threshold is reached. The leases require fixed minimum annual rental payments plus, under the terms of certain leases, additional payments for taxes, other expenses and additional rent based upon sales.

Store, office and distribution facilities minimum rent, contingent rent and sublease income are as follows (in thousands):

	For the Fiscal Year Ended		
	February 3, 2007	January 28, 2006	January 29, 2005
Minimum rentals	$ 175,609	$ 157,696	$ 108,585
Additional rent based upon sales	2,023	906	551
Sublease income	(559)	(543)	(180)

Future minimum annual lease payments under the Company's operating leases at February 3, 2007 are as follows (dollars in thousands):

Fiscal year	Operating Leases
2007	$ 183,272
2008	172,508
2009	162,329
2010	144,585
2011	126,779
Thereafter	357,309
Total minimum lease payments	$ 1,146,782

Disney License Agreement Commitments

The Company's acquisition of the DSNA Business was structured to create Hoop as separate legal entities to fund and operate the Disney Store business. The domestic Hoop entity was capitalized with $50 million on the Closing Date. In addition, the Company has agreed to invest up to an additional $50 million (which amount is subject to increase if certain distributions are made) to enable Hoop to comply with its respective obligations under the License Agreement and otherwise to fund its operations. The Company also guaranteed royalty payments and other obligations under the License Agreement up to a maximum of $25 million, plus expenses.

Beginning in fiscal 2007, under the License Agreement, as amended in April 2006, Hoop is also subject to minimum royalties. The minimum royalty payment is computed as the greater of:

- 60% of the royalty that would have been payable under the terms of the License Agreement for acquired stores in the base year, which was the year ended October 2, 2004, as if the License Agreement had been in effect in that year, increased at the rate of the Consumer Price Index, or
- 80% of the average of the royalty amount payable in the previous two years.

The Company estimates that the minimum royalty under the License Agreement will approximate $260 million over the remainder of the 15-year term of the License Agreement. This estimate does not include future increases or decreases in Disney Store sales and cost of living adjustments since these are unknown contingencies. The actual minimum royalty may differ materially from the amount currently estimated.

During fiscal 2006, the Company suspended the Disney Store renovation program because of dissatisfaction with the "Mickey" store prototype. As of February 3, 2007, the Company had remodeled 45 Disney Stores since acquisition. Pursuant to the License Agreement provisions, as amended in 2006, related to required remodeling following lease renewals and required remodeling of stores at least once every 12 years, the Company was required to remodel a total of approximately 145 stores as of February 3, 2007. As of February 3, 2007, the Company had remodeled 32 of these required stores, with the result that 113 of the store remodels required by that date under the terms of the License Agreement had not been completed by that date. The remaining 13 store remodels the Company had completed were not required pursuant to the provisions of the License Agreement.

The following table represents the Company's estimated remodeling and maintenance obligations under the License Agreement as in effect as of February 3, 2007:

	Payments Due By Period				
(dollars in thousands)	Total	1 year or less	1—3 years	3—5 years	More than 5 years
Disney Store remodel and maintenance obligations(1)	$ 237,206	$ 16,250	$ 35,750	$ 26,000	$ 159,206
Disney Store remodels in arrears(2)	73,450	73,450	—	—	—

(1) Contractual amounts for Disney Store renovations are estimated based on License Agreement provisions as to the number of Disney Stores required to be remodeled each year. The License Agreement, among other things, requires the Company to remodel stores within a specified time period following a long-term lease renewal or at least once every 12 years.

(2) Represents 113 store remodels required under the License Agreement to be completed by February 3, 2007 which had not been completed by that date. Since this commitment relates to prior years, the Company assumed for purposes of this table that the full amount, estimated at $650,000 per store, would be required in one year or less. However, as of February 3, 2007, the Company was in negotiations with Disney regarding potential modifications to the License Agreement to address the Company's remodeling commitment.

Refer to Note 5—License Agreement with Disney for additional information regarding the August 2007 Refurbishment Amendment entered into by the Company and Disney which modified, supplemented and superseded certain provisions of the License Agreement, including the Company's remodeling commitments through fiscal 2011, and created additional obligations on the part of the Company.

The following table represents the Company's store opening, remodeling and maintenance commitments for the Disney Store business for the remainder of the initial term of the License Agreement (through fiscal 2019) taking into account the requirements of the Refurbishment Amendment that apply through fiscal 2011 as if the Refurbishment Amendment had been in effect at February 3, 2007:

	Payments Due By Period				
(dollars in thousands)	Total	1 year or less	1—3 years	3—5 years	More than 5 years
Disney Store new store capital expenditures, remodeling and maintenance and refresh obligations(1)	$ 341,296	$ 17,245	$ 88,965	$ 80,490	$ 154,596

(1) The Company's Disney Store obligation of approximately $341.3 million is comprised of $175 million in remodel, retrofit and maintenance and refresh obligations through fiscal 2011 noted above, approximately $11.7 million in new store capital expenditures (18 stores estimated at $650,000 each) as provided for in the Refurbishment Amendment, and the Company's remaining estimated obligation of approximately $154.6 million as provided for by the terms of the original License Agreement.

New Store Capital Commitments

As of February 3, 2007, the Company executed 40 leases for new stores (30 for The Children's Place business and 10 for the Disney Store). The Company estimates the capital expenditures required to open and begin operating these stores will be approximately $30.5 million. The Company also expects to receive landlord lease incentives of approximately $12.5 million related to these stores.

Purchase Commitments

As of February 3, 2007, the Company has entered into various purchase commitments for merchandise for re-sale of approximately $388 million and equipment and construction commitments of approximately $66 million, including commitments related to its Ft. Payne, Alabama distribution center and its new administrative offices at 2 Emerson Lane in Secaucus, NJ.

Employment Agreements

The Company has entered into employment agreements with certain of its executives which provide for the payment of severance up to three times the executive's salary and certain benefits following any termination without cause. These contracts commit the Company, in the aggregate, to approximately $5.6 million of employment termination costs, of which approximately $5.0 million represents severance payments. In addition, two executive officers have employment agreements that provide that Mr. Dabah's departure constitutes "good reason" for such executives to terminate their employment agreements with us.

12. LEGAL AND REGULATORY MATTERS

The Company is involved in various legal proceedings arising in the normal course of its business and reserves for litigation settlements and contingencies when it can determine the probability of outcome and can estimate losses. Estimates are adjusted as facts and circumstances require. 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.

Matters Related to Stock Option Practices

SEC and U.S. Attorney Investigations

On September 29, 2006, the Division of Enforcement of the SEC informed the Company that it had initiated an informal investigation into the Company's stock option granting practices. In addition, the Office of the U.S. Attorney for the District of New Jersey has initiated an investigation into the Company's option granting practices. The Company has cooperated with these investigations and has briefed both authorities on the results of the Special Committee's investigation. There have been no developments in these matters since that time.

Nasdaq Proceedings

As the Company did not timely file its Quarterly Reports on Form 10-Q for the quarters ended July 29, 2006 and October 28, 2006, its Annual Report on Form 10-K for fiscal 2006, and its Quarterly Reports on Form 10-Q for the quarters ended May 5, 2007 and August 4, 2007 (collectively, the "Required Reports"), the Company has been out of compliance with the reporting requirements of the SEC and the Nasdaq Global Select Market ("Nasdaq") for more than one year. Although the Company has now filed this Annual Report on Form 10-K for fiscal 2006 and its delinquent reports for the second and third quarters of fiscal 2006, it has not yet filed its Quarterly Reports on Form 10-Q for the first and second quarters of fiscal 2007. Consequently, the Company continues to be in violation of the reporting requirements under the Securities and Exchange Act of 1934 (the "Exchange" Act) and the Nasdaq listing rules.

The Company has received various determination letters from the Staff of Nasdaq stating that because it was not in compliance with Nasdaq listing requirements, its common stock is subject to delisting. Since September 2006 the Company has been in contact with the Nasdaq Listing Qualifications Panel, Nasdaq's Listing and Hearing Review Council, and the Board of Directors of the Nasdaq Stock Market LLC (the "Nasdaq Board") regarding the Company's inability to comply with Nasdaq's listing requirements and when the Company might be able to again become compliant. The last communication the Company received from Nasdaq on this issue was from the Nasdaq Board on November 9, 2007 stating that the Company had until January 9, 2008, to file all of the Required Reports in order to regain compliance with Nasdaq's listing requirements. If the Company has not regained compliance prior to that time, it will need to explain to the Nasdaq Staff the reasons for its inability to do so, in order for the Nasdaq Board to consider whether any further extension is warranted. The Company still needs to file its Quarterly Reports on Form 10-Q for the quarters ended May 5, 2007 and August 4, 2007 before it will have filed all of the Required Reports. There is no assurance that the Company will be able to meet the January 9, 2008 deadline, and if it does not, there is no assurance that the Nasdaq Board will grant the Company additional time to become compliant. If the Company fails to come into compliance by January 9, 2008 or any extended deadline that may be approved by Nasdaq, it is anticipated that the Company's shares will be delisted from Nasdaq.

In addition, Nasdaq listing rules require that all issuers solicit proxies and hold an annual meeting of its shareholders within 12 months of the end of the issuer's fiscal year end. In order for the Company to comply with this rule, it must hold its annual meeting of shareholders for the fiscal year ended February 3, 2007, no later than February 3, 2008. In addition, the Company must be current in its SEC filings before it can solicit proxies for such annual meeting of its shareholders. Accordingly, if the Company is unable to become current in its SEC filings in sufficient time for it to solicit proxies for an annual meeting of the Company's shareholders by February 3, 2008, or if the Company otherwise fails to hold such meeting by February 3, 2008, the Company's shares could be delisted from Nasdaq.

Shareholder Derivative Litigation

On January 17, 2007, a stockholder derivative action was filed against certain current members of the Board and certain current and former senior executives in the United States District Court, District of New Jersey. The Company has been named as a nominal defendant. The complaint alleges, among other things, that certain of the Company's current and former officers and directors (i) breached their fiduciary duties to the Company and its stockholders and were unjustly enriched by improperly backdating certain grants of stock options to officers and directors of the Company, (ii) caused the Company to file false and misleading reports with the SEC, (iii) violated the Exchange Act and common law, (iv) caused the Company to issue false and misleading public statements, and (v) were negligent and abdicated their responsibilities to the Company and its stockholders. The complaint seeks money damages, an accounting by the defendants for the proceeds of sales of any allegedly backdated stock options, and the costs and disbursements of the lawsuit, as well as equitable relief. The defendants have moved to dismiss the action and on or about June 15, 2007, the plaintiff filed an amended complaint adding, among other things, a claim for securities fraud under SEC rule 10b-5. The outcome of this litigation is uncertain; while the Company believes there are valid defenses to the claims and will defend itself vigorously, no assurance can be given as to the outcome of this litigation. The litigation could distract management and directors from the Company's affairs, the costs and expenses of the litigation could unfavorably affect the Company's net earnings and an unfavorable outcome could adversely affect the reputation of the Company.

Other Litigation

On or about February 15, 2005, Michael Scott Smith, a former co-sales manager for The Children's Place in the San Diego district, filed a lawsuit against the Company in the Superior Court of California, County of Los Angeles. The lawsuit alleges violations of the California Labor Code and California Business and Professions Code and seeks class action on behalf of Mr. Smith and other individuals similarly situated. On October 19, 2007, the Company entered into a class action settlement with the plaintiff's counsel and signed a memorandum of understanding providing for, among other things, a maximum total payment of $2.1 million, inclusive of attorneys' fees, costs, and expenses, service payments to the class representative, and administration costs, in exchange for a full release of all claims and dismissal of the lawsuit. The court granted preliminary approval of the settlement on November 29, 2007. The settlement was recorded in the thirteen weeks ended July 29, 2006.

On or about July 12, 2006, Joy Fong, a former Disney Store manager in the San Francisco district, filed a lawsuit against the Company in the Superior Court of California, County of Los Angeles. The lawsuit alleges violations of the California Labor Code and California Business and Professions Code and seeks class action status on behalf of Ms. Fong and other individuals similarly situated. The Company filed its answer on August 11, 2006 denying any and all liability, and on January 14, 2007, Ms. Fong filed an amended complaint, adding Disney as a defendant. The Company believes it has meritorious defenses to the claims. The outcome of this litigation is uncertain; while the Company believes there are valid defenses to the claims, the Company cannot reasonably estimate the amount of loss or range of loss that might be incurred as a result of this matter.

In addition, the Company is involved in various legal proceedings arising in the normal course of business. Based on the claims asserted at this time, it is management's opinion that it is unlikely that any ultimate liability arising out of such proceedings will have a material adverse effect on the Company's business.

Refer to Note 18—Subsequent Events for further discussion of pending litigation.

13. INCOME TAXES

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

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006	January 29, 2005
Current -			
Federal	$ 34,497	$ 47,902	$ 17,601
State	11,442	10,473	3,415
Foreign	20,000	15,003	3,416
Total current	65,939	73,378	24,432
Deferred -			
Federal	(23,878)	(28,688)	53
State	(4,345)	(6,574)	834
Foreign	(1,778)	(1,858)	757
Total deferred	(30,001)	(37,120)	1,644
Total provision for income taxes	35,938	36,258	26,076
Taxes on the extraordinary gain	—	(1,109)	(171)
Tax provision as shown on the consolidated statements of income	$ 35,938	$ 35,149	$ 25,905
Effective tax rate	29.1%	37.6%	39.1%

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

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006	January 29, 2005
Calculated income tax provision at Federal statutory rate	$ 43,164	$ 33,679	$ 23,351
State income taxes, net of Federal benefit	4,613	2,534	2,764
Foreign tax rate differential	(5,265)	(4,195)	(369)
Stock option related expenses	(65)	(348)	543
American Jobs Creation Act repatriation	—	1,856	—
Nondeductible expenses	1,999	317	34
Foreign tax credits	(9,479)	—	—
Other	971	2,415	(247)
Total tax provision	35,938	36,258	26,076
Taxes on the extraordinary gain	—	(1,109)	(171)
Tax provision as shown on the consolidated statements of income	$ 35,938	$ 35,149	$ 25,905

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

	February 3, 2007	January 28, 2006
Current –		
Assets		
Inventory	$ 11,874	$ 5,719
Reserves	8,086	4,130
Foreign tax credits	1,470	—
Total current assets	21,430	9,849
Liabilities – prepaid expenses	(5,020)	(4,462)
Total current, net	16,410	5,387

Noncurrent –		
Depreciation	20,859	17,681
Deferred rent	18,071	16,945
Deferred royalty	18,328	10,848
Equity compensation	4,831	3,935
Foreign tax credits	3,703	—
Other	3,247	759
Total noncurrent	69,039	50,168
Total deferred tax asset, net	$ 85,449	$ 55,555

During the fourth quarter of 2006, the Company received a one time cash dividend of approximately $17 million from some of its Canadian subsidiaries. This dividend brought with it approximately $24 million of foreign tax credits. These foreign tax credits can be utilized to reduce U.S. income tax and expire in 2016. The Company's fiscal 2006 tax provision was reduced by approximately $9.5 million after the effect of this transaction. The Company estimates approximately $5.2 million of these credits will be carried forward and realized in future years. Foreign tax credits are allowed to be carried back one year and carried forward for 10 years.

In the fourth quarter of fiscal 2005, the Company's Board approved a domestic reinvestment plan to repatriate approximately $45 million under the American Jobs Creation Act of 2004 (the "Act"). These foreign earnings were previously considered to be indefinitely reinvested outside the United States. Accordingly, in the fourth quarter of fiscal 2005, the Company recorded income tax expense of approximately $1.9 million associated with this repatriation of earnings. The Act created a temporary incentive for the Company to repatriate earnings accumulated outside the U.S. by allowing the Company to reduce its taxable income by 85% of certain eligible dividends received from non-U.S. subsidiaries by the end of 2005.

As of February 3, 2007, the Company has not provided for Federal taxes on approximately $49.8 million of unremitted earnings of its foreign subsidiaries. The Company intends to reinvest these earnings overseas to fund expansion in Canada and other foreign markets. Accordingly, the Company has not provided any provision for income tax expenses in excess of foreign jurisdiction income tax requirements relative to such unremitted earnings in the accompanying financial statements.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become realizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the projections for future taxable income over the periods in which the deferred tax assets are realizable as of February 3, 2007, management believes it is more likely than not the Company will realize the benefits of these assets.

The Company plans to adopt FIN 48 at the beginning of fiscal 2007. The Company, in its opening balance sheet for 2007, is required to reflect, as a cumulative adjustment to the Company's retained earnings, the impact of FIN 48 on its income tax accruals for all prior years subject to adjustment by federal, state, local and foreign taxing authorities (open years). The Company has undertaken an analysis of all material tax positions for all open years and estimated the transition amounts with respect to each item at the effective date. The Company has determined that an adjustment of approximately $6.6 million to reduce retained earnings is required as the result of applying FIN 48. The Company expects no material change for the next 12 months as a result of adopting FIN 48. The Company will continue to include interest and penalties as part of the provision for income taxes.

14. SAVINGS AND INVESTMENT PLAN

The Company has adopted The Children's Place 401(k) Savings Plan (the "401(k) Plan"), which qualifies under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). The 401(k) Plan is a defined contribution plan established to provide retirement benefits for employees. The 401(k) Plan is employee funded up to an elective annual deferral and also provides for the Company to make matching contributions to the 401(k) Plan.

During fiscal 2006, the 401(k) Plan was available for all employees who had completed 90 days of service with the Company. Following guidance in IRS Notice 98-52 related to the design-based alternative, or "safe harbor,"

401(k) plan method, the Company modified its 401(k) Plan effective for fiscal 2006 regarding future Company match contributions for non-highly compensated associates, as defined in the Code. For non-highly compensated associates, the Company matched the first 3% of the participant's contribution and 50% of the next 2% of the participant's contribution and the Company match contribution vested immediately. For highly compensated associates, the Company matched the lesser of 50% of the participant's contribution or 2.5% of the participant's covered compensation and the Company match contribution vests over five years. The Company's fiscal 2006 matching contributions were approximately $2.6 million.

During fiscal 2005, the 401(k) Plan was available to all employees who had completed 90 days of service with the Company. The Company made a one-time qualified non-elective contribution ("QNEC") in fiscal 2005 that provided for a higher Company match for certain associates to enable the Company's 401(k) Plan to pass certain Internal Revenue Service tests. Other than the one-time QNEC contribution, the Company matched the lesser of 50% of the participant's contribution or 2.5% of the participant's covered compensation. The Company's fiscal 2005 matching contributions to the 401(k) Plan, including the QNEC contribution, were approximately $1.9 million.

During fiscal 2004, the 401(k) Plan was available to all employees who had completed one year of service with the Company. The Company matched the lesser of 50% of the participant's contribution or 2.5% of the participant's covered compensation, and such fiscal 2004 matching contributions were approximately $1.0 million.

Under statutory requirements, the Company contributes to retirement plans for its Canadian and Asian operations. Contributions under these plans in fiscal 2006, fiscal 2005 and fiscal 2004 were $0.1 million, $0.1 million and $0.0, respectively.

15. SEGMENT AND GEOGRAPHIC INFORMATION

Since the acquisition of the Disney Store in November 2004, the Company has segmented its operations based on management responsibility: The Children's Place stores and the Disney Stores. The Company measures its segment profitability based on operating profit, defined by the Company as earnings before the allocation of shared services and before interest and taxes. Shared services are not allocated and principally include executive management, finance, real estate, human resources, legal and information technology services. Direct administrative expenses are recorded by each segment. Certain centrally managed functions such as distribution center expenses are allocated to each segment based upon management's estimate of usage or other contractual means. The Company periodically reviews these allocations and adjusts them based upon changes in business circumstances.

Shared service assets principally represent capitalized software and computer equipment. All other administrative assets are allocated between the two operating segments.

The following tables provide fiscal 2006, fiscal 2005, and fiscal 2004 segment level financial information (dollars in millions):

	Year ended February 3, 2007			
	The Children's Place	Disney Store	Shared Services	Total Company
Net sales	$ 1,405.4	$ 612.3	$ —	$ 2,017.7
Asset impairment charges	0.4	16.7	—	17.1
Depreciation and amortization	50.6	7.7	7.4	65.7
Operating profit (loss)	204.5	11.4	(96.5)	119.4
Operating profit (loss) as a percent of net sales	14.6%	1.9%	—%	5.9%
Interest income (expense), net	2.7	1.2	—	3.9
Total assets	669.0	251.2	19.3	939.5
Capital expenditures	$ 98.2	$ 46.4	$ 10.5	$ 155.1

	Year ended January 28, 2006			
	The Children's Place	Disney Store	Shared Services	Total Company
Net sales	$ 1,171.0	$ 497.7	$ —	$ 1,668.7
Asset impairment charges	0.2	—	—	0.2
Depreciation and amortization	45.1	1.7	6.1	52.9
Operating profit (loss)	162.1	(2.8)	(66.4)	92.9
Operating profit (loss) as a percent of net sales	13.8%	(0.6)%	—%	5.6%
Interest income (expense), net	(0.7)	1.3	—	0.6
Total assets	538.5	209.4	16.1	764.0
Capital expenditures	$ 44.3	$ 33.0	$ 11.9	$ 89.2

	Year ended January 29, 2005			
	The Children's Place	Disney Store (1)	Shared Services	Total Company
Net sales	$ 994.1	$ 163.4	$ —	$ 1,157.5
Asset impairment charges	0.2	—	—	0.2
Depreciation and amortization	43.4	—	5.6	49.0
Operating profit (loss)	108.0	6.2	(47.9)	66.3
Operating profit (loss) as a percent of net sales	10.9%	3.8%	—%	5.7%
Interest income (expense), net	—	—	—	—
Total assets	401.1	206.7	10.0	617.8
Capital expenditures	$ 52.8	$ 0.7	$ 4.3	$ 57.8

(1) Represents 10 weeks of operations for the Disney Store business, commencing November 21, 2004.

Since the fair value of assets acquired and liabilities assumed exceeded the amounts paid to acquire the DSNA Business, the Company recorded no basis in the property and equipment it acquired with the DSNA Business. Correspondingly, the Company recorded no depreciation expense for the Disney Store business in fiscal 2004 as the post-acquisition capital expenditures were not yet placed in service.

Revenues attributable to domestic and foreign operations were as follows (in millions):

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006	January 29, 2005
United States and Puerto Rico	$ 1,822.5	$ 1,525.0	$ 1,068.5
Canada	195.2	143.7	89.0
Total	$ 2,017.7	$ 1,668.7	$ 1,157.5

The Company's long-lived assets, by geographic region, are comprised of net property and equipment, long-term deferred income taxes and other assets, and are as follows (in millions):

	Fiscal Year Ended	
	February 3, 2007	January 28, 2006
United States and Puerto Rico	$ 379.4	$ 269.4
Canada	33.1	32.7
Asia	1.4	1.9
Total	$ 413.9	$ 304.0

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

In the opinion of management, the unaudited condensed consolidated financial statements presented below contain all material adjustments, consisting of normal recurring accruals, necessary to present fairly the Company's financial position and results of operations and have been prepared in a manner consistent with the audited financial

statements contained herein. Due to the seasonal nature of the Company's business, the results of operations in any given interim period are not indicative of operating results for a full fiscal year.

The following tables summarize the quarterly condensed consolidated statements of income data for the periods indicated, giving effect to the restatements described in Note 2—Restatement of Consolidated Financial Statements (in thousands, except per share amounts):

	Fiscal Year Ended February 3, 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 426,509	$ 395,614	$ 550,410	$ 645,180
Gross profit	166,963	137,314	242,148	281,988
Selling, general and administrative expenses	129,814	143,247	160,416	192,774
Asset impairment charges	—	—	417	16,649
Depreciation and amortization	14,207	15,858	16,327	19,309
Operating income (loss)	22,942	(21,791)	64,988	53,256
Net income (loss)	14,720	(13,519)	41,528	44,661
Basic net income (loss) per common share	$ 0.52	$ (0.47)	$ 1.43	$ 1.54
Diluted net income (loss) per common share	$ 0.50	$ (0.47)	$ 1.38	$ 1.48

	Fiscal Year Ended January 28, 2006			
	First Quarter	Second Quarter	Third Quarter (1)	Fourth Quarter
Net sales	$ 369,217	$ 318,750	$ 441,051	$ 539,718
Gross profit	141,981	98,754	185,420	233,858
Selling, general and administrative expenses	113,325	119,251	130,381	151,036
Asset impairment charges	—	229	15	—
Depreciation and amortization	12,124	12,496	13,006	15,260
Operating income (loss)	16,532	(33,222)	42,018	67,562
Net income (loss)	10,042	(20,119)	28,738	41,308
Basic net income (loss) per common share	$ 0.37	$ (0.73)	$ 1.04	$ 1.48
Diluted net income (loss) per common share	$ 0.35	$ (0.73)	$ 1.01	$ 1.42

(1) Third quarter of fiscal 2005 included an extraordinary gain of approximately $1.7 million, or $0.06 per share, after taxes, resulting from the finalization of the difference between the fair value of the DSNA Business acquired versus the amount the Company paid (See Note 4—Acquisition of the DSNA Business.)

Consolidated Balance Sheet Impact

The following table reconciles the quarterly condensed consolidated balance sheet data previously reported to the restated amounts for the first quarter of the fiscal year ended February 3, 2007 (in thousands, except per share amounts):

	April 29, 2006			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
ASSETS				
Current assets				
Cash and cash equivalents	$ 175,752	$ —	$ (62,445)	$ 113,307
Investments	—	—	62,445	62,445
Accounts receivable	35,301	—	150	35,451
Inventories	215,326	—	(1,132)	214,194
Prepaid expenses and other current assets	36,860	—	1,816	38,676
Deferred income taxes	6,042	—	561	6,603
Total current assets	469,281	—	1,395	470,676
Long term assets:				
Property and equipment, net	260,318	—	—	260,318
Deferred income taxes	48,711	4,384	975	54,070
Other assets	4,818	—	—	4,818
Total assets	$ 783,128	$ 4,384	$ 2,370	$ 789,882
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Current liabilities:				
Accounts payable	$ 92,300	$ —	$ (1,455)	$ 90,845
Income taxes payable	12,544	—	3,707	16,251
Accrued expenses, interest and other current liabilities	91,853	3,297	(512)	94,638
Total current liabilities	196,697	3,297	1,740	201,734
Deferred rent liabilities	110,244	—	—	110,244
Deferred royalties	31,233	—	—	31,233
Other long term liabilities	6,196	—	—	6,196
Total liabilities	344,370	3,297	1,740	349,407
COMMITMENTS AND CONTINGENCIES (NOTE 11)				
STOCKHOLDERS' EQUITY:				
Common stock, $0.10 par value	2,872	—	—	2,872
Preferred stock, $1.00 par value	—	—	—	—
Additional paid-in capital	164,154	12,247	—	176,401
Accumulated other comprehensive income	8,942	—	(1,038)	7,904
Retained earnings	262,790	(11,160)	1,668	253,298
Total stockholders' equity	438,758	1,087	630	440,475
Total liabilities and stockholders' equity	$ 783,128	$ 4,384	$ 2,370	$ 789,882

(1) Other adjustments relate to personal property taxes certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years and inventory adjustments.

The following tables reconcile the quarterly condensed consolidated balance sheet data previously reported to the restated amounts for the quarters in fiscal year ended January 28, 2006 (in thousands, except per share amounts):

	April 30, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 106,467	$ —	$ —	$ 106,467
Investments	42,515	—	—	42,515
Accounts receivable	21,248	—	(545)	20,703
Inventories	158,200	—	(1,091)	157,109
Prepaid expenses and other current assets	37,979	—	947	38,926
Deferred income taxes	3,922	—	(380)	3,542
Total current assets	370,331	—	(1,069)	369,262
Long term assets:				
Property and equipment, net	203,391	—	—	203,391
Deferred income taxes	16,683	1,172	(1,140)	16,715
Other assets	3,506	—	—	3,506
Total assets	$ 593,911	$ 1,172	$ (2,209)	$ 592,874
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Current liabilities:				
Revolving loan	$ —	$ —	$ —	$ —
Accounts payable	86,944	—	(866)	86,078
Income taxes payable	9,604	—	472	10,076
Accrued expenses, interest and other current liabilities	73,509	897	(3,937)	70,469
Total current liabilities	170,057	897	(4,331)	166,623
Deferred rent liabilities	93,490	—	—	93,490
Deferred royalties	10,391	—	—	10,391
Other long term liabilities	2,957	—	—	2,957
Total liabilities	276,895	897	(4,331)	273,461
COMMITMENTS AND CONTINGENCIES (NOTE 11)				
STOCKHOLDERS' EQUITY:				
Common stock, $0.10 par value	2,746	—	—	2,746
Preferred stock, $1.00 par value	—	—	—	—
Additional paid-in capital	118,514	5,765	—	124,279
Accumulated other comprehensive income	4,084	—	(347)	3,737
Retained earnings	191,672	(5,490)	2,469	188,651
Total stockholders' equity	317,016	275	2,122	319,413
Total liabilities and stockholders' equity	$ 593,911	$ 1,172	$ (2,209)	$ 592,874

(1) Other adjustments relate to personal property taxes certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years and inventory adjustments.

	July 30, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 121,958	$ —	$ —	$ 121,958
Accounts receivable	22,162	—	75	22,237
Inventories	180,708	—	(696)	180,012
Prepaid expenses and other current assets	56,766	—	1,136	57,902
Deferred income taxes	3,784	—	(456)	3,328
Total current assets	385,378	—	59	385,437
Long term assets:				
Property and equipment, net	208,507	—	—	208,507
Deferred income taxes	17,067	1,338	(1,037)	17,368
Other assets	3,346	—	—	3,346
Total assets	$ 614,298	$ 1,338	$ (978)	$ 614,658
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Current liabilities:				
Revolving loan	$ 23,090	$ —	$ —	$ 23,090
Accounts payable	82,065	—	(888)	81,177
Income taxes payable	—	—	604	604
Accrued expenses, interest and other current liabilities	89,330	1,423	(2,261)	88,492
Total current liabilities	194,485	1,423	(2,545)	193,363
Deferred rent liabilities	95,127	—	—	95,127
Deferred royalties	14,627	—	—	14,627
Other long term liabilities	2,957	—	—	2,957
Total liabilities	307,196	1,423	(2,545)	306,074
COMMITMENTS AND CONTINGENCIES (NOTE 11)				
STOCKHOLDERS' EQUITY:				
Common stock, $0.10 par value	2,772	—	—	2,772
Preferred stock, $1.00 par value	—	—	—	—
Additional paid-in capital	126,273	6,346	—	132,619
Accumulated other comprehensive income	5,296	—	(635)	4,661
Retained earnings	172,761	(6,431)	2,202	168,532
Total stockholders' equity	307,102	(85)	1,567	308,584
Total liabilities and stockholders' equity	$ 614,298	$ 1,338	$ (978)	$ 614,658

(1) Other adjustments relate to personal property taxes certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years and inventory adjustments.

	October 29, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
ASSETS				
Current assets:				

Cash and cash equivalents	$ 122,428	$ —	$ —	$ 122,428
Accounts receivable	26,702	—	113	26,815
Inventories	261,160	—	(1,078)	260,082
Prepaid expenses and other current assets	51,217	—	1,352	52,569
Deferred income taxes	3,593	—	(543)	3,050
Total current assets	465,100	—	(156)	464,944
Long term assets:				
Property and equipment, net	216,505	—	—	216,505
Deferred income taxes	18,991	1,459	(1,059)	19,391
Other assets	3,368	—	—	3,368
Total assets	$ 703,964	$ 1,459	$ (1,215)	$ 704,208
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Current liabilities:				
Revolving loan	$ 55,299	$ —	$ —	$ 55,299
Accounts payable	87,282	—	(1,371)	85,911
Income taxes payable	9,477	—	888	10,365
Accrued expenses, interest and other current liabilities	89,349	1,624	(2,175)	88,798
Total current liabilities	241,407	1,624	(2,658)	240,373
Deferred rent liabilities	101,757	—	—	101,757
Deferred royalties	19,530	—	—	19,530
Other long term liabilities	2,976	—	—	2,976
Total liabilities	365,670	1,624	(2,658)	364,636
COMMITMENTS AND CONTINGENCIES (NOTE 11)				
STOCKHOLDERS' EQUITY:				
Common stock, $0.10 par value	2,775	—	—	2,775
Preferred stock, $1.00 par value	—	—	—	—
Additional paid-in capital	126,850	6,677	—	133,527
Accumulated other comprehensive income	6,915	—	(915)	6,000
Retained earnings	201,754	(6,842)	2,358	197,270
Total stockholders' equity	338,294	(165)	1,443	339,572
Total liabilities and stockholders' equity	$ 703,964	$ 1,459	$ (1,215)	$ 704,208

(1) Other adjustments relate to personal property taxes certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years and inventory adjustments.

Consolidated Statements of Income

The following table reconciles the quarterly condensed consolidated statement of income data previously reported to the restated amounts for the first quarter in fiscal year ended February 3, 2007 (in thousands, except per share amounts):

	Thirteen Weeks Ended April 29, 2006			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 426,509	$ —	$ —	$ 426,509
Cost of sales (exclusive of depreciation shown separately below)	258,926	120	500	259,546
Gross profit	167,583	(120)	(500)	166,963
Selling, general and administrative expenses	129,430	1,211	(827)	129,814
Depreciation and amortization	14,207	—	—	14,207
Operating income	23,946	(1,331)	327	22,942
Interest income (expense), net	877	—	—	877
Income before income taxes	24,823	(1,331)	327	23,819
Provision for income taxes	9,482	(544)	161	9,099
Net income	$ 15,341	$ (787)	$ 166	$ 14,720
Basic net income per common share	$ 0.54	$ (0.03)	$ 0.01	$ 0.52
Basic weighted average common shares outstanding	28,242			28,242
Diluted net income per common share	$ 0.52	$ (0.03)	$ 0.01	$ 0.50
Diluted weighted average common shares and common share equivalents outstanding	29,410	93	—	29,503

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

The following tables reconcile the quarterly condensed consolidated statement of income data previously reported to the restated amounts for the quarters in fiscal year ended January 28, 2006 (in thousands, except per share amounts):

	Thirteen Weeks Ended April 30, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 369,217	$ —	$ —	$ 369,217
Cost of sales (exclusive of depreciation shown separately below)	227,687	95	(546)	227,236
Gross profit	141,530	(95)	546	141,981
Selling, general and administrative expenses	113,424	146	(245)	113,325
Depreciation and amortization	12,124	—	—	12,124
Operating income	15,982	(241)	791	16,532
Interest income (expense), net	95	—	—	95
Income before income taxes	16,077	(241)	791	16,627
Provision for income taxes	6,279	(153)	459	6,585
Net income	$ 9,798	$ (88)	$ 332	$ 10,042
Basic net income per common share	0.36	—	0.01	0.37
Basic weighted average common shares outstanding	27,383			27,383
Diluted net income per common share	$ 0.34	$ —	$ 0.01	$ 0.35
Diluted weighted average common shares and common share equivalents outstanding	28,611	(181)	—	28,430

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

	Thirteen Weeks Ended July 30, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 318,750	$ —	$ —	$ 318,750
Cost of sales (exclusive of depreciation shown separately below)	219,675	269	52	219,996
Gross profit	99,075	(269)	(52)	98,754
Selling, general and administrative expenses	117,663	1,192	396	119,251
Asset impairment charges	229	—	—	229
Depreciation and amortization	12,496	—	—	12,496
Operating income	(31,313)	(1,461)	(448)	(33,222)
Interest income (expense), net	335	—	—	335
Income before income taxes	(30,978)	(1,461)	(448)	(32,887)
Provision for income taxes	(12,067)	(520)	(181)	(12,768)
Net income	$ (18,911)	$ (941)	$ (267)	$ (20,119)
Basic net income per common share (2)	$ (0.68)	$ (0.03)	$ (0.01)	$ (0.73)
Basic weighted average common shares outstanding	27,683			27,683

Diluted net income per common share (2)	$ (0.68)	$ (0.03)	$ (0.01)	$ (0.73)
Diluted weighted average common shares and common share equivalents outstanding	27,683	—	—	27,683

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

(2) Basic and diluted earnings per share may not add due to rounding.

	Thirteen Weeks Ended October 29, 2005			
	As Reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 441,051	$ —	$ —	$ 441,051
Cost of sales (exclusive of depreciation shown separately below)	255,883	103	(355)	255,631
Gross profit	185,168	(103)	355	185,420
Selling, general and administrative expenses	129,711	582	88	130,381
Asset impairment charges	15	—	—	15
Depreciation and amortization	13,006	—	—	13,006
Operating income	42,436	(685)	267	42,018
Interest expense, net	(139)	—	—	(139)
Income before income taxes and extraordinary gain	42,297	(685)	267	41,879
Provision for income taxes	14,969	(274)	111	14,806
Income before extraordinary gain	27,328	(411)	156	27,073
Extraordinary gain, net of taxes	1,665	—	—	1,665
Net income	$ 28,993	$ (411)	$ 156	$ 28,738
Basic net income per common share before extraordinary gain (2)	$ 0.99	$ (0.01)	$ 0.01	$ 0.98
Extraordinary gain, net of taxes	0.06	—	—	0.06
Basic net income per common share (2)	$ 1.05	$ (0.01)	$ 0.01	$ 1.04
Basic weighted average common shares outstanding	27,740			27,740
Diluted net income per common share before extraordinary gain	$ 0.95	$ (0.01)	$ 0.01	$ 0.95
Extraordinary gain, net of taxes	0.06	—	—	0.06
Diluted net income per common share	$ 1.01	$ (0.01)	$ 0.01	$ 1.01
Diluted weighted average common shares and common share equivalents outstanding	28,736	(160)	—	28,576

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

(2) Basic earnings per share may not add due to rounding.

	Thirteen Weeks Ended January 28, 2006			
	As reported	Stock Option Related Adjustments	Other Adjustments(1)	As Restated
Net sales	$ 539,718	$ —	$ —	$ 539,718
Cost of sales (exclusive of depreciation shown separately below)	304,251	1,765	(156)	305,860
Gross profit	235,467	(1,765)	156	233,858
Selling, general and administrative expenses	144,642	4,775	1,619	151,036
Depreciation and amortization	15,260	—	—	15,260
Operating income	75,565	(6,540)	(1,463)	67,562
Interest income (expense), net	272	—	—	272
Income before income taxes	75,837	(6,540)	(1,463)	67,384
Provision for income taxes	30,142	(3,009)	(607)	26,526
Net income	$ 45,695	$ (3,531)	$ (856)	$ 41,308
Basic net income per common share	$ 1.64	$ (0.13)	$ (0.03)	$ 1.48
Basic weighted average common shares outstanding	27,863			27,863
Diluted net income per common share	$ 1.57	$ (0.12)	$ (0.03)	$ 1.42
Diluted weighted average common shares and common share equivalents outstanding	29,105	(174)	—	28,931

(1) Other adjustments relate to personal property taxes and certain accrual accounts and reserves, including those related to occupancy costs for the Company's 52- and 53-week fiscal years.

17. RELATED PARTY TRANSACTIONS

SKM Financial Advisory Services

In conjunction with a 1996 private placement, the Company sold common stock to two funds, the SK Equity Fund, L.P. and the SK Investment Fund, L.P. (collectively, the "SK Funds") managed by Saunders, Karp & Megrue, L.P. ("SKM"). In addition, the Company entered into a management agreement with SKM which provided for the payment of an annual fee of approximately $0.2 million, payable quarterly in advance, in exchange for certain financial advisory services. This management agreement remained in effect until SKM or any of its affiliates' total ownership of the Company's common stock was less than 10% on a fully diluted basis. On November 18, 2004, the SK funds sold the Company's common stock, which brought their ownership position to less than 10% on a fully diluted basis. Effective for fiscal 2005, the management agreement with SKM was no longer in effect. Pursuant to this management agreement, the Company incurred fees and expenses of approximately $0.2 million in fiscal year 2004.

Merchandise for Re-Sale

During fiscal 2006 and fiscal 2005, the Company purchased approximately $3.2 million and $0.3 million, respectively, of footwear from Nina Footwear Corporation. Stanley Silverstein, who is a member of the Board and the father-in-law of Ezra Dabah, former CEO, owns Nina Footwear Corporation with his brother.

Employment of Family Members

Ezra Dabah, CEO of the Company until his resignation on September 24, 2007, is the son-in-law of Stanley Silverstein, a member of the Board of Directors. Nina Miner, who is Mr. Silverstein's daughter and Mr. Dabah's sister-in-law, is employed by the Company. Ms. Miner served as Chief Creative Officer for the Children's Place business. Refer to Note 18—Subsequent Events for further discussion of changes in Senior Management.

Jason Yagoda, Mr. Dabah's son-in-law and the husband of Mr. Silverstein's granddaughter, was employed as Vice President, Marketing, Disney Store and left the employ of the Company effective as of January 19, 2007. The aggregate

compensation paid to Mr. Dabah's relatives, including Ms. Miner and Mr. Yagoda, employed by the Company is as follows (in thousands, except share amounts):

Fiscal year ended:	Cash Compensation (2)	Stock Options	Performance Shares (3)
February 3, 2007	$ 1,583	—	79,019
January 28, 2006(1)	2,206	150,000	—
January 29, 2005(1)	1,506	57,050	—

(1) Fiscal 2006 reflects aggregate compensation to two of Mr. Dabah's immediate family members, as defined in Item 404(a) of the Exchange Act. Fiscal 2005 and fiscal 2004 reflect aggregate compensation to all of Mr. Dabah's relatives (four such individuals in each year) who were employed during each year.

(2) Cash compensation in fiscal 2006 includes a housing allowance for Mr. Yagoda. Cash compensation in fiscal 2005 includes relocation and housing allowances provided to two of Mr. Dabah's relatives who were directly employed by the Disney Store business during fiscal 2005.

(3) The 22,521 performance shares awarded to Mr. Yagoda in fiscal 2006 were forfeited upon his departure from the Company.

Shareholder Receivable

In August, 1999, the Company incurred approximately $0.2 million in legal, accounting, printing and other costs for a secondary offering that was subsequently canceled. SKM, Ezra Dabah, former CEO, and Stanley Silverstein, who is a member of the Board of Directors and Mr. Dabah's father-in-law, had agreed to reimburse the Company for these costs, which were included on the balance sheet as a component of other assets. As of April 15, 2004, SKM and Mr. Dabah reimbursed the Company approximately $0.2 million for their portions of the shareholder receivable. On March 7, 2005, Mr. Silverstein reimbursed the Company for the remaining $30,000 outstanding portion of the shareholder receivable.

18. SUBSEQUENT EVENTS (Unaudited)

Class Action Litigation

On September 21, 2007 a second stockholder class action was filed against the Company and certain current and former senior executives in the United States District Court, Southern District of New York. This complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. It alleges that more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks money damages plus interest as well as costs and disbursements of the lawsuit. The outcome of this litigation is uncertain; while the Company believes there are valid defenses to the claims and will defend against the claims vigorously, no assurance can be given as to the outcome of this litigation.

On October 10, 2007, a third stockholder class action was filed in the United States District Court, Southern District of New York, against the Company and certain of its current and former senior executives. This complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, thereby causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. According to this complaint, more recent disclosures establish the misleading nature of these earlier disclosures. This complaint seeks, among other relief, class certification of the lawsuit, compensatory damages plus interest, and costs and expenses of the lawsuit, including counsel and expert fees. The outcome of this litigation is uncertain; while we believe there are valid defenses to the claims and we will defend ourselves vigorously, no assurance can be given as to the outcome of this litigation. The litigation could distract our management and directors from the Company's

affairs, the costs and expenses of the litigation could unfavorably affect our net earnings and an unfavorable outcome could adversely affect the reputation of the Company.

On or about September 28, 2007, Meghan Ruggiero filed a complaint against the Company and its subsidiary, Hoop Retail Stores, LLC, in the United States District Court, Northern District of Ohio on behalf of herself and similarly situated individuals. The lawsuit alleges violations of the Fair and Accurate Credit Transactions Act ("FACTA") and seeks class certification, an award of statutory and punitive damages, attorneys' fees and costs, and injunctive relief. The outcome of this litigation is uncertain; while the Company believes there are valid defenses to the claims and will defend itself vigorously, no assurance can be given as to the outcome of this litigation.

Changes in Senior Management

On September 24, 2007, Mr. Ezra Dabah, CEO, resigned from the Company effective immediately. Upon his resignation, Mr. Charles Crovitz, a member of the Company's Board of Directors, assumed the responsibilities of CEO on an interim basis. The Company estimates it will record approximately $4.0 million in the third quarter of fiscal 2007 in severance and benefit related expenses payable to Mr. Dabah.

On September 26, 2007, the Board completed its consideration of certain violations of the Company's policies and procedures regarding irregularities in expense reimbursement practices on the part of Ms. Miner. The Board imposed significant sanctions on Ms. Miner, including changing her position so that Ms. Miner will no longer be an officer of the Company.

On November 20, 2007, in connection with his election as Interim CEO, the Company entered into an employment agreement term sheet (the "Term Sheet") with Mr. Crovitz outlining the compensatory arrangements that he shall receive for serving as Interim CEO. The Term Sheet provides that Mr. Crovitz will serve as Interim CEO commencing as of October 1, 2007 until the earlier of (i) the end of fiscal 2008 or (ii) the selection and commencement of service of a permanent CEO. Pursuant to the Term Sheet, Mr. Crovitz shall receive an annual salary of $1.0 million, payable in accordance with the Company's normal payroll practices. The Term Sheet also provides for Mr. Crovitz's continued employment as a consultant for two months following the commencement of service of a permanent CEO to assist in transitioning his responsibilities.

As soon as practicable after the Company is legally able to resume making equity awards, and whether or not Mr. Crovitz's employment has then terminated, Mr. Crovitz is entitled to receive a restricted stock grant of the number of shares then having a fair market value of $1.0 million. Mr. Crovitz will be entitled to participate in all executive benefit plans, and will be provided substantially the same benefits and perquisites, from time to time maintained by the Company for senior executives. Mr. Crovitz's employment agreement also provides that he is entitled to monthly housing, furniture rental and travel allowances. It is expected that the Company and Mr. Crovitz will promptly enter into definitive employment and equity award agreements reflecting terms consistent with the Term Sheet, at which time such agreements shall supersede the Term Sheet.

In September 2007, the Company hired Gary Flaks, as the Company's Vice President, Footwear. Mr. Flaks is the brother of Richard Flaks, a named executive officer and the Company's Senior Vice President, Planning, Allocation and Information Technology.

Board of Directors Review of Strategic Alternatives

Consistent with its fiduciary duties, the Company's Board has engaged an investment banking firm to act as its financial advisor in undertaking a review of strategic alternatives to improve operations and enhance shareholder value. As part of this review, the Company's Board and management are assessing a wide variety of options to improve our business and competitive position, including, but not limited to, opportunities for organizational and operational improvement, a possible recapitalization, or other transactions. The Board has not set any specific timeline for the completion of this strategic review, and there is no assurance that as a result of this review, the Board will decide to change the Company's course of action or engage in any specific transaction.

(a)(2) Financial Statement Schedules

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

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED FEBRUARY 3, 2007, JANUARY 28, 2006 AND JANUARY 29, 2005
(in thousands)

COLUMN A	COLUMN B	COLUMN C—ADDITIONS		COLUMN D	COLUMN E
	Balance at beginning of year	Charged to expenses	Charged to other accounts	Deductions	Balance at end of year
Inventory markdown reserve(1)					
Fiscal year ended February 3, 2007	$ 2,353	$ 7,068	$ —	$ (234)	$ 9,187
Fiscal year ended January 28, 2006	3,776	1,695	—	(3,118)	2,353
Fiscal year ended January 29, 2005	1,614	2,754	—	(592)	3,776

(1) Reflects quarterly adjustment of out-of-season merchandise inventories to realizable value. Column C represents increases to the reserve and Column D represents decreases to the reserve based on this quarterly assessment of the reserve. Markdowns are taken to sell through out-of-season merchandise inventory.

(a)(3) Exhibits

Exhibit	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Company filed as an exhibit to the registrant's Registration Statement No. 333-31535 on Form S-1, is incorporated by reference herein.
3.2(1)	Amended and Restated By-Laws of the Company filed as an exhibit to the registrant's Registration Statement No. 333-31535 on Form S-1, is incorporated by reference herein.
4.1(1)	Form of Certificate for Common Stock of the Company filed as an exhibit to the registrant's Registration Statement No. 333-31535 on Form S-1, is incorporated by reference herein.
10.1(1)(*)	1996 Stock Option Plan of The Children's Place Retail Stores, Inc. filed as an exhibit to the registrant's Registration Statement No. 333-31535 on Form S-1, is incorporated by reference herein.
10.2(1)(*)	1997 Stock Option Plan of The Children's Place Retail Stores, Inc. filed as an exhibit to the registrant's Registration Statement No. 333-31535 on Form S-1, is incorporated by reference herein.
10.3(*)	Amended and Restated 2005 Equity Incentive Plan Of The Children's Place Retail Stores, Inc., filed as an Exhibit 10.2 to the registrant's current report on Form 8-K dated June 23, 2005 is incorporated by reference herein.
10.4(1)(*)	The Children's Place Retail Stores, Inc.'s Employee Stock Purchase Plan filed as an exhibit to the registrant's Registration Statement No. 333-31535 on Form S-1, is incorporated by reference herein.
10.5(+)(*)	The Children's Place Retail Stores, Inc. 401(k) Plan, as amended.
10.6(1)	Form of Indemnification Agreement between the Company and the members of its Board of Directors filed as an exhibit 10.7 to the registrant's Registration Statement No. 333-31535 on Form S-1, is incorporated by reference herein.
10.7	Lease for a distribution center and corporate headquarters facility (915 Secaucus Road) between the Company and Hartz Mountain Associates, dated June 30, 1998 filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the period ended August 1, 1998 is incorporated by reference herein.

10.8	Amendment to a lease for a distribution center and corporate headquarters facility (915 Secaucus Road) between the Company and Hartz Mountain Associates, dated November 20, 1998 filed as Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q for the period ended October 31, 1998 is incorporated by reference herein.
10.9	Lease Termination Agreement for a distribution center and corporate headquarters facility (915-900 Secaucus Road) between the Company and Hartz Mountain Associates, dated May 3, 2006 filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the period ended July 29, 2006 is incorporated by reference herein.
10.10(+)	Rescission of Lease Termination Agreement for a distribution center and corporate headquarters facility (915 Secaucus Road) between the Company and Hartz Mountain Associates, dated November 27, 2006.
10.11	Lease Agreement between the Company and Haven Gateway LLC (Ontario California Distribution Center), dated as of August 17, 2000 filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the period ended October 28, 2000 is incorporated by reference herein.
10.12	Notification letter dated April 9, 2007 to Haven Gateway LLC indicating that the Company was exercising its right to extend its lease of the Ontario California distribution center for an additional thirty three (33) months as filed as Exhibit 10.1 to Form 8-K dated April 12, 2007.
10.13	Lease Agreement as of August 12, 2003 between Orlando Corporation and The Children's Place (Canada), LP, together with Indemnity Agreement as of August 12, 2003 between the Company and Orlando Corporation, together with Surrender of Lease as of August 12, 2003 between the Company and Orlando Corporation and Orion Properties Ltd. (Canadian Distribution Center) filed

Exhibit	Description
	as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the period ending November 1, 2003 is incorporated by reference herein.
10.14	Lease Agreement between the Company and Turnpike Crossing I, LLC (Dayton New Jersey Distribution Center), dated as of July 14, 2004 filed as Exhibit 10.2 to registrant's Quarterly Report on Form 10-Q for the period ended July 31, 2004 is incorporated by reference herein.
10.15	Lease Agreement between the Company and Hartz Mountain Metropolitan (2 Emerson Corporate Headquarters), dated May 3, 2006 filed as Exhibit 10.1 to registrant's Quarterly Report on Form 10-Q for the period ended April 29, 2006 is incorporated by reference herein.
10.16(+)	Lease Modification Agreement between the Company and Hartz Mountain Metropolitan (2 Emerson Corporate Headquarters) dated November 27, 2006.
10.17(+)	Lease Agreement between the Company and 443 South Raymond Owner, LLC (Administrative offices in Pasadena, CA) as of January 21, 2005.
10.18(+)	First Amendment to Lease Agreement between the Company and 443 South Raymond Owner, LLC (Administrative offices in Pasadena, CA) as of January 21, 2005.
10.19	Acquisition Agreement dated as of October 19, 2004 by and among Disney Enterprises, Inc., Disney Credit Card Services, Inc., Hoop Holdings, LLC and Hoop Canada Holdings, Inc. filed as Exhibit 2.1 to registrant's Quarterly Report on Form 10-Q for the period ended October 30, 2004 is incorporated by reference herein.
10.20	License and Conduct of Business Agreement dated as of November 21, 2004 by and among TDS Franchising, LLC, The Disney Store, LLC and The Disney Store (Canada) Ltd. filed as Exhibit 10.4 to registrant's Quarterly Report on Form 10-Q for the period ended October 30, 2004 is incorporated by reference herein. This exhibit omits information for which the Commission has granted our request for confidential treatment.
10.21	Guaranty and Commitment dated as of November 21, 2004 by The Children's Place Retail Stores, Inc. and Hoop Holdings, LLC in favor of The Disney Store, LLC, The Disney Store (Canada) Ltd. and TDS Franchising, LLC. filed as Exhibit 10.5 to registrant's Quarterly Report on Form 10-Q for the period ended October 30, 2004 is incorporated by reference herein.
10.22	Letter Agreement dated April 6, 2006 amending the Internet start date among Hoop Retail Stores, LLC, Hoop Canada, Inc. and TDS Franchising, LLC filed in registrant's Annual Report on Form 10-K for the period ended January 28, 2006 is incorporated by reference herein.
10.23	Letter Agreement dated April 5, 2006 amending the refurbishment commitment among Hoop Retail Stores, LLC, Hoop Canada, Inc. and TDS Franchising, LLC filed in registrant's Annual Report on Form 10-K for the period ended January 28, 2006 is incorporated by reference herein.
10.24(+)	First Amendment to Fifth Amended and Restated Loan and Security Agreement, dated November 2, 2007 by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries that are signatories thereto as borrowers, the financial institutions named therein, and Wells Fargo Retail Finance, LLC, as agent.
10.25	Fourth Amended and Restated Loan and Security Agreement dated as of October 30, 2004 by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries that are signatories thereto, as borrowers, the financial institutions named therein, and Wells Fargo Retail Finance, LLC, as agent filed as Exhibit 10.3 to registrant's Quarterly Report on Form 10-Q for the period ended October 30, 2004 is incorporated by reference herein.
10.26	First Amendment to Fourth Amended and Restated Loan and Security Agreement, dated December 31, 2004 by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries that are signatories thereto, as borrowers, the financial institutions named therein, and Wells Fargo Retail Finance, LLC, as agent filed in registrant's Annual Report on Form 10-K filed April 14, 2005 for the period ended January 29, 2005 is incorporated by reference herein.
10.27	Second Amendment to Fourth Amended and Restated Loan and Security Agreement, dated April 12, 2005 by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries that are signatories, thereto, as borrowers, the financial institutions named therein, and Wells Fargo

Exhibit	Description
	Retail Finance, LLC, as agent filed as Exhibit 10.1 to registrant's Quarterly Report on Form 10-Q for the period ended April 30, 2005 is incorporated by reference herein.
10.28	Third Amendment to Fourth Amended and Restated Loan and Security Agreement, dated July 29, 2005 by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries that are signatories thereto as borrowers, the financial institutions named therein, and Wells Fargo Retail Finance, LLC, as agent filed as Exhibit 10.01 to registrant's Form 8-K dated July 29, 2005 is incorporated by reference herein.
10.29	Fourth Amendment to Fourth Amended and Restated Loan and Security Agreement dated April 11, 2006 by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries that are signatories thereto as borrowers, the financial institutions named therein, and Wells Fargo Retail Finance, LLC, as agent filed in registrant's Annual Report on Form 10-K for the period ended January 28, 2006 is incorporated by reference herein.
10.30(+)	Fifth Amended and Restated Loan and Security Agreement, dated June 28, 2007 by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries that are signatories thereto as borrowers, the financial institutions named therein, and Wells Fargo Retail Finance, LLC, as agent.
10.31(+)	Letter of Credit Agreement dated June 28, 2007 by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries that are signatories thereto as borrowers, the financial institutions named therein, and Wells Fargo Retail Finance, LLC, as agent.
10.32	Loan and Security Agreement dated as of November 21, 2004 between The Disney Store, LLC and Hoop Retail Stores, LLC, as borrowers, Hoop Canada Holdings, Inc., as guarantor, Hoop Canada, Inc. and The Disney Store (Canada) Ltd., as secondary guarantors, the financial institutions named therein, and Wells Fargo Retail Finance, LLC, as agent filed as Exhibit 10.6 to registrant's Quarterly Report on Form 10-Q for the period ended October 30, 2004 is incorporated by reference herein.
10.33	First Amendment to Loan and Security Agreement dated as of April 11, 2006 between Hoop Retail Stores, LLC, as borrower; Hoop Canada Holdings, Inc., as guarantor; Hoop Canada, Inc., as secondary guarantor; the financial institutions named therein; and Wells Fargo Retail Finance, LLC, as agent filed in registrant's Annual Report on Form 10-K for the period ended January 28, 2006 is incorporated by reference herein.
10.34(+)	Second Amendment to Loan and Security Agreement dated as of June 28, 2007 between Hoop Retail Stores, LLC, as borrower; Hoop Canada Holdings, Inc., as guarantor; Hoop Canada, Inc., as secondary guarantor; the financial institutions named therein; and Wells Fargo Retail Finance, LLC, as agent.
10.35(*)	Offer letter dated September 15, 1995 with Steven Balasiano filed as Exhibit 10.2 to registrant's Quarterly Report on Form 10-Q for the period ended April 29, 2006 is incorporated by reference herein.
10.36(+)(*)	Severance agreement and release dated July 9, 2007 with Steven Balasiano.
10.37(*)	Severance agreement and release dated April 14, 2006 with Mario Ciampi filed as Exhibit 10.4 to registrant's Quarterly Report on Form 10-Q for the period ended April 29, 2006 is incorporated by reference herein.
10.38(*)	Severance agreement and release dated April 19, 2006 with Hiten Patel filed as Exhibit 10.5 to registrant's Quarterly Report on Form 10-Q for the period ended April 29, 2006 is incorporated by reference herein.
10.39(*)	Amended and restated employment agreement dated May 12, 2006 with Ezra Dabah filed as Exhibit 10.6 to registrant's Quarterly Report on Form 10-Q for the period ended April 29, 2006 is incorporated by reference herein.
10.40(*)	Amended and restated employment agreement dated May 12, 2006 with Neal Goldberg filed as Exhibit 10.7 to registrant's Quarterly Report on Form 10-Q for the period ended April 29, 2006 is incorporated by reference herein.

10.41(*)	Employment agreement dated July 28, 2006 with Tara Poseley filed as Exhibit 10.5 to registrant's

Exhibit	Description
	Form 10-Q for the period ended July 29, 2006 is incorporated by reference herein.
10.42(*)	Employment Agreement dated April 16, 2007 effective as of February 4, 2007 between The Children's Place Retail Stores, Inc. and Susan Riley filed as Exhibit 99.1 to Form 8-K dated April 19, 2007 is incorporated by reference herein.
10.43	Hardware and Engineering Services Agreement between The Children's Place Services Company, LLC and Dematic Corp. (Material Handling System for the Fort Payne Distribution Center), dated September 29, 2006 filed as Exhibit 10.1 to registrant's Quarterly Report on Form 10-Q for the period ended October 28, 2006 is incorporated by reference herein.
10.44	Mechanical Installation and Electrical Installation Services Agreement between The Children's Place Services Company, LLC and Dematic Corp. (Material Handling System for the Fort Payne Distribution Center), dated September 29, 2006 filed as Exhibit 10.2 to registrant's Quarterly Report on Form 10-Q for the period ended October 28, 2006 is incorporated by reference herein.
10.45(+)	Standard Form of Agreement between The Children's Place Services Company, LLC and Clayco, Inc. (Construction of the Ft. Payne Distribution Center), executed January 18, 2007.
10.46(+)	Third Amendment to Loan and Security Agreement dated as of August 9, 2007 between Hoop Retail Stores, LLC, as borrower; Hoop Canada Holdings, Inc., as guarantor; Hoop Canada, Inc., as secondary guarantor; the financial institutions named therein; and Wells Fargo Retail Finance, LLC, as agent.
10.47(+)	Refurbishment Amendment to License and Conduct of Business Agreement dated as of August 29, 2007 between The Children's Place Retail Stores, Inc., its subsidiaries Hoop Retail Stores, LLC and Hoop Canada, Inc. and TDS Franchising LLC, a subsidiary of The Walt Disney Company. Portions of this exhibit have been redacted and filed separately with the Commission pursuant to a confidential treatment request.
10.48(+)	Letter Agreement dated November 12, 2007 amending the Internet start date among Hoop Retail Stores, LLC, Hoop Canada, Inc. and TDS Franchising, LLC.
10.49(+)	Employment Agreement Term Sheet dated November 20, 2007 effective as of October 1, 2007 between The Children's Place Retail Stores, Inc. and Charles Crovitz.
21.1(+)	Subsidiaries of the Company
23.1(+)	Consent of Independent Registered Public Accounting Firm
31(+)	Section 302 Certifications
32(+)	Section 906 Certifications

(1) Exhibit numbers are identical to the exhibit numbers incorporated by reference to such registration statement.

(*) Compensation Arrangement.

(+) Filed herewith.

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/ CHARLES CROVITZ
Charles Crovitz
Interim Chief Executive Officer
December 5, 2007

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/ SALLY FRAME KASAKS Sally Frame Kasaks	Acting Chairman of the Board and Lead Director	December 5, 2007
/s/ CHARLES CROVITZ Charles Crovitz	Director, Interim Chief Executive Officer (A Principal Executive Officer)	December 5, 2007
/s/ SUSAN RILEY Susan Riley	Executive Vice President, Finance and Administration and Interim Chief Financial Officer (A Principal Executive Officer and Principal Financial and Accounting Officer)	December 5, 2007
/s/ EZRA DABAH Ezra Dabah	Director	December 5, 2007
/s/ MALCOLM ELVEY Malcolm Elvey	Director	December 5, 2007
/s/ ROBERT FISCH Robert Fisch	Director	December 5, 2007
/s/ JAMES GOLDMAN James Goldman	Director	December 5, 2007
/s/ STANLEY SILVERSTEIN Stanley Silverstein	Director	December 5, 2007

THE CORPORATEPLAN FOR RETIREMENT℠

(PROFIT SHARING/401(K) PLAN)

A FIDELITY PROTOTYPE PLAN

Non-Standardized Adoption Agreement No. 001
For use With
Fidelity Basic Plan Document No. 02

FIDELITY INVESTMENTS
FWP-CONVENTION
2005 DEC 28 AM 9:30

Plan Number: 48634
The CORPORATEplan for Retirement℠

ADOPTION AGREEMENT
ARTICLE 1
NON-STANDARDIZED PROFIT SHARING/401(K) PLAN

1.01 PLAN INFORMATION

(a) ***Name of Plan***:

This is The Children's Place 401(k) Savings Plan (the "Plan")

(b) ***Type of Plan***:

(1) x 401(k) Only

(2) o 401(k) and Profit Sharing

(3) o Profit Sharing Only

(c) ***Administrator Name (if not the Employer)***:

Address:

Telephone Number:

The Administrator is the agent for service of legal process for the Plan.

(d) ***Plan Year End*** (month/day): 12/31

(e) ***Three Digit Plan Number***: 001

(f) ***Limitation Year*** (check one):

(1) o Calendar Year

(2) x Plan Year

(3) o Other:

(g) ***Plan Status*** (check appropriate box(es)):

(1) o New Plan Effective Date:

(2) x Amendment Effective Date: 01/01/2006

This is (check one):

(A) x an amendment and restatement of a Basic Plan Document No. 02 Adoption Agreement previously executed by the Employer; or

(B) o a conversion to a Basic Plan Document No. 02 Adoption Agreement.

The original effective date of the Plan: 9/1/1990

(3) o This is an amendment and restatement of the Plan and the Plan was not amended prior to the effective date specified in Subsection 1.01(g)(2) above to comply with the requirements of the Acts specified in the Snap Off Addendum to the Adoption Agreement. The provisions specified in the Snap Off Addendum are effective as of the dates specified in the Snap Off Addendum, which dates may be prior to the Amendment Effective Date. Please read and complete, if necessary, the Snap Off Addendum to the Adoption Agreement.

(4) o **Special Effective Dates** - Certain provisions of the Plan shall be effective as of a date other than the date specified above. Please complete the Special Effective Dates Addendum to the Adoption Agreement indicating the affected provisions and their effective dates.

(5) o **Plan Merger Effective Dates.** Certain plan(s) were merged into the Plan and certain provisions of the Plan are effective with respect to the merged plan(s) as of a date other than the date specified above. Please complete the Special Effective Dates Addendum to the Adoption Agreement indicating the plan(s) that have merged into the Plan and the effective date(s) of such merger(s).

1.02 EMPLOYER

(a) ***Employer Name:*** The Children's Place Retail Stores, Inc.
Address: 915 Secaucus Rd
Secaucus, NJ 07094
Contact's Name: Ms. Susan Pergament
Telephone Number: (201) 601-8255

(1) Employer's Tax Identification Number: 31-1241495

(2) Employer's fiscal year end: 1/31

(3) Date business commenced: 1/1/1968

(b) ***The term "Employer" includes the following Related Employer(s) (as defined in Subsection 2.01(rr))*** (list each participating Related Employer and its Employer Tax Identification Number):

1.03 **TRUSTEE**

(a) ***Trustee Name:*** Fidelity Management Trust Company
Address: 82 Devonshire Street
Boston, MA 02109

1.04 **COVERAGE**

All Employees who meet the conditions specified below shall be eligible to participate in the Plan:

(a) ***Age Requirement*** (check one):

(1) x no age requirement.

(2) o must have attained age: (not to exceed 21).

(b) ***Eligibility Service Requirement***

(1) **Eligibility to Participate in Plan** (check one):

(A) o no Eligibility Service requirement.

(B) x 3 **(not to exceed 11)** months of Eligibility Service requirement (no minimum number Hours of Service can be required).

(C) o one year of Eligibility Service requirement (at least 1,000 Hours of Service are required during the Eligibility Computation Period).

(D) o two years of Eligibility Service requirement (at least 1,000 Hours of Service are required during each Eligibility Computation Period). ***(Do not select if Option 1.01(b)(1), 401(k) Only, is checked, unless a different Eligibility Service requirement applies to Deferral Contributions under Option 1.04(b)(2).)***

Note: If the Employer selects the two year Eligibility Service requirement, then contributions subject to such Eligibility Service requirement must be 100% vested when made.

(2) x **Special Eligibility Service requirement for Deferral Contributions and/or Matching Employer Contributions:**

(A) The special Eligibility Service requirement applies to (check the appropriate box(es)):

(i) o Deferral Contributions.

(ii) x Matching Employer Contributions.

(B) The special Eligibility Service requirement is: (B) - 11 month(s) of Eligibility Service (Fill in (A), (B), or (C) from Subsection 1.04(b)(l) above).

(c) ***Eligible Class of Employees*** (check one):

Note: The Plan may not cover employees who are residents of Puerto Rico. These employees are automatically excluded from the eligible class, regardless of the Employer's selection under this Subsection 1.04(c).

(1) o includes all Employees of the Employer.

(2) x includes all Employees of the Employer except for (check the appropriate box(es)):

(A) x employees covered by a collective bargaining agreement.

(B) o Highly Compensated Employees as defined in Code Section 414(q).

(C) x Leased Employees as defined in Subsection 2.01(cc).

(D) x nonresident aliens who do not receive any earned income from the Employer which constitutes United States source income.

(E) x other: Individuals who are considered Freelance Personnel.

Note: The Employer should exercise caution when excluding employees from participation in the Plan. Exclusion of employees may adversely affect the Plan's satisfaction of the minimum coverage requirements, as provided in Code Section 410(b).

(d) ***The Entry Dates shall be*** (check one):

(1) o immediate upon meeting the eligibility requirements specified in Subsections 1.04(a), (b), and (c).

(2) o the first day of each Plan Year and the first day of the seventh month of each Plan Year.

(3) o the first day of each Plan Year and the first day of the fourth, seventh, and tenth months of each Plan Year.

(4) x the first day of each month.

(5) o the first day of each Plan Year. ***(Do not select if there is an Eligibility Service requirement of more than six months in Subsection 1.04(b) or if there is an age requirement of more than 20 1/2 in Subsection 1.04(a).)***

(e) o ***Special Entry Date(s)*** - In addition to the Entry Dates specified in Subsection 1.04(d) above, the following special Entry Date(s) apply for Deferral and/or Matching Employer Contributions. ***(Special Entry Dates may only be selected if Option 1.04(b)(2), special Eligibility Service requirement, is checked. The same Entry Dates must be selected for contributions that are subject to the same Eligibility Service requirements.)***

(1) The special Entry Date(s) shall apply to (check the appropriate box(es)):

(A) o Deferral Contributions.

(B) o Matching Employer Contributions.

(2) The special Entry Date(s) shall be: (Fill in (1), (2), (3), (4), or (5) from Subsection 1.04(d) above).

(f) ***Date of Initial Participation*** - An Employee shall become a Participant unless excluded by Subsection 1.04(c) above on the Entry Date immediately following the date the Employee completes the service and age requirement(s) in Subsections 1.04(a) and (b), if any, except (check one):

(1) x no exceptions.

(2) o Employees employed on the Effective Date in Subsection 1.01(g)(l) or (2) shall become Participants on that date.

(3) o Employees who meet the age and service requirement(s) of Subsections 1.04(a) and (b) on the Effective Date in Subsection 1.01(g)(1) or (2) shall become Participants on that date.

1.05 COMPENSATION

Compensation for purposes of determining contributions shall be as defined in Section 5.02, modified as provided below.

(a) ***Compensation Exclusions***: Compensation shall exclude the item(s) listed below for purposes of determining Deferral Contributions, Employee Contributions, if any, and Qualified Nonelective Employer Contributions, or, if Subsection 1.01(b)(3), Profit Sharing Only, is selected, Nonelective Employer Contributions. Unless otherwise indicated in Subsection 1.05(b), these exclusions shall also apply in determining all other Employer-provided contributions. (Check the appropriate box(es); Options (2), (3), (4), (5), and (6) may not be elected with respect to Deferral Contributions if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, is checked):

(1) o No exclusions.

(2) o Overtime Pay.

(3) o Bonuses.

(4) o Commissions.

(5) x The value of a qualified or a non-qualified stock option granted to an Employee by the Employer to the extent such value is includable in the Employee's taxable income.

(6) x Severance Pay.

(b) ***Special Compensation Exclusions for Determining Employer-Provided Contributions in Article 5*** (either (1) or (2) may be selected, but not both):

(1) o Compensation for purposes of determining Matching, Qualified Matching, and Nonelective Employer Contributions shall exclude: (Fill in number(s) for item(s) from Subsection 1.05(a) above that apply.)

(2) o Compensation for purposes of determining Nonelective Employer Contributions only shall exclude: (Fill in number(s) for item(s) from Subsection 1.05(a) above that apply.)

Note: If the Employer selects Option (2), (3), (4), (5), or (6) with respect to Nonelective Employer Contributions, Compensation must be tested to show that it meets the requirements of Code Section 414(s) or 401(a)(4). These exclusions shall not apply for purposes of the "Top Heavy" requirements in Section 15.03, for allocating safe harbor Matching Employer Contributions if Subsection 1.10(a)(3) is selected, for allocating safe harbor Nonelective Employer Contributions if Subsection 1.11(a)(3) is selected, or for allocating non-safe harbor Nonelective Employer Contributions if the Integrated Formula is elected in Subsection 1.11(b)(2).

(c) ***Compensation for the First Year of Participation*** - Contributions for the Plan Year in which an Employee first becomes a Participant shall be determined based on the Employee's Compensation (check one):

(1) o for the entire Plan Year.

(2) x for the portion of the Plan Year in which the Employee is eligible to participate in the Plan.

Note: If the initial Plan Year of a new Plan consists of fewer than 12 months from the Effective Date in Subsection 1.01(g)(l) through the end of the initial Plan Year, Compensation for purposes of determining the amount of contributions, other than non-safe harbor Nonelective Employer Contributions, under the Plan shall be the period from such Effective Date through the end of the initial year. However, for purposes of determining the amount of non-safe harbor Nonelective Employer Contributions and for other Plan purposes, where appropriate, the full 12-consecutive-month period ending on the last day of the initial Plan Year shall be used.

1.06 TESTING RULES

(a) ***ADP/ACP Present Testing Method*** - The testing method for purposes of applying the "ADP" and "ACP" tests described in Sections 6.03 and 6.06 of the Plan shall be the (check one):

(1) x **Current Year Testing Method** - The "ADP" or "ACP" of Highly Compensated Employees for the Plan Year shall be compared to the "ADP" or "ACP" of Non-Highly Compensated Employees for the same Plan Year. ***(Must choose if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked.)***

(2) o **Prior Year Testing Method** - The "ADP" or "ACP" of Highly Compensated Employees for the Plan Year shall be compared to the "ADP" or "ACP" of Non-Highly Compensated Employees for the immediately preceding Plan Year. ***(Do <u>not</u> choose if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked.)***

(3) o Not applicable. ***(Only if Option 1.01(b)(3), Profit Sharing Only, is checked or Option 1.04(c)(2)(B), excluding all Highly Compensated Employees from the eligible class of Employees, is checked.)***

Note: Restrictions apply on elections to change testing methods that are made after the end of the GUST remedial amendment period.

(b) ***First Year Testing Method*** - If the first Plan Year that the Plan, other than a successor plan, permits Deferral Contributions or provides for either Employee or Matching Employer Contributions, occurs on or after the Effective Date specified in Subsection 1.01(g), the "ADP" and/or "ACP" test for such first Plan Year shall be applied using the actual "ADP" and/or "ACP" of Non-Highly Compensated Employees for such first Plan Year, unless otherwise provided below.

(1) o The "ADP" and/or "ACP" test for the first Plan Year that the Plan permits Deferral Contributions or provides for either Employee or Matching Employer Contributions shall be applied assuming a 3% "ADP" and/or "ACP" for Non-Highly Compensated Employees. ***(Do not choose unless Plan uses prior year testing method described in Subsection 1.06(a)(2).)***

(c) ***HCE Determinations: Look Back Year*** - The look back year for purposes of determining which Employees are Highly Compensated Employees shall be the 12-consecutive-month period preceding the Plan Year, unless otherwise provided below.

(1) o **Calendar Year Determination** - The look back year shall be the calendar year beginning within the preceding Plan Year. ***(Do not choose if the Plan Year is the calendar year.)***

(d) ***HCE Determinations: Top Paid Group Election*** - All Employees with Compensation exceeding $80,000 (as indexed) shall be considered Highly Compensated Employees, unless Top Paid Group Election below is checked.

(1) o **Top Paid Group Election** - Employees with Compensation exceeding $80,000 (as indexed) shall be considered Highly Compensated Employees only if they are in the top paid group (the top 20% of Employees ranked by Compensation).

Note: Effective for determination years beginning on or after January 1, 1998, if the Employer elects Option 1.06(c)(1) and/or 1.06(d)(1), such election(s) must apply consistently to all retirement plans of the Employer for determination years that begin with or within the same calendar year (except that Option 1.06(c)(1), Calendar Year Determination, shall not apply to calendar year plans).

1.07 DEFERRAL CONTRIBUTIONS

(a) x ***Deferral Contributions*** - Participants may elect to have a portion of their Compensation contributed to the Plan on a before-tax basis pursuant to Code Section 401(k).

(1) **Regular Contributions** - The Employer shall make a Deferral Contribution in accordance with Section 5.03 on behalf of each Participant who has an executed salary reduction agreement in effect with the Employer for the payroll period in question, not to exceed <u>60%</u> of Compensation for that period.

Note: For Limitation Years beginning prior to 2002, the percentage elected above must be less than 25% in order to satisfy the limitation on annual additions under Code Section 415 if other types of contributions are provided under the Plan.

(A) o Instead of specifying a percentage of Compensation, a Participant's salary reduction agreement may specify a dollar amount to be contributed each payroll period, provided such dollar amount does not exceed the maximum percentage of Compensation specified in Subsection 1.07(a)(l) above.

(B) A Participant may increase or decrease, on a prospective basis, his salary reduction agreement percentage (check one):

(i) o as of the beginning of each payroll period.

(ii) o as of the first day of each month.

(iii) ☑ as of the next Entry Date. ***(Do not select if immediate entry is elected with respect to Deferral Contributions in Subsection 1.04(d) or 1.04(e).)***

(iv) o other. (Specify, but must be at least once per Plan Year)

Note: Notwithstanding the Employer's election hereunder, if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked, the Plan provides that an Active Participant may change his salary reduction agreement percentage for the Plan Year within a reasonable period (not fewer than 30 days) of receiving the notice described in Section 6.10.

(C) A Participant may revoke, on a prospective basis, a salary reduction agreement at any time upon proper notice to the Administrator but in such case may not file a new salary reduction agreement until (check one):

(i) o the first day of the next Plan Year.

(ii) ☑ any subsequent Entry Date. ***(Do not select if immediate entry is elected with respect to Deferral Contributions in Subsection 1.04(d) or 1.04(e).)***

(iii) o other. (Specify, but must be at least once per Plan Year)

(2) x **Additional Deferral Contributions -** The Employer may allow Participants upon proper notice and approval to enter into a special salary reduction agreement to make additional Deferral Contributions in an amount up to 100% of their Compensation for the payroll period(s) designated by the Employer.

(3) x **Bonus Contributions** - The Employer may allow Participants upon proper notice and approval to enter into a special salary reduction agreement to make Deferral Contributions in an amount up to 100% of any Employer paid cash bonuses designated by the Employer on a uniform and non-discriminatory basis that are made for such Participants during the Plan Year. The Compensation definition elected by the Employer in Subsection 1.05(a) must include bonuses if bonus contributions are permitted.

Note: A Participant's contributions under Subsection 1.07(a)(2) and/or (3) may not cause the Participant to exceed the percentage limit specified by the Employer in Subsection 1.07(a)(l) for the full Plan Year. If the Administrator anticipates that the Plan will not satisfy the "ADP" and/or "ACP" test for the year, the Administrator may reduce the rate of Deferral Contributions of Participants who are Highly Compensated Employees to an amount objectively determined by the Administrator to be necessary to satisfy the "ADP" and/or "ACP" test.

1.08 EMPLOYEE CONTRIBUTIONS (AFTER-TAX CONTRIBUTIONS)

(a) o ***Employee Contributions*** - Either (1) Participants will be permitted to contribute amounts to the Plan on an after-tax basis or (2) the Employer maintains frozen Employee Contributions Accounts (check one):

(1) o **Future Employee Contributions** - Participants may make voluntary, non-deductible, after-tax Employee Contributions pursuant to Section 5.04 of the Plan. ***(Only if Option 1.07(a), Deferral Contributions, is checked.)***

(2) o **Frozen Employee Contributions** - Participants may not currently make after-tax Employee Contributions to the Plan, but the Employer does maintain frozen Employee Contributions Accounts.

1.09 QUALIFIED NONELECTIVE CONTRIBUTIONS

(a) ***Qualified Nonelective Employer Contributions*** - If Option 1.07(a), Deferral Contributions, is checked, the Employer may contribute an amount which it designates as a Qualified Nonelective Employer Contribution to be included in the "ADP" or "ACP" test. Unless otherwise provided below, Qualified Nonelective Employer Contributions shall be allocated to Participants who were eligible to participate in the Plan at any time during the Plan Year and are Non-Highly Compensated Employees either (A) in the ratio which each Participant's "testing compensation", as defined in Subsection 6.01(t), for the Plan Year bears to the total of all Participants' "testing compensation" for the Plan Year or (B) as a flat dollar amount.

(1) x Qualified Nonelective Employer Contributions shall be allocated to Participants as a percentage of the lowest paid Participant's "testing compensation", as defined in Subsection 6.01(t), for the Plan Year up to the lower of (A) the maximum amount contributable under the Plan or (B) the amount necessary to satisfy the "ADP" or "ACP" test. If any Qualified Nonelective Employer Contribution remains, allocation shall continue in the same manner to the next lowest paid Participants until the Qualified Nonelective Employer Contribution is exhausted.

1.10 MATCHING EMPLOYER CONTRIBUTIONS ***(Only if Option 1.07(a), Deferral Contributions, is checked)***

(a) **x** ***Basic Matching Employer Contributions*** (check one):

(1) o **Non-Discretionary Matching Employer Contributions** - The Employer shall make a basic Matching Employer Contribution on behalf of each Participant in an amount equal to the following percentage of a Participant's Deferral Contributions during the Contribution Period (check (A) or (B) and, if applicable, (C)):

Note: Effective for Plan Years beginning on or after January 1, 1999, if the Employer elected Option l.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions and meets the requirements for deemed satisfaction of the "ADP" test in Section 6.10 for a Plan Year, the Plan will also be deemed to satisfy the "ACP" test for such Plan Year with respect to Matching Employer Contributions if Matching Employer Contributions hereunder meet the requirements in Section 6.11.

(A) o Single Percentage Match: %

(B) o Tiered Match:

% of the first % of the Active Participant's Compensation contributed to the Plan,

% of the next % of the Active Participant's Compensation contributed to the Plan,

% of the next % of the Active Participant's Compensation contributed to the Plan.

Note: The percentages specified above for basic Matching Employer Contributions may not increase as the percentage of Compensation contributed increases.

(C) o Limit on Non-Discretionary Matching Employer Contributions (check the appropriate box(es)):

(i) o Deferral Contributions in excess of % of the Participant's Compensation for the period in question shall not be considered for non-discretionary Matching Employer Contributions.

Note: If the Employer elected a percentage limit in (i) above and requested the Trustee to account separately for matched and unmatched Deferral Contributions made to the Plan, the non-discretionary Matching Employer Contributions allocated to each Participant must be computed, and the percentage limit applied, based upon each payroll period.

(ii) o Matching Employer Contributions for each Participant for each Plan Year shall be limited to $.

(2) o **Discretionary Matching Employer Contributions** - The Employer may make a basic Matching Employer Contribution on behalf of each Participant in an amount equal to the percentage declared for the Contribution Period, if any, by a Board of Directors' Resolution (or by a Letter of Intent for a sole proprietor or partnership) of the Deferral Contributions made by each Participant during the Contribution Period. The Board of Directors' Resolution (or Letter of Intent, if applicable) may limit the Deferral Contributions matched to a specified percentage of Compensation or limit the amount of the match to a specified dollar amount.

(A) o 4% Limitation on Discretionary Matching Employer Contributions for Deemed Satisfaction of "ACP" Test - In no event may the dollar amount of the discretionary Matching Employer Contribution made on a Participant's behalf for the Plan Year exceed 4% of the Participant's Compensation for the Plan Year. ***(Only if Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked.)***

(3) x **Safe Harbor Matching Employer Contributions** - Effective only for Plan Years beginning on or after January 1, 1999, if the Employer elects one of the safe harbor formula Options provided in the Safe Harbor Matching Employer Contribution Addendum to the Adoption Agreement and provides written notice each Plan Year to all Active Participants of their rights and obligations under the Plan, the Plan shall be deemed to satisfy the "ADP" test and, under certain circumstances, the "ACP" test.

(b) o ***Additional Matching Employer Contributions*** - The Employer may at Plan Year end make an additional Matching Employer Contribution equal to a percentage declared by the Employer, through a Board of Directors' Resolution (or by a Letter of Intent for a sole proprietor or partnership), of the Deferral Contributions made by each Participant during the Plan Year. ***(Only if Option 1.10(a)(1) or (3) is checked.)*** The Board of Directors' Resolution (or Letter of Intent, if applicable) may limit the Deferral Contributions matched to a specified percentage of Compensation or limit the amount of the match to a specified dollar amount.

(1) o **4% Limitation on Additional Matching Employer Contributions for Deemed Satisfaction of "ACP" Test** - In no event may the dollar amount of the additional Matching Employer Contribution made on a Participant's behalf for the Plan Year exceed 4% of the Participant's Compensation for the Plan Year. ***(Only if Option 110(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions is checked.)***

Note: If the Employer elected Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, above and wants to be deemed to have satisfied the "ADP" test for Plan Years beginning on or after January 1, 1999, the additional Matching Employer Contribution must meet the requirements of Section 6.10. In addition to the foregoing requirements, if the Employer elected either Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.11(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions, and wants to be deemed to have satisfied the "ACP" test with respect to Matching Employer Contributions for the Plan Year, the Deferral Contributions matched may not exceed the limitations in Section 6.11.

(c) ***Contribution Period for Matching Employer Contributions*** - The Contribution Period for purposes of calculating the amount of basic Matching Employer Contributions described in Subsection 1.10(a) is:

(1) o each calendar month.

(2) o each Plan Year quarter.

(3) ☑ each Plan Year.

(4) o each payroll period.

The Contribution Period for additional Matching Employer Contributions described in Subsection 1.10(b) is the Plan Year.

(d) ***Continuing Eligibility Requirement(s)*** - A Participant who makes Deferral Contributions during a Contribution Period shall only be entitled to receive Matching Employer Contributions under Section 1.10 for that Contribution Period if the Participant satisfies the following requirement(s) (Check the appropriate box(es). Options (3) and (4) may not be elected together; Option (5) may not be elected with Option (2), (3), or (4); Options (2), (3), (4), (5), and (7) may not be elected with respect to basic Matching Employer Contributions if Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, is checked):

(1) x No requirements.

(2) o Is employed by the Employer or a Related Employer on the last day of the Contribution Period.

(3) o Earns at least 501 Hours of Service during the Plan Year. ***(Only if the Contribution Period is the Plan Year.)***

(4) o Earns at least 1,000 Hours of Service during the Plan Year. ***(Only if the Contribution Period is the Plan Year.)***

(5) o Either earns at least 501 Hours of Service during the Plan Year or is employed by the Employer or a Related Employer on the last day of the Plan Year. ***(Only if the Contribution Period is the Plan Year.)***

(6) o Is not a Highly Compensated Employee for the Plan Year.

(7) o Is not a partner or a member of the Employer, if the Employer is a partnership or an entity taxed as a partnership.

(8) o Special continuing eligibility requirement(s) for additional Matching Employer Contributions. ***(Only if Option 1.10(b), Additional Matching Employer Contributions, is checked.)***

(A) The continuing eligibility requirement(s) for additional Matching Employer Contributions is/are: (Fill in number of applicable eligibility requirement(s) from above.)

Note: If Option (2), (3), (4), or (5) above is selected, then Matching Employer Contributions can only be **funded** by the Employer **after** the Contribution Period or Plan Year ends. Matching Employer Contributions funded during the Contribution Period or Plan Year shall not be subject to the eligibility requirements of Option (2), (3), (4), or (5). If Option (2), (3), (4), or (5) is adopted during a Contribution Period or Plan Year, as applicable, such Option shall not become effective until the first day of the next Contribution Period or Plan Year.

(e) o ***Qualified Matching Employer Contributions*** - Prior to making any Matching Employer Contribution hereunder (other than a safe harbor Matching Employer Contribution), the Employer may designate all or a portion of such Matching Employer Contribution as a Qualified Matching Employer Contribution that may be used to satisfy the "ADP" test on Deferral Contributions and excluded in applying the "ACP" test on Employee and Matching Employer Contributions. Unless the additional eligibility requirement is selected below, Qualified Matching Employer Contributions shall be allocated to all Participants who meet the continuing eligibility requirement(s) described in Subsection 1.10(d) above for the type of Matching Employer Contribution being characterized as a Qualified Matching Employer Contribution.

(1) o To receive an allocation of Qualified Matching Employer Contributions a Participant must also be a Non-Highly Compensated Employee for the Plan Year.

Note: Qualified Matching Employer Contributions may <u>not</u> be excluded in applying the "ACP" test for a Plan Year if the Employer elected Option 1.10(a)(3), Safe Harbor Matching Employer Contributions, or Option 1.1l(a)(3), Safe Harbor Formula, with respect to Nonelective Employer Contributions, and the "ADP" test is deemed satisfied under Section 6.10 for such Plan Year.

1.11 <u>NONELECTIVE EMPLOYER CONTRIBUTIONS</u>

Note: An Employer may elect both a fixed formula and a discretionary formula. If both are selected, the discretionary formula shall be treated as an additional Nonelective Employer Contribution and allocated separately in accordance with the allocation formula selected by the Employer.

(a) o ***Fixed Formula*** (An Employer may elect both the Safe Harbor Formula and one of the other fixed formulas. Otherwise, the Employer may only select one of the following.)

(1) o **Fixed Percentage Employer Contribution** - For each Plan Year, the Employer shall contribute for each eligible Active Participant an amount equal to % **(not to exceed 15% for Plan Years beginning prior to 2002 and 25% for Plan Years beginning on or after January 1, 2002)** of such Active Participant's Compensation.

(2) o **Fixed Flat Dollar Employer Contribution** - The Employer shall contribute for each eligible Active Participant an amount equal to $.

The contribution amount is based on an Active Participant's service for the following period:

(A) o Each paid hour.

(B) o Each payroll period.

(C) o Each Plan Year.

(D) o Other:

(3) o **Safe Harbor Formula** - Effective only with respect to Plan Years that begin on or after January 1, 1999, the Nonelective Employer Contribution specified in the Safe Harbor Nonelective Employer Contribution Addendum is intended to satisfy the safe harbor contribution requirements under the Code such that the "ADP" test (and, under certain circumstances, the "ACP" test) is deemed satisfied. Please complete the Safe Harbor Nonelective Employer Contribution Addendum to the Adoption Agreement. ***(Choose only if Option 1.07(a), Deferral Contributions, is checked.)***

(b) o ***Discretionary Formula*** - The Employer may decide each Plan Year whether to make a discretionary Nonelective Employer Contribution on behalf of eligible Active Participants in accordance with Section 5.10. Such contributions shall be allocated to eligible Active Participants based upon the following (check (1) or (2)):

(1) o **Non-Integrated Allocation Formula** - In the ratio that each eligible Active Participant's Compensation bears to the total Compensation paid to all eligible Active Participants for the Plan Year.

(2) o **Integrated Allocation Formula** - As (A) a percentage of each eligible Active Participant's Compensation plus (B) a percentage of each eligible Active Participant's Compensation in excess of the "integration level" as defined below. The percentage of Compensation in excess of the "integration level" shall be equal to the lesser of the percentage of the Active Participant's Compensation allocated under (A) above or the "permitted disparity limit" as defined below.

Note: An Employer that has elected the Safe Harbor formula in Subsection 1.11(a)(3) above may not take Nonelective Employer Contributions made to satisfy the safe harbor into account in applying the integrated allocation formula described above.

"Integration level" means the Social Security taxable wage base for the Plan Year, unless the Employer elects a lesser amount in (A) or (B) below.

(A) % (not to exceed 100%) of the Social Security taxable wage base for the Plan Year, or

(B) $ (not to exceed the Social Security taxable wage base).

"Permitted disparity limit" means the percentage provided by the following table:

The "Integration Level" is % of the Taxable Wage Base	The "Permitted Disparity Limit" is
20% or less	5.7%
More than 20%, but not more than 80%	4.3%
More than 80%, but less than 100%	5.4%
100%	5.7%

Note: An Employer who maintains any other plan that provides for Social Security Integration (permitted disparity) may not elect Option 1.1l(b)(2).

(c) ***Continuing Eligibility Requirement(s)*** - A Participant shall only be entitled to receive Nonelective Employer Contributions for a Plan Year under this Section 1.11 if the Participant satisfies the following requirement(s) (Check the appropriate box(es) - Options (3) and (4) may not be elected together; Option (5) may not be elected with Option (2), (3), or (4); Options (2), (3), (4), (5), and (7) may not be elected with respect to Nonelective Employer Contributions under the fixed formula if Option 1.11 (a)(3), Safe Harbor Formula, is checked):

(1) o No requirements.

(2) o Is employed by the Employer or a Related Employer on the last day of the Plan Year.

(3) o Earns at least 501 Hours of Service during the Plan Year.

(4) o Earns at least 1,000 Hours of Service during the Plan Year.

(5) o Either earns at least 501 Hours of Service during the Plan Year or is employed by the Employer or a Related Employer on the last day of the Plan Year.

(6) o Is not a Highly Compensated Employee for the Plan Year.

(7) o Is not a partner or a member of the Employer, if the Employer is a partnership or an entity taxed as a partnership.

(8) o Special continuing eligibility requirement(s) for discretionary Nonelective Employer Contributions. ***(Only if both Options 1.11 (a) and (b) are checked.)***

(A) The continuing eligibility requirement(s) for discretionary Nonelective Employer Contributions is/are: (Fill in number of applicable eligibility requirement(s) from above.)

Note: If Option (2), (3), (4), or (5) above is selected then Nonelective Employer Contributions can only be **funded** by the Employer **after** the Plan Year ends. Nonelective Employer Contributions funded during the Plan Year shall not be subject to the eligibility requirements of Option (2), (3), (4), or (5). If Option (2), (3), (4), or (5) is adopted during a Plan Year, such Option shall not become effective until the first day of the next Plan Year.

1.12 EXCEPTIONS TO CONTINUING ELIGIBILITY REQUIREMENTS

o ***Death, Disability, and Retirement Exception to Eligibility Requirements*** - Active Participants who do not meet any last day or Hours of Service requirement under Subsection 1.10(d) or 1.11 (c) because they become disabled, as defined in Section 1.14, retire, as provided in Subsection 1.13(a), (b), or (c), or die shall nevertheless receive an allocation of Nonelective Employer and/or Matching Employer Contributions. No Compensation shall be imputed to Active Participants who become disabled for the period following their disability.

1.13 RETIREMENT

(a) ***The Normal Retirement Age under the Plan is*** (check one):

(1) x age 65.

(2) o age (specify between 55 and 64).

(3) o later of age **(not to exceed 65)** or the fifth anniversary of the Participant's Employment Commencement Date.

(b) x ***The Early Retirement Age is the first day of the month after the Participant attains age 55.0 (specify 55 or greater) and completes years of Vesting Service.***

Note: If this Option is elected, Participants who are employed by the Employer or a Related Employer on the date they reach Early Retirement Age shall be 100% vested in their Accounts under the Plan.

(c) x ***A Participant who becomes disabled, as defined in Section 1.14, is eligible for disability retirement.***

Note: If this Option is elected, Participants who are employed by the Employer or a Related Employer on the date they become disabled shall be 100% vested in their Accounts under the Plan.

1.14 DEFINITION OF DISABLED

A Participant is disabled if he/she (check the appropriate box(es)):

(a) o satisfies the requirements for benefits under the Employer's long-term disability plan.

(b) x satisfies the requirements for Social Security disability benefits.

(c) o is determined to be disabled by a physician approved by the Employer.

1.15 VESTING

A Participant's vested interest in Matching Employer Contributions and/or Nonelective Employer Contributions, other than Safe Harbor Matching Employer and/or Nonelective Employer Contributions elected in Subsection 1.10(a)(3) or 1.11(a)(3), shall be based upon his years of Vesting Service and the schedule(s) selected below, except as provided in Subsection 1.2l(d) or in the Vesting Schedule Addendum to the Adoption Agreement.

(a) o ***Years of Vesting Service shall exclude:***

(1) o for new plans, service prior to the Effective Date as defined in Subsection 1.01(g)(l).

(2) o for existing plans converting from another plan document, service prior to the original Effective Date as defined in Subsection 1.01(g)(2).

(b) ***Vesting Schedule(s)***

Note: The vesting schedule selected below applies only to Nonelective Employer Contributions and Matching Employer Contributions other than safe harbor contributions under Option 1.11(a)(3) or Option 1.10(a)(3). Safe harbor contributions under Options 1.11(a)(3) and 1.10(a)(3) are always 100% vested immediately.

(1) Nonelective Employer Contributions
(check one):

(A) x N/A - No Nonelective Employer Contributions

(B) o 100% Vesting immediately

(C) o 3 year cliff (see C below)

(D) o 5 year cliff (see D below)

(E) o 6 year graduated (see E below)

(F) o 7 year graduated (see F below)

(G) o Other vesting
(complete **G1** below)

(2) Matching Employer Contributions
(check one):

(A) o N/A - No Matching Employer Contributions

(B) o 100% Vesting immediately

(C) o 3 year cliff (see C below)

(D) o 5 year cliff (see D below)

(E) o 6 year graduated (see E below)

(F) o 7 year graduated (see F below)

(G) x Other vesting
(complete **G2** below)

Years of Vesting Service	Applicable Vesting Schedule(s)					
	C	D	E	F	Gl	G2
0	0%	0%	0%	0%	—%	0.00%
1	0%	0%	0%	0%	—%	0.00%
2	0%	0%	20%	0%	—%	25.00%
3	100%	0%	40%	20%	—%	50.00%
4	100%	0%	60%	40%	—%	75.00%
5	100%	100%	80%	60%	—%	100.00%
6	100%	100%	100%	80%	—%	100.00%
7 or more	100%	100%	100%	100%	100%	100%

Note: A schedule elected under Gl or G2 above must be at least as favorable as one of the schedules in C, D, E or F above.

Note: If the Plan is being amended to provide a more restrictive vesting schedule, the more favorable vesting schedule shall continue to apply to Participants who are Active Participants immediately prior to the later of (1) the effective date of the amendment or (2) the date the amendment is adopted.

(c) o ***A vesting schedule more favorable than the vesting schedule(s) selected above applies to certain Participants.*** Please complete the Vesting Schedule Addendum to the Adoption Agreement.

(d) ***Application of Forfeitures*** - If a Participant forfeits any portion of his non-vested Account balance as provided in Section 6.02, 6.04, 6.07, or 11.08, such forfeitures shall be (check one):

(1) o N/A - Either (A) no Matching Employer Contributions are made with respect to Deferral Contributions under the Plan and all other Employer Contributions are 100% vested when made or (B) there are no Employer Contributions under the Plan.

(2) x applied to reduce Employer contributions.

(3) o allocated among the Accounts of eligible Participants in the manner provided in Section 1.11. ***(Only if Option 1.11(a) or (b) is checked.)***

1.16 PREDECESSOR EMPLOYER SERVICE

o ***Service for purposes of eligibility in Subsection 1.04(b) and vesting in Subsection 1.15(b) of this Plan shall include service with the following predecessor employer(s):***

1.17 PARTICIPANT LOANS

Participant loans (check one):

(a) x ***are allowed in accordance with Article 9 and loan procedures outlined in the Service Agreement.***

(b) o ***are not* allowed.**

1.18 IN-SERVICE WITHDRAWALS

Participants may make withdrawals prior to termination of employment under the following circumstances (check the appropriate box(es)):

(a) x ***Hardship Withdrawals*** - Hardship withdrawals from a Participant's Deferral Contributions Account shall be allowed in accordance with Section 10.05, subject to a $500 minimum amount.

(b) x ***Age 59 1/2*** - Participants shall be entitled to receive a distribution of all or any portion of the following Accounts upon attainment of age 59 1/2 (check one):

(1) £ Deferral Contributions Account.

(2) x All vested account balances.

(c) ***Withdrawal of Employee Contributions and Rollover Contributions*** -

(1) Unless otherwise provided below, Employee Contributions may be withdrawn in accordance with Section 10.02 at any time.

(A) £ Employees may not make withdrawals of Employee Contributions more frequently than: .

(2) Rollover Contributions may be withdrawn in accordance with Section 10.03 at any time.

(d) x ***Protected In-Service Withdrawal Provisions*** - Check if the Plan was converted by plan amendment or received transfer contributions from another defined contribution plan, and benefits under the other defined contribution plan were payable as (check the appropriate box(es)):

(1) £ an in-service withdrawal of vested employer contributions maintained in a Participant's Account (check (A) and/or (B)):

(A) £ for at least (24 or more) months.

(i) £ Special restrictions applied to such in-service withdrawals under the prior plan that the Employer wishes to continue under the Plan as restated hereunder. Please complete the Protected In-Service Withdrawals Addendum to the Adoption Agreement identifying the restrictions.

(B) £ after the Participant has at least 60 months of participation.

(i) £ Special restrictions applied to such in-service withdrawals under the prior plan that the Employer wishes to continue under the Plan as restated hereunder. Please complete the Protected In-Service Withdrawals Addendum to the Adoption Agreement identifying the restrictions.

(2) x another in-service withdrawal option that is a "protected benefit" under Code Section 411(d)(6) or an in-service hardship withdrawal option not otherwise described in Section 1.18(a). Please complete the Protected In-Service Withdrawals Addendum to the Adoption Agreement identifying the in-service withdrawal option(s).

1.19 FORM OF DISTRIBUTIONS

Subject to Section 13.01, 13.02 and Article 14, distributions under the Plan shall be paid as provided below. (Check the appropriate box(es) and, if any forms of payment selected in (b), (c) and/or (d) apply only to a specific class of Participants, complete Subsection (b) of the Forms of Payment Addendum.)

(a) ***Lump Sum Payments*** - Lump sum payments are always available under the Plan.

(b) x ***Installment Payments*** - Participants may elect distribution under a systematic withdrawal plan (installments).

(c) £ ***Annuities*** (Check if the Plan is retaining any annuity form(s) of payment.)

(1) An annuity form of payment is available under the Plan for the following reason(s) (check (A) and/or (B), as applicable):

(A) £ As a result of the Plan's receipt of a transfer of assets from another defined contribution plan or pursuant to the Plan terms prior to the Amendment Effective Date specified in Section 1.01(g)(2), benefits were previously payable in the form of an annuity that the Employer elects to continue to be offered as a form of payment under the Plan.

(B) £ The Plan received a transfer of assets from a defined benefit plan or another defined contribution plan that was subject to the minimum funding requirements of Code Section 412 and therefore an annuity form of payment is a protected benefit under the Plan in accordance with Code Section 411(d)(6).

(2) The normal form of payment under the Plan is (check (A) or (B)):

(A) £ A lump sum payment.

(i) Optional annuity forms of payment (check (I) and/or (II), as applicable). ***(Must check and complete (I) if a life annuity is one of the optional annuity forms of payment under the Plan.)***

(I) £ A married Participant who elects an annuity form of payment shall receive a qualified joint and % **(at least 50%)** survivor annuity. An unmarried Participant shall receive a single life annuity, unless a different form of payment is specified below:

(II) £ Other annuity form(s) of payment. Please complete Subsection (a) of the Forms of Payment Addendum describing the other annuity form(s) of payment available under the Plan.

(B) £ A life annuity (complete (i) and (ii) and check (iii) if applicable).

(i) The normal form for married Participants is a qualified joint and % **(at least 50%)** survivor annuity. The normal form for unmarried Participants is a single life annuity, unless a different annuity form is specified below:

(ii) The qualified preretirement survivor annuity provided to a Participant's spouse is purchased with % **(at least 50%)** of the Participant's Account.

(iii) o Other annuity form(s) of payment. Please complete Subsection (a) of the Forms of Payment Addendum describing the other annuity form(s) of payment available under the Plan.

(d) o ***Other Non-Annuity Form(s) of Payment*** - As a result of the Plan's receipt of a transfer of assets from another plan or pursuant to the Plan terms prior to the Amendment Effective Date specified in 1.01(g)(2), benefits were previously payable in the following form(s) of payment not described in (a), (b) or (c) above and the Plan will continue to offer these form(s) of payment:

(e) o ***Eliminated Forms of Payment Not Protected Under Code Section 411(d)(6).*** Check if either (1) under the Plan terms prior to the Amendment Effective Date or (2) under the terms of another plan from which assets were transferred, benefits were payable in a form of payment that will cease to be offered after a specified date. Please complete Subsection (c) of the Forms of Payment Addendum describing the forms of payment previously available and the effective date of the elimination of the form(s) of payment.

1.20 TIMING OF DISTRIBUTIONS

Except as provided in Subsection 1.20(a) or (b) and the Postponed Distribution Addendum to the Adoption Agreement, distribution shall be made to an eligible Participant from his vested interest in his Account as soon as reasonably practicable following the date the Participant's application for distribution is received by the Administrator.

(a) ***Required Commencement of Distribution*** - If a Participant does not elect to receive benefits as of an earlier date, as permitted under the Plan, distribution of a Participant's Account shall begin as of the Participant's Required Beginning Date.

(b) o ***Postponed Distributions*** - Check if the Plan was converted by plan amendment from another defined contribution plan that provided for the postponement of certain distributions from the Plan to eligible Participants and the Employer wants to continue to administer the Plan using the postponed distribution provisions. Please complete the Postponed Distribution Addendum to the Adoption Agreement indicating the types of distributions that are subject to postponement and the period of postponement.

Note: An Employer may not provide for postponement of distribution to a Participant beyond the 60th day following the close of the Plan Year in which (1) the Participant attains Normal Retirement Age under the Plan, (2) the Participant's 10th anniversary of participation in the Plan occurs, or (3) the Participant's employment terminates, whichever is latest.

1.21 TOP HEAVY STATUS

(a) ***The Plan shall be subject to the Top-Heavy Plan requirements of Article 15*** (check one):

(1) o for each Plan Year, whether or not the Plan is a "top-heavy plan" as defined in Subsection 15.01(f).

(2) x for each Plan Year, if any, for which the Plan is a "top-heavy plan" as defined in Subsection 15.01(f).

(3) o Not applicable. ***(Choose only if Plan covers only employees subject to a collective bargaining agreement.)***

(b) ***In determining whether the Plan is a "top-heavy plan" for an Employer with at least one defined benefit plan, the following assumptions shall apply:***

(1) o Interest rate: % per annum.

(2) o Mortality table: .

(3) x Not applicable. ***(Choose only if either (A) Plan covers only employees subject to a collective bargaining agreement or (B) Employer does not maintain and has not maintained any defined benefit plan during the five-year period ending on the applicable "determination date", as defined in Subsection 15.01(a).)***

(c) ***If the Plan is or is treated as a "top-heavy plan" for a Plan Year, each non-key Employee shall receive an Employer Contribution of at least 3.0 (3, 4, 5, or 7 1/2)% of Compensation for the Plan Year in accordance with Section 15.03. The minimum Employer Contribution provided in this Subsection 1.21(c) shall be made under this Plan only if the Participant is not entitled to such contribution under another qualified plan of the Employer, unless the Employer elects otherwise below.***

(1) o The minimum Employer Contribution shall be paid under this Plan in any event.

(2) o Another method of satisfying the requirements of Code Section 416. Please complete the 416 Contribution Addendum to the Adoption Agreement describing the way in which the minimum contribution requirements will be satisfied in the event the Plan is or is treated as a "top-heavy plan".

(3) o Not applicable. ***(Choose only if Plan covers only employees subject to a collective bargaining agreement.)***

Note: The minimum Employer contribution may be less than the percentage indicated in Subsection 1.21(c) above to the extent provided in Section 15.03.

(d) ***If the Plan is or is treated as a "top-heavy plan" for a Plan Year, the following vesting schedule shall apply instead of the schedule(s) elected in Subsection 1.15(b) for such Plan Year and each Plan Year thereafter*** (check one):

(1) o Not applicable. ***(Choose only if either (A) Plan provides for Nonelective Employer Contributions and the schedule elected in Subsection 1.15(b)(1) is at least as favorable in all cases as the schedules available below or (B) Plan covers only employees subject to a collective bargaining agreement.)***

(2) o 100% vested after **(not in excess of 3**) years of Vesting Service.

(3) x Graded vesting:

Years of Vesting Service	Vesting Percentage	Must be at Least
0	0.00%	0%
1	0.00%	0%
2	25.00%	20%
3	50.00%	40%
4	75.00%	60%
5	100.00%	80%
6 or more	100.00%	100%

Note: If the Plan provides for Nonelective Employer Contributions and the schedule elected in Subsection 1.15(b)(1) is more favorable in all cases than the schedule elected in Subsection 1.21(d) above, then the schedule in Subsection 1.15(b)(l) shall continue to apply even in Plan Years in which the Plan is a "top-heavy plan".

1.22 CORRECTION TO MEET 415 REQUIREMENTS UNDER MULTIPLE DEFINED CONTRIBUTION PLANS

If the Employer maintains other defined contribution plans, annual additions to a Participant's Account shall be limited as provided in Section 6.12 of the Plan to meet the requirements of Code Section 415, unless the Employer elects otherwise below and completes the 415 Correction Addendum describing the order in which annual additions shall be limited among the plans.

(a) o ***Other Order for Limiting Annual Additions***

1.23 INVESTMENT DIRECTION

Investment Directions - Participant Accounts shall be invested (check one):

(a) o in accordance with the investment directions provided to the Trustee by the Employer for allocating all Participant Accounts among the Options listed in the Service Agreement.

(b) x in accordance with the investment directions provided to the Trustee by each Participant for allocating his entire Account among the Options listed in the Service Agreement.

(c) o in accordance with the investment directions provided to the Trustee by each Participant for all contribution sources in his Account, except that the following sources shall be invested in accordance with the investment directions provided by the Employer (check (1) and/or (2)):

(1) o Nonelective Employer Contributions

(2) o Matching Employer Contributions

The Employer must direct the applicable sources among the same investment options made available for Participant directed sources listed in the Service Agreement.

1.24 RELIANCE ON OPINION LETTER

An adopting Employer may rely on the opinion letter issued by the Internal Revenue Service as evidence that this Plan is qualified under Code Section 401 only to the extent provided in Announcement 2001-77, 2001-30 I.R.B. The Employer may not rely on the opinion letter in certain other circumstances or with respect to certain qualification requirements, which are specified in the opinion letter issued with respect to this Plan and in Announcement 2001-77. In order to have reliance in such circumstances or with respect to such qualification requirements, application for a determination letter must be made to Employee Plans Determinations of the Internal Revenue Service. Failure to fill out the Adoption Agreement properly may result in disqualification of the Plan.

This Adoption Agreement may be used only in conjunction with Fidelity Basic Plan Document No. 02. The Prototype Sponsor shall inform the adopting Employer of any amendments made to the Plan or of the discontinuance or abandonment of the prototype plan document.

1.25 PROTOTYPE INFORMATION:

Name of Prototype Sponsor: Fidelity Management & Research Company
Address of Prototype Sponsor: 82 Devonshire Street
Boston, MA 02109

Questions regarding this prototype document may be directed to the following telephone number: 1-800-343-9184.

EXECUTION PAGE
(Employer's Copy)

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed this 27th day of December, 2005.

Employer: The Children's Place Retail Stores Inc.
By: /s/ Michael Corrigan
Title: Sr. Director - Compensation & Benefits

Employer: _____
By: _____
Title: _____

Accepted by:

Fidelity Management Trust Company, as Trustee

By: /s/ James F. Harrigan Date: 12/28/2005
Title: James F. Harrigan
Authorized Signatory

ADDENDUM

Re: SPECIAL EFFECTIVE DATES
for

Plan Name: The Children's Place 401(k) Savings Plan

(a) o ***Special Effective Dates for Other Provisions*** - The following provisions (e.g., new eligibility requirements, new contribution formula, etc.) shall be effective as of the dates specified herein:

(b) o ***Plan Merger Effective Dates*** - The following plan(s) were merged into the Plan after the Effective Date indicated in Subsection 1.01(g)(l) or (2), as applicable. The provisions of the Plan are effective with respect to the merged plan(s) as of the date(s) indicated below:

(1) Name of merged plan

Effective date:

(2) Name of merged plan:

Effective date:

(3) Name of merged plan:

Effective date:

(4) Name of merged plan:

Effective date:

(5) Name of merged plan:

Effective date:

ADDENDUM

Re: SAFE HARBOR MATCHING EMPLOYER CONTRIBUTION
for

Plan Name: The Children's Place 40l(k) Savings Plan

(a) ***Safe Harbor Matching Employer Contribution Formula***

Note: Matching Employer Contributions made under this Option must be 100% vested when made and may only be distributed because of death, disability, separation from service, age 59 1/2, or termination of the Plan without the establishment of a successor plan. In addition, each Plan Year, the Employer must provide written notice to all Active Participants of their rights and obligations under the Plan.

(1) x 100% of the first 3% of the Active Participant's Compensation contributed to the Plan and 50% of the next 2% of the Active Participant's Compensation contributed to the Plan.

(A) x Safe harbor Matching Employer Contributions shall not be made on behalf of Highly Compensated Employees.

Note: If the Employer selects this formula and does not elect Option 1.10(b), Additional Matching Employer Contributions, Matching Employer Contributions will automatically meet the safe harbor contribution requirements for deemed satisfaction of the "ACP" test. (Employee Contributions must still be tested.)

(2) o Other Enhanced Match:

% of the first % of the Active Participant's Compensation contributed to the plan,

% of the next % of the Active Participant's Compensation contributed to the plan,

% of the next % of the Active Participant's Compensation contributed to the plan.

Note: To satisfy the safe harbor contribution requirement for the "ADP" test, the percentages specified above for Matching Employer Contributions may not increase as the percentage of Compensation contributed increases, and the aggregate amount of Matching Employer Contributions at such rates must at least equal the aggregate amount of Matching Employer Contributions which would be made under the percentages described in (a)(l) of this Addendum.

(A) o Safe harbor Matching Employer Contributions shall not be made on behalf of Highly Compensated Employees.

(B) o The formula specified above is also intended to satisfy the safe harbor contribution requirement for deemed satisfaction of the "ACP" test with respect to Matching Employer Contributions. (Employee Contributions must still be tested.)

Note: To satisfy the safe harbor contribution requirement for the "ACP" test, the Deferral Contributions and/or Employee Contributions matched cannot exceed 6% of a Participant's Compensation.

ADDENDUM

Re: SAFE HARBOR NONELECTIVE EMPLOYER CONTRIBUTION
for

Plan Name: The Children's Place 401(k) Savings Plan

(a) ***Safe Harbor Nonelective Employer Contribution Election***

(1) o For each Plan Year, the Employer shall contribute for each eligible Active Participant an amount equal to % **(not less than 3% nor more than 15%)** of such Active Participant's Compensation.

(2) o The Employer may decide each Plan Year whether to amend the Plan by electing and completing (A) below to provide for a contribution on behalf of each eligible Active Participant in an amount equal to at least 3% of such Active Participant's Compensation.

Note: An Employer that has selected Subsection (a)(2) above must amend the Plan by electing (A) below and completing the Amendment Execution Page no later than 30 days prior to the end of each Plan Year for which safe harbor Nonelective Employer Contributions are being made.

(A) o For the Plan Year beginning , the Employer shall contribute for each eligible Active Participant an amount equal to % (not less than 3% nor more than 15%) of such Active Participant's Compensation.

Note: Safe harbor Nonelective Employer Contributions must be 100% vested when made and may only be distributed because of death, disability, separation from service, age 59 1/2, or termination of the Plan without the establishment of a successor plan. In addition, each Plan Year, the Employer must provide written notice to all Active Participants of their rights and obligations under the Plan.

(b) o Safe harbor Nonelective Employer Contributions shall not be made on behalf of Highly Compensated Employees.

(c) o In conjunction with its election of the safe harbor described above, the Employer has elected to make Matching Employer Contributions under Subsection 1.10 that are intended to meet the requirements for deemed satisfaction of the "ACP" test with respect to Matching Employer Contributions.

ADDENDUM

Re: PROTECTED IN-SERVICE WITHDRAWALS
for

Plan Name: The Children's Place 401(k) Savings Plan

(a) ***Restrictions on In-Service Withdrawals of Amounts Held for Specified Period*** - The following restrictions apply to in-service withdrawals made in accordance with Subsection 1.18(d)(l)(A) ***(cannot include any mandatory suspension of contributions restriction)***:

(b) ***Restrictions on In-Service Withdrawals Because of Participation in Plan for 60 or More Months*** - The following restrictions apply to in-service withdrawals made in accordance with Subsection 1.18(d)(l)(B) ***(cannot include any mandatory suspension of contributions restriction)***:

(c) **x** ***Other In-Service Hardship Withdrawal Provisions*** - In-service hardship withdrawals are permitted from a Participant's Deferral Contributions Account and the other sub-accounts specified below, subject to the conditions otherwise applicable to hardship withdrawals from a Participant's Deferral Contributions Account:

Matching Employer Contributions

(d) o ***Other In-Service Withdrawal Provisions*** - In-service withdrawals from a Participant's Accounts specified below shall be available to Participants who satisfy the requirements also specified below:

(1) o The following restrictions apply to a Participant's Account following an in-service withdrawal made pursuant to (d) above ***(cannot include any mandatory suspension of contributions restriction)***:

ADDENDUM

Re: FORMS OF PAYMENT
for

Plan Name: The Children's Place 401(k) Savings Plan

(a) The following optional forms of annuity will continue to be offered under the Plan:

(b) The forms of payment described in Section 1.19(b), (c) and/or (d) apply to the following class(es) of Participants:

Note: Please indicate if different classes of Participants are subject to different forms of payment.

(c) The following forms of payment were previously available under the Plan but will be eliminated as of the date specified in subsection (4) below (check the applicable (box(es) and complete (4)):

(1) o ***Installment Payments.***

(2) o ***Annuities.***

(A) o The normal form of payment under the Plan was a lump sum and all optional annuity forms of payment not listed under Section 1.19(c)(2)(A)(i) are eliminated. The eliminated forms of payment include the following:

(B) o The normal form of payment under the Plan was a life annuity and all annuity forms of payment not listed under Section 1.19(c)(2)(B) are eliminated. ***(Complete (i) and (ii) and, if applicable, (iii).)***

(i) The normal form for married Participants was a qualified joint and ____% **(at least 50%)** survivor annuity. The normal form for unmarried Participants was a single life annuity, unless a different form is specified below:

(ii) The qualified preretirement survivor annuity provided to a Participant's spouse was purchased with % **(at least 50%)** of the Participant's Account.

(iii) The other annuity form(s) of payment previously available under the Plan included the following:

(3) o ***Other Non-Annuity Forms of Payment.*** All other non-annuity forms of payment that are not listed in Section 1.19(d) but that were previously available under the Plan are eliminated. The eliminated non-annuity forms of payment include the following:

(4) The form(s) of payment described in this Subsection (c) will not be offered to Participants who have an Annuity Starting Date which occurs on or after **(cannot be earlier than September 6, 2000).** Notwithstanding the date entered above, the forms of payment described in this Subsection (c) will continue to be offered to Participants who have an Annuity Starting Date that occurs (1) within 90 days following the date the Employer provides affected Participants with a summary that satisfies the requirements of 29 CFR 2520.104b-3 and that notifies them of the elimination of the applicable form(s) of payment, but (2) no later than the first day of the second Plan Year following the Plan Year in which the amendment eliminating the applicable form(s) of payment is adopted.

ADDENDUM

Re: VESTING SCHEDULE
for

Plan Name: The Children's Place 401(k) Savings Plan

(a) ***More Favorable Vesting Schedule***

(1) The following vesting schedule applies to the class of Participants described in (a)(2) below:

(2) The vesting schedule specified in (a)(l) above applies to the following class of Participants:

(b) o ***Additional Vesting Schedule***

(1) The following vesting schedule applies to the class of Participants described in (b)(2) below:

(2) The vesting schedule specified in (b)(l) above applies to the following class of Participants:

ADDENDUM

Re: POSTPONED DISTRIBUTIONS
for

Plan Name: The Children's Place 401(k) Savings Plan

Postponement of Certain Distributions to Eligible Participants - The types of distributions specified below to eligible Participants of their vested interests in their Accounts shall be postponed for the period also specified below:

Notwithstanding the foregoing, if the Employer selected an Early Retirement Age in Subsection 1.14(b) that is the later of an attained age or completion of a specified number of years of Vesting Service, any Participant who terminates employment on or after completing the required number of years of Vesting Service, but before attaining the required age shall be eligible to commence distribution of his vested interest in his Account upon attaining the required age.

ADDENDUM

Re: 415 CORRECTION
for

Plan Name: The Children's Place 401(k) Savings Plan

(a) ***Other Formula for Limiting Annual Additions to Meet 415*** - If the Employer, or any employer required to be aggregated with the Employer under Code Section 415, maintains any other qualified defined contribution plans or any "welfare benefit fund", "individual medical account", or "simplified medical account", annual additions to such plans shall be limited as follows to meet the requirements of Code Section 415:

ADDENDUM

Re: 416 CONTRIBUTION
for

Plan Name: The Children's Place 401(k) Savings Plan

(a) ***Other Method of Satisfying the Requirements of 416*** - If the Employer, or any employer required to be aggregated with the Employer under Code Section 416, maintains any other qualified defined contribution or defined benefit plans, the minimum benefit requirements of Code Section 416 shall be satisfied as follows:

The CORPORATEplan *for Retirement*℠

ADDENDUM

RE: Code Sections 401(k) and 401(m) 2004 Final Regulations, Roth 401(k)

Amendments for Fidelity Basic Plan Document No. 02

PREAMBLE

Adoption and Effective Date of Amendment. This amendment of the Plan is adopted to reflect the final regulations under Internal Revenue Code (Code) sections 401(k) and 401(m) and to reflect Code section 402A as added by section 617 of the Economic Growth and Tax Relief Reconciliation Act of 2001. This amendment is intended as good faith compliance with the requirements of Code sections 401(k), 401(m) and 402A and is to be construed in accordance with guidance issued thereunder. Except as otherwise provided in the numbered paragraphs below, this amendment shall be effective as determined pursuant to the rules in paragraphs A and B immediately below:

A. Except as otherwise provided in paragraph B below, this amendment shall be effective for plan years that begin on or after January 1, 2006.

B. If the Plan is maintained pursuant to one or more collective bargaining agreements between employee representatives and one or more employers in effect on the date described in paragraph A above, this amendment shall be effective beginning with the later of the first plan year beginning after the termination of the last such agreement or the first plan year described in paragraph A above.

Supersession of Inconsistent Provisions. This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.

1. Section 5.03, "Deferral Contributions," is hereby amended, effective January 1, 2006, by adding a new subsection (c) to the end thereof to provide as follows:

(c) **Roth Deferral Contributions.**

(1) General Application.

(A) This subsection (c) will apply to contributions beginning with the effective date specified in the Roth Deferral Contributions Addendum to the Adoption Agreement but in no event before the first day of the first taxable year beginning on or after January 1, 2006.

(B) As of the effective date under subparagraph (A) hereof, the Plan will accept Roth Deferral Contributions made on behalf of Participants. A Participant's Roth Deferral Contributions will be allocated to a separate account maintained for such contributions as described in paragraph (2) of this Section 5.03(c).

(C) Unless specifically stated otherwise, Roth Deferral Contributions will be treated as Deferral Contributions for all purposes under the Plan.

(2) Separate Accounting.

(A) Contributions and withdrawals of Roth Deferral Contributions will be credited and debited to the Roth Deferral Contributions sub-account maintained for each Participant within the Participant's Account.

(B) The Plan will maintain a record of the amount of Roth Deferral Contributions in each such sub-account.

(C) Gains, losses, and other credits or charges must be separately allocated on a reasonable and consistent basis to each Participant's Roth Deferral Contributions sub-account and the Participant's other sub-accounts within the Participant's Account under the Plan.

(D) No contributions other than Roth Deferral Contributions and properly attributable earnings will be credited to each Participant's Roth Deferral Contributions sub-account.

(3) Direct Rollovers.

(A) Notwithstanding anything to the contrary in Section 13.04, a direct rollover of a distribution from a Roth Deferral Contributions sub-account under the Plan will only be made to another Roth Deferral Contributions account under an applicable retirement plan described in Code section 402A(e)(l) or to a Roth IRA described in Code section 408A and only to the extent the rollover is permitted under the rules of Code section 402(c).

(B) Notwithstanding anything to the contrary in Section 5.06, and provided the Employer so elects in the Roth Deferral Contributions Addendum to the Adoption Agreement, the Plan

will accept a rollover contribution to a Roth Deferral Contributions sub-account, but only if it is a direct rollover from another Roth Deferral Contributions account under an applicable retirement plan described in Code section 402A(e)(l) and only to the extent the rollover is permitted under the rules of Code section 402(c).

(C) The Plan will not provide for a direct rollover (including an automatic rollover) for distributions from a Participant's Roth Deferral Contributions sub-account if the amounts of the distributions that are eligible rollover distributions are reasonably expected to total less than $200 during a year. In addition, any distribution from a Participant's Roth Deferral Contributions sub-account is not taken into account in determining whether distributions from a Participant's other sub-accounts are reasonably expected to total less than $200 during a year. However, eligible rollover distributions from a Participant's Roth Deferral Contributions sub-account are taken into account in determining whether the total amount of the Participant's account balances under the Plan exceeds $1,000 for purposes of mandatory distributions from the Plan.

(D) The provisions of the Plan that allow a Participant to elect a direct rollover of only a portion of an eligible rollover distribution but only if the amount rolled over is at least $500 is applied by treating any amount distributed from the Participant's Roth Deferral Contributions sub-account as a separate distribution from any amount distributed from the Participant's other sub-accounts in the Plan, even if the amounts are distributed at the same time.

(4) Correction of Excess Contributions. In the case of a distribution of excess contributions to a Highly Compensated Employee, such excess contributions shall be deemed to be pre-tax Deferral Contributions to the extent such Highly Compensated Employee made pre-tax Deferral Contributions for the year, and any remainder shall be deemed to be Roth Deferral Contributions.

(5) Roth Deferral Contributions Defined. A Roth Deferral Contribution is an elective deferral contribution that is:

(A) Designated irrevocably by the participant at the time of the cash or deferred election as a Roth Deferral Contribution that is being made in lieu of all or a portion of the pre-tax

elective deferrals the participant is otherwise eligible to make under the Plan; and

(B) Treated by the employer as includible in the participant's income at the time the participant would have received that amount in cash if the participant had not made a cash or deferred election.

2. Section 5.07, "Qualified Nonelective Employer Contributions," is hereby amended in its entirety to provide as follows:

The Employer may, in its discretion, make a Qualified Nonelective Employer Contribution for the Plan Year in any amount necessary to satisfy or help to satisfy the "ADP" test, described in Section 6.03, and/or the "ACP" test, described in Section 6.06. Qualified Nonelective Employer contributions shall be allocated based on Participant's "testing compensation," as defined in Subsection 6.01(t), rather than Compensation, as defined in Subsection 2.01(j). Any Qualified Nonelective Employer Contribution shall be allocated only as provided in this Section 5.07 (notwithstanding anything to the contrary in Section 1.09 or in any other Plan provision).

Notwithstanding anything to the contrary in Section 1.09 or in any other Plan provision, Qualified Nonelective Employer Contributions shall be allocated to Participants who were Active Participants at any time during the Plan Year and are Non-Highly Compensated Employees pursuant to either (a) or (b) below.

(a) If the Employer has not elected Section 1.09(a)(1) in the Adoption Agreement, Qualified Nonelective Employer Contributions shall be allocated in the ratio which each such Participant's "testing compensation," as defined in Subsection 6.01(t), for the Plan Year bears to the total of all such Participants' "testing compensation" for the Plan Year.

(b) If the Employer has elected Section 1.09(a)(1) in the Adoption Agreement, Qualified Nonelective Employer Contributions shall be allocated as provided in such Section 1.09(a)(1), provided, however, that in no event shall any such allocation to an eligible Participant exceed 5% of the "testing compensation" of such Participant for the Plan Year, and, provided further that, notwithstanding the above, in the event the Employer elects to disaggregate the Plan pursuant to Treasury Regulation Section 1.401(k)-1(b)(4) and consistent with Code section 410(b)(4)(B), the Employer may choose to provide Qualified Nonelective Employer Contributions to only those otherwise

eligible Participants who are covered by the resulting component plan that covers the non-excludable Participants.

Subject to subsection (b) hereof, Active Participants shall not be required to satisfy any Hours of Service or employment requirement for the Plan Year in order to receive an allocation of Qualified Nonelective Employer Contributions.

Qualified Nonelective Employer Contributions shall be distributable only in accordance with the distribution provisions that are applicable to Deferral Contributions; provided, however, that a Participant shall not be permitted to take a hardship withdrawal of amounts credited to his Qualified Nonelective Employer Contributions Account after the later of December 31, 1988 or the last day of the Plan Year ending before July 1, 1989.

3. Section 6.09, "Income or Loss on Distributable Contributions," is hereby amended in its entirety to provide as follows:

The income or loss allocable to "excess deferrals", "excess contributions", and "excess aggregate contributions" shall be determined under the following method: The income or loss attributable to such distributable contributions shall be the sum of (i) the income or loss on such contributions for the "determination year", determined under any reasonable method, plus (ii) the income or loss on such contributions for the "gap period", determined under such reasonable method. Any reasonable method used to determine income or loss hereunder shall be used consistently for all Participants in determining the income or loss allocable to distributable

contributions hereunder and shall be the same method that is used by the Plan in allocating income or loss to Participants' Accounts. For purposes of this paragraph, the "gap period" means the period between the end of the "determination year" and the date of distribution; provided, however, that income or loss for the "gap period" may be determined as of a date that is no more than seven days before the date of distribution.

4. Section 6.10, "Deemed Satisfaction of 'ADP' Test," is hereby amended in its entirety to provide as follows:

Notwithstanding any other provision of this Article 6 to the contrary, for any Plan Year beginning on or after January 1, 1999, if the Employer has elected one of the safe harbor contributions in Subsection 1.10(a)(3) or 1.11 (a)(3) of the Adoption Agreement and complies with the notice requirements described herein for such Plan Year, the Plan shall be deemed to have satisfied the "ADP" test described in Section 6.03. The Employer shall provide to each Active Participant during the Plan Year a comprehensive notice of the Active Participant's rights and obligations

under the Plan. Such notice shall be written in a manner calculated to be understood by the average Active Participant. The Employer shall provide the notice to each Active Participant within one of the following periods, whichever is applicable:

(a) if the employee is an Active Participant 90 days before the beginning of the Plan Year, within the period beginning 90 days and ending 30 days before the first day of the Plan Year; or

(b) if the employee becomes an Active Participant after the date described in subsection (a) above, within the period beginning 90 days before and ending on the date he becomes an Active Participant;

provided, however, that such notice shall not be required to be provided to an Active Participant earlier than is required under any guidance published by the Internal Revenue Service.

If an Employer that provides notice that the Plan may be amended to provide a safe harbor Nonelective Employer Contribution for the Plan Year does amend the Plan to provide such contribution, the Employer shall provide a supplemental notice to all Active Participants stating that a safe harbor Nonelective Employer Contribution in the specified amount shall be made for the Plan Year. Such supplemental notice shall be provided to Active Participants at least 30 days before the last day of the Plan Year.

Notwithstanding the foregoing, if the Employer has elected a more stringent eligibility requirement in Section 1.04 of the Adoption Agreement for such 401(k) safe harbor contributions than for Deferral Contributions, the Plan may be disaggregated pursuant to Treasury Regulation section 1.401(k)-3(h)(3), consistent with Code section 410(b)(4)(B), and deemed to have satisfied the "ADP" test only with respect to that portion of the Plan that satisfies Code section 401(k)(12). The remainder of the Plan shall be subjected to the "ADP" test described in Section 6.03.

If the Employer elected to provide safe harbor Matching Employer Contributions pursuant to Subsection 1.10(a)(3) of the Adoption Agreement or to have deemed satisfaction of the "ACP" test with respect to Matching Employer Contributions pursuant to the Addendum Re Safe Harbor Nonelective Employer Contribution to the Adoption Agreement, then, notwithstanding any election the Employer might have made pursuant to Subsection 1.10(d) of the Adoption Agreement (except for an election to apply paragraph (6) thereof), no continuing eligibility

requirements shall apply to any Matching Employer Contributions provided under the Plan (but an election to apply paragraph (6) of Subsection 1.10(d) is unaffected).

In the event that the Plan provides for Catch-up Contributions and the Employer elects to make Safe Harbor Matching Employer Contributions pursuant to Section 1.10(a)(3), then, notwithstanding anything to the contrary herein, in the event that the Addendum Re Safe Harbor Matching Employer Contribution to the Adoption Agreement would otherwise require Matching Employer Contributions to be made with respect to Catch-up Contributions, then the Employer shall provide such Matching Employer Contributions with respect to Catch-up Contributions to the extent necessary to comply with such Matching Employer Contribution requirements.

5. Subsection (a) of Section 10.05, "Hardship Withdrawals," is hereby amended by replacing paragraph (5) thereof and adding new paragraphs (6) and (7) as provided below:

(5) payments for burial or funeral expenses for the Participant's deceased parent, spouse, child, or dependent (as defined in Code section 152, and, for taxable years beginning on or after January 1, 2005, without regard to subsection (d)(1)(B) thereof);

(6) expenses for the repair of damage to the Participant's principal residence that would qualify for the casualty deduction under Code section 165 (determined without regard to whether the loss exceeds 10% of adjusted gross income); or

(7) any other financial need determined to be immediate and heavy under rules and regulations issued by the Secretary of the Treasury or his delegate; provided, however, that any such financial need shall constitute an immediate and heavy need under this paragraph (7) no sooner than administratively practicable following the date such rule or regulation is issued.

[Signature Page to Follow]

IN WITNESS WHEREOF, this Amendment has been executed by the undersigned Employer as evidence of its adoption effective as of the date first above written.

THE CHILDREN'S PLACE RETAIL STORES, INC.

WITNESS:

By: /s/ Steven Balasiano
Name: Steven Balasiano
Title: Senior Vice President, Chief Administrative Officer and General Counsel

WITNESS:

By: /s/ Susan Riley
Name: Susan Riley
Title: Senior Vice President, Chief Financial Officer

AMENDMENT TO
THE CHILDREN'S PLACE
401(k) SAVINGS PLAN

AMENDMENT, dated this 8th day of December 2006, to The Children's Place 401(k) Savings Plan (the "Plan"), as amended and restated effective as of January 1, 2006.

W I T N E S S E T H :

WHEREAS, The Children's Place Retail Stores, Inc. (the "Company") sponsors and maintains the Plan; and

WHEREAS, the Company desires to amend the eligibility requirements for the Plan's Safe Harbor Matching Employer Contributions; and

WHEREAS, the Company desires to amend the Plan's Matching Employer Contributions to include Non-Discretionary Matching Employer Contributions on behalf of Participants who qualify as Highly Compensated Employees in the amount of fifty percent (50%) of Participants' Deferral Contributions, limited to five percent (5%) of the Participants' Compensation; and

WHEREAS, Section 16.02 of the Plan's Basic Plan Document reserves to the Company the right to make amendments to the Plan that affect the Plan's Prototype Status at any time and from time to time;

NOW, THEREFORE:

FIRST

Effective for Plan Years beginning on and after January 1, 2007, Section 1.04(b)(2)(B) of the Plan's Adoption Agreement is hereby amended in its entirety, to read as follows:

The special Eligibility Service requirement is: (B) - 12 month(s) of Eligibility Service (Fill in (A), (B) or (C) from Subsection 1.04(b)(1) above).

SECOND

Effective for Plan Years beginning on and after January 1, 2006, Section 1.10(a) of the Plan's Adoption Agreement is hereby amended in its entirety to read as follows:

Non-Discretionary Matching Employer Contributions - Notwithstanding anything contained in the Plan to the contrary, the Employer shall make a Matching Employer Contribution on behalf of each Active Participant who qualifies as a Highly Compensated Employee in an amount equal to fifty percent (50%) of the first five percent (5%) of each such Active Participant's Compensation contributed to the Plan as a Deferral Contribution.

Safe Harbor Matching Employer Contributions - Effective only for Plan Years beginning on or after January 1, 1999, if the Employer elects one of the safe harbor formula Options provided in the Safe Harbor Matching Employer Contribution Addendum to the Adoption Agreement and provides written notice each Plan Year to all Active Participants of their rights and obligations under the Plan, the Plan shall be deemed to satisfy the "ADP" test and, under certain circumstances, the "ACP" test.

IN WITNESS WHEREOF, this Amendment has been executed by the undersigned Employer as evidence of its adoption effective as of the date first above written.

THE CHILDREN'S PLACE RETAIL STORES, INC.

WITNESS:

By: /s/ Steven Balasiano
Name: Steven Balasiano
Title: Senior Vice President, Chief Administrative Officer and General Counsel

WITNESS:

By: /s/ Susan Riley
Name: Susan Riley
Title: Senior Vice President, Chief Financial Officer

Exhibit 10.10

AGREEMENT

THIS AGREEMENT, made this 27th day of November, 2006 by and between **HARTZ MOUNTAIN ASSOCIATES**, a New Jersey general partnership, having an office at 400 Plaza Drive, P.O. Box 1515, Secaucus, New Jersey 07096-1515 (hereinafter referred to as "Landlord") and **THE CHILDREN'S PLACE SERVICES COMPANY, LLC**, a Delaware limited liability company, having an office at 915 Secaucus Road, Secaucus, New Jersey (hereinafter referred to as "Tenant").

WITNESSETH:

WHEREAS, by Agreement of Lease dated June 30, 1998, as amended by Letter Agreement dated June 30, 1998, Lease Modification Agreement dated November 20, 1998 and Second Lease Modification Agreement dated November 19, 2004 (collectively "the Lease"), Landlord leased certain demised premises at 915 Secaucus Road, Secaucus, New Jersey (the "Demised Premises") to The Children's Place Retail Stores, Inc.; and

WHEREAS, pursuant to that certain Assignment and Assumption of Lease Agreement dated as of October 30, 2004, the tenant's interest under the Lease was assigned to Tenant; and

WHEREAS, pursuant to that certain Lease Termination Agreement dated May 3, 2006, Landlord and Tenant agreed to terminate the Lease in accordance with the terms and conditions therein set forth; and

WHEREAS, Landlord and Tenant have agreed to rescind the Lease Termination Agreement and reinstate the Lease and declare the same in full force and effect;

NOW, THEREFORE, for and in consideration of the Lease, the mutual covenants herein contained and the consideration set forth herein, the parties agree as follows:

1. Preamble. The foregoing preambles are hereby incorporated by reference herein and made a part hereof.

2. Recission of Lease Termination Agreement and Reinstatement of the Lease: Landlord and Tenant hereby rescind the Lease Termination Agreement dated May 3, 2006 and reinstate the Lease and hereby declare the Lease to be in full force and effect. The Lease shall continue without interruption as if unaffected by the Lease Termination Agreement.

3. Continued Validity: Except as otherwise provided herein, all of the terms, covenants and conditions of the Lease shall remain in full force and effect

4. Binding Effect. Except as modified herein, the terms, conditions and covenants of the Lease shall remain in full force and effect and shall be binding upon and inure to the benefit of Landlord, Tenant and their respective successors and permitted assigns. The paragraph headings herein contained are for convenience and shall not be deemed to govern or control the substance hereof.

5. Governing Law. This Agreement shall be governed and construed under the laws of the State of New Jersey.

6. Inconsistency. Except as modified herein, the terms, conditions and covenants of the Lease shall remain unchanged and otherwise in full force and effect, and are hereby ratified and reaffirmed. In the event of an inconsistency between this Agreement and the Lease, the terms herein shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

By: **HARTZ MOUNTAIN ASSOCIATES**
HARTZ MOUNTAIN INDUSTRIES, INC.
("Landlord")

By: /s/ Irwin A. Horowitz
Irwin A. Horowitz
Executive Vice President

THE CHILDREN'S PLACE SERVICES COMPANY, LLC
("Tenant")

By: /s/ Neal Goldberg
Neal Goldberg
President

By: /s/ Steven Balasiano
Steven Balasiano
Senior Vice President-General Counsel

LEASE MODIFICATION AGREEMENT

THIS LEASE MODIFICATION AGREEMENT, made this 27th day of November, 2006 by and between **HARTZ MOUNTAIN METROPOLITAN**, a New Jersey general partnership, having an office at 400 Plaza Drive, P.O. Box 1515, Secaucus, New Jersey 07096-1515 (hereinafter referred to as "Landlord") and **THE CHILDREN'S PLACE SERVICES COMPANY, LLC**, a Delaware limited liability company, having an office at 2 Emerson Lane, Secaucus, New Jersey (hereinafter referred to as "Tenant").

WITNESSETH:

WHEREAS, by Lease dated May 3, 2006, Landlord leased to Tenant and Tenant hired from Landlord 245,200 square feet of Floor Space located at 2 Emerson Lane, Secaucus, New Jersey (hereinafter the "Original Demised Premises"); and

WHEREAS, Landlord and Tenant wish to modify the Lease to, inter alia, increase the Floor Space leased by Tenant at 2 Emerson Lane, Secaucus, New Jersey, and amend the Lease accordingly;

NOW, THEREFORE, for and in consideration of the Lease, the mutual covenants herein contained and the consideration set forth herein, the parties agree as follows:

1. Preamble. The foregoing preambles are hereby incorporated by reference herein and made a part hereof.

2. Additional Premises: Landlord agrees to lease to Tenant and Tenant agrees to hire from Landlord the Additional Premises, which Additional Premises constitute 37,974 square feet of Floor Space, and which Additional Premises are outlined in red on Exhibit A annexed hereto and made apart hereof. Effective upon the Commencement Date of the Additional Premises (defined below), the "Demised Premises," as that term is used throughout the Lease, shall be deemed to include both the Original Demised Premises and the Additional Premises and shall constitute a total of 283,174 square feet of Floor Space.

3. Term of Lease of Additional Premises: The Term of the Lease of the Additional Premises shall commence on January 1, 2008 (the "Additional Premises Commencement Date") and shall expire on the Expiration Date set forth in Article 1.01 M. of the Lease.

4. Fixed Rent for the Additional Premises. The Fixed Rent for the Additional Premises shall be an amount at the annual rate set forth below; each multiplied by the Floor Space of the Additional Premises.

Year 1	$ 12.00 per square foot
Year 2	$ 12.36 per square foot
Year 3	$ 12.73 per square foot
Year 4	$ 13.11 per square foot

Year 5	$ 13.51 per square foot
Year 6	$ 13.85 per square foot
Year 7	$ 14.19 per square foot
Year 8	$ 14.55 per square foot
Year 9	$ 14.91 per square foot
Year 10	$ 15.29 per square foot
Year 11	$ 15.67 per square foot
Year 12	$ 16.06 per square foot
Year 13	$ 16.46 per square foot
Year 14	$ 16.87 per square foot
Year 15	$ 17.30 per square foot

5. Permitted Uses: The Additional Premises shall be used for the Permitted Uses set forth in Article 1.01 Y of the Lease. So long as permitted by applicable Legal Requirements, all or a portion of the Additional Premises may also be used for the retail sale of infant's, children's and pre-teen clothing and footwear and related accessories, including toys.

6. Tenant's Fraction: Effective upon the Commencement Date of the Additional Premises, Tenant's Fraction shall be deemed to be 100%; Article 1.01 KK. of the Lease shall be deemed so amended.

7. Building Fraction: Effective upon the Commencement Date of the Additional Premises, the Building square footage referenced in Article 1.01 F. of the Lease shall be amended from "282,499" square feet to "283,174" square feet.

8. AS IS Condition: Landlord shall deliver and Tenant agrees to accept the Additional Premises in "AS IS" condition. Landlord shall not be required to perform any work in and to the Additional Premises.

9. Security: On or prior to the Commencement Date of the Additional Premises, Tenant shall deliver to Landlord an additional Letter of Credit, or an amendment to the existing Letter of Credit, increasing the Security to be held by Landlord pursuant to the Lease by the amount of $39,265.00 such that the total Security to be held by Landlord (in the form of a Letter or Letters of Credit) is $292,842.00.

10. Renewal Option: Reference is made to Article R.2.of the Lease. Tenant shall have comparable rights to extend the term of its lease of the Additional Premises as are set forth in Article R.2. of the Lease with respect to the Original Demised Premises, provided, however, the Fixed Rent for all Extended Periods as it relates to the Additional Premises shall be at Fair Market Value [as that term is defined in Article R.2 (3)(d)] and shall take into account the considerations set forth in Article R.2 (3)(e) [i.e. the highest and best use for the Additional Premises]; in no event shall any Fixed Rent with respect to the Additional Premises during the Extended Period(s) be less than the Fixed Rent paid by Tenant for the Additional Premises during the last year of the Term (and any extension thereof) immediately preceding any such Extended Period.

11. Broker: Notwithstanding anything contained in the Lease or this Lease Modification Agreement to the contrary, Tenant shall be responsible for any all brokerage fees, commissions or other expenses in any way related to or arising out of this Lease Modification Agreement or the transaction memorialized hereby. Tenant agrees to indemnify and hold harmless Landlord against and from any claims for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, attorneys' fees and expenses, arising out of or in any way related to this Lease Modification Agreement. Article 1.01 D. of the Lease and the last sentence of Article 31 of the Lease shall not apply with respect to this Lease Modification Agreement.

12. Deletion of Lease Provisions: Effective upon execution of this Lease Modification Agreement, Articles R.3 and R.5. of the Lease shall be deemed deleted and of no further force and effect.

13. Binding Effect. Except as modified herein, the terms, conditions and covenants of the Lease shall remain in full force and effect and shall be binding upon and inure to the benefit of Landlord, Tenant and their respective successors and permitted assigns. The paragraph headings herein contained are for convenience and shall not be deemed to govern or control the substance hereof.

14. Governing Law. This Agreement shall be governed and construed under the laws of the State of New Jersey.

15. Inconsistency. Except as modified herein, the terms, conditions and covenants of the Lease shall remain unchanged and otherwise in full force and effect, and are hereby ratified and reaffirmed. In the event of an inconsistency between this Lease Modification Agreement and the Lease, the terms herein shall control.

16. Fixed Rent for the Original Demised Premises: Effective upon execution of this Lease Modification Agreement, the annual Fixed Rent for the Original Demised Premises shall be as set forth below (and Article 1.10 N. of the Lease shall be deemed so amended); in each instance the annual Fixed Rent set forth below shall be multiplied by the square footage of Floor Space of the Original Demised Premises:

Year l	$ 5.00 per square foot
Year 2	$ 5.15 per square foot
Year 3	$ 5.30 per square foot
Year 4	$ 5.46 per square foot
Year 5	$ 5.63 per square foot
Year 6	$ 5.77 per square foot
Year 7	$ 5.91 per square foot
Year 8	$ 6.06 per square foot
Year 9	$ 6.21 per square foot
Year 10	$ 6.37 per square foot

Year 11	$ 6.56 per square foot
Year 12	$ 6.75 per square foot
Year 13	$ 6.96 per square foot
Year 14	$ 7.17 per square foot
Year 15	$ 7.38 per square foot

IN WITNESS WHEREOF, the parties hereto have caused this Lease Modification Agreement to be duly executed as of the day and year first above written.

By: **HARTZ MOUNTAIN METROPOLITAN**
HARTZ MOUNTAIN INDUSTRIES, INC.
("Landlord")

By: /s/ Irwin A. Horowitz
Irwin A. Horowitz
Executive Vice President

THE CHILDREN'S PLACE SERVICES COMPANY , LLC
("Tenant")

By: /s/ Neal Goldberg
Neal Goldberg
President

By: /s/ Steven Balasiano
Steven Balasiano
Senior Vice President-General Counsel

Exhibit 10.17

EXECUTED
ORIGINAL

OFFICE LEASE

443 SOUTH RAYMOND AVENUE

443 SOUTH RAYMOND OWNER, LLC,

a California limited liability company,

as Landlord,

and

THE CHILDREN'S PLACE SERVICES COMPANY, LLC,

a Delaware limited liability company,

as Tenant.

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EXHIBITS

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443 SOUTH RAYMOND AVENUE

OFFICE LEASE

This Office Lease (the **"Lease"**), dated as of the date set forth in Section 1 of the Summary of Basic Lease Information (the **"Summary"**), below, is made by and between 443 SOUTH RAYMOND OWNER, LLC, a California limited liability company (**"Landlord"**), and THE CHILDREN'S PLACE SERVICES COMPANY, LLC, a Delaware limited liability company (**"Tenant"**).

SUMMARY OF BASIC LEASE INFORMATION

	TERMS OF LEASE	DESCRIPTION
1.	Date:	January 21, 2005.
2.	Premises:	
	2.1 Premises:	72,000 rentable square feet of space located in the buildings known as "Building A", "Building B", and "Building C", located at 443 South Raymond Avenue, Pasadena, California, as further set forth in **Exhibit A** to the Office Lease.
	2.2 Project:	The Premises are part of an office project known as 443 South Raymond Avenue, Pasadena, California, as further set forth in Section 1.1.2 of this Lease.
3.	Lease Term (Article 2):	
	3.1 Length of Term:	Thirteen (13) "Lease Years," as that term is defined in Section 2.1 of this Lease.
	3.2 Lease Commencement Date:	The earlier to occur of (i) the date that is one (1) month following the date upon which Tenant obtains a certificate of occupancy, temporary certificate of occupancy, or its legal equivalent, for the Premises, and (ii) September 1, 2005, subject to the terms of Section 5 of the Tenant Work Letter.
	3.3 Lease Expiration Date:	The last day of the 13th Lease Year.
	3.4 Option Terms:	One (1) two (2)-year option to renew and one (1) five (5)-year option to renew, as more particularly set forth in Section 2.2 of this Lease.
4.	Base Rent (Article 3):	

Lease Year	Annual Base Rent	Monthly Installment of Base Rent	Monthly Rental Rate per Rentable Square Foot
1	$ 1,598,400.00	$ 133,200.00	$ 1.85
2	$ 1,624,320.00	$ 135,360.00	$ 1.88
3	$ 1,658,880.00	$ 138,240.00	$ 1.92
4	$ 1,684,800.00	$ 140,400.00	$ 1.95

5	$ 1,710,720.00	$ 142,560.00	$ 1.98
6	$ 1,745,280.00	$ 145,440.00	$ 2.02
7	$ 1,771,200.00	$ 147,600.00	$ 2.05
8	$ 1,805,760.00	$ 150,480.00	$ 2.09
9	$ 1,840,320.00	$ 153,360.00	$ 2.13
10	$ 1,866,240.00	$ 155,520.00	$ 2.16
11	$ 1,900,800.00	$ 158,400.00	$ 2.20
12	$ 1,935,360.00	$ 161,280.00	$ 2.24
13	$ 1,969,920.00	$ 164,160.00	$ 2.28

5.	Intentionally Omitted:	
6.	Tenant's Share (Article 4):	100%.
7.	Permitted Use (Article 5):	Provided any such use is legally permissible, Tenant shall use the Premises solely for business and professional office use for use twenty-four (24) hours a day, seven (7) days a week (subject to the terms of this Lease), and, subject to the terms of Section 5.3 of this Lease, operation of a restaurant, all to the extent the same comply with applicable laws and zoning and are consistent with the character of the Project as a first-class office building project.
8.	Letter of Credit:	See Article 21 of this Lease.
9.	Parking Rights:	See Article 28 of this Lease.
10.	Address of Tenant (Section 29.17):	915 Secaucus Road Secaucus, New Jersey 07094 Attention: VP/Real Estate
	and	915 Secaucus Road Secaucus, New Jersey 07094 Attention: Sr. VP/General Counsel
11.	Address of Landlord (Section 29.17):	See Section 29.18 of the Lease.
12.	Broker(s) (Section 29.23):	Colliers Seeley International, Inc. 444 South Flower Street Suite 2200 Los Angeles, California 90071 and Marcus & Millichap 1055 West 7th Street Los Angeles, California 90017
13.	Tenant Improvement Allowance (Tenant Work Letter Section 2.1):	$5,000,000.00.
14.	Guarantors **(Exhibit E):**	The Children's Place Retail Stores, Inc., a Delaware corporation.

ARTICLE 1

PREMISES, BUILDINGS, PROJECT, AND COMMON AREAS

1.1 **Premises, Buildings, Project and Common Areas.**

1.1.1 **The Premises.** Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises set forth in Section 2.1 of the Summary (the **"Premises"**). The outline of the Premises is set forth in **Exhibit A** attached hereto and the Premises is deemed to have the number of rentable square feet as set forth in Section 2.2 of the Summary (which shall not be subject to re-measurement or modification). The parties hereto agree that the lease of the Premises is upon and subject to the terms, covenants and conditions (the **"TCCs"**) herein set forth, and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of such TCCs by it to be kept and performed and that this Lease is made upon the condition of such performance. The parties hereto hereby acknowledge that the purpose of **Exhibit A** is to show the approximate location of the Premises in the **"Buildings,"** as that term is defined in Section 1.1.2, below, only, and such Exhibit is not meant to constitute an agreement, representation or warranty as to the construction of the Premises, the precise area thereof or the specific location of the **"Common Areas,"** as that term is defined in Section 1.1.3, below, or the elements thereof or of the accessways to the Premises or the **"Project,"** as that term is defined in Section 1.1.2, below. Except as specifically set forth in this Lease and in the Tenant Work Letter attached hereto as **Exhibit B** (the **"Tenant Work Letter"**), Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises, the Buildings or the Project. Tenant also acknowledges that, except as set forth in this Lease, neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Premises, the Buildings or the Project or with respect to the suitability of any of the foregoing for the conduct of Tenant's business, except as specifically set forth in this Lease and the Tenant Work Letter. The taking of possession of the Project, or any portion thereof, by Tenant shall conclusively establish that the Premises, the Buildings and the Project were at such time in good and sanitary order, condition and repair; provided, however, that the foregoing shall not alter or limit Landlord's obligation pursuant to the terms of Article 7 of this Lease. Subject to "Applicable Laws," as that term is defined in Article 24, below, Tenant shall have access to the Premises, Buildings and Project, twenty-four hours a day, seven days a week.

1.1.2 **The Project.** The Premises are a part of the office project known as "443 South Raymond, Pasadena, California." The term **"Project,"** as used in this Lease, shall mean (i) Building A, Building B, Building C (each, a **"Building",** and collectively, the **"Buildings"**) and the Common Areas, (ii) the parking structure servicing the Buildings, and (iii) the land (which is improved with landscaping and other improvements) upon which the Buildings and the Common Areas (including the parking structure) are located. A site plan of the Project (including Building A, Building B and Building C) is set forth on Exhibit A-l, attached hereto.

1.1.3 **Common Areas.** Tenant shall have the right to use, subject to Landlord's reasonable, nondiscriminatory rules and regulations, the common area portions of the Project as designated by Landlord from time to time (the **"Common Areas"**).

ARTICLE 2

LEASE TERM; OPTION TERMS

2.1 **In General.** The TCCs and provisions of this Lease shall be effective as of the date of this Lease. The term of this Lease (the **"Lease Term"**) shall be as set forth in Section 3.1 of the Summary, shall commence on the date set forth in Section 3.2 of the Summary (the **"Lease Commencement Date"**), and shall terminate on the date set forth in Section 3.3 of the Summary (the **"Lease Expiration Date"**) unless this Lease is sooner terminated as hereinafter provided. Tenant shall have the right to occupy the Premises prior to the Lease Commencement Date, provided that (A) Tenant shall give Landlord at least ten (10) days' prior notice of any such occupancy of the Premises, (B) a temporary certificate of occupancy, certificate of occupancy, or its legal equivalent, shall have been issued by the appropriate governmental authorities for the Premises, and (C) all of the terms and conditions of the Lease shall apply, other than Tenant's obligation to pay "Base Rent," as that term is defined in Article 3 below, and "Tenant's Share" of the "Direct Expenses," as those terms are defined in Article 4, below, as though the Lease

Commencement Date had occurred (although the Lease Commencement Date shall not actually occur until the occurrence of the same pursuant to the terms of the second sentence of this Article 2) upon such occupancy of the Premises by Tenant. **"Lease Year"**, as used in this Lease, shall mean each consecutive twelve (12) month period following the Lease Commencement Date; provided, however, that the first Lease Year shall commence on the Lease Commencement Date and end on the last day of the twelfth month thereafter and the second and each succeeding Lease Year shall commence on the first day of the next calendar month; and further provided that the last Lease Year shall end on the Lease Expiration Date. At any time during the Lease Term, Landlord may deliver to Tenant a notice in the form as set forth in **Exhibit C**, attached hereto, as a confirmation only of the information set forth therein, which Tenant shall execute and return to Landlord within twenty (20) days of receipt thereof.

2.2 **Option Terms.**

2.2.1 **Option Right.** Landlord hereby grants the Tenant named in this Lease (the **"Original Tenant"**) and any assignee permitted or approved pursuant to the terms of Article 14 of this Lease (including an assignee under Section 14.8 of this Lease) (a **"Permitted Assignee"**), one two (2) year option to extend the Lease Term (the **"First Option Term"**) and, provided Tenant has exercised its right to extend the Lease Term to include the First Option Term in accordance with the terms hereof, one five (5) year option to extend the Lease Term following the expiration of the First Option Term (the **"Second Option Term"**) (each, an **"Option Term"**), which options shall be exercisable only by written notice delivered by Tenant to Landlord as provided below, provided that, as of the date of delivery of such notice, Tenant is not in default under this Lease beyond any applicable notice and cure period. Upon the proper exercise of each such option to extend, and provided that, at Landlord's option, as of the end of the then Lease Term, Tenant is not in default under this Lease beyond any applicable notice and cure period, the Lease Term, as it applies to the Premises, shall be extended for a period of period of the subject Option Term. The rights contained in this Section 2.2 shall be personal to the Original Tenant or a Permitted Assignee, as the case may be, and may only be exercised by the Original Tenant or a Permitted Assignee, as the case may be (and not any other assignee or any sublessee or other transferee of Tenant's interest in this Lease) if the Original Tenant or a Permitted Assignee, as the case may be, occupies at least fifty percent (50%) of the Premises.

2.2.2 **Option Rent**.

2.2.2.1 **First Option Term**. The monthly Base Rent payable by Tenant during the First Option Term shall equal $2.32 for each rentable square foot for the first year of the First Option Term and $2.36 for each rentable square foot for the second year of the First Option Term. Tenant shall pay Additional Rent during the First Option Term in accordance with the terms of this Lease. Tenant shall not be entitled to any concessions or allowances in connection with its lease of the Premises during the First Option Term, and shall, during the First Option Term, continue to accept the Project, Buildings and Premises in their then existing, "as is" condition.

2.2.2.2 **Second Option Term**. The annual rent payable by Tenant during the Second Option Term (the **"Second Option Term Rent"**) shall equal ninety-five percent (95%) of the "Fair Rental Value," as that term is defined, below (but including 100% of the Additional Rent included in the Fair Rental Value). The Fair Rental Value, as used in this Lease, shall be derived from an analysis (as such derivation and analysis are set forth on **Exhibit E**, attached hereto) of the "Net Equivalent Lease Rates," of the "Comparable Transactions" (defined below) as set forth in **Exhibit F**, attached hereto. As used herein, the **"Fair Rental Value"**, shall mean the annual rent per rentable square foot (including additional rent), including all escalations, at which, as of the commencement of the Second Option Term tenants are leasing non-sublease, non-encumbered, non-equity, space which is not less than 50,000 rentable square feet in size, and which is comparable in location and quality to the Premises in transactions consummated during the period between the date of commencement of the Second Option Term and the date that is twelve (12) months prior thereto for a comparable lease term, in an arm's length transaction (**"Comparable Transactions"**), which comparable space is located in any or all of the "Comparable Buildings," as that term is defined below. The terms of the Comparable Transactions shall be calculated as a Net Equivalent Lease Rate pursuant to the terms of **Exhibit F**, and shall take into consideration the following concessions (the **"Concessions"**): (a) rental abatement concessions, if any, being granted such tenants in connection with such comparable space; (b) tenant improvements or allowances provided or to be provided for such

comparable space, and taking into account the value, if any, of the existing improvements in the subject space, such value to be based upon the age, condition, design, quality of finishes and layout of the improvements and the extent to which the same can be utilized by a general office user; and (c) other reasonable monetary concessions being granted such tenants in connection with such comparable space; provided, however, that in calculating the Second Option Term Rent, no consideration shall be given to (i) the fact that Landlord is or is not required to pay a real estate brokerage commission in connection with Tenant's exercise of its right to extend the Lease Term or the fact that landlords are or are not paying real estate brokerage commissions in connection with such comparable space, and (ii) any period of rental abatement, if any, granted to tenants in comparable transactions in connection with the design, permitting and construction of tenant improvements in such comparable spaces (provided that this item (ii) shall in no way eliminate or alter Tenant's right to the concession set forth in item (a), above, to the extent applicable). Comparable Transactions which are not "triple net" in nature shall be equitably modified (based upon reasonable estimates of operating and taxes expenses for the subject project) in order to adjust the same to reflect a "triple net" transaction. The Second Option Term Rent shall additionally include a determination as to whether, and if so to what extent, Tenant must provide Landlord with financial security, such as a letter of credit or guaranty, for Tenant's Rent obligations in connection with Tenant's lease of the Premises during the Second Option Term. Such determination shall be made by reviewing the extent of financial security then generally being imposed in Comparable Transactions from tenants of comparable financial condition and credit history to the then existing financial condition and credit history of Tenant (with appropriate adjustments to account for differences in the then-existing financial condition of Tenant and such other tenants). In connection with the determination of the Second Option Term Rent, the Second Option Term Rent shall be equal to the Net Equivalent Lease Rate for the Premises, and, accordingly, the Concessions shall not be granted to Tenant in kind; provided, however, at Landlord's election, all or a portion of such Concessions shall be granted to Tenant in kind, in which event the Second Option Term Rent shall be adjusted to reflect the fact that Tenant shall be granted such Concessions. For purposes of this Lease, **"Comparable Buildings"** shall mean first class headquarters buildings or campuses with comparable quality construction and build-out which are located in the City of Pasadena.

2.2.3 **Exercise of Option**.

2.2.3.1 **First Option Term.** The First Option Term shall be exercised by Tenant, if at all, by Tenant's delivery of irrevocable notice of such exercise delivered to Landlord on or before the date which is twelve (12) months prior to the expiration of the initial Lease Term.

2.2.3.2 **Second Option Term.** The Second Option Term shall be exercised by Tenant, if at all, and only in the following manner: (i) Tenant shall deliver written notice to Landlord not less than fifteen (15) months prior to the expiration of the First Option Term, stating that Tenant is interested in exercising its option (the **"Interest Notice"**); (ii) Landlord, after receipt of Tenant's notice, shall deliver notice (the **"Option Rent Notice"**) to Tenant not less than thirteen (13) months prior to the expiration of the First Option Term, setting forth the Second Option Term Rent; and (iii) if Tenant wishes to exercise such option, whether or not Tenant shall have delivered the Interest Notice, Tenant shall, on or before the earlier of (A) the date occurring twelve (12) months prior to the expiration of the First Option Term, and (B) the date occurring thirty (30) days after Tenant's receipt of the Option Rent Notice, exercise the option by delivering written notice thereof to Landlord, and upon, and concurrent with, such exercise, if Tenant has delivered the Interest Notice, Tenant may, at its option, object to the Second Option Term Rent contained in the Option Rent Notice, in which case the parties shall follow the procedure, and the Second Option Term Rent shall be determined, as set forth in Section 2.2.4 below.

2.2.4 **Determination of Option Rent.** In the event Tenant timely and appropriately objects to the Second Option Term Rent, or in the event that Tenant shall exercise its right to lease the Premises during the Option Term without having delivered an Interest Notice, Landlord and Tenant shall attempt to agree upon the Second Option Term Rent using their best good-faith efforts. If Landlord and Tenant fail to reach agreement within ten (10) business days following Tenant's objection to the Second Option Term Rent (the **"Outside Agreement Date"**), then each party shall make a separate determination of the Second Option Term Rent, as the case may be, within five (5) business days, and such determinations shall be submitted to arbitration in accordance with Sections 2.2.4.1 through 2.2.4.7 below.

2.2.4.1 Landlord and Tenant shall each appoint one arbitrator who shall by profession be a real estate broker or lawyer who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of commercial properties in Los Angeles County, California. The determination of the arbitrators shall be limited solely to the issue area of whether Landlord's or Tenant's submitted Second Option Term Rent, is the closest to the actual Second Option Term Rent as determined by the arbitrators, taking into account the requirements of Section 2.2.3 of this Lease. Each such arbitrator shall be appointed within fifteen (15) days after the applicable Outside Agreement Date.

2.2.4.2 The two arbitrators so appointed shall within ten (10) days of the date of the appointment of the last appointed arbitrator agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two arbitrators.

2.2.4.3 The three arbitrators shall within thirty (30) days of the appointment of the third arbitrator reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Second Option Term Rent, and shall notify Landlord and Tenant thereof.

2.2.4.4 The decision of the majority of the three arbitrators shall be binding upon Landlord and Tenant.

2.2.4.5 If either Landlord or Tenant fails to appoint an arbitrator within fifteen (15) days after the applicable Outside Agreement Date, the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant.

2.2.4.6 If the two arbitrators fail to agree upon and appoint a third arbitrator, or both parties fail to appoint an arbitrator, then the appointment of the third arbitrator or any arbitrator shall be dismissed and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association, but subject to the instruction set forth in this Section 2.2.4.

2.2.4.7 The cost of arbitration shall be paid by Landlord and Tenant equally.

ARTICLE 3

BASE RENT

3.1 **In General.** Tenant shall pay, without prior notice or demand, to Landlord at such other place as Landlord may from time to time designate in writing, by a check for currency which, at the time of payment, is legal tender for private or public debts in the United States of America, base rent (**"Base Rent"**) as set forth in Section 4 of the Summary, payable in equal monthly installments as set forth in Section 4 of the Summary in advance on or before the first day of each and every calendar month during the Lease Term, without any setoff or deduction whatsoever. The Base Rent for the first full month of the Lease Term which occurs after the expiration of any free rent period shall be paid at the time of Tenant's execution of this Lease. If any Rent payment date (including the Lease Commencement Date) falls on a day of the month other than the first day of such month or if any payment of Rent is for a period which is shorter than one month, the Rent for any such fractional month shall accrue on a daily basis during such fractional month and shall total an amount equal to the product of (i) a fraction, the numerator of which is the number of days in such fractional month and the denominator of which is the actual number of days occurring in such calendar month, and (ii) the then-applicable Monthly Installment of Base Rent. All other payments or adjustments required to be made under the TCCs of this Lease that require proration on a time basis shall be prorated on the same basis.

3.2 **Free Rent.** Notwithstanding anything in Section 3.1, above, to the contrary, provided that Tenant is not then in default of this Lease, Tenant shall not be obligated to pay (i) an amount equal to $133,200.00 of the monthly Base Rent attributable to the Premises for each of the first two (2) months after the Lease Commencement Date, and (ii) an amount equal to fifty percent (50%) of the monthly Base Rent attributable to the months of February, 2006 and August, 2006.

ARTICLE 4

ADDITIONAL RENT

4.1 **General Terms.** In addition to paying the Base Rent specified in Article 3 of this Lease, Tenant shall pay **"Tenant's Share"** of the annual **"Direct Expenses,"** as those terms are defined in Sections 4.2.6 and 4.2.2, respectively, of this Lease. Such payments by Tenant, together with any and all other amounts payable by Tenant to Landlord pursuant to the TCCs of this Lease, are hereinafter collectively referred to as the **"Additional Rent,"** and the Base Rent and the Additional Rent are herein collectively referred to as **"Rent."** All amounts due under this Article 4 as Additional Rent shall be payable for the same periods and in the same manner as the Base Rent. Without limitation on other obligations of Tenant which survive the expiration of the Lease Term, the obligations of Tenant to pay the Additional Rent provided for in this Article 4 shall survive the expiration of the Lease Term.

4.2 **Definitions of Key Terms Relating to Additional Rent.** As used in this Article 4, the following terms shall have the meanings hereinafter set forth:

4.2.1 Intentionally Deleted.

4.2.2 **"Direct Expenses"** shall mean "Operating Expenses" and "Tax Expenses."

4.2.3 **"Expense Year"** shall mean each calendar year in which any portion of the Lease Term falls, through and including the calendar year in which the Lease Term expires, provided that Landlord, upon notice to Tenant, may change the Expense Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Share of Direct Expenses shall be equitably adjusted for any Expense Year involved in any such change.

4.2.4 **"Operating Expenses"** shall mean all expenses, costs and amounts of every kind and nature which Landlord pays or accrues during any Expense Year because of or in connection with (i) any insurance (including, without limitation, earthquake insurance) carried by Landlord with in connection with or with respect to the Project, or any portion thereof; (ii) costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by, any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute "Tax Expenses" as that term is defined in Section 4.2.5, below; and (iii) payments under any easement, license, operating agreement, declaration, restrictive covenant, or instrument pertaining to the sharing of costs by the Buildings and/or Project.

4.2.5 **Taxes.**

4.2.5.1 **"Tax Expenses"** shall mean all federal, state, county, or local governmental or municipal taxes, fees, charges or other impositions of every kind and nature, whether general, special, ordinary or extraordinary, (including, without limitation, real estate taxes, general and special assessments, transit taxes, leasehold taxes or taxes based upon the receipt of rent, including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant, personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Project, or any portion thereof), which shall be paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing and operation of the Project, or any portion thereof.

4.2.5.2 Tax Expenses shall include, without limitation: (i) Any tax on the rent, right to rent or other income from the Project, or any portion thereof, or as against the business of leasing the Project, or any portion thereof; (ii) Any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax, it being acknowledged by Tenant and Landlord that Proposition 13 was adopted by the voters of the State of California in the June 1978 election **("Proposition 13")** and that assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided

without charge to property owners or occupants, and, in further recognition of the decrease in the level and quality of governmental services and amenities as a result of Proposition 13, Tax Expenses shall also include any governmental or private assessments or the Project's contribution towards a governmental or private cost-sharing agreement for the purpose of augmenting or improving the quality of services and amenities normally provided by governmental agencies; (iii) Any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder, including, without limitation, any business or gross income tax or excise tax with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof; and (iv) Any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises.

4.2.5.3 Any costs and expenses (including, without limitation, reasonable attorneys' fees) incurred in attempting to protest, reduce or minimize Tax Expenses shall be included in Tax Expenses in the Expense Year such expenses are paid. Refunds of Tax Expenses shall be credited against Tax Expenses and refunded to Tenant regardless of when received, based on the Expense Year to which the refund is applicable, provided that (i) in no event shall the amount to be refunded to Tenant for any such Expense Year exceed the total amount paid by Tenant as Additional Rent under this Article 4 for such Expense Year, and (ii) nothing contained herein shall alter or reduce Landlord's rights with respect to tax credits, as and to the extent set forth in Section 4.2.5.4, below. If Tax Expenses for any period during the Lease Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay Landlord upon demand Tenant's Share of any such increased Tax Expenses included by Landlord as Tax Expenses pursuant to the TCCs of this Lease. Notwithstanding anything to the contrary contained in this Section 4.2.5 (except as set forth in Section 4.2.5.1, above), there shall be excluded from Tax Expenses all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Project), and there shall be excluded from Tax Expenses interest or late penalties of any kind. Further, Tax Expenses shall exclude real property taxes applicable to any unimproved parcels or land or other property outside of the Project. In no event shall Tenant be responsible for the payment of the same Tax Expense twice (provided that the foregoing shall not limit Tenant's obligation to pay the same categories of Tax Expenses from year to year during the Lease Term). In addition, any reduction in real estate taxes received by Landlord pursuant to the requirements of Sections 439-439.4 of the Revenue and Taxation Code (which is known as the Mills Act) shall be reflected in Tax Expenses for purposes of this Lease.

4.2.5.4 **Invoices/Tax Credits.** Tenant shall promptly supply to Landlord any and all invoices relating to the "Tenant Improvements," as that term is defined in Section 2.1 of the Tenant Work Letter (regardless of whether such invoices relate to amounts that are subject to payment from the Tenant Improvement Allowance or otherwise) as well as with respect to any "Alterations", as that term is defined in Article 8 of this Lease, so that Landlord may submit the same for receipt of available federal tax credits (which Tenant hereby acknowledges and agrees Landlord may do). Any resulting federal tax credits shall be the sole and exclusive property of Landlord and Tenant shall have no rights with respect thereto (nor shall such amounts be deducted from or serve as a credit against Tax Expenses), provided that the foregoing shall not alter or modify the terms of the last sentence of Section 4.2.5.3, above.

4.2.6 **"Tenant's Share"** shall mean the percentage set forth in Section 6 of the Summary.

4.3 **Tenants Right to Contest Taxes.** After written request (the **"Tax Notice")** delivered to Landlord by Tenant in good faith, Landlord shall at Landlord's option, either (i) diligently pursue claims for reductions in the Tax Expenses of the Buildings and Project, in which event Landlord shall provide Tenant with reasonable information as to how Landlord will pursue such claims, or (ii) allow Tenant to pursue such claims with Landlord's concurrence, in the name of Landlord. If Landlord agrees to pursue such claims or concurs in the decision to pursue such claims but elects to have them pursued by Tenant, the cost of such proceedings shall be paid by Landlord and included in Tax Expenses in the Expense Year such expenses are paid. Tenant may give a Tax Notice prior to or after the issuance of the actual tax bill by the taxing

authority or receipt by Tenant of a billing from Landlord for Tenant's Share thereof. Notwithstanding anything contained herein to the contrary, Tenant in no event shall Tenant take any actions under this Section 4.3 which may serve to impair or reduce or otherwise adversely effect Landlord's rights to tax credits under Section 4.2.5.4, above.

4.4 **Calculation and Payment of Additional Rent.** Tenant shall pay to Landlord, in the manner set forth in Section 4.4.1, below, and as Additional Rent, Tenant's Share of Direct Expenses for each Expense Year.

4.4.1 **Statement of Actual Direct Expenses and Payment by Tenant.** Landlord shall give to Tenant following the end of each Expense Year, a statement (the **"Statement")** which shall state in general major categories of Direct Expenses incurred or accrued for such preceding Expense Year, and which shall indicate the amount of Tenant's Share of Direct Expenses. As part of the Statement, Landlord hereby agrees to include the tax bill received by Landlord from applicable governmental entities reflecting the real property taxes payable with respect to the Project. Landlord shall use commercially reasonable efforts to deliver such Statement to Tenant on or before May 1 following the end of the Expense Year to which such Statement relates. Upon receipt of the Statement for each Expense Year commencing or ending during the Lease Term, Tenant shall pay, within thirty (30) days after receipt of the Statement, the full amount of Tenant's Share of Direct Expenses for such Expense Year, less the amounts, if any, paid during such Expense Year as "Estimated Direct Expenses," as that term is defined in Section 4.4.2, below, and if Tenant paid more as Estimated Direct Expenses than the actual Tenant's Share of Direct Expenses (an **"Excess"**), Tenant shall receive a credit in the amount of such Excess against the Base Rent next due under this Lease. The failure of Landlord to timely furnish the Statement for any Expense Year shall not prejudice Landlord or Tenant from enforcing its rights under this Article 4. Even though the Lease Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Share of Direct Expenses for the Expense Year in which this Lease terminates, if Tenant's Share of Direct Expenses is greater than the amount of Estimated Direct Expenses previously paid by Tenant to Landlord, Tenant shall, within thirty (30) days after receipt of the Statement, pay to Landlord such amount, and if Tenant paid more as Estimated Direct Expenses than the actual Tenant's Share of Direct Expenses (again, an "Excess"), Landlord shall, within thirty (30) days, deliver a check payable to Tenant in the amount of such Excess. The provisions of this Section 4.4.1 shall survive the expiration or earlier termination of the Lease Term, provided that, other than Tax Expenses and costs incurred for utilities, Tenant shall not be responsible for Tenant's Share of any Direct Expenses which are first billed to Tenant more than two (2) calendar years after the end of the Expense Year to which such Direct Expenses relate.

4.4.2 **Statement of Estimated Direct Expenses.** In addition, Landlord shall give Tenant a yearly expense estimate statement (the **"Estimate Statement")** which shall set forth in general major categories Landlord's reasonable estimate (the **"Estimate")** of what the total amount of Direct Expenses for the then-current Expense Year shall be and the estimated Tenant's Share of Direct Expenses (the **"Estimated Direct Expenses").** The failure of Landlord to timely furnish the Estimate Statement for any Expense Year shall not preclude Landlord from enforcing its rights to collect any Estimated Direct Expenses under this Article 4, nor shall Landlord be prohibited from revising any Estimate Statement or Estimated Direct Expenses theretofore delivered to the extent necessary. Thereafter, Tenant shall pay, within thirty (30) days after receipt of the Estimate Statement, a fraction of the Estimated Direct Expenses for the then-current Expense Year (reduced by any amounts paid pursuant to the last sentence of this Section 4.4.2). Such fraction shall have as its numerator the number of months which have elapsed in such current Expense Year, including the month of such payment, and twelve (12) as its denominator. Until a new Estimate Statement is furnished (which Landlord shall have the right to deliver to Tenant at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Direct Expenses set forth in the previous Estimate Statement delivered by Landlord to Tenant.

4.5 **Taxes and Other Charges for Which Tenant Is Directly Responsible.**

4.5.1 Tenant shall be liable for and shall pay ten (10) days before delinquency, taxes levied against Tenant's equipment, furniture, fixtures and any other personal property of Tenant located in or about the Premises, Buildings and/or Project. If any such taxes on Tenant's equipment, furniture, fixtures and any other personal property are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion

therein of a value placed upon such equipment, furniture, fixtures or any other personal property and if Landlord pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof but only under proper protest if requested by Tenant, Tenant shall upon demand repay to Landlord the taxes so levied against Landlord or the proportion of such taxes resulting from such increase in the assessment, as the case may be.

4.5.2 If the tenant improvements in the Premises, whether installed and/or paid for by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are assessed to Landlord or the Project for real property tax purposes, then the same shall be included in Tax Expenses under this Lease and shall be paid for by Tenant.

4.5.3 Notwithstanding any contrary provision herein, Tenant shall pay prior to delinquency any (i) rent tax or sales tax, service tax, transfer tax or value added tax, or any other applicable tax on the rent or services herein or otherwise respecting this Lease, (ii) taxes assessed upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion of the Project, including the Project parking facility; or (iii) taxes assessed upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

ARTICLE 5

USE OF PREMISES

5.1 **Permitted Use.** Tenant shall use the Premises solely for the Permitted Use set forth in Section 7 of the Summary and Tenant shall not use or permit the Premises or the Project to be used for any other purpose or purposes whatsoever without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion.

5.2 **Prohibited Uses.** The uses prohibited under this Lease shall include, without limitation, use of the Premises or a portion thereof for (i) offices of any agency or bureau of the United States or any state or political subdivision thereof; (ii) offices or agencies of any foreign governmental or political subdivision thereof; (iii) offices of any health care professionals or service organization; (iv) schools or other training facilities which are not ancillary to corporate, executive or professional office use; (v) retail or restaurant uses (except as specifically permitted in this Lease); or (vi) communications firms such as radio and/or television stations. Tenant further covenants and agrees that Tenant shall not use, or suffer or permit any person or persons to use, the Premises, Buildings or Project, or any parts thereof, for any use or purpose contrary to the provisions of such the rules and regulations as Landlord may promulgate on a reasonable basis from time to time, or in violation of the laws of the United States of America, the State of California, or the ordinances, regulations or requirements of the local municipal or county governing body or other lawful authorities having jurisdiction over the Project) including, without limitation, any such laws, ordinances, regulations or requirements relating to hazardous materials or substances, as those terms are defined by applicable laws now or hereafter in effect. Tenant shall not do or permit anything to be done in or about the Premises, Buildings or Project which will in any way damage the reputation of the Project or use or allow the Project, Buildings or Premises to be used for any improper, unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises, Buildings or Project.

5.3 **Restaurant Use.** Tenant shall be permitted, subject to the terms of this Lease (including, without limitation, this Section 5.3) and subject to "Applicable Laws," as that term is defined in Article 24 of this Lease, to operate a restaurant servicing Tenant's employees and visitors and/or the general public (a "**Restaurant**"). In such event, the terms of this Section 5.3 shall be applicable.

5.3.1 **Grease Traps.** Tenant shall be required to install grease traps located within the Premises which will be required for all food preparation areas having pot sinks or any grease-producing appliances that discharge into the waste system. Tenant shall be responsible for the proper care, cleaning and maintenance of the grease traps and any piping required therefor in accordance with all applicable laws and regulations. Tenant, at Tenant's expense, shall cause such grease traps to be cleaned at least once a month and maintained so as to prevent the discharge of any grease into the waste system.

5.3.2 **Trash Removal.** Tenant shall be required to cause storage and removal of trash containing food products or other perishable items to be store in appropriate containers and to be removed with sufficient frequency so as to avoid odors and infestation by animals or insects. Such trash removal procedure shall be subject to the reasonable approval of Landlord.

5.3.3 **Standard of Care.** Tenant shall operating and maintain the Restaurant in a first class condition. In connection therewith, Tenant shall keep the Restaurant, and every part thereof, in a clean and wholesome condition, free from odors or nuisances, and shall comply with all health and police regulations in all respects.

ARTICLE 6

OPERATION AND MANAGEMENT OF PROJECT; SERVICES AND UTILITIES

6.1 **In General.** Subject to the express responsibilities of Landlord as and to the extent set forth in this Lease, Tenant shall be responsible, at Tenant's sole cost and expense, for maintaining, operating, repairing, and managing the Project, and every portion thereof, and for causing the Project and every portion thereof to comply with applicable laws. In addition, Tenant shall be responsible, at Tenant's sole cost and expense, for equipment required to obtain and for the cost of obtaining, all services and utilities required for the Premises and/or the Project in order to maintain the Project in a first class operating order and condition (and acknowledges and agrees that Landlord shall have no responsibility whatsoever in connection therewith). Without limitation of the foregoing, Tenant shall pay for all utilities (including without limitation, electricity, hvac, gas, sewer and water) attributable to the Premises and the Project and shall also provide its own janitorial and security services for the Premises, Buildings and Project. Such utility use shall include electricity, water, and gas use for lighting, incidental use and "HVAC," as that term is defined below. All such utility, janitorial and security payments shall be paid directly by Tenant prior to the date on which the same are due to the utility provider janitorial company and/or security company, as applicable.

6.2 **Tenant Maintained Building Systems; HVAC.** Tenant shall, at Tenant's sole cost and expense, (i) install (subject to Landlord's approval in accordance with the terms of this Lease) and maintain mechanical, electrical, life safety, plumbing, fire-sprinkler and other systems to service the Premises, Buildings and Project, (ii) subject to limitations imposed by all governmental rules, regulations and guidelines applicable thereto, install (subject to Landlord's approval in accordance with the terms of this Lease) and maintain heating and air conditioning to the Premises and Buildings ("**HVAC**") (items identified in (i) and (ii) collectively, the "**Building Systems**"), and (iii) maintain the remaining portions of the Premises, Buildings and Project which are not part of the "Building Structure," as that term is set forth in Article 7 of this Lease.

6.3 **Tenant Maintained Security.** Tenant hereby acknowledges that Landlord shall have no obligation to provide guard service or other security measures for the benefit of the Premises, the Buildings or the Project. Any such security measures for the benefit of the Premises, the Buildings or the Project shall be provided by Tenant, at Tenant's sole cost and expense. Tenant hereby assumes all responsibility for the protection of Tenant and its agents, employees, contractors, invitees and guests, and the property thereof, from acts of third parties, including keeping doors locked and other means of entry to the Premises closed.

6.4 **Tenant Maintenance Standards.** All Building Systems, including HVAC, shall be maintained in accordance with manufacturer specifications by Tenant and in a first-class condition. Tenant shall maintain commercially reasonable service contracts for all HVAC and elevator systems servicing the Project. Upon request from Landlord, Tenant shall provide to Landlord copies of any service contracts and records of Tenant's maintenance of any and/or all Building Systems.

6.5 **Overstandard Tenant Use.** Tenant's use of utilities in the Premises, Buildings and Project shall never exceed the capacity of the systems designed and installed by Tenant (and approved by Landlord).

6.6 **Interruption of Use.** Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent (except as otherwise set forth in Section 6.7, below) or otherwise, for failure to furnish or delay in furnishing any service (including telephone and

telecommunication services), or for any diminution in the quality or quantity thereof, when such failure or delay or diminution is occasioned, in whole or in part, by breakage, repairs, replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Buildings or Project after reasonable effort to do so, by any riot or other dangerous condition, emergency, accident or casualty whatsoever, by act or default of Tenant or other parties, or by any other cause; and such failures or delays or diminution shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent (except as otherwise set forth in Section 6.7, below) or performing any of its obligations under this Lease. Furthermore, Landlord shall not be liable under any circumstances for a loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities.

6.7 **Abatement of Rent.** In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, as a result of (i) any breach by Landlord of this Lease after the expiration of any applicable cure period, (ii) any entry by Landlord into the Premises pursuant to the terms of Article 27 of this Lease, or (iii) any negligence or willful misconduct of Landlord, in the case of each of items (i), (ii) and (iii), to the extent the subject act or omission of Landlord substantially interferes with Tenant's use of the Premises (any such set of circumstances as set forth in items (i), (ii) or (iii), above, to be known as an "**Abatement Event**"), then Tenant shall give Landlord notice of such Abatement Event, and if such Abatement Event continues for three (3) consecutive business days after Landlord's receipt of any such notice (the "**Eligibility Period**"), then the Base Rent and Tenant's Share of Direct Expenses shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises; provided, however, in the event that Tenant is prevented from using, and does not use, a portion of the Premises for a period of time in excess of the Eligibility Period and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the Base Rent and Tenant's Share of Direct Expenses for the entire Premises shall be abated for such time as Tenant continues to be so prevented from using, and does not use, the Premises. If, however, Tenant reoccupies any portion of the Premises during such period, the Rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. Such right to abate Base Rent and Tenant's Share of Direct Expenses shall be Tenant's sole and exclusive remedy at law or in equity for an Abatement Event. Except as provided in this Section 6.7, nothing contained herein shall be interpreted to mean that Tenant is excused from paying Rent due hereunder.

ARTICLE 7

REPAIRS

7.1 **In General.** Except as specifically set forth herein, Landlord shall have no obligation to repair or maintain the Project or Buildings or Premises, or any portions thereof. Landlord shall maintain in good condition and operating order and keep in good repair and condition the structural portions of the Buildings and the structural portions of the parking structure servicing the same (i.e., the foundation, floor/ceiling slabs, roof (including the roof membrane), curtain wall, columns, and beams) (collectively, the "**Building Structure**"). Notwithstanding anything in this Lease to the contrary, Tenant shall be required to repair the Building Structure to the extent due to Tenant's use of the Premises for other than normal and customary business office operations and/or due to Tenant's negligence or willful misconduct. Landlord shall make all repairs required of Landlord hereunder with reasonable diligence and in good and workmanlike manner and in compliance with all "Applicable Laws," as that term is defined in Article 24 of this Lease (subject to the "Landlord Compliance Conditions," as that term is defined in Article 24, below). In performing any such repairs, Landlord shall use commercially reasonable efforts to prevent material interference with the conduct of Tenant's business at the Premises and to prevent damage to the Premises and Tenant's property, and,

subject to the terms of Section 10.5 of this Lease, Landlord shall be responsible for any damage to the Premises and/or Tenant's property resulting from Landlord's negligence or willful misconduct in making any repairs required of Landlord pursuant to the terms of this Section 7.1. Subject to the foregoing terms of this Section 7.1, Tenant shall, at Tenant's own expense, keep the Premises, Buildings, and Project, including the Common Areas (including the Project parking facilities) and all improvements, fixtures and furnishings located in the Project, Buildings and/or Premises, in good order and repair and in a first-class condition at all times during the Lease Term. Tenant's obligations under this Article 7 shall include capital repairs and improvements, as and to the extent required, except to the extent the subject capital repair or improvement is Landlord's responsibility pursuant to the terms of this Lease (i.e., because the same is a part of the Building Structure). Upon request by Landlord not more than one (1) time per Lease Year, Tenant shall supply Landlord a report evidencing Tenant's repair, maintenance and improvement plans for the next succeeding twelve month period in order to satisfy the requirements of this Section 7.1., as well as a list of the repair, maintenance and improvement items which Tenant has completed during the prior twelve month period. Landlord may, but shall not be required to, enter the Project, Buildings and/or Premises at all reasonable times to make such repairs, alterations, improvements or additions or as may be required in connection with Landlord's obligations under this Lease or as Landlord may be required to do by governmental or quasi-governmental authority or court order or decree. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code or under any similar law, statute, or ordinance now or hereafter in effect.

7.2 **Tenant's Right to Make Repairs.** Notwithstanding any of the terms set forth in this Lease to the contrary, if Tenant provides notice to Landlord of an event or circumstance which requires the action of Landlord with respect to repair and/or maintenance required pursuant to the terms of this Lease, which event or circumstance materially, adversely affects the conduct of Tenant's business from the Premises, and Landlord fails to commence corrective action within a reasonable period of time, given the circumstances, after the receipt of such notice, but in any event not later than thirty (30) days after receipt of such notice, then Tenant may proceed to take the required action upon delivery of an

additional ten (10) business days' notice to Landlord (provided, however, that the initial thirty (30) day notice and the subsequent ten (10) business day notice shall not be required in the event of an "Emergency," as that term is defined, below, and, in lieu thereof, one five (5) business day notice shall be required) specifying that Tenant is taking such required action and if such action was required under the terms of this Lease to be taken by Landlord and was not commenced by Landlord within such ten (10) business day period (five (5) business days in the event of an Emergency) and thereafter diligently pursued to completion, then Tenant shall be entitled to prompt reimbursement by Landlord of Tenant's reasonable costs and expenses in taking such action. In the event Tenant takes such action, Tenant shall use only those contractors used by landlords of Comparable Buildings for comparable work. Promptly following completion of any work taken by Tenant pursuant to the terms of this Section 7.2, Tenant shall deliver a detailed invoice of the work completed, the materials used and the costs relating thereto. If Landlord does not deliver a detailed written objection to Tenant within thirty (30) days after receipt of an invoice from Tenant, then Tenant shall be entitled to deduct from Rent payable by Tenant under this Lease, the amount set forth in such invoice. If, however, Landlord delivers to Tenant, within thirty (30) days after receipt of Tenant's invoice, a written objection to the payment of such invoice (a "**Landlord Objection Notice**"), setting forth with reasonable particularity Landlord's reasons for its claim that such action did not have to be taken by Landlord pursuant to the terms of this Lease or that the charges are excessive (in which case Landlord shall pay the amount it contends would not have been excessive), then Tenant shall not then be entitled to such deduction from Rent, and Tenant's sole remedy shall be to either (i) claim a default under this Lease (and seek damages or other relief permitted pursuant to applicable laws and this Lease), or (ii) elect to have the matter determined by binding arbitration before a retired judge of the Superior Court of the State of California under the auspices of Judicial Arbitration & Mediation Services, Inc. ("**JAMS**"). Such arbitration shall be initiated (if at all) by notice from Tenant to Landlord within ten (10) business days following Tenant's receipt of the Landlord Objection Notice (and, following such election (if applicable), the parties shall act in good faith to promptly proceed on a commercially reasonably basis to have the dispute resolved pursuant to a JAMS arbitration). For purposes of this Section 7.2, an "**Emergency**" shall mean an event threatening immediate and material danger to people located in the Buildings or immediate, material damage to the Building Structure.

ARTICLE 8

ADDITIONS AND ALTERATIONS

8.1 **Landlord's Consent to Alterations.** The construction of the initial improvements to the Premises shall be governed by the terms of the Tenant Work Letter and not the terms of this Article 8. Tenant may not make any improvements, alterations, additions or changes to the Premises or any mechanical, plumbing or HVAC facilities or systems pertaining to or servicing the Premises (collectively, the "**Alterations**") without first procuring the prior written consent of Landlord to such Alterations, which consent shall be requested by Tenant not less than fifteen (15) business days prior to the commencement thereof, and which consent shall not be unreasonably withheld or delayed by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration which adversely affects the structural portions or the systems or equipment of the Buildings or is visible from the exterior of the Buildings or Project. Notwithstanding the foregoing, Tenant shall be permitted to make Alterations to the Premises following five (5) business days notice to Landlord (the "**Cosmetic Alterations Notice**"), but without Landlord's prior consent, to the extent that such Alterations do not adversely affect the systems and equipment of the subject Building, exterior appearance of the subject Building, the "Historical Designation," as that term is defined in Section 8.6, below, of the subject Building, or structural aspects of the subject Building (the "**Cosmetic Alterations**"); provided, however, that no Cosmetic Alterations Notice shall not be required for Cosmetic Alterations which do not affect the exterior appearance of the subject Building or the Historical Designation of any Building or the Project in the event that the cost of the subject Cosmetic Alternations is less than $50,000.00 (the "**Minor Cosmetics Exception**"). Subject to Tenant's rights to make Alterations with respect to the Premises, in no event shall Tenant be permitted to make improvements, alterations, additions, or changes to the Building, the Project, or the Common Areas, provided that any repairs requires with respect to portions of the Building, Project or Common Areas required of Tenant under this Lease shall, notwithstanding anything in this Article 8 to the contrary, be subject to the terms of this Article 8.

8.2 **Manner of Construction.** Tenant shall construct any Alterations and perform any repairs in a good and workmanlike manner, in conformance with any and all applicable federal, state, county or municipal laws, rules and regulations and pursuant to a valid building permit issued by the City of Pasadena, and in conformance with Landlord's construction rules and regulations; provided, however, that prior to constructing any Alterations requiring Landlord's consent, Tenant shall obtain the approval of Landlord (which shall not be unreasonably withheld) with respect to all contractors selected by Tenant. Prior to commencing to construct any Alteration which requires Landlord's consent, Tenant shall meet with Landlord to discuss Landlord's design parameters and code compliance issues and any issues relating to maintain the Project's Historical Designation. In the event Tenant performs any Alterations in the Premises which require or give rise to governmentally required changes to the Building Structure, then Landlord shall, at Tenant's expense, make such changes to the Building Structure. In performing the work of any such Alterations, Tenant shall have the work performed in a commercially reasonable manner and in such a manner so as not to obstruct access to the Project or any portion thereof. In addition to Tenant's obligations under Article 9 of this Lease, upon completion of any Alterations, Tenant agrees to cause a Notice of Completion to be recorded in the office of the Recorder of the County of Los Angeles in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and Tenant shall deliver to Landlord a reproducible copy of the "as built" drawings of the Alterations, to the extent applicable, as well as all permits, approvals and other documents issued by any governmental agency in connection with the Alterations.

8.3 **Payment for Improvements.** Tenant shall (i) comply with Landlord's requirements for final lien releases and waivers in connection with Tenant's payment for work to contractors, and (ii) comply with Landlord's commercially reasonable contractor's rules and regulations. Tenant shall reimburse Landlord for Landlord's reasonable, actual, out-of-pocket costs and expenses actually incurred in connection with Landlord's review of any Alteration which requires Landlord's consent.

8.4 **Construction Insurance.** In addition to the requirements of Article 10 of this Lease, in the event that Tenant makes any Alterations, prior to the commencement of such Alterations, Tenant shall provide Landlord with evidence that Tenant carries "Builder's All Risk" insurance in an amount reasonably approved by Landlord covering the construction of such

Alterations, and such other insurance as Landlord may reasonably require, it being understood and agreed that all of such Alterations shall be insured by Tenant pursuant to Article 10 of this Lease immediately upon completion thereof.

8.5 **Landlord's Property.** All Alterations, improvements, fixtures, equipment and/or appurtenances which may be installed or placed in or about the Premises, from time to time, shall be at the sole cost of Tenant and shall be and become the property of Landlord, except that Tenant may remove any Alterations, improvements, fixtures and/or equipment which Tenant can substantiate to Landlord have not been paid for with the Tenant Improvement Allowance or any other tenant improvement allowance funds provided to Tenant by Landlord, provided Tenant repairs any damage to the Premises, Buildings and/or Project caused by such removal and returns the affected area to an improved condition as determined by Landlord. Furthermore, Landlord may, by written notice to Tenant prior to the end of the Lease Term, or given following any earlier termination of this Lease, require Tenant, at Tenant's expense, to remove any Tenant Improvements and/or Alterations, and to repair any damage to the Premises, Buildings and/or Project caused by such removal and return the affected portion of the Premises, Buildings and/or Project, as the case may be, to an improved condition as determined by Landlord; provided, however, that in no event shall Tenant be required to remove any Tenant Improvements or Alterations pursuant to the terms of this Section 8.5 to the extent the same consist of typical, general office tenant improvements. If Tenant fails to complete such removal and/or to repair any damage caused by the removal, and to return the affected portion of the Premises, Building and/or Project, as the case may be, to an improved condition as determined by Landlord, then at Landlord's option, either (A) Tenant shall be deemed to be holding over in the Premises and Rent shall continue to accrue in accordance with the terms of Article 16, below, until such work shall be completed, or (B) Landlord may do so and may charge the cost thereof to Tenant. Tenant hereby protects, defends, indemnifies and holds Landlord harmless from any liability, cost, obligation, expense or claim of lien in any manner relating to the installation, placement, removal or financing of any such Alterations, improvements, fixtures and/or equipment in, on or about the Premises, which obligations of Tenant shall survive the expiration or earlier termination of this Lease.

8.6 **Historical Designation of Project.** Tenant hereby acknowledges and agrees that the Project has been designated as a historical structure by the City of Pasadena and is or will be listed on the National Register of Historic Places (the "**Historical Designation**"). Based upon the foregoing, notwithstanding anything contained in this Lease to the contrary, all Tenant Improvements, Alterations and signage and any and all other matters which affect or relate to the Project's Historical Designation which may be installed or performed by Tenant under or in accordance with the terms of this Lease shall at all times be subject to the approval of appropriate entities governing Historical Designations, including, without limitation, the City of Pasadena Historical Preservation Commission and the City of Pasadena Design Commission (collectively, the "**Historical Authorities**"), at Tenant's sole cost and expense. Further, Tenant hereby agrees at all times not to perform any Tenant Improvements, Alteration, or install any signage, or perform any act or omission, which may jeopardize or otherwise impact or affect the Project's Historical Designation or the benefits associated therewith. Landlord shall have no liability for, and this Lease and the Rent payable hereunder shall be unaffected by, any denial of consent or other action which may be taken by Historical Authorities in connection with the Project. Upon request by Landlord from time to time, Tenant shall supply Landlord with reasonable evidence of Tenant's compliance with the terms of this Section 8.6. Landlord shall, at Tenant's sole cost and expense, reasonably cooperate with Tenant in connection with Tenant's applications to the Historical Authorities.

ARTICLE 9

COVENANT AGAINST LIENS

Tenant shall keep the Project, Buildings and Premises free from any liens or encumbrances arising out of the work performed, materials furnished or obligations incurred by or on behalf of Tenant, and shall protect, defend, indemnify and hold Landlord harmless from and against any claims, liabilities, judgments or costs (including, without limitation, reasonable attorneys' fees and costs) arising out of same or in connection therewith. Tenant shall give Landlord notice at least ten (10) days prior to the commencement of any such work on the Premises, Buildings or Project (five (5) business days in connection with a Cosmetic Alterations (subject to the Minor Cosmetics Exception)) to afford Landlord the opportunity of posting and

recording appropriate notices of non-responsibility. Tenant shall remove any such lien or encumbrance by bond or otherwise within ten (10) business days after notice by Landlord, and if Tenant shall fail to do so, Landlord may pay the amount necessary to remove such lien or encumbrance, without being responsible for investigating the validity thereof. The amount so paid shall be deemed Additional Rent under this Lease payable upon demand, without limitation as to other remedies available to Landlord under this Lease. Nothing contained in this Lease shall authorize Tenant to do any act which shall subject Landlord's title to the Project, Buildings or Premises to any liens or encumbrances whether claimed by operation of law or express or implied contract. Any claim to a lien or encumbrance upon the Building or Premises arising in connection with any work undertaken by Tenant shall be null and void.

ARTICLE 10

INSURANCE

10.1 **Indemnification and Waiver.** Tenant hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises, Buildings and Project from any cause whatsoever and agrees that Landlord, its partners, subpartners and their respective officers, agents, servants, employees, and independent contractors (collectively, **"Landlord Parties")** shall not be liable for, and are hereby released from any responsibility for, any damage either to person or property or resulting from the loss of use thereof, which damage is sustained by Tenant or by other persons claiming through Tenant. Except to the extent caused by the negligence or willful misconduct of Landlord or the Landlord Parties, Tenant shall indemnify, defend, protect, and hold harmless the Landlord Parties from any and all loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) (collectively, **"Claims")** incurred in connection with or arising from any cause in, on or about the Project, any acts, omissions or negligence of Tenant or of any person claiming by, through or under Tenant, or of the contractors, agents, servants, employees, invitees, guests or licensees of Tenant or any such person, in, on or about the Project or any breach of the TCCs of this Lease, either prior to, during, or after the expiration of the Lease Term, provided that the terms of the foregoing indemnity shall not apply to the negligence or willful misconduct of Landlord. Should Landlord be named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy of the Premises or Tenant's use or operation of the Project or any portion thereof, Tenant shall pay to Landlord its costs and expenses incurred in such suit, including without limitation, its actual professional fees such as appraisers', accountants' and attorneys' fees. Landlord shall indemnify, defend, protect, and hold harmless Tenant, its partners, and their respective officers, agents, servants, employees, and independent contractors (collectively, **"Tenant Parties")** from any and all Claims arising from (i) the negligence or wilful misconduct of Landlord in, on or about the Project, except to the extent caused by the negligence or wilful misconduct of the Tenant Parties, and (ii) Landlord's breach of this Lease. Notwithstanding anything to the contrary set forth in this Lease, either party's agreement to indemnify the other party as set forth in this Section 10.1 shall be ineffective to the extent the matters for which such party agreed to indemnify the

other party are covered by insurance required to be carried by the non-indemnifying party pursuant to this Lease. Further, Tenant's agreement to indemnify Landlord and Landlord's agreement to indemnify Tenant pursuant to this Section 10.1 are not intended to and shall not relieve any insurance carrier of its obligations under policies required to be carried pursuant to the provisions of this Lease, to the extent such policies cover, or if carried, would have covered the matters, subject to the parties' respective indemnification obligations; nor shall they supersede any inconsistent agreement of the parties set forth in any other provision of this Lease. The provisions of this Section 10.1 shall survive the expiration or sooner termination of this Lease with respect to any claims or liability arising in connection with any event occurring prior to such expiration or termination.

10.2 **Landlord's Fire, Casualty and Liability Insurance.** Landlord shall carry commercial general liability insurance with respect to the Project during the Lease Term, and shall further insure the Buildings and Project during the Lease Term against loss or damage due to due to fire and other casualties covered within the classification of fire and extended coverage, vandalism coverage and malicious mischief, sprinkler leakage, water damage and special extended coverage. Such coverage shall be in such amounts, from such companies, and on such other terms and conditions, as Landlord may from time to time reasonably determine. Additionally, at the option of Landlord, such insurance coverage may include the risks of earthquakes and/or flood damage and additional hazards, a rental loss endorsement and one or more loss payee endorsements in favor of the holders of any mortgages or deeds of trust

encumbering the interest of Landlord in the Buildings or the ground or underlying lessors of the Buildings, or any portion thereof. Notwithstanding the foregoing provisions of this Section 10.2, the coverage and amounts of insurance carried by Landlord in connection with the Buildings shall, at a minimum, be comparable to the coverage and amounts of insurance which are carried by reasonably prudent landlords of buildings comparable to and in the vicinity of the Buildings (provided that in no event shall Landlord be required to carry earthquake insurance), and Worker's Compensation and Employer's Liability coverage as required by applicable law. Tenant shall, at Tenant's expense, comply with all insurance company requirements pertaining to the use of the Premises. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body.

10.3 **Tenant's Insurance.** Tenant shall maintain the following coverages in the following amounts.

10.3.1 Commercial/Comprehensive General Liability Insurance covering the insured against claims of bodily injury, personal injury and property damage (including loss of use thereof) arising out of Tenant's operations, and contractual liabilities (covering the performance by Tenant of its indemnity agreements) including a Broad Form endorsement covering the insuring provisions of this Lease and the performance by Tenant of the indemnity agreements set forth in Section 10.1 of this Lease, for limits of liability not less than:

Bodily Injury and Property Damage Liability	$5,000,000 each occurrence $5,000,000 annual aggregate, or any combination of primary insurance and excess insurance
Personal Injury Liability	$5,000,000 each occurrence $5,000,000 annual aggregate, or any combination of primary insurance and excess insurance 0% Insured's participation

10.3.2 Property Insurance covering (i) all office furniture, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property on the Project installed by, for, or at the expense of Tenant, (ii) the "Tenant Improvements," as that term is defined in Section 2.1 of the Tenant Work Letter, and any other improvements which exist in the Premises as of the Lease Commencement Date (the **"Original Improvements"**), and (iii) all other improvements, alterations and additions to the Premises. Such insurance shall be written on an "all risks" of physical loss or damage basis, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for damage or other loss caused by fire or other peril including, but not limited to, vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year.

10.3.3 Worker's Compensation or other similar insurance pursuant to all applicable state and local statutes and regulations, and Employer's Liability Insurance or other similar insurance pursuant to all applicable state and local statutes and regulations, with a waiver of subrogation endorsement and with minimum limits of One Million and No/100 Dollars ($1,000,000.00) per employee and One Million and No/100 Dollars ($1,000,000.00) per occurrence.

10.4 **Form of Policies.** The minimum limits of policies of insurance required of Tenant under this Lease shall in no event limit the liability of Tenant under this Lease. Such insurance shall (i) name Landlord, and any other party the Landlord so specifies, as an additional insured, including Landlord's managing agent, if any; (ii) specifically cover the liability assumed by Tenant under this Lease, including, but not limited to, Tenant's obligations under Section 10.1 of this Lease; (iii) be issued by an insurance company having a rating of not less than A-X in Best's Insurance Guide or which is otherwise reasonably acceptable to Landlord and licensed to do business in the State of California; (iv) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and is non-contributing with any

insurance requirement of Tenant; (v) be in form and content reasonably acceptable to Landlord; and (vi) provide that said insurance shall not be canceled or coverage changed unless thirty (30) days' prior written notice shall have been given to Landlord and any mortgagee of Landlord, the identity of whom has been provided to Tenant in writing. Tenant shall deliver said policy or policies or certificates thereof to Landlord on or before the Lease Commencement Date and at least thirty (30) days before the expiration dates thereof. In the event Tenant shall fail to procure such insurance, or to deliver such policies or certificate, Landlord may, at its option, after five (5) business days notice to Tenant and Tenant's failure to cure within such 5-business day period, procure such policies for the account of Tenant, and the cost thereof shall be paid to Landlord within thirty (30) days after delivery to Tenant of bills therefor.

10.5 **Subrogation.** Landlord and Tenant intend that their respective property loss risks shall be borne by reasonable insurance carriers to the extent above provided, and Landlord and Tenant hereby agree to look solely to, and seek recovery only from, their respective insurance carriers in the event of a property loss to the extent that such coverage is agreed to be provided hereunder. The parties each hereby waive all rights and claims against each other for such losses, and waive all rights of subrogation of their respective insurers, provided such waiver of subrogation shall not affect the right to the insured to recover thereunder. The parties agree that their respective insurance policies are now, or shall be, endorsed such that the waiver of subrogation shall not affect the right of the insured to recover thereunder.

10.6 **Additional Insurance Obligations.** Tenant shall carry and maintain during the entire Lease Term, at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 10 and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord.

10.7 **Self-Insurance.** The Original Tenant or an assignee of the Original Tenant under Section 14.8(i) of this Lease only shall be entitled to self-insure its insurance requirements set forth in Section 10.3.2(i), above, subject to and in accordance with the terms of this Section 10.7. Any self-insurance shall be deemed to contain all of the terms and conditions applicable to such insurance as required in this Article 10, including, without limitation, a full waiver of subrogation. If Tenant elects to so self-insure, then with respect to any claims which may result from incidents occurring during the Lease term, such self-insurance obligation shall survive the expiration or earlier termination of this Lease to the same extent as the insurance required would survive. Notwithstanding the foregoing, Tenant shall only have the right to self-insure its insurance requirements under Section 10.3.2(i), if Tenant shall, concurrent with a notice to Landlord electing to self-insure, provide Landlord with evidence that Tenant or "Guarantor," as that term is defined in Section 29.31, above, has a net worth, as determined by a financial statement audited by a certified public accountant, of equal to or greater than Fifty Million Dollars ($50,000,000.00) (the **"Financial Requirement").** If Tenant at any time does not satisfy the Financial Requirement, it shall notify Landlord of the same and supply Landlord with the insurance policies required under this Article 10.

ARTICLE 11

DAMAGE AND DESTRUCTION

11.1 **Repair of Damage to Premises by Landlord.** Tenant shall promptly notify Landlord of any damage to the Premises, Buildings or Project resulting from fire or any other casualty. If the Premises, Buildings or any Common Areas serving or providing access to the Premises shall be damaged by fire or other casualty, Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment or other matters beyond Landlord's reasonable control, and subject to all other terms of this Article 11, restore the base building of the Premises, Buildings and such Common Areas. Such restoration shall be to substantially the same condition as existed prior to the casualty, except for modifications required by zoning and building codes and other laws or by the holder of a mortgage on the Buildings or Project or any other modifications to the Common Areas deemed desirable by Landlord, which are consistent with the character of the Project. Upon the occurrence of any damage to the Premises, Tenant shall, at its sole cost and expense (notwithstanding the amount of Tenant's available insurance proceeds), repair any injury or damage to the Tenant Improvements and the Original Improvements installed in the Premises and shall return such Tenant Improvements and Original Improvements to their original condition. Prior to the commencement of construction, Tenant

shall submit to Landlord, for Landlord's review and approval, all plans, specifications and working drawings relating thereto, and Landlord shall approve (in Landlord's reasonable discretion) the contractors to perform such improvement work. Landlord shall not be liable for any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business resulting in any way from such damage or the repair thereof; provided however, that if such fire or other casualty shall have damaged the Premises or Common Areas necessary to Tenant's occupancy, and the Premises are not occupied by Tenant as a result thereof, then during the time and to the extent the Premises are unfit for occupancy, the Rent shall be abated in proportion to the ratio that the amount of rentable square feet of the Premises which is unfit for occupancy for the purposes permitted under this Lease bears to the total rentable square feet of the Premises. Tenant's right to rent abatement pursuant to the preceding sentence shall terminate as of the date which is reasonably determined to be the date Tenant should have completed repairs to the Premises assuming Tenant used reasonable due diligence in connection therewith (provided that such rent abatement period shall be extended by "Force Majeure Delays," as that term is defined in Section 5.1 of the Tenant Work Letter, subject to an in accordance with the terms of Section 5 of the Tenant Work Letter).

11.2 **Landlord's Option to Repair.** Notwithstanding the terms of Section 11.1 of this Lease, Landlord may elect not to rebuild and/or restore the base building of the Premises, Buildings and Common Areas as set forth in Section 11.1, above, and instead terminate this Lease, by notifying Tenant in writing of such termination within sixty (60) days after the date of discovery of the damage, such notice to include a termination date giving Tenant sixty (60) days to vacate the Premises, but Landlord may so elect only if the Buildings or Project shall be damaged by fire or other casualty or cause, only if the Premises are materially adversely affected, and one or more of the following conditions is present: (i) in Landlord's reasonable judgment, repairs cannot reasonably be completed within two hundred seventy (270) days after the date of discovery of the damage (when such repairs are made without the payment of overtime or other premiums); (ii) the damage is not fully covered by Landlord's insurance policies (or the insurance policies which Landlord would have maintained had Landlord complied with the terms of this Lease); or (iii) the damage occurs during the last twelve (12) months of the Lease Term; provided, however, that if Landlord does not elect to terminate this Lease pursuant to Landlord's termination right as provided above, and either (a) the repairs cannot, in the reasonable opinion of Landlord, be completed within two hundred seventy (270) days after being commenced, or (b) if material damage occurs during the last twelve (12) months of the Lease Term, Tenant may elect, no earlier than sixty (60) days after the date of the damage and not later than ninety (90) days after the date of such damage, to terminate this Lease by written notice to Landlord effective as of the date specified in the notice, which date shall not be less than thirty (30) days nor more than sixty (60) days after the date such notice is given by Tenant. In the event this Lease is terminated in accordance with the terms of this Section 11.2, Tenant shall assign to Landlord (or to any party designated by

Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under items (ii) and (iii) of Section 10.3.2 of this Lease to the extent the same relate to the unamortized value of the Tenant Improvements (to the extent paid for with the Tenant Improvement Allowance).

11.3 **Waiver of Statutory Provisions.** The provisions of this Lease, including this Article 11, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, the Buildings or the Project, and any statute or regulation of the State of California, including, without limitation, Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any other statute or regulation, now or hereafter in effect, shall have no application to this Lease or any damage or destruction to all or any part of the Premises, the Buildings or the Project.

ARTICLE 12

NONWAIVER

No provision of this Lease shall be deemed waived by either party hereto unless expressly waived in a writing signed thereby. The waiver by either party hereto of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any

preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No acceptance of a lesser amount than the Rent herein stipulated shall be deemed a waiver of Landlord's right to receive the full amount due, nor shall any endorsement or statement on any check or payment or any letter accompanying such check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the full amount due. No receipt of monies by Landlord from Tenant after the termination of this Lease shall in any way alter the length of the Lease Term or of Tenant's right of possession hereunder, or after the giving of any notice shall reinstate, continue or extend the Lease Term or affect any notice given Tenant prior to the receipt of such monies, it being agreed that after the service of notice or the commencement of a suit, or after final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment of said Rent shall not waive or affect said notice, suit or judgment.

ARTICLE 13

CONDEMNATION

If the whole or any part of the Premises, Buildings or Project shall be taken by power of eminent domain or condemned by any competent authority for any public or quasi-public use or purpose, or if any adjacent property or street shall be so taken or condemned, or reconfigured or vacated by such authority in such manner as to require the use, reconstruction or remodeling of any part of the Premises, Buildings or Project, or if Landlord shall grant a deed or other instrument in lieu of such taking by eminent domain or condemnation, Landlord shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. If more than twenty-five percent (25%) of the rentable square feet of the Premises is taken, or if access to the Premises is substantially impaired, in each case for a period in excess of one hundred eighty (180) days, Tenant shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. Tenant shall not because of such taking assert any claim against Landlord or the authority for any compensation because of such taking and Landlord shall be entitled to the entire award or payment in connection therewith, except that Tenant shall have the right to file any separate claim available to Tenant for (i) any taking of Tenant's personal property and fixtures belonging to Tenant and removable by Tenant upon expiration of the Lease Term pursuant to the terms of this Lease, and for moving expenses, so long as such claims do not diminish the award available to Landlord, its ground lessor with respect to the Buildings or Project or its mortgagee, and such claim is payable separately to Tenant, and (ii) Landlord and Tenant shall each be entitled to receive fifty percent (50%) of the "bonus value" of the leasehold estate in connection therewith, which bonus value shall be equal to the difference between the Rent payable under this Lease and the sum established by the condemning authority as the award for compensation. All Rent shall be apportioned as of the date of such termination. If any part of the Premises shall be taken, and this Lease shall not be so terminated, the Rent shall be proportionately abated. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of The California Code of Civil Procedure. Notwithstanding anything to the contrary contained in this Article 13, in the event of a temporary taking of all or any portion of the Premises for a period of one hundred and eighty (180) days or less, then this Lease shall not terminate but the Base Rent and the Additional Rent shall be abated for the period of such taking in proportion to the ratio that the amount of rentable square feet of the Premises taken bears to the total rentable square feet of the Premises. Landlord shall be entitled to receive the entire award made in connection with any such temporary taking, provided that Tenant shall be entitled to any award attributable to a taking of Tenant's personal property.

ARTICLE 14

ASSIGNMENT AND SUBLETTING

14.1 **Transfers**. Tenant shall not, without the prior written consent of Landlord, assign, mortgage, pledge, hypothecate, encumber, or permit any lien to attach to, or otherwise transfer, this Lease or any interest hereunder, permit any assignment, or other transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or enter into any license or concession agreements or otherwise permit the occupancy or use of the Premises or any part thereof by any persons other than Tenant and its employees and contractors

(all of the foregoing are hereinafter sometimes referred to collectively as **"Transfers"** and any person to whom any Transfer is made or sought to be made is hereinafter sometimes referred to as a **"Transferee").** If Tenant desires Landlord's consent to any Transfer, Tenant shall notify Landlord in writing, which notice (the **"Transfer Notice"**) shall include (i) the proposed effective date of the Transfer, which shall not be less than thirty (30) days nor more than one hundred eighty (180) days after the date of delivery of the Transfer Notice, (ii) a description of the portion of the Premises to be transferred (the **"Subject Space"**), (iii) all of the terms of the proposed Transfer and the consideration therefor, including calculation of the **"Transfer Premium"**, as that term is defined in Section 14.3 below, in connection with such Transfer, the name and address of the proposed Transferee, and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, including all existing operative documents to be executed to evidence such Transfer or the agreements incidental or related to such Transfer, (iv) current financial statements of the proposed Transferee certified by an officer, partner or owner thereof, business credit and personal references and history of the proposed Transferee and any other information required by Landlord which will enable Landlord to determine the financial responsibility, character, and reputation of the proposed Transferee, nature of such Transferee's business and proposed use of the Subject Space and (v) an executed estoppel certificate from Tenant in the form attached hereto as **Exhibit E**. Any Transfer made without Landlord's prior written consent (when Landlord's consent is required) shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a default by Tenant under this Lease. Whether or not Landlord consents to any proposed Transfer, Tenant shall pay any reasonable, out-of-pocket professional fees (including, without limitation, attorneys', accountants', architects', engineers' and consultants' fees) incurred by Landlord, within thirty (30) days after written request by Landlord; provided, however, that in no event shall such fees exceed $1,500.00 for a Transfer in the ordinary course of business.

14.2 **Landlord's Consent.** Landlord shall not unreasonably withhold its consent to any proposed Transfer of the Subject Space to the Transferee on the terms specified in the Transfer Notice. Without limitation as to other reasonable grounds for withholding consent, the parties hereby agree that it shall be reasonable under this Lease and under any applicable law for Landlord to withhold consent to any proposed Transfer where one or more of the following apply:

14.2.1 The Transferee is of a character or reputation or engaged in a business which is not consistent with the quality of the Project or Comparable Buildings;

14.2.2 The Transferee intends to use the Subject Space for purposes which are not permitted under this Lease;

14.2.3 The Transferee is either a governmental agency or instrumentality thereof which is capable of exercising the power of eminent domain or which creates an increased security risk to the Project;

14.2.4 The Transferee is not a party of reasonable financial worth and/or financial stability in light of the responsibilities to be undertaken in connection with the Transfer on the date consent is requested; or

14.2.5 Any disapproval of the proposed Transfer by any lender of Landlord.

If Landlord consents to any Transfer pursuant to the terms of this Section 14.2 (and does not exercise any recapture rights Landlord may have under Section 14.4 of this Lease), Tenant may within six (6) months after Landlord's consent, but not later than the expiration of said six-month period, enter into such Transfer of the Premises or portion thereof, upon substantially the same terms and conditions as are set forth in the Transfer Notice furnished by Tenant to Landlord pursuant to Section 14.1 of this Lease, provided that if there are any material changes in the terms and conditions from those specified in the Transfer Notice (i) such that Landlord would initially have been entitled to refuse its consent to such Transfer under this Section 14.2, or (ii) which would cause the proposed Transfer to be materially more favorable to the Transferee than the terms set forth in Tenant's original Transfer Notice, Tenant shall again submit the Transfer to Landlord for its approval and other action under this Article 14 (including Landlord's right of recapture, if any, under Section 14.4 of this Lease). Notwithstanding anything to the contrary in this Lease, if Tenant or any proposed Transferee claims that Landlord has unreasonably withheld, conditioned or delayed its consent under Section 14.2 or otherwise

has breached or acted unreasonably under this Article 14, their sole remedies shall be a suit for contract damages (other than damages for injury to, or interference with, Tenant's business including, without limitation, loss of profits, however occurring) or declaratory judgment and an injunction for the relief sought, and Tenant hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed Transferee.

14.3 **Transfer Premium.** At any time that a Transfer shall exist (which by itself or when aggregated with all other then existing Transfers) results in fifty percent (50%) of more of the Premises being Transferred (whether by assignment, sublease or otherwise), as a condition to Landlord's consent which the parties hereby agree is reasonable, Tenant shall pay to Landlord fifty percent (50%) of any "Transfer Premium," as that term is defined in this Section 14.3, received by Tenant from such Transferee as well as from any other then existing Transferee (so that Landlord shall then be receiving 50% of the Transfer Premium applicable to all then existing Transfers); provided, however, that in no event shall Landlord be entitled to any Transfer Premium which is attributable to a sublease of the portion of the Premises known as Building C. **"Transfer Premium"** shall mean all rent, additional rent or other consideration payable by such Transferee in connection with the Transfer in excess of the Rent and Additional Rent payable by Tenant under this Lease during the term of the Transfer on a per rentable square foot basis if less than all of the Premises is transferred, after deducting the reasonable expenses incurred by Tenant for (i) any changes, alterations and improvements to the Premises in connection with the Transfer, (ii) any free base rent or other economic concessions reasonably provided to the Transferee, (iii) any brokerage commissions in connection with the Transfer (iv) legal fees reasonably incurred in connection with the Transfer, and (v) the amount of any Base Rent and Additional Rent paid by Tenant to Landlord with respect to the Subject Space during the period commencing on the later of (a) the date Tenant contracts with a reputable broker to market the Subject Space and delivers notice thereof to Landlord, and (b) the date Tenant vacates the Subject Space and delivers notice thereof to Landlord, until the commencement of term of the Transfer. "Transfer Premium" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by Transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant to Transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in connection with such Transfer. In the calculations of the Rent (as it relates to the Transfer Premium calculated under this Section 14.3), and the Transferee's Rent and Quoted Rent under Section 14.2 of this Lease, the Rent paid during each annual period for the Subject Space, and the Transferee's Rent and the Quoted Rent, shall be computed after adjusting such rent to the actual effective rent to be paid, taking into consideration any and all leasehold concessions granted in connection therewith, including, but not limited to, any rent credit and tenant improvement allowance. For purposes of calculating any such effective rent all such concessions shall be amortized on a straight-line basis over the relevant term.

14.4 **Landlord's Option as to Subject Space.** Notwithstanding anything to the contrary contained in this Article 14, Landlord shall have the option, by giving written notice (the **"Recapture Notice")** to Tenant within thirty (30) days after receipt of any Transfer Notice which relates to a Transfer which requires Landlord's consent (which by itself or when aggregated with all other then existing Transfers) would result in seventy-five percent (75%) or more of the Premises being the subject of a Transfer, to recapture the Subject Space. Notwithstanding the foregoing, within ten (10) business days following Tenant's receipt of a Recapture Notice,. Tenant shall have the right, upon notice to Landlord, to withdraw its to Transfer Notice, in which case the Transfer Notice and the Recapture Notice shall be void and of no force or effect. Subject to the foregoing, a Recapture Notice shall cancel and terminate this Lease with respect to the Subject Space as of the date stated in the Transfer Notice as the effective date of the proposed Transfer until the last day of the term of the Transfer as set forth in the Transfer Notice (or at Landlord's option, shall cause the Transfer to be made to Landlord or its agent, in which case the parties shall execute the Transfer documentation promptly thereafter). In the event of a recapture by Landlord, if this Lease shall be canceled with respect to less than the entire Premises, the Rent reserved herein shall be prorated on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of the same. If Landlord declines, or fails to elect in a timely manner to recapture the Subject Space under this Section 14.4, then, provided Landlord has consented to the proposed Transfer,

Tenant shall be entitled to proceed to transfer the Subject Space to the proposed Transferee, subject to provisions of this Article 14. In the event of a recapture pursuant to the terms of this Section 14.4, this Lease (and Tenant's rights hereunder, including without limitation, with respect to parking, and control over the management and operation of the Project) shall be equitably modified as required by Landlord to reflect that all of the rentable area of the Project is no longer leased by Tenant.

14.5 **Effect of Transfer.** If Landlord consents to a Transfer, (i) the TCCs of this Lease shall in no way be deemed to have been waived or modified, (ii) such consent shall not be deemed consent to any further Transfer by either Tenant or a Transferee, (iii) Tenant shall deliver to Landlord, promptly after execution, an original executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, (iv) Tenant shall furnish upon Landlord's request a complete statement, certified by an independent certified public accountant, or Tenant's chief financial officer, setting forth, as applicable, either that (a) no Transfer Premium is due, or (b) in detail the computation of any Transfer Premium Tenant has derived and shall derive from such Transfer, and (v) no Transfer relating to this Lease or agreement entered into with respect thereto, whether with or without Landlord's consent, shall relieve Tenant or any guarantor of the Lease from any liability under this Lease, including, without limitation, in connection with the Subject Space. Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant where Landlord's consent is required relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found understated, Tenant shall, within thirty (30) days after demand, pay the deficiency, and if understated by more than three percent (3%), Tenant shall pay Landlord's actual and reasonable costs of such audit.

14.6 **Additional Transfers.** For purposes of this Lease, the term **"Transfer"** shall also include (i) if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the partners, or transfer of fifty percent (50%) or more of partnership interests, within a twelve (12)-month period, or the dissolution of the partnership without immediate reconstitution thereof, and (ii) if Tenant is a closely held corporation *(i.e.*, whose stock is not publicly held and not traded through an exchange or over the counter), the dissolution, merger, consolidation or other reorganization of Tenant. Notwithstanding the foregoing, the sale of stock on any nationally recognized stock exchange shall not be deemed a Transfer under this Article 14.

14.7 **Occurrence of Default.** Any Transfer hereunder shall be subordinate and subject to the provisions of this Lease, and if this Lease shall be terminated during the term of any Transfer, Landlord shall have the right to: (i) treat such Transfer as cancelled and repossess the Subject Space by any lawful means, or (ii) require that such Transferee attorn to and recognize Landlord as its landlord under any such Transfer. Such Transferee shall rely on any representation by Landlord that Tenant is in default hereunder, without any need for confirmation thereof by Tenant. Upon any assignment, the assignee shall assume in writing all obligations and covenants of Tenant thereafter to be performed or observed under this Lease. No collection or acceptance of rent by Landlord from any Transferee shall be deemed a waiver of any provision of this Article 14 or the approval of any Transferee or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing. In no event shall Landlord's enforcement of any provision of this Lease against any Transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person. If Tenant's obligations hereunder have been guaranteed, Landlord's consent to any Transfer shall not be effective unless the guarantor also consents to such Transfer.

14.8 **Non-Transfers.** Notwithstanding anything to the contrary contained in this Article 14, (i) an assignment or subletting of all or a portion of the Premises to an affiliate of Tenant (an entity which is controlled by, controls, or is under common control with, Tenant), (ii) an assignment of the Premises to an entity which acquires all or substantially all of the assets or interests (partnership, stock or other) of Tenant, or (iii) an assignment of the Premises to an entity which is the resulting entity of a merger or consolidation of Tenant, shall not be deemed a Transfer under this Article 14 and Landlord's consent shall not be required, provided that Tenant notifies Landlord of any such assignment or sublease and promptly supplies Landlord with any documents or information requested by Landlord regarding such assignment or sublease or such affiliate, and further provided that such assignment or sublease is not a subterfuge by Tenant to avoid its obligations under this Lease. **"Control,"** as used in this Section 14.8, shall mean the

ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty-one percent (51%) of the voting interest in, any person or entity.

ARTICLE 15

SURRENDER OF PREMISES; OWNERSHIP AND REMOVAL OF TRADE FIXTURES

15.1 **Surrender of Premises.** No act or thing done by Landlord or any agent or employee of Landlord during the Lease Term shall be deemed to constitute an acceptance by Landlord of a surrender of the Premises unless such intent is specifically acknowledged in writing by Landlord. The delivery of keys to the Premises to Landlord or any agent or employee of Landlord shall not constitute a surrender of the Premises or effect a termination of this Lease, whether or not the keys are thereafter retained by Landlord, and notwithstanding such delivery Tenant shall be entitled to the return of such keys at any reasonable time upon request until this Lease shall have been properly terminated. The voluntary or other surrender of this Lease by Tenant, whether accepted by Landlord or not, or a mutual termination hereof, shall not work a merger, and at the option of Landlord shall operate as an assignment to Landlord of all subleases or subtenancies affecting the Premises or terminate any or all such sublessees or subtenancies.

15.2 **Removal of Tenant Property by Tenant.** Upon the expiration of the Lease Term, or upon any earlier termination of this Lease, Tenant shall, subject to the provisions of this Article 15, quit and surrender possession of the Premises, Buildings and Project to Landlord in as good order and condition as when Tenant took possession and as thereafter improved by Landlord and/or Tenant, reasonable wear and tear and repairs which are specifically made the responsibility of Landlord hereunder and casualty excepted. Upon such expiration or termination, Tenant shall, without expense to Landlord, remove or cause to be removed from the Premises, Buildings and Project all debris and rubbish, and such items of furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitions and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, Buildings and/or Project and such similar articles of any other persons claiming under Tenant, as Landlord may, in its reasonable discretion, require to be removed, and Tenant shall repair at its own expense all damage to the Premises, Buildings and/or Project resulting from such removal.

ARTICLE 16

HOLDING OVER

If Tenant holds over after the expiration of the Lease Term or earlier termination thereof, with or without the express or implied consent of Landlord, such tenancy shall be from month-to-month only, and shall not constitute a renewal hereof or an extension for any further term, and in such case Rent shall be payable at a monthly rate equal to one hundred fifty percent (150%) of the Rent applicable during the last rental period of the Lease Term under this Lease. Notwithstanding the foregoing, in the event that Landlord and Tenant shall be in good faith negotiations of a renewal of this Lease as of the Lease Expiration Date (which negotiations may be terminated by either party at any time, in either party's sole and absolute discretion), then, during the first sixty (60) days of any such holdover (to the extent that such good faith renewal negotiations continue during such 60-day period), the reference above to one hundred fifty percent (150%) shall be deemed to be one hundred percent (100%). In no event shall such reduced holdover rent be applicable for more than sixty (60) days following the Lease Expiration Date. Such month-to-month tenancy shall be subject to every other applicable term, covenant and agreement contained herein. Nothing contained in this Article 16 shall be construed as consent by Landlord to any holding over by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or other termination of this Lease. The provisions of this Article 16 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality

of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost profits to Landlord resulting therefrom.

ARTICLE 17

ESTOPPEL CERTIFICATES

Within ten (10) business days following a request in writing by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an estoppel certificate, which, as submitted by Landlord, shall be substantially in the form of **Exhibit D**, attached hereto (or such other form as may be required by any prospective mortgagee or purchaser of the Project, or any portion thereof), indicating therein any exceptions thereto that may exist at that time, and shall also contain any other information reasonably requested by Landlord or Landlord's mortgagee or prospective mortgagee. Any such certificate may be relied upon by any prospective mortgagee or purchaser of all or any portion of the Project. Tenant shall execute and deliver whatever other instruments may be reasonably required for such purposes. In the event that Landlord shall require delivery of more than one (1) estoppel certificate in any twelve (12) month period, Landlord shall pay to Tenant any reasonable, out-of-pocket costs in connection with such additional requests, provided that in no event shall such costs exceed $1,500.00 for each such additional request. At any time during the Lease Term, if Guarantor is not a publicly traded company whose financial statements are readily available, Landlord may require Tenant to provide Landlord with Guarantor's current financial statement and financial statements of the two (2) years prior to the current financial statement year. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Guarantor, shall be audited by an independent certified public accountant, In addition, to the extent required in connection with a sale, financing or refinancing of the Project, or any portion thereof, Tenant shall promptly supply Landlord with reasonable financial information regarding Tenant, provided that Tenant shall not be required for this purpose to create financial statements or other documentation which is not ordinarily prepared by Tenant.

ARTICLE 18

SUBORDINATION

This Lease shall be subject and subordinate to all present and future ground or underlying leases of the Buildings or Project and to the lien of any mortgage, trust deed or other encumbrances now or hereafter in force against the Buildings or Project or any part thereof, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of such mortgages or trust deeds, unless the holders of such mortgages, trust deeds or other encumbrances, or the lessors under such ground lease or underlying leases, require in writing that this Lease be superior thereto. In consideration of, and as a condition precedent to,

Tenant's agreement to permit its interest pursuant to this Lease to be subordinated to any particular current and future ground or underlying lease of the Project or to the lien of any current or future mortgage or trust deed, encumbering the Project and to any renewals, extensions, modifications, consolidations and replacements thereof, Landlord shall deliver to Tenant a commercially reasonable non-disturbance agreement executed by the landlord under such ground lease or underlying lease or the holder of such mortgage or trust deed. Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any such mortgage or deed in lieu thereof (or if any ground lease is terminated), to attorn, without any deductions or set-offs whatsoever, to the lienholder or purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof (or to the ground lessor), if so requested to do so by such purchaser or lienholder or ground lessor, and to recognize such purchaser or lienholder or ground lessor as the lessor under this Lease, provided such lienholder or purchaser or ground lessor shall agree to accept this Lease and not disturb Tenant's occupancy, so long as Tenant timely pays the rent and observes and performs the TCCs of this Lease to be observed and performed by Tenant. Landlord's interest herein may be assigned as security at any time to any lienholder. Tenant shall, within ten (10) business days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary to evidence or confirm the subordination or superiority of this Lease to any such mortgages, trust deeds, ground leases or underlying leases.

ARTICLE 19

DEFAULTS; REMEDIES

19.1 **Events of Default**. The occurrence of any of the following shall constitute a default of this Lease by Tenant:

19.1.1 Any failure by Tenant to pay any Rent or any other charge required to be paid under this Lease, or any part thereof, when due unless such failure is cured within five (5) business days after notice; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's performance in this Lease, in which event the failure to perform by Tenant within such time period shall be a default by Tenant under this Section 19.1.2, any failure by Tenant to observe or perform any other provision, covenant or condition of this Lease to be observed or performed by Tenant where such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant; provided that if the nature of such default is such that the same cannot reasonably be cured within a thirty (30) day period, Tenant shall not be deemed to be in default if it diligently commences such cure within such period and thereafter diligently proceeds to rectify and cure such default; or

19.1.3 To the extent permitted by law, a general assignment by Tenant or any guarantor of this Lease for the benefit of creditors, or the taking of any corporate action in furtherance of bankruptcy or dissolution whether or not there exists any proceeding under an insolvency or bankruptcy law, or the filing by or against Tenant or any guarantor of any proceeding under an insolvency or bankruptcy law, unless in the case of a proceeding filed against Tenant or any guarantor the same is dismissed within sixty (60) days, or the appointment of a trustee or receiver to take possession of all or substantially all of the assets of Tenant or any guarantor, unless possession is restored to Tenant or such guarantor within thirty (30) days, or any execution or other judicially authorized seizure of all or substantially all of Tenant's assets located upon the Premises or of Tenant's interest in this Lease, unless such seizure is discharged within thirty (30) days; or

19.1.4 Abandonment or vacation of all of the Premises by Tenant for a period of more than sixty (60) days; or

19.1.5 The failure by Tenant to observe or perform according to the provisions of Articles 17 or 18 of this Lease where such failure continues for more than ten (10) business days after notice from Landlord; or

19.1.6 To the extent Tenant operates a Restaurant, the failure of Tenant to maintain a health department rating of "A" (or such other highest health department or similar rating as is available), which failure continues for more than sixty (60) days; or

19.1.7 (i) The insolvency of any bank issuing a letter of credit under this Lease, or (ii) the failure of any bank issuing a letter of credit to have a least a "B" rating under the Thomson Financial Bank Watch or an equivalent rating service reasonably selected by Landlord, where Tenant, within fifteen (15) business days of Landlord's notice, has not replaced such bank with a bank which qualifies under this Section 19.1.7 is otherwise reasonably acceptable to Landlord.

The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by law.

19.2 **Remedies Upon Default**. Upon the occurrence of any event of default by Tenant, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (all of which remedies shall be distinct, separate and cumulative), the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

19.2.1 Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be

occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(a) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and

(e) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term **"rent"** as used in this Section 19.2 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 19.2.1(a) and (b), above, the "worth at the time of award" shall be computed by allowing interest at the Interest Rate. As used in Section 19.2.1(c), above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

19.2.2 Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, above, or any law or other provision of this Lease), without prior demand or notice except as required by applicable law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.2.4 Upon a default by Tenant after the expiration of any applicable cure period, Landlord shall mitigate its damages under this Lease as and to the extent required by "Applicable Law," as that term is defined in Article 24, below.

19.3 **Subleases of Tenant**. Whether or not Landlord elects to terminate this Lease on account of any default by Tenant, as set forth in this Article 19, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

19.4 **Form of Payment After Default**. Following the occurrence of an event of default by Tenant, Landlord shall have the right to require that any or all subsequent amounts paid by Tenant to Landlord hereunder, whether to cure the default in question or otherwise, be paid in the form of cash, money order, cashier's or certified check drawn on an institution

acceptable to Landlord, or by other means approved by Landlord, notwithstanding any prior practice of accepting payments in any different form.

19.5 **Efforts to Relet**. No re-entry or repossession, repairs, maintenance, changes, alterations and additions, reletting, appointment of a receiver to protect Landlord's interests hereunder, or any other action or omission by Landlord shall be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, nor shall same operate to release Tenant in whole or in part from any of Tenant's obligations hereunder, unless express written notice of such intention is sent by Landlord to Tenant. Tenant hereby irrevocably waives any right otherwise available under any law to redeem or reinstate this Lease.

ARTICLE 20

COVENANT OF QUIET ENJOYMENT

Landlord covenants that Tenant, on paying the Rent, charges for services and other payments herein reserved and on keeping, observing and performing all the other TCCs, provisions and agreements herein contained on the part of Tenant to be kept, observed and performed, shall, during the Lease Term, peaceably and quietly have, hold and enjoy the Premises subject to the TCCs, provisions and agreements hereof without interference by any persons lawfully

claiming by or through Landlord. The foregoing covenant is in lieu of any other covenant of quiet enjoyment express or implied. Landlord has the right and lawful authority to enter into this Lease and perform Landlord's obligations hereunder, including, but not limited to the right and lawful authority to terminate (if applicable) any present or prior tenant of the Premises and to deliver possession thereof to Tenant.

ARTICLE 21

LETTERS OF CREDIT

21.1 **Delivery of the L-C.** Tenant shall deliver to Landlord, concurrently with Tenant's execution and delivery of this Lease to Landlord, an unconditional, irrevocable letter of credit (the "**L-C**") in the amount of Four Million and No/100 Dollars ($4,000,000.00) (the "**L-C Amount**"), which L-C shall be issued by a bank subject to Landlord's reasonable approval (provided that Landlord hereby approves Wells Fargo Bank). The Letter of Credit shall be (i) at sight, irrevocable and unconditional, (ii) maintained in effect, whether through renewal or extension, for the period from the Lease Commencement Date and continuing until the "LC Expiration Date," as that term is defined, below, and Tenant shall deliver, if applicable, a certificate of renewal or extension to Landlord at least thirty (30) days prior to the expiration of the LC then held by Landlord, without any action whatsoever on the part of Landlord, (iii) fully assignable by Landlord to a transferee of Landlord's interest in the Buildings or to a mortgagee, (iv) permit partial draws, and (v) in a form and content as set forth in **Exhibit G**, attached hereto or otherwise shall be subject to Landlord's reasonable approval. Tenant shall pay all expenses, points and/or fees incurred by Tenant in obtaining and maintaining the L-C. As used herein, the "**LC Expiration Date**" shall mean the date which is the earlier to occur of (I) the date (if applicable) that the L-C Amount, pursuant to the terms of this Article 21, equals $0.00, and (II) the date which is 120 days following the Lease Expiration Date; provided, however, if prior to such date a voluntary petition is filed by Tenant, or an involuntary petition is filed against Tenant by any of Tenant's creditors, under the Federal Bankruptcy Code, or Tenant executes an assignment for the benefit of creditors or similar liquidation or windup proceeding under state or federal law, then the LC Expiration Date shall be extended (but in no event reduced) until the date which is the earlier of (x) the date either all preference issues relating to payments under the Lease have been resolved in such bankruptcy, liquidation or reorganization case, (y) the date such bankruptcy, liquidation or reorganization case has been dismissed, or (z) the later to occur of either one hundred twenty (120) days after the expiration of the initial Lease Term or ten (10) days after the date the bankruptcy court enters a final order (and all applicable appeal periods have expired) approving Tenant's rejection of this Lease.

21.2 **Application of the L-C.** The L-C shall be held by Landlord as additional security for the faithful performance by Tenant of all the terms, covenants, and conditions of this Lease to be kept and performed by Tenant during the initial Lease Term. The L-C shall not be mortgaged, assigned or encumbered in any manner whatsoever by Tenant without the prior

written consent of Landlord. If: (I) Tenant defaults with respect to any provisions of this Lease after the expiration of any applicable notice and cure period, including, but not limited to, the provisions relating to the payment of Rent, (II) Tenant fails to renew the L-C at least thirty (30) days before its expiration, (III) Tenant files a voluntary petition for relief under any chapter of the United States Bankruptcy Code, (IV) an involuntary bankruptcy petition is filed against Tenant under any chapter of the United States Bankruptcy Code, (V) Tenant executes a general assignment for the benefit of creditors, or (VI) Tenant is placed in receivership under either state or federal law or commences a liquidation proceeding under applicable state law, then Landlord may, but shall not be required to, draw upon all or any portion of the L-C (A) for payment of any Rent or any other sum in default, or (B) for the payment of any amount that Landlord may reasonably spend or may become obligated to spend by reason of Tenant's default, or (C) to compensate Landlord for any other loss or damage that Landlord may suffer, or which Landlord reasonably estimates that Landlord may suffer, by reason of Tenant's default, including, but not limited to, any and all damages that may accrue under Section 1951.2 of the California Civil Code in the event that Landlord elects to terminate the Lease. Tenant hereby acknowledges and agrees that, for purposes of the L-C, monies shall be deemed to be "due and owing" in the event of the occurrence of any of items (I) through (VI), above. The use, application or retention of the L-C, or any portion thereof, by Landlord shall not (a) prevent Landlord from exercising any other right or remedy provided by this Lease or by law, it being intended that Landlord shall not first be required to proceed against the L-C, nor (b) operate as a limitation on any recovery to which Landlord may otherwise be entitled. Any amount of the L-C which is drawn upon by Landlord, but is not used or applied by Landlord as allowed above, shall be held by Landlord until the LC Expiration Date (the "**L-C Excess Amount**") and may be used and applied by Landlord, at its option, for payment of any Rent or any other sum in default, or for the payment of any amount that Landlord may reasonably spend or may become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss or damage that Landlord may suffer, or which Landlord reasonably estimates that Landlord may suffer, by reason of Tenant's default, including, but not limited to, any and all damages that may accrue under Section 1951.2 of the California Civil Code in the event that Landlord elects to terminate this Lease. If any portion of the L-C is drawn upon, Tenant shall, within ten (10) days after written demand therefor, at Landlord's option, either (i) deposit cash with Landlord (which cash shall be applied by Landlord to the L-C Excess Amount) in an amount sufficient to cause the sum of the L-C Excess Amount and the amount of the remaining L-C to be equivalent to the amount of the L-C then required under this Lease or (ii) reinstate the L-C to the amount then required under this Lease, and any remaining L-C Excess Amount shall be returned to Tenant within ten (10) days thereafter. If any portion of the L-C Excess Amount is used or applied, Tenant shall, within five (5) business days after written demand therefor, deposit cash with Landlord (which cash shall be applied by Landlord to the L-C Excess Amount) in an amount sufficient to restore the L-C Excess Amount to the amount then required under this Lease, and Tenant's failure to do so shall be a default under this Lease. Tenant acknowledges that Landlord has the right to transfer or mortgage its interest in the Project and the Buildings and in this Lease and Tenant agrees that in the event of any such transfer or mortgage, Landlord shall have the right to transfer or assign the L-C Excess Amount and/or the L-C to the transferee or mortgagee, and in the event of such transfer, Tenant shall look solely to such transferee or mortgagee for the return of the L-C Excess Amount and/or the L-C. The L-C Excess Amount and/or the L-C, or any balance thereof, shall either be drawn upon and applied by Landlord in accordance with the terms hereof or shall be returned to Tenant within one hundred twenty (120) days following the expiration or earlier termination of this Lease. Tenant acknowledges and agrees that the L-C constitutes a separate and independent contract between Landlord and the issuing bank, that Tenant is not a third party beneficiary of such contract, that Tenant has no ownership or property interest in the L-C or the L-C Excess Amount, and that Landlord's claim under the L-C or the L-C Excess Amount for the full amount due and owing thereunder shall not be, in any way, restricted, limited, altered or impaired by virtue of any provision of the Bankruptcy Code, including, but not limited to, Section 502(b)(6) of the Bankruptcy Code.

21.3 **L-C and L-C Excess Amount not a Security Deposit.** Landlord and Tenant acknowledge and agree that in no event or circumstance shall the L-C or the L-C Excess Amount or any renewal thereof or any proceeds thereof be (i) deemed to be or treated as a "security deposit" within the meaning of California Civil Code Section 1950.7, (ii) subject to the terms of such Section 1950.7, or (iii) intended to serve as a "security deposit" within the meaning of such Section 1950.7. The parties hereto (A) recite that the L-C and the L-C Excess Amount are not intended to serve as a security deposit and such Section 1950.7 and any and all other laws, rules

and regulations applicable to security deposits in the commercial context ("**Security Deposit Laws**") shall have no applicability or relevancy thereto and (B) waive any and all rights, duties and obligations either party may now or, in the future, will have relating to or arising from the Security Deposit Laws.

21.4 **Reduction of L-C Amount.** Subject to the terms of this Section 21.4, Landlord hereby acknowledges and agrees that the L-C Amount shall be subject to reduction by an amount equal to $571,428.57 upon each of the first seven (7) anniversaries of the Lease Commencement Date (each, an "**L-C Reduction Date**") so long as the "LC Reduction Conditions," as that term is defined, below, are satisfied as of the subject L-C Reduction Date. For purposes of this Lease, the "**LC Reduction Conditions**" shall mean that (i) if a draw under the L-C by Landlord has occurred in accordance with the terms of this Lease, Tenant shall have fulfilled its obligation to reinstate the L-C or to provide cash to Landlord as provided above in this Article 21, in order that Landlord shall hold, immediately prior to the subject L-C Reduction Date, cash and/or an L-C, as the case may be, in the total L-C Amount required under this Lease immediately prior to the subject L-C Reduction Date, (ii) Tenant is not in default under this Lease after the expiration of any applicable cure period as of the subject L-C Reduction Date, (iii) Tenant shall have delivered audited financial statements, prepared in accordance with generally accepted accounting principles consistently applied ("**Financial Statements**") indicating that "Guarantor," as that term is defined in Section 29.31 of this Lease, as of the end of the "Fiscal Year", as that term is defined, below, completed most recently prior to the subject L-C Reduction Date, retains a "Quick Ratio" (i.e., "current assets" divided by "current liabilities") of not less than one (1), (iv) Tenant shall deliver Financial Statements indicating that Guarantor, as of the end of the Fiscal Year completed most recently prior to the subject L-C Reduction Date, retains cash and cash equivalents (which shall include accounts receivable which are not older than sixty (60) days) in an amount not less than $25,000,000.00, and (v) neither Tenant nor Guarantor is, as of the subject L-C Reduction Date, under material SEC or other governmental investigation or is under threat of any such investigation, but this item (iv) shall only be applicable only to the extent the subject investigation or threat thereof will or may have a material adverse financial effect upon the subject entity. For purposes of this Lease, a "**Fiscal Year**" shall mean Tenant's fiscal year for accounting purposes, which shall be the one year period commencing approximately as of February 1 of each year and concluding as of approximately January 31 of the following year. In the event that the LC Reduction Conditions are not satisfied as of any particular L-C Reduction Date, then the L-C shall not be subject to reduction as of such date, provided that in the event that Tenant shall subsequently satisfy the LC Reduction Conditions, the L-C shall be reduced as of the date of the satisfaction by Tenant of the LC Reduction Conditions. As an example only, in the event that Tenant failed to satisfy the LC Reductions Conditions as of the first anniversary of the Lease Commencement Date, but satisfied the LC Reduction Conditions as of the second anniversary of the Lease Commencement Date, then the LC Amount would reduce as of such second anniversary by $1,142,857.14 (i.e., the $571,428.57 reduction which could have been, but was not, implemented as of the first anniversary of Lease Commencement Date (due to the failure of Tenant to then satisfy the LC Reduction Conditions), plus the $571,428.57 reduction to which Tenant is entitled as of the second anniversary of the Lease Commencement Date).

ARTICLE 22

TELECOMMUNICATIONS EQUIPMENT

At any time during the Lease Term, subject to the terms of this Lease, including this Article 22, and "Applicable Laws," as that term is defined in Article 24, below, Tenant shall have the exclusive right to install, at Tenant's sole cost and expense, one (1) or more satellite dishes and other telecommunications equipment (collectively, the "**Telecommunications Equipment**") upon the roof of the Buildings. In no event shall Tenant be obligated to pay Landlord any rental for that portion of the roof of the Buildings on which the Telecommunications Equipment shall be located. The physical appearance, location and all specifications of the Telecommunications Equipment shall be subject to Landlord's reasonable approval, and Landlord may require Tenant to install screening around such Telecommunications Equipment, at Tenant's sole cost and expense, as reasonably designated by Landlord. Any rooftop penetrations required shall also be subject to the approval of Landlord, which shall not be unreasonably withheld. All contractors performing work on the roof of the Buildings shall be subject to the prior approval of Landlord, which shall not be unreasonably withheld. Tenant shall be responsible, at Tenant's sole cost and expense, for (i) obtaining all permits or other governmental approvals required in connection with the Telecommunications Equipment, and (ii) repairing and maintaining and causing the Telecommunications Equipment to comply with all Applicable Laws. In no event shall Tenant

permit the Telecommunications Equipment to interfere with the Building Structure. Tenant shall be responsible for any and all installation costs, repair and maintenance costs, and compliance with laws costs associated with Tenant's Telecommunications Equipment. Tenant's indemnity of Landlord, as set forth in this Lease, shall be applicable to any and all Claims associated with or related to the Telecommunications Equipment. Upon the expiration or earlier termination of this Lease, Tenant shall, at Tenant's sole cost and expense, remove the Telecommunications Equipment, repair any associated damage, and restore the affected roof to the condition existing prior to Tenant's installation of the subject equipment. In the event Tenant elects to exercise its right to install the Telecommunication Equipment, then Tenant shall give Landlord prior notice thereof and Landlord.

ARTICLE 23

SIGNS

23.1 **Tenant's Signage.** Subject to Applicable Laws and the terms of this Lease (including, without limitation, Section 8.6 of this Lease and this Article 23), the Tenant shall have the right to install (at Tenant's sole cost and expense) exterior signage at the Project ("**Tenant's Signage**"). Tenant's Signage shall be subject to all applicable governmental laws, rules, regulations, codes and approvals. The content, size, design, specifications, precise location, graphics, materials, colors and all other specifications of the Tenant's Sign shall be subject to the approval of Landlord, which approval shall not be unreasonably withheld, and shall be consistent with exterior design and materials of the Buildings and Project. Tenant shall be responsible for all costs and expenses incurred in connection with the design, construction, installation, repair, operation, maintenance and compliance with laws of the Tenant's Signage. Upon the expiration of the Lease Term or the earlier termination of Tenant's signage rights under this Article 23, Tenant shall, at Tenant's sole cost and expense, remove the Tenant's Signage and repair any and all damage to the Buildings and/or Project caused by such removal.

23.2 **Prohibited Signage and Other Items.** Any signs, notices, logos, pictures, names or advertisements which are installed and that have not been separately approved by Landlord are prohibited. Except as may be specifically set forth herein, Tenant may not install any signs on the exterior or roof of the Buildings, Project or the Common Areas. Any signs, window coverings, or blinds (even if the same are located behind the Landlord-approved window coverings for the Buildings), or other items visible from the exterior of the Premises or Buildings or Project, shall be subject to the prior approval of Landlord, in its reasonable discretion as well as subject to Applicable Laws and the terms of Section 8.6 of this Lease.

ARTICLE 24

COMPLIANCE WITH LAW

Tenant shall not do anything or suffer anything to be done in or about the Premises, Buildings or Project which will in any way conflict with any law, statute, ordinance or other governmental rule, regulation or requirement now in force or which may hereafter be enacted or promulgated (collectively, "**Applicable Laws**"). At its sole cost and expense, Tenant shall promptly comply with all such Applicable Laws which relate to (i) Tenant's use of the Premises, Buildings and Project, (ii) the Building Structure, but, as to the Building Structure, only to the extent such obligations are triggered by Tenant's Alterations, the Tenant Improvements, or Tenant's manner of use of the Premises, and (iii) any aspect or portion of the Project, Buildings, Common Areas or Premises, except to the extent the express responsibility of Landlord hereunder. Tenant's obligations hereunder to comply with Applicable Laws shall include, without limitation, compliance with Applicable Laws with respect to (a) the Tenant Improvements and any Alterations, (b) all systems and equipment servicing the Premises, Buildings and/or Project, and (c) the Common Areas (including, without limitation, the parking facilities). Tenant shall be responsible, at its sole cost and expense, to make all alterations to the Premises as are required to comply with the governmental rules, regulations, requirements or standards described in this Article 24. Landlord shall comply with all Applicable Laws relating to the (x) Building Structure, and (y) hazardous materials (as defined pursuant to Applicable Law as of the date hereof) existing at the Project as of the date of this Lease, provided in each event that compliance with such Applicable Laws is not the responsibility of Tenant under this Lease, and provided further that Landlord's failure to comply therewith would prohibit Tenant from obtaining or maintaining a certificate of occupancy for the Premises, or would unreasonably and

materially affect the safety of Tenant's employees or create a significant health hazard for Tenant's employees, or would otherwise have a material adverse effect upon Tenant or its use and occupancy of the Premises in accordance with the terms of this Lease (collectively, the "**Landlord Compliance Conditions**").

ARTICLE 25

LATE CHARGES

If any installment of Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within five (5) days after said amount is due on more than two (2) occasions in any twelve (12) month period, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of the overdue amount plus any attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due hereunder. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner. In addition to the late charge described above, any Rent or other amounts owing hereunder which are not paid within ten (10) days after the date they are due shall bear interest from the date when due until paid at the "Interest Rate." For purposes of this Lease, the "**Interest Rate**" shall be an annual rate equal to the lesser of (i) the annual "**Bank Prime Loan**" rate cited in the Federal Reserve Statistical Release Publication G.13(415), published on the first Tuesday of each calendar month (or such other comparable index as Landlord and Tenant shall reasonably agree upon if such rate ceases to be published), plus two (2) percentage points, and (ii) the highest rate permitted by applicable law.

ARTICLE 26

LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT

26.1 **Landlord's Cure.** All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of Rent, except to the extent, if any, otherwise expressly provided herein. If Tenant shall fail to perform any obligation under this Lease, and such failure shall continue in excess of the time allowed under Section 19.1.2, above, unless a specific time period is otherwise stated in this Lease, Landlord may, but shall not be obligated to, make any such payment or perform any such act on Tenant's part without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder.

26.2 **Tenant's Reimbursement.** Except as may be specifically provided to the contrary in this Lease, Tenant shall pay to Landlord, upon delivery by Landlord to Tenant of statements therefor sums equal to expenditures reasonably made and obligations incurred by Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of Section 26.1 after the expiration of any applicable notice and cure period. Tenant's obligations under this Section 26.2 shall survive the expiration or sooner termination of the Lease Term.

ARTICLE 27

ENTRY BY LANDLORD

Landlord reserves the right at any time upon not less than twenty-four (24) hours prior notice (except in the event of an emergency, in which case no notice shall be required) to enter the Project for any reasonable purpose. In addition, Landlord reserves the right, all reasonable times upon reasonable notice to Tenant (except in the case of an emergency), to enter the Premises to (i) inspect them; (ii) show the Premises to prospective purchasers, or to current or prospective mortgagees, ground or underlying lessors or insurers, or during the last twelve (12) months of the Lease Term, to prospective tenants; (iii) post notices of nonresponsibility; or (iv) alter, improve or repair the Premises, Buildings or Project as set forth in this Lease, or for structural alterations, repairs or improvements to the Buildings or Project. Notwithstanding anything to the contrary contained in this Article 27, Landlord may enter the Premises at any time to (A) take possession due to any breach of this Lease beyond any applicable notice and cure period in the manner provided herein; and (B) perform any covenants of Tenant which

Tenant fails to perform. Landlord may make any such entries without the abatement of Rent (except as otherwise expressly set forth in Section 6.7, above), and may take such reasonable steps as required to accomplish the stated purposes. For each of the above purposes, Landlord shall at all times have a key with which to unlock all the doors in the Premises, Buildings and Project, except as otherwise set forth herein. Notwithstanding anything to the contrary set forth in this Article 27, Tenant may designate certain areas of the Premises as "**Secured Areas**" should Tenant require such areas for the purpose of securing certain valuable property or confidential information. Landlord shall not have a key to enter such Secured Area and may only enter the Secured Areas (i) in an emergency, (ii) to maintain or repair such secured areas to the extent such repair or maintenance is required in order to maintain and repair the Building Structure or as required by Applicable Law, or (iii) as reasonably otherwise required by Landlord. Any entry into the Secured Areas (except in an emergency) shall occur only upon prior notice to Tenant, in accordance with a schedule reasonably designated by Tenant, and Tenant shall have the right to have a representative of Tenant present during any such entry by Landlord into a Secured Area. In an emergency, Landlord shall have the right to use any reasonable means that Landlord may deem proper to open the doors in and to the Premises, Buildings and Project. Any entry into the Premises, Buildings and Project by Landlord in the manner hereinbefore described shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an actual or constructive eviction of Tenant from any portion of the Premises. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, alterations or decorations except as otherwise expressly agreed to be performed by Landlord herein.

ARTICLE 28

TENANT PARKING

Tenant shall, commencing on the Lease Commencement Date, have the exclusive right to utilize, without additional charge, the entirety of the parking facilities servicing the Project, Tenant shall be responsible for the full amount of any taxes imposed by any governmental authority in connection with the use of the parking facility by Tenant. In addition, during the Lease Term, Tenant shall, at Tenant's sole cost and expense, repair, maintain and operate the Project parking facilities, provided that, as set forth in Section 7.1, above, Landlord shall be responsible for structural repairs to the parking facility as and to the extent set forth in Section 7.1.

ARTICLE 29

MISCELLANEOUS PROVISIONS

29.1 **Terms; Captions.** The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. The necessary grammatical changes required to make the provisions hereof apply either to corporations or partnerships or individuals, men or women, as the case may require, shall in all cases be assumed as though in each case fully expressed. The captions of Articles and Sections are for convenience only and shall not be deemed to limit, construe, affect or alter the meaning of such Articles and Sections.

29.2 **Binding Effect.** Subject to all other provisions of this Lease, each of the covenants, conditions and provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit not only of Landlord and of Tenant, but also of their respective heirs, personal representatives, successors or assigns, provided this clause shall not permit any assignment by Tenant contrary to the provisions of Article 14 of this Lease.

29.3 **No Air Rights.** No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Project, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

29.4 **Modification of Lease.** Should any current or prospective mortgagee or ground lessor for the Buildings or Project require a modification of this Lease, which modification will not cause an increased cost or expense to Tenant or in any other way materially and adversely

change the rights and obligations of Tenant hereunder, then and in such event, Tenant agrees that this Lease may be so modified and agrees to execute whatever documents are reasonably required therefor and to deliver the same to Landlord within twenty (20) days following a request therefor. At the request of Landlord or any mortgagee or ground lessor, Tenant agrees to execute a short form of Lease and deliver the same to Landlord within twenty (20) days following the request therefor. In no event shall Tenant be required to agree, and Landlord shall not have any right of termination of this Lease for Tenant's refusal to agree to any modification of the provisions of this Lease under this Section 29.4 relating to (i) the amount Rent, (ii) the size or location of the Premises, (iii) the duration of the Lease Term or the Lease Commencement Date, (iv) a reduction in the amount of the Tenant Improvement Allowance or any free rent period due to Tenant.

29.5 **Transfer of Landlord's Interest.** Tenant acknowledges that Landlord has the right to transfer all or any portion of its interest in the Project or Buildings and in this Lease, and Tenant agrees that in the event of any such transfer, Landlord shall automatically be released from all liability under this Lease and Tenant agrees to look solely to such transferee for the performance of Landlord's obligations hereunder after the date of transfer and such transferee shall be deemed to have fully assumed and be liable for all obligations of this Lease to be performed by Landlord, and Tenant shall attorn to such transferee. Tenant further acknowledges that Landlord may assign its interest in this Lease to a mortgage lender as additional security and agrees that such an assignment shall not release Landlord from its obligations hereunder and that Tenant shall continue to look to Landlord for the performance of its obligations hereunder.

29.6 **Prohibition Against Recording.** Except as provided in Section 29.4 of this Lease, neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant.

29.7 **Landlord's Title.** Landlord's title is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to do any act which can, shall or may encumber the title of Landlord.

29.8 **Relationship of Parties.** Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

29.9 **Application of Payments.** Landlord shall have the right to apply payments received from Tenant pursuant to this Lease, regardless of Tenant's designation of such payments, to satisfy any obligations of Tenant hereunder, in such order and amounts as Landlord, in its sole discretion, may elect.

29.10 **Time of Essence.** Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

29.11 **Partial Invalidity.** If any term, provision or condition contained in this Lease shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, provision or condition to persons or circumstances other than those with respect to which it is invalid or unenforceable, shall not be affected thereby, and each and every other term, provision and condition of this Lease shall be valid and enforceable to the fullest extent possible permitted by law.

29.12 **No Warranty.** In executing and delivering this Lease, Tenant has not relied on any representations, including, but not limited to, any representation as to the amount of any item comprising Additional Rent or the amount of the Additional Rent in the aggregate, or any warranty or any statement of Landlord which is not set forth herein or in one or more of the exhibits attached hereto.

29.13 **Landlord Exculpation.** The liability of Landlord or the Landlord Parties to Tenant for any default by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises shall be limited solely and exclusively to an amount which is equal to the interest of Landlord in the Buildings, provided that in no event shall such liability extend to any sales or insurance proceeds received by Landlord or the Landlord Parties in connection with the Project, Buildings or Premises. Neither Landlord, nor any of the Landlord

Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Section 29.13 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), or trustee or beneficiary (if Landlord or any partner of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring.

29.14 **Entire Agreement.** It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease constitutes the parties' entire agreement with respect to the leasing of the Premises and supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. None of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto.

29.15 **Force Majeure.** Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease and except as to Tenant's obligations under Articles 5 and 24 of this Lease (collectively, a "**Force Majeure**"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

29.16 **Waiver of Redemption by Tenant.** Tenant hereby waives, for Tenant and for all those claiming under Tenant, any and all rights now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

29.17 **Notices**. All notices, demands, statements, designations, approvals or other communications (collectively, "**Notices**") given or required to be given by either party to the other hereunder or by law shall be in writing, shall be (A) sent by United States certified or registered mail, postage prepaid, return receipt requested ("**Mail**"), (B) transmitted by telecopy, if such telecopy is promptly followed by a Notice sent by Mail, (C) delivered by a nationally recognized overnight courier, or (D) delivered personally. Any Notice shall be sent, transmitted, or delivered, as the case may be, to Tenant at the appropriate address set forth in Section 10 of the Summary, or to such other place as Tenant may from time to time designate in a Notice to Landlord, or to Landlord at the addresses set forth below, or to such other places as Landlord may from time to time designate in a Notice to Tenant. Any Notice will be deemed given (i) three (3) days after the date it is posted if sent by Mail, (ii) the date the telecopy is transmitted, (iii) the date the overnight courier delivery is made, or (iv) the date personal delivery is made or attempted to be made. If Tenant is notified of the identity and address of Landlord's mortgagee or ground or underlying lessor, Tenant shall give to such mortgagee or ground or underlying lessor written notice of any default by Landlord under the terms of this Lease by registered or certified mail, and such mortgagee or ground or underlying lessor shall be given a reasonable opportunity to cure such default prior to Tenant's exercising any remedy available to Tenant. As of the date of this Lease, any Notices to Landlord must be sent, transmitted, or delivered, as the case may be, to the following addresses:

c/o Lexington Commercial
9350 Wilshire Boulevard
Suite 400
Beverly Hills, California 90212

Attn: Ms. Alisa Freundlich

and

Allen Matkins Leck Gamble & Mallory LLP
1901 Avenue of the Stars, Suite 1800
Los Angeles, California 90067
Attention: Anton N. Natsis, Esq.

29.18 **Joint and Several.** If there is more than one Tenant, the obligations imposed upon Tenant under this Lease shall be joint and several.

29.19 **Authority.** If Tenant is a corporation, trust or partnership, each individual executing this Lease on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Lease and that each person signing on behalf of Tenant is authorized to do so. Landlord has the right and lawful authority to enter into this Lease and perform Landlord's obligations hereunder, including, but not limited to, the right and lawful authority to terminate, if required, any right of any present or prior tenant of the Premises and to deliver possession thereof to Tenant.

29.20 **Attorneys' Fees**. In the event that either Landlord or Tenant should bring suit for the possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provision of this Lease or for any other relief against the other, then all costs and expenses, including reasonable attorneys' fees, incurred by the prevailing party therein shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment.

29.21 **Governing Law; WAIVER OF TRIAL BY JURY.** This Lease shall be construed and enforced in accordance with the laws of the State of California. IN ANY ACTION OR PROCEEDING ARISING HEREFROM, LANDLORD AND TENANT HEREBY CONSENT TO (I) THE JURISDICTION OF ANY COMPETENT COURT WITHIN THE STATE OF CALIFORNIA, (II) SERVICE OF PROCESS BY ANY MEANS AUTHORIZED BY CALIFORNIA LAW, AND (III) IN THE INTEREST OF SAVING TIME AND EXPENSE, TRIAL WITHOUT A JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER OR THEIR SUCCESSORS IN RESPECT OF ANY MATTER ARISING OUT OF OR IN CONNECTION WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE, OR ANY EMERGENCY OR STATUTORY REMEDY. IN THE EVENT LANDLORD COMMENCES ANY SUMMARY PROCEEDINGS OR ACTION FOR NONPAYMENT OF BASE RENT OR ADDITIONAL RENT, TENANT SHALL NOT INTERPOSE ANY COUNTERCLAIM OF ANY NATURE OR DESCRIPTION (UNLESS SUCH COUNTERCLAIM SHALL BE MANDATORY) IN ANY SUCH PROCEEDING OR ACTION, BUT SHALL BE RELEGATED TO AN INDEPENDENT ACTION AT LAW.

29.22 **Submission of Lease.** Submission of this instrument for examination or signature by Tenant does not constitute a reservation of, option for or option to lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

29.23 **Brokers.** Landlord and Tenant hereby warrant to each other that they have had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, excepting only the real estate brokers or agents specified in Section 12 of the Summary (the "**Brokers**"), and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent, other than the Brokers, occurring by, through, or under the indemnifying party.

29.24 **Independent Covenants.** This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and, except as otherwise expressly set forth in this Lease to the contrary, Tenant hereby expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of the Rent or other amounts owing hereunder against Landlord.

29.25 **Counterparts.** This Lease may be executed in counterparts with the same effect as if both parties hereto had executed the same document. Both counterparts shall be construed together and shall constitute a single lease.

29.26 **Intentionally Deleted.**

29.27 **Transportation Management.** Tenant shall fully comply with all present or future programs intended to manage parking, transportation or traffic in and around the Buildings, and in connection therewith, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities.

29.28 **No Violation.** Tenant hereby warrants and represents that neither its execution of nor performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound, and Tenant shall protect, defend, indemnify and hold Landlord harmless against any claims, demands, losses, damages, liabilities, costs and expenses, including, without limitation, reasonable attorneys' fees and costs, arising from Tenant's breach of this warranty and representation.

29.29 **Communications and Computer Lines.** Tenant may install, maintain, replace, remove or use any communications or computer wires and cables (collectively, the "**Lines**") at the Project in or serving the Premises, provided that (i) Tenant shall obtain Landlord's prior written consent, use an experienced and qualified contractor, and comply with all of the other provisions of Articles 7 and 8 of this Lease, (ii) the Lines therefor (including riser cables) shall be (x) appropriately insulated to prevent excessive electromagnetic fields or radiation, (y) surrounded by a commercially reasonable protective conduit, and (z) identified in accordance with the "Identification Requirements," as that term is set forth hereinbelow, (iii) any new or existing Lines servicing the Premises shall comply with all applicable governmental laws and regulations, (iv) as a condition to permitting the installation of new Lines, Tenant shall remove existing Lines located in or serving the Premises and repair any damage in connection with such removal, and (v) Tenant shall pay all costs in connection therewith. All Lines shall be clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, telephone number and the name of the person to contact in the case of an emergency (A) every four feet (4') outside the Premises (specifically including, but not limited to, the electrical room risers and other Common Areas), and (B) at the Lines' termination point(s) (collectively, the "**Identification Requirements**"). Landlord reserves the right to require that Tenant remove any Lines located in or serving the Premises which are installed in violation of these provisions, or which are at any time (1) are in violation of any Applicable Laws, (2) are inconsistent with then-existing industry standards (such as the standards promulgated by the National Fire Protection Association (e.g., such organization's "2002 National Electrical Code")), or (3) otherwise represent a dangerous or potentially dangerous condition.

29.30 **Intentionally Deleted.**

29.31 **Guaranty.** This Lease is subject to and conditioned upon Tenant delivering to Landlord, concurrently with Tenant's execution and delivery of this Lease, a guaranty (a "**Guaranty**") in the form attached hereto as **Exhibit E**, which guaranty shall be fully executed by and binding upon The Children's Place Retail Stores, Inc., a Delaware corporation (the "**Guarantor**").

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

"LANDLORD":

443 SOUTH RAYMOND OWNER, LLC,
a California limited liability company
SEE ATTACHED SIGNATURE PAGE INSERT

"TENANT":

THE CHILDREN'S PLACE SERVICES
COMPANY, LLC,
a Delaware limited liability company,

By: /s/ Neal Goldberg

Its: NEAL GOLDBERG – PRESIDENT

By: /s/ Seth Udasin

Its: SETH UDASIN, VP.

Signature Page Insert for Office Lease, dated January 21, 2005, between 443 South Raymond Owner, LLC, a California limited liability company, as Landlord, and The Children's Place Services Company, LLC, a Delaware limited liability company, as Tenant, with respect to certain space at the project located at 443 South Raymond Avenue, Pasadena California

"LANDLORD":

443 SOUTH RAYMOND OWNER, LLC
a California limited liability company

By: Royal Laundry, LLC
a Delaware limited liability company

By: Lexington Commercial Holdings, Inc.
a California corporation, its Manager

By: /s/ Alisa Freundlich
Alisa Freundlich
Chief Operating Officer

EXHIBIT A

443 SOUTH RAYMOND AVENUE

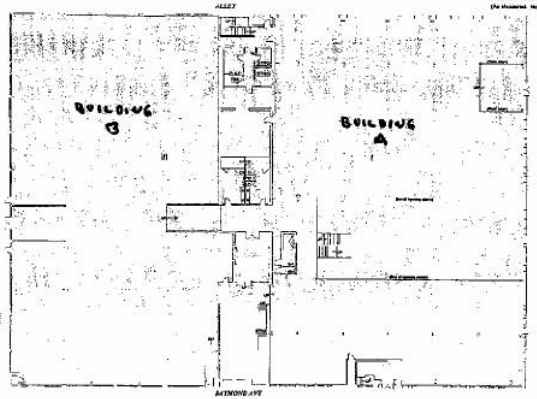
OUTLINE OF PREMISES

PREPARED FOR:
Royal Laundry LLC
9330 Wilshire Blvd.
Beverly Hills, CA 90212
Tel (310) 278-1990

LEASE PLAN

ROYAL LAUNDRY
433 SOUTH RAYMOND
PASEDENA, CA

FIRST FLOOR



AREAS COMPUTED IN ACCORDANCE WITH BOMA/1996 STANDARD

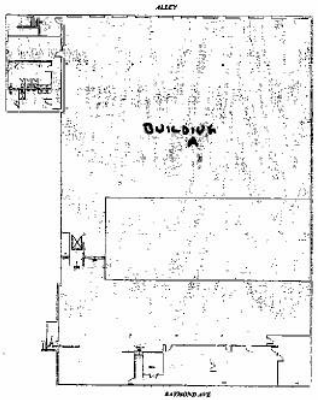
Survey Accuracy: +/- 0.1%

PREPARED FOR:
Royal Laundry LLC
9330 Wilshire Blvd.
Beverly Hills, CA 90212
Tel (310) 278-1990

LEASE PLAN

ROYAL LAUNDRY
433 SOUTH RAYMOND
PASEDENA, CA

SECOND FLOOR



AREAS COMPUTED IN ACCORDANCE WITH BOMA/1996 STANDARD

Survey Accuracy: +/- 0.03%

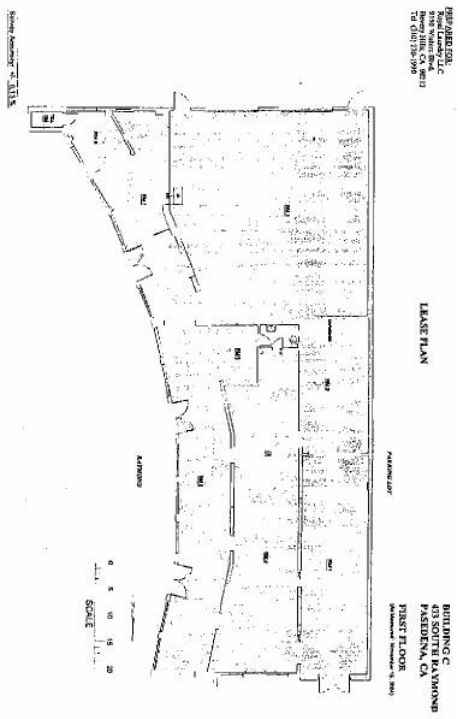


EXHIBIT A-1

443 SOUTH RAYMOND AVENUE

SITE PLAN

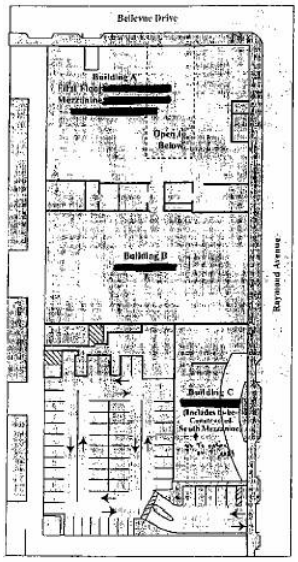


EXHIBIT B

443 SOUTH RAYMOND AVENUE

TENANT WORK LETTER

This Tenant Work Letter shall set forth the terms and conditions relating to the construction of the Premises. This Tenant Work Letter is essentially organized chronologically and addresses the issues of the construction of the Premises, in sequence, as such issues will arise during the actual construction of the Premises. All references in this Tenant Work Letter to Articles or Sections of "this Lease" shall mean the relevant portions of Articles 1 through 29 of the Office Lease to which this Tenant Work Letter is attached as Exhibit B, and all references in this Tenant Work Letter to Sections of "this Tenant Work Letter" shall mean the relevant portions of Sections 1 through 5 of this Tenant Work Letter.

SECTION 1

DELIVERY OF THE PREMISES AND BASE BUILDING; ROOF WORK

1.1 In General. Following the full execution and unconditional delivery of this Lease, Landlord shall deliver the Premises, Buildings and Project to Tenant, and Tenant shall accept the Premises, Buildings and Project from Landlord in their presently existing, "as-is" condition, subject to Landlord's obligations under the Lease and provided that, prior to or concurrently with the construction of the initial Tenant Improvements, Landlord shall, at Landlord's sole cost and expense, make necessary repairs to the "alley" side of Building B in order that, as of the Lease Commencement Date, water from such alley shall not penetrate the interior of the Premises.

1.2 Roof Work. Landlord and Tenant hereby acknowledge and agree that (i) certain repairs are presently required to the roof of the Buildings and that Landlord shall, following the date. hereof, make such repairs as required in accordance with the terms of this Lease (at Landlord's sole cost and expense), (ii) Tenant shall perform certain work (including, without limitation, certain HVAC and insulation work) as part of the Tenant Improvements which will or may require modification, alteration or improvement of the roof (which work and corresponding modifications, alterations or improvements shall be at Tenant's sole cost and expense, subject to Tenant's right to utilize the Tenant Improvement Allowance in accordance with the terms of this Tenant Work Letter), and (iii) Landlord and Tenant shall cooperate with each other on a commercially reasonable basis in order that each party shall be permitted to perform and complete their respective work in a commercially reasonable manner. At Landlord's option, Tenant shall be required to utilize Landlord's roof contractor with respect to work relating to or affecting the roof (provided such contractor is reasonably competitively priced).

SECTION 2

TENANT IMPROVEMENTS

2.1 Tenant Improvement Allowance. Tenant shall be entitled to a one-time tenant improvement allowance (the "Tenant Improvement Allowance") in the amount of $5,000,000.00 for the costs relating to the initial design and construction of Tenant's improvements, which are permanently affixed to the Premises (the "Tenant Improvements"). Tenant hereby acknowledges and agrees that the Tenant Improvements shall include the installation of base building systems and equipment (including, without limitation, electrical, hvac, sprinkler, life-safety, plumbing and similar systems) necessary to cause the Buildings and Premises to function as first class office buildings to be occupied by a first class office tenant. In no event shall Landlord be obligated to make disbursements pursuant to this Tenant Work Letter in a total amount which exceeds the Tenant Improvement Allowance.

2.2 Disbursement of Tenant Improvement Allowance by Landlord.

2.2.1 Tenant Improvement Allowance Items. Except as otherwise set forth in this Tenant Work Letter, Tenant Improvement Allowance shall be disbursed by Landlord only for the following items and costs (collectively the "Tenant Improvement Allowance Items"):

2.2.1.1 Payment of the fees of the "Architect" and the "Engineers," as those terms are defined in Section 3.1 of this Tenant Work Letter, which fees shall, notwithstanding anything to the contrary contained in this Tenant Work Letter, and payment of the fees incurred by, and the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the preparation and review of the "Construction Drawings," as that term is defined in Section 3.1 of this Tenant Work Letter;

2.2.1.2 The payment of plan check, permit and license fees relating to construction of the Tenant Improvements;

2.2.1.3 The cost of construction of the Tenant Improvements, including, without limitation, purchase of materials and HVAC equipment, testing and inspection costs, freight elevator usage, hoisting and trash removal costs, and contractors' fees and general conditions;

2.2.1 4 The cost of any changes in the Building Structure when such changes are required by the Construction Drawings (including if such changes are due to the fact that such work is prepared on an unoccupied basis), such cost to include all direct architectural and/or engineering fees and expenses incurred in connection therewith;

2.2.1.5 The cost of any changes to the Construction Drawings or Tenant Improvements required by all applicable building codes (the "Code");

2.2.1.6 The cost of the "Coordination Fee," as that term is defined in Section 4.2.2 of this Tenant Work Letter;

2.2.1.7 Sales and use taxes; and

2.2.1.8 The cost of movable furniture and fixtures and telecommunications equipment to be used in the Premises ("Personal Property"), provided that in no event shall in excess of $1,500,000.00 of Tenant Improvement Allowance be utilized by Tenant for Personal Property.

2.2.2. Disbursement of Tenant Improvement Allowance. During the construction of the Tenant Improvements, Landlord shall make monthly disbursements of the Tenant Improvement Allowance for Tenant Improvement Allowance Items for the benefit of Tenant and shall authorize the release of monies for the benefit of Tenant as follows.

2.2.2.1 Monthly Disbursements. On or before the first day of each calendar month during the construction of the Tenant Improvements, Tenant shall deliver to Landlord: (i) a request for payment of the "Contractor," as that term is defined in Section 4.1 of this Tenant Work Letter, approved by Tenant, in a form to be provided by Landlord, showing the schedule, by trade, of percentage of completion of the Tenant Improvements in the Premises, detailing the portion of the work completed and the portion not completed; (ii) invoices from "Tenant's Agents," as that term is defined in Section 4.1.2 of this Tenant Work Letter, for labor rendered and materials delivered to the Premises; (iii) executed mechanic's lien releases from "Contractor," as that term is defined in Section 4.1, below, which shall comply with the appropriate provisions, as reasonably determined by Landlord, of California Civil Code Section 3262(d); and (iv) all other information reasonably requested by Landlord (the "Allowance Documentation"). Tenant's request for payment shall be deemed Tenant's acceptance and approval of the work furnished and/or the materials supplied as set forth in Tenant's payment request vis-a-vis Landlord. Within fifteen (15) business days following Landlord's receipt of the Allowance Documentation, Landlord shall deliver a check to Tenant made payable to Tenant in payment of the lesser of: (A) the amounts so requested by Tenant, as set forth in this Section 2.2.2.1, above, less a ten percent (10%) retention (the aggregate amount of such retentions to be known as the "Final Retention"), and (B) the balance of any remaining available portion of the Tenant Improvement Allowance (not including the Final Retention), provided that no such retention shall be duplicative of the retention Tenant would otherwise hold (but will not withhold) pursuant to Tenant's agreement with Contractor, and provided further that Landlord's disbursement obligation shall only be applicable to the extent that Landlord does not dispute any request for payment based on non-compliance of any work with the "Approved Working Drawings," as that term is defined in Section 3.4 below. Landlord's payment of such amounts

shall not be deemed Landlord's approval or acceptance of the work furnished or materials supplied as set forth in Tenant's payment request.

2.2.2.2 Final Retention. Subject to the provisions of this Tenant Work Letter, a check for the Final Retention payable jointly to Tenant and Contractor shall be delivered by Landlord to Tenant following the completion of construction of the Premises, provided that (i) Tenant delivers to Landlord properly executed mechanics lien releases in compliance with both California Civil Code Section 3262(d)(2) and either Section 3262(d)(3) or Section 3262(d)(4), and (ii) Architect delivers to Landlord a certificate, in a form reasonably acceptable to Landlord, certifying that the construction of the Tenant Improvements in the Premises has been substantially completed in accordance with the "Approved Working Drawings," as that term is defined in Section 2.4, below.

2.2.2.3 Other Terms. Landlord shall only be obligated to make disbursements from Tenant Improvement Allowance to the extent costs are incurred by Tenant for Tenant Improvement Allowance Items. All Tenant Improvement Allowance Items for which the Tenant Improvement Allowance has been made available shall be deemed Landlord's property under the terms of this Lease; provided that any Personal Property shall only be and become the property of Landlord to the extent that Tenant shall default under this Lease after the expiration of any applicable notice and cure period.

2.3 Failure to Disburse Tenant Improvement Allowance. If Landlord fails to timely fulfill its obligation to fund any portion of the Tenant Improvement Allowance, Tenant shall be entitled to deliver notice ("Payment Notice") thereof to Landlord and to any mortgage or trust deed holder of the Buildings whose identity and address have been previously provided to Tenant. If Landlord still fails to fulfill any such obligation within ten (10) business days after Landlord's receipt of the Payment Notice from Tenant and if Landlord fails to deliver notice to Tenant within such ten (10) business day period explaining Landlord's reasons that Landlord believes that the amounts described in Tenant's Payment Notice are not due and payable by Landlord ("Refusal Notice"), Tenant shall be entitled to offset the amount so funded, together with interest at the Interest Rate from the last day of such 10-business day period until the date of offset, against Tenant's next obligations to pay Rent. However, if Tenant is in default under Section 19.1.1 of this Lease after the expiration of any applicable notice and cure period at the time that such offset would otherwise be applicable, Tenant shall not be entitled to such offset until such default is cured. If Landlord delivers a Refusal Notice, and if Landlord and Tenant are not able to agree on the amounts to be so paid by Landlord, if any, within ten (10) days after Tenant's receipt of a Refusal Notice, Tenant may, at Tenant's option, proceed to claim a default by Landlord. If Tenant prevails in any such action, the award shall include interest at the Interest Rate calculated from the last day of the 10-business day period until the date of Landlord's payment of such award. Similarly, if Tenant prevails in any such action, Tenant shall be entitled to apply such award as a credit against Tenant's obligations to pay Rent.

SECTION 3

CONSTRUCTION DRAWINGS

3.1 Selection of Architect/Construction Drawings. Tenant shall retain a licensed (the "Architect") to prepare the "Construction Drawings," as that term is defined in this Section 3.1. Tenant shall retain licensed and qualified engineering consultants (the "Engineers") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, lifesafety, and sprinkler work in the Premises. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the "Construction Drawings." All Construction Drawings shall be subject to Landlord's approval, which shall not be unreasonably withheld, conditioned, or delayed. In addition, Tenant shall comply with the terms of Section 8.6 of the Lease with respect to all Tenant Improvements (and all Construction Drawings). Tenant and Architect shall verify, in the field, the dimensions and conditions as shown on the relevant portions of the base building plans, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Landlord's review of the Construction Drawings as set forth in this Section 3, shall be for its sole purpose and shall not imply Landlord's review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be

rendered to Tenant by Landlord or Landlord's space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors contained in the Construction Drawings, and Tenant's waiver and indemnity set forth in this Lease shall specifically apply to the Construction Drawings.

3.2 Final Space Plan. Tenant shall supply Landlord with four (4) copies signed by Tenant of its final space plan for the Premises before any architectural working drawings or engineering drawings have been commenced. The final space plan (the "Final Space Plan") shall include a layout and designation of all offices, rooms and other partitioning, their intended use, and equipment to be contained therein and shall be subject to the approval of Landlord (which shall not be unreasonably withheld or delayed). Landlord may, to the extent reasonably required, request clarification or more specific drawings for special use items not included in the Final Space Plan.

3.3 Final Working Drawings. After the Final Space Plan has been approved by Landlord, Tenant shall supply the Engineers with a complete listing of standard and non-standard equipment and specifications, including, without limitation, B.T.U. calculations, electrical requirements and special electrical receptacle requirements for the Premises, to enable the Engineers and the Architect to complete the "Final Working Drawings" (as that term is defined below) in the manner as set forth below. Upon the approval of the Final Space Plan by Landlord and Tenant, Tenant shall promptly cause the Architect and the Engineers to complete the architectural and engineering drawings for the Premises, and Architect shall compile a fully coordinated set of architectural, structural, mechanical, electrical and plumbing working drawings in a form which is complete to allow subcontractors to bid on the work and to obtain all applicable permits (collectively, the "Final Working Drawings") and shall submit the same to Landlord for Landlord's approval, which shall not be unreasonably withheld or delayed. Tenant shall supply Landlord with four (4) copies signed by Tenant of such Final Working Drawings. Landlord shall advise Tenant within ten (10) business days after Landlord's receipt of the Final Working Drawings for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall within ten (10) business days, revise the Final Working Drawings in accordance with such review and any disapproval of Landlord in connection therewith.

3.4 Approved Working Drawings. The Final Working Drawings shall be approved by Landlord (the "Approved Working Drawings") prior to the commencement of construction of the Premises by Tenant. After approval by Landlord of the Final Working Drawings, Tenant may submit the same to the appropriate municipal authorities for all applicable building permits. Tenant hereby agrees that neither Landlord nor Landlord's consultants shall be responsible for obtaining any building permit or certificate of occupancy for the Premises and that obtaining the same shall be Tenant's responsibility; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any such permit or certificate of occupancy. No changes, modifications or alterations in the Approved Working Drawings may be made without the prior written consent of Landlord, which consent may not be unreasonably withheld or delayed.

SECTION 4

CONSTRUCTION OF THE TENANT IMPROVEMENTS

4.1 Tenant's Selection of Contractors.

4.1.1 The Contractor. A general contractor shall be retained by Tenant to construct the Tenant Improvements. Such general contractor ("Contractor") shall be selected by Tenant and approved by Landlord, which shall not be unreasonably withheld or delayed, and Tenant shall deliver to Landlord notice of its selection of the Contractor upon such selection.

4.1.2 Tenant's Agents. All subcontractors, laborers, materialmen, and suppliers used by Tenant (such subcontractors, laborers, materialmen, and suppliers, and the Contractor to be known collectively as "Tenant's Agents") shall be qualified and licensed to do business in California.

4.2 Construction of Tenant Improvements by Tenant's Agents.

4.2.1 Construction Contract; Cost Budget. Prior to Tenant's execution of the construction contract and general conditions with Contractor (the "Contract"), Tenant shall submit the Contract to Landlord for its records. Prior to the commencement of the construction of the Tenant Improvements, and after Tenant has accepted all bids for the Tenant Improvements, Tenant shall provide Landlord with a detailed breakdown, by trade, of the final costs to be incurred or which have been incurred, as set forth more particularly in Sections 2.2.1.1 through 2.2.1.8, above, in connection with the design and construction of the Tenant Improvements to be performed by or at the direction of Tenant or the Contractor, which costs form a basis for the amount of the Contract. Tenant shall be solely responsible for, and shall make payments for, any and all costs of the Tenant Improvements or costs otherwise incurred under this Tenant Work Letter, to the extent the aggregate of such costs are in excess of the Tenant Improvement Allowance, out of Tenant's own funds, but Tenant shall continue to provide Landlord with Allowance Documentation, for Landlord's approval, prior to Tenant paying such costs. In no event shall Landlord be obligated to disburse an amount in excess of Tenant Improvement Allowance pursuant to the terms of the Tenant Work Letter.

4.2.2 Tenant's Agents.

4.2.2.1 Landlord's General Conditions for Tenant's Agents and Tenant Improvement Work. Tenant's and Tenant's Agent's construction of the Tenant Improvements shall comply with the following: (i) the Tenant Improvements shall be constructed in strict accordance with the Approved Working Drawings; (ii) Tenant's Agents shall submit schedules of all work relating to the Tenant's Improvements to Landlord; and (iii) Tenant shall abide by all reasonable construction rules made by Landlord. Tenant shall pay a logistical coordination fee (the "Coordination Fee") to Landlord in an amount equal $25,000.00, which Coordination Fee shall be for services relating to the coordination of the construction of the Tenant Improvements.

4.2.2.2 Indemnity. Tenant's indemnity of Landlord as set forth in this Lease shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to any act or omission of Tenant or Tenant's Agents, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non-payment of any amount arising out of the Tenant Improvements and/or Tenant's disapproval of all or any portion of any request for payment. Except to the extent resulting from the negligence or willful misconduct of Landlord or the Landlord Parties, such indemnity by Tenant, as set forth in this Lease, shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to Landlord's performance of any ministerial acts reasonably necessary (i) to permit Tenant to complete the Tenant Improvements, and (ii) to enable Tenant to obtain any building permit or certificate of occupancy for the Premises.

4.2.2.3 Requirements of Tenant's Agents. Each of Tenant's Agents shall guarantee to Tenant and for the benefit of Landlord that the portion of the Tenant Improvements for which it is responsible shall be free from any defects in workmanship and materials for a period of not less than one (1) year from the date of completion thereof. Each of Tenant's Agents shall be responsible for the replacement or repair, without additional charge, of all work done or furnished in accordance with its contract that shall become defective within one (1) year after the later to occur of (i) completion of the work performed by such contractor or subcontractors and (ii) the Lease Commencement Date. The correction of such work shall include, without additional charge, all additional expenses and damages incurred in connection with such removal or replacement of all or any part of the Tenant Improvements, and/or the Building and/or common areas that may be damaged or disturbed thereby. All such warranties or guarantees as to materials or workmanship of or with respect to the Tenant Improvements shall be contained in the Contract or subcontract. Notwithstanding anything contained in this Section 4.2.2.3 to the contrary, Tenant shall only be required to obtain warranties and guarantees as set forth herein to the extent available on a commercially reasonably basis. Upon a default by Tenant after the expiration of any applicable cure period, Tenant covenants to give to Landlord any assignment or other assurances which may be necessary to effect direct enforcement of the guarantees and warranties by Landlord.

4.2.2.4 Insurance Requirements.

4.2.2.4.1 General Coverages. All of Tenant's Agents shall carry worker's compensation insurance covering all of their respective employees, and shall also carry public liability insurance, including property damage, all with limits, in form and with companies as are required to be carried by Tenant as set forth in this Lease.

4.2.2.4.2 Special Coverages. Tenant shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of the Tenant Improvements, and such other insurance as Landlord may require, it being understood and agreed that the Tenant Improvements shall be insured by Tenant pursuant to this Lease immediately upon completion thereof. Such insurance shall be in amounts and shall include such extended coverage endorsements as may be reasonably required by Landlord including, but not limited to, the requirement that all of Tenant's Agents shall carry excess liability and Products and Completed Operation Coverage insurance, each in amounts not less than $500,000 per incident, $2,000,000 in aggregate, and in form and with companies as are required to be carried by Tenant as set forth in this Lease.

4.2.2.4.3 General Terms. Certificates for all insurance carried pursuant to this Section 4.2.2.4 shall be delivered to Landlord before the commencement of construction of the Tenant Improvements and before the Contractor's equipment is moved onto the site. All such policies of insurance must contain a provision that the company writing said policy will give Landlord thirty (30) days prior written notice of any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. In the event that the Tenant Improvements are damaged by any cause during the course of the construction thereof, Tenant shall immediately repair the same at Tenant's sole cost and expense. Tenant's Agents shall maintain all of the foregoing insurance coverage in force until the Tenant Improvements are fully completed and accepted by Landlord, except for any Products and Completed Operation Coverage insurance required by Landlord, which is to be maintained for ten (10) years following completion of the work and acceptance by Landlord and Tenant. All policies carried under this Section 4.2.2.4 shall insure Landlord and Tenant, as their interests may appear, as well as Contractor and Tenant's Agents. All insurance, except Workers' Compensation, maintained by Tenant's Agents shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the owner and that any other insurance maintained by owner is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 4.2.2.2 of this Tenant Work Letter.

4.2.3 Governmental Compliance. The Tenant Improvements shall comply in all respects with the following: (i) the Code and other state, federal, city or quasi-governmental laws, codes, ordinances and regulations, as each may apply according to the rulings of the controlling public official, agent or other person; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; and (iii) building material manufacturer's specifications.

4.2.4 Inspection by Landlord. Landlord shall have the right to inspect the Tenant Improvements at all reasonable times, provided however, that Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's inspection of the Tenant Improvements constitute Landlord's approval of the same. Should Landlord disapprove any portion of the Tenant Improvements because the same do not comply with the Approved Working Drawings or due to materially substandard work, Landlord shall notify Tenant in writing of such disapproval and shall specify the items disapproved. Any disapproval by Landlord of the Tenant Improvements in accordance with the terms hereof shall be rectified by Tenant at no expense to Landlord (provided that the foregoing shall not alter Tenant's right to any remaining portion of the Tenant Improvement Allowance), provided however, that in the event Landlord determines that a defect or deviation exists or disapproves of any matter in connection with any portion of the Tenant Improvements and such defect, deviation or matter might adversely affect the Building Structure or exterior appearance of the Building or the Project's Historical Designation, Landlord may following 10 business days notice to Tenant (except in the case of an emergency, in which case no notice shall be required), take such action as Landlord deems necessary, at Tenant's expense and without incurring any liability on Landlord's part, to correct any such defect, deviation and/or matter,

including, without limitation, causing the cessation of performance of the construction of the Tenant Improvements until such time as the defect, deviation and/or matter is corrected to Landlord's reasonable satisfaction. Tenant hereby acknowledges and agrees that, for purposes of this Section 4.2.4, an emergency shall be deemed to include any matter which might adversely affect the Historical Designation of the Project, or any portion thereof.

4.2.5 Meetings. Commencing upon the execution of this Lease, Tenant shall hold periodic meetings with the Architect and the Contractor regarding the progress of the preparation of Construction Drawings and the construction of the Tenant Improvements, which meetings shall be held at a location designated by Tenant, in Tenant's reasonable discretion, and Landlord and/or its agents shall receive prior notice of, and shall have the right to attend, all such meetings.

4.3 Notice of Completion; Copy of Record Set of Plans. Within ten (10) days after completion of construction of the Tenant Improvements, Tenant shall cause a Notice of Completion to be recorded in the office of the Recorder of the county in which the Building is located in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of construction, (i) Tenant shall cause the Architect and Contractor (A) to update the Approved Working Drawings as necessary to reflect all changes made to the Approved Working Drawings during the course of construction, (B) to certify to the best of their knowledge that the "record-set" of as-built drawings are true and correct, which certification shall survive the expiration or termination of this Lease, and (C) to deliver to Landlord two (2) sets of copies of such record set of drawings within ninety (90) days following issuance of a certificate of occupancy for the Premises, and (ii) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals and information relating to the improvements, equipment, and systems in the Premises.

SECTION 5

DELAY OF LEASE COMMENCEMENT DATE

5.1 Lease Commencement Date Delays. The Lease Commencement Date shall occur as provided in Article 2 of this Lease, provided that the Lease Commencement Date shall be delayed by the number of days of delay of the "substantial completion of the Tenant Improvements," as that term is defined below in this Section 5, in the Premises which is caused solely by a "Lease Commencement Date Delay", provided further that, notwithstanding anything in this Section 5 to the contrary, in no event shall the Lease Commencement Date be extended pursuant to the terms of this Section 5 beyond December 31, 2005. As used herein, the term "Lease Commencement Date Delay" shall mean only a "Force Majeure Delay" or a "Delivery Delay," as those terms are defined below in this Section 5.1. As used herein, the term "Force Majeure Delay" shall mean only an actual delay resulting from fire, earthquake, explosion, flood, hurricane, the elements, acts of God or the public enemy, war, invasion, insurrection, rebellion, riots, industry-wide labor strikes or lockouts (which objectively preclude Tenant from obtaining from any reasonable source of union labor or substitute materials at a reasonable cost necessary for completing the Tenant Improvements), and delays (beyond eight (8) weeks following the date of Tenant's submission of Landlord approved plans) for Tenant to obtain permits for the Tenant Improvements (except to the extent any such delay results from or is related to (i) the Tenant Improvements including improvements which are not typical and customary general office tenant improvements, (ii) Tenant's failure to

respond to governmental requests and/or requirements on a commercially reasonable basis (including, without limitation, with respect to timing of resubmissions), and (iii) Tenant's failure to cause Tenant's plans or the improvements contained therein to comply with Applicable Laws). Notwithstanding anything to the contrary contained herein, a Force Majeure Delay shall not include any of the foregoing delays to the extent caused by the negligence or wilful misconduct of Tenant, its contractors or agents. As used in this Tenant Work Letter, "Delivery Delay" shall mean only an actual delay resulting from Landlord's failure to promptly deliver the Premises to Tenant following Tenant's request following the full execution and unconditional delivery of this Lease.

5.2 Determination of Lease Commencement Date Delay. If Tenant contends that a Lease Commencement Date Delay has occurred, Tenant shall notify Landlord in writing within five (5) business days of each of (i) the date upon which such Lease Commencement Date Delay

becomes known to Tenant, Architect, or Contractor and (ii) the date upon which such Lease Commencement Date Delay ends (the "Termination Date"). If such actions, inaction or circumstances described in the notice set forth in clause (i), above (the "Delay Notice") are not cured by Landlord within one (1) business day of receipt of the Delay Notice and if such actions, inaction or circumstances otherwise qualify as a Lease Commencement Date Delay, then a Lease Commencement Date Delay shall be deemed to have occurred commencing as of the date of Landlord's receipt of the Delay Notice and ending as of the Termination Date.

5.3 Definition of Substantial Completion of the Tenant Improvements. For purposes of this Section 5, "substantial completion of the Tenant Improvements" shall mean completion of construction of the Tenant Improvements in the Premises pursuant to the "Approved Working Drawings," with the exception of any punch list items, any furniture, fixtures, work-stations, built-in furniture or equipment (even if the same requires installation or electrification by Tenant's Agents), and any tenant improvement finish items and materials which are selected by Tenant but which are not available within a reasonable time (given the date of the Lease Commencement Date).

SECTION 6

MISCELLANEOUS

6.1 Tenant's Representative. Tenant has designated Mr. Michael Dubiel as its sole representative with respect to the matters set forth in this Tenant Work Letter, who, until further notice to Landlord, shall have full authority and responsibility to act on behalf of the Tenant as required in this Tenant Work Letter.

6.2 Landlord's Representative. Landlord has designated Mr. Jonathan Lonner as its sole representative with respect to the matters set forth in this Tenant Work Letter, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Tenant Work Letter.

6.3 Time of the Essence in This Tenant Work Letter. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

6.4 Tenant's Lease Default. Notwithstanding any provision to the contrary contained in this Lease, if an event of default beyond any applicable notice and cure period as described in the Lease or this Tenant Work Letter has occurred at any time on or before the Substantial Completion of the Premises, then (i) in addition to all other rights and remedies granted to Landlord pursuant to this Lease, Landlord shall have the right to withhold payment of all or any portion of the Tenant Improvement Allowance and/or Landlord may cause Contractor to cease the construction of the Premises (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such work stoppage), and (ii) all other obligations of Landlord under the terms of this Tenant Work Letter shall be forgiven until such time as such default is cured pursuant to the terms of this Lease (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such inaction by Landlord).

6.5 Bonding. Notwithstanding anything to the contrary set forth in this Tenant Work Letter, neither Tenant nor Contractor nor Tenant's Agents shall be required to obtain or provide any completion or performance bond in connection with any Tenant Improvement work performed by or on behalf of Tenant.

EXHIBIT C

443 SOUTH RAYMOND AVENUE

NOTICE OF LEASE TERM DATES

To:

Re: Office Lease dated , 200 between , a ("Landlord"), and , a ("Tenant") concerning premises located at , , California.

Gentlemen:

In accordance with the Office Lease (the "Lease"), we wish to advise you and/or confirm as follows:

1. The Lease Term shall commence on or has commenced on for a term of ending on .
2. Rent commenced to accrue on , in the amount of .
3. If the Lease Commencement Date is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter, with the exception of the final billing, shall be for the full amount of the monthly installment as provided for in the Lease.
4. Your rent checks should be made payable to at .
5. The exact number of rentable/usable square feet within the Premises is square feet.

"Landlord":

a

By:
Its:

Agreed to and Accepted
as of , 200 .
"Tenant":

a
By:
Its:

EXHIBIT D

443 SOUTH RAYMOND AVENUE

FORM OF TENANT'S ESTOPPEL CERTIFICATE

The undersigned as Tenant under that certain Office Lease (the "Lease") made and entered into as of , 200 by and between as Landlord, and the undersigned as Tenant, for Premises located at , , California , certifies as follows:

1. Attached hereto as Exhibit A is a true and correct copy of the Lease and all amendments and modifications thereto. The documents contained in Exhibit A represent the entire agreement between the parties as to the Premises.

2. The undersigned currently occupies the Premises described in the Lease, the Lease Term commenced on , and the Lease Term expires on , and the undersigned has no option to terminate or cancel the Lease or to purchase all or any part of the Premises, the Buildings and/or the Project.

3. Base Rent became payable on .

4. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in Exhibit A.

5. Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows:

6. Tenant shall not modify the documents contained in Exhibit A without the prior written consent of Landlord's mortgagee.

7. All monthly installments of Base Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through . The current monthly installment of Base Rent is $.

8. All conditions of the Lease to be performed by Landlord necessary to the enforceability of the Lease have been satisfied and Landlord is not in default thereunder. In addition, the undersigned has not delivered any notice to Landlord regarding a default by Landlord thereunder.

9. No rental has been paid more than thirty (30) days in advance and no security has been deposited with Landlord except as provided in the Lease.

10. As of the date hereof, there are no existing defenses or offsets, or, to the undersigned's knowledge, claims or any basis for a claim, that the undersigned has against Landlord.

11. If Tenant is a corporation or partnership, each individual executing this Estoppel Certificate on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

12. There are no actions pending against the undersigned under the bankruptcy or similar laws of the United States or any state.

13. Other than in compliance with all applicable laws and incidental to the ordinary course of the use of the Premises, the undersigned has not used or stored any hazardous substances in the Premises.

14. To the undersigned's knowledge, all tenant improvement work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by the undersigned and all reimbursements and allowances due to the undersigned under the Lease in connection with any tenant improvement work have been paid in full.

The undersigned acknowledges that this Estoppel Certificate may be delivered to Landlord or to a prospective mortgagee or prospective purchaser, and acknowledges that said prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in making the loan or acquiring the property of which the Premises are a part and that receipt by it of this certificate is a condition of making such loan or acquiring such property.

Executed at on the day of , 200 .

"Tenant":

_____

a

By: _____

Its: _____

By: _____

Its: _____

EXHIBIT E

443 SOUTH RAYMOND AVENUE

FORM OF GUARANTY OF LEASE

THIS GUARANTY OF LEASE (this **"Guaranty"**) is made as of January 21, 2005, by The Children's Place Retail Stores, Inc., a Delaware corporation (the **"Guarantor"**), whose address is as set forth in Section 10 hereof, in favor of 443 South Raymond Owner, LLC, a California limited liability company (**"Landlord"**).

WHEREAS, Landlord and The Children's Place Services Company, LLC, a Delaware limited liability company (**"Tenant"**) desire to enter into that certain Office Lease dated January 21, 2005 (the **"Lease"**) concerning certain premises located at 443 South Raymond Avenue, Pasadena, California;

WHEREAS, Guarantor has a financial interest in the Tenant; and

WHEREAS, Landlord would not execute the Lease if Guarantor did not execute and deliver to Landlord this Guaranty.

NOW, THEREFORE, for and in consideration of the execution of the foregoing Lease by Landlord and as a material inducement to Landlord to execute said Lease, Guarantor hereby absolutely, presently, continually, unconditionally and irrevocably guarantees the prompt payment by Tenant of all rentals and other sums payable by Tenant under said Lease and the faithful and prompt performance by Tenant of each and every one of the terms, conditions and covenants of said Lease to be kept and performed by Tenant, and further agrees as follows:

1. It is specifically agreed and understood that the terms, covenants and conditions of the Lease may be altered, affected, modified, amended, compromised, released or otherwise changed by agreement between Landlord and Tenant, or by course of conduct and Guarantor does guaranty and promise to perform all of the obligations of Tenant under the Lease as so altered, affected, modified, amended, compromised, released or changed and the Lease may be assigned by or with the consent of Landlord or any assignee of Landlord without consent or notice to Guarantor and that this Guaranty shall thereupon and thereafter guaranty the performance of said Lease as so changed, modified, amended, compromised, released, altered or assigned.

2. This Guaranty shall not be released, modified or affected by failure or delay on the part of Landlord to enforce any of the rights or remedies of Landlord under the Lease, whether pursuant to the terms thereof or at law or in equity, or by any release of any person liable under the terms of the Lease (including, without limitation, Tenant) or any other guarantor, including without limitation, any other Guarantor named herein, from any liability with respect to Guarantor's obligations hereunder.

3. Guarantor's liability under this Guaranty shall continue until all rents due under the Lease have been paid in full in cash and until all other obligations to Landlord have been satisfied, and shall not be reduced by virtue of any payment by Tenant of any amount due under the Lease. If all or any portion of Tenant's obligations under the Lease is paid or performed by Tenant, the obligations of Guarantor hereunder shall continue and remain in full force and effect in the event that all or any part of such
payment(s) or performance(s) is avoided or recovered directly or indirectly from Landlord as a preference, fraudulent transfer or otherwise.

4. Guarantor warrants and represents to Landlord that Guarantor now has and will continue to have full and complete access to any and all information concerning the Lease, the value of the assets owned or to be acquired by Tenant, Tenant's financial status and its ability to pay and perform the obligations owed to Landlord under the Lease. Guarantor further warrants and represents that Guarantor has reviewed and approved copies of the Lease and is fully informed of the remedies Landlord may pursue, with or without notice to Tenant, in the event of default under the Lease. So long as any of the Guarantor's obligations hereunder remains unsatisfied or owing to Landlord, Guarantor shall keep fully informed as to all aspects of Tenant's financial condition and the performance of said obligations.

5. Guarantor hereby covenants and agrees with Landlord that if a default shall at any time occur in the payment of any sums due under the Lease by Tenant or in the performance of any other obligation of Tenant under the Lease beyond any applicable notice and cure period, Guarantor shall and will forthwith upon demand pay such sums and any arrears thereof, to Landlord in legal currency of the United States of America for payment of public and private debts, and take all other actions necessary to cure such default and perform such obligations of Tenant.

6. The liability of Guarantor under this Guaranty is a guaranty of payment and performance and not of collectibility, and is not conditioned or contingent upon the genuineness, validity, regularity or enforceability of the Lease or the pursuit by Landlord of any remedies which it now has or may hereafter have with respect thereto, at law, in equity or otherwise.

7. Guarantor hereby waives and agrees not to assert or take advantage of to the extent permitted by law: (i) all notices to Guarantor, to Tenant, or to any other person, including, but not limited to, notices of the acceptance of this Guaranty or the creation, renewal, extension, assignment, modification or accrual of any of the obligations owed to Landlord under the Lease and, except to the extent set forth in Section 9 hereof, enforcement of any right or remedy with respect thereto, and notice of any other matters relating thereto; (ii) notice of acceptance of this Guaranty; (iii) demand of payment, presentation and protest; (iv) any right to require Landlord to apply to any default any security deposit or other security it may hold under the Lease; (v) any statute of limitations affecting Guarantor's liability hereunder or the enforcement thereof; (vi) any right or defense that may arise by reason of the incapability, lack of authority, death or disability of Tenant or any other person; and (vii) all principles or provisions of law which conflict with the terms of this Guaranty. Guarantor further agrees that Landlord may enforce this Guaranty upon the occurrence of a default under the Lease, notwithstanding any dispute between Landlord and Tenant with respect to the existence of said default or performance of the obligations under the Lease or any counterclaim, set-off or other claim which Tenant may allege against Landlord with respect thereto. Moreover, Guarantor agrees that Guarantor's obligations shall not be affected by any circumstances which constitute a legal or equitable discharge of a guarantor or surety.

8. Guarantor agrees that Landlord may enforce this Guaranty without the necessity of proceeding against Tenant or any other guarantor. Guarantor hereby waives the right to require Landlord to proceed against Tenant, to proceed against any other guarantor, to exercise any right or remedy under the Lease or to pursue any other remedy or to enforce any other right.

9. (a) Guarantor agrees that nothing contained herein shall prevent Landlord from suing on the Lease or from exercising any rights available to it thereunder and that the exercise of any of the aforesaid rights shall not constitute a legal or equitable discharge of Guarantor. Without limiting the generality of the foregoing, Guarantor hereby expressly waives any and all benefits under California Civil Code § § 2809, 2810, 2819, 2845, 2847, 2848, 2849 and 2850.

(b) Guarantor agrees that Guarantor shall have no right of subrogation against Tenant or any right of contribution against any other guarantor unless and until all amounts due under the Lease have been paid in full and all other obligations under the Lease have been satisfied. Guarantor further agrees that, to the extent the waiver of Guarantor's rights of subrogation and contribution as set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of subrogation Guarantor may have against Tenant shall be junior and subordinate to any rights Landlord may have against Tenant, and any rights of contribution Guarantor may have against any other guarantor shall be junior and subordinate to any rights Landlord may have against such other guarantor.

(c) The obligations of Guarantor under this Guaranty shall not be altered, limited or affected by any case, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Tenant or any defense which Tenant may have by reason of order, decree or decision of any court or administrative body resulting from any such case. Landlord shall have the sole right to accept or reject any plan on behalf of Guarantor proposed in such case and to take any other action which Guarantor would be entitled to take, including, without limitation, the decision to file or not file a claim. Guarantor acknowledges and agrees that any payment

which accrues with respect to Tenant's obligations under the Lease (including, without limitation, the payment of rent) after the commencement of any such proceeding (or, if any such payment ceases to accrue by operation of law by reason of the commencement of such proceeding, such payment as would have accrued if said proceedings had not been commenced) shall be included in Guarantor's obligations hereunder because it is the intention of the parties that said obligations should be determined without regard to any rule or law or order which may relieve Tenant of any of its obligations under the Lease. Guarantor hereby permits any trustee in bankruptcy, receiver, debtor-in-possession, assignee for the benefit of creditors or similar person to pay Landlord, or allow the claim of Landlord in respect of, any such payment accruing after the date on which such proceeding is commenced. Guarantor hereby assigns to Landlord Guarantor's right to receive any payments from any trustee in bankruptcy, receiver, debtor-in-possession, assignee for the benefit of creditors or similar person by way of dividend, adequate protection payment or otherwise.

10. Any notice, statement, demand, consent, approval or other communication required or permitted to be given, rendered or made by either party to the other, pursuant to this Guaranty or pursuant to any applicable law or requirement of public authority, shall be in writing (whether or not so stated elsewhere in this Guaranty) and shall be deemed to have been properly given, rendered or made only if hand-delivered or sent by first-class mail, postage pre-paid, addressed to the other party at its respective address set forth below, and shall be deemed to have been given, rendered or made on the day it is hand-delivered or one day after it is mailed, unless it is mailed outside of Los Angeles County, California, in which case it shall be deemed to have been given, rendered or made on the third business day after the day it is mailed. By giving notice as provided above, either party may designate a different address for notices, statements, demands, consents, approvals or other communications intended for it.

To Guarantor:	915 Secaucus Road Secaucus, New Jersey 07094 Attention: VP/Real Estate
	and
	915 Secaucus Road Secaucus, New Jersey 07094 Attention: Sr. VP/General Counsel
To Landlord:	c/o Lexington Commercial 9350 Wilshire Boulevard, Suite 400 Beverly Hills, California 90212 Attn: Ms. Alisa Freundlich
	and
	Allen Matkins Leck Gamble & Mallory LLP 1901 Avenue of the Stars Suite 1800 Los Angeles, California 90067 Attention: Anton N. Natsis, Esq.

11. Guarantor represents and warrants to Landlord as follows:

(a) No consent of any other person, including, without limitation, any creditors of Guarantor, and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by Guarantor in connection with this Guaranty or the execution, delivery, performance, validity or enforceability of this Guaranty and all obligations required hereunder. This Guaranty has been duly executed and delivered by Guarantor, and constitutes the legally valid and binding obligation of Guarantor enforceable against such Guarantor in accordance with its terms.

(b) The execution, delivery and performance of this Guaranty will not violate any provision of any existing law or regulation binding on Guarantor, or any order,

judgment, award or decree of any court, arbitrator or governmental authority binding on Guarantor, or of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which Guarantor is a party or by which Guarantor or any of Guarantor's assets may be bound, and will not result in, or require, the creation or imposition of any lien on any of Guarantor's property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract, or other agreement, instrument or undertaking.

12. The obligations of Tenant under the Lease to execute and deliver estoppel statements, as therein provided, shall be deemed to also require the Guarantor hereunder to do and provide the same relative to Guarantor.

13. This Guaranty shall be binding upon Guarantor, Guarantor's heirs, representatives, administrators, executors, successors and assigns and shall inure to the benefit of and shall be enforceable by Landlord, its successors, endorsees and assigns. As used herein, the singular shall include the plural, and the masculine shall include the feminine and neuter and vice versa, if the context so requires.

14. The term "**Landlord**" whenever used herein refers to and means the Landlord specifically named in the Lease and also any assignee of said Landlord, whether by outright assignment or by assignment for security, and also any successor to the interest of said Landlord or of any assignee in the Lease or any part thereof, whether by assignment or otherwise. So long as the Landlord's interest in or to the Premises (as that term is used in the Lease) or the rents, issues and profits therefrom, or in, to or under the Lease, are subject to any mortgage or deed of trust or assignment for security, no acquisition by Guarantor of the Landlord's interest in the Premises or under the Lease shall affect the continuing obligations of Guarantor under this Guaranty, which obligations shall continue in full force and effect for the benefit of the mortgage, beneficiary, trustee or assignee under such mortgage, deed of trust or assignment, or any purchaser at sale by judicial foreclosure or under private power of sale, and of the successors and assigns of any such mortgagee, beneficiary, trustee, assignee or purchaser.

15. The term "**Tenant**" whenever used herein refers to and means the Tenant in the Lease specifically named and also any assignee or sublessee of said Lease and also any successor to the interests of said Tenant, assignee or sublessee of such Lease or any part thereof, whether by assignment, sublease or otherwise.

16. In the event of any dispute or litigation regarding the enforcement or validity of this Guaranty, Guarantor shall be obligated to pay all charges, costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by Landlord, whether or not any action or proceeding is commenced regarding such dispute and whether or not such litigation is prosecuted to judgment.

17. This Guaranty shall be governed by and construed in accordance with the laws of the State of California, and in a case involving diversity of citizenship, shall be litigated in and subject to the jurisdiction of the courts of California.

18. Every provision of this Guaranty is intended to be severable. In the event any term or provision hereof is declared to be illegal or invalid for any reason whatsoever by a court of competent jurisdiction, such illegality or invalidity shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable.

19. This Guaranty may be executed in any number of counterparts each of which shall be deemed an original and all of which shall constitute one and the same Guaranty with the same effect as if all parties had signed the same signature page. Any signature page of this Guaranty may be detached from any counterpart of this Guaranty and re-attached to any other counterpart of this Guaranty identical in form hereto but having attached to it one or more additional signature pages.

20. No failure or delay on the part of Landlord to exercise any power, right or privilege under this Guaranty shall impair any such power, right or privilege, or be construed to be a waiver of any default or any acquiescence therein, nor shall any single or partial exercise of such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

21. This Guaranty shall constitute the entire agreement between Guarantor and the Landlord with respect to the subject matter hereof. No provision of this Guaranty or right of Landlord hereunder may be waived nor may Guarantor be released from any obligation hereunder except by a writing duly executed by an authorized officer, director or trustee of Landlord.

22. The liability of Guarantor and all rights, powers and remedies of Landlord hereunder and under any other agreement now or at any time hereafter in force between Landlord and Guarantor relating to the Lease shall be cumulative and not alternative and such rights, powers and remedies shall be in addition to all rights, powers and remedies given to Landlord by law.

IN WITNESS WHEREOF, Guarantor has executed this Guaranty as of the day and year first above written

THE CHILDREN'S PLACE RETAIL STORES,
INC., a Delaware corporation

By: _____
Its: _____

By: _____
Its: _____

EXHIBIT F

443 SOUTH RAYMOND AVENUE

NET EQUIVALENT LEASE RATE

1. METHODOLOGY FOR COMPARING THE COMPARABLE TRANSACTIONS.

In order to analyze the Comparable Transactions based on the factors to be considered in calculating Fair Rental Value, and given that the Comparable Transactions may vary in terms of length or term, rental rate, concessions, etc., the following steps shall be taken into consideration to "normalize" the objective data from each of the Comparable Transactions. By taking this approach, a "Net Equivalent Lease Rate" for each of the Comparable Transactions shall be determined using the following steps to normalize the Comparable Transactions, which will allow for an "apples to apples" comparison of the Comparable Transactions.

1.1 The contractual rent payments for each of the Comparable Transactions should be arrayed annually over the lease term. From this figure, the initial lease year operating expenses (from gross leases) should be deducted, leaving a net lease rate over the lease term. This results in the net rent received by each landlord under the Comparable Transactions.

1.2 Any free rent or similar inducements received over time should be deducted in the time period in which they occur, resulting in the net cash flow arrayed over the lease term.

1.3 The resultant net cash flow from the lease should be then discounted (using an 6.0% discount rate) to the lease commencement date, resulting in a net present value estimate.

1.4 From the net present value, up-front inducements (tenant improvement allowances and other concessions) should be deducted. These items should be deducted directly, on a "dollar for dollar" basis, without discounting, since they are typically incurred at lease commencement, while rent (which is discounted) is a future receipt.

1.5 The net present value should then amortized back over the lease term at the same discount rate of 6.0% used in the present value analysis. This calculation will result in a hypothetical level or even payment, termed the "Net Equivalent Lease Rate" (or constant equivalent in general financial terms).

2. USE OF NET EQUIVALENT LEASE RATES FOR COMPARABLE TRANSACTIONS UNDER SECTION 2.2.2 OF THIS LEASE.

The Net Equivalent Lease Rates for the Comparable Transactions under Section 2.2.2 of this Lease shall then be used to arrive at the determination of the Fair Rental Value which shall be stated as a Net Equivalent Lease Rate applicable to the Second Option Term.

EXHIBIT G

FORM OF LETTER OF CREDIT

(Letterhead of a money center bank
acceptable to the Landlord)

January , 2005

443 South Raymond Owner, LLC
c/o Lexington Commercial Holdings
9350 Wilshire Boulevard, Suite 400
Beverly Hills, California 90212
Attn: Ms. Alisa Freundlich

Gentlemen:

We hereby establish our Irrevocable Letter of Credit and authorize you to draw on us at sight for the account of The Children's Place Services Company, LLC, a Delaware limited liability company, the aggregate amount of Four Million and No/100 Dollars ($4,000,000.00).

Funds under this Letter of Credit are available to the beneficiary hereof as follows:

Any or all of the sums hereunder may be drawn down at any time and from time to time from and after the date hereof by 443 South Raymond Owner, LLC ("Beneficiary") when accompanied by this Letter of Credit and a written statement signed by a representative of Beneficiary, certifying either that: (i) such moneys are due and owing to Beneficiary under that certain Office Lease, dated January , 2005, between Beneficiary, as landlord, and The Children's Place Services Company, LLC, as tenant ("Tenant"); (ii) Tenant has filed a voluntary petition for relief under any chapter of the United States Bankruptcy Code; (iii) an involuntary petition for relief has been filed against Tenant under any chapter of the United States Bankruptcy Code; (iv) Tenant has executed a general assignment for the benefit of creditors, (v) tenant has been placed in receivership in either state or federal court; or (vi) Tenant commenced a liquidation proceeding under applicable state law.

This Letter of Credit is transferable in its entirety. Should a transfer be desired, such transfer will be subject to the return to us of this advice, together with written instructions.

The amount of each draft must be endorsed on the reverse hereof by the negotiating bank.

We hereby agree with you that if drafts are presented to the [bank name] under this Letter of Credit at or prior to 11:00 a.m. time, on a business day, and provided that such drafts presented conform to the terms and conditions of this Letter of Credit, payment shall be initiated by us in immediately available funds by our close of business on the succeeding business day. If drafts are presented to [bank name] under this Letter of Credit after 11:00 a.m. time, on a business day, and provided that such drafts conform with the terms and conditions of this Letter of Credit, payment shall be initiated by us in immediately available funds by our close of business on the second succeeding business day. As used in this Letter of Credit, "business day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the state of California are authorized or required by law to close. If the expiration date for this Letter of Credit shall ever fall on a day which is not a business day then such expiration date shall automatically be extended to the date which is the next business day.

We hereby engage with you that drafts drawn under and in compliance with the terms and conditions of this Letter of Credit will be duly honored by us if presented at our offices located at attention: (or at such other office of the bank as to which you have received written notice from us by registered mail, courier service or hand delivery, as being the applicable such address) on or before the then current expiration date. We agree to notify you in writing by registered mail, courier service or hand delivery, of any change in such address.

Presentation of a drawing under this Letter of Credit may be made on or prior to the then current expiration date hereof by hand delivery, courier service, overnight mail, or facsimile.

Presentation by facsimile transmission shall be by transmission of the above required sight draft drawn on us together with this Letter of Credit to our facsimile number, ( ) attention: the manager, standby letter of credit department, with telephonic confirmation of our receipt of such facsimile transmission at our telephone number ( ) or to such other facsimile or telephone numbers, as to which you have received written notice from us as being the applicable such number). We agree to notify you in writing, by registered mail, courier service or hand delivery, of any change in such direction. Any facsimile presentation pursuant to this paragraph shall also state thereon that the original of such sight draft and Letter of Credit are being remitted, for delivery on the next business day, to [bank name] at the applicable address for presentment pursuant to the paragraph preceding this one.

This Letter of Credit shall expire on .

Notwithstanding the above expiration date of this Letter of Credit, the term of this Letter of Credit shall be automatically renewed for successive, additional one (1) year periods unless, at least sixty (60) days prior to any such date of expiration, the undersigned shall give written notice to Beneficiary, by certified mail, return receipt requested and at the address set forth above or at such other address as may be given to the undersigned by Beneficiary, that this Letter of Credit will not be renewed. **(FINAL EXPIRATION DATE NOT LESS THAN 120 DAYS FOLLOWING LEASE EXPIRATION DATE)**

This Letter of Credit is governed by the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication 500.

Very truly yours,
(Name of Issuing Bank)

By: _____

Exhibit 10.18

FIRST AMENDMENT TO OFFICE LEASE

This First Amendment to Office Lease (this "**First Amendment**") is made and entered into as of January 31, 2005, by and between 443 SOUTH RAYMOND TENANT, LLC, a California limited liability company **("Landlord")**, and THE CHILDREN'S PLACE SERVICES COMPANY, LLC, a Delaware limited liability company ("**Tenant**").

RECITALS:

A. 443 South Raymond Owner, LLC, a California limited liability company **("443 Owner")** and Tenant executed that certain Office Lease (the "**Lease**"), dated January 21, 2005, pursuant to which Tenant leased certain space in the project located at 443 South Raymond Avenue, Pasadena, California.

B. The "Landlord" entity was incorrectly stated throughout the Lease and the Guaranty relating thereto, and Landlord and Tenant desire to amend the Lease to reflect the correct Landlord entity and to otherwise agree upon the terms and conditions set forth in this First Amendment.

D. All undefined terms when used herein shall have the same respective meanings as are given such terms in the Lease, unless expressly provided otherwise in this First Amendment.

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows.

1. **Landlord Entity.** Landlord and Tenant hereby acknowledge and agree that the Lease erroneously referred to "Landlord" as 443 Owner. Based upon the foregoing, Landlord and Tenant further acknowledge and agree that, retroactive to the date of the full execution and delivery of the Lease, (i) all references in the Lease to 443 Owner shall be deemed deleted and replaced with Landlord, as set forth in this First Amendment, (ii) the landlord under the Lease shall be deemed the Landlord set forth in this First Amendment (and not 443 Owner) as if the Landlord set forth in this First Amendment originally executed the Lease, and (iii) the Lease, as amended hereby, is and shall be in full force or effect between Landlord, as landlord, and Tenant, as tenant.

2. **Amendment to Letter of Credit.** Concurrently herewith, Tenant shall provide Landlord with an amendment to the L-C, reasonably acceptable to Landlord, providing that all references in the L-C to the 443 Owner are deleted and are replaced with the Landlord entity set forth in this First Amendment.

3. **No Further Modification.** Except as specifically set forth in this First Amendment, all of the terms and provisions of the Lease shall remain unmodified and in full force and effect. In the event of any conflict between the terms and conditions of the Lease and the terms and conditions of this First Amendment, the terms and conditions of this First Amendment shall prevail.

IN WITNESS WHEREOF, this First Amendment has been executed as of the day and year first above written.

"LANDLORD"

443 SOUTH RAYMOND TENANT, LLC,
a California limited liability company

By: SALL Lexington, LLC
a California limited liability company,
its Managing Member

By: SALL, LLC
a California limited liability
company, its Managing Member

By: /s/ Michael Adler
Michael Adler, its member

"TENANT"

THE CHILDREN'S PLACE SERVICES
COMPANY, LLC, a Delaware limited
liability company

By: /s/ Neal Goldberg
Its: NEAL GOLDBERG - PRESIDENT

By: /s/ Steven Balasiano
Its: *STEVEN BALASIANO*
SR. VICE PRESIDENT & GENERAL COUNSEL

GUARANTY AMENDMENT/GUARANTOR ACKNOWLEDGEMENT

By its execution of this First Amendment to Lease, the undersigned, Guarantor of the above-modified Lease, hereby acknowledges and agrees that (i) the Guaranty and Lease erroneously referred to "Landlord" as 443 Owner, and (ii) retroactive to the date of the execution of the Guaranty (a) all references in the Guaranty to 443 Owner shall be deemed deleted and replaced with Landlord, as set forth in this First Amendment, (b) the landlord under the Lease and under the Guaranty shall be deemed the Landlord set forth in this First Amendment (and not 443 Owner) as if the Landlord set forth in this First Amendment was originally set forth in such documents, and (c) the Guaranty, as amended hereby, is and shall be in full force and effect in favor of Landlord, as set forth in this First Amendment. Guarantor furthermore consents to the modifications of the Lease set forth in this First Amendment to Lease, and hereby reaffirms its obligations pursuant to the Guaranty, as amended hereby, with respect to the Lease, as amended by this First Amendment.

THE CHILDREN'S PLACE RETAIL STORES, INC.,
a Delaware corporation

By: /s/ Neal Goldberg
Its: NEAL GOLDBERG - PRESIDENT

By: /s/ Steven Balasiano
Its: *STEVEN BALASIANO*
SR. VICE PRESIDENT & GENERAL COUNSEL

October 31, 2007

The Children's Place Retail Stores, Inc.
915 Secaucus Road
Secaucus, New Jersey 07094
Attn: Chief Financial Officer

Re: First Amendment to Fifth Amended and Restated Loan and Security Agreement

Dear Sir/Madam:

Reference is hereby made to a certain Fifth Amended and Restated Loan and Security Agreement dated as of June 28, 2007 (the "Loan Agreement") by and among The Children's Place Retail Stores, Inc. and each of its subsidiaries signatory thereto (collectively, the "Borrowers"), the financial institutions named therein (the "Lenders"), Wells Fargo Retail Finance, LLC, as Agent (the "Agent"), Wachovia Capital Finance Corporation (New England), as Documentation Agent and LaSalle Retail Finance, a division of LaSalle Business Credit, LLC, as Co-Agent. All capitalized terms used herein and not otherwise defined shall have the same meaning herein as in the Loan Agreement.

The Borrowers have requested that the Agent and the Lenders agree to amend (this "Amendment") certain provisions of the Loan Agreement, and the Agent and the Lenders have agreed to do so, but only upon the terms and conditions set forth herein.

Accordingly, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Borrowers, the Agent, and the Lenders hereby agree as follows:

1. Amendments. The Loan Agreement shall be amended as follows:

a. Section 1.1, the definition of "Seasonal Overadvance Period" is hereby deleted in its entirety, and is replaced with the following:

"Seasonal Overadvance Period" means, (i) for the year ending December 31, 2007, the period from July 1st through November 30th; and (ii) for each year thereafter, means the period from July 1st through October 31st of each year during the term of this Agreement."

b. Section 1.1 of the Loan Agreement is hereby amended by inserting the following definition in the appropriate alphabetical order:

"First Amendment" means the First Amendment to Fifth Amended and Restated Loan and Security Agreement, dated as of October 31, 2007 by and among the Borrowers, the Agent and the Lenders."

c. From and after the date hereof, all references to the "Agreement" in the Loan Agreement shall mean the Fifth Amended and Restated Loan and Security

Agreement, as amended by the First Amendment to Fifth Amended and Restated Loan and Security Agreement, dated as of October 31, 2007.

2. Representations and Warranties. The Borrowers hereby represent and warrant to the Lenders and the Agent that:

a. After giving effect to the amendments in Section 1 hereof, and except as the Agent may have expressly waived in writing prior to the date of this Amendment, there exists no Default or Event of Default under the Loan Agreement;

b. The representations and warranties made by the Loan Parties in the Loan Agreement are true and correct in all respects on and as of the date hereof as if made on and as of the date hereof (except to the extent that such representations and warranties relate solely to an earlier date);

c. The execution and delivery of this Amendment by and on behalf of the Borrowers has been duly authorized by all requisite action on behalf of each Borrower, and this Amendment is enforceable against each Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law);

d. The execution, delivery and performance of this Amendment will not violate any applicable provision of law or judgment, order or regulation of any court or of any public or governmental agency or authority nor conflict with or constitute a breach of or a default under any instrument to which any Borrower is a party or by which any Borrower or any property of any Borrower is bound; and

e. No approval, consent or authorization of, nor registration, declaration or filing with, any Governmental Authority or other public body, or any trustee or holder of any Indebtedness, is required in connection with the valid execution, delivery and performance by the Borrowers of this Amendment, except such as have been obtained as of the date hereof.

3. Preconditions to Effectiveness. The effectiveness of the amendments contained in Section 1 above, is expressly conditioned upon the following:

a. Receipt by the Agent of reimbursement from the Borrowers for all Lender Group Expenses incurred in connection with the negotiation and preparation of this Amendment and all documents, instruments, and agreements incidental hereto;

b. Receipt by the Agent of the Amendment Fee; and

c. Receipt by the Agent from each party hereto of duly completed and executed counterparts of this Amendment.

4. Amendment Fee. In consideration for the Agent and the Lenders entering into this Amendment, the Borrowers agree to pay a fee to the Agent for the ratable benefit of the Lenders (the "Amendment Fee") of Thirty Thousand and No/100 Dollars ($30,000.00); such Amendment Fee shall be fully earned and paid upon the execution of this Amendment and shall be nonrefundable.

5. Ratification; Waiver of Claims:

a. Except as provided herein, or as previously waived in writing by the Agent, all terms and conditions of the Loan Agreement and each of the other Loan Documents shall remain in full force and effect. The Borrowers hereby ratify, confirm, and re-affirm all terms and provisions of the Loan Documents.

b. There is no basis nor set of facts on which any amount (or any portion thereof) owed by the Borrowers under the Loan Agreement or any other Loan Document could be reduced, offset, waived, or forgiven, by rescission or otherwise; nor is there any claim, counterclaim, offset, or defense (or other right, remedy, or basis having a similar effect) available to the Borrowers with regard thereto; nor is there any basis on which the terms and conditions of any of the Obligations could be claimed to be other than as stated on the written instruments which evidence such Obligations.

c. The Borrowers hereby acknowledge and agree that none of them has any offsets, defenses, claims, or counterclaims against the Agent or any of the Lenders, or any of them, or their respective parents, affiliates, predecessors, successors, or assigns, or their respective officers, directors, employees, attorneys, or representatives, with respect to the Obligations, or otherwise, and that if the Borrowers, or any of them, now have, or ever did have, any offsets, defenses, claims, or counterclaims against the Agent or the Lenders, or any of them, or their respective parents, affiliates, predecessors, successors or assigns, or their respective officers, directors, employees, attorneys, or representatives, whether known or unknown, at law or in equity, from the beginning of the world through this date and through the time of execution of this Amendment, all of them are hereby expressly **WAIVED**, and the Borrowers hereby **RELEASE** the Agent and the Lenders, and each of them, and their respective officers, directors, employees, attorneys, representatives, affiliates, predecessors, successors, and assigns from any liability therefor.

6. Miscellaneous.

a. This Amendment may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, and all of which together shall constitute one agreement. Signature pages with facsimile signatures may be treated as originals.

b. This Amendment expresses the entire understanding of the parties with respect to the transactions contemplated hereby. No prior negotiations or discussions shall limit, modify, or otherwise affect the provisions hereof.

c. Any determination that any provision of this Amendment or any application hereof is invalid, illegal, or unenforceable in any respect and in any instance shall not

affect the validity, legality, or enforceability of such provision in any other instance, or the validity, legality, or enforceability of any other provision of this Amendment.

d. The Borrowers shall execute and deliver to the Agent and the Lenders whatever additional documents, instruments, and agreements that the Agent may require in order to give effect to, and implement the terms and conditions of this Amendment.

e. Section 13 (*Choice of Law and Venue; Jury Trial Waiver*) of the Loan Agreement is hereby incorporated herein by reference.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date set forth above.

THE CHILDREN'S PLACE RETAIL STORES, INC., a Delaware corporation

By: _____
Name: Susan Riley
Title: Executive Vice President - Finance and Administration

THE CHILDREN'S PLACE SERVICES COMPANY LLC, a Delaware limited liability company

By: _____
Name: Susan Riley
Title: Senior Vice President, Chief Financial Officer and Treasurer

WELLS FARGO RETAIL FINANCE, LLC, as Agent and as a Lender

By: _____
Name: Michele Ayou
Title: Vice President

WACHOVIA CAPITAL FINANCE CORPORATION (NEW ENGLAND), as Documentation Agent and as a Lender

By: _____
Name:
Title:

LASALLE RETAIL FINANCE, a Division of LaSalle Business Credit, LLC, as Agent for Standard Federal Bank National Association, as Co-Agent and as a Lender

By: _____
Name:
Title:

JPMORGAN CHASE BANK, N.A., as a Lender

By: _____
Name
Title:

CITICORP USA, INC., as a Lender

By: _____
Name:
Title:

HSBC BANK USA, NATIONAL ASSOCIATION, as a Lender

By: _____
Name:
Title:

FIFTH AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

dated as of June 28, 2007

by and among

THE CHILDREN'S PLACE RETAIL STORES, INC.,
and
EACH OF ITS SUBSIDIARIES THAT ARE SIGNATORIES HERETO
as Borrowers,

THE FINANCIAL INSTITUTIONS NAMED HEREIN,
as Lenders,

and

WELLS FARGO RETAIL FINANCE, LLC,
as Agent

WACHOVIA CAPITAL FINANCE CORPORATION (NEW ENGLAND),

as Documentation Agent

and

LASALLE RETAIL FINANCE, A DIVISION OF LASALLE BUSINESS CREDIT, LLC

as Co-Agent

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FIFTH AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS FIFTH AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Agreement"), is entered into this 28th day of June, 2007, among **THE CHILDREN'S PLACE RETAIL STORES, INC.,** a Delaware corporation ("Parent") and each of Parent's Subsidiaries identified on the signature pages hereof (such Subsidiaries, together with Parent, are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers"), with each of its chief executive office located at 915 Secaucus Road, Secaucus, New Jersey 07094, on the one hand, and the financial institutions listed on the signature pages hereof (such financial institutions, together with their respective successors and assigns, are referred to hereinafter each individually as a "Lender" and collectively as the "Lenders"), and **WELLS FARGO RETAIL FINANCE, LLC,** a Delaware limited liability company**,** as Agent, **WACHOVIA CAPITAL FINANCE CORPORATION (NEW ENGLAND)**, a Massachusetts corporation, as Documentation Agent, and **LASALLE RETAIL FINANCE, A DIVISION OF LASALLE BUSINESS CREDIT, LLC**, as Co-Agent, on the other hand.

RECITALS

A. Parent and Wells Fargo Retail Finance, LLC and certain other Lenders are parties to that certain Fourth Amended and Restated Loan and Security Agreement effective as of October 31, 2004 (as amended, the "Existing Loan Agreement").

B. Borrowers, Agent, Documentation Agent, and Lenders desire to amend and restate in its entirety the Existing Loan Agreement.

The parties agree that the Existing Loan Agreement is amended and restated as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Account Debtor" means any Person who is or who may become obligated under, with respect to, or on account of, an Account.

"Accounts" means all currently existing and hereafter arising accounts, contract rights, Revolving Accounts, and all other forms of obligations owing to any Borrower arising out of the sale or lease of goods or the rendition of services by any Borrower, irrespective of whether earned by performance, and any and all credit insurance, guaranties, or security therefor.

"ACH Transactions" means any cash management or related services (including the Automated Clearing House processing of electronic funds transfers through the direct Federal Reserve Fedline system) provided by a Bank Product Provider for the account of Administrative Borrower or its Subsidiaries.

"Acquisition Agreement" means that certain Acquisition Agreement dated October 19, 2004 entered into by and among Hoop Holdings, LLC, Hoop Canada Holdings, Inc., Disney Enterprises, Inc. and Disney Credit Card Services, Inc. and The Children's Place Retail Stores, Inc., as guarantor.

"Adjusted LIBOR Rate" means, with respect to each Interest Period for any LIBOR Rate Loan, the rate per annum (rounded upwards, if necessary, to the next whole multiple of 1/16 of 1% per annum) determined by dividing (a) the LIBOR Rate for such Interest Period by (b) a percentage equal to (i) 100% minus (ii) the Reserve Percentage. The Adjusted LIBOR Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

"Administrative Borrower" has the meaning set forth in Section 18.8.

"Advances" means the Revolving Advances and Seasonal Advances.

"Affiliate" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For purposes of this definition, "control" as applied to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities, by contract, or otherwise.

"Agent" means Wells Fargo Retail, solely in its capacity as agent for the Lenders, and shall include any successor agent.

"Agent Advance" has the meaning set forth in Section 2.1(i).

"Agent Loan" has the meaning set forth in Section 2.1(h).

"Agent-Related Persons" means Agent, together with its Affiliates, and the officers, directors, employees, counsel, agents, and attorneys-in-fact of Agent and such Affiliates.

"Agent's Account" has the meaning set forth in Section 2.8.

"Agent's Liens" means the Liens granted by Borrowers or their Subsidiaries to Agent under this Agreement or the other Loan Documents.

"Agreement" has the meaning set forth in the preamble hereto.

"Alabama Capital Lease" means a capital lease for the inventory handling system of the Borrowers and/or any of their Affiliates located at their distribution center in Fort Payne, Alabama.

"Alabama Sale-Leaseback Transaction" means the sale-leaseback of the Real Property of Services Company situated at 1377 Airport Road, Fort Payne, Alabama, pursuant to a lease on market terms.

"Amendment Fee" is defined in the Fee Letter.

"Applicable Prepayment Premium" means, as of any date of determination, an amount equal to (a) at any time prior to June 28, 2008, 0.50% times the sum of the Maximum Amount, and (b) at all times on or after June 28, 2008, there shall not be any prepayment premium.

"Assignee" has the meaning set forth in Section 15.1.

"Assignment and Acceptance" has the meaning set forth in Section 15.1(a) and shall be in the form of Exhibit A-1.

"Authorized Person" means any officer or other authorized employee of a Borrower.

"Availability" means, as of the date of determination, the result (so long as such result is a positive number) of (a) the lesser of (i) the Borrowing Base or (ii) the Maximum Amount, plus (b) Qualified Cash, minus (c) the Revolving Facility Usage, minus (d) the Seasonal Overadvance Facility Usage.

"Average Excess Availability" means, for the subject period, the aggregate of the amount of Availability on each day in the subject period, divided by the number of days in the subject period.

"Average Unused Portion of Maximum Amount" means, as of any date of determination, (a) an amount equal to the Maximum Amount, less (b) the average Daily Balance of Obligations that were outstanding during the immediately preceding month.

"Bank Product" means any financial accommodation extended to Administrative Borrower or its Subsidiaries by a Bank Product Provider (other than pursuant to this Agreement) including but not limited to: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) ACH Transactions, (f) cash management, including controlled disbursement, accounts or services, or (g) transactions under Hedge Agreements.

"Bank Product Agreements" means those agreements entered into from time to time by Administrative Borrower or its Subsidiaries with a Bank Product Provider in connection with the obtaining of any of the Bank Products.

"Bank Product Obligations" means all obligations, liabilities, contingent reimbursement obligations, fees, and expenses owing by Administrative Borrower or its Subsidiaries to any Bank Product Provider pursuant to or evidenced by the Bank Product Agreements and irrespective of whether for the payment of money, whether direct or

indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all such amounts that Administrative Borrower or its Subsidiaries are obligated to reimburse to Agent or any member of the Lender Group as a result of Agent or such member of the Lender Group purchasing participations from, or executing indemnities or reimbursement obligations to, a Bank Product Provider with respect to the Bank Products provided by such Bank Product Provider to Administrative Borrower or its Subsidiaries.

"Bank Product Provider" means the Agent, the Lenders, Wells Fargo Bank, National Association, or any of their respective Affiliates.

"Bank Product Reserve" means, as of any date of determination, the amount of reserves that Agent has established (based upon the Bank Product Providers' reasonable determination of the credit exposure in respect of the Bank Products) in respect of Bank Products then provided or outstanding.

"Bankruptcy Code" means the United States Bankruptcy Code (11 U.S.C. § 101 et seq.), as amended, and any successor statute.

"Benefit Plan" means a "defined benefit plan" (as defined in Section 3(35) of ERISA) for which any Borrower, any Subsidiary of any Borrower, or any ERISA Affiliate has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"Books" means all of Administrative Borrower's and its Subsidiaries books and records including: ledgers; records indicating, summarizing, or evidencing any Borrower's properties or assets (including the Collateral) or liabilities; all information relating to any Borrower's business operations or financial condition; and all computer programs, disk or tape files, printouts, runs, or other computer prepared information.

"Borrower" and "Borrowers" have the respective meanings set forth in the preamble to this Agreement.

"Borrowing" means a borrowing hereunder consisting of Advances made on the same day by the Lenders, or by Agent in the case of an Agent Loan or an Agent Advance.

"Borrowing Base" has the meaning set forth in Section 2.1(a).

"Borrowing Base Certificate" is defined in Section 6.4.

"Business Day" means (a) any day that is not a Saturday, Sunday, or a day on which banks in Boston, Massachusetts, are required or permitted to be closed, and (b) with respect to all notices, determinations, fundings and payments in connection with the LIBOR Rate or LIBOR Rate Loans, any day that is a Business Day pursuant to clause (a) above and that is also a day on which trading in Dollars is carried on by and between banks in the London interbank market.

"Business Plan" means (a) Parent's and its Subsidiaries' business plan for the Fiscal Year ending on or about January 31, 2008 attached hereto as Exhibit B-1, together with any amendment, modification, or revision to such business plan approved by Agent, and (b) the Parent's and its Subsidiaries' business plan for each subsequent Fiscal Year provided by Administrative Borrower to Agent in accordance with the terms of Section 6.2 hereof, together with any amendment, modification, or revision to any such business plan approved by Agent.

"Canadian Letter of Credit" means any Letter of Credit caused to be issued pursuant to this Agreement by Parent or Services Company for the purchase of inventory by Children's Place Canada, which shall be issued in Dollars.

"Capital Expenditures" means the expenditure of funds or the incurrence of liabilities which may be capitalized in accordance with GAAP, as then in effect as of the date of any relevant determination. If at any time a change in GAAP or accounting method is implemented by the Borrowers which would be applicable to accounting periods ending subsequent to February 3, 2007, the testing of compliance by the Borrowers with any financial performance covenant relating to Capital Expenditures shall be made as if no such accounting change in GAAP or accounting method had been made (other than any such accounting change specifically mentioned herein and taken into account in the setting of any such covenant).

"Change of Control" shall be deemed to have occurred at such time as Parent's existing shareholders cease to be the "beneficial owners" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 25% of the total voting power of all classes of stock then outstanding of Parent normally entitled to vote in the election of directors.

"Children's Place Canada" means The Children's Place (Canada), LP, an Ontario limited partnership.

"Closing Date" means June 28, 2007.

"Code" means the Massachusetts Uniform Commercial Code.

"Collateral" means each of the following:

(a) the Accounts,

(b) the Books,

(c) the Equipment,

(d) the General Intangibles,

(e) the Inventory,

(f) the Investment Property,

(g) the Negotiable Collateral,

(h) any money, or other assets of any Borrower that now or hereafter come into the possession, custody, or control of the Lender Group, and

(i) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the Collateral, and any and all Accounts, Books, Equipment, General Intangibles, Inventory, Investment Property, Negotiable Collateral, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Collateral" expressly excludes any share of stock, membership interest, or other ownership interest in and to Hoop Holdings, LLC, Hoop Retail Stores, LLC, Hoop Canada Holdings, Inc. or Hoop Canada, Inc.

"Collateral Access Agreement" means a landlord waiver, mortgagee waiver, bailee letter, or acknowledgment agreement of any warehouseman, processor, lessor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in the Equipment or Inventory, in each case, in form and substance reasonably satisfactory to Agent.

"Collections" means all cash, checks, notes, instruments, and other items of payment (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds).

"Commercial Letter of Credit" means any Letter of Credit issued pursuant to this Agreement for the purpose of providing the primary payment mechanism in connection with the purchase of Inventory.

"Commitment" means, at any time with respect to a Lender, the principal amount set forth beside such Lender's name under the heading "Commitment" on Schedule C-1 or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 15.1, as such Commitment may be adjusted from time to time in accordance with the provisions of Section 15.1 and "Commitments" means, collectively, the aggregate amount of the commitments of all of the Lenders.

"Commitment Increase" is defined in Section 2.18.

"Commitment Increase Date" is defined in Section 2.18.

"Commitment Increase Fee" is defined in the Fee Letter.

"Compliance Certificate" means a certificate substantially in the form of Exhibit C-1 and delivered by the chief accounting officer of Parent to Agent.

"Consolidated" means, when used to modify a financial term, test, statement, or report of a Person, the application or preparation of such term, test, statement or report (as applicable) based upon the consolidation, in accordance with GAAP, of the financial condition or operating results of such Person and its Subsidiaries.

"Consolidated EBITDA" means, at any date of determination, an amount equal to the Consolidated Net Income of the Loan Parties on a Consolidated basis for the most recently completed Measurement Period, plus (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Charges, (ii) the provision for Federal, state, local and foreign income taxes, (iii) depreciation and amortization expense and (iv) other non-recurring expenses reducing such Consolidated Net Income which do not represent a cash item in such period or any future period (in each case of or by the Loan Parties for such Measurement Period), minus (b) the following to the extent included in calculating such Consolidated Net Income: (i) Federal, state, local and foreign income tax credits and (ii) all non-cash items increasing Consolidated Net Income (in each case of or by the Loan Parties for such Measurement Period), all as determined on a Consolidated basis in accordance with GAAP.

"Consolidated Interest Charges" means, for any Measurement Period, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, (b) all interest paid or payable with respect to discontinued operations and (c) the portion of rent expense with respect to such period under capital lease obligations that is treated as interest in accordance with GAAP, in each case of or by the Loan Parties for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP.

"Consolidated Net Income" means, as of any date of determination, the net income of the Loan Parties for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP, provided, however, that there shall be excluded (a) extraordinary gains and extraordinary losses for such Measurement Period, (b) the income (or loss) of such Person during such Measurement Period in which any other Person has a joint interest, except to the extent of the amount of cash dividends or other distributions actually paid in cash to such Person during such period, (c) the income (or loss) of such Person during such Measurement Period and accrued prior to the date it becomes a Subsidiary of a Person or any of such Person's Subsidiaries or is merged into or consolidated with a Person or any of its Subsidiaries or that Person's assets are acquired by such Person or any of its Subsidiaries, and (d) the income of any direct or indirect Subsidiary of a Person to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that income is not at the time permitted by operation of the terms of its Governing Documents or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation

applicable to that Subsidiary, except that the Parent's equity in any net loss of any such Subsidiary for such Measurement Period shall be included in determining Consolidated Net Income.

"Daily Balance" means, with respect to each day during the term of this Agreement, the amount of an Obligation owed at the end of such day.

"deems itself insecure" means that the Person deems itself insecure in accordance with the provisions of Section 1-208 of the Code.

"Default" means an event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default.

"Defaulting Lender" has the meaning set forth in Section 2.1(g)(ii).

"Defaulting Lenders Rate" means the Reference Rate for the first three days from and after the date the relevant payment is due and thereafter at the interest rate then applicable to Advances.

"Designated Account" means account number 20-3024941126-6 of Administrative Borrower maintained with Administrative Borrower's Designated Account Bank, or such other deposit account of Administrative Borrower (located within the United States) which has been designated, in writing and from time to time, by Administrative Borrower to Agent.

"Designated Account Bank" means Wachovia National Bank, whose office is located at 100 Fidelity Plaza, North Brunswick, New Jersey 08905 and whose ABA number is 021200025.

"Disney License Agreement" means that certain License and Conduct of Business Agreement dated as of November 21, 2004 by and among certain subsidiaries of the Borrowers and TDS Franchising, LLC, as modified by that certain letter agreement dated as of June 6, 2007 by and among the Parent, Hoop Retail Stores, LLC, Hoop Canada, Inc. and TDS Franchising, LLC, and as further amended, modified, supplemented or restated and in effect from time to time.

"Disney Stores Transaction" means the transaction, as a totality, comprised of the acquisition by Hoop Holdings, LLC and Hoop Canada Holdings, Inc. of the ownership interests in, and business and assets of, The Disney Store, LLC and The Disney Store (Canada) Ltd., as more particularly set forth in the Acquisition Agreement.

"Documentation Agent" means Wachovia Capital Finance Corporation (New England), a Massachusetts corporation, solely in its capacity as Documentation Agent.

"Dollars or $" means United States dollars.

"Eligible Accounts" means under Five (5) business day accounts due on a non-recourse basis from major credit card processors (which, if due on account of a private label credit card program, are deemed in the discretion of the Agent to be eligible).

"Eligible Inventory" means Inventory consisting of first quality finished goods held for sale in the ordinary course of the Borrowers' business (other than inventory of Children's Place Canada), that is reasonably acceptable to Agent in all respects, that is located at a Borrower's premises identified on Schedule E-1 or that is in transit to a Borrower if: (a) title to such Inventory has been transferred to such Borrower, (b) the Inventory is insured to Agent's reasonable satisfaction and (c) documentation regarding such Inventory is reasonably acceptable to Agent, and such Inventory strictly complies with all of Borrowers' representations and warranties to the Lender Group. If Eligible Inventory is in transit to a Borrower and has been acquired pursuant to a Letter of Credit, the Letter of Credit must have been drawn upon. Eligible Inventory shall not include slow moving Inventory (as determined in Agent's reasonable business judgment based upon industry practices), or obsolete items, restrictive or custom items, raw materials, work-in-process, components that are not part of finished goods, spare parts, packaging and shipping materials, supplies used or consumed in a Borrower's business, Inventory subject to a security interest or lien in favor of any third Person, bill and hold goods, Inventory that is not subject to Agent's perfected security interests, defective goods (except for minor defects that do not affect saleability), "seconds," and Inventory acquired on consignment.

"Eligible Transferee" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets in excess of $5,000,000,000, or the asset based lending Affiliate of such bank, (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or a political subdivision of any such country, and having total assets in excess of $5,000,000,000, or the asset based lending Affiliate of such bank; provided that such bank is acting through a branch or agency located in the United States, (c) a finance company, insurance or other financial institution, or fund that is engaged in making, purchasing, or otherwise investing in commercial loans in the ordinary course of its business and having total assets in excess of $500,000,000, (d) any Affiliate (other than individuals) of an existing Lender, and (e) any other Person approved by Agent and Parent.

"Equipment" means all of Borrowers' present and hereafter acquired machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including motor vehicles and trailers), tools, parts, goods (other than consumer goods, farm products, or Inventory), wherever located, including, (a) any interest of any Borrower in any of the foregoing, and (b) all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, 29 U.S.C. §§ 1000 et seq., amendments thereto, successor statutes, and regulations or guidance promulgated thereunder.

"ERISA Affiliate" means any trade or business (whether or not incorporated) which, within the meaning of Section 414 of the IRC, is: (i) under common control with any Borrower; (ii) treated, together with any Borrower, as a single employer; (iii) treated as a member of an affiliated service group of which any Borrower is also treated as a member; or (iv) is otherwise aggregated with any Borrower for purposes of the employee benefits requirements listed in IRC Section 414(m)(4).

"ERISA Event" means (a) a Reportable Event with respect to any Benefit Plan or Multiemployer Plan, (b) the withdrawal of any Borrower, any of its Subsidiaries or ERISA Affiliates from a Benefit Plan during a plan year in which it was a "substantial employer" (as defined in Section 4001(a)(2) of ERISA), (c) the providing of notice of intent to terminate a Benefit Plan in a distress termination (as described in Section 4041(c) of ERISA), (d) the institution by the PBGC of proceedings to terminate a Benefit Plan or Multiemployer Plan, (e) any event or condition (i) that provides a basis under Section 4042(a)(1), (2), or (3) of ERISA for the termination of, or the appointment of a trustee to administer, any Benefit Plan or Multiemployer Plan, or (ii) that may result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA, (f) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of any Borrower, any of its Subsidiaries or ERISA Affiliates from a Multiemployer Plan, or (g) providing any security to any Plan under Section 401(a)(29) of the IRC by any Borrower or its Subsidiaries or any of their ERISA Affiliates.

"Event of Default" has the meaning set forth in Section 8.

"Existing Loan Agreement" has the meaning set forth in the recitals to this Agreement.

"Fee Letter" means that certain Fee Letter dated as of even date herewith entered into by and between the Agent and the Borrowers, as amended and in effect from time to time.

"FEIN" means Federal Employer Identification Number.

"Fiscal Month" means months computed on the retail basis of four weeks, five weeks and four weeks per fiscal quarter.

"Fiscal Year" means a retail year ending on the Saturday closest to January 31.

"Funding Date" means the date on which a Borrowing occurs.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"General Intangibles" means all of Borrowers' present and future general intangibles and other personal property (including contract rights, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information contained on computer disks or tapes, literature, reports, catalogs, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), other than goods, Accounts, and Negotiable Collateral.

"Governing Documents" means the certificate or articles of incorporation, by-laws, or other organizational or governing documents of any Person.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guaranties" means those certain Guaranties executed by Guarantors in favor of Agent and Lenders.

"Guarantors" means, as of the Closing Date, Twin Brook, thechildrensplace.com, inc., The Children's Place Canada Holdings, Inc. and The Children's Place (Virginia), LLC.

"Hazardous Materials" means (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Hedge Agreement" means any and all agreements, or documents now existing or hereafter entered into by Administrative Borrower or its Subsidiaries that provide for an interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross currency rate swap, currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Administrative Borrower's or its Subsidiaries' exposure to fluctuations in interest or exchange rates, loan, credit exchange, security or currency valuations or commodity prices.

"Increased Maximum Amount" is defined in Section 2.18.

"Indebtedness" means as to all of Borrowers (a) all obligations for borrowed money, (b) all obligations evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all obligations as a lessee under capital leases, (d) all obligations or liabilities of others secured by a Lien on any asset of a Person or its Subsidiaries, irrespective of whether such obligation or liability is assumed, (e) all obligations to pay the deferred purchase price of assets (other than trade payables incurred in the ordinary course of business and repayable in accordance with customary trade practices), (f) all obligations owing under Hedge Agreements, and (g) any obligation guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold with recourse) any obligation of any other Person that constitutes Indebtedness under any of clauses (a) through (f) above.

"Indemnified Liabilities" has the meaning set forth in Section 11.3.

"Indemnified Person" has the meaning set forth in Section 11.3.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Intercompany Services Agreement" means that certain Intercompany Services Agreement, dated as of November 21, 2004 among The Disney Store, LLC, The Disney Store (Canada) Ltd. and Services Company, as amended, supplemented, modified and/or restated and in effect from time to time.

"Interest Period" means, for any LIBOR Rate Loan, the period commencing on the Business Day such LIBOR Rate Loan is disbursed or continued, or on the Business Day on which a Reference Rate Loan is converted to such LIBOR Rate Loan, and ending on the date that is one, two or three months thereafter, as selected by Administrative Borrower and notified to Agent as provided in Sections 2.13(a) and (b).

"Inventory" means all present and future inventory (other than inventory of Children's Place Canada) in which any Borrower has any interest, including goods held for sale or lease or to be furnished under a contract of service and all of any Borrower's present and future raw materials, work in process, finished goods, and packing and shipping materials, wherever located.

"Inventory Reserves" means reserves (determined from time to time by Agent in its discretion) for (a) the estimated costs relating to unpaid freight charges, warehousing or storage charges, taxes, duties, and other similar unpaid costs associated with the

acquisition of Eligible Inventory that is in transit to a Borrower, plus (b) the estimated reclamation claims of unpaid sellers of Inventory sold to Borrowers.

"Investment Property." means all of Borrowers' presently existing and hereafter acquired or arising investment property (as that term is defined in Section 9-102 of the Code).

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"L/C" means a letter of credit issued for the account of Parent or Services Company pursuant to this Agreement.

"L/C Demand Facility" means that certain $60,000,000 letter of credit facility established by Wells Fargo Retail Finance, LLC and certain other financial institutions providing for the issuance of commercial letters of credit for the account of the Borrowers pursuant to the terms of the L/C Demand Facility Letter of Credit Agreement.

"L/C Demand Facility Letter of Credit" means any letter of credit issued pursuant to the L/C Demand Facility Letter of Credit Agreement for the purpose of providing the primary payment mechanism in connection with the purchase of inventory.

"L/C Demand Facility Letter of Credit Agreement" means that certain Letter of Credit Agreement dated as of June 28, 2007 between, among others, the Borrowers, the financial institutions party thereto from time to time as lenders, and Wells Fargo Retail Finance, LLC, as Agent, as amended and in effect from time to time.

"L/C Guaranty" means a guaranty of payment with respect to letters of credit issued by an issuing bank for the account of Parent or Services Company pursuant to this Agreement.

"L/C Sublimit" means $100,000,000.00, unless increased in accordance with Section 2.18 below (but in no event greater than $130,000,000.00).

"Lender" and "Lenders" have the respective meanings set forth in the preamble to this Agreement, and shall include any other Person made a party to this Agreement in accordance with the provisions of Section 15.1.

"Lender Group" means, individually and collectively, each of the individual Lenders and Agent.

"Lender Group Expenses" means all: reasonable costs or expenses (including taxes, and insurance premiums) required to be paid by a Borrower or its Subsidiaries under any of the Loan Documents that are paid or incurred by the Lender Group; reasonable fees or charges paid or incurred by the Lender Group in connection with the Lender Group's transactions with Borrowers, including, fees or charges for photocopying, notarization, couriers and messengers, telecommunication, public record searches

(including tax lien, litigation, and UCC searches and including searches with the patent and trademark office, the copyright office, or the department of motor vehicles), filing, recording, publication, appraisal (including periodic Collateral appraisals); environmental audits; costs and expenses incurred by Agent in the disbursement of funds to Borrowers (by wire transfer or otherwise); charges paid or incurred by Agent resulting from the dishonor of checks; costs and expenses paid or incurred by Agent to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated; reasonable costs and expenses paid or incurred by the Lender Group in examining Books; costs and expenses of third party claims or any other suit paid or incurred by the Lender Group in enforcing or defending the Loan Documents or in connection with the transactions contemplated by the Loan Documents or the Lender Group's relationship with Borrowers or any guarantor; and the Lender Group's reasonable attorneys fees and expenses incurred in advising, structuring, drafting, reviewing, administering, amending, terminating, enforcing, defending, or concerning the Loan Documents (including attorneys fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning Borrowers or any guarantor of the Obligations), irrespective of whether suit is brought. Notwithstanding anything to the contrary set forth herein, the foregoing shall be subject to the limitations set forth in Section 2.12(e).

"Lender-Related Persons" means any Lender, together with its Affiliates, and the officers, directors, employees, counsel, agents, and attorneys-in-fact of such Lender and such Affiliates.

"Letter of Credit" means an L/C or an L/C Guaranty, as the context requires, issued pursuant to this Agreement.

"LIBOR Rate" means, with respect to the Interest Period for a LIBOR Rate Loan, the interest rate per annum (rounded upwards, if necessary, to the next whole multiple of 1/16 of 1% per annum) at which United States dollar deposits are offered to Wells Fargo (or its Affiliates) by major banks in the London interbank market (or other LIBOR Rate market selected by Agent) on or about 11:00 a.m. (Boston time) two Business Days prior to the commencement of such Interest Period in amounts comparable to the amount of the LIBOR Rate Loans requested by and available to Borrowers in accordance with this Agreement.

"LIBOR Rate Loans" means any Advance (or any portion thereof) made or outstanding hereunder during any period when interest on such Advance (or portion thereof) is payable based on the Adjusted LIBOR Rate.

"LIBOR Rate Margin" means 1.00%, and commencing with July 29, 2007 and at the end of each fiscal quarter thereafter, the following levels corresponding to the following amounts of Average Excess Availability for the immediately preceding fiscal quarter:

Average Excess Availability	LIBOR Rate Margin
Greater than $40,000,000	1.00%
Equal to or less than $40,000,000 and greater than $15,000,000	1.25%
Less than or equal to $15,000,000	1.50%

"Lien" means any interest in property securing an obligation owed to, or a claim by, any Person other than the owner of the property, whether such interest shall be based on the common law, statute, or contract, whether such interest shall be recorded or perfected, and whether such interest shall be contingent upon the occurrence of some future event or events or the existence of some future circumstance or circumstances, including the lien or security interest arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, security agreement, adverse claim or charge, conditional sale or trust receipt, or from a lease, consignment, or bailment for security purposes and also including reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting Real Property.

"Loan Account" has the meaning set forth in Section 2.11.

"Loan Documents" means this Agreement, the Bank Products Agreements, the Letters of Credit, the Lockbox Agreements, any note or notes executed by Borrowers and payable to the Lender Group, and any other agreement entered into, now or in the future, in connection with this Agreement.

"Loan Parties" means, collectively, the Borrowers and the Guarantors.

"Lockbox Account" shall mean a depositary account established pursuant to one of the Lockbox Agreements.

"Lockbox Agreements" means those certain Lockbox Operating Procedural Agreements and those certain Depository Account Agreements, in form and substance satisfactory to Agent, each of which is among Administrative Borrower, Agent, and one of the Lockbox Banks.

"Lockbox Banks" means Wachovia National Bank, or any replacement bank chosen by Borrowers and acceptable to Agent.

"Lockboxes" has the meaning set forth in Section 2.8.

"Material Adverse Change" means (a) a material adverse change in the business, prospects, operations, results of operations, assets, liabilities or condition (financial or

otherwise) of Borrowers and their Subsidiaries, (b) the material impairment of a Borrower's ability to perform its obligations under the Loan Documents to which it is a party or of the Lender Group to enforce the Obligations or realize upon the Collateral, (c) a material adverse effect on the value of the Collateral or the amount that the Lender Group would be likely to receive (after giving consideration to delays in payment and costs of enforcement) in the liquidation of such Collateral, or (d) a material impairment of the priority of the Lender Group's Liens with respect to the Collateral.

"Maturity Date" has the meaning set forth in Section 3.4.

"Maximum Amount" means (i) $100,000,000.00, unless increased in accordance with Section 2.18 below (but in no event greater than $130,000,000.00), plus (ii) during the Seasonal Overadvance Period, the Seasonal Overadvance Amount.

"Measurement Period" means, at any date of determination, the most recently completed twelve Fiscal months of the Parent.

"Multiemployer Plan" means a "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA) to which Parent, any of its Subsidiaries, or any ERISA Affiliate has contributed, or was obligated to contribute, within the past six years.

"Negotiable Collateral" means all of Borrowers' present and future letters of credit, notes, drafts, instruments, certificated and uncertificated securities (including the shares of stock of Subsidiaries of Parent (other than Hoop Holdings, LLC, Hoop Retail Stores, LLC, Hoop Canada Holdings, Inc. or Hoop Canada, Inc.), but limited to 65% of the outstanding shares of each class of stock of any foreign Subsidiary or any domestic Subsidiary, the sole asset of which is the stock of one or more foreign Subsidiaries), investment property, security entitlements, documents, personal property leases (wherein a Borrower is the lessor), chattel paper, and Books relating to any of the foregoing.

"Non-Consenting Lender" has the meaning set forth in Section 16.1.

"NRLV" means at any time of determination thereof, the ratio, expressed as a percentage, of the net retail liquidation value of Borrowers' Inventory divided by the retail value of such Inventory, all as set forth in the most recent appraisal delivered to, and approved by Agent.

"Obligations" means (a) all loans, Advances, debts, principal, interest (including any interest that, but for the provisions of the Bankruptcy Code, would have accrued), contingent reimbursement obligations under any outstanding Letters of Credit, liabilities (including all amounts charged to Borrowers' Loan Account pursuant hereto), obligations, fees, charges, costs, or Lender Group Expenses (including any fees or expenses that, but for the provisions of the Bankruptcy Code, would have accrued), lease payments, guaranties, covenants, and duties owing by Borrowers to the Lender Group of any kind and description (whether pursuant to or evidenced by the Loan Documents or pursuant to any other agreement between the Lender Group and any Borrower, and irrespective of whether for the payment of money), whether direct or indirect, absolute or

contingent, due or to become due, now existing or hereafter arising, and including any debt, liability, or obligation owing from any Borrower to others that the Lender Group may have obtained by assignment or otherwise, and further including all interest not paid when due and all Lender Group Expenses that Borrowers are required to pay or reimburse by the Loan Documents, by law, or otherwise, and (b) all Bank Product Obligations. Any reference in this Agreement or in the Loan Documents to the Obligations shall include all extensions, modifications, renewals, or alterations thereof, both prior and subsequent to any Insolvency Proceeding.

"Originating Lender" has the meaning set forth in Section 15.1(e).

"Overadvance" has the meaning set forth in Section 2.6.

"Parent" has the meaning set forth in the preamble of this Agreement.

"Participant" has the meaning set forth in Section 15.1(e).

"PBGC" means the Pension Benefit Guaranty Corporation as defined in Title IV of ERISA, or any successor thereto.

"Permitted Liens" means (a) Liens held by the Lender Group, (b) Liens for unpaid taxes that either (i) are not yet due and payable or (ii) are the subject of Permitted Protests, (c) Liens set forth on Schedule P-1, (d) the interests of lessors under operating leases and purchase money security interests and Liens of lessors under capital leases to the extent that the acquisition or lease of the underlying asset is permitted under Section 7.1 and so long as the Lien only attaches to the asset purchased or acquired and only secures the purchase price of the asset, (e) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business of Borrowers and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet due and payable, or (ii) are the subject of Permitted Protests, (f) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, (g) Liens or deposits to secure performance of bids, tenders, or leases (to the extent permitted under this Agreement), incurred in the ordinary course of business of Borrowers and not in connection with the borrowing of money, (h) Liens arising by reason of security for surety or appeal bonds in the ordinary course of business of any Borrower, (i) Liens of or resulting from any judgment or award that would not cause a Material Adverse Change and as to which the time for the appeal or petition for rehearing of which has not yet expired, or in respect of which any Borrower is in good faith prosecuting an appeal or proceeding for a review, and in respect of which a stay of execution pending such appeal or proceeding for review has been secured, (j) with respect to any Real Property, easements, rights of way, zoning and similar covenants and restrictions, and similar encumbrances that customarily exist on properties of Persons engaged in similar activities and similarly situated and that in any event do not materially interfere with or impair the use or operation of the Collateral by Borrowers or the value of the Lender

Group's Lien thereon or therein, or materially interfere with the ordinary conduct of the business of Borrowers, and (k) liens securing the L/C Demand Facility.

"Permitted Protest" means the right of Borrowers to protest any Lien (other than any such Lien that secures the Obligations), tax (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on the books of Borrowers in an amount that is reasonably satisfactory to Agent, (b) any such protest is instituted and diligently prosecuted by Borrowers in good faith, and (c) Agent is satisfied that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Liens of the Lender Group in and to the Collateral.

"Person" means and includes natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Plan" means any employee benefit plan, program, or arrangement maintained or contributed to by any Borrower or with respect to which it may incur liability.

"Pro-Rata Share" means, with respect to a Lender, a fraction (expressed as a percentage), the numerator of which is the amount of such Lender's Commitment and the denominator of which is the aggregate amount of the Commitments.

"Qualified Cash" means, as of any date of determination, the amount of unrestricted cash of the Borrowers that is (a) deposited in an account of the Borrowers maintained with the Agent, which account is subject to a valid, enforceable and first priority perfected security interest in favor of the Agent pursuant to a control agreement, in form and substance satisfactory to the Agent, providing that, among other things, no amounts may be withdrawn or disbursed from the account to any Person without the prior written consent of the Agent, and (b) not subject to any Lien, except in favor of the Agent.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by any Borrower.

"Reference Rate" the rate of interest announced within Wells Fargo at its principal office in San Francisco as its "prime rate", with the understanding that the "prime rate" is one of Wells Fargo's base rates (not necessarily the lowest of such rates) and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto and is evidenced by the recording thereof after its announcement in such internal publication or publications as Wells Fargo may designate.

"Reference Rate Loans" means any advance (or portion thereof) made or outstanding hereunder during any period when interest on such Advance is payable based on the Reference Rate.

"Reportable Event" means any of the events described in Section 4043(c) of ERISA or the regulations thereunder other than a Reportable Event as to which the provision of 30 days notice to the PBGC is waived under applicable regulations.

"Required Lenders" means, at any time, Lenders whose Pro Rata Shares aggregate 50.1% or more of the Commitments; provided, however, that in connection with the providing of consent for (i) payment by the Borrowers of any of their indemnification obligations to the Walt Disney Companies, as set forth in Section 7.16, below, Required Lenders shall mean Lenders whose Pro Rata Shares aggregate 66 2/3% or more of the Commitments, and (ii) postponement of the time for repayment of the Seasonal Overadvance Facility, Required Lenders shall mean all of the Lenders, unanimously.

"Requirement of Law" means, as to any Person: (a) (i) all statutes and regulations and (ii) court orders and injunctions, arbitrators' decisions, and/or similar rulings, in each instance by any Governmental Authority or arbitrator applicable to or binding upon such Person or any of such Person's property or to which such Person or any of such Person's property is subject; and (b) that Person's organizational documents, by-laws and/or other instruments which deal with corporate or similar governance, as applicable.

"Reserve Percentage" for any Interest Period means, as of the date of determination thereof, the maximum percentage (rounded upward, if necessary to the nearest 1/100th of 1%), as determined by Agent (or its Affiliates) in accordance with its (or their) usual procedures (which determination shall be conclusive in the absence of manifest error), that is in effect on such date as prescribed by the Board of Governors of the Federal Reserve System for determining the reserve requirements (including supplemental, marginal, and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "eurocurrency liabilities") having a term equal to such Interest Period by Agent or its Affiliates.

"Retiree Health Plan" means an "employee welfare benefit plan" within the meaning of Section 3(1) of ERISA that provides benefits to individuals after termination of their employment, other than as required by Section 601 of ERISA.

"Revolving Accounts" means any Account arising from an agreement to extend credit on an ongoing basis through the use of a device such as a credit card or the like, whether or not subject to regulation under Federal Reserve Board Regulation Z, or any state statute or regulation on truth-in-lending.

"Revolving Advances" has the meaning set forth in Section 2.1(a).

"Revolving Facility Usage" means, as of any date of determination, the aggregate amount of Revolving Advances and undrawn or unreimbursed Letters of Credit outstanding.

"Seasonal Advances" has the meaning set forth in Section 2.1(b).

"Seasonal Overadvance Amount" means up to $20,000,000.00 at any one time outstanding.

"Seasonal Overadvance Conditions" means, at the time of any request for a Seasonal Advance under the Seasonal Overadvance Facility, that (a) no Default or Event of Default then exists or would arise as a result of the making of such Seasonal Advance, and (b) the Loan Parties' Consolidated EBITDA, on a trailing twelve (12) month basis based upon the most recent financial statements furnished, and as projected on a pro-forma basis for the remainder of the Seasonal Overadvance Period then in effect, will be equal to or greater than $130,000,000.00. Simultaneously with any request for a Seasonal Advance under the Seasonal Overadvance Facility, the Borrowers shall deliver to the Agent evidence of satisfaction of the conditions contained in clause (b) above on a basis reasonably satisfactory to the Agent.

"Seasonal Overadvance Facility" means a permanent facility to be maintained by the Lenders for the benefit of the Borrowers during the Seasonal Overadvance Period in an amount up to the Seasonal Overadvance Amount, as set forth in Section 2.1(b). Advances under the Seasonal Overadvance Facility shall be available to the Borrowers if, and only if, the Borrowers have satisfied the Seasonal Overadvance Conditions.

"Seasonal Overadvance Facility Usage" means, as of any date of determination, the aggregate amount of Seasonal Advances outstanding.

"Seasonal Overadvance Period" means the period from July 1st through October 31st of each year during the term of this Agreement.

"Services Company" means The Children's Place Services Company, LLC, a Delaware limited liability company.

"Settlement" has the meaning set forth in Section 2.1(j)(i).

"Settlement Date" has the meaning set forth in Section 2.1(j)(i).

"Solvent" means, with respect to any Person on a particular date, that on such date (a) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair salable value of the properties and assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the

amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.

"Stock Option Issue" shall have the meaning set forth in that certain letter agreement dated as of December 20, 2006, as amended and in effect from time to time.

"Subsidiary" of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the shares of stock or other ownership interests having ordinary voting power to elect a majority of the board of directors (or appoint other comparable managers) of such corporation, partnership, limited liability company, or other entity.

"Twin Brook" means Twin Brook Insurance Co., Inc., a New York captive insurance company.

"Voidable Transfer" has the meaning set forth in Section 18.6.

"Walt Disney Companies" means TDS Franchising, LLC, a California limited liability company; Disney Enterprises, Inc., a Delaware corporation; and Disney Credit Card Services, Inc., a California corporation.

"Wells Fargo" means Wells Fargo Bank, National Association.

"Wells Fargo Retail" means Wells Fargo Retail Finance, LLC, a Delaware limited liability company.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrowers or Parent" is used in respect of a financial covenant or a related definition, it shall be understood to mean Parent and its Subsidiaries on a consolidated basis unless the context clearly requires otherwise.

1.3 Code. Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein.

1.4 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. An Event of Default shall "continue" or be "continuing" until such Event of Default has been waived in writing by the requisite members of the Lender Group. Any reference herein to the repayment in full of the Obligations shall mean the repayment in full in cash of all Obligations other than contingent indemnification Obligations and other than any Bank Product Obligations that, at such time, are allowed by the applicable Bank Product Provider to remain outstanding and are not required to be repaid or cash collateralized pursuant to the provisions of this Agreement. Section, subsection, clause,

schedule, and exhibit references are to this Agreement unless otherwise specified. Any reference in this Agreement or in the Loan Documents to this Agreement or any of the Loan Documents shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable.

1.5 Schedules and Exhibits. All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. LOAN AND TERMS OF PAYMENT.

2.1 Revolving Advances.

(a) Amounts. Subject to the terms and conditions of this Agreement, each Lender agrees to make advances ("Revolving Advances") to the Borrowers in an amount at any one time outstanding not to exceed such Lender's Pro Rata Share of an amount equal to the lesser of (i) the Maximum Amount (other than with respect to the Seasonal Overadvance Amount) less the sum of (A) the principal balance of all Revolving Advances then outstanding and (B) the aggregate amount of all undrawn or unreimbursed Letters of Credit, or (ii) the Borrowing Base less the sum of (A) the principal balance of all Revolving Advances then outstanding and (B) the aggregate amount of all undrawn or unreimbursed Letters of Credit. For purposes of this Agreement, "Borrowing Base" as of any date of determination, shall mean the result of:

(i) 90% of Eligible Accounts, plus

(ii) 30% of the retail value of Borrowers' Eligible Inventory, not to exceed 90% of the NRLV of Borrowers' gross Inventory for months other than June through November of each year and 95% of the NRLV of Borrowers' gross Inventory for the months of June through November of each year; plus

(iii) an amount equal to 70% of the Borrowers' cost of Inventory to be acquired pursuant to outstanding Commercial Letters of Credit (except that Inventory acquired pursuant to Canadian Letters of Credit shall not be included in this Section). Such Commercial Letters of Credit must not allow partial draws unless such draws are for finished goods Inventory concurrently transferred to a Borrower, and draws thereunder must require documentation reflecting the transfer of title to such Borrower (in form and substance satisfactory to Agent) of first quality finished goods Inventory conforming to such Borrower's contract with the seller; less

(iv) the aggregate amount of reserves, if any, established by Agent under Sections 2.1(c), 6.14 and 10.

(b) Seasonal Overadvance Facility. Subject to the terms and conditions of this Agreement, in addition to the Revolving Advances to be made pursuant to Section 2.1(a), above, the Lenders agree to make advances ("Seasonal Advances") (on a pro rata basis in accordance with Schedule C-1), to the Borrowers in an amount at any one time outstanding not to exceed an amount equal to the Seasonal Overadvance Amount less the aggregate amount of all Seasonal Advances outstanding under the Seasonal Overadvance Facility.

(i) The Seasonal Overadvance Facility shall be in place, effective, and available to the Borrowers for the making of Seasonal Advances thereunder during the Seasonal Overadvance Period.

(ii) Advances under the Seasonal Overadvance Facility shall be made upon request by the Borrowers, in accordance with Section 2.1(e), below, and shall be available in up to four (4) tranches, in the minimum amount of $5,000,000.00 each.

(iii) Seasonal Advances under the Seasonal Overadvance Facility shall be secured by the Collateral and shall constitute Advances and Obligations hereunder.

(iv) All Obligations outstanding under the Seasonal Overadvance Facility shall be paid in full in immediately available funds, without demand, notice, or protest, on or before 5:00 p.m. (Boston time) on the last day of the Seasonal Overadvance Period then in effect.

(c) Reserves. Anything to the contrary in this Section 2.1 notwithstanding, the Agent may (i) reduce the advance rates based upon Eligible Accounts and Eligible Inventory without declaring an Event of Default if it determines in its reasonable business judgment that there has occurred a Material Adverse Change; and (ii) establish reserves (including Inventory Reserves) against the Borrowing Base in such amounts as Agent in its reasonable judgment (from the perspective of an asset-based lender) shall deem necessary or appropriate, including reserves on account of (y) sums that Borrowers are required to pay (such as taxes, assessments, insurance premiums, or, in the case of leased assets, rents or other amounts payable under such leases) and has failed to pay under any section of this Agreement or any other Loan Document and (z) without duplication of the foregoing, amounts owing by Borrowers to any Person to the extent secured by a Lien on, or trust over, any of the Collateral, which Lien or trust, in the reasonable determination of Agent (from the perspective of an asset-based lender), would be likely to have a priority superior to the Liens of Agent (such as landlord liens, ad valorem taxes, or sales taxes where given priority under applicable law) in and to such item of the Collateral. Without limiting the foregoing, upon the earlier of (i) the occurrence of an event of default under the L/C Demand Facility or (ii) the Termination Date of the L/C Demand Facility (as defined therein), the Agent may, and at the request of the agent under the L/C Demand Facility will, establish reserves against the Borrowing Base in an amount up to the undrawn and unreimbursed amount of all L/C Demand Facility Letters of Credit then outstanding under the L/C Demand Facility; provided, however, that the Agent shall not establish such reserves if and to the extent that the Borrowers have provided cash collateral or other security for such L/C Demand Facility Letters of Credit in accordance with the terms and conditions of Section 2.6 of the L/C Demand Facility Letter of Credit Agreement.

(d) Revolving Nature. Amounts borrowed pursuant to this Section 2.1 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

(e) Procedure for Borrowing. Each Borrowing shall be made upon Administrative Borrower's irrevocable request therefor delivered to Agent (which notice must be

received by Agent (i) no later than 2:00 p.m. (Boston time) on the Funding Date, if such advance is for $20,000,000 or less, or (ii) no later than 2:00 p.m. (Boston time) (A) three Business Days prior to the Funding Date of any Borrowing of, conversion to, or continuation of, LIBOR Rate Loans, and (B) one Business Day prior to the requested Funding Date of any Borrowing of Reference Rate Loans, if such advance is for more than $20,000,000) specifying (i) the amount of the Borrowing; and (ii) the requested Funding Date, which shall be a Business Day.

(f) Agent's Election. Promptly after receipt of a request for a Borrowing pursuant to Section 2.1(e) in excess of $20,000,000, the Agent shall elect, in its discretion, (i) to have the terms of Section 2.1(g) apply to such requested Borrowing, or (ii) to make an Agent Loan pursuant to the terms of Section 2.1(h) in the amount of the requested Borrowing. Any requested Borrowing of $20,000,000 or less shall be made as an Agent Loan pursuant to the terms of Section 2.1(h).

(g) Making of Advances.

(i) In the event that Agent shall elect to have the terms of this Section 2.1(g) apply to a requested Borrowing in excess of $20,000,000 as described in Section 2.1(f), then promptly after receipt of a request for a Borrowing pursuant to Section 2.1(e), Agent shall notify the Lenders, not later than 4:00 p.m. (Boston time) on the Business Day on which such request for Borrowing pursuant to Section 2.1(e) is received by Agent, by telephone and promptly followed by telecopy, or other similar form of transmission, of the requested Borrowing. Each Lender shall make the amount of such Lender's Pro Rata Share of the requested Borrowing available to the Agent in same day funds, to such account of the Agent as the Agent may designate, not later than 2:00 p.m. (Boston time) on the Funding Date applicable thereto. After the Agent's receipt of the proceeds of such Advances, upon satisfaction of the applicable conditions precedent set forth in Sections 3.1 and 3.2, the Agent shall make the proceeds of such Advances available to Borrowers on the applicable Funding Date by transferring same day funds equal to the proceeds of such Advances received by the Agent to the Designated Account; provided, however, that, subject to the provisions of Section 2.1(m), the Agent shall not request any Lender to make, and no Lender shall have the obligation to make, any Advance if the Agent shall have received written notice from any Lender, or otherwise has actual knowledge, that (A) one or more of the applicable conditions precedent set forth in Sections 3.1 or 3.2 will not be satisfied on the requested Funding Date for the applicable Borrowing, or (B) the requested Borrowing would exceed the Availability on such Funding Date.

(ii) Unless Agent receives notice from a Lender on or prior to the Closing Date or, with respect to any Borrowing after the Closing Date, at least one Business Day prior to the date of such Borrowing, that such Lender will not make available as and when required hereunder to Agent for the account of Borrowers the amount of that Lender's Pro Rata Share of the Borrowing, Agent may assume that each Lender has made or will make such amount available to Agent in immediately available funds on the Funding Date and Agent may (but shall not be so required), in reliance upon such assumption, make available to Borrowers on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to Agent in immediately available funds and Agent in such circumstances has made available to Borrowers such amount, that Lender shall on the Business Day following such

Funding Date make such amount available to Agent, together with interest at the Defaulting Lenders Rate for each day during such period. A notice from Agent submitted to any Lender with respect to amounts owing under this subsection shall be conclusive, absent manifest error. If such amount is paid to Agent such payment to Agent shall constitute such Lender's Advance on the date of Borrowing for all purposes of this Agreement. If such amount is not paid to Agent on the Business Day following the Funding Date, Agent will notify Administrative Borrower of such failure to fund and, upon demand by Agent, Borrowers shall pay such amount to Agent for Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Advances composing such Borrowing. The failure of any Lender to make any Advance on any Funding Date shall not relieve any other Lender of any obligation hereunder to make an Advance on such Funding Date, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on any Funding Date. Any Lender that fails to make any Advance that it is required to make hereunder on any Funding Date and that has not cured such failure by making such Advance within one Business Day after written demand upon it by Agent to do so, shall constitute a "Defaulting Lender" for purposes of this Agreement until such Advance is made.

(iii) Agent shall not be obligated to transfer to a Defaulting Lender any payments made by Borrowers to Agent for the Defaulting Lender's benefit; nor shall a Defaulting Lender be entitled to the sharing of any payments hereunder. Amounts payable to a Defaulting Lender shall instead be paid to or retained by Agent. Agent may hold and, in its discretion, re-lend to Borrowers the amount of all such payments received or retained by it for the account of such Defaulting Lender. Solely for the purposes of voting or consenting to matters with respect to the Loan Documents and determining Pro Rata Shares, such Defaulting Lender shall be deemed not to be a "Lender" and such Defaulting Lender's Commitment shall be deemed to be zero. This section shall remain effective with respect to such Defaulting Lender until (A) the Obligations under this Agreement shall have been declared or shall have become immediately due and payable or (B) the requisite non-Defaulting Lenders, Agent, and Borrowers shall have waived such Defaulting Lender's default in writing. The operation of this section shall not be construed to increase or otherwise affect the Commitment of any non-Defaulting Lender, or relieve or excuse the performance by Borrowers of their duties and obligations hereunder.

(h) Making of Agent Loans.

(i) In the event the Agent shall elect to have the terms of this Section 2.1(h) apply to a requested Borrowing in excess of $20,000,000 as described in Section 2.1(f) or in the event of any requested Borrowing of $20,000,000 or less, Agent shall make an Advance in the amount of such Borrowing (any such Advance made solely by Agent pursuant to this Section 2.1(h) being referred to as an "Agent Loan" and such Advances being referred to collectively as "Agent Loans") available to Borrowers on the Funding Date applicable thereto by transferring same day funds to Administrative Borrower's Designated Account. Each Agent Loan is an Advance hereunder and shall be subject to all the terms and conditions applicable to other Advances, except that all payments thereon shall be payable to Agent solely for its own account (and for the account of the holder of any participation interest with respect to such Advance). Subject to the provisions of Section 2.1(m), the Agent shall not make any Agent

Loan if the Agent shall have received written notice from any Lender, or otherwise has actual knowledge, that (i) one or more of the applicable conditions precedent set forth in Sections 3.1 or 3.2 will not be satisfied on the requested Funding Date for the applicable Borrowing, or (ii) the requested Borrowing would exceed the Availability on such Funding Date. Agent shall not otherwise be required to determine whether the applicable conditions precedent set forth in Sections 3.1 or 3.2 have been satisfied on the Funding Date applicable thereto prior to making, in its sole discretion, any Agent Loan.

(ii) The Agent Loans shall be secured by the Collateral and shall constitute Advances and Obligations hereunder, and shall bear interest at the rate applicable from time to time to Obligations pursuant to Section 2.7.

(i) Agent Advances.

(i) Agent hereby is authorized by Borrowers and the Lenders, from time to time in Agent's sole discretion, (1) after the occurrence of a Default or an Event of Default (but without constituting a waiver of such Default or Event of Default), or (2) at any time that any of the other applicable conditions precedent set forth in Section 3.1 or 3.2 have not been satisfied, to make Advances to Borrowers on behalf of the Lenders which Agent, in its reasonable business judgment, deems necessary or desirable (A) to preserve or protect the Collateral, or any portion thereof (other than the Bank Product Obligations), (B) to enhance the likelihood of, or maximize the amount of, repayment of the Obligations, or (C) to pay any other amount chargeable to Borrowers pursuant to the terms of this Agreement, including Lender Group Expenses and the costs, fees, and expenses described in Section 10 (any of the Advances described in this Section 2.1(i) being hereinafter referred to as "Agent Advances"); provided that Agent shall not make any Agent Advances to Borrowers without the consent of all of the Lenders if the amount thereof would exceed $20,000,000 in the aggregate at any one time; and provided further that in no event shall Agent make any Agent Advance if, after giving effect thereto, the outstanding Revolving Facility Usage (except for and excluding amounts charged to the applicable Loan Account for interest, fees, or Lender Group Expenses) would exceed the Maximum Amount.

(ii) Agent Advances shall be repayable on demand and secured by the Collateral, shall constitute Advances and Obligations hereunder, and shall bear interest at the rate applicable from time to time to the Obligations pursuant to Section 2.7.

(j) Settlement. It is agreed that each Lender's funded portion of the Advances is intended by the Lenders to be equal at all times to such Lender's Pro Rata Share of the outstanding Advances. Such agreement notwithstanding, the Agent and the Lenders agree (which agreement shall not be for the benefit of or enforceable by Borrowers) that in order to facilitate the administration of this Agreement and the other Loan Documents, settlement among them as to the Advances, the Agent Loans, and the Agent Advances shall take place on a periodic basis in accordance with the following provisions:

(i) The Agent shall request settlement ("Settlement") with the Lenders on a weekly basis, or on a more frequent basis if so determined by the Agent, (1) for itself, with

respect to each Agent Loan and Agent Advance, and (2) with respect to Collections received, as to each by notifying the Lenders by telephone and promptly followed by telecopy, or other similar form of transmission, of such requested Settlement, no later than 1:00 p.m. (Boston time) on the Business Day immediately preceding the date of such requested Settlement (the "Settlement Date"). Such notice of a Settlement Date shall include a summary statement of the amount of outstanding Advances, Agent Loans, and Agent Advances for the period since the prior Settlement Date, the amount of repayments received in such period, and the amounts allocated to each Lender of the principal, interest, fees, and other charges for such period. Subject to the terms and conditions contained herein: (y) if a Lender's balance of the Advances, Agent Loans, and Agent Advances exceeds such Lender's Pro Rata Share of the Advances, Agent Loans, and Agent Advances as of a Settlement Date, then Agent shall by no later than 1:00 p.m. (Boston time) on the Settlement Date transfer in same day funds to the account of such Lender as Lender may designate, an amount such that each such Lender shall, upon receipt of such amount, have as of the Settlement Date, its Pro Rata Share of the Advances, Agent Loans, and Agent Advances; and (z) if a Lender's balance of the Advances, Agent Loans, and Agent Advances is less than such Lender's Pro Rata Share of the Advances, Agent Loans, and Agent Advances as of a Settlement Date, such Lender shall no later than 1:00 p.m. (Boston time) on the Settlement Date transfer in same day funds to such account of the Agent as the Agent may designate, an amount such that each such Lender shall, upon transfer of such amount, have as of the Settlement Date, its Pro Rata Share of the Advances, Agent Loans, and Agent Advances. Such amounts made available to the Agent under clause (z) of the immediately preceding sentence shall be applied against the amounts of the applicable Agent Loan or Agent Advance and, together with the portion of such Agent Loan or Agent Advance representing each Lender's Pro Rata Share thereof, shall constitute Advances of such Lenders. If any such amount is not made available to the Agent by any Lender on the Settlement Date applicable thereto to the extent required by the terms hereof, the Agent shall be entitled to recover for its account such amount on demand from such Lender together with interest thereon at the Defaulting Lenders Rate.

(ii) In determining whether a Lender's balance of the Advances, Agent Loans, and Agent Advances is less than, equal to, or greater than such Lender's Pro Rata Share of the Advances, Agent Loans, and Agent Advances as of a Settlement Date, Agent shall, as part of the relevant Settlement, apply to such balance the portion of payments actually received by Agent with respect to principal, interest, fees payable by Borrowers and allocable to the Lenders hereunder, and proceeds of Collateral. To the extent that a net amount is owed to any such Lender after such application, such net amount shall be distributed by Agent to that Lender as part of such Settlement.

(iii) Between Settlement Dates, the Agent, to the extent no Agent Advances or Agent Loans are outstanding, may pay over to Lenders any payments received by the Agent, which in accordance with the terms of the Agreement would be applied to the reduction of the Advances, for application to Lenders' Pro Rata Share of the Advances. If, as of any Settlement Date, Collections received since the then immediately preceding Settlement Date have been applied to Lenders' Pro Rata Share of the Advances other than to Agent Loans or Agent Advances, as provided for in the previous sentence, Lenders shall pay to the Agent for the accounts of the Lenders, and Agent shall pay to the Lenders, to be applied to the outstanding

Advances of such Lenders, an amount such that each Lender shall, upon receipt of such amount, have, as of such Settlement Date, its Pro Rata Share of the Advances. During the period between Settlement Dates, the Agent with respect to Agent Loans and Agent Advances, and each Lender with respect to the Advances other than Agent Loans and Agent Advances, shall be entitled to interest at the applicable rate or rates payable under this Agreement on the daily amount of

funds employed by the Agent or the Lenders, as applicable.

(k) Notation. The Agent shall record on its books the principal amount of the Advances owing to each Lender, including the Agent Loans and Agent Advances owing to the Agent, and the interests therein of each Lender, from time to time. In addition, each Lender is authorized, at such Lender's option, to note the date and amount of each payment or prepayment of principal of such Lender's Advances in its books and records, including computer records, such books and records constituting rebuttably presumptive evidence, absent manifest error, of the accuracy of the information contained therein.

(l) Lenders' Failure to Perform. All Advances (other than Agent Loans and Agent Advances) shall be made by the Lenders simultaneously and in accordance with their Pro Rata Shares. It is understood that (i) no Lender shall be responsible for any failure by any other Lender to perform its obligation to make any Advances hereunder, nor shall any Commitment of any Lender be increased or decreased as a result of any failure by any other Lender to perform its obligation to make any Advances hereunder, and (ii) no failure by any Lender to perform its obligation to make any Advances hereunder shall excuse any other Lender from its obligation to make any Advances hereunder.

(m) Overadvances. In addition to any Agent Advances which may be made in accordance with Section 2.1(i), above, the Agent may make voluntary Overadvances without the written consent of the Required Lenders for amounts charged to the applicable Loan Account for interest, fees or Lender Group Expenses pursuant to Section 2.1(i)(i)(2)(C). If the conditions for borrowing under Section 3.2(d) cannot be fulfilled, the Agent may, but is not obligated to, knowingly and intentionally continue to make Advances (without limiting the ability of the Agent to make Agent Loans) to Borrowers, such failure of condition notwithstanding, so long as, at any time, (i) the outstanding Revolving Facility Usage would not exceed the Borrowing Base for more than 60 consecutive days or more than once in any 180 day period, and the maximum outstanding overadvance amount shall not exceed $2,000,000, without the consent of all of the Lenders, and (ii) the outstanding Revolving Facility Usage (except for and excluding amounts charged to the applicable Loan Account for interest, fees, or Lender Group Expenses) does not exceed the Maximum Amount. The foregoing provisions are for the sole and exclusive benefit of the Agent and the Lenders and are not intended to benefit Borrowers in any way. The Advances that are made pursuant to this Section 2.1(m) shall be subject to the same terms and conditions as any other Agent Advance or Agent Loan, as applicable, except that the rate of interest applicable thereto shall be the rates set forth in Section 2.7(c)(i) without regard to the presence or absence of a Default or Event of Default.

Each Lender shall be obligated to settle with Agent as provided in Section 2.1(j) for the amount of such Lender's Pro Rata Share of any Overadvances made as permitted under this Section 2.1(m).

(n) Effect of Bankruptcy. If a case is commenced by or against any Borrower under the Bankruptcy Code, or other statute providing for debtor relief, then, without the approval of Required Lenders the Lender Group shall not make additional loans or provide additional financial accommodations under the Loan Documents to such Borrower as debtor or debtor-in-possession, or to any trustee for such Borrower, nor consent to the use of cash collateral (provided that the applicable Loan Account shall continue to be charged, to the fullest extent permitted by law, for accruing interest, fees, and Lender Group Expenses).

2.2 Letters of Credit.

(a) Agreement to Cause Issuance; Amounts; Outside Expiration Date. Subject to the terms and conditions of this Agreement, Agent agrees to issue Letters of Credit pursuant to this Agreement; provided, however, Parent or Services Company shall have the right to cause Canadian Letters of Credit to be issued pursuant to this Agreement; provided further that, so long as the L/C Demand Facility is in effect, no written notice of termination has been delivered by either the Administrative Borrower or the agent under the L/C Demand Facility in accordance with the terms thereof and the Borrowers are otherwise entitled to the issuance of L/C Demand Facility Letters of Credit under the L/C Demand Facility, no Commercial Letters of Credit shall be issued under this Agreement unless, at the time any such Commercial Letter of Credit is requested hereunder, the maximum amount available to be drawn under such Commercial Letter of Credit exceeds the maximum amount available to be issued under the L/C Demand Facility (in which case, subject to the terms and conditions set forth herein, the requested Commercial Letter of Credit shall be issued under this Agreement). Agent shall have no obligation to issue a Letter of Credit if any of the following would result:

(i) The aggregate amount of:

(A) all undrawn and unreimbursed Letters of Credit would exceed the L/C Sublimit; or

(B) all undrawn and unreimbursed Canadian Letters of Credit would exceed $10,000,000; or

(ii) 100% of the aggregate amount of all undrawn and unreimbursed Letters of Credit would exceed the Borrowing Base less the amount of outstanding Revolving Advances (including any Agent Advances and Agent Loans); or

(iii) the aggregate amount of all undrawn or unreimbursed Letters of Credit would exceed the Maximum Amount (without giving effect to the Seasonal Overadvance Amount) less the amount of outstanding Revolving Advances (including any Agent Advances and Agent Loans).

Borrowers expressly understand and agree that Agent shall have no obligation to arrange for the issuance by issuing banks of the letters of credit that are to be the subject of L/C Guarantees. Borrowers and the Lender Group acknowledge and agree that certain of the letters of credit that are to be the subject of L/C Guarantees may be issued and outstanding on the Closing Date. Each Letter of Credit shall have an expiry date no later than the date on which this Agreement is

scheduled to terminate under Section 3.4 (without regard to any potential renewal term) and all such Letters of Credit shall be in form and substance acceptable to Agent in its sole discretion. If Agent notifies Parent on or before 1:00 p.m. Boston time on any Business Day that the Lender Group is obligated to advance funds under a Letter of Credit, Borrowers shall reimburse such amount to Agent on the same Business Day. If Agent notifies Parent after 1:00 p.m. Boston time on any Business Day that the Lender Group is obligated to advance funds under a Letter of Credit, Borrowers shall reimburse such amount to Agent by 10:00 a.m. Boston time on the then next Business Day. In the absence of such reimbursement, the amount so advanced immediately and automatically shall be deemed to be an Advance hereunder and, thereafter, shall bear interest at the rate then applicable to Advances under Section 2.7.

(b) Indemnification. Each Borrower hereby agrees to indemnify, save, defend, and hold the Lender Group harmless from any loss, cost, expense, or liability, including payments made by the Lender Group, expenses, and reasonable attorneys fees incurred by the Lender Group arising out of or in connection with any Letter of Credit. Each Borrower agrees to be bound by the issuing bank's regulations and interpretations of any letters of credit guarantied by the Lender Group and opened to or for Parent's or Service Company's account or by Agent's interpretations of any Letter of Credit issued by Agent to or for any Borrower's account, even though this interpretation may be different from such Borrower's own, and such Borrower understands and agrees that the Lender Group shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following such Borrower's instructions or those contained in the Letter of Credit or any modifications, amendments, or supplements thereto. Each Borrower understands that the L/C Guarantees may require the Lender Group to indemnify the issuing bank for certain costs or liabilities arising out of claims by Borrowers against such issuing bank. Each Borrower hereby agrees to indemnify, save, defend, and hold the Lender Group harmless with respect to any loss, cost, expense (including reasonable attorneys fees), or liability incurred by the Lender Group under any L/C Guaranty as a result of the Lender Group's indemnification of any such issuing bank.

(c) Supporting Materials. Borrowers hereby authorize and direct any bank that issues a letter of credit guaranteed by an L/C Guaranty to deliver to Agent all instruments, documents, and other writings and property received by the issuing bank pursuant to such letter of credit, and to accept and rely upon Agent's instructions and agreements with respect to all matters arising in connection with such letter of credit and the related application. A Borrower may or may not be the "applicant" or "account party" with respect to such letter of credit.

(d) Costs of Letters of Credit. Notwithstanding anything to the contrary contained in this Agreement, Borrowers shall not be responsible for any and all charges, commissions, fees (other than the Letter of Credit fee set forth in Section 2.7(b)), and costs relating to any L/C or to the letters of credit guaranteed by an L/C Guaranty.

(e) Indemnification. Immediately upon the termination of this Agreement, Borrowers agree to either (i) provide cash collateral to be held by Agent in an amount equal to 105% of the maximum amount of the Lender Group's obligations under outstanding Letters of Credit, or (ii) cause to be delivered to Agent releases of all of the Lender Group's obligations under outstanding Letters of Credit. At Agent's discretion, any proceeds of Collateral received

by Agent after the occurrence and during the continuation of an Event of Default may be held as the cash collateral required by this Section 2.2(e).

(f) Increased Costs. If by reason of (i) any change in any applicable law, treaty, rule, or regulation or any change in the interpretation or application by any Governmental Authority of any such applicable law, treaty, rule, or regulation, or (ii) compliance by the issuing bank or the Lender Group with any direction, request, or requirement (irrespective of whether having the force of law) of any Governmental Authority or monetary authority including, without limitation, Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect (and any successor thereto):

(i) any reserve, deposit, or similar requirement is or shall be imposed or modified in respect of any Letters of Credit issued hereunder, or

(ii) there shall be imposed on the issuing bank or the Lender Group any other condition regarding any letter of credit, or Letter of Credit, as applicable, issued pursuant hereto;

and the result of the foregoing is to increase, directly or indirectly, the cost to the issuing bank or the Lender Group of issuing, making, guaranteeing, or maintaining any letter of credit, or Letter of Credit, as applicable, or to reduce the amount receivable in respect thereof by such issuing bank or the Lender Group, then, and in any such case, Agent may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, notify Administrative Borrower, and Borrowers shall pay on demand such amounts as the issuing bank or Agent may specify to be necessary to compensate the issuing bank or Agent for such additional cost or reduced receipt, together with interest on such amount from the date of such demand until payment in full thereof at the rate set forth in Section 2.7(a) or (c)(i), as applicable. The determination by the issuing bank or Agent, as the case may be, of any amount due pursuant to this Section 2.2(f), as set forth in a certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest or demonstrable error, be final and conclusive and binding on all of the parties hereto.

(g) Participations.

(i) Purchase of Participations. Immediately upon issuance of any Letter of Credit in accordance with this Section 2.2, each Lender shall be deemed to have irrevocably and unconditionally purchased and received without recourse or warranty, an undivided interest and participation in the credit support or enhancement provided through the Agent to such issuer in connection with the issuance of such Letter of Credit, equal to such Lender's Pro Rata Share of the face amount of such Letter of Credit (including, without limitation, all obligations of Borrowers with respect thereto, and any security therefor or guaranty pertaining thereto).

(ii) Documentation. Upon the request of any Lender, the Agent shall furnish to such Lender copies of any Letter of Credit, reimbursement agreements executed in connection therewith, application for any Letter of Credit and credit support or enhancement

provided through the Agent in connection with the issuance of any Letter of Credit, and such other documentation as may reasonably by requested by such Lender.

(iii) Obligations Irrevocable. The obligations of each Lender to make payments to the Agent with respect to any Letter of Credit or with respect to any credit support or enhancement provided through the Agent with respect to a Letter of Credit, and the obligations of Borrowers to make payments to the Agent, for the account of the Lenders, shall be irrevocable, not subject to any qualification or exception whatsoever, including, without limitation, any of the following circumstances:

(A) any lack of validity or enforceability of this Agreement or any of the other Loan Documents;

(B) the existence of any claim, setoff, defense, or other right which any Borrower may have at any time against a beneficiary named in a Letter of Credit or any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), any Lender, the Agent, the issuer of such Letter of Credit, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transactions between such Borrower or any other Person and the beneficiary named in any Letter of Credit);

(C) any draft, certificate, or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(D) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Loan Documents; or

(E) the occurrence of any Default or Event of Default.

2.3 Intentionally Omitted.

2.4 Intentionally Omitted.

2.5 Payments.

(a) **Payments by Borrowers.**

(i) All payments to be made by Borrowers shall be made without set-off, recoupment, deduction, or counterclaim, except as otherwise required by law. Except as otherwise expressly provided herein, all payments by Borrowers shall be made to Agent for the account of the Lenders or Agent, as the case may be, at Agent's address set forth in Section 12, and shall be made in immediately available funds, no later than 2:00 p.m. (Boston time) on the date specified herein. Any payment received by Agent later than 2:00 p.m. (Boston time), at the option of Agent, shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue until such following Business Day.

(ii) Whenever any payment is due on a day other than a Business Day, such payment shall be made on the following Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

(iii) Unless Agent receives notice from Borrowers prior to the date on which any payment is due to the Lenders that Borrowers will not make such payment in full as and when required, Agent may assume that Borrowers have made such payment in full to Agent on such date in immediately available funds and Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent Borrowers have not made such payment in full to Agent, each Lender shall repay to Agent on demand such amount distributed to such Lender, together with interest thereon at the Reference Rate for each day from the date such amount is distributed to such Lender until the date repaid.

(b) **Apportionment and Application.**

(i) Except as otherwise provided with respect to Defaulting Lenders and except as otherwise provided in the Loan Documents (including letter agreements between Agent and individual Lenders), aggregate principal and interest payments shall be apportioned ratably among the Lenders (according to the unpaid principal balance of the Obligations to which such payments relate held by each Lender) and payments of fees and expenses (other than fees or expenses that are for Agent's separate account, after giving effect to any letter agreements between Agent and individual Lenders) shall be apportioned ratably among the Lenders having a Pro Rata Share of the type of Commitment or Obligation to which a particular fee relates. All payments shall be remitted to Agent and all such payments, and all proceeds of Collateral received by Agent, shall be applied as follows:

A. first, to pay any Lender Group Expenses then due to Agent under the Loan Documents, until paid in full,

B. second, to pay any Lender Group Expenses then due to the Lenders under the Loan Documents, on a ratable basis, until paid in full,

C. third, to pay any fees then due to Agent (for its separate accounts, after giving effect to any letter agreements between Agent and the individual Lenders) under the Loan Documents until paid in full,

D. fourth, to pay any fees then due to any or all of the Lenders (after giving effect to any letter agreements between Agent and individual Lenders) under the Loan Documents, on a ratable basis, until paid in full,

E. fifth, to pay interest due in respect of all Agent Advances, until paid in full,

F. sixth, ratably to pay interest due in respect of the Advances (other than Agent Advances) until paid in full,

G. seventh, to pay the principal of all Agent Advances until paid in full,

H. eighth, so long as no Event of Default has occurred and is continuing, to pay (i) first, the entire principal of all Seasonal Advances (or, if less, the portion of the Seasonal Advances that is then required to be repaid hereunder), and (ii) second, the principal of all Revolving Advances until paid in full,

I. ninth, so long as no Event of Default has occurred and is continuing, and at Agent's election (which election Agent agrees will not be made if an Overadvance would be created thereby), to pay amounts then due and owing by Administrative Borrower or its Subsidiaries in respect of Bank Products, until paid in full,

J. tenth, if an Event of Default has occurred and is continuing, first, to pay the principal of all Revolving Advances until paid in full, second, to the Agent, to be held by the Agent, for the ratable benefit of those Lenders having a Commitment, as cash collateral in an amount up to 105% of the then extant Letters of Credit until paid in full, third, to pay the principal of all Seasonal Advances under the Seasonal Overadvance Facility, and fourth, to the Agent, to be held by the Agent, for the benefit of the Bank Product Providers, as cash collateral in an amount up to the amount of the Bank Product Reserve established prior to the occurrence of, and not in contemplation of, the subject Event of Default until Administrative Borrower's and its Subsidiaries' obligations in respect of the then outstanding Bank Products have been paid in full or the cash collateral amount has been exhausted,

K. eleventh, if an Event of Default has occurred and is continuing, to pay any other Obligations (including the provision of amounts to Agent, to be held by Agent, for the benefit of the Bank Product Providers, as cash collateral in an amount up to the amount determined by Agent in its discretion as the amount necessary to secure Administrative Borrower's and its Subsidiaries' obligations in respect of the then outstanding Bank Products), and

L. twelfth, to Borrowers (to be wired to the Designated Account) or such other Person entitled thereto under applicable law.

(ii) Agent promptly shall distribute to each Lender, pursuant to the applicable wire instructions received from each Lender in writing, such funds as it may be entitled to receive, subject to a Settlement delay as provided in Section 2.1(j).

(iii) In each instance, so long as no Event of Default has occurred and is continuing, this Section 2.5(b) shall not be deemed to apply to any payment by Borrowers specified by Borrowers to be for the payment of specific Obligations then due and payable (or prepayable) under any provision of this Agreement.

(iv) For purposes of the foregoing, "paid in full" means payment of all amounts owing under the Loan Documents according to the terms thereof, including loan fees,

service fees, professional fees, interest (and specifically including interest accrued after the commencement of any Insolvency Proceeding), default interest, interest on interest, and expense reimbursements, whether or not any of the foregoing would be or is allowed or disallowed in whole or in part in any Insolvency Proceeding.

(v) In the event of a direct conflict between the priority provisions of this Section 2.5 and other provisions contained in any other Loan Document, it is the intention of the parties hereto that such priority provisions in such documents shall be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and

provisions of this Section 2.5 shall control and govern.

2.6 Overadvances. If, at any time or for any reason, the amount of Obligations owed by Borrowers to the Lender Group pursuant to Sections 2.1 and 2.2 is greater than either the Dollar or percentage limitations set forth in Sections 2.1 and 2.2 (an "Overadvance"), Borrowers immediately shall pay to Agent, in cash, the amount of such excess to be used by Agent to reduce the Obligations pursuant to the terms of Section 2.5(b).

2.7 Interest and Letter of Credit Fees: Rates, Payments, and Calculations.

(a) Interest Rate. Except as provided in Section 2.7(c) or in Section 2.7(d) below, all Obligations shall bear interest on the Daily Balance as follows:

(i) each LIBOR Rate Loan shall bear interest at a per annum rate equal to the Adjusted LIBOR Rate plus the LIBOR Rate Margin; and

(ii) all other Obligations (except for undrawn Letters of Credit) shall bear interest at a per annum rate equal to the Reference Rate.

(b) Letter of Credit Fee. Borrowers shall pay Agent, for the benefit of the Lender Group, a fee equal to 0.75% per annum times the aggregate undrawn amount of all Letters of Credit outstanding as of the end of the day.

(c) Default Rate. Upon the occurrence and during the continuation of an Event of Default, (i) all Obligations (except for undrawn Letters of Credit) shall bear interest on the Daily Balance at a per annum rate equal to the rate in effect from time to time plus three percent (3.00%), and (ii) the Letter of Credit fee provided in Section 2.7(b) shall be increased by three percent (3.00%) per annum; provided, however, the foregoing adjustments are subject to waiver by the Required Lenders.

(d) Interest Rate; Letter of Credit Fee during Seasonal Overadvance Period. Notwithstanding anything to the contrary contained herein, at all times during which Seasonal Advances are outstanding under the Seasonal Overadvance Facility, (i) all LIBOR Rate Loans shall bear interest on the Daily Balance at a per annum rate equal to (A) the Adjusted LIBOR Rate, plus (B) the LIBOR Rate Margin in effect from time to time, plus (C) one-quarter of one percent (.25%); (ii) all Reference Rate Loans shall bear interest on the Daily Balance at a per annum rate equal to (A) the Reference Rate, plus (B) one-quarter of one percent (.25%); and (iii)

the Letter of Credit fee provided in Section 2.7(b) shall be increased by one-quarter of one percent (0.25%) per annum.

(e) Payments. Interest in respect of Reference Rate Loans and Letter of Credit fees payable hereunder shall be due and payable, in arrears, on the first day of each month during the term hereof. Interest in respect of each LIBOR Rate Loan shall be due and payable, in arrears, on (i) the last day of the applicable Interest Period, and (ii) the first day of each month occurring during the term thereof. Each Borrower hereby authorizes the Agent, at its option, without prior notice to such Borrower, to charge such interest and Letter of Credit fees, the fees and charges provided for in Section 2.12 (as and when accrued or incurred), all amounts due under the L/C Demand Facility, and all installments or other payments due under any Loan Document (including the amounts due and payable to the Bank Product Providers in respect to Bank Products up to the amount of the Bank Product Reserve) to Administrative Borrower's Loan Account, which amounts thereafter shall accrue interest at the rate then applicable to Advances hereunder. Any interest not paid when due shall be compounded and shall thereafter accrue interest at the rate then applicable to Advances hereunder.

(f) Computation. In the event the Reference Rate is changed from time to time hereafter, the applicable rate of interest hereunder automatically and immediately shall be increased or decreased by an amount equal to such change in the Reference Rate. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360 day year for the actual number of days elapsed.

(g) Intent to Limit Charges to Maximum Lawful Rate. In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrowers and the Lender Group, in executing and delivering this Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, ipso facto as of the date of this Agreement, Borrowers are and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrowers in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.8 Collection of Accounts. Borrowers shall at all times maintain lockboxes (the "Lockboxes") and, immediately after the Closing Date, shall instruct all Account Debtors with respect to the Accounts, General Intangibles, and Negotiable Collateral of Borrowers to remit all Collections in respect thereof to such Lockboxes. Borrowers, Agent, and the Lockbox Banks shall enter into the Lockbox Agreements, which among other things shall provide for the opening of a Lockbox Account for the deposit of Collections at a Lockbox Bank. Borrowers agree that all Collections and other amounts received by Borrowers from any Account Debtor or any other source immediately upon receipt shall be deposited into a Lockbox Account. No Lockbox Agreement or arrangement contemplated thereby shall be modified by Borrowers without the prior written consent of Agent. Upon the terms and subject to the conditions set forth in the Lockbox Agreements, all amounts received in each Lockbox Account shall be wired each Business Day into an account (the "Agent's Account") maintained by Agent at a depositary selected by Agent (except as provided in the last sentence of Section 2.9).

2.9 Crediting Payments; Application of Collections. The receipt of any Collections by Agent (whether from transfers to Agent by the Lockbox Banks pursuant to the Lockbox Agreements or otherwise) immediately shall be applied provisionally to reduce the Obligations outstanding under Section 2.1, but shall not be considered a payment on account unless such Collection item is a wire transfer of immediately available federal funds and is made to the Agent's Account or unless and until such Collection item is honored when presented for payment. Should any Collection item not be honored when presented for payment, then Borrowers shall be deemed not to have made such payment, and interest shall be recalculated accordingly. Anything to the contrary contained herein notwithstanding, any Collection item shall be deemed received by Agent only if it is received into the Agent's Account on a Business Day on or before 11:00 a.m. Boston time. If any Collection item is received into the Agent's Account on a non-Business Day or after 11:00 a.m. Boston time on a Business Day, it shall be deemed to have been received by Agent as of the opening of business on the immediately following Business Day. Prior to the occurrence of an Event of Default or Agent reasonably deeming itself insecure, and so long as Availability is $25,000,000 or more, at Administrative Borrower's option, monies shall be transferred from the Lock Box to Agent or to Administrative Borrower's account on a daily basis, and if transferred to Administrative Borrower's account such monies will not be applied to the Obligations.

2.10 Designated Account. Agent and the Lender Group are authorized to make the Advances and the Letters of Credit under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Person, or without instructions if pursuant to Section 2.7(e). Administrative Borrower agrees to establish and maintain the Designated Account with the Designated Account Bank for the purpose of receiving the proceeds of the Advances requested by Administrative Borrower and made by the Lender Group hereunder. Unless otherwise agreed by Agent and Administrative Borrower, any Advance requested by Borrowers and made by the Lender Group hereunder shall be made to the Designated Account.

2.11 Maintenance of Loan Account; Statements of Obligations. Agent shall maintain an account on its books in the name of Borrowers (the "Loan Account") on which Borrowers will be charged with all Advances made by the Lender Group to Borrowers or for Borrowers' account, including, accrued interest, Lender Group Expenses, and any other payment Obligations of Borrowers. In accordance with Section 2.9, the Loan Account will be credited with all payments received by Agent from Borrowers or for Borrowers' account, including all amounts received in the Agent's Account from any Lockbox Bank. Agent shall render statements regarding the Loan Account to Administrative Borrower, including principal, interest, fees, and including an itemization of all charges and expenses constituting the Lender Group Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Administrative Borrower and the Lender Group unless, within 30 days after receipt thereof by Administrative Borrower, Administrative Borrower shall deliver to Agent written objection thereto describing the error or errors contained in any such statements.

2.12 Fees. Borrowers shall pay to Agent for the ratable benefit of the Lender Group (except where otherwise indicated) the following fees:

(a) Amendment Fee. An Amendment Fee in the amount and as provided in the Fee Letter.

(b) Intentionally Omitted.

(c) Intentionally Omitted.

(d) Anniversary Fee. An anniversary fee equal to 0.125% of the Maximum Amount (without giving effect to the Seasonal Overadvance Amount), which fee shall be due and payable in full on each October 31, commencing October 31, 2007 through and including October 31, 2010; provided, however, the Agreement has not previously been terminated.

(e) Unused Line Fee. On the first day of each month commencing July 1, 2007, whenever the average Daily Balance of Obligations is less than the Maximum Amount then in effect, an unused line fee in an amount equal to 0.25% per annum times the Average Unused Portion of Maximum Amount.

(f) Intentionally Omitted.

(g) Appraisals; Financial Examination and Appraisal Fees. The Agent or its designee, at the sole expense of Borrowers, shall conduct periodic appraisals of the Borrowers' Inventory. So long as no Event of Default has occurred and is continuing, the Borrowers shall not be liable to pay more than $60,000 per year (exclusive of out of pocket expenses) for financial analyses and examinations and periodic appraisals of Inventory in the aggregate.

2.13 LIBOR Rate Loans. Any other provisions herein to the contrary notwithstanding, the following provisions shall govern with respect to LIBOR Rate Loans as to the matters covered:

(a) Borrowing; Conversion; Continuation. Administrative Borrower may from time to time, on or after the Closing Date (and subject to the satisfaction of the requirements of Sections 3.1 and 3.2), request in a written or telephonic communication with Agent: (i) Advances to constitute LIBOR Rate Loans; (ii) that Reference Rate Loans be converted into LIBOR Rate Loans; or (iii) that existing LIBOR Rate Loans continue for an additional Interest Period. Any such request shall specify the aggregate amount of the requested LIBOR Rate Loans, the proposed Funding Date therefor (which shall be a Business Day, and with respect to continued LIBOR Rate Loans shall be the

last day of the Interest Period of the existing LIBOR Rate Loans being continued), and the proposed Interest Period (in each case subject to the limitations set forth below). LIBOR Rate Loans may only be made, continued, or extended if, as of the proposed Funding Date therefor, each of the following conditions is satisfied:

(v) no Event of Default exists;

(w) no more than five Interest Periods may be in effect at any one time;

(x) the amount of each LIBOR Rate Loan borrowed, converted, or continued must be in an amount not less than $5,000,000 and integral multiples of $1,000,000 in excess thereof;

(y) Agent shall have determined that the Interest Period or Adjusted LIBOR Rate is available to it and can be readily determined as of the date of the request for such LIBOR Rate Loan by Borrowers; and

(z) Agent shall have received such request at least three Business Days prior to the proposed Funding Date therefor.

Any request by Administrative Borrower to borrow LIBOR Rate Loans, to convert Reference Rate Loans to LIBOR Rate Loans, or to continue any existing LIBOR Rate Loans shall be irrevocable, except to the extent that any Lender shall determine under Sections 2.13(a), 2.14 or 2.15 that such LIBOR Rate Loans cannot be made or continued.

(b) Determination of Interest Period. By giving notice as set forth in Section 2.12(a), Borrowers shall select an Interest Period for such LIBOR Rate Loan. The determination of the Interest Period shall be subject to the following provisions:

(i) in the case of immediately successive Interest Periods, each successive Interest Period shall commence on the day on which the next preceding Interest Period expires;

(ii) if any Interest Period would otherwise expire on a day which is not a Business Day, the Interest Period shall be extended to expire on the next succeeding Business Day; provided, however, that if the next succeeding Business Day occurs in the following calendar month, then such Interest Period shall expire on the immediately preceding Business Day;

(iii) if any Interest Period begins on the last Business Day of a month, or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, then the Interest Period shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iv) Administrative Borrower may not select an Interest Period which expires later than the date on which this Agreement is scheduled to terminate pursuant to Section 3.4 hereof.

(c) Automatic Conversion: Optional Conversion by Agent. Any LIBOR Rate Loan shall automatically convert to a Reference Rate Loan upon the last day of the applicable Interest Period, unless Agent has received a request to continue such LIBOR Rate Loan at least three Business Days prior to the end of such Interest Period in accordance with the terms of Section 2.13(a). Any LIBOR Rate Loan shall, at Agent's option, upon notice to Borrowers, immediately convert to a Reference Rate Loan in the event that (i) an Event of Default shall have occurred and be continuing or (ii) this Agreement shall terminate, and Borrowers shall pay to Agent, for the benefit of the Lenders, any amounts required by Section 2.16 as a result thereof.

2.14 Illegality. Any other provision herein to the contrary notwithstanding, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof by a Governmental Authority made subsequent to the Closing Date shall make it unlawful for any Lender to make or maintain LIBOR Rate Loans as contemplated by this Agreement, (a) the obligation of such Lender hereunder to make LIBOR Rate Loans, continue LIBOR Rate Loans as such, and convert Reference Rate Loans to LIBOR Rate Loans shall forthwith be suspended and (b) such Lender's then outstanding LIBOR Rate Loans, if any, shall be converted automatically to Reference Rate Loans on the respective last days of the then current Interest Periods with respect thereto or within such earlier period as required by law; provided, however, that before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions and so long as such efforts would not be disadvantageous to it, in its reasonable discretion, in any legal, economic, or regulatory manner) to designate a different lending office if the making of such a designation would allow such Lender or its lending office to continue to perform its obligations to make LIBOR Rate Loans. If any such conversion of a LIBOR Rate Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, Borrowers shall pay to such Lender such amounts, if any, as may be required pursuant to Section 2.15. If circumstances subsequently change so that such Lender shall determine that it is no longer so affected, such Lender will promptly notify Agent and Administrative Borrower, and upon receipt of such notice, the obligations of such Lender to make or continue LIBOR Rate Loans or to convert Reference Rate Loans into LIBOR Rate Loans shall be reinstated.

2.15 Requirements of Law.

(a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof by a Governmental Authority made subsequent to the Closing Date or compliance by any Lender with any request or directive (whether or not having

the force of law) from any central bank or other Governmental Authority made subsequent to the Closing Date:

(i) shall subject such Lender to any tax, levy, charge, fee, reduction, or withholding of any kind whatsoever with respect to LIBOR Rate Loans, or change the basis of taxation of payments to such Lender in respect thereof (except for the establishment of a tax based on the net income of the Lender or changes in the rate of tax on the net income of such Lender);

(ii) shall in respect of LIBOR Rate Loans impose, modify or hold applicable any reserve, special deposit, compulsory loan, or similar requirement against assets held by, deposits or other liabilities in or for the account of, Advances or other extensions of credit by, or any other acquisition of funds by, any office of such Lender; or

(iii) shall impose on such Lender any other condition with respect to LIBOR Rate Loans;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount which such Lender deems to be material, of making, converting into, continuing, or maintaining LIBOR Rate Loans or to increase the cost to such Lender in respect of LIBOR Rate Loans, by an amount which such Lender deems to be material, or to reduce any amount receivable hereunder in respect of LIBOR Rate Loans, or to forego any other sum payable thereunder or make any payment on account thereof in respect of LIBOR Rate Loans, then, in any such case, Borrowers shall promptly pay to Agent (for the benefit of such Lender), upon such Lender's demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable; provided, however, that before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions and so long as such efforts would not be disadvantageous to it, in its reasonable discretion, in any legal, economic, or regulatory manner) to designate a different LIBOR lending office if the making of such designation would allow such Lender or its LIBOR lending office to continue to perform its obligations to make LIBOR Rate Loans or to continue to fund or maintain LIBOR Rate Loans and avoid the need for, or materially reduce the amount of, such increased cost. If a Lender becomes entitled to claim any additional amounts pursuant to this Section 2.15, such Lender shall promptly notify Agent and Administrative Borrower of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to this Section 2.15 submitted in reasonable detail by such Lender to Agent and Administrative Borrower shall be conclusive in the absence of manifest error. Within five Business Days after a Lender notifies Agent and Administrative Borrower of any increased cost pursuant to the foregoing provisions of this Section 2.15, Administrative Borrower may convert all LIBOR Rate Loans then outstanding into Reference Rate Loans in accordance with Section 2.13 and, additionally, reimburse such Lender for any cost in accordance with Section 2.16. This covenant shall survive the termination of this Agreement and the payment of the Advances and all other amounts payable hereunder for nine months following such termination and repayment.

(b) If a Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application

thereof by a Governmental Authority made subsequent to the Closing Date or compliance by such Lender or any Person controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the Closing Date does or shall have the effect of increasing the amount of capital required to be maintained or reducing the rate of return on such Lender's or such Person's capital as a consequence of its obligations hereunder to a level below that which such Lender or such Person could have achieved but for such change or compliance (taking into consideration such Lender's or such Person's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to Agent and Administrative Borrower of a prompt written request therefor, Borrowers shall pay to Agent (for the benefit of such Lender) such additional amount or amounts as will compensate such Lender or such Person for such reduction. This covenant shall survive the termination of this Agreement and the payment of the Advances and all other amounts payable hereunder for nine months following such termination and repayment.

2.16 Indemnity. Each Borrower agrees to indemnify Agent and each Lender and to hold Agent and each Lender harmless from any loss or expense which Agent and each Lender may sustain or incur as a consequence of (a) default by Borrowers in payment when due of the principal amount of or interest on any LIBOR Rate Loan, (b) default by Borrowers in making a Borrowing of, conversion into, or continuation of LIBOR Rate Loans after Administrative Borrower have given a notice requesting the same in accordance with the provisions of this Agreement, (c) default by Borrowers in making any prepayment of a LIBOR Rate Loan after Administrative Borrower has given a notice thereof in accordance with the provisions of this Agreement, or (d) the making of a prepayment of LIBOR Rate Loans on a day which is not the last day of an Interest Period with respect thereto (whether due to the termination of this Agreement, upon an Event of Default, or otherwise), including, in each case, any such loss or expense (but excluding loss of margin or anticipated profits) arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained; provided, however, that Agent or any Lender, if requesting indemnification, shall have delivered to the Borrowers a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error. Calculation of all amounts payable to Agent or any such Lender under this Section 2.16 shall be made as though such Lender had actually funded the relevant LIBOR Rate Loan through the purchase of a deposit bearing interest at the LIBOR Rate in an amount equal to the amount of such LIBOR Rate Loan and having a maturity comparable to the relevant Interest Period; provided, however, that each Lender may fund each of the LIBOR Rate Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this Section 2.16. This covenant shall survive the termination of this Agreement and the payment of the Advances and all other amounts payable hereunder for a period of nine months thereafter.

2.17 Joint and Several Liability of Borrowers.

(a) Each Borrower is accepting joint and several liability hereunder and under the other Loan Documents in consideration of the financial accommodations to be provided by the Agent and the Lenders under this Agreement, for the mutual benefit, directly and indirectly,

of each Borrower and in consideration of the undertakings of the other Borrowers to accept joint and several liability for the Obligations.

(b) Each Borrower, jointly and severally, hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other Borrowers, with respect to the payment and performance of all of the Obligations (including, without limitation, any Obligations arising under this Section 2.17), it being the intention of the parties hereto that all the Obligations shall be the joint and several obligations of each Person composing Borrowers without preferences or distinction among them.

(c) If and to the extent that any of Borrowers shall fail to make any payment with respect to any of the Obligations as and when due or to perform any of the Obligations in accordance with the terms thereof, then in each such event the other Persons composing Borrowers will make such payment with respect to, or perform, such Obligation.

(d) The Obligations of each Person composing Borrowers under the provisions of this Section 2.17 constitute the absolute and unconditional, full recourse Obligations of each Person composing Borrowers enforceable against each such Borrower to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of this Agreement or any other circumstances whatsoever.

(e) Except as otherwise expressly provided in this Agreement, each Person composing Borrowers hereby waives notice of acceptance of its joint and several liability, notice of any Advances or Letters of Credit issued under or pursuant to this Agreement, notice of the occurrence of any Default, Event of Default, or of any demand for any payment under this Agreement, notice of any action at any time taken or omitted by Agent or Lenders under or in respect of any of the Obligations, any requirement of diligence or to mitigate damages and, generally, to the extent permitted by applicable law, all demands, notices and other formalities of every kind in connection with this Agreement (except as otherwise provided in this Agreement). Each Person composing Borrowers hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations, the acceptance of any payment of any of the Obligations, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by Agent or Lenders at any time or times in respect of any default by any Person composing Borrowers in the performance or satisfaction of any term, covenant, condition or provision of this Agreement, any and all other indulgences whatsoever by Agent or Lenders in respect of any of the Obligations, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of the Obligations or the addition, substitution or release, in whole or in part, of any Person composing Borrowers. Without limiting the generality of the foregoing, each Borrower assents to any other action or delay in acting or failure to act on the part of any Agent or Lender with respect to the failure by any Person composing Borrowers to comply with any of its respective Obligations, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations thereunder, which might, but for the provisions of this Section 2.17 afford grounds for terminating, discharging or relieving any Person composing Borrowers, in whole or in part, from any of its Obligations under this Section 2.17, it being the intention of each Person composing Borrowers that, so long as any of

the Obligations hereunder remain unsatisfied, the Obligations of such Person composing Borrowers under this Section 2.17 shall not be discharged except by performance and then only to the extent of such performance. The Obligations of each Person composing Borrowers under this Section 2.17 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any Person composing Borrowers or any Agent or Lender. The joint and several liability of the Persons composing Borrowers hereunder shall continue in full force and effect notwithstanding any absorption, merger, amalgamation or any other change whatsoever in the name, constitution or place of formation of any of the Persons composing Borrowers or any Agent or Lender.

(f) Each Person composing Borrowers represents and warrants to Agent and Lenders that such Borrower is currently informed of the financial condition of Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Each Person composing Borrowers further represents and warrants to Agent and Lenders that such Borrower has read and understands the terms and conditions of the Loan Documents. Each Person composing Borrowers hereby covenants that such Borrower will continue to keep informed of Borrowers' financial condition, the financial condition of other guarantors, if any, and of all other circumstances which bear upon the risk of nonpayment or nonperformance of the Obligations.

(g) The provisions of this Section 2.17 are made for the benefit of the Agent, the Lenders and their respective successors and assigns, and may be enforced by it or them from time to time against any or all of the Persons composing Borrowers as often as occasion therefor may arise and without requirement on the part of any such Agent, Lender, successor or assign first to marshal any of its or their claims or to exercise any of its or their rights against any of the other Persons composing Borrowers or to exhaust any remedies available to it or them against any of the other Persons composing Borrowers or to resort to any other source or means of obtaining payment of any of the Obligations hereunder or to elect any other remedy. The provisions of this Section 2.17 shall remain in effect until all of the Obligations shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by any Agent or Lender upon the insolvency, bankruptcy or reorganization of any of the Persons composing Borrowers, or otherwise, the provisions of this Section 2.17 will forthwith be reinstated in effect, as though such payment had not been made.

(h) Each of the Persons composing Borrowers hereby agrees that it will not enforce any of its rights of contribution or subrogation against the other Persons composing Borrowers with respect to any liability incurred by it hereunder or under any of the other Loan Documents, any payments made by it to the Agent or the Lenders with respect to any of the Obligations or any collateral security therefor until such time as all of the Obligations have been paid in full in cash. Any claim which any Borrower may have against any other Borrower with respect to any payments to any Agent or Lender hereunder or under any other Loan Documents are hereby expressly made subordinate and junior in right of payment, without limitation as to any increases in the Obligations arising hereunder or thereunder, to the prior payment in full in cash of the Obligations and, in the event of any insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceeding under the laws of any jurisdiction relating to any

Borrower, its debts or its assets, whether voluntary or involuntary, all such Obligations shall be paid in full in cash before any payment or distribution of any character, whether in cash, securities or other property, shall be made to any other Borrower therefor.

(i) Each of the Persons composing Borrowers hereby agrees that, after the occurrence and during the continuance of any Default or Event of Default, the payment of any amounts due with respect to the Indebtedness owing by any Borrower to any other Borrower is hereby subordinated to the prior payment in full in cash of the Obligations. Each Borrower hereby agrees that after the occurrence and during the continuance of any Default or Event of Default, such Borrower will not demand, sue for or otherwise attempt to collect any Indebtedness of any other Borrower owing to such Borrower until the Obligations shall have been paid in full in cash. If, notwithstanding the foregoing sentence, such Borrower shall collect, enforce or receive any amounts in respect of such Indebtedness, such amounts shall be collected, enforced and received by such Borrower as trustee for the Agent, and such Borrower shall deliver any such amounts to Agent for application to the Obligations in accordance with Section 2.5(b).

2.18 Increase in Maximum Amount and Commitments.

(a) Increase in Maximum Amount. Provided that no Event of Default has occurred and is continuing, the Borrowers shall have the right at any time, on up to five (5) separate occasions (subject to Section 2.18(b)(iii)) and upon not less than five (5) Business Days prior written notice to the Agent in each instance, to elect to increase the Maximum Amount (other than the Seasonal Overadvance Amount) by an amount of up to $30,000,000.00 in the aggregate (each, a "Commitment Increase") from the existing aggregate amount of $100,000,000.00, to an aggregate amount of $130,000,000.00 (the "Increased Maximum Amount"). Each such requested increase shall be in the minimum amount of $5,000,000.00. Each such requested increase shall be made to all existing Lenders on a pro rata basis in accordance with Schedule C-1, except as otherwise provided in Section 2.18(d).

(b) Increase Conditions. No Commitment Increase shall become effective unless and until each of the following conditions have been satisfied:

(i) The Borrowers shall have paid the Agent the Commitment Increase Fee with respect to such Commitment Increase;

(ii) A note will be issued, at the Borrowers' expense, to each Lender to the extent necessary to reflect the new Commitments of such Lender; and

(iii) The Borrowers shall have delivered such other instruments, documents and agreements with respect to the Commitment Increase as the Agent may reasonably have requested.

(c) Commitment Increase Date. The Agent shall promptly notify each Lender as to the effectiveness of any such Commitment Increase (with the date of such effectiveness being referred to herein as the "Commitment Increase Date"), and at such time (i) the Maximum Amount (other than the Seasonal Overadvance Amount) under, and for all purposes of, this Agreement shall be increased by the aggregate amount of each such Commitment Increase, (ii)

the L/C Sublimit under, and for all purposes of, this Agreement shall be increased by the aggregate amount of each such Commitment Increase, (iii) the Commitments set forth on Schedule C-1 shall be deemed amended, without further action, to reflect the increased Commitments of the Lenders, and (iv) this Agreement shall be deemed amended, without further action, to the extent necessary to reflect such Increased Maximum Amount.

(d) Pro Rata Share. In connection with any Commitment Increase hereunder, the Lenders and the Borrowers agree that, notwithstanding anything to the contrary in this Agreement, the Borrowers shall, in coordination with the Agent, (i) repay outstanding loans of certain Lenders, and obtain loans from certain other Lenders, or (ii) take such other actions as reasonably may be required by the Agent, in each case to the extent necessary so that all of the Lenders effectively participate in each of the outstanding loans pro rata on the basis of their Commitment (determined after giving effect to the Increased Maximum Amount pursuant to this Section 2.18); provided that the Agent and the Lenders agree that no such prepayment shall be required if, as a result thereof, the Borrowers would be obligated to pay all losses, costs, or expenses required to be paid pursuant to Section 2.16; provided further that the Agent agrees that the Agent will assume Citicorp USA, Inc.'s pro rata share of each Commitment Increase hereunder in the event that Citicorp USA, Inc. has not obtained credit approval for such Commitment Increase on or before the Commitment Increase Date. Upon each Commitment Increase Date, the Agent shall issue a new Schedule C-1 to this Agreement reflecting each Lender's increased Commitment.

3. CONDITIONS; TERM OF AGREEMENT.

3.1 Conditions Precedent to the Initial Advance and the Initial Letter of Credit. The obligation of the Lender Group to make the initial Advance and to issue the initial Letter of Credit is subject to the fulfillment, to the satisfaction of Agent and its counsel, of each of the following conditions on or before the Closing Date:

(a) the Closing Date shall occur on or before June 28, 2007;

(b) Agent shall have received a confirmation of the Guaranties and each security agreement or other instrument or document executed and delivered pursuant to this Agreement or any other Loan Document to secure any of the Obligations, duly executed, and each such document shall be in full force and effect;

(c) Agent shall have received a certificate from the Secretary or Assistant Secretary of each Borrower and Guarantor attesting to the resolutions of such Borrower's and Guarantor's Board of Directors authorizing its execution, delivery, and performance of this Agreement and the other Loan Documents to which such Borrower and Guarantor is a party and authorizing specific officers of such Borrower and Guarantor to execute the same;

(d) Agent shall have received copies of each Borrower's and Guarantor's Governing Documents, as amended, modified, or supplemented on or before the Closing Date, certified by the Secretary or Assistant Secretary of each Borrower and Guarantor;

(e) Agent shall have received a certificate of status with respect to each Borrower and Guarantor, dated within 10 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of each Borrower and Guarantor, which certificate shall indicate that such Borrower and Guarantor is in good standing in such jurisdiction;

(f) Agent shall have received a certificate of insurance, together with the endorsements thereto, as are required by Section 6.9, the form and substance of which shall be satisfactory to Agent and its counsel;

(g) Agent shall have received an opinion of Borrowers' and Guarantors' counsel in form and substance satisfactory to Agent in its sole discretion;

(h) Agent shall have received counterparts of the Fee Letter dated as of the Closing Date duly executed by each of the parties thereto;

(i) Agent shall have received fully executed Collateral Access Agreements for each location set forth on Schedule 3.1(i).

(j) Agent shall have received a fully executed customs broker agreement for the Borrowers' customs broker listed on Schedule 3.1(j), in substantially in the form attached hereto as Exhibit E-1, subject to such changes requested by such customs broker as shall be reasonably acceptable to the Agent.

(k) Agent shall have entered into an Intercreditor Agreement with the lenders under the L/C Demand Facility (as defined herein), on terms reasonably acceptable to the Agent;

(l) Borrowers shall have paid to the Agent all fees required pursuant to the terms and conditions of the Fee Letter; and

(m) all other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed, or recorded and shall be in form and substance satisfactory to Agent and its counsel.

3.2 Conditions Precedent to all Advances and all Letters of Credit. The following shall be conditions precedent to all Advances and all Letters of Credit hereunder:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) except for good faith disputes between a Borrower and landlords, no Default or Event of Default shall have occurred and be continuing on the date of such extension of credit, nor shall either result from the making thereof;

(c) no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the extending of such credit shall have been issued and remain in force by any Governmental Authority against any Borrower, the Lender Group or any of their Affiliates; and

(d) the amount of any requested Advance or Letter of Credit shall not exceed Availability at such time.

(e) Intentionally Omitted.

3.3 Intentionally Omitted.

3.4 Term. This Agreement shall become effective as of June 28, 2007 upon the execution and delivery hereof by the Borrowers and the Lender Group and shall continue in full force and effect for a term ending on November 1, 2010 (the "Maturity Date"). The foregoing notwithstanding, the Agent (on behalf of the Lender Group) shall have the right to terminate the Lender Group's obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default.

3.5 Effect of Termination. On the date of termination of this Agreement, all Obligations (including contingent reimbursement obligations of Borrowers with respect to any outstanding Letters of Credit and including Bank Product Obligations) immediately shall become due and payable without notice or demand. No termination of this Agreement, however, shall relieve or discharge Borrowers of Borrowers' duties, Obligations, or covenants hereunder, and the Lender Group's continuing security interests in the Collateral shall remain in effect until all Obligations have been fully and finally discharged and the Lender Group's obligation to provide additional credit hereunder is terminated.

3.6 Early Termination by Borrowers. Borrowers have the option, at any time upon 90 days prior written notice to Agent, to terminate this Agreement by paying to Agent, for the benefit of the Lender Group, in cash, the Obligations (including either (a) providing cash collateral to be held by Agent for the benefit of those Lenders with a Commitment in an amount equal to 105% of the then outstanding Letters of Credit, or (b) causing the outstanding original Letters of Credit to be returned to the issuer thereof, in full, together with the Applicable Prepayment Premium, if any (to be allocated based upon letter agreements between Agent and individual Lenders)). If Administrative Borrower has sent a notice of termination pursuant to the provisions of this Section, then the Commitments shall terminate and Borrowers shall be obligated to repay the Obligations (including either (i) providing cash collateral to be held by Agent for the benefit of those Lenders with a Commitment in an amount equal to 105% of the then outstanding Letters of Credit, or (ii) causing the original Letters of Credit to be returned to the issuer thereof, in full, together with the Applicable Prepayment Premium, if any, on the date set forth as the date of termination of this Agreement in such notice). In the event of the termination of this Agreement and repayment of the Obligations at any time prior to the date on which this Agreement is scheduled to terminate pursuant to Section 3.4 hereof, for any other reason, including (a) foreclosure and sale of Collateral, (b) sale of the Collateral in any Insolvency Proceeding, or (c) restructure, reorganization, or compromise of the Obligations by

the confirmation of a plan of reorganization or any other plan of compromise, restructure, or arrangement in any Insolvency Proceeding, then, in view of the impracticability and extreme difficulty of ascertaining the actual amount of damages to the Lender Group or profits lost by the Lender Group as a result of such early termination, and by mutual agreement of the parties as to a reasonable estimation and calculation of the lost profits or damages of the Lender Group, Borrowers shall pay the Applicable Prepayment Premium, if any, to Agent (to be allocated based upon letter agreements between Agent and individual Lenders), measured as of the date of such termination.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interests. Each Borrower hereby grants to Agent for the benefit of the Lender Group a continuing security interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by such Borrower of each of its covenants and duties under the Loan Documents. The security interests of Agent for the benefit of the Lender Group in the Collateral shall attach to all Collateral without further act on the part of the Lender Group or Borrowers. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, and other than: (a) sales of Inventory to buyers in the ordinary course of business, (b) sales of Equipment in any 12 month period having an aggregate net book value of $500,000 with the proceeds being applied to the Obligations, and (c) sale or disposal of Collateral (other than Inventory) in connection with the closing of Borrowers' stores, Borrowers have no authority, express or implied, to dispose of any item or portion of the Collateral.

4.2 Negotiable Collateral. In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, Borrowers, immediately upon the request of Agent, shall endorse and deliver physical possession of such Negotiable Collateral to Agent.

4.3 Collection of Accounts, General Intangibles, and Negotiable Collateral. At any time, Agent or Agent's designee may (a) notify customers or Account Debtors of any Borrower that the Accounts, General Intangibles, or Negotiable Collateral have been assigned to Agent for the benefit of the Lender Group or that Agent for the benefit of the Lender Group has a security interest therein, and (b) collect the Accounts, General Intangibles, and Negotiable Collateral directly and charge the collection costs and expenses to the Loan Account. Each Borrower agrees that, subject to Section 2.9, it will hold in trust for the Lender Group, as the Lender Group's trustee, any Collections that it receives and immediately will deliver said Collections to Agent in their original form as received by such Borrower.

4.4 Delivery of Additional Documentation Required. At any time upon the request of Agent, Borrowers shall execute and deliver to Agent all financing statements, continuation financing statements, fixture filings, security agreements, pledges, assignments, control agreements, endorsements of certificates of title, applications for title, affidavits, reports, notices, schedules of accounts, letters of authority, and all other documents that Agent reasonably may request, in form satisfactory to Agent, to perfect and continue perfected the Liens of the Lender Group in the Collateral, and in order to fully consummate all of the transactions contemplated hereby and under the other the Loan Documents.

4.5 Power of Attorney. Each Borrower hereby irrevocably makes, constitutes, and appoints Agent (and any of Agent's officers, employees, or agents designated by Agent) as such Borrower's true and lawful attorney, with power to (a) if any Borrower refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of such Borrower on any of the documents described in Section 4.4, (b) at any time that an Event of Default has occurred and is continuing or the Lender Group deems itself insecure, sign such Borrower's name on any invoice or bill of lading relating to any Account, drafts against Account Debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to Account Debtors, (c) send requests for verification of Accounts, (d) endorse such Borrower's name on any Collection item that may come into the Lender Group's possession, (e) at any time that an Event of Default has occurred and is continuing or the Lender Group deems itself insecure, notify the post office authorities to change the address for delivery of such Borrower's mail to an address designated by Agent, to receive and open all mail addressed to such Borrower, and to retain all mail relating to the Collateral and forward all other mail to such Borrower, (f) at any time that an Event of Default has occurred and is continuing or the Lender Group deems itself insecure, make, settle, and adjust all claims under Borrowers' policies of insurance and make all determinations and decisions with respect to such policies of insurance, and (g) at any time that an Event of Default has occurred

and is continuing or Agent deems itself insecure, settle and adjust disputes and claims respecting the Accounts directly with Account Debtors, for amounts and upon terms that Agent determines to be reasonable, and Agent may cause to be executed and delivered any documents and releases that Agent determines to be necessary. The appointment of Agent as each Borrower's attorney, and each and every one of Agent's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and the Lender Group's obligation to extend credit hereunder is terminated.

4.6 Right to Inspect. Agent (through any of its officers, employees, or agents), shall have the right, from time to time hereafter to inspect Books and to check, test, and appraise the Collateral in order to verify Borrowers' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES. In order to induce the Lender Group to enter into this Agreement, each Borrower makes the following representations and warranties which shall be true, correct, and complete in all respects as of the date hereof, and shall be true, correct, and complete in all respects as of the Closing Date, and at and as of the date of the making of each Advance and Letter of Credit made thereafter, as though made on and as of the date of such Advance and Letter of Credit (except to the extent that such representations and warranties relate solely to an earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

5.1 No Encumbrances. Each Borrower has good and indefeasible title to the Collateral, free and clear of Liens except for Permitted Liens.

5.2 Eligible Accounts. The Eligible Accounts are, at the time of the creation thereof and as of each date on which Borrowers includes them in a Borrowing Base calculation or certification, bona fide existing obligations created by the sale and delivery of Inventory or the

rendition of services to Account Debtors in the ordinary course of Borrowers' business, unconditionally owed to Borrowers without defenses, disputes, offsets, counterclaims, or rights of return or cancellation other than normal returns or disputes in the normal course of business. The property giving rise to such Eligible Accounts has been delivered to the Account Debtor, or to the Account Debtor's agent for immediate shipment to and unconditional acceptance by the Account Debtor. At the time of the creation of an Eligible Account and as of each date on which Borrowers include an Eligible Account in a Borrowing Base calculation or certification, Borrowers have not received notice of actual or imminent bankruptcy, insolvency, or material impairment of the financial condition of any applicable Account Debtor regarding such Eligible Account.

5.3 Eligible Inventory. All Eligible Inventory is now and at all times hereafter shall be of good and merchantable quality, free from defects, except for minor defects arising in the ordinary course of business.

5.4 Equipment. All of the Equipment is used or held for use in Borrowers' business and is fit for such purposes.

5.5 Location of Inventory and Equipment. The Inventory (other than Inventory in transit) and Equipment are not stored with a bailee, warehouseman, or similar party (without Agent's prior written consent) and are located only at the locations identified on Schedule 6.11 or otherwise permitted by Section 6.11.

5.6 Inventory Records. Each Borrower keeps correct and accurate records itemizing and describing the kind, type, quality and quantity of its Inventory and each Borrower's cost therefor in accordance with the retail method of accounting.

5.7 Location of Chief Executive Office; FEIN. The chief executive office of Borrowers is located at the address indicated in the preamble to this Agreement and Parent's FEIN is 31-1241495 and Services Company's FEIN is 20-0850965.

5.8 Due Organization and Qualification; Subsidiaries.

(a) Each Borrower is duly organized and existing and in good standing under the laws of the jurisdiction of its incorporation and qualified and licensed to do business in, and in good standing in, any state where the failure to be so licensed or qualified reasonably could be expected to cause a Material Adverse Change.

(b) Set forth on Schedule 5.8, is a complete and accurate list of each Borrower's direct and indirect Subsidiaries, showing: (i) the jurisdiction of their incorporation; (ii) the number of shares of each class of common and preferred stock authorized for each of such Subsidiaries; and (iii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by the applicable Borrower. All of the outstanding capital stock of each such Subsidiary has been validly issued and is fully paid and non-assessable.

(c) Except as set forth on Schedule 5.8, no capital stock (or any securities, instruments, warrants, options, purchase rights, conversion or exchange rights, calls,

commitments or claims of any character convertible into or exercisable for capital stock) of any direct or indirect Subsidiary of any Borrower is subject to the issuance of any security, instrument, warrant, option, purchase right, conversion or exchange right, call, commitment or claim of any right, title, or interest therein or thereto.

5.9 Due Authorization; No Conflict.

(a) The execution and delivery by each Borrower of each Loan Document to which it is a party; each Borrower's consummation of the transactions contemplated by such Loan Documents; each Borrower's performance under those of the Loan Documents to which it is a party:

(i) Has been duly authorized by all necessary action.

(ii) Does not, and will not, contravene in any material respect any provision of any Requirement of Law or obligation of that Borrower.

(iii) Will not result in the creation or imposition of, or the obligation to create or impose, any Lien upon any assets of that Borrower pursuant to any Requirement of Law or obligation, except pursuant to the Loan Documents.

(b) The Loan Documents have been duly executed and delivered by each Borrower and are the legal, valid and binding obligations of each Borrower, enforceable against each Borrower in accordance with their respective terms.

5.10 Litigation. Except as set forth on Schedule 5.10, there are no actions or proceedings pending by or against Borrowers before any court or administrative agency and Borrowers do not have knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrowers or any guarantor of the Obligations, except for: (a) ongoing collection matters in which Borrowers are the plaintiff; and (b) current matters that, if decided adversely to Borrowers, would not materially impair the prospect of repayment of the Obligations or materially impair the value or priority of the Lender Group's security interests in the Collateral.

5.11 No Material Adverse Change. All financial statements relating to Borrowers or any guarantor of the Obligations that have been delivered by Borrowers to the Lender Group have been prepared in accordance with GAAP (except as may be directly impacted by the Stock Option Issue and, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and fairly present Borrowers' (or such guarantor's, as applicable) financial condition as of the date thereof and Borrowers' results of operations for the period then ended. There has not been a Material Adverse Change with respect to Borrowers (or such guarantor, as applicable) since the date of the latest financial statements submitted to the Lender Group in accordance with Section 6.2 of this Agreement.

5.12 Fraudulent Transfer.

(a) Each Borrower and each Subsidiary of a Borrower is Solvent.

(b) No transfer of property is being made by any Borrower or any Subsidiary of a Borrower and no obligation is being incurred by any Borrower or any Subsidiary of a Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of Borrowers or their Subsidiaries.

5.13 Employee Benefits. None of any Borrower, any of its Subsidiaries, or any of their ERISA Affiliates maintains or contributes to any Benefit Plan, other than those listed on Schedule 5.13. Each Borrower, each of its Subsidiaries and each ERISA Affiliate have satisfied the minimum funding standards of ERISA and the IRC with respect to each Benefit Plan to which it is obligated to contribute. No ERISA Event has occurred nor has any other event occurred that may result in an ERISA Event that reasonably could be expected to result in a Material Adverse Change. No Borrower or its Subsidiaries, any ERISA Affiliate, or any fiduciary of any Plan is subject to any direct or indirect liability with respect to any Plan under any applicable law, treaty, rule, regulation, or agreement. No Borrower or its Subsidiaries or any ERISA Affiliate is required to provide security to any Plan under Section 401(a)(29) of the IRC.

5.14 Environmental Condition. Except as set forth on Schedule 5.14, none of Borrowers' properties or assets has ever been used by Borrowers or, to the best of Borrowers' knowledge, by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials. None of Borrowers' properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, or a candidate for closure pursuant to any environmental protection statute. No lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned or operated by Borrowers. Borrowers have not received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by Borrowers resulting in the releasing or disposing of Hazardous Materials into the environment.

6. AFFIRMATIVE COVENANTS. Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Borrowers shall do all of the following:

6.1 Accounting System and Schedules.

(a) Maintain a standard and modern system of accounting in accordance with GAAP with ledger and account cards or computer tapes, discs, printouts, and records pertaining to the Collateral which contain information as from time to time may be requested by Agent. Borrowers also shall keep proper books of account showing all sales, claims, and allowances on its Inventory.

(b) Schedules of Accounts. With such regularity as Agent shall require, Borrowers shall provide Agent with schedules describing all Accounts. Agent's failure to request such schedules or Borrowers' failure to execute and deliver such schedules shall not affect or limit the Lender Group's security interests or other rights in and to the Accounts.

6.2 Financial Statements, Reports, Certificates. Deliver to Agent: (a) as soon as available, but in any event within 30 days after the end of each Fiscal Month (except with respect to the last Fiscal Month of each fiscal quarter, with respect to which the applicable period for delivery shall be 45 days rather than 30 days) during each of Parent's Fiscal Years, a company prepared balance sheet, income statement, and cash flow statement covering Parent's operations during such Fiscal Month; and (b) as soon as available, but in any event within 90 days after the end of each of Parent's Fiscal Years (except with respect to the Fiscal Year ended February 3, 2007, with respect to which the deadline for delivery shall be July 31, 2007), financial statements of Parent for each such Fiscal Year, audited by independent certified public accountants reasonably acceptable to Agent and certified, without any going concern or other material qualifications, by such accountants to have been prepared in accordance with GAAP; together with a certificate of such accountants addressed to Agent stating that such accountants do not have knowledge of the existence of any failure of Parent to comply with Section 7.19. Such audited financial statements shall include a balance sheet, profit and loss statement, and cash flow statement, and, if prepared, such accountants' letter to management. If Parent is a parent company of one or more Subsidiaries, or Affiliates, or is a Subsidiary or Affiliate of another company, then, in addition to the financial statements referred to above, Parent agrees to deliver financial statements prepared on a consolidating basis so as to present Parent and each such related entity separately, and on a consolidated basis.

Parent also shall deliver to Lenders (a) written notice of the filing of Parent's Form 10-Q Quarterly Reports, Form 10-K Annual Reports, and Form 8-K Current Reports, and any other filings made by Parent with the Securities and Exchange Commission, if any, as soon as the same are filed, (b) any other information that is provided by Parent to its public shareholders, and (c) any other report reasonably requested by Agent relating to the Collateral and financial condition of Parent.

Each month, together with the financial statements provided pursuant to Section 6.2(a), Administrative Borrower shall deliver to Agent a Compliance Certificate signed by its chief financial officer to the effect that: (i) all reports, statements, or computer prepared information of any kind or nature delivered or caused to be delivered to Agent hereunder have been prepared in accordance with GAAP and fairly present the financial condition of Borrowers, except for the months ended March, 2007, April, 2007 and May, 2007 as may be directly impacted by the Stock Option Issue; (ii) Borrowers are in timely compliance with all of its covenants and agreements hereunder; (iii) the representations and warranties of Borrowers contained in this Agreement and the other Loan Documents are true and correct in all material respects on and as of the date of such certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date); and (iv) on the date of delivery of such certificate to Agent there does not exist any condition or event that constitutes an Event of Default (or, in each case, to the extent of any non-compliance, describing such non-compliance as to which he or she may have knowledge and what action Borrowers have taken, is taking, or proposes to take with respect thereto).

Administrative Borrower shall deliver to Agent its Business Plan for each fiscal year, the form of which shall be substantially similar to the business plan for the Fiscal Year ending on or about

January 31, 2008 attached hereto as Exhibit B-1 and the substance of which shall be reasonably satisfactory to the Agent, on or before March 1 of such fiscal year.

Administrative Borrower shall have issued written instructions to its independent certified public accountants authorizing them to communicate with Agent and to release to Agent whatever financial information concerning Borrowers that Agent may request. Administrative Borrower hereby irrevocably authorizes and directs all auditors, accountants, or other third parties to deliver to Agent, at Borrowers' expense, copies of Borrowers' financial statements, papers related thereto, and other accounting records of any nature in their possession, and to disclose to Agent any information they may have regarding the Collateral or the financial condition of Borrowers.

6.3 Tax Returns. Deliver to Agent copies of each of Parent's future federal income tax returns, and any amendments thereto, concurrently with the filing thereof with the Internal Revenue Service.

6.4 Borrowing Base Certificate. Borrowers shall now and from time to time hereafter, but not less frequently than (a) weekly (to be delivered each Wednesday based upon the close of business on the preceding Saturday) or (b) monthly, so long as Borrowers have maintained at least $25,000,000 of Availability without being limited by the Maximum Amount (to be delivered on the first Wednesday of each Fiscal Month (or, if such day is not a Business Day, on the next succeeding Business Day) based upon the close of business as of the last day of the immediately preceding Fiscal Month), execute and deliver to Agent a Borrowing Base Certificate (in the form of Exhibit D-1 attached hereto, as such form may be revised from time to time by Agent consistent with the terms of this Agreement) and a designation of Inventory specifying the retail selling price of Borrowers' Inventory, and not less frequently than monthly, execute and deliver to Agent a designation of Inventory specifying Borrowers' cost, and further specifying such other information as Agent may reasonably request. Such designation shall separately report Inventory that is subject to a letter of credit issued by any Person other than Agent. Borrowers will not include Inventory in transit in its Inventory reports until such Inventory has been paid for by draws under applicable letters of credit or has been acquired by Borrowers without letter of credit financing.

6.5 Store Openings and Closings and Rents Reports. Borrowers shall give Agent reasonable prior notice of new store openings and closing of its stores. Borrowers shall make timely payment of all rents on real property leases where a Borrower is the lessee within applicable grace periods, and shall provide Agent with a monthly report specifying the status of such payments. In the event that Borrowers become delinquent in their rent payments, then Agent can establish reserves against the Borrowing Base for the amount of any landlord liens arising from such delinquency.

6.6 Title to Equipment. Upon Agent's request, Borrowers shall within 30 days of such request deliver to Agent, properly endorsed, any and all evidences of ownership of, certificates of title, or applications for title to any items of Equipment with a market value of $100,000 or more other than Equipment leased or to be leased.

6.7 Maintenance of Equipment. Maintain the Equipment in good operating condition and repair (ordinary wear and tear excepted), and make all necessary replacements thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved. Other than those items of Equipment that constitute fixtures on the Closing Date, Borrowers shall not permit any item of Equipment to become a fixture to real estate or an accession to other property, and such Equipment shall at all times remain personal property.

6.8 Taxes. Cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against Borrowers, their Subsidiaries, or any of their property to be paid in full, before delinquency or before the expiration of any extension period, except to the extent that the validity of such assessment or tax shall be the subject of a Permitted Protest. Borrowers shall make due and timely payment or deposit of all such federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Agent, on demand, appropriate certificates attesting to the payment thereof or deposit with respect thereto. Borrowers will make timely payment or deposit of all tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Agent with proof satisfactory to Agent indicating that Borrowers have made such payments or deposits.

6.9 Insurance.

(a) Borrowers, at their expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as are ordinarily insured against by other owners in similar businesses. Borrowers also shall maintain business interruption, public liability, product liability, and property damage insurance relating to Borrowers' ownership and use of the Collateral, as well as insurance against larceny, embezzlement, and criminal misappropriation.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as may be reasonably satisfactory to Agent. All such policies of insurance (except those of public liability and property damage) shall contain a 438BFU lender's loss payable endorsement, or an equivalent endorsement in a form satisfactory to Agent, showing Agent as sole loss payee thereof, and shall contain a waiver of warranties, and shall specify that the insurer must give at least 10 days prior written notice to Agent before canceling its policy for any reason. Administrative Borrower shall deliver to Agent certified copies of such policies of insurance and evidence of the payment of all premiums therefor. All proceeds payable under any such policy shall be payable to Agent to be applied on account of the Obligations.

6.10 No Setoffs or Counterclaims. Make payments hereunder and under the other Loan Documents by or on behalf of Borrowers without setoff or counterclaim and free and clear of, and without deduction or withholding for or on account of, any federal, state, or local taxes.

6.11 Location of Inventory and Equipment. Keep the Inventory (other than Inventory in transit) and Equipment only at the locations identified on Schedule 6.11; provided, however, that Borrowers may amend Schedule 6.11 so long as such amendment occurs by written notice to Agent not less than 30 days prior to the date on which the Inventory or Equipment is moved to such new location, so long as such new location is within the continental United States, Alaska, Hawaii or Puerto Rico, and so long as, at the time of such written notification, Borrowers provide any financing statements necessary to perfect and continue perfected the Agent's Lien for the benefit of the Lender Group in such assets, and Borrowers will use their best efforts to obtain a Collateral Access Agreement if requested by Agent.

6.12 Compliance with Laws. Comply with the requirements of all applicable laws, rules, regulations, and orders of any Governmental Authority, including the Fair Labor Standards Act and the Americans With Disabilities Act, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, would not have and could not reasonably be expected to cause a Material Adverse Change.

6.13 Employee Benefits. (a) Deliver to Agent: (i) promptly, and in any event within 10 Business Days after Parent or any of its Subsidiaries knows or has reason to know that an ERISA Event has occurred that reasonably could be expected to result in a Material Adverse Change, a written statement of the chief financial officer of Parent describing such ERISA Event and any action that is being taking with respect thereto by Parent, any such Subsidiary or ERISA Affiliate, and any action taken or threatened by the IRS, Department of Labor, or PBGC. Parent or such Subsidiary, as applicable, shall be deemed to know all facts known by the administrator of any Benefit Plan of which it is the plan sponsor, (ii) promptly, and in any event within three Business Days after the filing thereof with the IRS, a copy of each funding waiver request filed with respect to any Benefit Plan and all communications received by Parent, any of its Subsidiaries or, to the knowledge of Parent, any ERISA Affiliate with respect to such request, and (iii) promptly, and in any event within three Business Days after receipt by Parent, any of its Subsidiaries or, to the knowledge of Parent, any ERISA Affiliate, of the PBGC's intention to terminate a Benefit Plan or to have a trustee appointed to administer a Benefit Plan, copies of each such notice.

(b) Cause to be delivered to Agent, upon Agent's request, each of the following: (i) a copy of each Plan (or, where any such plan is not in writing, complete description thereof) (and if applicable, related trust agreements or other funding instruments) and all amendments thereto, all written interpretations thereof and written descriptions thereof that have been distributed to employees or former employees of Parent or its Subsidiaries; (ii) the most recent determination letter issued by the IRS with respect to each Benefit Plan; (iii) for the three most recent plan years, annual reports on Form 5500 Series required to be filed with any governmental agency for each Benefit Plan; (iv) all actuarial reports prepared for the last three plan years for each Benefit Plan; (v) a listing of all Multiemployer Plans, with the aggregate amount of the most recent annual contributions required to be made by Parent or any ERISA Affiliate to each such plan and copies of the collective bargaining agreements requiring such contributions; (vi) any information that has been provided to Parent or any ERISA Affiliate regarding withdrawal liability under any Multiemployer Plan; and (vii) the aggregate amount of

the most recent annual payments made to former employees of Parent or its Subsidiaries under any Retiree Health Plan.

6.14 Leases. Pay when due all rents and other amounts payable under any leases to which Parent is a party or by which Borrowers' properties and assets are bound, unless such payments are the subject of a Permitted Protest. To the extent that Borrowers fail timely to make payment of such rents and other amounts payable when due under their leases, Agent shall be entitled, in its discretion, to reserve an amount equal to such unpaid amounts against the Borrowing Base.

6.15 Restatement of Financial Statements.

On or before July 31, 2007, the Parent shall:

(a) deliver to the Agent (i) its quarterly reports on Form 10-Q for the quarters ended July 29, 2006, October 28, 2006 and May 5, 2007 (or the equivalent report(s) which the Parent files with the SEC that covers the same periods); and (ii) its annual report on Form 10-K for the Fiscal Year ended February 3, 2007;

(b) file with the SEC its (i) quarterly reports on Form 10-Q for the quarters ended July 29, 2006, October 28, 2006 and May 5, 2007 (or the equivalent report(s) which the Parent files with the SEC that covers the same periods); and (ii) its annual report on Form 10-K for the Fiscal Year ended February 3, 2007.

7. NEGATIVE COVENANTS. Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Borrowers will not do any of the following:

7.1 Indebtedness. Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement, together with Indebtedness to issuers of letters of credit that is the subject of L/C Guarantees;

(b) Indebtedness set forth in Schedule 7.1;

(c) Indebtedness secured by Permitted Liens;

(d) refinancings, renewals, or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Borrowers, (ii) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, refundings, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, and (iv) to the extent that Indebtedness that is refinanced was subordinated in right of payment to the

Obligations, then the subordination terms and conditions of the refinancing Indebtedness must be at least as favorable to the Lender Group as those applicable to the refinanced Indebtedness;

(e) leases, whether operating leases or capital leases of existing or after acquired Equipment, including, without limitation, the Alabama Capital Lease;

(f) Indebtedness subordinated to the Obligations on terms and conditions satisfactory to Agent;

(g) intercompany Indebtedness between and among Borrowers and Guarantors, which Indebtedness shall (i) be evidenced by such documentation as Agent may reasonably require, (ii) constitute "Collateral" under this Agreement, (iii) be on terms (including subordination terms) reasonably acceptable to Agent, and (iv) be otherwise permitted under the provisions of Section 7.13;

(h) any liability or obligation of any Borrower to any other Borrower or to any Affiliate of any Borrower, and any liability or obligation of any Affiliate of any Borrower to any Borrower or to any other Affiliate of any Borrower, to reimburse or share the costs of any services or third party expenses in accordance with the terms of the Intercompany Services Agreement or any similar intercompany cost-sharing agreement or arrangement, provided that no Default or Event of Default then exists or would arise therefrom;

(i) Indebtedness under the L/C Demand Facility (including guarantees by the Borrowers or any Guarantor in respect of such Indebtedness) not to exceed $60,000,000; and

(j) Indebtedness incurred in connection with the Alabama Sale-Leaseback Transaction.

7.2 Liens. Create, incur, assume, or permit to exist, directly or indirectly, any Lien on or with respect to any of its property or assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced under Section 7.1(d) and so long as the replacement Liens only encumber those assets or property that secured the original Indebtedness).

7.3 Restrictions on Fundamental Changes. Without Required Lenders' prior written consent, enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), provided that Borrowers shall be permitted to liquidate or dissolve Twin Brook at any time upon prior written notice to Agent, provided further that before, or within three (3) Business Days after, the liquidation or dissolution of Twin Brook, Twin Brook shall have contributed all of its assets to Parent and Parent shall have caused the former assets of Twin Brook, including, without limitation, the equity interests in Services Company, to be pledged to Agent for the benefit of the Lender Group. In the event of any liquidation or dissolution of Twin Brook in accordance with the preceding sentence, Twin Brook will automatically cease to be a Guarantor hereunder.

7.4 Disposal of Assets. Convey, sell, lease, assign, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial portion of Borrowers' properties or assets other than (a) sales of Inventory to buyers in the ordinary course of Borrowers' business as currently conducted, (b) sales of Equipment having a fair market value, in the aggregate, of up to $500,000 in any Fiscal Year, (c) distributions or transfers of some or all of the assets of Twin Brook to Parent, provided that before, or within three (3) Business Days after, any such distribution or transfer, Parent shall have caused the assets so distributed to be pledged to Agent for the benefit of the Lender Group, and (d) as long as no Default or Event of Default then exists or would arise therefrom, (x) the Alabama Sale-Leaseback Transaction, provided that such sale is made for fair market value and the Agent shall have received from the purchaser of the Real Property subject to the Alabama Sale-Leaseback Transaction a Collateral Access Agreement substantially in the form attached hereto as Exhibit F-1, subject to such changes requested by the purchaser of the Real Property subject to the Alabama Sale-Leaseback Transaction as shall be reasonably acceptable to the Agent, and (y) the Alabama Capital Lease, provided that the Agent shall have received from the lessor under the Alabama Capital Lease a Collateral Access Agreement substantially in the form attached hereto as Exhibit G-1, subject to such changes requested by the lessor under the Alabama Capital Lease as shall be reasonably acceptable to the Agent.

7.5 Change Name. Change any Borrower's name, FEIN, corporate structure (within the meaning of Section 9402(7) of the Code), state or organization or identity, or add any new fictitious name.

7.6 Guarantee. Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except (i) by endorsement of instruments or items of payment for deposit to the account of Borrowers or which are transmitted or turned over to Agent; (ii) guarantee and indemnification obligations to the Walt Disney Companies in accordance with the Acquisition Agreement and the TCP Guaranty and Commitment (as defined in the Acquisition Agreement); and (iii) indemnification obligations to the Walt Disney Companies pursuant to the Disney License Agreement (as to which, the Borrowers are subject to the restrictions set forth in Section 7.16, below).

7.7 Nature of Business. Make any change in the principal nature of Borrower's business, other than in connection with the consummation of the Disney Stores Transaction.

7.8 Prepayments and Amendments.

(a) Except in connection with a refinancing permitted by Section 7.1(d), prepay, redeem, retire, defease, purchase, or otherwise acquire any Indebtedness owing to any third Person, other than the Obligations in accordance with this Agreement, and

(b) Directly or indirectly, amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Sections 7.1(b), (c), or (d).

7.9 Change of Control. Except for transfers of shares by Parent's existing shareholders to members of their immediate family, cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10 Consignments. Consign any Inventory or sell any Inventory on bill and hold, sale or return, sale on approval, or other conditional terms of sale.

7.11 Distributions. Make any distribution or declare or pay any dividends (in cash or other property, other than capital stock) on, or purchase, acquire, redeem, or retire any of Parent's capital stock, of any class, whether now or hereafter outstanding; provided, however, Parent may buy back certain of its capital stock so long as (i) no Event of Default or Default exists and (ii) there has been at least $10,000,000 of borrowing Availability under Section 2.1 (without being limited by the Maximum Amount) as of the end of each of the three months preceding such payment or purchase, and on such date, after taking into account the payment or purchase of such stock.

7.12 Accounting Methods. Modify or change its method of accounting or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Borrowers' accounting records without said accounting firm or service bureau agreeing to provide Agent information regarding the Collateral or Borrowers' financial condition. Each Borrower waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Agent pursuant to or in accordance with this Agreement, and agrees that Agent may contact directly any such accounting firm or service bureau in order to obtain such information.

7.13 Advances, Investments and Loans. Make any investment except:

(a) investments in cash and cash equivalents and equity investments in Subsidiaries in an amount not to exceed $1,000,000 in the aggregate in any Fiscal Year, (including not more than $750,000 to Twin Brook in any Fiscal Year);

(b) so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, Parent and its Subsidiaries may (i) make loans and advances to employees for moving and travel expenses and other similar expenses, in each case incurred in the ordinary course of business, and (ii) make other loans and advances to directors, officers, employees and vendors, (A) so long as, as of the end of each of the three months preceding such loan or advance and on such date after taking into account the particular loan or advance and (B) such loans and advances in the aggregate shall not exceed, $6,000,000 outstanding at any one time;

(c) investments in existence on the date hereof and so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, extensions, renewals, modifications, restatements or replacements thereof so long as the aggregate dollar amount of all such extensions, renewals, modifications, restatements, or replacements does not exceed the amount of such investments in existence on the date hereof;

(d) so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, Parent may make loans and advances to its Subsidiaries in the aggregate amount of $5,000,000 outstanding at any one time;

(e) so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, Parent may make investments in Hoop Holdings, LLC, Hoop Retail Stores, LLC and/or Hoop Canada, Inc. (i) solely for the purpose of payment or financing of Capital Expenditures and/or reimbursement for Capital Expenditures made by Hoop Holdings, LLC, Hoop Retail Stores, LLC and/or Hoop Canada, Inc. in the then current Fiscal Year, which are required to be made pursuant to the Disney License Agreement, and (ii) other investments or capital contributions which are required to be made pursuant to the TCP Guaranty and Commitment (as each of those terms is defined in the Acquisition Agreement); provided that the aggregate amount of the investments made pursuant to clause (i) of this Section 7.13(e) in any Fiscal Year shall not exceed the amount set forth for such Fiscal Year in the second table in Section 7.19(b) of this Agreement; provided further that in no event shall the aggregate amount of the investments made pursuant to clauses (i) and (ii) of this Section 7.13(e) exceed $175,000,000.00 in the aggregate during the term of this Agreement or any extensions or renewals thereof; provided further that the Borrowers shall provide the Agent with such documentation as the Agent shall reasonably request from time to time to evidence any Capital Expenditures being financed and/or reimbursed by means of the investments made pursuant to clause (i) of this Section 7.13(e); provided further that investments in Hoop Canada, Inc. made pursuant to this Section 7.13(e) shall not exceed $12,500,000 in the aggregate during the term of this Agreement or any extensions or renewals thereof;

(f) intercompany loans and advances or other intercompany Indebtedness (i) existing on the date hereof and described on Schedule 7.13(f) hereof, (ii) hereafter made by any Borrower to any other Borrower or Guarantor, or (iii) hereafter made by any Guarantor to any Borrower or any other Guarantor, provided that such intercompany loans, advances or other intercompany Indebtedness shall (x) be evidenced by such documentation as Agent may reasonably require, (y) constitute "Collateral" under this Agreement, and (z) be on terms (including subordination terms) acceptable to Agent; and

(g) intercompany loans and advances or other intercompany Indebtedness permitted by Section 7.1(h).

7.14 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of any Borrower except for: (a) transactions that are in the ordinary course of such Borrower's business, upon fair and reasonable terms, that are fully disclosed to Agent, and that are no less favorable to such Borrower than would be obtained in arm's length transaction with a non-Affiliate; (b) the employment agreement between Parent and Ezra Dabah; (c) transactions in connection with the Disney Stores Transaction, as otherwise contemplated by, and specified in this Agreement; (d) payment of insurance premiums to Twin Brook in an amount not to exceed $750,000 in any Fiscal Year; (e) transactions between Parent and Services Company in the ordinary course of business; and (f) (i) any intercompany Indebtedness permitted by Section 7.1(g), (ii) any intercompany loans and advances or other

intercompany Indebtedness permitted by Sections 7.13(f) or 7.13(g), and (iii) any investments permitted by Section 7.13(e).

7.15 Suspension. Suspend or go out of a material portion of their business.

7.16 Use of Proceeds. Use (a) the proceeds of the Advances for any purpose other than (i) to pay transactional costs and expenses incurred in connection with this Agreement, (ii) to fund working capital in the ordinary course of business; (iii) to fund Capital Expenditures in the amounts permitted pursuant to Section 7.19(b) of this Agreement; (iv) to make investments for the purposes, and in the amounts, permitted pursuant to Section 7.13(e) of this Agreement, provided that in no event shall the proceeds of Advances be used to make investments pursuant to clause (ii) of Section 7.13(e) in excess of $50,000,000 in the aggregate during the term of this Agreement or any extensions or renewals thereof; and (v) consistent with the terms and conditions hereof, for any lawful and permitted corporate purposes. In no event may any proceeds of Advances be used to pay indemnification obligations to the Walt Disney Companies, as described in Section 7.6, above, in an amount greater than $25,000,000.00 at any one time or in the aggregate, without the prior written consent of the Required Lenders.

7.17 Change in Location of Chief Executive Office; Inventory and Equipment with Bailees. Relocate its chief executive office to a new location without providing 30 days prior written notification thereof to Agent and so long as, at the time of such written notification, Borrowers provide any financing statements or fixture filings necessary to perfect and continue perfected the Agent's Lien (for the benefit of the Lender Group) and also provides to Agent a Collateral Access Agreement with respect to such new location. The Inventory and Equipment shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without Agent's prior written consent.

7.18 No Prohibited Transactions Under ERISA. Directly or indirectly:

(a) engage, or permit any Subsidiary of any Borrower to engage, in any prohibited transaction which is reasonably likely to result in a civil penalty or excise tax described in Sections 406 of ERISA or 4975 of the IRC for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the Department of Labor;

(b) permit to exist with respect to any Benefit Plan any accumulated funding deficiency (as defined in Sections 302 of ERISA and 412 of the IRC), whether or not waived;

(c) fail, or permit any Subsidiary of any Borrower to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(d) terminate, or permit any Subsidiary of any Borrower to terminate, any Benefit Plan where such event would result in any liability of any Borrower, any of its Subsidiaries or any ERISA Affiliate under Title IV of ERISA;

(e) fail, or permit any Subsidiary of any Borrower to fail, to make any required contribution or payment to any Multiemployer Plan;

(f) fail, or permit any Subsidiary of any Borrower to fail, to pay any required installment or any other payment required under Section 412 of the IRC on or before the due date for such installment or other payment;

(g) amend, or permit any Subsidiary of any Borrower to amend, a Plan resulting in an increase in current liability for the plan year such that either of any Borrower, any Subsidiary of any Borrower or any ERISA Affiliate is required to provide security to such Plan under Section 401(a)(29) of the IRC; or

(h) withdraw, or permit any Subsidiary of any Borrower to withdraw, from any Multiemployer Plan where such withdrawal is reasonably likely to result in any liability of any such entity under Title IV of ERISA;

which, individually or in the aggregate, results in or reasonably would be expected to result in a claim against or liability of any Borrower, any of its Subsidiaries or any ERISA Affiliate in excess of $100,000.

7.19 Financial Covenants.

(a) Fail to maintain Availability at all times of not less than an amount equal to the product of (i) the Maximum Amount (other than the Seasonal Overadvance Amount) then in effect, multiplied by (ii) ten percent (10%).

(b) Make Capital Expenditures (based upon Parent's Statement of Cash Flows for Investing Activities, net of construction allowances or other allowances granted by the applicable landlord, exclusive of non-capital items and inclusive of any Capital Expenditures made by Hoop Holdings, LLC, Hoop Retail Stores, LLC and Hoop Canada, Inc. during such period, except to the extent the aggregate amount of Capital Expenditures made by Hoop Holdings, LLC, Hoop Retail Stores, LLC and Hoop Canada, Inc. during such period exceeds the aggregate amount of funding provided by the Borrowers to such Subsidiary during such period) in each of the following Fiscal Years in excess of the applicable amount set forth below:

Fiscal Year Ending On or About	Maximum Capital Expenditures
January 31, 2008	$203,000,000.00
January 31, 2009	To be determined in accordance with the two following paragraphs.
January 31, 2010	To be determined in accordance with the two following paragraphs.
January 31, 2011	To be determined in accordance with the two following paragraphs.

Agent, the Required Lenders and Administrative Borrower shall reasonably agree upon the maximum Capital Expenditures for each Fiscal Year subsequent to the Fiscal Year ending on or about January 31, 2008 based upon Parent's Business Plan for such Fiscal Year. Further, any unutilized Capital Expenditures in any given Fiscal Year may be carried forward as an increase to the subsequent year's Capital Expenditure covenant, without regard to any prior carryover.

In no event shall the maximum permitted Capital Expenditures for any Fiscal Year specified in the table above, as agreed by Agent, the Required Lenders and Administrative Borrower in accordance with the preceding paragraph, be less than the corresponding amounts that are set forth in the table below.

In addition, the Borrowers acknowledge and agree that the respective amounts set forth in the table below opposite each such period shall only be available for use as investments in Hoop Holdings, LLC, Hoop Retail Stores, LLC and/or Hoop Canada, Inc. which are expressly permitted pursuant to Section 7.13(e) of this Agreement:

Period	Amount to be Preserved for investments in Hoop Holdings, LLC, Hoop Retail Stores, LLC and/or Hoop Canada, Inc.
Closing Date through January 31, 2008	$ 20,000,000
February 1, 2008 – January 31, 2009	$ 55,000,000
February 1, 2009 – January 31, 2010	$ 36,000,000
February 1, 2010 – January 31, 2011	$ 52,000,000

Further, if the Borrowers desire during any fiscal period specified in the table above to expend amounts greater than those provided for such period in the table above as investments in Hoop Retail Stores, LLC, then such additional investments shall be permitted if, as of the date any such additional investment is made, (a) no Default or Event of Default then exists or would arise therefrom, and (b)(i) immediately after giving effect to the proposed investment, and (ii) for a period of ninety (90) days thereafter, the Borrowers are projected to maintain Availability of not less than $25,000,000. The Agent and each of the Lenders agrees that it will not unreasonably withhold its consent to any requested modification of, or increase to, the foregoing terms and conditions.

8. EVENTS OF DEFAULT. Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

(a) If any Borrower fails to pay when due and payable or when declared due and payable, any portion of the Obligations (whether of principal, interest (including any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due the Lender Group, reimbursement of Lender Group Expenses, or other amounts constituting Obligations);

(b) If any Borrower fails or neglects to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement among Borrowers and the Lender Group; provided, however, that Borrowers' failure or neglect to comply with Sections 6.1(b), 6.2, 6.3, 6.4, 6.5, 6.6, 6.8, 6.11 and 6.13 shall not constitute an Event of Default hereunder unless such failure or neglect continues for five days or more;

(c) If there is a material impairment of the prospect of repayment of any portion of the Obligations owing to the Lender Group or a material impairment of the value or priority of the Lender Group's security interests in the Collateral;

(d) If any material portion of Borrowers' properties or assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any third Person;

(e) If an Insolvency Proceeding is commenced by any Borrower;

(f) If an Insolvency Proceeding is commenced against any Borrower and any of the following events occur: (a) such Borrower consents to the institution of the Insolvency Proceeding against it; (b) the petition commencing the Insolvency Proceeding is not timely controverted; (c) the petition commencing the Insolvency Proceeding is not dismissed within 45 calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, the Lender Group shall be relieved of its obligation to extend credit hereunder; (d) an interim trustee is appointed to take possession of all or a substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, such Borrower; or (e) an order for relief shall have been issued or entered therein;

(g) If any Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

(h) If a notice of Lien, levy, or assessment is filed of record with respect to any of any Borrower's properties or assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a Lien, whether choate or otherwise, upon any of any Borrower's properties or assets and the same is not paid on the payment date thereof;

(i) If (a) an action or proceeding is brought against any Borrower which is reasonably likely to be decided adversely to such Borrower, and such adverse decision would materially impair the prospect of repayment of the Obligations or materially impair the value or priority of the Lender Group's security interests in the Collateral, or (b) if a judgment or other claim in excess of $500,000 becomes a lien or encumbrance upon any material portion of any Borrower's properties or assets and shall remain outstanding 30 days or longer;

(j) If there is a default in an agreement involving Indebtedness of $500,000, or more, or any material agreement to which any Borrower is a party with one or more third Persons resulting in a right by such third Persons, irrespective of whether exercised, to accelerate the maturity of such Borrower's obligations thereunder;

(k) If any Borrower makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations, except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness;

(l) If any material misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or report made to the Lender Group by any Borrower or any officer, employee, agent, or director of any Borrower, or if any such warranty or representation is withdrawn;

(m) If the obligation of any guarantor under its guaranty or other third Person under any Loan Document is limited or terminated by operation of law or by the guarantor or other third Person thereunder, or any such guarantor or other third Person becomes the subject of an Insolvency Proceeding; or

(n) If any "Event of Default" occurs under the L/C Demand Facility Letter of Credit Agreement (other than any such "Event of Default" that has been waived in writing by the agent and the required lenders under the L/C Demand Facility).

9. THE LENDER GROUP'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence, and during the continuation, of an Event of Default Agent may, or, at the request of the Required Lenders shall, pursuant to Sections 17.4 and 17.5, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrowers:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Cease advancing money or extending credit to or for the benefit of Borrowers under this Agreement, under any of the Loan Documents, or under any other agreement between Borrowers and the Lender Group;

(c) Terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of the Lender Group, but without affecting the Lender Group's rights and security interests in the Collateral and without affecting the Obligations;

(d) Settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which Agent considers advisable, and in such cases, Agent will credit Borrowers' Loan Account with only the net amounts received by Agent in payment of such disputed Accounts after deducting all Lender Group Expenses incurred or expended in connection therewith;

(e) Cause Borrowers to hold all returned Inventory in trust for the Lender Group, segregate all returned Inventory from all other property of Borrowers or in Borrowers' possession and conspicuously label said returned Inventory as the property of the Lender Group;

(f) Without notice to or demand upon Borrowers or any guarantor, make such payments and do such acts as Agent considers necessary or reasonable to protect its security interests in the Collateral. Each Borrower agrees to assemble the Collateral if Agent so requires, and to make the Collateral available to Agent as Agent may designate. Each Borrower authorizes Agent to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or Lien that in Agent's determination appears to conflict with the Liens of Agent (for the benefit of the Lender Group) in the Collateral and to pay all expenses incurred in connection therewith. With respect to any of Borrowers' owned or leased premises, Borrowers hereby grant Agent a license to enter into possession of such premises and to occupy the same, without charge, for up to 120 days in order to exercise any of the Lender Group's rights or remedies provided herein, at law, in equity, or otherwise;

(g) Without notice to Borrowers (such notice being expressly waived), and without constituting a retention of any collateral in satisfaction of an obligation (within the meaning of Section 9505 of the Code), set off and apply to the Obligations any and all (i) balances and deposits of Borrowers held by the Lender Group (including any amounts received in the Lockbox Accounts), or (ii) indebtedness at any time owing to or for the credit or the account of Borrowers held by the Lender Group;

(h) Hold, as cash collateral, any and all balances and deposits of Borrowers held by the Lender Group, and any amounts received in the Lockbox Accounts, to secure the full and final repayment of all of the Obligations;

(i) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Agent is hereby granted a license or other right to use, without charge, Borrowers' labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and Borrowers' rights under all licenses and all franchise agreements shall inure to the Lender Group's benefit;

(j) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrowers' premises) as Agent determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale;

(k) Agent shall give notice of the disposition of the Collateral as follows:

(A) Agent shall give Administrative Borrower and each holder of a security interest in the Collateral who has filed with Agent a written request for notice, a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Collateral, then the time on or after which the private sale or other disposition is to be made;

(B) The notice shall be personally delivered or mailed, postage prepaid, to Administrative Borrower as provided in Section 12, at least 10 days before the date fixed for the sale, or at least 10 days before the date on or after which the private sale or other disposition is to be made; no notice needs to be given prior to the disposition of any portion of the Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market. Notice to Persons other than Borrowers claiming an interest in the Collateral shall be sent to such addresses as they have furnished to Agent;

(C) If the sale is to be a public sale, Agent also shall give notice of the time and place by publishing a notice one time at least 10 days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held;

(l) Agent may credit bid and purchase at any public sale; and

(m) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrowers. Any excess will be returned, without interest and subject to the rights of third Persons, by Agent to Borrowers.

9.2 Remedies Cumulative. The Lender Group's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. The Lender Group shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by the Lender Group of one right or remedy shall be deemed an election, and no waiver by the Lender Group of any Event of Default shall be deemed a continuing waiver. No delay by the Lender Group shall constitute a waiver, election, or acquiescence by it.

10. TAXES AND EXPENSES. If Borrowers fail to pay any monies (whether taxes, assessments, insurance premiums, or, in the case of leased properties or assets, rents or other amounts payable under such leases) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, to the extent that Agent determines that such failure by Borrowers could result in a Material Adverse Change, in its discretion and without prior notice to Borrowers, Agent may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves in

Borrowers' Loan Account as Agent deems necessary to protect the Lender Group from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type described in Section 6.9, and take any action with respect to such policies as Agent deems prudent. Any such amounts paid by Agent shall constitute Lender Group Expenses. Any such payments made by Agent shall not constitute an agreement by the Lender Group to make similar payments in the future or a waiver by the Lender Group of any Event of Default under this Agreement. Agent need not inquire as to, or contest the validity of, any such expense, tax, or Lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

11.1 Demand; Protest; etc. Each Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by the Lender Group on which such Borrower may in any way be liable.

11.2 The Lender Group's Liability for Collateral. So long as the Lender Group complies with its obligations, if any, under Section 9207 of the Code, the Lender Group shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person. All risk of loss, damage, or destruction of the Collateral shall be borne by Borrowers.

11.3 Indemnification. Each Borrower shall pay, indemnify, defend, and hold each Agent-Related Person, each Lender, each Participant, and each of their respective officers, directors, employees, counsel, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all reasonable attorneys fees and disbursements and other costs and expenses actually incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them in connection with or as a result of or related to the execution, delivery, enforcement, performance, and administration of this Agreement and any other Loan Documents or the transactions contemplated herein, and with respect to any investigation, litigation, or proceeding related to this Agreement, any other Loan Document, or the use of the proceeds of the credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities"). Each Borrower shall have no obligation to any Indemnified Person under this Section 11.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement and the repayment of the Obligations.

12. NOTICES. Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), overnight courier, or telefacsimile to Administrative Borrower or to Agent, as the case may be, at its address set forth below:

If to Administrative Borrower:	**THE CHILDREN'S PLACE RETAIL STORES, INC.** 915 Secaucus Road Secaucus, New Jersey 07094 Attn: Chief Financial Officer Fax No. 201.558.2837
	THE CHILDREN'S PLACE RETAIL STORES, INC. 915 Secaucus Road Secaucus, New Jersey 07094 Attn: General Counsel Fax No. 201.558.2840
with copies to:	**STROOCK & STROOCK & LAVAN LLP** 180 Maiden Lane New York, New York 10038 Attn: Jeffrey S. Lowenthal, Esq. Fax No. 212.806.6006
If to Agent or the Lender Group in case of Agent:	**WELLS FARGO RETAIL FINANCE, LLC** One Boston Place Suite 1800 Boston, Massachusetts 02108 Attn: Michele Ayou Fax No. 617.523.4027
with copies to:	**RIEMER & BRAUNSTEIN LLP** Three Center Plaza Boston, Massachusetts 02108 Attn:Kevin J. Simard, Esq. Fax No. 617 880 3456

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 12, other than notices by Agent in connection with Sections 9611 or 9620 of the Code, shall be deemed received on the earlier of the date of actual receipt or three days after the deposit thereof in the mail. Borrowers acknowledge and agree that notices sent by Agent in connection with Sections 9611 or 9620 of the Code shall be deemed sent when

deposited in the mail or personally delivered, or, where permitted by law, transmitted by telefacsimile or other similar method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER. THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN ANOTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF SUFFOLK, COMMONWEALTH OF MASSACHUSETTS OR, AT THE SOLE OPTION OF THE LENDER GROUP, IN ANY OTHER COURT IN WHICH THE LENDER GROUP SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 13. EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP REPRESENTS THAT IT HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. DESTRUCTION OF BORROWERS' DOCUMENTS. All documents, schedules, invoices, agings, or other papers delivered to Agent may be destroyed or otherwise disposed of by Agent four months after they are delivered to or received by Agent, unless Administrative Borrower requests, in writing, the return of said documents, schedules, or other papers and makes arrangements, at Borrowers' expense, for their return.

15. ASSIGNMENTS AND PARTICIPATIONS; SUCCESSORS.

15.1 Assignments and Participations.

(a) Any Lender may, with the written consent of Agent (and, if no Event of Default then exists and is continuing, the Administrative Borrower (each such consent shall not be unreasonably withheld or delayed)) assign and delegate to one or more Eligible Transferees (each an "Assignee") all, or any ratable part, of the Obligations, the Commitments, and the other rights and obligations of such Lender hereunder and under the other Loan Documents, in a minimum amount of $5,000,000; provided, however, that Borrowers and Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses, and related information with respect to the Assignee, shall have been given to Administrative Borrower and Agent by such Lender and the Assignee; (ii) such Lender and its Assignee shall have delivered to Administrative Borrower and Agent a fully executed Assignment and Acceptance ("Assignment and Acceptance") in the form of Exhibit A-1; and (iii) the assignor Lender or Assignee has paid to Agent for Agent's sole and separate account a processing fee in the amount of $5,000. Anything contained herein to the contrary notwithstanding, the consent of Agent and Administrative Borrower shall not be required (and payment of any fees shall not be required) if (i) such assignment is in connection with any merger, consolidation, sale, transfer, or other disposition of all or any substantial portion of the business or loan portfolio of the assigning Lender, or (ii) such assignment is to an Affiliate of the assigning Lender.

(b) From and after the date that Agent notifies the assignor Lender that it has received a fully executed Assignment and Acceptance and payment of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement and the other Loan Documents, such Lender shall cease to be a party hereto and thereto), and such assignment shall effect a novation between Borrowers and the Assignee.

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (1) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties, or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement or any other Loan Document furnished pursuant hereto; (2) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrowers or any guarantor or the performance or observance by Borrowers or any guarantor of any of its obligations under this Agreement or any other Loan Document furnished pursuant hereto; (3) such Assignee confirms that it has received a copy of this Agreement, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and

Acceptance; (4) such Assignee will, independently and without reliance upon Agent, such assigning Lender, or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (5) such Assignee appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (6) such Assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) Immediately upon each Assignee's making its processing fee payment under the Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments of the Assignor and Assignee arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitment of the assigning Lender pro tanto.

(e) Any Lender may at any time, with the written consent of Agent, which consent shall not be unreasonably withheld, (and, if no Event of Default then exists and is continuing, the Administrative Borrower (whose consent shall not be unreasonably withheld)) sell to one or more Persons (a "Participant") participating interests in the Obligations, the Commitment, and the other rights and interests of that Lender (the "Originating Lender") hereunder and under the other Loan Documents; provided, however, that (i) the Originating Lender's obligations under this Agreement shall remain unchanged, (ii) the Originating Lender shall remain solely responsible for the performance of such obligations, (iii) Borrowers and Agent shall continue to deal solely and directly with the Originating Lender in connection with the Originating Lender's rights and obligations under this Agreement and the other Loan Documents, (iv) no Originating Lender shall transfer or grant any participating interest under which the Participant has the sole and exclusive right to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment to, or consent or waiver with respect to this Agreement or of any other Loan Document would (A) extend the final maturity date of the Obligations hereunder in which such Participant is participating; (B) reduce the interest rate applicable to the Obligations hereunder in which such Participant is participating; (C) release all or a material portion of the Collateral (except to the extent expressly provided herein or in any of the Loan Documents) supporting the Obligations hereunder in which such Participant is participating; (D) postpone the payment of, or reduce the amount of, the interest or fees hereunder in which such Participant is participating; or (E) change the amount or due dates of scheduled principal repayments or prepayments or premiums in respect of the Obligations hereunder in which such Participant is participating; and (v) all amounts payable by Borrowers hereunder shall be determined as if such Originating Lender had not sold such participation; except that, if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement; provided, however, that no Participant may exercise any such right of setoff without the notice to and consent of Agent. The rights of any Participant shall only be

derivative through the Originating Lender with whom such Participant participates and no Participant shall have any direct rights as to the other Lenders, Agent, Borrowers, the Collections, the Collateral, or otherwise in respect of the Advances or the Letters of Credit. No Participant shall have the right to participate directly in the making of decisions by the Lenders among themselves. The provisions of this Section 15.1(e) are solely for the benefit of the Lender Group, and Borrowers shall have no rights as a third party beneficiary of any of such provisions.

(f) In connection with any such assignment or participation or proposed assignment or participation, a Lender may disclose to a third party all documents and information which it now or hereafter may have relating to Borrowers or Borrowers' business.

(g) Notwithstanding any other provision in this Agreement, (i) any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR §203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law and the Administrative Borrower shall have no right to consent thereto, and (ii) the Agent shall not be entitled to consent to any assignment or participation arising as a result of the acquisition of a Lender or all or any portion of its loan portfolio by any other Person.

15.2 Successors. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Borrowers may not assign this Agreement or any rights or duties hereunder without the Lenders' prior written consent and any prohibited assignment shall be absolutely void. No consent to assignment by the Lenders shall release Borrowers from their Obligations. A Lender may assign this Agreement and its rights and duties hereunder pursuant to Section 15.1 and, except as expressly required pursuant to Section 15.1, no consent or approval by Borrowers is required in connection with any such assignment.

16. AMENDMENTS; WAIVERS.

16.1 Amendments and Waivers.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by Borrowers therefrom, shall be effective unless the same shall be in writing and signed by the Required Lenders (or by Agent at the written request of the Required Lenders) and Borrowers and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided,

however, that no such waiver, amendment, or consent shall, unless in writing and signed by all the Lenders and Borrowers and acknowledged by Agent, do any of the following:

(a) increase or extend the Commitment of any Lender;

(b) except as provided in Section 2.18, increase the aggregate Commitments;

(c) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees, or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document;

(d) reduce the principal of, or the rate of interest specified herein on, any Advance, or any fees or other amounts payable hereunder or under any other Loan Document;

(e) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Advances, which is required for the Lenders or any of them to take any action hereunder;

(f) increase the advance rate with respect to Advances (except for the restoration of an advance rate after the prior reduction thereof), or change Section 2.1(b);

(g) amend this Section or any provision of the Agreement providing for consent or other action by all Lenders;

(h) release Collateral other than as permitted by Section 17.11;

(i) change the definition of "Required Lenders";

(j) release any Borrower from any Obligation for the payment of money; or

(k) amend any of the provisions of Article 17.

and, provided further, that no amendment, waiver or consent shall, unless in writing and signed by Agent, affect the rights or duties of Agent under this Agreement or any other Loan Document; and, provided further, that the limitation contained in clause (e) above shall not be deemed to limit the ability of Agent to make Advances or Agent Loans, as applicable, in accordance with the provisions of Sections 2.1(g), (h), or (l). The foregoing notwithstanding, any amendment, modification, waiver, consent, termination, or release of or with respect to any provision of this Agreement or any other Loan Document that relates only to the relationship of the Lender Group among themselves, and that does not affect the rights or obligations of Borrowers, shall not require consent by or the agreement of Borrowers.

If any Lender does not Consent (a "Non-Consenting Lender") to a proposed amendment, waiver, consent or release with respect to any Loan Document that requires the consent of such Lender or the Required Lenders, Administrative Borrower may replace such Non-Consenting Lender in accordance with Section 16.2; provided that such amendment, waiver, consent or release can be effected as a result of the assignment contemplated by Section 16.2 (together with all other such assignments required by Administrative Borrower to be made pursuant to this paragraph).

16.2 Replacement of Non-Consenting Lenders. If any Lender is a Non-Consenting Lender, then Borrowers may, at their sole expense and effort, upon notice to such Lender and Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 15.1), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an Eligible Transferee selected by Borrowers (with the consent of Agent, such consent not to be unreasonably withheld or delayed) that shall assume such obligations (which Eligible Transferee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Borrowers shall have paid to Agent the assignment fee specified in Section 15.1(a);

(b) such Lender shall have received payment of an amount equal to such Lender's Pro-Rata Share of the outstanding principal of all Advances and Obligations in respect of L/Cs, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrowers (in the case of all other amounts); and

(c) such assignment does not conflict with applicable laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrowers to require such assignment and delegation cease to apply.

16.3 No Waivers; Cumulative Remedies. No failure by Agent or any Lender to exercise any right, remedy, or option under this Agreement, any other Loan Document, or any present or future supplement hereto or thereto, or in any other agreement between or among Borrowers and Agent and/or any Lender, or delay by Agent or any Lender in exercising the same, will operate as a waiver thereof. No waiver by Agent or any Lender will be effective unless it is in writing, and then only to the extent specifically stated. No waiver by Agent or the Lenders on any occasion shall affect or diminish Agent's and each Lender's rights thereafter to require strict performance by Borrowers of any provision of this Agreement. Agent's and each Lender's rights under this Agreement and the other Loan Documents will be cumulative and not exclusive of any other right or remedy which Agent or any Lender may have.

17. AGENT; THE LENDER GROUP.

17.1 Appointment and Authorization of Agent.

Each Lender hereby designates and appoints Wells Fargo Retail as its Agent under this Agreement and the other Loan Documents and each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Agent agrees to act as such on the express conditions contained in this Article 17. The provisions of this Article 17 are solely for the benefit of Agent and the Lenders, and Borrowers shall not have any rights as a third party beneficiary of any of the

provisions contained herein; provided, however, that the provisions of Sections 17.10, 17.11, and 17.16(d) also shall be for the benefit of Borrowers. Any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document notwithstanding, Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations, or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent. Except as expressly otherwise provided in this Agreement, Agent shall have and may use its sole discretion with respect to exercising or refraining from exercising any discretionary rights or taking or refraining from taking any actions which Agent is expressly entitled to take or assert under or pursuant to this Agreement and the other Loan Documents, including making the determinations contemplated by Section 2.1(b). Without limiting the generality of the foregoing, or of any other provision of the Loan Documents that provides rights or powers to Agent, Lenders agree that Agent shall have the right to exercise the following powers as long as this Agreement remains in effect: (a) maintain, in accordance with its customary business practices, ledgers and records reflecting the status of the Advances, the Collateral, the Collections, and related matters; (b) execute and/or file any and all financing or similar statements or notices, amendments, renewals, supplements, documents, instruments, proofs of claim for Lenders, notices and other written agreements with respect to the Loan Documents; (c) make Advances for itself or on behalf of Lenders as provided in the Loan Documents; (d) exclusively receive, apply, and distribute the Collections as provided in the Loan Documents; (e) open and maintain such bank accounts and lock boxes as Agent deems necessary and appropriate in accordance with the Loan Documents for the foregoing purposes with respect to the Collateral and the Collections; (f) perform, exercise, and enforce any and all other rights and remedies of the Lender Group with respect to Borrowers, the Advances, the Collateral, the Collections, or otherwise related to any of same as provided in the Loan Documents; and (g) incur and pay such Lender Group Expenses as Agent may deem necessary or appropriate for the performance and fulfillment of its functions and powers pursuant to the Loan Documents.

17.2 Delegation of Duties. Except as otherwise provided in this Section, Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees, or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects as long as such selection was made in compliance with this Section and without gross negligence or willful misconduct. The foregoing notwithstanding, Agent shall not make any material delegation of duties to subagents or non-employee delegees without the prior written consent of Required Lenders (it being understood that routine delegation of such administrative matters as filing financing statements, or conducting appraisals or audits, is not viewed as a material delegation that requires prior Required Lender approval).

17.3 Liability of Agent-Related Persons. None of the Agent-Related Persons shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or, (ii) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by Borrowers, or any Subsidiary or Affiliate of Borrowers, or any officer or director thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement, or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of Borrowers or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books, or records of Borrowers, or any of Borrowers' Subsidiaries or Affiliates.

17.4 Reliance by Agent. Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex, or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent, or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Borrowers or counsel to any Lender), independent accountants, and other experts selected by Agent. Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders or all Lenders, as applicable, and until such instructions are received, Agent shall act, or refrain from acting, as it deems advisable so long as it is not grossly negligent or guilty of willful misconduct. If Agent so requests, it shall first be indemnified to its reasonable satisfaction by Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Agent

shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders or all Lenders, as applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

17.5 Notice of Default or Event of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest, fees, and expenses required to be paid to Agent for the account of Agent or the Lenders, except with respect to actual knowledge of the existence of an Overadvance, and except with respect to Defaults and Events of Default of which Agent has actual knowledge, unless Agent shall have received written notice from a Lender or a Borrower referring to this Agreement, describing such Default or Event of Default, and stating that such notice is a "notice of default." Agent promptly will notify the Lenders of its receipt of any such notice or of any Event of Default of which Agent has, or is deemed to have, actual knowledge. If any Lender obtains actual knowledge of any Event of Default, such Lender promptly shall notify the other Lenders and Agent of such Event of Default. Each Lender shall be solely responsible for giving any notices to its Participants, if any. Subject to Section 17.4, Agent shall take such

action with respect to such Default or Event of Default as may be requested by the Required Lenders; provided, however, that:

(a) At all times, Agent may propose and, with the consent of Required Lenders (which shall not be unreasonably withheld and which shall be deemed to have been given by a Lender unless such Lender has notified Agent to the contrary in writing within three days of notification of such proposed actions by Agent) exercise, any remedies on behalf of the Lender Group; and

(b) At all times, once Required Lenders or all Lenders, as the case may be, have approved the exercise of a particular remedy or pursuit of a course of action, Agent may, but shall not be obligated to, make all administrative decisions in connection therewith or take all other actions reasonably incidental thereto (for example, if the Required Lenders approve the foreclosure of certain Collateral, Agent shall not be required to seek consent for the administrative aspects of conducting such sale or handling of such Collateral).

17.6 Credit Decision. Each Lender acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by Agent hereinafter taken, including any review of the affairs of Borrowers and their Subsidiaries or Affiliates, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition, and creditworthiness of Borrowers and any other Person (other than the Lender Group) party to a Loan Document, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrowers. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals, and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition, and creditworthiness of Borrowers, and any other Person (other than the Lender Group) party to a Loan Document. Except for notices, reports, and other documents expressly herein required to be furnished to the Lenders by Agent, Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition, or creditworthiness of Borrowers, and any other Person party to a Loan Document that may come into the possession of any of the Agent-Related Persons.

17.7 Costs and Expenses; Indemnification. Agent may incur and pay Lender Group Expenses to the extent Agent deems reasonably necessary or appropriate for the performance and fulfillment of its functions, powers, and obligations pursuant to the Loan Documents, including without limiting the generality of the foregoing, but subject to any requirements of the Loan Documents that it obtain any applicable consents or engage in any required consultation, court costs, reasonable attorneys fees and expenses, costs of collection by outside collection agencies

and auctioneer fees and costs of security guards or insurance premiums paid to maintain the Collateral, whether or not Borrowers are obligated to reimburse Agent or Lenders for such expenses pursuant to this Agreement or otherwise. Agent is authorized and directed to deduct and retain sufficient amounts from Collections to reimburse Agent for such out-of-pocket costs and expenses prior to the distribution of any amounts to Lenders. In the event Agent is not reimbursed for such costs and expenses from Collections, each Lender hereby agrees that it is and shall be obligated to pay to or reimburse Agent for the amount of such Lender's Pro Rata Share thereof. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of Borrowers and without limiting the obligations of Borrowers to do so), according to their Pro Rata Shares, from and against any and all Indemnified Liabilities; provided, however, that no Lender shall be liable for the payment to the Agent-Related Persons of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence, bad faith, or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including attorney fees and expenses) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment, or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that Agent is not reimbursed for such expenses by or on behalf of Borrowers. The undertaking in this Section 17.7 shall survive the payment of all Obligations hereunder and the resignation or replacement of Agent.

17.8 Agent in Individual Capacity. Wells Fargo Retail and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests, in and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with Borrowers and its Subsidiaries and Affiliates and any other Person party to any Loan Documents as though Wells Fargo Retail were not Agent hereunder without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, Wells Fargo Retail and its Affiliates may receive information regarding Borrowers or their Affiliates and any other Person party to any Loan Documents that is subject to confidentiality obligations in favor of Borrowers or such other Person and that prohibit the disclosure of such information to the Lenders, and the Lenders acknowledge that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver Agent will use its reasonable best efforts to obtain), Agent shall be under no obligation to provide such information to them. With respect to the Agent Loans and Agent Advances, Wells Fargo Retail shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not Agent, and the terms "Lender" and "Lenders" include Wells Fargo Retail in its individual capacity.

17.9 Successor Agent. Agent may resign as Agent following notice of such resignation ("Notice") to the Lenders and Administrative Borrower, and effective upon the appointment of and acceptance of such appointment by, a successor Agent. If Agent resigns under this Agreement, the Required Lenders shall appoint any Lender or Eligible Transferee as successor Agent for the Lenders. If no successor Agent is appointed within 30 days of such retiring Agent's Notice, Agent may appoint a successor Agent, after consulting with the Lenders

and Administrative Borrower. In any such event, upon the acceptance of its appointment as successor Agent hereunder, such successor Agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "Agent" shall mean such successor Agent and the retiring Agent's appointment, powers, and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 17 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

17.10 Withholding Tax.

(a) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the IRC and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the IRC, such Lender agrees with and in favor of Agent and Borrowers, to deliver to Agent and Borrowers:

(i) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Forms W-8BEN before the payment of any interest in the first calendar year and before the payment of any interest in each third succeeding calendar year during which interest may be paid under this Agreement;

(ii) if such Lender claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, two properly completed and executed copies of IRS Form W-8ECI before the payment of any interest is due in the first taxable year of such Lender and in each succeeding taxable year of such Lender during which interest may be paid under this Agreement, and IRS Form W-9; and

(iii) such other form or forms as may be required under the IRC or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Such Lender agrees to promptly notify Agent and Borrowers of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form W-8BEN and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of Borrowers, such Lender agrees to notify Agent and Borrowers of the percentage amount in which it is no longer the beneficial owner of Obligations of Borrowers to such Lender. To the extent of such percentage amount, Agent and Borrowers will treat such Lender's IRS Form W-8BEN as no longer valid.

(c) If any Lender claiming exemption from United States withholding tax by filing IRS Form W-8ECI with Agent sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of Borrowers to such Lender, such Lender agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the IRC.

(d) If any Lender is entitled to a reduction in the applicable withholding tax, Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not delivered to Agent, then Agent may withhold from any interest payment to such Lender not providing such forms or other documentation an amount equivalent to the applicable withholding tax.

(e) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that Agent or Borrowers did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify Agent and Borrowers of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify Agent and Borrowers fully for all amounts paid, directly or indirectly, by Agent or Borrowers as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to Agent or Borrowers under this Section, together with all costs and expenses (including attorneys fees and expenses). The obligation of the Lenders under this subsection shall survive the payment of all Obligations and the resignation of Agent.

17.11 Collateral Matters.

(a) The Lenders hereby irrevocably authorize Agent, to release any Lien on any Collateral (i) upon the termination of the Commitments and payment and satisfaction in full by Borrowers of all Obligations; and upon such termination and payment Agent shall deliver to Administrative Borrower, at Administrative Borrower's sole cost and expense, all UCC termination statements and any other documents necessary to terminate the Loan Documents and release the Liens with respect to the Collateral; (ii) constituting property being sold or disposed of if a release is required or desirable in connection therewith and if Administrative Borrower certifies to Agent that the sale or disposition is permitted under Section 7.4 of this Agreement or the other Loan Documents (and Agent may rely conclusively on any such certificate, without further inquiry); (iii) constituting property in which Borrowers owned no interest at the time the Lien was granted or at any time thereafter; or (iv) constituting property leased to Borrowers under a lease that has expired or been terminated in a transaction permitted under this Agreement. Except as provided above, Agent will not release any Lien on any Collateral without the prior written authorization of the Lenders. Upon request by Agent or Administrative Borrower at any time, the Lenders will confirm in writing Agent's authority to release any such Liens on particular types or items of Collateral pursuant to this Section 17.11; provided, however, that (i) Agent shall not be required to execute any document necessary to evidence such release on terms that, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Lien without recourse, representation, or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Obligations or any Liens (other than those expressly being released), upon (or obligations of Borrowers in respect of) all interests retained by Borrowers, including, the proceeds of any sale, all of which shall continue to constitute part of the Collateral.

(b) Agent shall have no obligation whatsoever to any of the Lenders to assure that the Collateral exists or is owned by Borrowers, is cared for, protected, or insured or has been encumbered, or that the Liens of the Agent (for the benefit of the Lender Group) have been properly or sufficiently or lawfully created, perfected, protected, or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure, or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent pursuant to any of the Loan Documents, it being understood and agreed that in respect of the Collateral, or any act, omission or event related thereto, subject to the terms and conditions contained herein, Agent may act in any manner it may deem appropriate, in its sole discretion given Agent's own interest in the Collateral in its capacity as one of the Lenders and that Agent shall have no other duty or liability whatsoever to any Lender as to any of the foregoing, except as otherwise provided herein.

17.12 Restrictions on Actions by Lenders; Sharing of Payments.

(a) Subject to Section 17.12(b), each of the Lenders agrees that it may, at any time and from time to time, after obtaining the prior written consent of Agent or the Required Lenders, and agrees that it shall, to the extent it is lawfully entitled to do so, upon the request of Agent, set off against the Obligations any amounts owing by such Lender to Borrowers or any accounts of Borrowers now or hereafter maintained with such Lender. Each of the Lenders further agrees to notify Administrative Borrower and Agent promptly after any such setoff, provided that the failure to give such notice shall not affect the validity of such setoff. Each of the Lenders agrees that it shall not, unless specifically requested to do so by Agent, take or cause to be taken any action, including the commencement of any legal or equitable proceedings, to foreclose any Lien on, or otherwise enforce any security interest in, any of the Collateral the purpose of which is, or could be, to give such Lender any preference or priority against the other Lenders with respect to the Collateral.

(b) Subject to Section 17.8, if, at any time or times any Lender shall receive (i) by payment, foreclosure, setoff, or otherwise, any proceeds of Collateral or any payments with respect to the Obligations of Borrowers to such Lender arising under, or relating to, this Agreement or the other Loan Documents, except for any such proceeds or payments received by such Lender from Agent pursuant to the terms of this Agreement, or (ii) payments from Agent pursuant to the terms of this Agreement, in each case in excess of such Lender's Pro Rata Share, such Lender shall promptly (1) turn the same over to Agent, in kind, and with such endorsements as may be required to negotiate the same to Agent, or in same day funds, as applicable, for the account of all of the Lenders and for application to the Obligations in accordance with the applicable provisions of this Agreement, or (2) purchase, without recourse or warranty, an undivided interest and participation in the Obligations owed to the other Lenders so that such excess payment received shall be applied ratably as among the Lenders in accordance with their Pro Rata Shares; provided, however, that if all or part of such excess payment received by the purchasing party is thereafter recovered from it, those purchases of participations shall be rescinded in whole or in part, as applicable, and the applicable portion of the purchase price paid therefor shall be returned to such purchasing party, but without interest except to the extent that such purchasing party is required to pay interest in connection with the recovery of the excess payment.

17.13 Agency for Perfection. Agent and each Lender hereby appoints each other Lender as agent for the purpose of perfecting the Liens of the Lender Group in assets which, in accordance with Article 9 of the UCC can be perfected only by possession. Should any Lender obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver such Collateral to Agent or in accordance with Agent's instructions.

17.14 Payments by Agent to the Lenders. All payments to be made by Agent to the Lenders shall be made by bank wire transfer or internal transfer of immediately available funds pursuant to the instructions set forth on Schedule C-1, or pursuant to such other wire transfer instructions as each party may designate for itself by written notice to Agent. Concurrently with each such payment, Agent shall identify whether such payment (or any portion thereof) represents principal, premium or interest on Revolving Advances or otherwise.

17.15 Concerning the Collateral and Related Loan Documents. Each member of the Lender Group authorizes and directs Agent to enter into this Agreement and the other Loan Documents relating to the Collateral, for the ratable benefit (subject to Section 4.1) of the Lender Group. Each member of the Lender Group agrees that any action taken by Agent, Required Lenders, or all Lenders, as applicable, in accordance with the terms of this Agreement or the other Loan Documents relating to the Collateral and the exercise by Agent, Required Lenders, or all Lenders, as applicable, of their respective powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all of the Lenders.

17.16 Field Audits and Examination Reports; Confidentiality; Disclaimers by Lenders; Other Reports and Information. By signing this Agreement, each Lender:

(a) is deemed to have requested that Agent furnish such Lender, promptly after the same become available, copies of all financial statements, reports and certificates required to be delivered by Administrative Borrower under Sections 6.2, 6.4 and 6.15 of this Agreement, and a copy of each field audit or examination report (each a "Report" and collectively, "Reports") received by Agent, and Agent shall so furnish each Lender with such Reports;

(b) expressly agrees and acknowledges that Agent (i) does not make any representation or warranty as to the accuracy of any Report, and (ii) shall not be liable for any information contained in any Report;

(c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that Agent or other party performing any audit or examination will inspect only specific information regarding Borrowers and will rely significantly upon books and records, as well as on representations of Borrowers' personnel;

(d) agrees to keep all Reports and other material information obtained by it pursuant to the requirements of this Agreement in accordance with its reasonable customary procedures for handling confidential information; it being understood and agreed by Borrowers that in any event such Lender may make disclosures (i) reasonably required by any bona fide

potential or actual Assignee, transferee, or Participant in connection with any contemplated or actual assignment or transfer by such Lender of an interest herein or any participation interest in such Lender's rights hereunder, (ii) of information that has become public by disclosures made by Persons other than such Lender, its Affiliates, assignees, transferees, or participants, (iii) as required or requested by any court, governmental or administrative agency, pursuant to any subpoena or other legal process, or by any law, statute, regulation, or court order, or (iv) to examiners, auditors, and investigators having regulatory authority over such Lender; provided, however, that, unless prohibited by applicable law, statute, regulation, or court order, such Lender shall notify Administrative Borrower of any request by any court, governmental or administrative agency, or pursuant to any subpoena or other legal process, for disclosure of any non-public material information pursuant to clause (iii) of this Section 17.16(d) concurrent with, or where practicable, prior to the disclosure thereof; and

(e) without limiting the generality of any other indemnification provision contained in this Agreement, agrees: (i) to hold Agent and any such other Lender preparing a Report harmless from any action the indemnifying Lender may take or conclusion the indemnifying Lender may reach or draw from any Report in connection with any loans or other credit accommodations that the indemnifying Lender has made or may make to Borrowers, or the indemnifying Lender's participation in, or the indemnifying Lender's purchase of, a loan or loans of Borrowers; and (ii) to pay and protect, and indemnify, defend, and hold Agent and any such other Lender preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses and other amounts (including, attorney costs) incurred by Agent and any such other Lender preparing a Report as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

In addition to the foregoing: (x) any Lender may from time to time request of Agent in writing that Agent provide to such Lender a copy of any report or document provided by Borrowers to Agent, and, upon receipt of such request, Agent shall provide a copy of same to such Lender promptly upon receipt thereof; (y) to the extent that Agent is entitled, under any provision of the Loan Documents, to request additional reports or information from Borrowers, any Lender may, from time to time, reasonably request Agent to exercise such right as specified in such Lender's notice to Agent, whereupon Agent promptly shall request of Borrowers the additional reports or information specified by such Lender, and, upon receipt thereof, Agent promptly shall provide a copy of same to such Lender; and (z) any time that Agent renders to Administrative Borrower a statement regarding the Loan Account, Agent shall send a copy of such statement to each Lender.

17.17 Several Obligations; No Liability. Notwithstanding that certain of the Loan Documents now or hereafter may have been or will be executed only by or in favor of Agent in its capacity as such, and not by or in favor of the Lenders, any and all obligations on the part of Agent (if any) to make any Advances shall constitute the several (and not joint) obligations of the respective Lenders on a ratable basis, according to their respective Commitments, to make an amount of such Advances not to exceed, in principal amount, at any one time outstanding, the amount of their respective Commitments. Nothing contained herein shall confer upon any Lender any interest in, or subject any Lender to any liability for, or in respect of, the business, assets, profits, losses, or liabilities of any other Lender. Each Lender shall be solely responsible

for notifying its Participants of any matters relating to the Loan Documents to the extent any such notice may be required, and no Lender shall have any obligation, duty, or liability to any Participant of any other Lender. Except as provided in Section 17.7, no member of the Lender Group shall have any liability for the acts of any other member of the Lender Group. No Lender shall be responsible to Borrowers or any other Person for any failure by any other Lender to fulfill its obligations to make Advances, nor to advance for it or on its behalf in connection with its Commitment, nor to take any other action on its behalf hereunder or in connection with the financing contemplated herein.

17.18 Documentation Agent; Co-Agent.

Notwithstanding the provisions of this Agreement or any of the other Loan Documents, Wachovia Capital Finance Corporation (New England) (in its capacity as Documentation Agent, as opposed to its capacity as a Lender), and LaSalle Retail Finance, a division of LaSalle Business Credit LLC (in its capacity as Co-Agent, as opposed to its capacity as a Lender) shall have no powers, rights, duties, responsibilities, or liabilities with respect to this Agreement and the other Loan Documents, nor shall Wachovia Capital Finance Corporation (New England) or LaSalle Retail Finance, a division of LaSalle Business Credit LLC have or be deemed to have any fiduciary relationship with any Lender.

18. GENERAL PROVISIONS.

18.1 Effectiveness.

This Agreement shall be binding and deemed effective when executed by Borrowers and the Lender Group.

18.2 Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

18.3 Interpretation. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against the Lender Group or Borrowers, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

18.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

18.5 Counterparts; Telefacsimile Execution. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

18.6 Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by Borrowers or any guarantor of the Obligations or the transfer by any or all of such parties to the Lender Group of any property of either or both of such parties should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if the Lender Group is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Lender Group is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of the Lender Group related thereto, the liability of Borrowers or such guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

18.7 Integration. This Agreement, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof.

18.8 Parent as Agent for Borrowers. Each Borrower hereby irrevocably appoints Parent as the borrowing agent and attorney-in-fact for all Borrowers (the "Administrative Borrower") which appointment shall remain in full force and effect unless and until Agent shall have received prior written notice signed by each Borrower that such appointment has been revoked and that another Borrower has been appointed Administrative Borrower. Each Borrower hereby irrevocably appoints and authorizes the Administrative Borrower (i) to provide Agent with all notices with respect to Advances and Letters of Credit obtained for the benefit of any Borrower and all other notices and instructions under this Agreement and (ii) to take such action as the Administrative Borrower deems appropriate on its behalf to obtain Advances and Letters of Credit and to exercise such other powers as are reasonably incidental thereto to carry out the purposes of this Agreement. It is understood that the handling of the Loan Account and Collateral of Borrowers in a combined fashion, as more fully set forth herein, is done solely as an accommodation to Borrowers in order to utilize the collective borrowing powers of Borrowers in the most efficient and economical manner and at their request, and that Lender Group shall not incur liability to any Borrower as a result hereof. Each Borrower expects to derive benefit, directly or indirectly, from the handling of the Loan Account and the Collateral in a combined fashion since the successful operation of each Borrower is dependent on the continued successful

performance of the integrated group. To induce the Lender Group to do so, and in consideration thereof, each Borrower hereby jointly and severally agrees to indemnify each member of the Lender Group and hold each member of the Lender Group harmless against any and all liability, expense, loss or claim of damage or injury, made against the Lender Group by any Borrower or by any third party whosoever, arising from or incurred by reason of (a) the handling of the Loan Account and Collateral of Borrowers as herein provided, (b) the Lender Group's relying on any instructions of the Administrative Borrower, or (c) any other action taken by the Lender Group hereunder or under the other Loan Documents, except that Borrowers will have no liability to the relevant Agent-Related Person or Lender-Related Person under this Section 18.8 with respect to any liability that has been finally determined by a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of such Agent-Related Person or Lender-Related Person, as the case may be.

18.9 Acknowledgment and Restatement of Existing Loan Agreement.

(a) Existing Obligations. Each Borrower hereby acknowledges, confirms and agrees that Borrowers are indebted to Agent and Lenders for Advances to Borrowers under the Existing Loan Agreement, as of the close of business on June 27, 2007, in the aggregate principal amount of $9,234,916.65 and the aggregate amount of $80,931,033.52 in respect of undrawn or unreimbursed Letters of Credit, together with all interest accrued and accruing thereon (to the extent applicable), and all fees, costs, expenses and other charges relating thereto, all of which are unconditionally owing by Borrowers to Agent and Lenders, without offset, defense or counterclaim of any kind, nature or description whatsoever.

(b) Acknowledgment of Security Interests.

(i) Each Borrower hereby acknowledges, confirms and agrees that Agent, for itself and the ratable benefit of Lenders, has and shall continue to have a security interest in and lien upon the Collateral heretofore granted to Agent pursuant to the Existing Loan Agreement to secure the Obligations, as well as any Collateral granted under this Agreement or under any of the other Loan Documents or otherwise granted to or held by Agent or any Lender.

(ii) The liens and security interests of Agent, for itself and the ratable benefit of Lenders, in the Collateral shall be deemed to be continuously granted and perfected from the earliest date of the granting and perfection of such liens and security interests, whether under the Existing Agreement, this Agreement or any other Loan Documents.

(c) Existing Loan Agreement. Each Borrower hereby acknowledges, confirms and agrees that: (a) the Existing Loan Agreement has been duly executed and delivered by each Borrower and is in full force and effect as of the date hereof and (b) the agreements and obligations of each Borrower contained in the Existing Loan Agreement constitute the legal, valid and binding obligations of each Borrower, enforceable against it in accordance with their respect terms, and each Borrower has no valid defense to the enforcement of such obligations and (c) Agent and Lenders are entitled to all of the rights and remedies provided for in the Existing Loan Agreement.

(d) Restatement.

(i) Except as otherwise stated in Section 18.9(b) hereof and this Section 18.9(d), as of the date hereof, the terms, conditions, agreements, covenants, representations and warranties set forth in the Existing Loan Agreement are hereby amended and restated in their entirety, and as so amended and restated, replaced and superseded, by the terms, conditions, agreements, covenants, representations and warranties set forth in this Agreement and the other Loan Documents, except that nothing herein or in the other Loan Documents shall impair or adversely affect the continuation of the liability of any Borrower for the Obligations heretofore granted, pledge and/or assigned to Agent or any Lender. The amendment and restatement contained herein shall not, in any manner, be construed to constitute payment of, or impair, limit, cancel or extinguish, or constitute a novation in respect of, the Obligations and other liabilities of any Borrower evidenced by or arising under the Existing Loan Agreement, and the liens and security interests securing such Obligations and other liabilities, which shall not in any manner be impaired, limited, terminated, waived or released.

(e) The principal amount of the Advances outstanding under the Existing Loan Agreement on the Closing Date (as set forth in Section 18.9(a) above) shall, for purposes of this Agreement, be included as Advances hereunder and each of the L/Cs and LC Guarantees outstanding under the Existing Loan Agreement on the Closing Date shall, for purposes of this Agreement, be included as L/Cs and L/C Guarantees hereunder; provided, however, that the outstanding L/Cs described on Schedule 18.9(e)(i) shall be deemed to have been issued as of the Closing Date by Wells Fargo Bank, National Association, as Issuing Bank under the L/C Demand Facility Letter of Credit Agreement, and shall no longer be deemed to be L/Cs issued hereunder but, rather, shall be deemed as of the Closing Date to be L/C Demand Facility Letters of Credit. The outstanding L/Cs described on Schedule 18.9(e)(ii) shall remain L/Cs hereunder.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date set forth in the first paragraph of this Agreement.

THE CHILDREN'S PLACE RETAIL STORES, INC., a Delaware corporation

By: _____
Name: Susan Riley
Title: Executive Vice President - Finance and Administration

THE CHILDREN'S PLACE SERVICES COMPANY LLC, a Delaware limited liability company

By: _____
Name: Susan Riley
Title: Senior Vice President, Chief Financial Officer and Treasurer

WELLS FARGO RETAIL FINANCE, LLC, as Agent and as a Lender

By: _____
Name: Michele Ayou
Title: Vice President

WACHOVIA CAPITAL FINANCE CORPORATION (NEW ENGLAND), as Documentation Agent and as a Lender

By: _____
Name: _____
Title: _____

LASALLE RETAIL FINANCE, a Division of LaSalle Business Credit, LLC, as Agent for Standard Federal Bank National Association, as Co-Agent and as a Lender

By: _____
Name: _____
Title: _____

JPMORGAN CHASE BANK, N.A., as a Lender

By: _____
Name: _____
Title: _____

CITICORP USA, INC., as a Lender

By: _____
Name: _____
Title: _____

HSBC BANK USA, NATIONAL ASSOCIATION, as a Lender

By: _____
Name: _____
Title: _____

SCHEDULE C-1

COMMITMENTS ON CLOSING DATE

1.	Wells Fargo Retail Finance, LLC	$	37,200,000
2.	Wachovia Capital Finance Corporation (New England)	$	24,000,000
3.	LaSalle Retail Finance, a division of LaSalle Business Credit, LLC, as Agent for Standard Federal Bank National Association	$	24,000,000
4.	JPMorgan Chase Bank, N.A.	$	12,000,000
5.	Citicorp USA, Inc.	$	12,000,000
6.	HSBC Bank USA, National Association	$	10,800,000
Total		$	120,000,000.00

Commitment on Closing Date

EXHIBIT A-1

FORM OF ASSIGNMENT AND ACCEPTANCE

This ASSIGNMENT AND ACCEPTANCE (this "Assignment and Acceptance") dated as of , 200 is made between (the "Assignor") and (the "Assignee").

RECITALS

A. The Assignor is party to that certain Fifth Amended and Restated Loan and Security Agreement, dated as of June 28, 2007 (as amended, amended and restated, modified, supplemented or renewed from time to time, the "Loan Agreement"), among The Children's Place Retail Stores, Inc. and The Children's Place Services Company LLC ("Borrowers"), the several financial institutions from time to time party thereto (including the Assignor, collectively, the "Lenders"), and Wells Fargo Retail Finance LLC, a Delaware limited liability company, as agent for the Lenders (the "Agent"). Any terms defined in the Loan Agreement and not defined in this Assignment and Acceptance are used herein as defined in the Loan Agreement;

B. As provided under the Loan Agreement, the Assignor has committed to making Advances (the "Committed Loans") to the Borrowers in an aggregate amount not to exceed $ (the "Commitment");

C. [The Assignor has made Committed Loans in the aggregate principal amount of $ to the Borrowers] [No Committed Loans are outstanding under the Loan Agreement];

D. [The Assignor has acquired a participation in the Agent's liability under Letters of Credit in an aggregate outstanding principal amount of $ (the "L/C Obligations")] [No Letters of Credit are outstanding under the Loan Agreement]; and

E. The Assignor wishes to assign to the Assignee [part of the] [all] rights and obligations of the Assignor under the Loan Agreement in respect of its Commitment, [together with a corresponding portion of each of its outstanding Committed Loans and L/C Obligations,] in an amount equal to $ (the "Assigned Amount") on the terms and subject to the conditions set forth herein and the Assignee wishes to accept assignment of such rights and to assume such obligations from the Assignor on such terms and subject to such conditions.

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

1. Assignment and Acceptance.

(a) Subject to the terms and conditions of this Assignment and Acceptance, (i) the Assignor hereby sells, transfers, delegates, and assigns to the Assignee, and (ii) the Assignee hereby purchases, assumes and undertakes from the Assignor, without recourse

and without representation or warranty (except as provided in this Assignment and Acceptance) % (the "Assignee's Percentage Share") of (A) the Commitment [and the Committed Loans and the L/C Obligations] of the Assignor and (B) all related rights, benefits, obligations, liabilities and indemnities of the Assignor under and in connection with the Loan Agreement and the other Loan Documents.

[If appropriate, add paragraph specifying payment to Assignor by Assignee of outstanding principal of, accrued interest on, and fees with respect to, Committed Loans and L/C Obligations assigned.]

(b) With effect on and after the Effective Date (as defined in Section 5 hereof), the Assignee shall be a party to the Loan Agreement and succeed to all of the rights and be obligated to perform all of the obligations of a Lender under the Loan Agreement, including the requirements concerning confidentiality (if any) and the payment of indemnification to the Agent, with a Commitment in an amount equal to the Assigned Amount. The Assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Agreement are required to be performed by it as a Lender. It is the intent of the parties hereto that the Commitment of the Assignor shall, as of the Effective Date, be reduced by an amount equal to the Assigned Amount and the Assignor shall relinquish its rights and be released from its obligations under the Loan Agreement to the extent such obligations have been assumed by the Assignee; provided, however, the Assignor shall not relinquish the rights under the Loan Agreement to the extent such rights relate to the time prior to the Effective Date.

(c) After giving effect to the assignment and assumption set forth herein, on the Effective Date the Assignee's Commitment will be $.

(d) After giving effect to the assignment and assumption set forth herein, on the Effective Date the Assignor's Commitment will be $.

2. Payments.

(a) As consideration for the sale, assignment and transfer contemplated in Section 1 hereof, the Assignee shall pay to the Assignor on the Effective Date in immediately available funds an amount equal to $, representing the Assignee's Percentage Share of the principal amount of all Committed Loans.

(b) The [Assignor] [Assignee] further agrees to pay to the Agent a processing fee in the amount of ($), as specified in Section 15.1(a) of the Loan Agreement.

3. Reallocation of Payments.

Any interest, fees and other payments accrued to the Effective Date with respect to the Commitment [,] [and] Committed Loans [and L/C Obligations] shall be for the account of the Assignor. Any interest, fees and other payments accrued on and after the Effective Date with respect to the Assigned Amount shall be for the account of the Assignee. Each of the Assignor and the Assignee agrees that it will hold in trust for the

other party any interest, fees and other amounts which it may receive to which the other party is entitled pursuant to the preceding sentence and pay to the other party any such amounts which it may receive promptly upon receipt.

4. Independent Credit Decision.

The Assignee (a) acknowledges that it has received a copy of the Loan Agreement and the Schedules and Exhibits thereto, together with copies of the most recent financial statements referred to in Section 6.3 of the Loan Agreement, and such other documents and information as it has deemed appropriate to make its own credit and legal analysis and decision to enter into this Assignment and Acceptance; and (b) agrees that it will, independently and without reliance upon the Assignor, the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit and legal decisions in taking or not taking action under the Loan Agreement.

5. Effective Date; Notices.

(a) As between the Assignor and the Assignee, the effective date for this Assignment and Acceptance (the "Effective Date") shall be the later of: (i) , 200 ; and (ii) the first day on which the following conditions precedent have been satisfied:

(i) Assignment and Acceptance shall be executed and delivered by the Assignor and the Assignee;

(ii) the consent of the Agent required for an effective assignment of the Assigned Amount by the Assignor to the Assignee under Section 15.1(a) of the Loan Agreement shall have been duly obtained and shall be in full force and effect as of the Effective Date;

(iii) the Assignee shall pay to the Assignor all amounts due to the Assignor under this Assignment and Acceptance;

(iv) the processing fee referred to in Section 2(b) hereof and in Section 15.1 of the Loan Agreement in the amount of ($), shall have been paid to the Agent; and

(v) the Assignor shall have assigned and the Assignee shall have assumed a percentage equal to the Assignee's Percentage Share of the rights and obligations of the Assignor under the Loan Agreement.

(b) Promptly following the execution of this Assignment and Acceptance, the Assignor shall deliver to the Administrative Borrower and the Agent for acknowledgement by the Agent, a Notice of Assignment [substantially] in the form attached hereto as Schedule 1.

6. Agent.

[(a)] The Assignee hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Agreement as are delegated to the Agent by the Lenders pursuant to the terms of the Loan Agreement.

[INCLUDE ONLY IF ASSIGNOR IS AGENT] [(b) The Assignee shall assume no duties or obligations held by the Assignor in its capacity as Agent under the Loan Agreement.]

7. Withholding Tax.

The Assignee (a) represents and warrants to the Lenders, the Agent and the Borrowers that under applicable law and treaties no tax will be required to be withheld by the Lenders with respect to any payments to be made to the Assignee hereunder, (b) agrees to furnish (if it is organized under the laws of any jurisdiction other than the United States or any State thereof) to the Agent and the Borrowers prior to the time that the Agent or the Borrowers are required to make any payment of principal, interest or fees hereunder, duplicate executed originals of either U.S. Internal Revenue service Form 4224 or U.S. Internal Revenue Service Form 1001 (wherein the Assignee claims entitlement to the benefits of a tax treaty that provides for a complete exemption from U.S. federal income withholding tax on all payments hereunder) and agrees to provide new Forms 4224 or 1001 upon the expiration of any previously delivered form or comparable statements in accordance with all applicable U.S. laws and regulations and amendments thereto, duly executed and completed by the Assignee, and (c) agrees to comply with all applicable U.S. laws and regulations with regard to such withholding tax exemption.

8. Representations and Warranties.

(a) The Assignor represents and warrants that (i) it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any lien or other adverse claim; (ii) it is duly organized and existing and it has the full power and authority to take, and has taken, all action necessary to execute and deliver this Assignment and Acceptance and any other documents required or permitted to be executed or delivered by it in connection with this Assignment and Acceptance and to fulfill its obligations hereunder; (iii) no notices to, or consents, authorizations or approvals of, any person are required (other than any already given or obtained) for its due execution, delivery and performance of this Assignment and Acceptance, and apart from any agreements or undertakings or filings required by the Loan Agreement, no further action by, or notice to, or filing with, any person is required of it for such execution, delivery or performance; and (iv) this Assignment and Acceptance has been duly executed and delivered by it and constitutes the legal, valid and binding obligation of the Assignor, enforceable against the Assignor in accordance with the terms hereof, subject, as to enforcement, to bankruptcy, insolvency, moratorium, reorganization and other laws of general application relating to or affecting creditors' rights and to general equitable principles.

(b) The Assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in

connection with the Loan Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Agreement or any other instrument or document furnished pursuant thereto. The Assignor makes no representation or warranty in connection with, and assumes no responsibility with respect to, the financial condition of the Borrowers, or the performance or observance by the Borrowers, of any of its obligations under the Loan Agreement or any other instrument or document furnished in connection therewith.

(c) The Assignee represents and warrants that (i) it is duly organized and existing and is an Eligible Transferee and it has full power and authority to take, and has taken, all action necessary to execute and deliver this Assignment and Acceptance and any other documents required or permitted to be executed or delivered by it in connection with this Assignment and Acceptance, and to fulfill its obligations hereunder; (ii) no notices to, or consents, authorizations or approvals of, any person are required (other than any already given or obtained) for its due execution, delivery and performance of this Assignment and Acceptance; and apart from any agreements or undertakings or filings required by the Loan Agreement, no further action by, or notice to, or filing with any person is required of it for such execution, delivery or performance; (iii) this Assignment and Acceptance has been duly executed and delivered by it and constitutes the legal, valid and binding obligation of the Assignee, enforceable against the Assignee in accordance with the terms hereof, subject, as to enforcement, to bankruptcy, insolvency, moratorium, reorganization and other laws of general application relating to or affecting creditors' rights and to general equitable principles.

9. Further Assurances.

The Assignor and the Assignee each hereby agrees to execute and deliver such other instruments, and take such other action, as either party may reasonably request in connection with the transactions contemplated by this Assignment and Acceptance, including the delivery of any notices or other documents or instruments to the Administrative Borrower or the Agent, which may be required in connection with the assignment and assumption contemplated hereby.

10. Miscellaneous.

(a) Any amendment or waiver of any provision of this Assignment and Acceptance shall be in writing and signed by the parties hereto. No failure or delay by either party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof and any waiver of any breach of the provisions of this Assignment and Acceptance shall be without prejudice to any rights with respect to any other or further breach thereof.

(b) All payments made hereunder shall be made without any set-off or counterclaim.

(c) The Assignor and the Assignee shall each pay its own costs and expenses incurred in connection with the negotiation, preparation, execution and performance of this Assignment and Acceptance.

(d) This Assignment and Acceptance may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

(e) THIS ASSIGNMENT AND ACCEPTANCE SHALL BE DEEMED TO HAVE BEEN MADE IN THE COMMONWEALTH OF MASSACHUSETTS AND SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF SUCH COMMONWEALTH, EXCEPT THAT NO DOCTRINE OF CHOICE OF LAW SHALL BE USED TO APPLY THE LAWS OF ANY OTHER STATE OR JURISDICTION. The Assignor and Assignee each agrees that, in addition to any other courts that may have jurisdiction under applicable laws or rules, any action or proceeding to enforce or arising out of this Assignment and Acceptance may be commenced in the state and federal courts located in the County of Suffolk, Commonwealth of Massachusetts, and the Assignor and Assignee each consents and submits in advance to such jurisdiction and agrees that venue will be proper in such courts on any such matter. Each party to this Assignment and Acceptance hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding.

(f) THE ASSIGNOR AND THE ASSIGNEE EACH HEREBY WAIVES TRIAL BY JURY, RIGHTS OF SETOFF, AND THE RIGHT TO IMPOSE COUNTERCLAIMS IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS ASSIGNMENT AND ACCEPTANCE, THE LOAN AGREEMENT, ANY RELATED DOCUMENTS AND AGREEMENTS OR ANY COURSE OF CONDUCT, COURSE OF DEALING, OR STATEMENTS (WHETHER ORAL OR WRITTEN) DELIVERED PURSUANT HERETO OR THERETO, OR ANY OTHER CLAIM OR DISPUTE HOWSOEVER ARISING, BETWEEN THE ASSIGNOR AND THE ASSIGNEE. THE ASSIGNOR AND THE ASSIGNEE EACH CONFIRMS THAT THE FOREGOING WAIVERS ARE INFORMED AND FREELY MADE.

[Other provisions to be added as may be negotiated between the Assignor and the Assignee, provided that such provisions are not inconsistent with the Loan Agreement.]

IN WITNESS WHEREOF, the Assignor and the Assignee have caused this Assignment and Acceptance to be executed and delivered by their duly authorized officers as of the date first above written.

[ASSIGNOR]

By: _____
Title: _____
By: _____
Title: _____
Address: _____

[ASSIGNEE]

By: _____
Title: _____
By: _____
Title: _____
Address: _____

SCHEDULE 1
NOTICE OF ASSIGNMENT AND ACCEPTANCE

, 200

Wells Fargo Retail Finance, LLC

One Boston Place

Suite 1800

Boston, Massachusetts 02108

Attn:

[Name and Address of Borrowers]

Ladies and Gentlemen:

We refer to the Fifth Amended and Restated Loan and Security Agreement, dated as of June 28, 2007 (as amended, amended and restated, modified, supplemented or renewed from time to time, the "Loan Agreement"), among The Children's Place Retail Stores, Inc. and The Children's Place Services Company, LLC ("Borrowers"), the several financial institutions from time to time party thereto (collectively, the "Lenders"), and Wells Fargo Retail Finance LLC, as agent for the Lenders (the "Agent"). Terms defined in the Loan Agreement are used herein as therein defined.

1. We hereby give you notice of, and request your consent to, the assignment by (the "Assignor") to (the "Assignee") of % of the right, title and interest of the Assignor in and to the Loan Agreement (including, without limitation, the right, title and interest of the Assignor in and to the Commitments of the Assignor[,] [and] all outstanding loans made by the Assignor [and the Assignor's participation in the Letters of Credit]) pursuant to the Assignment and Acceptance Agreement attached hereto (the "Assignment and Acceptance"). Before giving effect to such assignment, the Assignor's Commitment is $ [,] [and] the aggregate amount of its outstanding loans is $ [, and its participation in L/C Obligations is $].

2. The Assignee agrees that, upon receiving the consent of the Agent to such assignment, the Assignee will be bound by the terms of the Loan Agreement as fully and to the same extent as if the Assignee were the Lender originally holding such interest in the Loan Agreement.

3. The following administrative details apply to the Assignee:

(A) Notice Address:

Assignee name:

Address:

(B) Payment Instructions:

Account No.:

At:

Reference:

Attention:

4. You are entitled to rely upon the representations, warranties and covenants of each of the Assignor and Assignee contained in the Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused this Notice of Assignment and Acceptance to be executed by their respective duly authorized officials, officers or agents as of the date first above mentioned.

Very truly yours,

[NAME OF ASSIGNOR]

By: _____
Title: _____

By: _____
Title: _____

[NAME OF ASSIGNEE]

By: _____
Title: _____

By: _____
Title: _____

ACKNOWLEDGED AND, TO THE EXTENT REQUIRED, CONSENTED TO:

THE CHILDREN'S PLACE RETAIL STORES, INC., a Delaware corporation, as Administrative Borrower

By: _____

Title: _____

ACKNOWLEDGED AND ASSIGNMENT

CONSENTED TO:

WELLS FARGO RETAIL FINANCE, LLC,

a Delaware limited liability company, as Agent

By: _____

Title: _____

EXHIBIT C-1

COMPLIANCE CERTIFICATE SAMPLE COPY

Date , 200

WELLS FARGO RETAIL FINANCE, LLC

One Boston Place, Suite 1800

Boston, Massachusetts 02108

Attn:

RE: Fifth Amended and Restated Loan and Security Agreement, dated as of June 28, 2007 (the "Agreement") by and among WELLS FARGO RETAIL FINANCE, LLC, as agent ("Agent") for certain financial institutions, the financial institutions, and THE CHILDREN'S PLACE RETAIL STORES, INC. and THE CHILDREN'S PLACE SERVICES COMPANY, LLC ("Borrowers").

Dear :

This certificate accompanies the financial statements for the Fiscal Month ending (the "Financial Statements") furnished by Borrowers to Agent in accordance with Section 6.2 of the Agreement. Capitalized terms used but not defined herein shall have the meanings set forth in the Agreement.

The undersigned, in his/her capacity as the chief financial officer of Administrative Borrower, has reviewed the Financial Statements, the Agreement and each of the other Loan Documents and has made such investigation of the business and affairs of Borrowers and such inquiry of the officers of Borrowers as the undersigned has deemed appropriate under the circumstances. Following such review and investigation, the undersigned hereby certifies, on behalf of Administrative Borrower and the other Borrowers, as of the date of this certificate as follows: (i) all reports, statements, or computer prepared information of any kind or nature delivered or caused to be delivered to Agent under the Agreement have been prepared in accordance with GAAP and fairly present the financial condition of Borrowers[, except for the months ended March, 2007, April, 2007 and May, 2007 as may be directly impacted by the Stock Option Issue]; (ii) Borrowers are in timely compliance with all of the covenants and agreements under the Agreement; (iii) the representations and warranties of Borrowers contained in the Agreement and the other Loan Documents are true and correct in all material respects on and as of the date of this certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date); and (iv) except as set forth on Exhibit A attached hereto, there does not exist any condition or event that constitutes an Event of Default (if there does exist an Event of Default, Borrowers have taken, are taking, or propose to take those actions with respect thereto as described on said Exhibit A).

Sincerely,

THE CHILDREN'S PLACE RETAIL STORES, INC.

By: _____
Name: _____
Title: Chief Financial Officer

LETTER OF CREDIT AGREEMENT

by and among

THE CHILDREN'S PLACE RETAIL STORES, INC.,
and
EACH OF ITS SUBSIDIARIES THAT ARE SIGNATORIES HERETO
as Borrowers,

THE FINANCIAL INSTITUTIONS NAMED HEREIN,
as Lenders,

WELLS FARGO RETAIL FINANCE, LLC,
as Agent

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Issuing Bank

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LETTER OF CREDIT AGREEMENT

THIS LETTER OF CREDIT AGREEMENT (this "Agreement"), is entered into this 28th day of June, 2007, among **THE CHILDREN'S PLACE RETAIL STORES, INC.,** a Delaware corporation ("Parent") and each of Parent's Subsidiaries identified on the signature pages hereof (such Subsidiaries, together with Parent, are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers"), with each of its chief executive office located at 915 Secaucus Road, Secaucus, New Jersey 07094, on the one hand, and the financial institutions listed on the signature pages hereof (such financial institutions, together with their respective successors and assigns, are referred to hereinafter each individually as a "Lender" and collectively as the "Lenders"), and **WELLS FARGO RETAIL FINANCE, LLC,** a Delaware limited liability company, as Agent, **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Issuing Bank, on the other hand.

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Account Debtor" means any Person who is or who may become obligated under, with respect to, or on account of, an Account.

"Accounts" means all currently existing and hereafter arising accounts, contract rights, Revolving Accounts, and all other forms of obligations owing to any Borrower arising out of the sale or lease of goods or the rendition of services by such Borrower, irrespective of whether earned by performance, and any and all credit insurance, guaranties, or security therefor.

"Acquisition Agreement" means that certain Acquisition Agreement dated October 19, 2004 entered into by and among Hoop Holdings, LLC, Hoop Canada Holdings, Inc., Disney Enterprises, Inc. and Disney Credit Card Services, Inc. and The Children's Place Retail Stores, Inc., as guarantor.

"Administrative Borrower" has the meaning set forth in Section 18.8.

"Affiliate" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For purposes of this definition, "control" as applied to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities, by contract, or otherwise.

"Agent" means Wells Fargo Retail, solely in its capacity as agent for the Lenders, and shall include any successor agent.

"Agent-Related Persons" means Agent, together with its Affiliates, and the officers, directors, employees, counsel, agents, and attorneys-in-fact of Agent and such Affiliates.

"Agent's Liens" means the Liens granted by Borrowers or their Subsidiaries to Agent under this Agreement or the other Loan Documents.

"Agreement" has the meaning set forth in the preamble hereto.

"Alabama Capital Lease" means a capital lease for the inventory handling system of the Borrowers and/or any of their Affiliates located at their distribution center in Fort Payne, Alabama.

"Alabama Sale-Leaseback Transaction" means the sale-leaseback of the Real Property of Services Company situated at 1377 Airport Road, Fort Payne, Alabama, pursuant to a lease on market terms.

"Assignee" has the meaning set forth in Section 15.1.

"Assignment and Acceptance" has the meaning set forth in Section 15.1(a) and shall be in the form of Exhibit A-1.

"Bankruptcy Code" means the United States Bankruptcy Code (11 U.S.C. § 101 et seq.), as amended, and any successor statute.

"Books" means all of Administrative Borrower's and its Subsidiaries books and records including: ledgers; records indicating, summarizing, or evidencing any Borrower's properties or assets (including the Collateral) or liabilities; all information relating to any Borrower's business operations or financial condition; and all computer programs, disk or tape files, printouts, runs, or other computer prepared information.

"Borrower" and "Borrowers" have the respective meanings set forth in the preamble to this Agreement.

"Business Day" means any day that is not a Saturday, Sunday, or a day on which banks in Boston, Massachusetts, are required or permitted to be closed.

"Canadian Letter of Credit" means any Letter of Credit caused to be issued pursuant to this Agreement by Parent or Services Company for the purchase of inventory by Children's Place Canada, which shall be issued in Dollars.

"Change of Control" shall be deemed to have occurred at such time as Parent's existing shareholders cease to be the "beneficial owners" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 25% of the total voting power of all classes of stock then outstanding of Parent normally entitled to vote in the election of directors.

"Children's Place Canada" means The Children's Place (Canada), LP, an Ontario limited partnership.

"Closing Date" means June 28, 2007.

"Code" means the Massachusetts Uniform Commercial Code.

"Collateral" means each of the following:

(a) the Accounts,

(b) the Books,

(c) the Equipment,

(d) the General Intangibles,

(e) the Inventory,

(f) the Investment Property,

(g) the Negotiable Collateral,

(h) any money, or other assets of any Borrower that now or hereafter come into the possession, custody, or control of the Lender Group, and

(i) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the Collateral, and any and all Accounts, Books, Equipment, General Intangibles, Inventory, Investment Property, Negotiable Collateral, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Collateral" expressly excludes any share of stock, membership interest, or other ownership interest in and to Hoop Holdings, LLC, Hoop Retail Stores, LLC, Hoop Canada Holdings, Inc. or Hoop Canada, Inc.

"Collateral Access Agreement" means a landlord waiver, mortgagee waiver, bailee letter, or acknowledgment agreement of any warehouseman, processor, lessor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in the Equipment or Inventory, in each case, in form and substance reasonably satisfactory to Agent.

"Collections" means all cash, checks, notes, instruments, and other items of payment (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds).

"Commitment" means, at any time with respect to a Lender, the principal amount set forth beside such Lender's name under the heading "Commitment" on Schedule C-1 or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 15.1, as such Commitment may be adjusted from time to time in accordance with the provisions of Section 15.1 and "Commitments" means, collectively, the aggregate amount of the commitments of all of the Lenders, which, as of the Closing Date, shall be in the amount of sixty million dollars ($60,000,000).

"Daily Balance" means, with respect to each day during the term of this Agreement, the amount of an Obligation owed at the end of such day.

"deems itself insecure" means that the Person deems itself insecure in accordance with the provisions of Section 1-208 of the Code.

"Default" means an event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default.

"Disney License Agreement" means that certain License and Conduct of Business Agreement dated as of November 21, 2004 by and among certain subsidiaries of the Borrowers and TDS Franchising, LLC, as modified by that certain letter agreement dated as of June 6, 2007 by and among the Parent, Hoop Retail Stores, LLC, Hoop Canada, Inc. and TDS Franchising, LLC, and as further amended, modified, supplemented or restated and in effect from time to time.

"Disney Stores Transaction" means the transaction, as a totality, comprised of the acquisition by Hoop Holdings, LLC and Hoop Canada Holdings, Inc. of the ownership interests in, and business and assets of, The Disney Store, LLC and The Disney Store (Canada) Ltd., as more particularly set forth in the Acquisition Agreement.

"Dollars or $" means United States dollars.

"Eligible Transferee" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets in excess of $5,000,000,000, or the asset based lending Affiliate of such bank, (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or a political subdivision of any such country, and having total assets in excess of $5,000,000,000, or the asset based lending Affiliate of such bank; provided that such bank is acting through a branch or agency located in the United States, (c) a finance company, insurance or other financial institution, or fund that is engaged in making, purchasing, or otherwise investing in commercial loans in the ordinary course of its business and having total assets in excess of $500,000,000, (d) any Affiliate (other than individuals) of an existing Lender, and (e) any other Person approved by Agent and Parent.

"Equipment" means all of Borrowers' present and hereafter acquired machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including

motor vehicles and trailers), tools, parts, goods (other than consumer goods, farm products, or Inventory), wherever located, including, (a) any interest of any Borrower in any of the foregoing, and (b) all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing.

"Event of Default" has the meaning set forth in Section 8.

"FEIN" means Federal Employer Identification Number.

"Fiscal Year" means a retail year ending on the Saturday closest to January 31.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"General Intangibles" means all of Borrowers' present and future general intangibles and other personal property (including contract rights, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information contained on computer disks or tapes, literature, reports, catalogs, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), other than goods, Accounts, and Negotiable Collateral.

"Governing Documents" means the certificate or articles of incorporation, by-laws, or other organizational or governing documents of any Person.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guaranties" means those certain Guaranties executed by Guarantors in favor of Agent and Lenders.

"Guarantors" means, as of the Closing Date, Twin Brook, thechildrensplace.com, inc., The Children's Place Canada Holdings, Inc. and The Children's Place (Virginia), LLC.

"Hazardous Materials" means (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive

materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Indebtedness" means as to all of Borrowers (a) all obligations for borrowed money, (b) all obligations evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all obligations as a lessee under capital leases, (d) all obligations or liabilities of others secured by a Lien on any asset of a Person or its Subsidiaries, irrespective of whether such obligation or liability is assumed, (e) all obligations to pay the deferred purchase price of assets (other than trade payables incurred in the ordinary course of business and repayable in accordance with customary trade practices), (f) all obligations owing under Hedge Agreements, and (g) any obligation guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold with recourse) any obligation of any other Person that constitutes Indebtedness under any of clauses (a) through (f) above.

"Indemnified Liabilities" has the meaning set forth in Section 11.3.

"Indemnified Person" has the meaning set forth in Section 11.3.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Intercompany Services Agreement" means that certain Intercompany Services Agreement, dated as of November 21, 2004 among The Disney Store, LLC, The Disney Store (Canada) Ltd. and Services Company, as amended, supplemented, modified and/or restated and in effect from time to time.

"Inventory" means all present and future inventory (other than inventory of Children's Place Canada) in which any Borrower has any interest, including goods held for sale or lease or to be furnished under a contract of service and all of any Borrower's present and future raw materials, work in process, finished goods, and packing and shipping materials, wherever located.

"Investment Property" means all of Borrowers' presently existing and hereafter acquired or arising investment property (as that term is defined in Section 9-102 of the Code).

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Issuing Bank" means Wells Fargo Bank, N.A.

"L/C" means a letter of credit issued for the account of Parent or Services Company pursuant to this Agreement.

"L/C Disbursement" means a payment by Issuing Bank pursuant to a Letter of Credit.

"Lender" and "Lenders" have the respective meanings set forth in the preamble to this Agreement, and shall include any other Person made a party to this Agreement in accordance with the provisions of Section 15.1.

"Lender Group" means, individually and collectively, each of the individual Lenders, Agent, and Issuing Bank.

"Lender Group Expenses" means all: reasonable costs or expenses (including taxes, and insurance premiums) required to be paid by a Borrower or its Subsidiaries under any of the Loan Documents that are paid or incurred by the Lender Group; reasonable fees or charges paid or incurred by the Lender Group in connection with the Lender Group's transactions with Borrowers, including, fees or charges for photocopying, notarization, couriers and messengers, telecommunication, public record searches (including tax lien, litigation, and UCC searches and including searches with the patent and trademark office, the copyright office, or the department of motor vehicles), filing, recording, publication, appraisal (including periodic Collateral appraisals); environmental audits; costs and expenses incurred by Agent in the disbursement of funds to Borrowers (by wire transfer or otherwise); charges paid or incurred by Agent resulting from the dishonor of checks; costs and expenses paid or incurred by Agent to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated; reasonable costs and expenses paid or incurred by the Lender Group in examining Books; costs and expenses of third party claims or any other suit paid or incurred by the Lender Group in enforcing or defending the Loan Documents or in connection with the transactions contemplated by the Loan Documents or the Lender Group's relationship with Borrowers or any guarantor; and the Lender Group's reasonable attorneys fees and expenses incurred in advising, structuring, drafting, reviewing, administering, amending, terminating, enforcing, defending, or concerning the Loan Documents (including attorneys fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning Borrowers or any guarantor of the Obligations), irrespective of whether suit is brought.

"Lender-Related Persons" means any Lender, together with its Affiliates, and the officers, directors, employees, counsel, agents, and attorneys-in-fact of such Lender and such Affiliates.

"Letter of Credit" means an L/C issued pursuant to this Agreement for the purpose of providing the primary payment mechanism in connection with the purchase of Inventory.

"Letter of Credit Fees" shall mean the fees payable in respect of Letters of Credit pursuant to Section 2.12.

"Letter of Credit Outstandings" shall mean, at any time, the sum of (a) with respect to Letters of Credit outstanding at such time, the aggregate maximum amount that then is or at any time thereafter may become available for drawing or payment thereunder plus (b) all amounts theretofore drawn or paid under Letters of Credit for which the Issuing Bank has not then been reimbursed.

"Lien" means any interest in property securing an obligation owed to, or a claim by, any Person other than the owner of the property, whether such interest shall be based on the common law, statute, or contract, whether such interest shall be recorded or perfected, and whether such interest shall be contingent upon the occurrence of some future event or events or the existence of some future circumstance or circumstances, including the lien or security interest arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, security agreement, adverse claim or charge, conditional sale or trust receipt, or from a lease, consignment, or bailment for security purposes and also including reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting Real Property.

"Loan Account" has the meaning set forth in Section 2.13.

"Loan Documents" means this Agreement, the Letters of Credit, any note or notes executed by Borrowers and payable to the Lender Group, and any other agreement entered into, now or in the future, in connection with this Agreement.

"Material Adverse Change" means (a) a material adverse change in the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of Borrowers and their Subsidiaries, (b) the material impairment of a Borrower's ability to perform its obligations under the Loan Documents to which it is a party or of the Lender Group to enforce the Obligations or realize upon the Collateral, (c) a material adverse effect on the value of the Collateral or the amount that the Lender Group would be likely to receive (after giving consideration to delays in payment and costs of enforcement) in the liquidation of such Collateral, or (d) a material impairment of the priority of the Lender Group's Liens with respect to the Collateral.

"Negotiable Collateral" means all of Borrowers' present and future letters of credit, notes, drafts, instruments, certificated and uncertificated securities (including the shares of stock of Subsidiaries of Parent (other than Hoop Holdings, LLC, Hoop Retail Stores, LLC, Hoop Canada Holdings, Inc., or Hoop Canada, Inc.), but limited to 65% of the outstanding shares of each class of stock of any foreign Subsidiary or any domestic Subsidiary, the sole asset of which is the stock of one or more foreign Subsidiaries), investment property, security entitlements, documents, personal property leases (wherein a Borrower is the lessor), chattel paper, and Books relating to any of the foregoing.

"Non-Consenting Lender" has the meaning set forth in Section 16.1.

"Obligations" means each payment required to be made by Borrowers under this Agreement in respect of any Letter of Credit, when and as due, including payments in respect of reimbursement of L/C Disbursements, Letter of Credit Fees, and interest thereon (including any Letter of Credit Fees and interest that, but for the provisions of the Bankruptcy Code, would have accrued), contingent reimbursement obligations under any outstanding Letters of Credit, liabilities (including all amounts charged to Borrowers' Loan Account pursuant hereto), obligations, fees, charges, costs, or Lender Group Expenses (including any fees or expenses that, but for the provisions of the Bankruptcy Code, would have accrued), lease payments, guaranties, covenants, and duties owing by Borrowers to the Lender Group of any kind and description (whether pursuant to or evidenced by the Loan Documents or pursuant to any other agreement between the Lender Group and any Borrower, and irrespective of whether for the payment of money), whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including any debt, liability, or obligation owing from any Borrower to others that the Lender Group may have obtained by assignment or otherwise, and further including all interest not paid when due and all Lender Group Expenses that Borrowers are required to pay or reimburse by the Loan Documents, by law, or otherwise. Any reference in this Agreement or in the Loan Documents to the Obligations shall include all extensions, modifications, renewals, or alterations thereof, both prior and subsequent to any Insolvency Proceeding.

"Originating Lender" has the meaning set forth in Section 15.1(e).

"Parent" has the meaning set forth in the preamble of this Agreement.

"Participant" has the meaning set forth in Section 15.1(e).

"Permitted Liens" means (a) Liens held by the Lender Group, (b) Liens for unpaid taxes that either (i) are not yet due and payable or (ii) are the subject of Permitted Protests, (c) Liens set forth on Schedule P-1, (d) the interests of lessors under operating leases and purchase money security interests and Liens of lessors under capital leases to the extent that the acquisition or lease of the underlying asset is permitted under Section 7.2 and so long as the Lien only attaches to the asset purchased or acquired and only secures the purchase price of the asset, (e) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business of Borrowers and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet due and payable, or (ii) are the subject of Permitted Protests, (f) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, (g) Liens or deposits to secure performance of bids, tenders, or leases (to the extent permitted under this Agreement), incurred in the ordinary course of business of Borrowers and not in connection with the borrowing of money, (h) Liens arising by reason of security for surety or appeal bonds in the ordinary course of business of any Borrower, (i) Liens of or resulting from any judgment or award that would not cause a Material Adverse Change

and as to which the time for the appeal or petition for rehearing of which has not yet expired, or in respect of which any Borrower is in good faith prosecuting an appeal or proceeding for a review, and in respect of which a stay of execution pending such appeal or proceeding for review has been secured, (j) with respect to any Real Property, easements, rights of way, zoning and similar covenants and restrictions, and similar encumbrances that customarily exist on properties of Persons engaged in similar activities and similarly situated and that in any event do not materially interfere with or impair the use or operation of the Collateral by Borrowers or the value of the Lender Group's Lien thereon or therein, or materially interfere with the ordinary conduct of the business of Borrowers, and (k) liens securing the Revolving Credit Agreement.

"Permitted Protest" means the right of Borrowers to protest any Lien (other than any such Lien that secures the Obligations), tax (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on the books of Borrowers in an amount that is reasonably satisfactory to Agent, (b) any such protest is instituted and diligently prosecuted by Borrowers in good faith, and (c) Agent is satisfied that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Liens of the Lender Group in and to the Collateral.

"Person" means and includes natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Pro-Rata Share" means, with respect to a Lender, a fraction (expressed as a percentage), the numerator of which is the amount of such Lender's Commitment and the denominator of which is the aggregate amount of the Commitments.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by any Borrower.

"Reference Rate" the rate of interest announced within Wells Fargo at its principal office in San Francisco as its "prime rate", with the understanding that the "prime rate" is one of Wells Fargo's base rates (not necessarily the lowest of such rates) and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto and is evidenced by the recording thereof after its announcement in such internal publication or publications as Wells Fargo may designate.

"Required Lenders" means, at any time, Lenders whose Pro Rata Shares aggregate 50.1% or more of the Commitments.

"Requirement of Law" means, as to any Person: (a) (i) all statutes and regulations and (ii) court orders and injunctions, arbitrators' decisions, and/or similar rulings, in each instance by any Governmental Authority or arbitrator applicable to or binding upon such Person or any of such Person's property or to which such Person or any of such Person's

property is subject; and (b) that Person's organizational documents, by-laws and/or other instruments which deal with corporate or similar governance, as applicable.

"Revolving Accounts" means any Account arising from an agreement to extend credit on an ongoing basis through the use of a device such as a credit card or the like, whether or not subject to regulation under Federal Reserve Board Regulation Z, or any state statute or regulation on truth-in-lending.

"Revolving Credit Agent" means Wells Fargo Retail Finance, LLC, in its capacity as Agent under the Revolving Credit Agreement.

"Revolving Credit Agreement" means that certain Fifth Amended and Restated Loan and Security Agreement dated as of June 28, 2007 between, among others, the Borrowers, financial institutions party thereto from time to time as lenders, and Wells Fargo Retail Finance, LLC, as Agent, as amended and in effect from time to time.

"Seasonal Advances" has the meaning set forth in the Revolving Credit Agreement.

"Seasonal Overadvance Facility" has the meaning set forth in the Revolving Credit Agreement.

"Services Company" means The Children's Place Services Company, LLC, a Delaware limited liability company.

"Solvent" means, with respect to any Person on a particular date, that on such date (a) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair salable value of the properties and assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.

"Stock Option Issue" shall have the meaning set forth in that certain letter agreement dated as of December 20, 2006, as amended and in effect from time to time.

"Subsidiary" of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the

shares of stock or other ownership interests having ordinary voting power to elect a majority of the board of directors (or appoint other comparable managers) of such corporation, partnership, limited liability company, or other entity.

"Termination Date" has the meaning set forth in Section 3.3.

"Termination Notice" means written notice provided by the Administrative Borrower to the Agent setting forth the date upon which this Agreement shall terminate.

"Twin Brook" means Twin Brook Insurance Co., Inc., a New York captive insurance company.

"Voidable Transfer" has the meaning set forth in Section 18.6.

"Walt Disney Companies" means TDS Franchising, LLC, a California limited liability company; Disney Enterprises, Inc., a Delaware corporation; and Disney Credit Card Services, Inc., a California corporation.

"Wells Fargo" means Wells Fargo Bank, National Association.

"Wells Fargo Retail" means Wells Fargo Retail Finance, LLC, a Delaware limited liability company.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrowers or Parent" is used in respect of a financial covenant or a related definition, it shall be understood to mean Parent and its Subsidiaries on a consolidated basis unless the context clearly requires otherwise.

1.3 Code. Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein.

1.4 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. An Event of Default shall "continue" or be "continuing" until such Event of Default has been waived in writing by the requisite members of the Lender Group. Any reference herein to the repayment in full of the Obligations shall mean the repayment in full in cash of all Obligations other than contingent indemnification Obligations that are not required to be repaid or cash collateralized pursuant to the provisions of this Agreement. Section, subsection, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. Any reference in this Agreement or in the Loan Documents to this Agreement or any of the Loan Documents shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable.

1.5 Schedules and Exhibits. All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. LETTERS OF CREDIT.

2.1 Agreement to Cause Issuance; Amounts; Outside Expiration Date. Subject to the terms and conditions of this Agreement, Issuing Bank agrees, at any time and from time to time after the date hereof and prior to the Termination Date, to issue Letters of Credit pursuant to this Agreement; provided, however, subject to the limitations set forth herein, Parent or Services Company shall have the right to cause Canadian Letters of Credit to be issued pursuant to this Agreement. Issuing Bank shall have no obligation to issue a Letter of Credit if any of the following would result:

(a) The aggregate amount of:

(i) Letters of Credit Outstandings would exceed $60,000,000,

(ii) the sum of all undrawn and unreimbursed Canadian Letters of Credit issued by (x) Issuing Bank in connection with this Agreement, and (y) the Issuing Bank under the Revolving Credit Agreement would exceed $10,000,000 in the aggregate; or

(b) the aggregate amount of Letters of Credit Outstandings would exceed the Commitments.

Each Letter of Credit shall have an expiry date no later than the date one hundred twenty (120) days after the date of the issuance of such Letter of Credit. All such Letters of Credit shall be (i) in form and substance acceptable to Issuing Bank in its sole discretion and (ii) in an amount not to exceed the Borrowers' cost of the Inventory, the payment of which is to be made pursuant to such Letters of Credit, plus the estimated costs relating to unpaid freight charges, warehousing or storage charges, taxes, duties, and other similar fees, costs and expenses associated with the acquisition of Inventory that is in transit to a Borrower.

2.2 Reimbursement of Drawings. If Agent notifies Parent on or before 1:00 p.m. Boston time on any Business Day that an L/C Disbursement has occurred, Borrowers shall reimburse Agent in an amount in Dollars equal to such L/C Disbursement on the same Business Day. If Agent notifies Parent after 1:00 p.m. Boston time on any Business Day that an L/C Disbursement has occurred, Borrowers shall reimburse Agent in an amount in Dollars equal to such L/C Disbursement by 10:00 a.m. Boston time on the then next Business Day. Reimbursements made pursuant to this Section 2.2 shall be made by Borrowers in accordance with the terms hereof and Section 2.11(a) by paying to the Agent for the account of the Issuing Bank in an amount equal to such L/C Disbursement as such time as required by Section 2.11(a).

2.3 Interest on Overdue Amounts. If Issuing Bank shall make any L/C Disbursement, then, unless Borrowers shall reimburse the Agent for the account of the Issuing Bank in full at the time required under Sections 2.2 and 2.11(a), the unpaid amount thereof shall bear interest, for each day from and including the date such payment is made to but excluding the date that Borrowers reimburse for the account of the Issuing Bank or Lenders as applicable therefor, at the rate per annum equal to the Reference Rate. Interest shall be calculated on the basis of a 360 day year and actual days elapsed.

2.4 Indemnification. Each Borrower hereby agrees to indemnify, save, defend, and hold the Lender Group harmless from any loss, cost, expense, or liability, including payments made by the Lender Group, expenses, and reasonable attorneys fees incurred by the Lender Group arising out of or in connection with any Letter of Credit. Each Borrower agrees to be bound by the Issuing Bank's regulations and interpretations of any Letters of Credit guarantied by the Lender Group and opened to or for Parent's or Service Company's account or by Agent's interpretations of any Letter of Credit issued by Agent to or for any Borrower's account, even though this interpretation may be different from such Borrower's own, and such Borrower understands and agrees that the Lender Group shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following such Borrower's instructions or those contained in the Letter of Credit or any modifications, amendments, or supplements thereto.

2.5 Costs of Letters of Credit. Notwithstanding anything to the contrary contained in this Agreement, Borrowers shall not be responsible for any and all charges, commissions, fees (other than the Letter of Credit fee set forth in Section 2.12, and costs relating to any Letter of Credit.)

2.6 Cash Collateralization. Immediately upon the occurrence of the earlier of (i) an Event of Default or (ii) the Termination Date, the Borrowers agree that, upon the Agent's request, they shall provide cash collateral to be held by Agent in an amount equal to 105% of the Letters of Credit Outstanding, cause to be delivered to Agent releases of all of the Lender Group's obligations under outstanding Letters of Credit, provide one or more back-to-back letters of credit to Agent from an issuing bank reasonably acceptable to Agent and upon terms and conditions reasonably acceptable to the Agent, and/or provide Agent with other security with respect to the Letters of Credit Outstanding of a type and in an amount reasonably acceptable to Agent. If and to the extent the Borrowers do not provide cash collateral, releases, back-to-back letters of credit and/or other security in connection with the Letters of Credit Outstandings, Agent may direct the Revolving Credit Agent to implement reserves pursuant to Section 2.1(c) of the Revolving Credit Agreement as permitted by Section 9.1(l) hereof. At Agent's discretion, any proceeds of Collateral received by Agent after the occurrence and during the continuation of an Event of Default shall be held as the cash collateral required by this Section 2.6 (except to the extent the Borrowers have provided one or more back-to-back letters of credit or other security in accordance with the terms and conditions of this Section 2.6 or the Revolving Credit Agent has implemented reserves at the request of Agent pursuant to Section 2.1(c) of the Revolving Credit Agreement).

2.7 Increased Costs. If by reason of (i) any change in any applicable law, treaty, rule, or regulation or any change in the interpretation or application by any Governmental Authority of any such applicable law, treaty, rule, or regulation, or (ii) compliance by the Issuing Bank or the Lender Group with any direction, request, or requirement (irrespective of whether having the force of law) of any Governmental Authority or monetary authority including, without limitation, Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect (and any successor thereto):

(i) any reserve, deposit, or similar requirement is or shall be imposed or modified in respect of any Letters of Credit issued hereunder, or

(ii) there shall be imposed on the Issuing Bank or the Lender Group any other condition regarding any letter of credit, or Letter of Credit, as applicable, issued pursuant hereto;

and the result of the foregoing is to increase, directly or indirectly, the cost to the Issuing Bank or the Lender Group of issuing, making, guaranteeing, or maintaining any letter of credit, or Letter of Credit, as applicable, or to reduce the amount receivable in respect thereof by such Issuing Bank or the Lender Group, then, and in any such case, Agent may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, notify Administrative Borrower, and Borrowers shall pay on demand such amounts as the Issuing Bank or Agent may specify to be necessary to compensate the Issuing Bank or Agent for such additional cost or reduced receipt, together with interest on such amount from the date of such demand until payment in full thereof at the rate set forth in Section 2.12(a) or (b), as applicable. The determination by the Issuing Bank or Agent, as the case may be, of any amount due pursuant to this Section 2.7, as set forth in a certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest or demonstrable error, be final and conclusive and binding on all of the parties hereto.

2.8 Participations.

(i) Purchase of Participations. Immediately upon issuance of any Letter of Credit in accordance with this Section 2.8, each Lender shall be deemed to have irrevocably and unconditionally purchased and received without recourse or warranty, an undivided interest and participation in the credit support or enhancement provided through the Agent to such issuer in connection with the issuance of such Letter of Credit, equal to such Lender's Pro Rata Share of the face amount of such Letter of Credit (including, without limitation, all obligations of Borrowers with respect thereto, and any security therefor or guaranty pertaining thereto).

(ii) Documentation. Upon the request of any Lender, the Agent shall furnish to such Lender copies of any Letter of Credit, reimbursement agreements executed in connection therewith, application for any Letter of Credit and credit support or enhancement provided through the Agent in connection with the issuance of any Letter of Credit, and such other documentation as may reasonably by requested by such Lender.

(iii) Obligations Irrevocable. The obligations of each Lender to make payments to the Agent with respect to any Letter of Credit or with respect to any credit support or enhancement provided through the Agent with respect to a Letter of Credit, and the obligations of Borrowers to make payments to the Agent, for the account of the Lenders, shall be irrevocable, not subject to any qualification or exception whatsoever, including, without limitation, any of the following circumstances:

(A) any lack of validity or enforceability of this Agreement or any of the other Loan Documents;

(B) the existence of any claim, setoff, defense, or other right which any Borrower may have at any time against a beneficiary named in a Letter of Credit or any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), any Lender, the Agent, the issuer of such Letter of Credit, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transactions between such Borrower or any other Person and the beneficiary named in any Letter of Credit);

(C) any draft, certificate, or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(D) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Loan Documents; or

(E) the occurrence of any Default or Event of Default.

2.9 Notation. The Agent shall record on its books the Letter of Credit Outstandings, L/C Disbursements, Letter of Credit Fees, fees and interest that has become due hereunder, and such books and records constituting rebuttably presumptive evidence, absent manifest error, of the accuracy of the information contained therein.

2.10 Effect of Bankruptcy. If a case is commenced by or against any Borrower under the Bankruptcy Code, or other statute providing for debtor relief, then, without the approval of Required Lenders the Lender Group shall not issue additional Letters of Credit to such Borrower as debtor or debtor-in-possession, or to any trustee for such Borrower, nor consent to the use of cash collateral (provided that the applicable Loan Account shall continue to be charged, to the fullest extent permitted by law, for accruing interest, fees, and Lender Group Expenses).

2.11 Payments.

(a) **Payments by Borrowers.**

(i) All payments to be made by Borrowers shall be made without set-off, recoupment, deduction, or counterclaim, except as otherwise required by law. All payments by Borrowers shall be made to Agent for the account of the Issuing Bank, Lenders or Agent, as

the case may be, at Agent's address set forth in Section 12, and shall be made in immediately available funds. All payments shall be made no later than 1:00 p.m. (Boston time) on the date specified herein (except for reimbursement of drawings, which shall be made in accordance with the time periods set forth in Section 2.2). Any payment (other than a reimbursement of a drawing made in accordance with Section 2.2) that is received by Agent later than 1:00 p.m. (Boston time), at the option of Agent, shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue until such following Business Day.

(ii) Whenever any payment is due on a day other than a Business Day, such payment shall be made on the following Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

(iii) Unless Agent receives notice from Borrowers prior to the date on which any payment is due to the Issuing Bank, Lenders that Borrowers will not make such payment in full as and when required, Agent may assume that Borrowers have made such payment in full to Agent on such date in immediately available funds and Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent Borrowers have not made such payment in full to Agent, each Lender shall repay to Agent on demand such amount distributed to such Lender, together with interest thereon at the Reference Rate for each day from the date such amount is distributed to such Lender until the date repaid.

(b) **Apportionment and Application.**

(i) Except as otherwise provided in the Loan Documents (including letter agreements between Agent and individual Lenders), aggregate principal and interest payments shall be apportioned ratably among the Lenders (according to the unpaid principal balance of the Obligations to which such payments relate held by each Lender) and payments of fees and expenses (other than fees or expenses that are for Agent's separate account, after giving effect to any letter agreements between Agent and individual Lenders) shall be apportioned ratably among the Lenders having a Pro Rata Share of the type of Commitment or Obligation to which a particular fee relates. All payments shall be remitted to Agent and all such payments, and all proceeds of Collateral received by Agent, shall be applied as follows:

A. first, to pay any Lender Group Expenses then due to Agent under the Loan Documents, until paid in full,

B. second, to pay any Lender Group Expenses then due to the Lenders under the Loan Documents, on a ratable basis, until paid in full,

C. third, to pay any fees then due to Agent (for its separate accounts, after giving effect to any letter agreements between Agent and the individual Lenders) under the Loan Documents until paid in full,

D. fourth, to pay any fees then due to any or all of the Lenders (after giving effect to any letter agreements between Agent and individual Lenders) under the Loan Documents, on a ratable basis, until paid in full,

E. fifth, first, to pay the principal of all L/C Disbursements until paid in full, and second, to Agent, to be held by Agent, for the ratable benefit of those Lenders having a Commitment, as cash collateral in an amount up to 105% of the Letter of Credit Outstandings,

F. sixth, to Borrowers (to be wired to the Designated Account) or such other Person entitled thereto under applicable law.

(ii) Agent promptly shall distribute to each Lender, pursuant to the applicable wire instructions received from each Lender in writing, such funds as it may be entitled to receive.

(iii) In each instance, so long as no Event of Default has occurred and is continuing, this Section 2.11(b) shall not be deemed to apply to any payment by Borrowers specified by Borrowers to be for the payment of specific Obligations then due and payable (or prepayable) under any provision of this Agreement.

(iv) For purposes of the foregoing, "paid in full" means payment of all amounts owing under the Loan Documents according to the terms thereof, including loan fees, service fees, professional fees, interest (and specifically including interest accrued after the commencement of any Insolvency Proceeding), default interest, interest on interest, and expense reimbursements, whether or not any of the foregoing would be or is allowed or disallowed in whole or in part in any Insolvency Proceeding.

(v) In the event of a direct conflict between the priority provisions of this Section 2.11 and other provisions contained in any other Loan Document, it is the intention of the parties hereto that such priority provisions in such documents shall be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and provisions of this Section 2.11 shall control and govern.

2.12 Letter of Credit Fees: Rates, Payments, and Calculations.

(a) Letter of Credit Fee. Borrowers shall pay Agent, for the benefit of the Lender Group, a fee equal to 0.75% per annum times the aggregate undrawn amount of all Letters of Credit outstanding as of the end of the day. Notwithstanding anything to the contrary contained herein, at all times during which Seasonal Advances are outstanding under the Seasonal Overadvance Facility, the Letter of Credit Fee provided in Section 2.12(a) hereof shall be increased by one-quarter of one percent (.25%) per annum.

(b) Default Rate. Upon the occurrence and during the continuation of an Event of Default, (i) all Obligations (except for undrawn Letters of Credit) shall bear interest on the Daily Balance at a per annum rate equal to 3.00% above the Reference Rate, and (ii) the

Letter of Credit Fee provided in Section 2.12(a) shall be increased to 3.75% per annum times the aggregate undrawn amount of all outstanding Letters of Credit; provided, however, the foregoing adjustments are subject to waiver by the Required Lenders.

(c) Payments. Letter of Credit Fees payable hereunder shall be due and payable, in arrears, on the first day of each month during the term hereof. Each Borrower hereby authorizes Agent, at its option, without prior notice to such Borrower, to request the Revolving Credit Agent to cause loans under the Revolving Credit Agreement be made in the amount of all Letter of Credit Fees, the fees and charges provided for in Section 2.12(a) (as and when accrued or incurred), and all reimbursement obligations or other payments due under any Loan Document the proceeds of such loan to be paid directly to the Agent for the account of the Issuing Bank and Lenders hereunder as applicable. Any Letter of Credit fees not paid when due shall be compounded and shall thereafter accrue interest at the Default Rate.

(d) Computation. In the event the Reference Rate is changed from time to time hereafter, the applicable rate of interest hereunder automatically and immediately shall be increased or decreased by an amount equal to such change in the Reference Rate. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360 day year for the actual number of days elapsed.

(e) Intent to Limit Charges to Maximum Lawful Rate. In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrowers and the Lender Group, in executing and delivering this Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, ipso facto as of the date of this Agreement, Borrowers are and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrowers in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.13 Maintenance of Loan Account; Statements of Obligations.

Agent shall maintain an account on its books in the name of Borrowers (the "Loan Account") on which Borrowers will be charged with all Letter of Credit Outstandings, Letter of Credit Fees, accrued interest, Lender Group Expenses, and any other payment Obligations of Borrowers. Agent shall render statements regarding the Loan Account to Administrative Borrower, including Letter of Credit Outstandings, Letter of Credit Fees, principal, interest, fees, and including an itemization of all charges and expenses constituting the Lender Group Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Administrative Borrower and the Lender Group unless, within 30 days after receipt thereof by Administrative Borrower, Administrative Borrower shall deliver to Agent written objection thereto describing the error or errors contained in any such statements.

2.14 Joint and Several Liability of Borrowers.

(a) Each Borrower is accepting joint and several liability hereunder and under the other Loan Documents in consideration of the financial accommodations to be provided by the Agent and the Lenders under this Agreement, for the mutual benefit, directly and indirectly, of each Borrower and in consideration of the undertakings of the other Borrowers to accept joint and several liability for the Obligations.

(b) Each Borrower, jointly and severally, hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other Borrowers, with respect to the payment and performance of all of the Obligations (including, without limitation, any Obligations arising under this Section 2.14), it being the intention of the parties hereto that all the Obligations shall be the joint and several obligations of each Person composing Borrowers without preferences or distinction among them.

(c) If and to the extent that any of Borrowers shall fail to make any payment with respect to any of the Obligations as and when due or to perform any of the Obligations in accordance with the terms thereof, then in each such event the other Persons composing Borrowers will make such payment with respect to, or perform, such Obligation.

(d) The Obligations of each Person composing Borrowers under the provisions of this Section 2.14 constitute the absolute and unconditional, full recourse Obligations of each Person composing Borrowers enforceable against each such Borrower to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of this Agreement or any other circumstances whatsoever.

(e) Except as otherwise expressly provided in this Agreement, each Person composing Borrowers hereby waives notice of acceptance of its joint and several liability, notice of any Letters of Credit issued under or pursuant to this Agreement, notice of the occurrence of any Default, Event of Default, or of any demand for any payment under this Agreement, notice of any action at any time taken or omitted by Agent or Lenders under or in respect of any of the Obligations, any requirement of diligence or to mitigate damages and, generally, to the extent permitted by applicable law, all demands, notices and other formalities of every kind in connection with this Agreement (except as otherwise provided in this Agreement). Each Person composing Borrowers hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations, the acceptance of any payment of any of the Obligations, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by Agent or Lenders at any time or times in respect of any default by any Person composing Borrowers in the performance or satisfaction of any term, covenant, condition or provision of this Agreement, any and all other indulgences whatsoever by Agent or Lenders in respect of any of the Obligations, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of the Obligations or the addition, substitution or release, in whole or in part, of any Person composing Borrowers. Without limiting the generality of the foregoing, each Borrower assents to any other action or delay in acting or failure to act on the part of any Agent or Lender with respect to the failure by any Person composing Borrowers to comply with any of its respective Obligations, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations thereunder, which might, but for the provisions

of this Section 2.14 afford grounds for terminating, discharging or relieving any Person composing Borrowers, in whole or in part, from any of its Obligations under this Section 2.14, it being the intention of each Person composing Borrowers that, so long as any of the Obligations hereunder remain unsatisfied, the Obligations of such Person composing Borrowers under this Section 2.14 shall not be discharged except by performance and then only to the extent of such performance. The Obligations of each Person composing Borrowers under this Section 2.14 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any Person composing Borrowers or any Agent or Lender. The joint and several liability of the Persons composing Borrowers hereunder shall continue in full force and effect notwithstanding any absorption, merger, amalgamation or any other change whatsoever in the name, constitution or place of formation of any of the Persons composing Borrowers or any Agent or Lender.

(f) Each Person composing Borrowers represents and warrants to Agent and Lenders that such Borrower is currently informed of the financial condition of Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Each Person composing Borrowers further represents and warrants to Agent and Lenders that such Borrower has read and understands the terms and conditions of the Loan Documents. Each Person composing Borrowers hereby covenants that such Borrower will continue to keep informed of Borrowers' financial condition, the financial condition of other guarantors, if any, and of all other circumstances which bear upon the risk of nonpayment or nonperformance of the Obligations.

(g) The provisions of this Section 2.14 are made for the benefit of the Agent, the Lenders and their respective successors and assigns, and may be enforced by it or them from time to time against any or all of the Persons composing Borrowers as often as occasion therefor may arise and without requirement on the part of any such Agent, Lender, successor or assign first to marshal any of its or their claims or to exercise any of its or their rights against any of the other Persons composing Borrowers or to exhaust any remedies available to it or them against any of the other Persons composing Borrowers or to resort to any other source or means of obtaining payment of any of the Obligations hereunder or to elect any other remedy. The provisions of this Section 2.14 shall remain in effect until all of the Obligations shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by any Agent or Lender upon the insolvency, bankruptcy or reorganization of any of the Persons composing Borrowers, or otherwise, the provisions of this Section 2.14 will forthwith be reinstated in effect, as though such payment had not been made.

(h) Each of the Persons composing Borrowers hereby agrees that it will not enforce any of its rights of contribution or subrogation against the other Persons composing Borrowers with respect to any liability incurred by it hereunder or under any of the other Loan Documents, any payments made by it to the Agent or the Lenders with respect to any of the Obligations or any collateral security therefor until such time as all of the Obligations have been paid in full in cash. Any claim which any Borrower may have against any other Borrower with respect to any payments to any Agent or Lender hereunder or under any other Loan Documents are hereby expressly made subordinate and junior in right of payment, without limitation as to

any increases in the Obligations arising hereunder or thereunder, to the prior payment in full in cash of the Obligations and, in the event of any insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceeding under the laws of any jurisdiction relating to any Borrower, its debts or its assets, whether voluntary or involuntary, all such Obligations shall be paid in full in cash before any payment or distribution of any character, whether in cash, securities or other property, shall be made to any other Borrower therefor.

(i) Each of the Persons composing Borrowers hereby agrees that, after the occurrence and during the continuance of any Default or Event of Default, the payment of any amounts due with respect to the Indebtedness owing by any Borrower to any other Borrower is hereby subordinated to the prior payment in full in cash of the Obligations. Each Borrower hereby agrees that after the occurrence and during the continuance of any Default or Event of Default, such Borrower will not demand, sue for or otherwise attempt to collect any Indebtedness of any other Borrower owing to such Borrower until the Obligations shall have been paid in full in cash. If, notwithstanding the foregoing sentence, such Borrower shall collect, enforce or receive any amounts in respect of such Indebtedness, such amounts shall be collected, enforced and received by such Borrower as trustee for the Agent, and such Borrower shall deliver any such amounts to Agent for application to the Obligations in accordance with this Agreement.

3. CONDITIONS; TERM OF AGREEMENT.

3.1 Conditions Precedent to Initial Letter of Credit. The obligation of the Lender Group to issue the initial Letter of Credit is subject to the fulfillment, to the satisfaction of Agent and its counsel, of each of the following conditions on or before the Closing Date:

(a) the Closing Date shall occur on or before June 28, 2007;

(b) Agent shall have received and filed financing statements;

(c) Agent shall have received the Guaranties, duly executed, and each such document shall be in full force and effect;

(d) Agent shall have received a certificate from the Secretary or Assistant Secretary of each Borrower and Guarantor attesting to the resolutions of such Borrower's and Guarantor's Board of Directors authorizing its execution, delivery, and performance of this Agreement and the other Loan Documents to which such Borrower and Guarantor is a party and authorizing specific officers of such Borrower and Guarantor to execute the same;

(e) Agent shall have received copies of each Borrower's and Guarantor's Governing Documents, as amended, modified, or supplemented on or before the Closing Date, certified by the Secretary or Assistant Secretary of each Borrower and Guarantor;

(f) Agent shall have received a certificate of status with respect to each Borrower and Guarantor, dated within 10 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of each Borrower and Guarantor, which certificate shall indicate that such Borrower and Guarantor is in good standing in such jurisdiction;

(g) Agent shall have received an opinion of Borrowers' and Guarantors' counsel in form and substance satisfactory to Agent in its sole discretion;

(h) All other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed, or recorded and shall be in form and substance satisfactory to Agent and its counsel; and

(i) The Agent shall have entered into an Intercreditor Agreement with the Revolving Credit Agent on terms reasonably acceptable to the Agent.

3.2 Conditions Precedent to all Letters of Credit. The following shall be conditions precedent to issuance of any Letter of Credit hereunder:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) except for good faith disputes between a Borrower and landlords, no Default or Event of Default shall have occurred and be continuing on the date of the issuance of such Letter of Credit, nor shall either result from the issuance thereof;

(c) no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the extending of such credit shall have been issued and remain in force by any Governmental Authority against any Borrower, the Lender Group or any of their Affiliates;

(d) the amount of any requested Letter of Credit, together with all Letter of Credit Outstandings, shall not exceed the Commitments; and

(e) this agreement shall not have been terminated in accordance with Section 3.3.

3.3 Term. This Agreement shall terminate upon the earliest of: (i) the date set forth in the Termination Notice, which date shall be no earlier than two (2) Business Days after the latest expiry date of any Letters of Credit; (ii) the date on which the Agent or the Agent, at the direction of the Required Lenders, has given the Administrative Borrower notice of termination; or (iii) the date on which the Revolving Credit Agreement terminates or expires (the "Termination Date").

3.4 Effect of Termination. On the earlier of the Termination Date or receipt by the Agent of the Termination Notice, the Issuing Bank's commitment to issue new Letters of Credit and the Lenders' obligations to buy participations in the Letters of Credit shall immediately terminate without notice or demand. On the Termination Date, to the extent the Borrowers have not provided cash collateral, releases, one or more back-to-back letters of credit and/or other security reasonably acceptable to the Agent as contemplated by the first sentence of Section 2.6, the Agent may direct the Revolving Credit Agent to implement reserves pursuant to Section 2.1(c) of the Revolving Credit Agreement as permitted by Section 9.1(l) hereof.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interests. Each Borrower hereby grants to Agent for the benefit of the Lender Group a continuing security interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by such Borrower of each of its covenants and duties under the Loan Documents. The security interests of Agent for the benefit of the Lender Group in the Collateral shall attach to all Collateral without further act on the part of the Lender Group or Borrowers. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, and other than: (a) sales of Inventory to buyers in the ordinary course of business, (b) sales of Equipment in any 12 month period having an aggregate net book value of $500,000 with the proceeds being applied to the debt due pursuant to the Revolving Credit Agreement, and (c) sale or disposal of Collateral (other than Inventory) in connection with the closing of Borrowers' stores, Borrowers have no authority, express or implied, to dispose of any item or portion of the Collateral.

4.2 Negotiable Collateral. In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, Borrowers, immediately upon the request of Agent, shall endorse and deliver physical possession of such Negotiable Collateral to the Agent.

4.3 Collection of Accounts, General Intangibles, and Negotiable Collateral. Upon the occurrence of an Event of Default, Agent or Agent's designee may (a) notify customers or Account Debtors of any Borrower that the Accounts, General Intangibles, or Negotiable Collateral have been assigned to Agent for the benefit of the Lender Group or that Agent for the benefit of the Lender Group has a security interest therein, and (b) collect the Accounts, General Intangibles, and Negotiable Collateral directly and charge the collection costs and expenses to the Loan Account.

4.4 Delivery of Additional Documentation Required. At any time upon the request of Agent, Borrowers shall execute and deliver to Agent all financing statements, continuation financing statements, fixture filings, security agreements, pledges, assignments, control agreements, endorsements of certificates of title, applications for title, affidavits, reports, notices, schedules of accounts, letters of authority, and all other documents that Agent reasonably may request, in form satisfactory to Agent, to perfect and continue perfected the Liens of the Lender Group in the Collateral, and in order to fully consummate all of the transactions contemplated hereby and under the other the Loan Documents.

4.5 Power of Attorney. Each Borrower hereby irrevocably makes, constitutes, and appoints Agent (and any of Agent's officers, employees, or agents designated by Agent) as such Borrower's true and lawful attorney, with power to (a) if any Borrower refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of such Borrower on any of the documents described in Section 4.4, (b) at any time that an Event of Default has occurred and is continuing or the Lender Group deems itself insecure, sign such Borrower's name on any invoice or bill of lading relating to any Account, drafts against Account Debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to Account Debtors, (c) send requests for verification of Accounts, (d) endorse such Borrower's

name on any Collection item that may come into the Lender Group's possession, (e) at any time that an Event of Default has occurred and is continuing or the Lender Group deems itself insecure, notify the post office authorities to change the address for delivery of such Borrower's mail to an address designated by Agent, to receive and open all mail addressed to such Borrower, and to retain all mail relating to the Collateral and forward all other mail to such Borrower, (f) at any time that an Event of Default has occurred and is continuing or the Lender Group deems itself insecure, make, settle, and adjust all claims under Borrowers' policies of insurance and make all determinations and decisions with respect to such policies of insurance, and (g) at any time that an Event of Default has occurred and is continuing or Agent deems itself insecure, settle and adjust disputes and claims respecting the Accounts directly with Account Debtors, for amounts and upon terms that Agent determines to be reasonable, and Agent may cause to be executed and delivered any documents and releases that Agent determines to be necessary. The appointment of Agent as each Borrower's attorney, and each and every one of Agent's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and the Lender Group's obligation to extend credit hereunder is terminated.

4.6 Right to Inspect. Agent (through any of its officers, employees, or agents), shall have the right, from time to time hereafter to inspect Books and to check, test, and appraise the Collateral in order to verify Borrowers' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES. In order to induce the Lender Group to enter into this Agreement, each Borrower makes the following representations and warranties which shall be true, correct, and complete in all respects as of the date hereof, and shall be true, correct, and complete in all respects as of the Closing Date, and at and as of the date of the issuance of each Letter of Credit made thereafter, as though made on and as of the date of such Letter of Credit (except to the extent that such representations and warranties relate solely to an earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

5.1 No Encumbrances. Each Borrower has good and indefeasible title to the Collateral, free and clear of Liens except for Permitted Liens.

5.2 Location of Inventory and Equipment. The Inventory (other than Inventory in transit) and Equipment are not stored with a bailee, warehouseman, or similar party (without Agent's prior written consent) and are located only at the locations identified on Schedule 5.2 or otherwise permitted by Section 6.11 of the Revolving Credit Agreement.

5.3 Inventory Records. Each Borrower keeps correct and accurate records itemizing and describing the kind, type, quality and quantity of its Inventory and each Borrower's cost therefor in accordance with the retail method of accounting.

5.4 Location of Chief Executive Office; FEIN. The chief executive office of Borrowers is located at the address indicated in the preamble to this Agreement and Parent's FEIN is 31-1241495 and Services Company's FEIN is 20-0850965.

5.5 Due Organization and Qualification; Subsidiaries.

(a) Each Borrower is duly organized and existing and in good standing under the laws of the jurisdiction of its incorporation and qualified and licensed to do business in, and in good standing in, any state where the failure to be so licensed or qualified reasonably could be expected to cause a Material Adverse Change.

(b) Set forth on Schedule 5.5 is a complete and accurate list of each Borrower's direct and indirect Subsidiaries, showing: (i) the jurisdiction of their incorporation; (ii) the number of shares of each class of common and preferred stock authorized for each of such Subsidiaries; and (iii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by the applicable Borrower. All of the outstanding capital stock of each such Subsidiary has been validly issued and is fully paid and non-assessable.

(c) Except as set forth on Schedule 5.5, no capital stock (or any securities, instruments, warrants, options, purchase rights, conversion or exchange rights, calls, commitments or claims of any character convertible into or exercisable for capital stock) of any direct or indirect Subsidiary of any Borrower is subject to the issuance of any security, instrument, warrant, option, purchase right, conversion or exchange right, call, commitment or claim of any right, title, or interest therein or thereto.

5.6 Due Authorization; No Conflict. (a) The execution and delivery by each Borrower of each Loan Document to which it is a party; each Borrower's consummation of the transactions contemplated by such Loan Documents; each Borrower's performance under those of the Loan Documents to which it is a party:

(i) Has been duly authorized by all necessary action.

(ii) Does not, and will not, contravene in any material respect any provision of any Requirement of Law or obligation of that Borrower.

(iii) Will not result in the creation or imposition of, or the obligation to create or impose, any Lien upon any assets of that Borrower pursuant to any Requirement of Law or obligation, except pursuant to the Loan Documents.

(b) The Loan Documents have been duly executed and delivered by each Borrower and are the legal, valid and binding obligations of each Borrower, enforceable against each Borrower in accordance with their respective terms.

5.7 Litigation. Except as set forth on Schedule 5.7, there are no actions or proceedings pending by or against Borrowers before any court or administrative agency and Borrowers do not have knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrowers or any guarantor of the Obligations, except for: (a) ongoing collection matters in which Borrowers are the plaintiff; and (b) current matters that, if decided adversely to Borrowers, would not materially impair the prospect of repayment of the Obligations or materially impair the value or priority of the Lender Group's security interests in the Collateral.

5.8 No Material Adverse Change. All financial statements relating to Borrowers or any guarantor of the Obligations that have been delivered by Borrowers to the Lender Group have been prepared in accordance with GAAP (except as may be directly impacted by the Stock Option Issue and, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and fairly present Borrowers' (or such guarantor's, as applicable) financial condition as of the date thereof and Borrowers' results of operations for the period then ended. There has not been a Material Adverse Change with respect to Borrowers (or such guarantor, as applicable) since the date of the latest financial statements submitted to the Lender Group on or before the Closing Date.

5.9 Fraudulent Transfer.

(a) Each Borrower and each Subsidiary of a Borrower is Solvent.

(b) No transfer of property is being made by any Borrower or any Subsidiary of a Borrower and no obligation is being incurred by any Borrower or any Subsidiary of a Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of Borrowers or their Subsidiaries.

6. AFFIRMATIVE COVENANTS. Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Borrowers shall comply with each and every affirmative covenant set forth in the Revolving Credit Agreement, each of which is hereby incorporated by reference. Delivery by the Borrowers to the Revolving Credit Agent of any financial statements, reports, or certificates in connection with the Revolving Credit Agreement shall be deemed delivery to the Agent hereunder.

7. NEGATIVE COVENANTS. Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Borrowers will not do any of the following:

7.1 Indebtedness. Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement;

(b) Indebtedness set forth in Schedule 7.1;

(c) Indebtedness secured by Permitted Liens;

(d) refinancings, renewals, or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Borrowers, (ii) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, refundings, or extensions do not result in a shortening

of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, and (iv) to the extent that Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing Indebtedness must be at least as favorable to the Lender Group as those applicable to the refinanced Indebtedness;

(e) leases, whether operating leases or capital leases of existing or after acquired Equipment, including, without limitation, the Alabama Capital Lease;

(f) Indebtedness subordinated to the Obligations on terms and conditions satisfactory to Agent;

(g) intercompany Indebtedness between and among Borrowers and Guarantors, which Indebtedness shall (i) be evidenced by such documentation as Agent may reasonably require, (ii) constitute "Collateral" under this Agreement, (iii) be on terms (including subordination terms) reasonably acceptable to Agent, and (iv) be otherwise permitted under the provisions of Section 7.11;

(h) any liability or obligation of any Borrower to any other Borrower or to any Affiliate of any Borrower, and any liability or obligation of any Affiliate of any Borrower to any Borrower or to any other Affiliate of any Borrower, to reimburse or share the costs of any services or third party expenses in accordance with the terms of the Intercompany Services Agreement or any similar intercompany cost-sharing agreement or arrangement, provided that no Default or Event of Default then exists or would arise therefrom;

(i) Indebtedness incurred pursuant to the Revolving Credit Agreement; and

(j) Indebtedness incurred in connection with the Alabama Sale-Leaseback Transaction.

7.2 Liens. Create, incur, assume, or permit to exist, directly or indirectly, any Lien on or with respect to any of its property or assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced under Section 7.1(d) and so long as the replacement Liens only encumber those assets or property that secured the original Indebtedness).

7.3 Restrictions on Fundamental Changes. Without Required Lenders' prior written consent, enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), provided that Borrowers shall be permitted to liquidate or dissolve Twin Brook at any time upon prior written notice to Agent, provided further that before, or within three (3) Business Days after, the liquidation or dissolution of Twin Brook, Twin Brook shall have contributed all of its assets to Parent and Parent shall have caused the former assets of Twin Brook, including, without limitation, the equity interests in Services Company, to be pledged to Agent for the benefit of the Lender Group. In the event of any liquidation or dissolution of Twin Brook in accordance with the preceding sentence, Twin Brook will automatically cease to be a Guarantor hereunder.

7.4 Disposal of Assets. Convey, sell, lease, assign, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial portion of Borrowers' properties or assets other than (a) sales of Inventory to buyers in the ordinary course of Borrowers' business as currently conducted, (b) sales of Equipment having a fair market value, in the aggregate, of up to $500,000 in any Fiscal Year, (c) distributions or transfers of some or all of the assets of Twin Brook to Parent, provided that before, or within three (3) Business Days after, any such distribution or transfer, Parent shall have caused the assets so distributed to be pledged to Agent for the benefit of the Lender Group, and (d) as long as no Default or Event of Default then exists or would arise therefrom, (x) the Alabama Sale-Leaseback Transaction, provided that such sale is made for fair market value and the Agent shall have received from the purchaser of the Real Property subject to the Alabama Sale-Leaseback Transaction a Collateral Access Agreement substantially in the form attached to the Revolving Credit Agreement as Exhibit G-1, subject to such changes requested by the purchaser of the Real Property subject to the Alabama Sale-Leaseback Transaction as shall be reasonably acceptable to the Agent, and (y) the Alabama Capital Lease, provided that the Agent shall have received from the lessor under the Alabama Capital Lease a Collateral Access Agreement substantially in the form attached to the Revolving Credit Agreement as Exhibit H-1, subject to such changes requested by the lessor under the Alabama Capital Lease as shall be reasonably acceptable to the Agent.

7.5 Change Name. Change any Borrower's name, FEIN, corporate structure (within the meaning of Section 9-402(7) of the Code), state or organization or identity, or add any new fictitious name.

7.6 Guarantee. Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except (i) by endorsement of instruments or items of payment for deposit to the account of Borrowers or which are transmitted or turned over to Agent; (ii) guarantee and indemnification obligations to the Walt Disney Companies in accordance with the Acquisition Agreement and the TCP Guaranty and Commitment (as defined in the Acquisition Agreement); and (iii) indemnification obligations to the Walt Disney Companies pursuant to the Disney License Agreement (as to which, the Borrowers are subject to the restrictions set forth in Section 7.16, below).

7.7 Nature of Business. Make any change in the principal nature of Borrower's business, other than in connection with the consummation of the Disney Stores Transaction.

7.8 Prepayments and Amendments.

(a) Except in connection with a refinancing permitted by Section 7.1(d), prepay, redeem, retire, defease, purchase, or otherwise acquire any Indebtedness owing to any third Person, other than the Obligations in accordance with this Agreement, and

(b) Directly or indirectly, amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Sections 7.1(b), (c), or (d).

7.9 Change of Control. Except for transfers of shares by Parent's existing shareholders to members of their immediate family, cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10 Accounting Methods. Modify or change its method of accounting or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Borrowers' accounting records without said accounting firm or service bureau agreeing to provide Agent information regarding the Collateral or Borrowers' financial condition. Each Borrower waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Agent pursuant to or in accordance with this Agreement, and agrees that Agent may contact directly any such accounting firm or service bureau in order to obtain such information.

7.11 Advances, Investments and Loans. Make any investment except:

(a) investments in cash and cash equivalents and equity investments in Subsidiaries in an amount not to exceed $1,000,000 in the aggregate in any Fiscal Year, (including not more than $750,000 to Twin Brook in any Fiscal Year);

(b) so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, Parent and its Subsidiaries may (i) make loans and advances to employees for moving and travel expenses and other similar expenses, in each case incurred in the ordinary course of business, and (ii) make other loans and advances to directors, officers, employees and vendors, (A) so long as, as of the end of each of the three months preceding such loan or advance and on such date after taking into account the particular loan or advance and (B) such loans and advances in the aggregate shall not exceed, $6,000,000 outstanding at any one time;

(c) investments in existence on the date hereof and so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, extensions, renewals, modifications, restatements or replacements thereof so long as the aggregate dollar amount of all such extensions, renewals, modifications, restatements, or replacements does not exceed the amount of such investments in existence on the date hereof;

(d) so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, Parent may make loans and advances to its Subsidiaries in the aggregate amount of $5,000,000 outstanding at any one time;

(e) so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, Parent may make investments in Hoop Holdings, LLC, Hoop Retail Stores, LLC and/or Hoop Canada, Inc. (i) solely for the purpose of payment or financing of Capital Expenditures and/or reimbursement for Capital Expenditures made by Hoop Holdings, LLC, Hoop Retail Stores, LLC and/or Hoop Canada, Inc. in the then current Fiscal Year, which are required to be made pursuant to the Disney License Agreement, and (ii) other investments or capital contributions which are required to be made pursuant to the TCP Guaranty

and Commitment (as each of those terms is defined in the Acquisition Agreement); provided that the aggregate amount of the investments made pursuant to clause (i) of this Section 7.11(e) in any Fiscal Year shall not exceed the amount set forth for such Fiscal Year in the second table in Section 7.19(b) of the Revolving Credit Agreement; provided further that in no event shall the aggregate amount of the investments made pursuant to clauses (i) and (ii) of this Section 7.11(e) exceed $175,000,000.00 in the aggregate during the term of the Revolving Credit Agreement or any extensions or renewals thereof; provided further that the Borrowers shall provide the Agent with such documentation as the Agent shall reasonably request from time to time to evidence any Capital Expenditures being financed and/or reimbursed by means of the investments made pursuant to clause (i) of this Section 7.11(e); provided further that investments in Hoop Canada, Inc. made pursuant to this Section 7.11(e) shall not exceed $12,500,000 in the aggregate during the term of this Agreement or any extensions or renewals thereof;

(f) intercompany loans and advances or other intercompany Indebtedness (i) existing on the date hereof and described on Schedule 7.11(f) hereof, (ii) hereafter made by any Borrower to any other Borrower or Guarantor, or (iii) hereafter made by any Guarantor to any Borrower or any other Guarantor, provided that such intercompany loans, advances or other intercompany Indebtedness shall (x) be evidenced by such documentation as Agent may reasonably require, (y) constitute "Collateral" under this Agreement, and (z) be on terms (including subordination terms) reasonably acceptable to Agent; and

(g) intercompany loans and advances or other intercompany Indebtedness permitted by Section 7.1(h).

7.12 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of any Borrower except for: (a) transactions that are in the ordinary course of such Borrower's business, upon fair and reasonable terms, that are fully disclosed to Agent, and that are no less favorable to such Borrower than would be obtained in arm's length transaction with a non-Affiliate; (b) the employment agreement between Parent and Ezra Dabah; (c) transactions in connection with the Disney Stores Transaction, as otherwise contemplated by, and specified in this Agreement; (d) payment of insurance premiums to Twin Brook in an amount not to exceed $750,000 in any Fiscal Year; (e) transactions between Parent and Services Company in the ordinary course of business; and (f) (i) any intercompany Indebtedness permitted by Section 7.1(g), (ii) any intercompany loans and advances or other intercompany Indebtedness permitted by Sections 7.11(f) or 7.11(g), and (iii) any investments permitted by Section 7.11(e).

7.13 Suspension. Suspend or go out of a substantial portion of their business.

7.14 Change in Location of Chief Executive Office; Inventory and Equipment with Bailees. Relocate its chief executive office to a new location without providing 30 days prior written notification thereof to Agent and so long as, at the time of such written notification, Borrowers provide any financing statements or fixture filings necessary to perfect and continue perfected the Agent's Lien (for the benefit of the Lender Group) and also provides to Agent a Collateral Access Agreement with respect to such new location. The Inventory and Equipment shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without Agent's prior written consent.

8. EVENTS OF DEFAULT. Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

(a) If any Borrower fails to pay when due and payable or when declared due and payable, any portion of the Obligations (whether of L/C Disbursements, principal, interest, Letter of Credit Fees (including any interest or Letter of Credit Fees which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due the Lender Group, reimbursement of Lender Group Expenses, or other amounts constituting Obligations);

(b) If any Borrower fails or neglects to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement among Borrowers and the Lender Group; provided, however, that Borrowers' failure or neglect to comply with Article 6 hereof shall not constitute an Event of Default hereunder unless such failure or neglect continues for five days or more.

(c) If there is a material impairment of the prospect of repayment of any portion of the Obligations owing to the Lender Group or a material impairment of the value or priority of the Lender Group's security interests in the Collateral;

(d) If any material portion of Borrowers' properties or assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any third Person;

(e) If an Insolvency Proceeding is commenced by any Borrower;

(f) If an Insolvency Proceeding is commenced against any Borrower and any of the following events occur: (a) such Borrower consents to the institution of the Insolvency Proceeding against it; (b) the petition commencing the Insolvency Proceeding is not timely controverted; (c) the petition commencing the Insolvency Proceeding is not dismissed within 45 calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, the Lender Group shall be relieved of its obligation to extend credit hereunder; (d) an interim trustee is appointed to take possession of all or a substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, such Borrower; or (e) an order for relief shall have been issued or entered therein;

(g) If any Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

(h) If a notice of Lien, levy, or assessment is filed of record with respect to any of any Borrower's properties or assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a Lien, whether choate or otherwise, upon any of any Borrower's properties or assets and the same is not paid on the payment date thereof;

(i) If (a) an action or proceeding is brought against any Borrower which is reasonably likely to be decided adversely to such Borrower, and such adverse decision would materially impair the prospect of repayment of the Obligations or materially impair the value or priority of the Lender Group's security interests in the Collateral, or (b) if a judgment or other claim in excess of $500,000 becomes a lien or encumbrance upon any material portion of any Borrower's properties or assets and shall remain outstanding 30 days or longer;

(j) If there is a default in an agreement involving Indebtedness of $500,000, or more, or any material agreement to which any Borrower is a party with one or more third Persons resulting in a right by such third Persons, irrespective of whether exercised, to accelerate the maturity of such Borrower's obligations thereunder;

(k) If any Borrower makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations, except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness;

(l) If any material misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or report made to the Lender Group by any Borrower or any officer, employee, agent, or director of any Borrower, or if any such warranty or representation is withdrawn;

(m) If the obligation of any guarantor under its guaranty or other third Person under any Loan Document is limited or terminated by operation of law or by the guarantor or other third Person thereunder, or any such guarantor or other third Person becomes the subject of an Insolvency Proceeding; or

(n) If any "Event of Default" occurs under the Revolving Credit Agreement, (other than any such "Event of Default" that has been waived in writing by the Revolving Credit Agent and the "Required Lenders" under the Revolving Credit Agreement).

9. THE LENDER GROUP'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies.

Upon the occurrence, and during the continuation, of an Event of Default Agent may, or, at the request of the Required Lenders shall, pursuant to Sections 17.4 and 17.5, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrowers:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which Agent considers advisable, and in such cases, Agent will credit Borrowers' Loan Account with only the net amounts received by Agent in payment of such disputed Accounts after deducting all Lender Group Expenses incurred or expended in connection therewith;

(c) Cause Borrowers to hold all returned Inventory in trust for the Lender Group, segregate all returned Inventory from all other property of Borrowers or in Borrowers' possession and conspicuously label said returned Inventory as the property of the Lender Group;

(d) Without notice to or demand upon Borrowers or any guarantor, make such payments and do such acts as Agent considers necessary or reasonable to protect its security interests in the Collateral. Each Borrower agrees to assemble the Collateral if Agent so requires, and to make the Collateral available to Agent as Agent may designate. Each Borrower authorizes Agent to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or Lien that in Agent's determination appears to conflict with the Liens of Agent (for the benefit of the Lender Group) in the Collateral and to pay all expenses incurred in connection therewith. With respect to any of Borrowers' owned or leased premises, Borrowers hereby grant Agent a license to enter into possession of such premises and to occupy the same, without charge, for up to 120 days in order to exercise any of the Lender Group's rights or remedies provided herein, at law, in equity, or otherwise;

(e) Without notice to Borrowers (such notice being expressly waived), and without constituting a retention of any collateral in satisfaction of an obligation (within the meaning of Section 9-505 of the Code), set off and apply to the Obligations any and all (i) balances and deposits of Borrowers held by the Lender Group, or (ii) indebtedness at any time owing to or for the credit or the account of Borrowers held by the Lender Group;

(f) Hold, as cash collateral, any and all balances and deposits of Borrowers held by the Lender Group to secure the full and final repayment of all of the Obligations;

(g) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Agent is hereby granted a license or other right to use, without charge, Borrowers' labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and Borrowers' rights under all licenses and all franchise agreements shall inure to the Lender Group's benefit;

(h) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places

(including Borrowers' premises) as Agent determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale;

(i) Agent shall give notice of the disposition of the Collateral as follows:

(A) Agent shall give Administrative Borrower and each holder of a security interest in the Collateral who has filed with Agent a written request for notice, a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Collateral, then the time on or after which the private sale or other disposition is to be made;

(B) The notice shall be personally delivered or mailed, postage prepaid, to Administrative Borrower as provided in Section 12, at least 10 days before the date fixed for the sale, or at least 10 days before the date on or after which the private sale or other disposition is to be made; no notice needs to be given prior to the disposition of any portion of the Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market. Notice to Persons other than Borrowers claiming an interest in the Collateral shall be sent to such addresses as they have furnished to Agent;

(C) If the sale is to be a public sale, Agent also shall give notice of the time and place by publishing a notice one time at least 10 days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held;

(j) Agent may credit bid and purchase at any public sale;

(k) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrowers. Any excess will be returned, without interest and subject to the rights of third Persons, by Agent to Borrowers;

(l) In accordance with Section 2.1(c) of the Revolving Credit Agreement, to the extent the Borrowers have not provided cash collateral, releases, back-to-back letters of credit and/or other security reasonably acceptable to the Agent as contemplated by the first sentence of Section 2.6 hereof, Agent may provide notice to the Revolving Credit Agent of the occurrence of an Event of Default and instruct the Revolving Credit Agent to implement reserves under the Revolving Credit Agreement in an amount up to the Letter of Credit Outstandings hereunder.

9.2 Remedies Cumulative. The Lender Group's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. The Lender Group shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by the Lender Group of one right or remedy shall be deemed an election, and no waiver by the Lender Group of any Event of Default shall be deemed a continuing waiver. No delay by the Lender Group shall constitute a waiver, election, or acquiescence by it.

10. TAXES AND EXPENSES. If Borrowers fail to pay any monies (whether taxes, assessments, insurance premiums, or, in the case of leased properties or assets, rents or other amounts payable under such leases) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, to the extent that Agent determines that such failure by Borrowers could result in a Material Adverse Change, in its discretion and without prior notice to Borrowers, Agent may do any or all of the following: (a) make payment of the same or any part thereof; or (b) obtain and maintain insurance policies, and take any action with respect to such policies as Agent deems prudent. Any such amounts paid by Agent shall constitute Lender Group Expenses. Any such payments made by Agent shall not constitute an agreement by the Lender Group to make similar payments in the future or a waiver by the Lender Group of any Event of Default under this Agreement. Agent need not inquire as to, or contest the validity of, any such expense, tax, or Lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

11.1 Demand; Protest; etc. Each Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by the Lender Group on which such Borrower may in any way be liable.

11.2 The Lender Group's Liability for Collateral. So long as the Lender Group complies with its obligations, if any, under Section 9-207 of the Code, the Lender Group shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person. All risk of loss, damage, or destruction of the Collateral shall be borne by Borrowers.

11.3 Indemnification. Each Borrower shall pay, indemnify, defend, and hold each Agent-Related Person, each Lender, each Participant, and each of their respective officers, directors, employees, counsel, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all reasonable attorneys fees and disbursements and other costs and expenses actually incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them in connection with or as a result of or related to the execution, delivery, enforcement, performance, and administration of this Agreement and any other Loan Documents or the transactions contemplated herein, and with respect to any investigation, litigation, or proceeding related to this Agreement, any other Loan Document, or the use of the proceeds of the credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities"). Each Borrower shall have no obligation to any Indemnified Person under this Section 11.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement and the repayment of the Obligations.

12. NOTICES. Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), overnight courier, or telefacsimile to Administrative Borrower or to Agent, as the case may be, at its address set forth below:

If to Administrative Borrower:	**THE CHILDREN'S PLACE RETAIL STORES, INC.** 915 Secaucus Road Secaucus, New Jersey 07094 Attn: Chief Financial Officer Fax No. 201.558.2837
	THE CHILDREN'S PLACE RETAIL STORES, INC. 915 Secaucus Road Secaucus, New Jersey 07094 Attn: General Counsel Fax No. 201.558.2840
with copies to:	**STROOCK & STROOCK & LAVAN LLP** 180 Maiden Lane New York, New York 10038 Attn: Jeffrey S. Lowenthal, Esq. Fax No. 212.806.6006
If to Agent or the Lender Group in case	**WELLS FARGO RETAIL FINANCE, LLC** One Boston Place

of Agent:	Suite 1800 Boston, Massachusetts 02108 Attn: Michele Ayou Fax No. 617.523.4027
with copies to:	**RIEMER & BRAUNSTEIN LLP** Three Center Plaza Boston, Massachusetts 02108 Attn: Kevin J. Simard, Esq. Fax No. 617 880 3456

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 12, other than notices by Agent in connection with Sections 9-611 or 9-620 of the Code, shall be deemed received on the earlier of the date of actual receipt or three days after the deposit thereof in the mail. Borrowers acknowledge and agree that notices sent by Agent in connection with Sections 9-611 or 9-620 of the Code shall be deemed sent when deposited in the mail or personally delivered, or, where permitted by law, transmitted by telefacsimile or other similar method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER. THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN ANOTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF SUFFOLK, COMMONWEALTH OF MASSACHUSETTS OR, AT THE SOLE OPTION OF THE LENDER GROUP, IN ANY OTHER COURT IN WHICH THE LENDER GROUP SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 13. EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE

TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP REPRESENTS THAT IT HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. DESTRUCTION OF BORROWERS' DOCUMENTS. All documents, schedules, invoices, agings, or other papers delivered to Agent may be destroyed or otherwise disposed of by Agent four months after they are delivered to or received by Agent, unless Administrative Borrower requests, in writing, the return of said documents, schedules, or other papers and makes arrangements, at Borrowers' expense, for their return.

15. ASSIGNMENTS AND PARTICIPATIONS; SUCCESSORS.

15.1 Assignments and Participations.

(a) Any Lender may, with the written consent of Agent (and, if no Event of Default then exists and is continuing, the Administrative Borrower (each such consent shall not be unreasonably withheld or delayed)) assign and delegate to one or more Eligible Transferees (each an "Assignee") all, or any ratable part, of the Obligations, the Commitments, and the other rights and obligations of such Lender hereunder and under the other Loan Documents, in a minimum amount of $5,000,000; provided, however, that Borrowers and Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses, and related information with respect to the Assignee, shall have been given to Administrative Borrower and Agent by such Lender and the Assignee; (ii) such Lender and its Assignee shall have delivered to Administrative Borrower and Agent a fully executed Assignment and Acceptance ("Assignment and Acceptance") in the form of Exhibit A-1; and (iii) the assignor Lender or Assignee has paid to Agent for Agent's sole and separate account a processing fee in the amount of $5,000. Anything contained herein to the contrary notwithstanding, the consent of Agent and Administrative Borrower shall not be required (and payment of any fees shall not be required) if (i) such assignment is in connection with any merger, consolidation, sale, transfer, or other disposition of all or any substantial portion of the business or loan portfolio of the assigning Lender, or (ii) such assignment is to an Affiliate of the assigning Lender.

(b) From and after the date that Agent notifies the assignor Lender that it has received a fully executed Assignment and Acceptance and payment of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its

rights and be released from its obligations under this Agreement (and in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement and the other Loan Documents, such Lender shall cease to be a party hereto and thereto), and such assignment shall effect a novation between Borrowers and the Assignee.

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (1) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties, or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement or any other Loan Document furnished pursuant hereto; (2) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrowers or any guarantor or the performance or observance by Borrowers or any guarantor of any of its obligations under this Agreement or any other Loan Document furnished pursuant hereto; (3) such Assignee confirms that it has received a copy of this Agreement, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (4) such Assignee will, independently and without reliance upon Agent, such assigning Lender, or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (5) such Assignee appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (6) such Assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) Immediately upon each Assignee's making its processing fee payment under the Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments of the Assignor and Assignee arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitment of the assigning Lender pro tanto.

(e) Any Lender may at any time, with the written consent of Agent, which consent shall not be unreasonably withheld, (and, if no Event of Default then exists and is continuing, the Administrative Borrower (whose consent shall not be unreasonably withheld)) sell to one or more Persons (a "Participant") participating interests in the Obligations, the Commitment, and the other rights and interests of that Lender (the "Originating Lender") hereunder and under the other Loan Documents; provided, however, that (i) the Originating Lender's obligations under this Agreement shall remain unchanged, (ii) the Originating Lender shall remain solely responsible for the performance of such obligations, (iii) Borrowers and Agent shall continue to deal solely and directly with the Originating Lender in connection with the Originating Lender's rights and obligations under this Agreement and the other Loan Documents, (iv) no Originating Lender shall transfer or grant any participating interest under

which the Participant has the sole and exclusive right to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment to, or consent or waiver with respect to this Agreement or of any other Loan Document would (A) extend the final maturity date of the Obligations hereunder in which such Participant is participating; (B) reduce the interest rate applicable to the Obligations hereunder in which such Participant is participating; (C) release all or a material portion of the Collateral (except to the extent expressly provided herein or in any of the Loan Documents) supporting the Obligations hereunder in which such Participant is participating; (D) postpone the payment of, or reduce the amount of, the interest or fees hereunder in which such Participant is participating; or (E) change the amount or due dates of scheduled principal repayments or prepayments or premiums in respect of the Obligations hereunder in which such Participant is participating; and (v) all amounts payable by Borrowers hereunder shall be determined as if such Originating Lender had not sold such participation; except that, if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement; provided, however, that no Participant may exercise any such right of setoff without the notice to and consent of Agent. The rights of any Participant shall only be derivative through the Originating Lender with whom such Participant participates and no Participant shall have any direct rights as to the other Lenders, Agent, Borrowers, the Collections, the Collateral, or otherwise in respect of the Letters of Credit. No Participant shall have the right to participate directly in the making of decisions by the Lenders among themselves. The provisions of this Section 15.1(e) are solely for the benefit of the Lender Group, and Borrowers shall have no rights as a third party beneficiary of any of such provisions.

(f) In connection with any such assignment or participation or proposed assignment or participation, a Lender may disclose to a third party all documents and information which it now or hereafter may have relating to Borrowers or Borrowers' business.

(g) Notwithstanding any other provision in this Agreement, (i) any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR §203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law and the Administrative Borrower shall have no right to consent thereto, and (ii) the Agent shall not be entitled to consent to any assignment or participation arising as a result of the acquisition of a Lender or all or any portion of its loan portfolio by any other Person.

15.2 Successors. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Borrowers may not assign this Agreement or any rights or duties hereunder without the Lenders' prior written consent and any prohibited assignment shall be absolutely void. No consent to assignment by the Lenders shall release Borrowers from their Obligations. A Lender may assign this Agreement and its rights and duties hereunder pursuant to Section 15.1 and, except as expressly required pursuant to Section 15.1, no consent or approval by Borrowers is required in connection with any such assignment.

16. AMENDMENTS; WAIVERS.

16.1 Amendments and Waivers.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by Borrowers therefrom, shall be effective unless the same shall be in writing and signed by the Required Lenders (or by Agent at the written request of the Required Lenders) and Borrowers and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such waiver, amendment, or consent shall, unless in writing and signed by all the Lenders and Borrowers and acknowledged by Agent, do any of the following:

(a) increase or extend the Commitment of any Lender;

(b) increase the aggregate Commitments;

(c) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of L/C Disbursement, principal, Letter of Credit Fees, interest, fees, or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document;

(d) reduce the principal of, or the rate of interest specified herein on, any L/C Disbursement, or any Letter of Credit Fees or other fees or other amounts payable hereunder or under any other Loan Document;

(e) change the percentage of the Commitments, which is required for the Lenders or any of them to take any action hereunder;

(f) Amend Section 3.3;

(g) amend this Section or any provision of the Agreement providing for consent or other action by all Lenders;

(h) release Collateral other than as permitted by Section 17.11;

(i) change the definition of "Required Lenders";

(j) release any Borrower from any Obligation for the payment of money; or

(k) amend any of the provisions of Article 17;

and, provided further, that no amendment, waiver or consent shall, unless in writing and signed by Agent, affect the rights or duties of Agent under this Agreement or any other Loan Document. The foregoing notwithstanding, any amendment, modification, waiver, consent, termination, or release of or with respect to any provision of this Agreement or any other Loan Document that relates only to the relationship of the Lender Group among themselves, and that does not affect the rights or obligations of Borrowers, shall not require consent by or the agreement of Borrowers.

If any Lender does not Consent (a "Non-Consenting Lender") to a proposed amendment, waiver, consent or release with respect to any Loan Document that requires the consent of such Lender or the Required Lenders, Administrative Borrower may replace such Non-Consenting Lender in accordance with Section 16.2; provided that such amendment, waiver, consent or release can be effected as a result of the assignment contemplated by Section 16.2 (together with all other such assignments required by Administrative Borrower to be made pursuant to this paragraph).

16.2 Replacement of Non-Consenting Lenders. If any Lender is a Non-Consenting Lender, then the Borrowers may, at their sole expense and effort, upon notice to such Lender and Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 15.1), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an Eligible Transferee selected by Borrowers (with the consent of Agent, such consent not to be unreasonably withheld or delayed) that shall assume such obligations (which Eligible Transferee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Borrowers shall have paid to Agent the assignment fee specified in Section 15.1(a);

(b) such Lender shall have received payment of an amount equal to such Lender's Pro-Rata Share of the outstanding principal of all Obligations, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrowers (in the case of all other amounts); and

(c) such assignment does not conflict with applicable laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrowers to require such assignment and delegation cease to apply.

16.3 No Waivers; Cumulative Remedies. No failure by Agent or any Lender to exercise any right, remedy, or option under this Agreement, any other Loan Document, or any present or future supplement hereto or thereto, or in any other agreement between or among Borrowers and Agent and/or any Lender, or delay by Agent or any Lender in exercising the same, will operate as a waiver thereof. No waiver by Agent or any Lender will be effective

unless it is in writing, and then only to the extent specifically stated. No waiver by Agent or the Lenders on any occasion shall affect or diminish Agent's and each Lender's rights thereafter to require strict performance by Borrowers of any provision of this Agreement. Agent's and each Lender's rights under this Agreement and the other Loan Documents will be cumulative and not exclusive of any other right or remedy which Agent or any Lender may have.

17. AGENT; THE LENDER GROUP.

17.1 Appointment and Authorization of Agent.

Each Lender hereby designates and appoints Wells Fargo Retail as its Agent under this Agreement and the other Loan Documents and each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Agent agrees to act as such on the express conditions contained in this Article 17. The provisions of this Article 17 are solely for the benefit of Agent and the Lenders, and Borrowers shall not have any rights as a third party beneficiary of any of the provisions contained herein; provided, however, that the provisions of Sections 17.10, 17.11, and 17.17(d) also shall be for the benefit of Borrowers. Any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document notwithstanding, Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations, or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent. Except as expressly otherwise provided in this Agreement, Agent shall have and may use its sole discretion with respect to exercising or refraining from exercising any discretionary rights or taking or refraining from taking any actions which Agent is expressly entitled to take or assert under or pursuant to this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, or of any other provision of the Loan Documents that provides rights or powers to Agent, Lenders agree that Agent shall have the right to exercise the following powers as long as this Agreement remains in effect: (a) maintain, in accordance with its customary business practices, ledgers and records reflecting the status of the Letters of

Credit, L/C Disbursements, the Collateral, the Collections, and related matters; (b) execute and/or file any and all financing or similar statements or notices, amendments, renewals, supplements, documents, instruments, proofs of claim for Lenders, notices and other written agreements with respect to the Loan Documents; (c) exclusively receive, apply, and distribute the Collections as provided in the Loan Documents; (d) open and maintain such bank accounts and lock boxes as Agent deems necessary and appropriate in accordance with the Loan Documents for the foregoing purposes with respect to the Collateral and the Collections; (e) perform, exercise, and enforce any and all other rights and remedies of the Lender Group with respect to Borrowers, the Collateral, the Collections, or otherwise related to any of same as provided in the Loan Documents; and (f) incur and pay such Lender Group Expenses as Agent may deem necessary or appropriate for the performance and fulfillment of its functions and powers pursuant to the Loan Documents.

17.2 Delegation of Duties. Except as otherwise provided in this Section, Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees, or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects as long as such selection was made in compliance with this Section and without gross negligence or willful misconduct. The foregoing notwithstanding, Agent shall not make any material delegation of duties to subagents or non-employee delegees without the prior written consent of Required Lenders (it being understood that routine delegation of such administrative matters as filing financing statements, or conducting appraisals or audits, is not viewed as a material delegation that requires prior Required Lender approval).

17.3 Liability of Agent-Related Persons. None of the Agent-Related Persons shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or, (ii) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by Borrowers, or any Subsidiary or Affiliate of Borrowers, or any officer or director thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement, or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of Borrowers or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books, or records of Borrowers, or any of Borrowers' Subsidiaries or Affiliates.

17.4 Reliance by Agent. Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex, or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent, or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Borrowers or counsel to any Lender), independent accountants, and other experts selected by Agent. Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders or all Lenders, as applicable, and until such instructions are received, Agent shall act, or refrain from acting, as it deems advisable so long as it is not grossly negligent or guilty of willful misconduct. If Agent so requests, it shall first be indemnified to its reasonable satisfaction by Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders or all Lenders, as applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

17.5 Notice of Default or Event of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest, fees, and expenses required to be paid to Agent for the account of Agent or the Lenders, except with respect to actual knowledge of the existence of an Overadvance, and except with respect to Defaults and Events of Default of which Agent has actual knowledge, unless Agent shall have received written notice from a Lender or a Borrower referring to this Agreement, describing such Default or Event of Default, and stating that such notice is a "notice of default." Agent promptly will notify the Lenders of its receipt of any such notice or of any Event of Default of which Agent has, or is deemed to have, actual knowledge. If any Lender obtains actual knowledge of any Event of Default, such Lender promptly shall notify the other Lenders and Agent of such Event of Default. Each Lender shall be solely responsible for giving any notices to its Participants, if any. Subject to Section 17.4, Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders; provided, however, that:

(a) At all times, Agent may propose and, with the consent of Required Lenders (which shall not be unreasonably withheld and which shall be deemed to have been given by a Lender unless such Lender has notified Agent to the contrary in writing within three days of notification of such proposed actions by Agent) exercise, any remedies on behalf of the Lender Group; and

(b) At all times, once Required Lenders or all Lenders, as the case may be, have approved the exercise of a particular remedy or pursuit of a course of action, Agent may, but shall not be obligated to, make all administrative decisions in connection therewith or take all other actions reasonably incidental thereto (for example, if the Required Lenders approve the foreclosure of certain Collateral, Agent shall not be required to seek consent for the administrative aspects of conducting such sale or handling of such Collateral).

17.6 Credit Decision. Each Lender acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by Agent hereinafter taken, including any review of the affairs of Borrowers and their Subsidiaries or Affiliates, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition, and creditworthiness of Borrowers and any other Person (other than the Lender Group) party to a Loan Document, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrowers. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals, and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition, and creditworthiness of Borrowers, and any other Person (other than the Lender Group) party to a Loan Document. Except for notices, reports, and other documents expressly herein required to be furnished to the Lenders by Agent, Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition, or creditworthiness of Borrowers, and any other Person party to a Loan Document that may come into the possession of any of the Agent-Related Persons.

17.7 Costs and Expenses; Indemnification. Agent may incur and pay Lender Group Expenses to the extent Agent deems reasonably necessary or appropriate for the performance and fulfillment of its functions, powers, and obligations pursuant to the Loan Documents, including without limiting the generality of the foregoing, but subject to any requirements of the Loan Documents that it obtain any applicable consents or engage in any required consultation, court costs, reasonable attorneys fees and expenses, costs of collection by outside collection agencies and auctioneer fees and costs of security guards or insurance premiums paid to maintain the Collateral, whether or not Borrowers are obligated to reimburse Agent or Lenders for such expenses pursuant to this Agreement or otherwise. Agent is authorized and directed to deduct and retain sufficient amounts from Collections to reimburse Agent for such out-of-pocket costs and expenses prior to the distribution of any amounts to Lenders. In the event Agent is not reimbursed for such costs and expenses from Collections, each Lender hereby agrees that it is and shall be obligated to pay to or reimburse Agent for the amount of such Lender's Pro Rata Share thereof. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of Borrowers and without limiting the obligations of Borrowers to do so), according to their Pro Rata Shares, from and against any and all Indemnified Liabilities; provided, however, that no Lender shall be liable for the payment to the Agent-Related Persons of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence, bad faith, or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including attorney fees and expenses) incurred by Agent in connection with the preparation,

execution, delivery, administration, modification, amendment, or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that Agent is not reimbursed for such expenses by or on behalf of Borrowers. The undertaking in this Section 17.7 shall survive the payment of all Obligations hereunder and the resignation or replacement of Agent.

17.8 Agent in Individual Capacity. Wells Fargo Retail and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests, in and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with Borrowers and its Subsidiaries and Affiliates and any other Person party to any Loan Documents as though Wells Fargo Retail were not Agent hereunder without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, Wells Fargo Retail and its Affiliates may receive information regarding Borrowers or their Affiliates and any other Person party to any Loan Documents that is subject to confidentiality obligations in favor of Borrowers or such other Person and that prohibit the disclosure of such information to the Lenders, and the Lenders acknowledge that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver Agent will use its reasonable best efforts to obtain), Agent shall be under no obligation to provide such information to them.

17.9 Successor Agent. Agent may resign as Agent following notice of such resignation ("Notice") to the Lenders and Administrative Borrower, and effective upon the appointment of and acceptance of such appointment by, a successor Agent. If Agent resigns under this Agreement, the Required Lenders shall appoint any Lender or Eligible Transferee as successor Agent for the Lenders. If no successor Agent is appointed within 30 days of such retiring Agent's Notice, Agent may appoint a successor Agent, after consulting with the Lenders and Administrative Borrower. In any such event, upon the acceptance of its appointment as successor Agent hereunder, such successor Agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "Agent" shall mean such successor Agent and the retiring Agent's appointment, powers, and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 17 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

17.10 Withholding Tax.

(a) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the IRC and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the IRC, such Lender agrees with and in favor of Agent and Borrowers, to deliver to Agent and Borrowers:

(i) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Forms W-8BEN before the payment of any interest in the first calendar year and before the payment of any interest in each third succeeding calendar year during which interest may be paid under this Agreement;

(ii) if such Lender claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, two properly completed and executed copies of IRS Form W-8ECI before the payment of any interest is due in the first taxable year of such Lender and in each succeeding taxable year of such Lender during which interest may be paid under

this Agreement, and IRS Form W-9; and

(iii) such other form or forms as may be required under the IRC or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Such Lender agrees to promptly notify Agent and Borrowers of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form W-8BEN and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of Borrowers, such Lender agrees to notify Agent and Borrowers of the percentage amount in which it is no longer the beneficial owner of Obligations of Borrowers to such Lender. To the extent of such percentage amount, Agent and Borrowers will treat such Lender's IRS Form W-8BEN as no longer valid.

(c) If any Lender claiming exemption from United States withholding tax by filing IRS Form W-8ECI with Agent sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of Borrowers to such Lender, such Lender agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the IRC.

(d) If any Lender is entitled to a reduction in the applicable withholding tax, Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not delivered to Agent, then Agent may withhold from any interest payment to such Lender not providing such forms or other documentation an amount equivalent to the applicable withholding tax.

(e) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that Agent or Borrowers did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify Agent and Borrowers of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify Agent and Borrowers fully for all amounts paid, directly or indirectly, by Agent or Borrowers as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to Agent or Borrowers under this Section, together with all costs and expenses (including attorneys fees and expenses). The obligation of the Lenders under this subsection shall survive the payment of all Obligations and the resignation of Agent.

17.11 Collateral Matters.

(a) The Lenders hereby irrevocably authorize Agent, to release any Lien on any Collateral (i) upon the termination of the Commitments and payment and satisfaction in full by Borrowers of all Obligations; and upon such termination and payment Agent shall deliver to Administrative Borrower, at Administrative Borrower's sole cost and expense, all UCC termination statements and any other documents necessary to terminate the Loan Documents and release the Liens with respect to the Collateral; (ii) constituting property being sold or disposed of if a release is required or desirable in connection therewith and if Administrative Borrower certifies to Agent that the sale or disposition is permitted under Section 7.4 of this Agreement or the other Loan Documents (and Agent may rely conclusively on any such certificate, without further inquiry); (iii) constituting property in which Borrowers owned no interest at the time the Lien was granted or at any time thereafter; or (iv) constituting property leased to Borrowers under a lease that has expired or been terminated in a transaction permitted under this Agreement. Except as provided above, Agent will not release any Lien on any Collateral without the prior written authorization of the Lenders. Upon request by Agent or Administrative Borrower at any time, the Lenders will confirm in writing Agent's authority to release any such Liens on particular types or items of Collateral pursuant to this Section 17.11; provided, however, that (i) Agent shall not be required to execute any document necessary to evidence such release on terms that, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Lien without recourse, representation, or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Obligations or any Liens (other than those expressly being released), upon (or obligations of Borrowers in respect of) all interests retained by Borrowers, including, the proceeds of any sale, all of which shall continue to constitute part of the Collateral.

(b) Agent shall have no obligation whatsoever to any of the Lenders to assure that the Collateral exists or is owned by Borrowers, is cared for, protected, or insured or has been encumbered, or that the Liens of the Agent (for the benefit of the Lender Group) have been properly or sufficiently or lawfully created, perfected, protected, or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure, or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent pursuant to any of the Loan Documents, it being understood and agreed that in respect of the Collateral, or any act, omission or event related thereto, subject to the terms and conditions contained herein, Agent may act in any manner it may deem appropriate, in its sole discretion given Agent's own interest in the Collateral in its capacity as one of the Lenders and that Agent shall have no other duty or liability whatsoever to any Lender as to any of the foregoing, except as otherwise provided herein.

17.12 Restrictions on Actions by Lenders; Sharing of Payments.

(a) Each of the Lenders agrees that it shall not, without the express consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the request of Agent, set off against the Obligations any amounts owing by such Lender to Borrowers or any accounts of Borrowers now or hereafter maintained with such Lender. Each of the Lenders further agrees that it shall not, unless specifically requested to do so by Agent, take or cause to be taken any

action, including the commencement of any legal or equitable proceedings, to foreclose any Lien on, or otherwise enforce any security interest in, any of the Collateral the purpose of which is, or could be, to give such Lender any preference or priority against the other Lenders with respect to the Collateral.

(b) Subject to Section 17.8, if, at any time or times any Lender shall receive (i) by payment, foreclosure, setoff, or otherwise, any proceeds of Collateral or any payments with respect to the Obligations of Borrowers to such Lender arising under, or relating to, this Agreement or the other Loan Documents, except for any such proceeds or payments received by such Lender from Agent pursuant to the terms of this Agreement, or (ii) payments from Agent in excess of such Lender's Pro Rata Share of all such distributions by Agent, such Lender shall promptly (1) turn the same over to Agent, in kind, and with such endorsements as may be required to negotiate the same to Agent, or in same day funds, as applicable, for the account of all of the Lenders and for application to the Obligations in accordance with the applicable provisions of this Agreement, or (2) purchase, without recourse or warranty, an undivided interest and participation in the Obligations owed to the other Lenders so that such excess payment received shall be applied ratably as among the Lenders in accordance with their Pro Rata Shares; provided, however, that if all or part of such excess payment received by the purchasing party is thereafter recovered from it, those purchases of participations shall be rescinded in whole or in part, as applicable, and the applicable portion of the purchase price paid therefor shall be returned to such purchasing party, but without interest except to the extent that such purchasing party is required to pay interest in connection with the recovery of the excess payment.

17.13 Agency for Perfection. Agent and each Lender hereby appoints each other Lender as agent for the purpose of perfecting the Liens of the Lender Group in assets which, in accordance with Article 9 of the UCC can be perfected only by possession. Should any Lender obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver such Collateral to Agent or in accordance with Agent's instructions.

17.14 Payments by Agent to the Lenders. All payments to be made by Agent to the Lenders shall be made by bank wire transfer or internal transfer of immediately available funds pursuant to the instructions set forth on Schedule C-1, or pursuant to such other wire transfer instructions as each party may designate for itself by written notice to Agent. Concurrently with each such payment, Agent shall identify whether such payment (or any portion thereof) represents Letter of Credit Fees, principal, premium or interest or otherwise.

17.15 Concerning the Collateral and Related Loan Documents. Each member of the Lender Group authorizes and directs Agent to enter into this Agreement and the other Loan Documents relating to the Collateral, for the ratable benefit (subject to Section 4.1) of the Lender Group. Each member of the Lender Group agrees that any action taken by Agent, Required Lenders, or all Lenders, as applicable, in accordance with the terms of this Agreement or the other Loan Documents relating to the Collateral and the exercise by Agent, Required Lenders, or all Lenders, as applicable, of their respective powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all of the Lenders.

17.16 Confidentiality. By signing this Agreement, each Lender agrees to keep all material information obtained by it pursuant to the requirements of this Agreement in accordance with its reasonable customary procedures for handling confidential information; it being understood and agreed by Borrowers that in any event such Lender may make disclosures (i) reasonably required by any bona fide potential or actual Assignee, transferee, or Participant in connection with any contemplated or actual assignment or transfer by such Lender of an interest herein or any participation interest in such Lender's rights hereunder, (ii) of information that has become public by disclosures made by Persons other than such Lender, its Affiliates, assignees, transferees, or participants, (iii) as required or requested by any court, governmental or administrative agency, pursuant to any subpoena or other legal process, or by any law, statute, regulation, or court order, or (iv) to examiners, auditors, and investigators having regulatory authority over such Lender; provided, however, that, unless prohibited by applicable law, statute, regulation, or court order, such Lender shall notify Administrative Borrower of any request by any court, governmental or administrative agency, or pursuant to any subpoena or other legal process, for disclosure of any non-public material information pursuant to clause (iii) of this Section 17.16 concurrent with, or where practicable, prior to the disclosure thereof.

17.17 Several Obligations; No Liability. Notwithstanding that certain of the Loan Documents now or hereafter may have been or will be executed only by or in favor of Agent in its capacity as such, and not by or in favor of the Lenders, any and all obligations on the part of Agent (if any) to issue any Letter of Credit shall constitute the several (and not joint) obligations of the respective Lenders on a ratable basis, according to their respective Commitments, to issue Letters of Credit provided that the Letter of Credit Outstanding does not exceed the amount of their respective Commitments. Nothing contained herein shall confer upon any Lender any interest in, or subject any Lender to any liability for, or in respect of, the business, assets, profits, losses, or liabilities of any other Lender. Each Lender shall be solely responsible for notifying its Participants of any matters relating to the Loan Documents to the extent any such notice may be required, and no Lender shall have any obligation, duty, or liability to any Participant of any other Lender. Except as provided in Section 17.7, no member of the Lender Group shall have any liability for the acts of any other member of the Lender Group. No Lender shall be responsible to Borrowers or any other Person for any failure by any other Lender to fulfill its obligations to issue Letters of Credit, nor to advance for it or on its behalf in connection with its Commitment, nor to take any other action on its behalf hereunder or in connection with the financing contemplated herein.

17.18 Documentation Agent; Co-Agent.

Notwithstanding the provisions of this Agreement or any of the other Loan Documents, Wachovia Capital Finance Corporation (New England) (in its capacity as Documentation Agent, as opposed to its capacity as a Lender), and LaSalle Retail Finance, a division of LaSalle Business Credit LLC (in its capacity as Co-Agent, as opposed to its capacity as a Lender) shall have no powers, rights, duties, responsibilities, or liabilities with respect to this Agreement and the other Loan Documents, nor shall Wachovia Capital Finance Corporation (New England) or LaSalle Retail Finance, a division of LaSalle Business Credit LLC have or be deemed to have any fiduciary relationship with any Lender.

18. GENERAL PROVISIONS.

18.1 Effectiveness.

This Agreement shall be binding and deemed effective when executed by Borrowers and the Lender Group.

18.2 Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

18.3 Interpretation. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against the Lender Group or Borrowers, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

18.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

18.5 Counterparts; Telefacsimile Execution. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

18.6 Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by Borrowers or any guarantor of the Obligations or the transfer by any or all of such parties to the Lender Group of any property of either or both of such parties should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if the Lender Group is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Lender Group is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of the Lender Group related thereto, the liability of Borrowers or such guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

18.7 Integration. This Agreement, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof.

18.8 Parent as Agent for Borrowers. Each Borrower hereby irrevocably appoints Parent as the borrowing agent and attorney-in-fact for all Borrowers (the "Administrative Borrower") which appointment shall remain in full force and effect unless and until Agent shall have received prior written notice signed by each Borrower that such appointment has been revoked and that another Borrower has been appointed Administrative Borrower. Each Borrower hereby irrevocably appoints and authorizes the Administrative Borrower (i) to provide Agent with all notices with respect to Letters of Credit obtained for the benefit of any Borrower and all other notices and instructions under this Agreement and (ii) to take such action as the Administrative Borrower deems appropriate on its behalf to obtain Letters of Credit and to exercise such other powers as are reasonably incidental thereto to carry out the purposes of this Agreement. It is understood that the handling of the Loan Account and Collateral of Borrowers in a combined fashion, as more fully set forth herein, is done solely as an accommodation to Borrowers in order to utilize the collective borrowing powers of Borrowers in the most efficient and economical manner and at their request, and that Lender Group shall not incur liability to any Borrower as a result hereof. Each Borrower expects to derive benefit, directly or indirectly, from the handling of the Loan Account and the Collateral in a combined fashion since the successful operation of each Borrower is dependent on the continued successful performance of the integrated group. To induce the Lender Group to do so, and in consideration thereof, each Borrower hereby jointly and severally agrees to indemnify each member of the Lender Group and hold each member of the Lender Group harmless against any and all liability, expense, loss or claim of damage or injury, made against the Lender Group by any Borrower or by any third party whosoever, arising from or incurred by reason of (a) the handling of the Loan Account and Collateral of Borrowers as herein provided, (b) the Lender Group's relying on any instructions of the Administrative Borrower, or (c) any other action taken by the Lender Group hereunder or under the other Loan Documents, except that Borrowers will have no liability to the relevant Agent-Related Person or Lender-Related Person under this Section 18.8 with respect to any liability that has been finally determined by a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of such Agent-Related Person or Lender-Related Person, as the case may be.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date set forth in the first paragraph of this Agreement.

THE CHILDREN'S PLACE RETAIL STORES, INC., a Delaware corporation

By: _____
Name: Susan Riley
Title: Executive Vice President - Finance and Administration

THE CHILDREN'S PLACE SERVICES COMPANY LLC, a Delaware limited liability company

By: _____
Name: Susan Riley
Title: Senior Vice President, Chief Financial Officer and Treasurer

WELLS FARGO RETAIL FINANCE, LLC, as Agent and as a Lender

By: _____
Name: Michele Ayou
Title: Vice President

WELLS FARGO BANK, N.A., as Issuing Bank

By: _____
Name: _____
Title: _____

WACHOVIA CAPITAL FINANCE CORPORATION (NEW ENGLAND), as Documentation Agent and as a Lender

By: _____
Name: _____
Title: _____

LASALLE RETAIL FINANCE,
a Division of LaSalle Business Credit, LLC,
as Agent for Standard Federal Bank National Association, as Co-Agent and as a Lender

By: _____
Name: _____
Title: _____

JPMORGAN CHASE BANK, N.A., as a Lender

By: _____
Name: _____
Title: _____

CITICORP USA, INC., as a Lender

By: _____
Name: _____
Title: _____

HSBC BANK USA, NATIONAL ASSOCIATION, as a Lender

By: _____
Name: _____
Title: _____

SCHEDULE C-1

COMMITMENTS

1.	Wells Fargo Retail Finance, LLC	$	18,600,000
2.	Wachovia Capital Finance Corporation (New England)	$	12,000,000
3.	LaSalle Retail Finance, a division of LaSalle Business Credit, LLC, as Agent for Standard Federal Bank National Association	$	12,000,000
4.	JPMorgan Chase Bank, N.A.	$	6,000,000
5.	Citicorp USA, Inc.	$	6,000,000
6.	HSBC Bank USA, National Association	$	5,400,000
Total		$	60,000,000

EXHIBIT A-1

FORM OF ASSIGNMENT AND ACCEPTANCE

This ASSIGNMENT AND ACCEPTANCE (this "Assignment and Acceptance") dated as of , 200 is made between (the "Assignor") and (the "Assignee").

RECITALS

A. The Assignor is party to that certain Letter of Credit Agreement, dated as of June 28, 2007 (as amended, amended and restated, modified, supplemented or renewed from time to time, the "Loan Agreement"), among The Children's Place Retail Stores, Inc. and The Children's Place Services Company LLC ("Borrowers"), the several financial institutions from time to time party thereto (including the Assignor, collectively, the "Lenders"), Wells Fargo Retail Finance LLC, a Delaware limited liability company, as agent for the Lenders (the "Agent"). Any terms defined in the Loan Agreement and not defined in this Assignment and Acceptance are used herein as defined in the Loan Agreement;

B. [The Assignor has acquired a participation in the Agent's liability under Letters of Credit in an aggregate outstanding principal amount of $ (the "L/C Obligations")] [No Letters of Credit are outstanding under the Loan Agreement]; and

C. The Assignor wishes to assign to the Assignee [part of the] [all] rights and obligations of the Assignor under the Loan Agreement in respect of its Commitment, [together with a corresponding portion of each of its outstanding L/C Obligations,] in an amount equal to $ (the "Assigned Amount") on the terms and subject to the conditions set forth herein and the Assignee wishes to accept assignment of such rights and to assume such obligations from the Assignor on such terms and subject to such conditions.

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

1. Assignment and Acceptance.

(a) Subject to the terms and conditions of this Assignment and Acceptance, (i) the Assignor hereby sells, transfers, delegates, and assigns to the Assignee, and (ii) the Assignee hereby purchases, assumes and undertakes from the Assignor, without recourse and without representation or warranty (except as provided in this Assignment and Acceptance) % (the "Assignee's Percentage Share") of (A) the Commitment [and the L/C Obligations] of the Assignor and (B) all related rights, benefits, obligations, liabilities and indemnities of the Assignor under and in connection with the Loan Agreement and the other Loan Documents.

[If appropriate, add paragraph specifying payment to Assignor by Assignee of outstanding principal of, accrued interest on, and fees with respect to, L/C Obligations assigned.]

(b) With effect on and after the Effective Date (as defined in Section 5 hereof), the Assignee shall be a party to the Loan Agreement and succeed to all of the rights and be obligated to perform all of the obligations of a Lender under the Loan Agreement, including the requirements concerning confidentiality (if any) and the payment of indemnification to the Agent, with a Commitment in an amount equal to the Assigned Amount. The Assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Agreement are required to be performed by it as a Lender. It is the intent of the parties hereto that the Commitment of the Assignor shall, as of the Effective Date, be reduced by an amount equal to the Assigned Amount and the Assignor shall relinquish its rights and be released from its obligations under the Loan Agreement to the extent such obligations have been assumed by the Assignee; provided, however, the Assignor shall not relinquish the rights under the Loan Agreement to the extent such rights relate to the time prior to the Effective Date.

(c) After giving effect to the assignment and assumption set forth herein, on the Effective Date the Assignee's Commitment will be $_____.

(d) After giving effect to the assignment and assumption set forth herein, on the Effective Date the Assignor's Commitment will be $_____.

2. Payments.

(a) As consideration for the sale, assignment and transfer contemplated in Section 1 hereof, the Assignee shall pay to the Assignor on the Effective Date in immediately available funds an amount equal to $, representing the Assignee's Percentage Share of the principal amount of all L/C Outstandings.

(b) The [Assignor] [Assignee] further agrees to pay to the Agent a processing fee in the amount of ($), as specified in Section 15.1(a) of the Loan Agreement.

3. Reallocation of Payments.

Any interest, fees and other payments accrued to the Effective Date with respect to the Commitment [,] [and] and L/C Obligations shall be for the account of the Assignor. Any interest, fees and other payments accrued on and after the Effective Date with respect to the Assigned Amount shall be for the account of the Assignee. Each of the Assignor and the Assignee agrees that it will hold in trust for the other party any interest, fees and other amounts which it may receive to which the other party is entitled pursuant to the preceding sentence and pay to the other party any such amounts which it may receive promptly upon receipt.

4. Independent Credit Decision.

The Assignee (a) acknowledges that it has received a copy of the Loan Agreement and the Schedules and Exhibits thereto, together with copies of the most recent financial statements referred to in Section 6.3 of the Loan Agreement, and such other documents and information as it has deemed appropriate to make its own credit and legal analysis

and decision to enter into this Assignment and Acceptance; and (b) agrees that it will, independently and without reliance upon the Assignor, the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit and legal decisions in taking or not taking action under the Loan Agreement.

5. Effective Date; Notices.

(a) As between the Assignor and the Assignee, the effective date for this Assignment and Acceptance (the "Effective Date") shall be the later of: (i) , and (ii) the first day on which the following conditions precedent have been satisfied:

(i) Assignment and Acceptance shall be executed and delivered by the Assignor and the Assignee;

(ii) the consent of the Agent required for an effective assignment of the Assigned Amount by the Assignor to the Assignee under Section 15.1(a) of the Loan Agreement shall have been duly obtained and shall be in full force and effect as of the Effective Date;

(iii) the Assignee shall pay to the Assignor all amounts due to the Assignor under this Assignment and Acceptance;

(iv) the processing fee referred to in Section 2(b) hereof and in Section 15.1 of the Loan Agreement in the amount of ($), shall have been paid to the Agent; and

(v) the Assignor shall have assigned and the Assignee shall have assumed a percentage equal to the Assignee's Percentage Share of the rights and obligations of the Assignor under the Loan Agreement.

(b) Promptly following the execution of this Assignment and Acceptance, the Assignor shall deliver to the Administrative Borrower and the Agent for acknowledgement by the Agent, a Notice of Assignment [substantially] in the form attached hereto as Schedule 1.

6. Agent.

[(a)] The Assignee hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Agreement as are delegated to the Agent by the Lenders pursuant to the terms of the Loan Agreement.

[INCLUDE ONLY IF ASSIGNOR IS AGENT] [(b) The Assignee shall assume no duties or obligations held by the Assignor in its capacity as Agent under the Loan Agreement.]

7. Withholding Tax.

The Assignee (a) represents and warrants to the Lenders, the Agent and the Borrowers that under applicable law and treaties no tax will be required to be withheld by the Lenders with respect to any payments to be made to the Assignee hereunder, (b) agrees to furnish (if it is organized under the laws of any jurisdiction other than the United States or any State thereof) to the Agent and the Borrowers prior to the time that the Agent or the Borrowers are required to make any payment of principal, interest or fees hereunder, duplicate executed originals of either U.S. Internal Revenue service Form 4224 or U.S. Internal Revenue Service Form 1001 (wherein the Assignee claims entitlement to the benefits of a tax treaty that provides for a complete exemption from U.S. federal income withholding tax on all payments hereunder) and agrees to provide new Forms 4224 or 1001 upon the expiration of any previously delivered form or comparable statements in accordance with all applicable U.S. laws and regulations and amendments thereto, duly executed and completed by the Assignee, and (c) agrees to comply with all applicable U.S. laws and regulations with regard to such withholding tax exemption.

8. Representations and Warranties.

(a) The Assignor represents and warrants that (i) it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any lien or other adverse claim; (ii) it is duly organized and existing and it has the full power and authority to take, and has taken, all action necessary to execute and deliver this Assignment and Acceptance and any other documents required or permitted to be executed or delivered by it in connection with this Assignment and Acceptance and to fulfill its obligations hereunder; (iii) no notices to, or consents, authorizations or approvals of, any person are required (other than any already given or obtained) for its due execution, delivery and performance of this Assignment and Acceptance, and apart from any agreements or undertakings or filings required by the Loan Agreement, no further action by, or notice to, or filing with, any person is required of it for such execution, delivery or performance; and (iv) this Assignment and Acceptance has been duly executed and delivered by it and constitutes the legal, valid and binding obligation of the Assignor, enforceable against the Assignor in accordance with the terms hereof, subject, as to enforcement, to bankruptcy, insolvency, moratorium, reorganization and other laws of general application relating to or affecting creditors' rights and to general equitable principles.

(b) The Assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Agreement or any other instrument or document furnished pursuant thereto. The Assignor makes no representation or warranty in connection with, and assumes no responsibility with respect to, the financial condition of the Borrowers, or the performance or observance by the Borrowers, of any of its obligations under the Loan Agreement or any other instrument or document furnished in connection therewith.

(c) The Assignee represents and warrants that (i) it is duly organized and existing and is an Eligible Transferee and it has full power and authority to take, and has taken, all action necessary to execute and deliver this Assignment and Acceptance and any other

documents required or permitted to be executed or delivered by it in connection with this Assignment and Acceptance, and to fulfill its obligations hereunder; (ii) no notices to, or consents, authorizations or approvals of, any person are required (other than any already given or obtained) for its due execution, delivery and performance of this Assignment and Acceptance; and apart from any agreements or undertakings or filings required by the Loan Agreement, no further action by, or notice to, or filing with any person is required of it for such execution, delivery or performance; (iii) this Assignment and Acceptance has been duly executed and delivered by it and constitutes the legal, valid and binding obligation of the Assignee, enforceable against the Assignee in accordance with the terms hereof, subject, as to enforcement, to bankruptcy, insolvency, moratorium, reorganization and other laws of general application relating to or affecting creditors' rights and to general equitable principles.

9. Further Assurances.

The Assignor and the Assignee each hereby agrees to execute and deliver such other instruments, and take such other action, as either party may reasonably request in connection with the transactions contemplated by this Assignment and Acceptance, including the delivery of any notices or other documents or instruments to the Administrative Borrower or the Agent, which may be required in connection with the assignment and assumption contemplated hereby.

10. Miscellaneous.

(a) Any amendment or waiver of any provision of this Assignment and Acceptance shall be in writing and signed by the parties hereto. No failure or delay by either party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof and any waiver of any breach of the provisions of this Assignment and Acceptance shall be without prejudice to any rights with respect to any other or further breach thereof.

(b) All payments made hereunder shall be made without any set-off or counterclaim.

(c) The Assignor and the Assignee shall each pay its own costs and expenses incurred in connection with the negotiation, preparation, execution and performance of this Assignment and Acceptance.

(d) This Assignment and Acceptance may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

(e) THIS ASSIGNMENT AND ACCEPTANCE SHALL BE DEEMED TO HAVE BEEN MADE IN THE STATE OF CALIFORNIA AND SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF SUCH STATE, EXCEPT THAT NO DOCTRINE OF CHOICE OF LAW SHALL BE USED TO APPLY THE LAWS OF ANY OTHER STATE OR JURISDICTION. The Assignor and Assignee each agrees that, in addition to any other courts that may have jurisdiction under applicable laws or rules, any action or proceeding to enforce or arising out of this Assignment

and Acceptance may be commenced in the Superior Court of the State of California for Los Angeles County, or in the United States District Court for the Central District of California, and the Assignor and Assignee each consents and submits in advance to such jurisdiction and agrees that venue will be proper in such courts on any such matter. Each party to this Assignment and Acceptance hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding.

(f) THE ASSIGNOR AND THE ASSIGNEE EACH HEREBY WAIVES TRIAL BY JURY, RIGHTS OF SETOFF, AND THE RIGHT TO IMPOSE COUNTERCLAIMS IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS ASSIGNMENT AND ACCEPTANCE, THE LOAN AGREEMENT, ANY RELATED DOCUMENTS AND AGREEMENTS OR ANY COURSE OF CONDUCT, COURSE OF DEALING, OR STATEMENTS (WHETHER ORAL OR WRITTEN) DELIVERED PURSUANT HERETO OR THERETO, OR ANY OTHER CLAIM OR DISPUTE HOWSOEVER ARISING, BETWEEN THE ASSIGNOR AND THE ASSIGNEE. THE ASSIGNOR AND THE ASSIGNEE EACH CONFIRMS THAT THE FOREGOING WAIVERS ARE INFORMED AND FREELY MADE.

[Other provisions to be added as may be negotiated between the Assignor and the Assignee, provided that such provisions are not inconsistent with the Loan Agreement.]

IN WITNESS WHEREOF, the Assignor and the Assignee have caused this Assignment and Acceptance to be executed and delivered by their duly authorized officers as of the date first above written.

[ASSIGNOR]

By: _____
Title: _____
By: _____
Title: _____
Address: _____

[ASSIGNEE]

By: _____
Title: _____
By: _____
Title: _____
Address: _____

SCHEDULE 1
NOTICE OF ASSIGNMENT AND ACCEPTANCE

, 200

Wells Fargo Retail Finance, LLC
One Boston Place, Suite 1800
Boston, Massachusetts 02108

Attn:

[Name and Address of Borrowers]

Ladies and Gentlemen:

We refer to the Letter of Credit Agreement, dated as of June 28, 2007 (as amended, amended and restated, modified, supplemented or renewed from time to time, the "Letter of Credit Agreement"), among The Children's Place Retail Stores, Inc. and The Children's Place Services Company, LLC ("Borrowers"), the several financial institutions from time to time party thereto (collectively, the "Lenders"), and Wells Fargo Retail Finance LLC, as agent for the Lenders (the "Agent"). Terms defined in the Letter of Credit Agreement are used herein as therein defined.

1. We hereby give you notice of, and request your consent to, the assignment by (the "Assignor") to (the "Assignee") of % of the right, title and interest of the Assignor in and to the Letter of Credit Agreement (including, without limitation, the right, title and interest of the Assignor in and to the Commitments of the Assignor[,] [and] all outstanding loans made by the Assignor [and the Assignor's participation in the Letters of Credit]) pursuant to the Assignment and Acceptance Agreement attached hereto (the "Assignment and Acceptance"). Before giving effect to such assignment, the Assignor's Commitment is $ [,] [and] the aggregate amount of its participation in L/C Obligations is $].

2. The Assignee agrees that, upon receiving the consent of the Agent to such assignment, the Assignee will be bound by the terms of the Letter of Credit Agreement as fully and to the same extent as if the Assignee were the Lender originally holding such interest in the Loan Agreement.

3. The following administrative details apply to the Assignee:

(A) Notice Address:

Assignee name:

Address:

(B) Payment Instructions:

Account No.:

At:

Reference:

Attention:

4. You are entitled to rely upon the representations, warranties and covenants of each of the Assignor and Assignee contained in the Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused this Notice of Assignment and Acceptance to be executed by their respective duly authorized officials, officers or agents as of the date first above mentioned.

Very truly yours,

[NAME OF ASSIGNOR]

By: _____
Title: _____

By: _____
Title: _____

[NAME OF ASSIGNEE]

By: _____
Title: _____

By: _____
Title: _____

ACKNOWLEDGED AND, TO THE EXTENT REQUIRED, CONSENTED TO:

THE CHILDREN'S PLACE RETAIL STORES, INC., a Delaware corporation,
as Administrative Borrower

By: _____
Name: _____
Title: _____

ACKNOWLEDGED AND ASSIGNMENT

CONSENTED TO:

WELLS FARGO RETAIL FINANCE, LLC,
a Delaware limited liability company, as Agent

By: _____
Name: _____
Title: _____

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") dated as of June 28, 2007 among:

Wells Fargo Retail Finance, LLC (in such capacity, herein the **"Agent"**), a Delaware limited liability company with offices at One Boston Place - -19th Floor, Boston, Massachusetts 02109, as agent for the ratable benefit of the **"Revolving Credit Lenders"**, who are, at present, those financial institutions identified on the signature pages of this Amendment and who in the future are those Persons (if any) who become "Revolving Credit Lenders" in accordance with the provisions of Article 17 of the Loan Agreement described below;

and

The Revolving Credit Lenders;

and

Hoop Retail Stores, LLC, a Delaware limited liability company with its principal executive offices at c/o The Children's Place Retail Stores, Inc., 915 Secaucus Road, Secaucus, New Jersey 07094 (as successor in interest to The Disney Store, LLC, a California limited liability company) (the **"Borrower")**,

in consideration of the mutual covenants herein contained and benefits to be derived herefrom.

BACKGROUND:

The Borrower, the Revolving Credit Lenders, and the Agent, among others, have entered into a certain Loan and Security Agreement dated as of November 21, 2004 as amended by that certain First Amendment to Loan and Security Agreement dated as of April 11, 2006 (as amended and in effect, the **"Loan Agreement"**). At this time, the Borrower and the Revolving Credit Lenders desire to amend and modify certain terms and provisions of the Loan Agreement.

NOW THEREFORE, in consideration of the mutual promises and agreements herein contained, the parties hereto hereby agree that subject to the satisfaction of the Conditions Precedent set forth in Section 3 hereof, the Loan Agreement is hereby amended as follows:

1. Incorporation of Terms and Conditions of Loan Agreement. All of the terms and conditions of the Loan Agreement (including, without limitation, all definitions set forth therein) are specifically incorporated herein by reference. All capitalized terms not otherwise defined herein shall have the same meaning as in the Loan Agreement.

2. Representations and Warranties. The Borrower hereby represents and warrants that, after giving effect to the amendments to Section 5.7(a) and 5.7(c) of the Loan Agreement as set forth in Subparagraphs 7(a) and 7(b) hereof, (i) except as the Agent may have expressly waived in writing prior to the date of this Amendment, the Borrower is not in Default under the Loan Agreement or under any other Loan Document, and (ii) except with respect to those representations and warranties which are based upon written disclosure schedules (which have not been updated as of the date of this Amendment), all representations and warranties contained in the Loan Agreement and the other Loan Documents, as amended hereby, are true and correct as of the date hereof.

3. Conditions Precedent. It shall be a condition to the effectiveness of this Amendment that the following shall be satisfied to the satisfaction of the Agent:

   a. The Agent shall have received counterparts of this Amendment duly executed by each of the parties hereto;

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   b. The Agent shall have received counterparts of the fee letter dated as of June 28, 2007 (the "Amended Fee Letter") duly executed by each of the parties hereto;

   c. After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing on the date hereof, nor shall result from the consummation of the transaction contemplated herein;

   d. The Agent shall have received evidence reasonably satisfactory to the Agent that any consent from TDS Franchising, LLC with respect to the terms and conditions of the Amendment that is required pursuant to the License Agreement has been obtained;

   e. The Borrower shall have paid to the Agent all fees required pursuant to the terms and conditions of the Amended Fee Letter; and

   f. The Agent shall have received such other documents and instruments as reasonably requested by the Agent.

4. Effective Date. Upon satisfaction of the Conditions Precedent set forth in Paragraph 3 hereof (i) the amendments to Sections 5.7(a) and 5.7(c) of the Loan Agreement set forth in Subparagraphs 10(a.) and 10(b.) hereof shall be deemed to take effect retroactively as of May 1, 2007, and (ii) the other amendments to the Loan Agreement set forth herein shall be effective as of the date hereof.

5. Amendment to Article 1 of the Loan Agreement. Article 1 of the Loan Agreement is hereby amended as follows:

   a. The definition of "Borrowing Base" is amended by deleting the proviso at the end of the second full paragraph thereof in its entirety and replacing it with the following:

   (in no event shall the advances against Eligible In-Transit Inventory ever exceed (i) $20,000,000 during the months of September and October each year, or (ii) $15,000,000 at all other times).

   b. The definition of "Fee Letter" is hereby deleted in its entirety, and the following is inserted in its place:

   "Fee Letter": That certain fee letter dated as of June 28, 2007 entered into by and between the Agent and Borrower, as amended and in effect from time to time.

   c. The definition of "Libor Margin" is hereby deleted in its entirety, and the following is inserted in its place:

   "Libor Margin": Commencing with June 28, 2007 and adjusted at the end of each Fiscal quarter thereafter, the following applicable percentage, based upon the corresponding Average Excess Availability:

Level	LIBORMargin	Average Excess Availability
I	1.50%	Greater than $20,000,000.00
II	1.75%	Less than or equal to $20,000,000.00

d. The definition of "Maturity Date" is hereby deleted in its entirety, and the following is inserted in its place:

"Maturity Date": November 21, 2010.

e. The definition of "Minimum Reserve" is hereby deleted in its entirety, and the following is inserted in its place:

"Minimum Reserve" an amount equal to the product of (x) the Revolving Credit Ceiling then in effect, multiplied by (y) ten percent (10%).

f. The definition of "Prime Margin Rate" is hereby deleted in its entirety, and the following is inserted in its place:

"Prime Margin Rate": The aggregate of Prime plus 0%.

g. The definition of "Revolving Credit Ceiling" is hereby deleted in its entirety, and the following is inserted in its place:

"Revolving Credit Ceiling": $75,000,000.00, unless increased in accordance with Section 2.24 below (but in no event greater than $100,000,000.00).

h. The following definitions are added to Article 1 in their respective alphabetical order:

"Canadian L/C": Is any L/C issued for the purchase of inventory by Hoop Canada, Inc., which shall be issued in Dollars.

"Commitment Increase": Is defined in Section 2.24.

"Commitment Increase Fee": Is defined in the Fee Letter.

"Increased Revolving Credit Ceiling": Is defined in Section 2.24.

6. Amendment to Article 2 of the Loan Agreement. Article 2 of the Loan Agreement is hereby amended as follows:

   a. Section 2.13 of the Loan Agreement is hereby deleted in its entirety, and the following is inserted in its place:

"2.13. Unused Line Fee. In addition to any other fee to be paid by the Borrowers on account of the Revolving Credit, the Borrowers shall pay the Agent for the benefit of the Revolving Credit Lenders the "Unused Line Fee" (so referred to herein) of 0.25% per annum of the average difference, during the month just ended (or relevant period with respect to the payment being made on the Termination Date) between the Revolving Credit Ceiling and the aggregate of the unpaid principal balance of the Loan Account and the undrawn Stated Amount of L/C's outstanding during the relevant period. The Unused Line Fee shall be paid in arrears, on the first day of each month after the execution of this Agreement and on the Termination Date."

b. Section 2.14(a) of the Loan Agreement hereby deleted in its entirety, and the following is inserted in its place

"(a) In the event that the Termination Date occurs prior to June 28, 2008 for any reason, the Borrowers shall pay to the Agent, for the benefit of the Revolving Credit Lenders, the **"Revolving Credit Early Termination Fee"** (so referred to herein) in an amount equal to the product of (x) the Revolving Credit Ceiling then in effect, multiplied by (y) One-half of one percent (.50%)."

c. Section 2.18 of the Loan Agreement is hereby amended as follows:

Section 2.18(b)(i) is hereby deleted in its entirety and the following is inserted in its place:

"(i) The aggregate stated amount of Canadian L/Cs then outstanding does not exceed $5,000,000."

d. A new Section 2.24 is added to the Loan Agreement, which reads as follows:

Section 2.24. Increase in Revolving Credit Ceiling and Revolving Credit Dollar Commitments.

(a.) Increase in Revolving Credit Ceiling. Provided that no Event of Default has occurred and is continuing, Borrowers shall have the right at any time, on up to five (5) separate occasions (subject to Section 2.24(b)(2)) and upon not less than five (5) Business Days prior written notice to the Agent in each instance, to elect to increase the Revolving Credit Ceiling by an amount of up to $25,000,000.00 in the aggregate (each, a "Commitment Increase") from the existing aggregate amount of $75,000,000.00, to an aggregate amount of $100,000,000.00 (the "Increased Revolving Credit Ceiling"). Each such requested increase shall be in the minimum amount of $5,000,000.00. Each such requested increase shall be made to all existing Lenders on a pro rata basis, in accordance with Exhibit 2.23, except as otherwise provided in Section 2.24(d).

(b.) Increase Conditions. No Commitment Increase shall become effective unless and until each of the following conditions has been satisfied:

(1) The Borrowers shall have paid the Agent the Commitment Increase Fee with respect to such Commitment Increase;

(2) A note will be issued, at the Borrowers' expense, to each Lender, to the extent necessary to reflect the new Revolving Credit Dollar Commitments of such Lenders; and

(3) The Borrowers shall have delivered such other instruments, documents and agreements with respect to the Commitment Increase as the Agent may reasonably have requested.

(c.) Commitment Increase Date. The Agent shall promptly notify each Lender as to the effectiveness of any such Commitment Increase (with the date of such effectiveness being referred to herein as the "Commitment Increase Date"), and at such time (i) the Revolving Credit Ceiling under, and for all purposes of, this Agreement shall be increased by the aggregate amount of each such Commitment Increase, (ii) the increased Revolving Credit Dollar Commitments set forth on Exhibit 2.23 shall be deemed amended, without further action, to reflect the increased Revolving Credit Dollar Commitments of the Lenders, and (iii) this Agreement shall be deemed amended, without further action, to the extent necessary to reflect such Increased Revolving Credit Ceiling.

(d.) Pro Rata Share. In connection with any Commitment Increase hereunder, the Lenders and the Borrowers agree that, notwithstanding anything to the contrary in this Agreement, the Borrowers shall, in coordination with the Agent, (i) repay outstanding loans of certain Lenders, and obtain loans from certain other Lenders, or (ii) take such other actions as reasonably may be required by the Agent, in each case to the extent necessary so that all of the Lenders effectively participate in each of the outstanding loans pro rata on the basis of their Revolving Credit Dollar Commitment (determined after giving effect to the Increased Revolving Credit Ceiling pursuant to this Section 2.24); provided that

the Agent and the Lenders agree that no such prepayment shall be required if, as a result thereof, the Borrowers would be obligated to pay all loss, cost, or expenses required to be paid pursuant to Section 2.10(e); provided further that the Agent agrees that the Agent will assume Citicorp USA, Inc.'s pro rata share of each Commitment Increase hereunder in the event that Citicorp USA, Inc.'s has not obtained credit approval for such Commitment Increase on or before the Commitment Increase Date. Upon each Commitment Increase Date, the Agent shall issue a new Exhibit 2.23 to this Agreement reflecting each Lender's increased Revolving Credit Dollar Commitment.

7. Amendment to Exhibit 2.23 to the Loan Agreement. Exhibit 2.23 to the Loan Agreement is hereby deleted in its entirety, and Exhibit 2.23 attached hereto is inserted in its place.

8. Amendment to Article 4 of the Loan Agreement. Article 4 of the Loan Agreement is hereby amended as follows:

(a.) Section 4.18 of the Loan Agreement is hereby amended by adding the following language to the end of the subsection: "or would affect the legality or enforceability of this Agreement or any other Loan Document".

9. Amendment to Exhibit 4.5 to the Loan Agreement. Exhibit 4.5 to the Loan Agreement is hereby deleted in its entirety, and Exhibit 4.5 attached hereto is inserted in its place.

10. Amendment to Article 5 of the Loan Agreement. Article 5 of the Loan Agreement is hereby amended as follows:

(a.) Section 5.7(a) of the Loan Agreement is hereby amended by adding the following sentence to the end of the subsection: "Notwithstanding the previous sentence, the Lead Borrower shall have until July 31, 2007 to deliver the Fiscal 2006 annual financial statements required by this Section 5.7(a)."

(b.) Section 5.7(c) of the Loan Agreement is hereby amended by adding the following sentence to the end of the subsection: "Notwithstanding the previous sentence, the Lead Borrower shall have until July 31, 2007 to deliver the Fiscal 2006 Certificate required by this subsection 5.7(c)."

(c.) Section 5.9(c) and 5.9(d) of the Loan Agreement are hereby deleted in their entirety, and the following is inserted in its place:

(c) The Agent, at the expense of the Borrowers, may conduct appraisals of the Collateral and commercial finance field examinations, provided that if Average Excess Availability is (i) greater than $25,000,000.00 at all times during a calendar year only one appraisal of the Collateral and one commercial finance field examination during such calendar year shall be at the expense of the Borrower; (ii) greater than $10,000,000.00, at all times during a calendar year but less than $25,000,000.00 at any time during such year, up to two appraisals of the Collateral and two commercial finance field examinations during such calendar year shall be at the expense of the Borrowers; and (iii) less than $10,000,000.00 at any time during any calendar year all appraisals of the Collateral and commercial finance field examinations during such calendar year shall be at the expense of the Borrowers. Notwithstanding the foregoing (x) the Agent may cause additional appraisals of Collateral and commercial finance field examinations to be undertaken in its discretion as it deems necessary and appropriate at its own expense; and (y) if a Default shall have occurred and be continuing all appraisals of Collateral and commercial finance field examinations shall be at the expense of the Borrowers.

11. Amendment to Exhibit 5.11(a) to the Loan Agreement. Exhibit 5.11(a) to the Loan Agreement is hereby deleted in its entirety, and Exhibit 5.11(a) attached hereto is inserted in its place.

12. Amendment to Article 11 of the Loan Agreement. Article 11 of the Loan Agreement is hereby amended as follows:

(a.) Section 11.1 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

11.1. Acceleration. Upon the occurrence of any Event of Default as described in Section 10.11, all Indebtedness of the Borrowers to the Revolving Credit Lenders shall be immediately due and payable. Upon the occurrence of any Event of Default other than as described in Section 10.11, the Agent may (and on the issuance of Acceleration Notice(s) requisite to the causing of Acceleration, the Agent shall) declare all Indebtedness of the Borrowers to the Revolving Credit Lenders to be immediately due and payable and may exercise all of the Agent's Rights and Remedies as the Agent from time to time thereafter determines as appropriate, provided, that the Agent shall exercise such of the Agent's Rights and Remedies as directed by the Required Lenders.

(b.) Section 11.3(e) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

(e) The Agent shall apply the proceeds of the Agent's exercise of its rights and remedies upon default pursuant to this Sections 14.6 and 14.7 of this Agreement.

13. Amendment to Article 12 of the Loan Agreement. Article 12 of the Loan Agreement is hereby amended as follows:

(a.) Section 12.2 of the Loan Agreement is hereby amended by deleting the last sentence thereof in its entirety and replaced with the following:

Upon the occurrence of any Default or Event of Default with respect to Non-Curable Defaults, the Agent may (and at the direction of the Required Lenders shall) commence enforcing the Agent's Rights and Remedies in accordance with Article 11.

14. Amendment to Article 14 of the Loan Agreement. Article 14 of the Loan Agreement is hereby amended as follows:

(a.) The parenthetical in Section 14.7(b)(iii) is hereby deleted in its entirety and replaced with the following: (other than to the extent of the unpaid portion of the Agent Cover of any Delinquent Revolving Credit Lender)

15. Amendment to Article 15 of the Loan Agreement. Article 15 of the Loan Agreement is hereby amended as follows:

(a.) Section 15.5 is amended by adding the phrase "and Borrowing Base Certificates" after the phrase "annual financial statements" and by changing the reference to "Article 4.28" to "Article 5" in the first thereof.

16. Amendment to Article 16 of the Loan Agreement. Article 16 of the Loan Agreement is hereby amended as follows:

(a.) Section 16.5 of the Loan Agreement is amended to correct the lettering such that the second clause (a) becomes clause (c) and each of the following clauses is relettered in alphabetical order thereafter.

17. Amendment to Article 17 of the Loan Agreement. Article 17 of the Loan Agreement is hereby amended as follows:

(a.) Section 17.1(a) (v) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

(v) Anything contained herein to the contrary notwithstanding, the consent of the Agent or the Lead Borrower shall not be required (and payment of any fees shall not be required) if such assignment is in connection with any merger, consolidation, sale, transfer, or other disposition of all or any substantial portion of the business or loan portfolio of such Assigning Revolving Credit Lender or such assignment is to an Affiliate of the Assigning Revolving Credit Lender.

18. No Further Modification. Except as expressly modified in the manner set forth above, the Loan Agreement and the other Loan Documents shall remain unmodified and in full force and effect.

19. No Claims: Waiver. The Borrower acknowledges, confirms and agrees that as of the date hereof the Borrower has no knowledge of any offsets, defenses, claims or counterclaims against the Agent or any Revolving Credit Lender with respect to, under or relating to the Loans, the Loan Documents, or the transactions contemplated therein, and, to the extent that the Borrower has or has ever had any such offsets, defenses, claims or counterclaims arising on or before the date hereof, the Borrower hereby specifically **WAIVES** and **RELEASES** any and all rights to such offsets, defenses, claims or counterclaims.

20. Binding Agreement. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their heirs, representatives, successors and assigns.

21. Multiple Counterparts. This Amendment may be executed in multiple counterparts, each of which shall constitute an original and together which shall constitute but one and the same instrument.

22. Governing Law; Sealed Instrument. This Amendment shall be construed, governed, and enforced pursuant to the law of The Commonwealth of Massachusetts without regard to principles of conflicts of laws, and shall take effect as a sealed instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by each of the parties hereto as of the date first above written.

(the "Borrower")

HOOP RETAIL STORES, LLC

By: /s/ Susan Riley
Print Name: Susan Riley
Title: SVP

("Agent")

WELLS FARGO RETAIL FINANCE, LLC

By :/s/ Michele Ayou
Print Name: Michele Ayou
Title: Vice President

WELLS FARGO RETAIL FINANCE, LLC,
As Revolving Credit Lender

By: /s/ Michele Ayou
Print Name: Michele Ayou
Title: Vice President

WACHOVIA CAPITAL FINANCE CORPORATION
(NEW ENGLAND), As Documentation Agent and as
Revolving Credit Lender

By: /s/ Willis A. Williams
Print Name: Willis A. Williams
Title: Vice President

LASALLE RETAIL FINANCE,
a Division of LaSalle Business Credit, LLC,
as Agent for Standard Federal Bank National Association,
As Co-Agent and as Revolving Credit Lender

By: /s/ Scott J. Wolkovich
Print Name: Scott J. Wolkovich
Title: Officers

JPMORGAN CHASE BANK, N.A.,
as Revolving Credit Lender

By: /s/ Alvin Lam
Print Name: Alvin Lam
Title: Vice President

CITICORP USA, INC.,
as Revolving Credit Lender

By: /s/ Marcus Wunderlich
Print Name: Marcus Wunderlich
Title: Vice President

HSBC Bank USA, National Association,
as Revolving Credit Lender

By: /s/ Richard van der Meer
Print Name: Richard van der Meer
Title: VP

Exhibit 2.23

Revolving Credit Lenders' Commitments

Revolving Credit Lender	Revolving Credit Dollar Commitment	Revolving Credit Percentage Commitment
Wells Fargo Retail Finance, LLC	$ 23,250,000	31%
Wachovia Capital Finance Corporation (New England)	$ 15,000,000	20%
LaSalle Retail Finance	$ 15,000,000	20%
JPMorgan Chase Bank, N.A.	$ 7,500,000	10%
Citicorp USA, Inc.	$ 7,500,000	10%
HSBC Bank USA, National Association	$ 6,750,000	9%
	Total: $75,000,000	100%

Exhibit 4.5

Locations of Inventory and Equipment

1. 3800 E. Philadelphia Street, Ontario, California
2. 1377 Airport Road, Fort Payne, Alabama
3. 115 Interstate Boulevard, Dayton, New Jersey
4. 3805 Furman Fendley Highway, Jonesville, South Carolina
5. 443 South Raymond Avenue, Pasadena, California
6. 915 Secaucus Road, Secaucus, New Jersey
7. See attached store list for additional locations

1	2	6589	Colonial Mall Bel Air (AL)	3220 Bel Air Mall	Mobile	AL	36606
2	2	6635	Madison Square (AL)	5901 University Drive	Huntsville	AL	35806
3	2	6309	Riverchase Galleria (AL)	2000 Riverchase Galleria	Hoover	AL	35244
4	2	7021	Riviera Center (AL)	2601 S. McKenzie St.	Foley	AL	36535
4			**STATE TOTAL**				
1	10	6767	Northwest Arkansas Mall (AR)	4201 North Shiloh Drive	Fayetteville	AR	72703
1	2	6333	Scottsdale Fashion Square (AZ)	7014-2216 E Camelback Rd.	Scottsdale	AZ	85251
2	2	6381	Fiesta Mall (AZ)	1445 W. Southern Ave	Mesa	AZ	85202
3	2	6417	Tucson Mall (AZ)	North Oracle Road	Tucson	AZ	85705
4	2	6480	Paradise Valley Mall (AZ)	4550 - 70 E. Cactus Rd.	Phoenix	AZ	85032
5	2	6571	Arrowhead Towne Center (AZ)	770 W. Arrowhead Town Center	Glendale	AZ	86226
6	2	7012	Arizona Mills (AZ)	5000 Arizona Mills, Suite 336	Tempe	AZ	85282
6			**STATE TOTAL**				
1	1	6301	Glendale Galleria (CA)	2227 Glendale Galleria	Glendale	CA	91210
2	1	6303	South Coast Plaza (CA)	3333 Bristol Street	Costa Mesa	CA	92626
3	1	6305	Del Amo Fashion Center (CA)	3525 Carson Street	Torrance	CA	90503
4	1	6314	Northridge Fashion Center (CA)	9301 Tampa Ave.	Northridge	CA	91324
5	1	6317	Sunvalley Shopping Center (CA)	355 Sunvalley Mall	Concord	CA	94520
6	1	6344	Valley Fair (CA)	2855 Stevens Creek Blvd.	Santa Clara	CA	95050
7	1	6350	Montclair Plaza (CA)	5060 Montclair Plaza Lane	Montclair	CA	91763
8	1	6355	Arden Fair (CA)	1689 Arden Way	Sacramento	CA	95815
9	1	6406	Main Place / Santa Ana (CA)	2800 N. Main Street	Santa Ana	CA	92705
10	1	6408	Galleria at Tyler (CA)	1149 Galleria at Tyler	Riverside	CA	92503
11	1	6432	Vintage Faire (CA)	3401 Dale Road	Modesto	CA	95356
12	1	6435	Westside Pavilion (CA)	10850 W. Pico Blvd.	W. Los Angeles	CA	90064
13	1	6442	Lakewood Center (CA)	88 Lakewood Center Mall	Lakewood	CA	90712
14	1	6449	Bea Mall (CA)	1023 Brea Mall	Brea	CA	92821
15	1	6463	Hillsdale Mall (CA)	174 Hillsdale Shopping Ctr.	San Mateo	CA	94403
16	1	6468	Moreno Valley Mall @ TownGate (CA)	22500 Town Circle	Moreno Valley	CA	92553
17	1	6471	Baldwin Hills Crenshaw Plaza (CA)	3650 W MLK Jr. Blvd	Los Angeles	CA	90008
18	1	6483	Santa Rosa Plaza (CA)	1023 Santa Rosa Plaza	Santa Rosa	CA	95404
19	1	6484	Fashion Square Sherman Oaks (CA)	14006 Riverside Drive	Sherman Oaks	CA	91423
20	1	6504	The Oaks (CA)	330 W Hillcrest Drive	Thousand Oaks	CA	91360
21	1	6524	Plaza Bonita (CA)	3030 Plaza Bonita Rd	National City	CA	91950
22	1	6527	Northridge Mall (CA)	720 Northridge Mall	Salinas	CA	93906
23	1	6529	Serramonte Center (CA)	25 Serramonte Center	Daly City	CA	94015
24	1	6545	Santa Anita Fashion Park (CA)	400 South Baldwin Ave.	Arcadia	CA	91007
25	1	6552	Fashion Fair Mall (CA)	687 Shaw Ave.	Fresno	CA	93710
26	1	6556	Laguna Hills Mall (CA)	24155 Laguna Hills Mall	Laguna Hills	CA	92653
27	1	6563	Los Cerritos Center (CA)	163 Los Cerritos Center	Cerritos	CA	90703
28	1	6567	Solano Mall (CA)	1350 Travis Blvd	Fairfield	CA	94533
29	1	6568	Valencia Town Center (CA)	24201 Valencia Blvd	Valencia	CA	91355
30	1	6570	Westminster Mall (CA)	2043 Westminster Mall	Westminster	CA	92683
31	1	6579	Capitola Mall (CA)	1855 41st Avenue	Capitola	CA	95010
32	1	6580	Plaza Camino Real (CA)	2525 El Camino Real	Carlsbad	CA	92008
33	1	6587	Plaza West Covina (CA)	1200 West Covina Avenue	West Covina	CA	91790
34	1	6592	Post Street (CA)	400 Post Street	San Francisco	CA	94102
35	1	6617	Montebello Town Center (CA)	2060 Montebello Town Center	Montebello	CA	90640
36	1	6637	Hilltop Mall (CA)	2236 Hilltop Mall Road	Richmond	CA	94806
37	1	6672	Palm Desert Town Center (CA)	72 -840 HIGHWAY 111	Palm Desert	CA	92260

38	1	6710	NewPark Mall (CA)	1107 Newpark Mall	Newark	CA	95460
39	1	6752	Pacific View Ventura (CA)	3301 East Main Street	Ventura	CA	93003
40	1	6800	Topanga Plaza (CA)	6600 Topanga Canyon Blvd	Canoga Park	CA	91303
41	1	6820	The Promenade in Temecula (CA)	40820 Winchester Rd	Temecula	CA	92591
42	1	6827	Weberstown Mall (CA)	4950 Pacific Avenue	Stockton	CA	95207
43	1	6830	Inland Center Mall (CA)	428 INLAND CTR	San Bernardino	CA	92408
44	1	6843	Stonestown Galleria (CA)	3251 20th Ave	San Francisco	CA	94132
45	1	6846	Galleria at South Bay (CA)	1815 Hawthorne Blvd	Redondo Beach	CA	90278
46	1	6877	Galleria @ Roseville (CA)	1151 Galleria Blvd	Roseville	CA	95678
47	1	7005	Ontario Mills (CA)	One Mills Circle, Suite 701	Ontario	CA	91764
48	1	7010	Parkway Plaza (CA)	621 Parkway Plaza	El Cajon	CA	92020
49	1	7025	Imperial Valley (CA)	34-51 Dogwood Avenue	El Centro	CA	92243
50	1	7029	Las Americas (CA)	4321 Camino de la Plaza	San Diego	CA	92173
51	Corp	TDSHQ	Hoop HQ Building	443 South Raymond Avenue	Pasadena	CA	91105
51			**STATE TOTAL**				
1	1	6376	Westminster Mall (CO)	5523 W. 88th Avenue	Westminster	CO	80030
2	1	6505	Southwest Plaza (CO)	8501 West Bowles Avenue	Littleton	CO	80123
3	1	6566	Aurora Mall (CO)	14200 E. Alameda Avenue	Aurora	CO	80012
4	1	6738	Park Meadows (CO)	8405 Park Meadows Center Dr.	Littleton	CO	80124
5	1	7033	Flatiron Crossing (CO)	US 36 at East & West Flatiron Cir	Broomfield	CO	80021
5			**STATE TOTAL**				
1	15	6337	Westfarms Mall (CT)	204 Westfarms Mall	Farmington	CT	06032
2	15	6366	The Pavilions @ Buckland Hills (CT)	194 Buckland Hills Drive	Manchester	CT	06040
3	15	6536	Trumbull Shopping Park (CT)	5065 Main St.	Trumbull	CT	06611
4	15	6574	Meriden (CT)	470 Lewis Avenue	Meriden	CT	06451
5	15	6682	Crystal Mall (CT)	850 Hartford Turnpike	Waterford	CT	06385
6	15	6749	Connecticut Post Mall (CT)	1201 Boston Post Road	Milford	CT	06460
7	15	7006	Danbury Fair Mall (CT)	7 Backus Avenue	Danbury	CT	06810
7			**STATE TOTAL**				
1	15	6358	Christiana Mall (DE)	739 Christiana Mall Road	Newark	DE	19702
2	15	6597	Concord Mall (DE)	4737 Concord Pike	Wilmington	DE	19803
3	15	7019	Rehoboth Outlets (DE)	26504 Seaside Outlet Drive	Rehoboth Beach	DE	19971
3			**STATE TOTAL**				
1	2	6341	Aventura Mall (FL)	19501 Biscayne Blvd	North Miami Beach	FL	33180
2	2	6384	Dadeland Mall (FL)	7533 N KENDALL DR	Miami	FL	33156
3	2	6393	The Avenues (FL)	10300 Southside Blvd.	Jacksonville	FL	33256
4	2	6405	Bayside Marketplace (FL)	401 BISCAYNE BLVD	Miami	FL	33132
5	2	6487	Tyrone Square (FL)	6901 22nd Ave North	St. Petersburg	FL	33710
6	2	6518	University Square Mall (FL)	2209 University Square Mall	Tampa	FL	33612
7	2	6549	Regency Square (FL)	9501 Arlington Express Way	Jacksonville	FL	32225
8	2	6577	Brandon TownCenter (FL)	550 Brandon Town Center	Brandon	FL	33511
9	2	6581	Edison Mall (FL)	4125 Cleveland Ave.	Fort Myers	FL	33901
10	2	6594	Countryside Mall (FL)	27001 US Highway 19 North	Clearwater	FL	33761
11	2	6602	Coastland Center (FL)	1714 Tamiami Trail North	Naples	FL	34102
12	2	6613	Lakeland Square (FL)	3800 US Highway 98 North	Lakeland	FL	33801
13	2	6624	Seminole Towne Center (FL)	183 Towne Center Circle	Sanford	FL	32771
14	2	6669	Sarasota Square Mall (FL)	8201 S. Tamiami Trail	Sarasota	FL	34238
15	2	6693	Coral Springs Mall (FL)	9515 West Atlantic Blvd.	Coral Springs	FL	33071
16	2	6700	Boynton Beach Mall (FL)	801 N. Congress Ave	Boynton Beach	FL	33426
17	2	6703	The Shops @ Sunset Place	5701 SUNSET DR	South Miami	FL	33143
18	2	6705	Indian River (FL)	6200 20TH ST	Vero Beach	FL	32966
19	2	6740	The Florida Mall (FL)	8001 S. Orange Bloosom Tr.	Orlando	FL	32809
20	2	6746	West Oaks Mall (FL)	9401 W. Colonial	Ocoee	FL	34761

21	2	6748	Pembroke Lakes Mall (FL)	11401 Pines Blvd	Pembroke Pines	FL	33026
22	2	6772	Broward Mall (FL)	8000 West Browared Blvd.	Plantation	FL	33388
23	2	6823	The Falls Shopping Center	8888 SW 136TH ST	Miami	FL	33176
24	2	6829	Citrus Park (FL)	7965 Citrus Park Town Center Dr	Tampa	FL	33625
25	2	7028	Miami International (FL)	1455 NW 107 Ave	Doral	FL	33172
25			**STATE TOTAL**				
1	2	6437	Town Center @ Cobb (GA)	400 Ernest W Barrett Parkway	Kennesaw	GA	30144
2	2	6441	Gwinnett Place (GA)	2100 Pleasant Hill Rd	Duluth	GA	30096
3	2	6520	North Point Mall (GA)	1142 North Point Circle	Alpharetta	GA	30022
4	2	6546	Northlake Mall (GA)	2049 Northlake Mall	Atlanta	GA	30345
5	2	6804	Mall of Georgia at Millcreek (GA)	3333 Buford Drive	Buford	GA	30519
6	2	6861	Arbor Place Mall (GA)	6700 Douglas Blvd	Douglasville	GA	30135
6			**STATE TOTAL**				
1	1	6346	Ala Moana Center (HI)	1450 Ala Moana Blvd	Honolulu	HI	96814
1	10	6531	Northpark Mall (IA)	320 West Kimberly Road	Davenport	IA	52801
1	1	6803	Boise Towne Square (ID)	350 N. Milwaukee	Boise	ID	83788
1	10	6339	Woodfield Mall (IL)	5 Woodfield Mall	Schaumburg	IL	60173
2	10	6383	Oakbook Center (IL)	400 Oakbrook Center	Oakbrook	IL	60521
3	10	6508	Stratford Sq. (IL)	212 Stratford Square	Bloomingdale	IL	60108
4	10	6512	Chicago Ridge Mall (IL)	340 Chicago Ridge Mall	Chicago Ridge	IL	60415
5	10	6543	Fox Valley Center (IL)	1480 Fox Valley Center	Aurora	IL	60504
6	10	6557	Spring Hill Mall (IL)	1036 Spring Hill Mall	West Dundee	IL	60118
7	10	6591	Orland Square Shopping Ctr (IL)	540 Orland Square Shopping Ctr	Orland Park	IL	60462
8	10	6619	Golf Mill Shopping Center (IL)	267 Golf Mill Center	Niles	IL	60714
9	10	6620	Old Orchard Center (IL)	275 Old Orchard Center	Skokie	IL	60077
10	10	6630	Yorktown Center (IL)	159 Yorktown Shopping Center	Lombard	IL	60148
11	10	6811	Cherry Vale Mall (IL)	Harrison Ave & Perryville Road	Rockford	IL	61112
12	10	6813	Northwoods Mall (IL)	4501 War Memorial Drive	Peoria	IL	61613
13	10	6838	Michigan Avenue (IL)	717 N. Michigan Ave	Chicago	IL	60611
14	10	6839	Louis Joliet Mall (IL)	3340 Mall Loop Drive	Joliet	IL	60431
15	10	7013	Gurnee Mills (IL)	6170 West Grand Avenue	Gurnee	IL	60031
16	10	7045	Shoppingtown Hawthorne	315 Hawthorn Mall	Vernon Hills	IL	60061
17	10	7046	Harlem-Irving Plaza	4156 North Harlem Ave.	Norridge	IL	60634
17			**STATE TOTAL**				
1	10	6364	Castleton Square (IN)	6020 E. 82nd St	Indianapolis	IN	46250
2	10	6457	Glenbrook Sq. (IN)	4201 Coldwater Rd.	Fort Wayne	IN	46805
3	10	6616	University Park Mall (IN)	6501 N. Grape Road	Mishawaka	IN	46545
4	10	6621	Circle Centre Mall (IN)	49 W. Maryland St	Indianapolis	IN	46204
5	10	6675	Greenwood Park (IN)	1251 US 31 North	Greenwood	IN	46142
6	10	6737	Southlake Mall (IN)	2144 Southlake Mall	Merrillville	IN	46410
7	10	6809	Tippecanoe Mall (IN)	2415 Sagamore Parkway South	Lafayette	IN	47905
7			**STATE TOTAL**				

1	10	6361	Oak Park Mall (KS)	11447 W. 95th Street	Overland Park	KS	66214
2	10	6509	Towne East Square (KS)	7700 E. Kellogg	Wichita	KS	67207
2			**STATE TOTAL**				
1	10	6429	Oxmoor Center (KY)	7900 Shelbyville Road	Louisville	KY	40222
2	10	6479	Fayette Mall (KY)	3563 Nicholasville Road	Lexington	KY	40503
3	10	6736	Florence (KY)	2018 Florence Mall Rd.	Florence	KY	41042
3			**STATE TOTAL**				

1	2	6328	Lakeside Shopping Center (LA)	3301 Veterans Memorial Blvd	Metairie	LA	70002
2	2	6575	The Esplanade (LA)	1401 W. Esplanade Ave	Kenner	LA	70065
3	2	6717	Mall of Louisiana (LA)	6401 Bluebonnet Boulevard	Baton Rouge	LA	70836
3			**STATE TOTAL**				
1	15	6307	Burlington Mall (MA)	75 Middlesex Street	Burlington	MA	01803
2	15	6319	South Shore Plaza (MA)	250 Granite Street (Route 37)	Braintree	MA	02184
3	15	6359	Emerald Sq. (MA)	999 South Washington Street	N. Attleboro	MA	02760
4	15	6469	Holyoke Mall (MA)	50 Holyoke St.	Holyoke	MA	01040
5	15	6496	Silver City Galleria	2 Gallery Mall Drive	Taunton	MA	02780
6	15	6573	Square One (MA)	1277 Broadway	Saugus	MA	01906
7	15	6712	Solomon Pond Mall (MA)	601 Donald Lynch Blvd	Marlborough	MA	01752
7			**STATE TOTAL**				
1	3	6413	The Mall in Columbia (MD)	10300 Little Patuxent Drive	Columbia	MD	21044
2	3	6523	St. Charles Town Center (MD)	11110 Mall Circle	Waldorf	MD	20603
3	3	6561	Lake Forest (MD)	701 Russell Avenue	Gaithersburg	MD	20877
4	3	6739	White Marsh Mall (MD)	8200 Perry Hall Blvd.	Baltimore	MD	21236
5	3	6762	Owings Mills (MD)	10300 Mill Run Circle	Owings Mills	MD	21117
6	3	6844	Valley Mall (MD)	17301 Valley Mall Road	Hagerstown	MD	21740
6			**STATE TOTAL**				
1	15	6372	Maine Mall (ME)	308 Maine Mall Road	South Portland	ME	04106
1	10	6338	Twelve Oaks Mall (MI)	27212 Novi Road	Novi	MI	48377
2	10	6340	Fairlane Town Center (MI)	18900 Michigan Ave.	Dearborn	MI	48126
3	10	6427	Lakeside Mall (MI)	14600 Lakeside Circle	Sterling Heights	MI	48313
4	10	6507	Genesee Valley Center (MI)	3233 S. Linden Road	Flint	MI	48507
5	10	6555	Laurel Park Place (MI)	37628 W. Six Mile Road	Livonia	MI	48152
6	10	6679	Lansing Mall (MI)	5368 W. Saginaw Hwy	Lansing	MI	48917
7	10	6694	Somerset Collection North (MI)	2800 West Big Beaver Road	Troy	MI	48084
8	10	6715	Fashion Square Mall (MI)	4816 Fashion Square Mall	Saginaw	MI	48604
9	10	6828	Southland Center (MI)	23000 Eureka Road	Taylor	MI	48180
10	10	6879	River Town Crossings Mall (MI)	3700 Rivertown Pkwy & Wilson Ave.	Grandville	MI	49418
10			**STATE TOTAL**				
1	10	6455	Mall of America (MN)	258 South Blvd	Bloomington	MN	55425
2	10	6711	Apache Mall (MN)	686 Apache Mall	Rochester	MN	55902
2			**STATE TOTAL**				
1	10	6320	Chesterfield Mall (MO)	249 Chesterfield Mall	Chesterfield	MO	63017
2	10	6634	Crestwood Plaza (MO)	33 Crestwood Plaza	St. Louis	MO	63126
3	10	6782	Saint Louis Galleria (MO)	1132 St. Louis Galleria	St. Louis	MO	63117
4	10	6810	Mid Rivers Mall (MO)	2300 Mid Rivers Mall	St. Peters	MO	63376
5	10	6835	Independence Center (MO)	2035 Independence Center	Independence	MO	64057
6	10	7008	Branson Landing (MO)	333 Branson Landing	Branson	MO	65616
7	10	7017	Tanger Outlet at Branson (MO)	300 Tanger Blvd	Branson	MO	65616
8	10	7031	Zona Rosa (MO)	7331 North West 86 Terrace	Kansas City	MO	64153
8			**STATE TOTAL**				
1	3	6374	Hanes Mall (NC)	3320 Silas Creek Pkwy	Winston-Salem	NC	27103
2	3	6440	Four Seasons Town Centre (NC)	216 Four Seasons Town Centre	Greensboro	NC	27407
3	3	6564	Cross Creek Mall (NC)	441 Cross Creek Mall	Fayetteville	NC	28303
4	3	6578	Carolina Place Mall (NC)	11025 Carolina Place	Pineville	NC	28134
5	3	6586	Crabtree Mall (NC)	4325 Glenwood Ave.	Raleigh	NC	27612
6	3	6631	Valley Hills Mall (NC)	146 Valley Hills Mall	Hickory	NC	28602

6			**STATE TOTAL**				
1	10	6766	Oak View Mall (NE)	3001 South 144th St.	Omaha	NE	68144
1	15	6318	Pheasant Lane Mall (NH)	310 Daniel Webster Highway	South Nashua	NH	03060
2	15	6412	The Mall @ Rockingham Park (NH)	99 Rockingham Park Blvd.	Salem	NH	03079
3	15	6680	Mall of New Hampshire (NH)	1500 South Willow St.	Manchester	NH	03103
3			**STATE TOTAL**				
1	15	6304	Bridgewater Commons (NJ)	400 Commons Way	Bridgewater	NJ	00807
2	15	6306	Paramus Park Mall (NJ)	1195 Paramus Park Mall	Paramus	NJ	07652
3	15	6321	Woodbridge Center (NJ)	282 Woodbridge Ctr Dr.	Woodbridge	NJ	07095
4	15	6325	Willowbrook Mall (NJ)	1117 Willowbrook Mall	Wayne	NJ	07470
5	15	6330	Cherry Hill Mall (NJ)	2000 Route 38	Cherry Hill	NJ	08002
6	15	6335	Rockaway Townsquare (NJ)	Route 80 & Mt. Hope Ave.	Rockaway	NJ	07866
7	15	6370	Freehold Raceway Mall (NJ)	3710 Highway 9	Freehold	NJ	07728
8	15	6410	Menlo Park Mall (NJ)	378 Menlo Park	Edison	NJ	08837
9	15	6444	Quaker Bridge Mall (NJ)	115 Quakerbridge Mall	Lawrenceville	NJ	08648
10	15	6459	Monmouth Mall (NJ)	180 State Route 35 S	Eatontown	NJ	07724
11	15	6465	Deptford Mall (NJ)	300 N. Almonesson Road	Deptford	NJ	08096
12	15	6558	Hamilton Mall (NJ)	257 W. Black Horse Pike	Mays Landing	NJ	08330
13	15	6697	Newport Center (NJ)	30-234a Mall Drive West	Jersey City	NJ	07310
14	15	6812	Ocean County Mall (NJ)	1201 Hooper Ave.	Toms River	NJ	08753
15	15	7043	Jackson Premium Outlets	537 Monmouth Raod	Jackson	NJ	08527
15			**STATE TOTAL**				
1	2	6422	Coronado Center (NM)	760 Coronado Center	Albuquerque	NM	87110
2	2	6691	Cottonwood Mall (NM)	10000 Coors Bypass	Albuquerque	NM	87114
2			**STATE TOTAL**				
1	1	6478	Meadowood Mall (NV)	5280 Meadowood Circle	Reno	NV	89502
2	1	6690	Meadows Mall (NV)	4300 Meadows Lane	Las Vegas	NV	89107
3	1	7039	Las Vegas Premium (NV)	705 South Grand Central Pkwy	Las Vegas	NV	89106
3			**STATE TOTAL**				
1	15	6329	Smith Haven Mall (NY)	Route 25 & 347	Lake Grove	NY	11755
2	15	6352	Roosevelt Field (NY)	630 OLD COUNTRY RD	Garden City	NY	11530
3	3	6360	Walden Galleria (NY)	32 Walden Galleria	Buffalo	NY	14225
4	3	6387	Carousel Center (NY)	9679 Carousel Center Drive	Syracuse	NY	13290
5	15	6474	Galleria @ Crystal Run (NY)	1 Galleria Drive	Middletown	NY	10940
6	15	6492	Sunrise Mall (NY)	479 Sunrise Mall	Massapequa	NY	11758
7	15	6535	Staten Island Mall (NY)	2655 Richmond Avenue	Staten Island	NY	10314

8	15	6537	Poughkeepsie Galleria (NY)	2001 South Road	Poughkeepsie	NY	12601
9	15	6547	Jefferson Valley (NY)	650 Lee Blvd	Yorktown Heights	NY	10598
10	3	6569	Sangertown Square (NY)	Rt 5 & 5LA.	New Hartford	NY	13413
11	3	6595	Boulevard Mall (NY)	1223 Niagara Falls Blvd	Amherst	NY	14226
12	3	6596	Crossgates Mall (NY)	1 Crossgates Mall Road	Albany	NY	12203
13	15	6606	South Shore Mall (NY)	1701 Sunrise Highway	Bay Shore	NY	11706
14	15	6615	Broadway Mall (NY)	460 Broadway Mall	Hicksville	NY	11801
15	3	6618	The Mall at Greece Ridge Ctr (NY)	256 Greece Ridge Center Drive	Rochester	NY	14626
16	15	6764	Palisades Center (NY)	3650 Palisades Center Drive	West Nyack	NY	10994
17	3	6765	McKinley Mall (NY)	3701 McKinley Parkway	Blasdell	NY	14219
18	15	6816	Cross County Shopping Center (NY)	25 Mall Walk	Yonkers	NY	10704
19	15	7002	Queens Center (NY)	90-15 Queens Boulevard,	Elmhurst	NY	11373
20	15	7004	Woodbury Commons Outlets (NY)	633 Bluebird Court	Central Valley	NY	10917
20			**STATE TOTAL**				

1	10	6373	Tri - County Mall (OH)	11700 Princeton Park	Cincinnati	OH	45246
2	3	6390	Belden Village Mall (OH)	4343 Belden Village Mall	Canton	OH	44718
3	3	6391	Great Northern Mall (OH)	564 Great Northern Mall	North Olmsted	OH	44070
4	10	6414	Franklin Park Mall (OH)	330 Franklin Park Mall	Toledo	OH	43623
5	3	6482	Great Lakes Mall (OH)	7850 Mentor Avenue	Mentor	OH	44060
6	10	6514	Mall @ Fairfield Commons (OH)	2727 Fairfield Cmns Boulevard	Beaver Creek	OH	45431
7	10	6554	Northgate Mall (OH)	9501 Colerain Ave.	Cincinnati	OH	45251
8	3	6622	Parmatown Mall (OH)	7985 W. Ridgewood Dr.	Parma	OH	44129
9	3	6646	Summit Mall (OH)	3265 West Market Street	Fairlawn	OH	44333
10	3	6716	Southern Park Mall (OH)	7401 Market Street	Youngstown	OH	44512
11	10	7009	Polaris Fashion Place (OH)	1500 Polaris Parkway	Columbus	OH	43240
11			**STATE TOTAL**				
1	2	6439	Woodland Hills Mall (OK)	7021 S. Memorial Dr.	Tulsa	OK	74133
2	2	6551	Quail Springs Mall (OK)	2501 W. Memorial Road	OK	OK	73134
2			**STATE TOTAL**				
1	1	6348	Washington Square (OR)	9636 SW Washington Square Rd	Tigard	OR	97223
2	1	6430	Clackamas Town Center (OR)	12000 SE 82 Ave	Portland	OR	97266
3	1	6633	Lloyd Center (OR)	1046 Lloyd Center	Portland	OR	97232
3			**STATE TOTAL**				
1	3	6326	South Hills Village (PA)	421 South Hills Village	Pittsburgh	PA	15241
2	15	6353	King of Prussia (PA)	329 Mall Boulevard	King of Prussia	PA	19406
3	15	6426	Willow Grove Mall (PA)	2500 Moreland Road	Willow Grove	PA	19090
4	15	6436	Oxford Valley Mall (PA)	2300 E. Lincoln Highway	Langhorne	PA	19047
5	3	6473	Park City Center (PA)	743 Park City Center	Lancaster	PA	17601
6	3	6481	Wyoming Valley Mall (PA)	204 Wyoming Valley Mall	Wilkes-Barre	PA	18702
7	15	6500	Montgomery Mall (PA)	293 Montgomery Mall	North Wales	PA	19454
8	3	6511	Mall @ Steamtown (PA)	206 The Mall @ Steamtown	Scranton	PA	18503
9	3	6548	Beaver Valley Mall (PA)	538 Beaver Valley Mall	Monaca	PA	15061
10	3	6559	Westmoreland Mall (PA)	970 Eastview Avenue	Greensburg	PA	15601
11	3	6583	Harrisburg Mall (PA)	Route 83 & Paxton Street	Harrisburg	PA	17101
12	3	6588	Ross Park Mall (PA)	1000 Ross Park Mall Dr.	Pittsburgh	PA	15237
13	3	6603	Capital City Mall (PA)	3571 Capital Mall Drive	Camp Hill	PA	17011
14	15	6612	Springfield Mall (PA)	1250 BALTIMORE PIKE	Media	PA	19603
15	3	6684	Century III Mall (PA)	3075 Clairton Road	West Mifflin	PA	15123
16	3	6747	Logan Valley Mall (PA)	Route 222 & Goods Lane	Altoona	PA	16602
17	15	6814	Lehigh Valley Mall (PA)	217 Lehigh Valley Mall	Whitehall	PA	18052
18	3	6855	Berkshire Mall (PA)	1665 State Hill Road	Wyomissing	PA	19610
19	15	6886	Exton Square Mall (PA)	310 Exton Square Road	Exton	PA	19341
20	3	7041	Robinson Town Center (PA)	2750 Robinson Centre Drive	Pittsburgh	PA	15205
20			**STATE TOTAL**				
1	15	6367	Warwick Mall (RI)	400 Bald Hill Road	Warwick	RI	02886
1	3	7011	Broadway on the Beach (SC)	1310 Celbrerty Circle	Myrtle Beach	SC	29577
1	10	6488	CoolSprings Galleria (TN)	1800 Galleria Blvd	Franklin	TN	37067
2	10	6628	West Town Mall (TN)	7600 Kingston Pike	Knoxville	TN	37919
3	10	6636	Hamilton Place (TN)	2100 Hamilton Place Blvd	Chattanooga	TN	37421
4	10	6729	Wolfchase Galleria (TN)	2760 North Germantown Pkwy	Memphis	TN	38133
5	10	6806	Rivergate Mall (TN)	1000 Two Mile Parkway	Goodlettsville	TN	37072
6	10	7014	Opry Mills (TN)	236 Opry Mills Drive	Nashville	TN	37214
7	10	7018	Tanger Five Oaks Outlet (TN)	1645 Parkway	Seivierville	TN	37862
7			**STATE TOTAL**				

1	2	6316	North Star Mall (TX)	7400 San Pedro Rd	San Antonio	TX	78216
2	2	6394	Collin Creek (TX)	811 N. Central Expressway	Plano	TX	75065
3	2	6423	Hulen Mall (TX)	4800 S. Hulen St	Ft Worth	TX	76132
4	2	6447	Willowbrook Mall (TX)	7925 FM 1960 West	Houston	TX	77070
5	2	6466	Parks @ Arlington (TX)	3811 South Cooper	Arlington	TX	76015
6	2	6470	Town East Mall (TX)	1020 Town East Mall	Mesquite	TX	75150
7	2	6472	Mall del Norte (TX)	5300 San Dario	Laredo	TX	78041
8	2	6490	Rivercenter (TX)	849 E Commerce St	San Antonio	TX	78205
9	2	6540	West Oaks Mall (TX)	1000 West Oaks Mall Suite 144	Houston	TX	77082
10	2	6542	Houston Galleria (TX)	5085 Westheimer Rd	Houston	TX	77056
11	2	6550	South Plains Mall (TX)	6002 Slide Road	Lubbock	TX	79414
12	2	6553	Valley View Center (TX)	2040 Valley View Mall	Dallas	TX	75240
13	2	6600	Cielo Vista Mall (TX)	8401 Gateway West	El Paso	TX	79925
14	2	6626	Lakeline Mall (TX)	11200 Lakestop Blvd.	Cedar Park	TX	78613
15	2	6668	Westgate Mall (TX)	7701 I-40 West	Amarillo	TX	79121
16	2	6692	Highland Mall (TX)	6001 Airport Blvd.	Austin	TX	78752
17	2	6713	La Plaza Mall (TX)	2200 S. 10th Street	McAllen	TX	78503
18	2	6824	Ingram Park Mall (TX)	6301 NW Loop 410	San Antonio	TX	78238
19	2	6847	Vista Ridge Mall (TX)	2401 S. Stemons Freeway,	Lewisville	TX	75067
20	2	6880	Stonebriar Mall (TX)	3601 Preston Road	Frisco	TX	75034
21	2	7016	Tanger Outlet San Marcos II (TX)	4015 Interstate 35 South	San Marcos	TX	78666
22	2	7024	Grapevine Mills (TX)	3000 Grapevine Mills Pkwy	Grapevine	TX	76051
23	2	7026	Woodlands Mall (TX)	1201 Lake Woodlands Dr	The Woodlands	TX	77380
24	2	7030	Round Rock Premium Outlets (TX)	4401 North IH 35	Round Rock	TX	78664
25	2	7053	Rio Grand Valley Premium (TX)	5001 E. US Expressway 83	Mercedes	TX	78570
25			**STATE TOTAL**				
1	3	6311	Tysons Corner Center (VA)	1961 Chain Bridge Road	McLean	VA	22102
2	3	6404	Lynnhaven Mall (VA)	701 Lynnhaven Parkway	Virginia Beach	VA	23452
3	3	6604	Virginia Center Commons (VA)	10101 Brook Road	Glen Allen	VA	23059
4	3	6609	Chesapeake Square (VA)	4200 Portsmouth Blvd Box #1	Chesapeake	VA	23321
5	3	6704	Valley View Mall (VA)	4802 Valley View Blvd. NW	Roanoke	VA	24012
6	3	6732	Spotsylvania Mall (VA)	250 Spotsylvania Mall	Fredricksburg	VA	22407
7	3	6833	Dulles Town Center (VA)	21100 Dulles Town Circle	Sterling	VA	20166

8	3	7020	Potomac Mills (VA)	2700 Potomac Mills Circle	Prince William	VA	22192
8			**STATE TOTAL**				
1	1	6639	Alderwood Mall (WA)	3000 184th Street Southwest	Lynnwood	WA	98037
2	1	6695	Kitsap Mall (WA)	13015 Silverdale Way Northwest	Silverdale	WA	98383
3	1	6742	Vancouver Mall (WA)	8700 NE Vancouver Mall Drive	Vancouver	WA	98662
3			**STATE TOTAL**				
1	10	6347	Mayfair Mall (WI)	2500 N. Mayfair Road	Wauwatosa	WI	53226
2	10	6539	Southridge Mall (WI)	5300 South 76th St.	Greendale	WI	53129
3	10	7022	Wisconsin Dells Outlet (WI)	210 Gasser Road	Barbaboo	WI	53913
3			**STATE TOTAL**				
1	3	6733	Huntingtan Mall (WV)	Route 60 & Mall Road	Barboursville	WV	25504
2	3	6760	Charleston Town Center Mall (WV)	1019 Charleston Town Ctr.	Charleston	WV	25389
2			**STATE TOTAL**				
313			**Total US**				
Canada							
1		6656	Southcentre Mall (CN)	456 100 Anderson Road SE	Calgary	AB	T2J 3V1
2		6663	Kingsway Garden Mall (CN)	Princess Elizabeth Avenue	Edmonton	AB	T5G 3A6
3		7003	West Edmonton Mall	Unit #, 8882-170 Street	Edmonton	AB	T5T 4M2
3			**PROVINCE TOTAL**				
1		6658	Metropolis at Metrotown (CN)	2133/34 4700 Kingsway	Burnaby	BC	V5H 4M1
1		6662	St. Vital Centre (CN)	1225 St Mary’s Rd	Winnipeg	MB	R2M 6L5
1		6685	Champlain Place (CN)	477 Paul Street	Dieppe	NB	E1A 4X5
1		6659	MicMac Mall (CN)	21 Micmac Blvd	Dartmouth	NS	B3A 4K7
1		6651	Toronto Eaton Centre (CN)	218 Yonge Street	Toronto	ON	M5B2H1
2		6652	Fairview Mall (CN)	1800 Sheppard Ave. East	Willowdale	ON	M2J 5A7
3		6653	Yorkdale Shopping Centre (CN)	3401 Dufferin Street	North York	ON	M6A 2T9
4		6654	Square One Shopping Centre (CN)	100 City Centre Drive	Mississauga	ON	L5B 2C9
5		6655	Scarborough Towne Centre (CN)	300 Borough Drive	Scarborough	ON	M3H 6A7
6		6660	Lime Ridge Mall (CN)	999 Upper Wentworth St.	Hamilton	ON	L9A 4X5
7		6753	Bayshore Shopping Center (CN)	100 Bayshore Dr	Nepean	ON	K2B 8C1
8		7007	Vaughan Mills	1 Bass Pro Mills Drive, Unit 266	Vaughan	ON	L4K 5W4
9		7023	Georgian Mall	509 Bayfield St.	Barrie	ON	L4M 4Z8
9			**PROVINCE TOTAL**				
16			**TOTAL CANADA**				
			TOTAL CANADA In USD				
329			**TOTAL US & CANADA**				
1			**Non-Stores**				
328			**Stores**				

EXHIBIT 5.11(a)

1. EBITDA: Commencing with the Fiscal year ending on or about January 31, 2007, the Borrower shall not permit its EBITDA, tested on a cumulative basis, as of the end of each Fiscal quarter, to be less than the following designated amounts, as of the end of the corresponding Fiscal quarter:

Period	Plan	Cumulative Plan	Covenant
2007 Q1	<$10.1MM>	<$10.1MM>	<$12.1MM>
2007 Q2	<$9.2MM>	<$19.3MM>	<$23.1MM>
2007 Q3	$7.9MM	<$11.5MM>	<$13.8MM>
2007 Q4	$33.5MM	$22.1MM	$17.7MM

Commencing with the Fiscal year ending on or about January 31, 2008 and thereafter, the Agent, the Majority Lenders and the Borrower shall reasonably agree upon the EBITDA covenants based upon Borrower’s Business Plan for such Fiscal year. In the event that the Agent, the Majority Lenders and the Borrower are unable to so agree, then the Minimum Reserve shall be increased to $12,000,000.00, unless and until mutually acceptable covenants have been agreed upon.

Notwithstanding the foregoing, compliance by the Borrower with the EBITDA covenants shall be waived for any fiscal quarter in which the Borrower has maintained Average Excess Availability of at least $8,000,000.00 at all times.

2. Capital Expenditures: Commencing with the Fiscal year ending on or about January 31, 2007 and thereafter, the Borrower shall not permit its Capital Expenditures to exceed 115% of the Capital Expenditures set forth in the Borrower’s Business Plan for such Fiscal year. Further, any unutilized Capital Expenditures in any given Fiscal year may be carried forward as an increase to the subsequent year’s Capital Expenditure covenant.

FY2007 Capital Expenditure Projections

FY2007 Gross Capital Expenditures	25,958
FY2007 Projected Allowances	(3,477)
FY2007 Net Capital Expenditures	**22,481**
FY2007 Capital Expenditures Covenant (115%)	**25,900**
Plus: FY2006 Carryover	**19,000**
Total Available to Spend	**44,900**

SEVERANCE AGREEMENT AND RELEASE

This Severance Agreement and Release (the "Agreement") is made this 9th day of July, 2007 between Steven Balasiano (the "Employee") and The Children's Place Services Company, LLC, its parent and its direct and indirect affiliated corporations and other entities (collectively, the "Employer" or the "Company").

1. Termination of Employment. The parties agree that the Employee's employment with the Employer shall terminate effective July 20, 2007 (the "Separation Date").

2. Separation Payment. (a) In consideration for entering into this Agreement, the Employer shall pay to the Employee the sum of Four Hundred Thirty Eight Thousand Dollars ($438,000), less legally required payroll deductions ("Separation Payment"), which sum shall be paid to Employee in accordance with the Company's regular payroll practices in twenty-six (26) biweekly installments commencing the first pay period following the Separation Date.

(b) The Company also agrees to pay to Employee the sum of Twenty-Four Thousand Eight Hundred Seven Dollars and Sixty-Nine Cents ($24,807.69), less legally required payroll deductions, for Employee's vacation and personal days as of the Separation Date, which sum shall be paid within (14) days of the Separation Date.

(c) The Company also agrees to pay to Employee an additional amount equal to the bonus payment, including any discretionary payment, Employee would have received had Employee received a "3" or "Meets Expectations" performance rating under and, other than with regard to the termination of Employee's employment hereunder, subject to the terms and conditions of the Company's Annual Management Supplemental Program in effect for the 2007 fiscal year, less legally required payroll deductions, which additional amount shall be prorated based on the length of employment during the 2007 fiscal year. The Company agrees to pay said additional amount on the date that the Employer makes bonus payments to eligible employees but no later than April 15, 2008.

(d) The Employer and Employee agree that Section 2 of the Transfer Restriction Agreement dated January 27, 2006 (the "Transfer Restriction Agreement") shall be amended in its entirety to state the following and such amendment shall supersede said section of the Transfer Restriction Agreement: "The Transfer Restrictions shall lapse with respect to the Options Shares on the date the Severance Agreement and Release is executed by the Employee." Capitalized terms not otherwise defined in this subparagraph shall have the meanings ascribed to them in the Transfer Restriction Agreement. Moreover, the Employee acknowledges that Employee (i) elected to have all outstanding stock options re-priced to the measurement date price determined by the Company, (ii) agreed to repay to the Company an amount equal to the difference between the exercise price and the correct measurement date price for stock options previously exercised by Employee, which amount is currently estimated to be Three Thousand Seven Hundred Seventy-Three Dollars ($3,773) but is subject to final determination by the Company, and (iii) agrees that Employee continues to be bound by said terms with

respect to Employee's stock options. The Employee also acknowledges that the issuance of shares of the Company's common stock upon the exercise of any stock option has been temporarily suspended and that Employee continues to be subject to such temporary suspension until further notice from the Company. After such temporary suspension has been lifted, the Employee shall have the same period of time to exercise any vested but unexercised stock options as other similarly situated employees, as determined by the Company in its sole discretion, who have terminated their employment during the temporary suspension.

(e) The parties acknowledge that they shall continue to be bound by the Performance Award Agreement dated January 30, 2006, including the amendment to the Performance Award Agreement dated July 9, 2007 (collectively, the "Performance Award Agreement"), which are attached hereto as Exhibit A. For purposes of the Performance Award Agreement, the Employee and Company acknowledge and agree that (1) Employee's separation from the Company is by mutual agreement of the Employee and Company, and (2) Employee shall be deemed to have been employed a full calendar month during the month of July 2007.

(f) The Employer represents and warrants, and the Employee acknowledges, that the consideration paid to the Employee under this Agreement is at least equal to or exceeds the amount the Employee would ordinarily be entitled to upon termination of the Employee's employment.

3. Other Benefits. (a) Any and all other employment benefits received by the Employee shall terminate effective as of the Separation Date, except that in the event Employee elects to continue medical, dental, and vision benefits though COBRA, the Employer agrees to waive the applicable premium cost that Employee would otherwise be required to pay for continued group health coverage for Employee and his family under Employer's medical and dental plans for a period of twelve (12) months or the date Employee commences full-time employment with another company that offers comparable health benefits, whichever date is sooner.

(b) The Company agrees that, through November 30, 2007, Employee's personal mail and email shall be re-directed to a mail and email address as instructed by Employee.

(c) The Employee agrees that the Employee is not entitled to and will not seek any further consideration, including, but not limited to, any wages, vacation pay, sick pay, disability pay, bonus, compensation, payment or benefit from the Released Parties (as defined in Section 10) other than that to which the Employee is entitled pursuant to this Agreement.

4. Removal from Company Positions and Indemnification. The Employee agrees that as of the Separation Date, the Employee shall resign from all positions held on behalf of the Company including but not limited to officer, director, agent, representative, trustee, administrator, fiduciary and signatory. In addition, with respect to all acts or omissions of Employee which occurred prior to the Separation Date, the Company agrees

to continue to indemnify the Employee to the same extent that the Employee was indemnified prior to the Separation Date and that the Employee shall retain the benefit of all directors and officers liability insurance and coverage maintained by the Company with respect to claims made during the period provided by the Company's current policy and to the extent provided by any future policy from time to time maintained by the Company with respect to other former executives of the Company, in each case on the terms and conditions of such policy.

5. Return of Company Property. The Company agrees that Employee shall retain his blackberry and laptop computer, provided that they shall each be scrubbed of any Company information. The Employee agrees to return to the Company all other cellular telephones, keys, locks, documents, records, materials, and other information of any type whatsoever that is the property of the Company. Employee further agrees that Employee shall not retain any copies or reproductions of correspondence, memoranda, reports, notebooks, drawings, photographs, or other documents relating in any way to the affairs of the Company or its vendors.

6. Consultation with Counsel and Voluntariness of Agreement. (a) The Employee acknowledges that the Employer has advised the Employee in writing to consult with an attorney prior to executing this Agreement. The Employee further acknowledges that, to the extent desired, the Employee has consulted with the Employee's own attorney in reviewing this Agreement, that the Employee has carefully read and fully understands all the provisions of this Agreement, and that the Employee is voluntarily entering into this Agreement.

(b) The Employee further acknowledges that the Employee has had a period of at least twenty-one (21) days in which to consider the terms of this Agreement.

(c) The Employee acknowledges that the Employee has been informed in writing that the Employee has seven (7) calendar days following the execution of this Agreement to revoke it, and that such revocation must be in writing, hand delivered or sent via overnight mail and actually received by the Employer within such period. It is specifically understood that this Agreement shall not be effective or enforceable, and the payments and benefits set forth in this Agreement shall not be paid until the seven-day revocation period has expired.

7. Confidentiality of Agreement. The Employee agrees not to disclose the existence of this agreement or the terms and conditions of this Agreement to any person or entity, except: (a) to comply with this Agreement; (b) to the Employee's legal, financial or tax advisors, spouse, and to the Internal Revenue Service or any similar state or local taxation authority; or (c) as otherwise required by law.

8. Confidential Information; Non-Competition; Non-Solicitation; Non-Disparagement. The Employee acknowledges and agrees that he continues to be bound by the terms of the agreement, signed on or about January 30, 2006, attached hereto as Exhibit B.

9. Confirmation of Employment. The Employer shall, if called upon, confirm the Employee's dates of employment and position with the Employer.

10. Release. (a) Employee represents and warrants that he is not aware of any misconduct by any employee or director of the Company that Employee should report in accordance with the Company's Code of Business Conduct or any irregularity in the Company's books or records or any other matter relating to the Company's accounting that could properly be reported by Employee pursuant to the procedures established by the Company for making such reports, except any that has already been reported by Employee in writing to the appropriate personnel of the Company. In exchange for the consideration set forth in Section 2, the Employee, on behalf of the Employee and the Employee's agents, assignees, attorneys, heirs, executors and administrators, voluntarily and knowingly releases the Employer, as well as the Employer's successors, predecessors, assigns, parents, subsidiaries, divisions, affiliates, officers, directors, shareholders, employees, agents and representatives, in both their individual and representative capacities (collectively, the "Released Parties"), from any and all claims, causes of action, suits, grievances, debts, sums of money, agreements, promises, damages, back and front pay, costs, expenses, and attorneys' fees by reason of any matter, cause, act or omission arising out of or in connection with the Employee's employment or separation from employment with the Employer, including but not limited to any claims based upon common law, any federal, state or local employment statutes or civil rights laws. Included in this release, without limiting its scope, are claims arising under Title VII of the Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act; the Older Workers Benefit Protection Act; the Americans with Disabilities Act; the Family and Medical Leave Act, the Fair Labor Standards Act of 1938 as amended by the Equal Pay Act of 1963; the Employee Retirement Income Security Act of 1974; the New Jersey Conscientious Employee Protection Act; the New Jersey Law Against Discrimination; the New Jersey Family Leave Act; the New Jersey Wage Payment Act; the Sarbanes-Oxley Act of 2002; and any other laws prohibiting discrimination, retaliation, wrongful termination, failure to pay wages, breach of contract, defamation, invasion of privacy, whistleblowing or infliction of emotional distress, or any other matter. This release shall apply to all known, unknown, unsuspected and unanticipated claims, liens, injuries and damages that have accrued to the Employee as of the date of this Agreement.

(b) This release does not waive rights or claims that may arise after this release is executed and does not waive any rights or claims which cannot be waived as a matter of law. This Agreement does not affect the Employee's right to file a charge with the EEOC or to participate in any investigation conducted by the EEOC, but the Employee acknowledges that the Employee is not entitled to any other monies other than those payments described in this Agreement.

(c) Employee agrees to execute and deliver to Company on the Separation Date a further Release in the form of Exhibit C.

11. Cooperation. Employee shall furnish such information as may be in his possession to, and cooperate with, the Company as may reasonably be requested by the Company in the orderly transfer of his responsibilities to other Company employees or in connection with any litigation or other proceeding in which the Company is or may be involved or a party.

12. Violation of Terms. Should the Employee violate any provision of this Agreement, then, in addition to all other damages or legal remedies available to the Employer (including without limitation injunctive relief), the Employee immediately shall return to the Employer all monies paid to the Employee pursuant to this Agreement. Should the Employer violate any provision of this Agreement, then the Employee shall have all remedies and civil actions available to remedy Employee's damages. The parties agree that, should either party seek to enforce the terms of this Agreement through litigation, then the prevailing party, in addition to all other legal remedies, shall be reimbursed by the other party for all reasonable attorneys' fees in relation to such litigation. However, in accordance with applicable laws, if the Employee violates this Agreement by commencing an action under the Age Discrimination in Employment Act, then the requirements set forth in this Section 12 shall not apply.

13. No Admission. Nothing contained in this Agreement nor the fact that the parties have signed this Agreement shall be construed as an admission by either party.

14. Waiver of Reinstatement. By entering into this Agreement, the Employee acknowledges that the Employee waives any claim to reinstatement and/or future employment with the Employer. The Employee further acknowledges that the Employee is not and shall not be entitled to any payments, benefits or other obligations from the Released Parties whatsoever (except as expressly set forth in this Agreement).

15. Miscellaneous. This Agreement contains the entire understanding between the parties. This Agreement supersedes any and all previous agreements and plans, whether written or oral, between the Employee and the Employer. There are no other representations, agreements or understandings, oral or written, between the parties relating to the subject matter of this Agreement. No amendment to or modification of this Agreement shall be valid unless made in writing and executed by the parties hereto subsequent to the date of this Agreement. This Agreement shall be enforced in accordance with the laws of the State of New Jersey, and the parties agree that any litigation to enforce this Agreement will take place in New Jersey. This Agreement may be executed in several counterparts, and all counterparts so executed shall constitute one Agreement, binding upon the parties hereto.

16. Severability. If any term, provision or part of this Agreement shall be determined to be in conflict with any applicable federal, state or other governmental law or regulation, or otherwise shall be invalid or unlawful, such term, provision or part shall continue in effect to the extent permitted by such law or regulation. Such invalidity, unenforceability or unlawfulness shall not affect or impair any other terms, provisions

and parts of this Agreement not in conflict, invalid or unlawful, and such terms, provisions and parts shall continue in full force and effect and remain binding upon the parties hereto.

THE EMPLOYEE STATES THAT THE EMPLOYEE HAS CAREFULLY READ THIS AGREEMENT PRIOR TO SIGNING IT, THAT THE AGREEMENT HAS BEEN FULLY EXPLAINED TO THE EMPLOYEE PRIOR TO SIGNING IT, THAT THE EMPLOYEE HAS HAD THE OPPORTUNITY TO HAVE IT REVIEWED BY AN ATTORNEY AND THAT THE EMPLOYEE UNDERSTANDS THE AGREEMENT'S FINAL AND BINDING EFFECT PRIOR TO SIGNING IT, AND THAT THE EMPLOYEE IS SIGNING THE RELEASE VOLUNTARILY WITH THE FULL INTENTION OF COMPROMISING, SETTLING, AND RELEASING THE COMPANY AS STATED IN THIS AGREEMENT.

The Children's Place Services Company, LLC	Steven Balasiano
By: /s/ [Illegible]	/s/ Steven Balasiano (signature)
Dated: 7/9/07	Dated: July 9, 2007

AIA® Document A141™ – 2004

Standard Form of Agreement Between Owner and Design-Builder

ADDITIONS AND DELETIONS:
The author of this document has added information needed for its completion. The author may also have revised the text of the original AIA standard form. An *Additions and Deletions Report* that notes added information as well as revisions to the standard form text is available from the author and should be reviewed. A vertical line in the left margin of this document indicates where the author has added necessary information and where the author has added to or deleted from the original AIA text.

This document has important legal consequences. Consultation with an attorney is encouraged with respect to its completion or modification.

Consultation with an attorney is also encouraged with respect to professional licensing requirements in the jurisdiction where the Project is located

AGREEMENT made as of 20th day of November in the year of 2006
(In words, indicate day, month and year)

BETWEEN the Owner:
(Name, address and other information)

The Children's Place Services Company, LLC
915 Secaucus Road
Secaucus, NJ 07094

and the Design-Builder:
(Name, address and other information)

Clayco, Inc.
2199 Innerbelt Business Center Drive
St. Louis, MO 63114

For the following Project:
(Name, location and detailed description)

The design and construction of a distribution center consisting of approximately 670,520 square feet, along with an attached office of approximately 19,650 square feet, located at 1377 Airport Road, Ft. Payne, Alabama 35968.

The Owner and Design-Builder agree as follows.

TABLE OF ARTICLES

1 **THE DESIGN-BUILD DOCUMENTS**

2 **WORK OF THIS AGREEMENT**

3 **DATE OF COMMENCEMENT AND SUBSTANTIAL COMPLETION**

4 **CONTRACT SUM**

5 **PAYMENTS**

6 **DISPUTE RESOLUTION**

7 **MISCELLANEOUS PROVISIONS**

8 **ENUMERATION OF THE DESIGN-BUILD DOCUMENTS**

TABLE OF EXHIBITS

A **TERMS AND CONDITIONS**

B **DETERMINATION OF THE COST OF THE WORK**

C **INSURANCE AND BONDS**

ARTICLE 1 THE DESIGN-BUILD DOCUMENTS
§ 1.1 The Design-Build Documents form the Design-Build Contract. The Design-Build Documents consist of this specifically modified Agreement between Owner and Design-Builder (hereinafter, the "Agreement") and its attached Exhibits; Supplementary and other Conditions; Addenda issued prior to execution of the Agreement; the Outline Specifications (12-18-06), including changes to the Outline Specifications (12-18-06) proposed in writing by the Design-Builder and accepted in writing by the Owner, if any; the Design-Builder's Proposal (Exhibits D-Control Budget & E-Outline Specifications dated 12-18-06) and written modifications to the Proposal accepted in writing by the Owner, if any; other documents listed in this Agreement; and Modifications issued after execution of this Agreement. The Design-Build Documents shall not be construed to create a contractual relationship of any kind (1) between the Architect and Owner, (2) between the Owner and a Contractor or Subcontractor, or (3) between any persons or entities other than the Owner and Design-Builder, including but not limited to any consultant retained by the Owner to prepare or review the Project Criteria. An enumeration of the Design-Build Documents, other than Modifications, appears in Article 8.

§ 1.2 The Design-Build Contract represents the entire and integrated agreement between the parties hereto and supersedes prior negotiations, representations or agreements, either written or oral.

§ 1.3 The Design-Build Contract may be amended or modified only by a Modification. A Modification is (1) a written amendment to the Design-Build Contract signed by both parties, or (2) a Change Order.

ARTICLE 2 THE WORK OF THE DESIGN-BUILD CONTRACT
§ 2.1 The Design-Builder shall fully execute the Work described in the Design-Build Documents, except to the extent specifically indicated in the Design-Build Documents to be the responsibility of others.

ARTICLE 3 DATE OF COMMENCEMENT AND SUBSTANTIAL COMPLETION
§ 3.1 The date of commencement of the Work shall be the date of this Agreement unless a different date is stated below or provision is made for the date to be fixed in a notice issued by the Owner.
(Insert the date of commencement if it differs from the date of this Agreement or, if applicable, state that the date will be fixed in a notice to proceed.)

Date of commencement shall be October 2, 2006.

If, prior to the commencement of Work, the Owner requires time to file mortgages, documents related to mechanic's liens and other security interests, the Owner's time requirement shall be as follows:
(Insert Owner's time requirements.)

N/A

§ 3.2 The Contract Time shall be measured from the date of commencement, subject to adjustments of this Contract Time as provided in the Design-Build Documents.
(Paragraphs deleted)

§ 3.3 The Design-Builder shall achieve Substantial Completion of the Work not later than
(Paragraphs deleted)
July 6, 2007, subject to extensions for any delays as authorized by the Contract Documents, such completion date as extended and adjusted being referred to herein as the "Substantial Completion Date." Owner requires early occupancy of the building (Column lines 3 thru 27 and A thru F) on March 1, 2007, for the purpose of beginning erection of mezzanine and conveyor systems. Design-builder will use its best efforts to complete the referenced areas by March 8, 2007 within the confines of the Agreement. This area will not be Substantially Complete at time of mobilization by others and Work in this area by the Design-Builder will still be in progress.
(Table deleted)

ARTICLE 4 CONTRACT SUM
§ 4.1 The Owner shall pay the Design-Builder the Contract Sum in current funds for the Design-Builder's performance of the Design-Build Contract. The Contract Sum shall be one of the following:
(Check the appropriate box.)

- o Stipulated Sum in accordance with Section 4.2 below;
- o Cost of the Work Plus Design-Builder's Fee in accordance with Section 4.3 below;
- x Cost of the Work Plus Design-Builder's Fee with a Guaranteed Maximum Price in accordance with Section 4.4 below.

(Based on the selection above, complete either Section 4.2, 4.3 or 4.4 below.)

(Paragraphs deleted)
(Table deleted)
(Paragraphs deleted)
(Table deleted)
(Paragraphs deleted)
§ 4.4 COST OF THE WORK PLUS DESIGN-BUILDER'S FEE WITH A GUARANTEED MAXIMUM PRICE

§ 4.4.1 The Cost of the Work is as defined in Exhibit B, plus the Design-Builder's Fee.

§ 4.4.2 The Design-Builder's Fee is: 5.25 % of the Cost of the Work.
(State a lump sum, percentage of Cost of the Work or other provision for determining the Design-Builder's Fee and the method of adjustment to the Fee for changes in the Work.)

The "Design-Builder's Fee" is subject to an increase of 5.25% of the cost of work increases on all Change Orders, as defined in Section 4.5.3 below or as otherwise authorized by the Contract Documents, increasing the Cost of the Work, and subject to a decrease of 4%) on all Change Orders decreasing the Cost of the Work.

§ 4.4.3 GUARANTEED MAXIMUM PRICE
§ 4.4.3.1 The sum of the Cost of the Work and the Design-Builder's Fee is guaranteed by the Design-Builder not to exceed Thirty One Million, Nine Hundred Eighty-Nine Thousand, Nine Hundred Seventy-Nine Dollars $ 31,989,979, in accordance with Exhibit D-Control Budget, subject to additions and deductions by Change Orders

as provided in the Design-Build Documents. Such maximum sum is referred to in the Design-Build Documents as the Guaranteed Maximum Price. Costs which would cause the Guaranteed Maximum Price to be exceeded shall be paid by the Design-Builder without reimbursement by the Owner.
(Insert specific provisions if the Design-Builder is to participate in any savings.)

If, upon Final Completion, the Guaranteed Maximum Price exceeds the actual Cost of the Work plus the Design-Builder's Fee, then the amount of such excess shall be referred to herein as the "Savings," with the Savings to be split with 30 percent of the Savings to accrue to the benefit of Design-Builder and 70 percent of the Savings to accrue to the benefit of the Owner.

§ 4.4.3.2 The Guaranteed Maximum Price is based on the following alternates, if any, which are described in the Design-Build Documents and are hereby accepted by the Owner:

Exhibit E: Outline Specifications dated December 18, 2006 ("Outline Specs"), attached hereto (consisting of Twenty-Four (24) pages).

§ 4.4.3.3 Unit Prices, if any, are as follows:

(Row deleted)

§ 4.4.3.4 Allowances, if any, are as follows:
(Identify and state the amounts of any allowances, and state whether they include labor, materials, or both.)

See Clarifications Exhibit ("F"), dated December 18, 2006.
(Row deleted)

§ 4.4.3.5 Assumptions, if any, on which the Guaranteed Maximum Price is based, are as follows:
(Identify the assumptions on which the Guaranteed Maximum Price is based.)

See Outline Specs Exhibit ("E").

§4.5 CHANGES IN THE WORK
§4.5.1 Adjustments of the Contract Sum on account of changes in the Work shall be determined in accordance with Section 4.5.3, and as otherwise expressly provided for in the Design-Build Documents.

§ 4.5.2 Where the Contract Sum is the Cost of the Work plus Design-Builder's Fee, with or without a Guaranteed Maximum Price, and if the extent of such changes is such, in the aggregate, that application of the adjustment will cause substantial inequity to the Owner or Design-Builder, the Design-Builder's Fee shall be equitably adjusted on the basis of the Fee established for the original Work, and the Contract Sum shall be adjusted accordingly.

§ 4.5.3 If (a) the Owner requests a change in the Work, (b) the Design-Builder requests a change in the Work, or (c) the Design-Builder otherwise is entitled to a Change Order as provided in the Design-Build Documents, then the Design-Builder shall have the right to submit to the Owner a written change order request (a "**COR**"), which shall set forth such change to the Design-Build Documents as the Design-Builder shall desire or deem appropriate. Such COR shall be in writing and shall set forth the Design-Builder's determination of the appropriate changes, if any, to (as may be applicable) (i) the Cost of the Work, (ii) the Design-Builder's Fee, (iii) the Guaranteed Maximum Price, (iv) the Contract Sum, (v) the schedule of values, (vi) the Substantial Completion Date, or (vii) any other provisions of the Design-Build Documents. Each COR shall constitute an offer by the Design-Builder to amend the Design-Build Documents. If the Owner accepts such offer in writing and without revision, then such offer and acceptance, together, shall constitute a "**Change Order**" which shall operate to amend the Design-Build Documents. If the Owner accepts such offer subject to revisions not previously agreed to by the Design-Builder in writing, then such "acceptance" shall constitute a counteroffer by the Owner to the Design-Builder which the Design-Builder may either accept in writing or reject. If the Design-Builder accepts such counteroffer in writing, the same shall

constitute a Change Order. The Design-Builder shall have no obligation to perform any changes in the Work except pursuant to a Change Order made as provided herein. If (i) the Design-Builder makes changes in the Work approved or requested in writing by the Owner and such changes are not made pursuant to a Change Order as described above, or (ii) the Design-Builder otherwise is entitled to a Change Order as provided in the Design-Build Documents, then the

Design-Builder shall be entitled to a Change Order based upon the effect of such change on (as may be applicable) the cost and schedule of the Project.

ARTICLE 5 PAYMENTS
§ 5.1 PROGRESS PAYMENTS
§ 5.1.1 Based upon Applications for Payment submitted to the Owner by the Design-Builder, the Owner shall make progress payments on account of the Contract Sum to the Design-Builder as provided below and elsewhere in the Design-Build Documents.

§ 5.1.2 The period covered by each Application for Payment shall be one calendar month ending on the last day of the month, or as follows:

§ 5.1.3 Provided that an Application for Payment is received by the Owner not later than the first (1st) day of a month, the Owner shall make payment to the Design-Builder not later than the twentieth (20th) day of the same month. If an Application for Payment is received by the Owner after the application date fixed above, payment shall be made by the Owner not later than twenty (20) days after the Owner receives the Application for Payment **§ 5.1.4** With each Application for Payment where the Contract Sum is based upon the Cost of the Work, or the Cost of the Work with a Guaranteed Maximum Price, the Design-Builder shall submit payrolls, petty cash accounts, receipted invoices or invoices with check vouchers attached, and any other evidence required by the Owner to demonstrate that cash disbursements already made by the Design-Builder on account of the Cost of the Work equal or exceed (1) progress payments already received by the Design-Builder, less (2) that portion of those payments attributable to the Design-Builder's Fee; plus (3) payrolls for the period covered by the present Application for Payment.

(Paragraphs deleted)
§ **5.1.5** With each Application for Payment where the Contract Sum is based upon a Stipulated Sum or Cost of the Work with a Guaranteed Maximum Price, the Design-Builder shall submit the most recent schedule of values in accordance with the Design-Build Documents. The schedule of values shall allocate the entire Contract Sum among the various portions of the Work. Compensation for design services shall be shown separately. Where the Contract Sum is based on the Cost of the Work with a Guaranteed Maximum Price, the Design-Builder's Fee shall be shown separately. The schedule of values shall be prepared in such form and supported by such data to substantiate its accuracy as the Owner may require. This schedule of values, unless objected to by the Owner, shall be used as a basis for reviewing the Design-Builder's Applications for Payment.

§ **5.1.6** In taking action on the Design-Builder's Applications for Payment, the Owner shall be entitled to rely on the accuracy and completeness of the information furnished by the Design-Builder and shall not be deemed to have made a detailed examination, audit or arithmetic verification of the documentation submitted in accordance with Sections 5.1.4 or 5.1.5, or other supporting data; to have made exhaustive or continuous on-site inspections; or to have made examinations to ascertain how or for what purposes the Design-Builder has used amounts previously paid on account of the Agreement. Such examinations, audits and verifications, if required by the Owner, will be performed by the Owner's accountants acting in the sole interest of the Owner.

§ **5.1.7** Except with the Owner's prior approval, the Design-Builder shall not make advance payments to suppliers for materials or equipment which have not been delivered and stored at the site.

(Paragraphs deleted)
§ 5.4 PROGRESS PAYMENTS - COST OF THE WORK PLUS A FEE WITH A GUARANTED MAXIMUM PRICE
§ 5.4.1 Applications for Payment where the Contract Sum is based upon the Cost of the Work Plus a Fee with a Guaranteed Maximum Price shall show the percentage of completion of each portion of the Work as of the end of the period covered by the Application for Payment. The percentage of completion shall be the lesser of (1) the percentage of that portion of the Work which has actually been completed; or (2) the percentage obtained by

dividing (a) the expense that has actually been incurred by the Design-Builder on account of that portion of the Work for which the Design-Builder has made or intends to make actual payment prior to the next Application for Payment by (b) the share of the Guaranteed Maximum Price allocated to that portion of the Work in the schedule of values.

§ 5.4.2 Subject to other provisions of the Design-Build Documents, the amount of each progress payment shall be computed as follows:

.1 Take that portion of the Guaranteed Maximum Price properly allocable to completed Work as determined by multiplying the percentage of completion of each portion of the Work by the share of the Guaranteed Maximum Price allocated to that portion of the Work in the schedule of values. Pending final determination of cost to the Owner of changes in the Work, amounts not in dispute shall be included;

.2 Add that portion of the Guaranteed Maximum Price properly allocable to materials and equipment delivered and suitably stored at the site for subsequent incorporation in the Work, or if approved in advance by the Owner, suitably stored off the site at a location agreed upon in writing;

.3 Add the Design-Builder's Fee, less retainage of five (5%). The Design-Builder's Fee shall be computed upon the Cost of the Work described in the two preceding sections at the rate stated in Section 4.4.2 or, if the Design-Builder's Fee is stated as a fixed-sum in that section, shall be an amount that bears the same ratio to that fixed-sum fee as the Cost of the Work in the two preceding sections bears to a reasonable estimate of the probable Cost of the Work upon its completion;

.4 Subtract the aggregate of previous payments made by the Owner;

.5 Subtract the shortfall, if any, indicated by the Design-Builder in the documentation required by Section 5.1.4 to substantiate prior Applications for Payment, or resulting from errors subsequently discovered by the Owner's accountants in such documentation;

.6 Subtract amounts, if any, for which the Owner has withheld or nullified an Application for Payment as provided in Section A.9.5 of Exhibit A, Terms and Conditions; and

.7 Upon Substantial Completion of the Work, any retainage then held by the Owner shall be due and payable to the Design-Builder, provided that such payment may be reduced by 150% for the cost of completing any incomplete Work or for the disputed amount of any unsettled claims.

§ 5.4.3 Except with the Owner's prior approval, payments for the Work, other than for services provided by design professionals and other consultants retained directly by the Design-Builder, shall be subject to retainage of not less than five (5%). The Owner and Design-Builder shall agree on a mutually acceptable procedure for review and approval of payments and retention for Contractors.

§ 5.5 FINAL PAYMENT
§ 5.5.1 Final payment, constituting the entire unpaid balance of the Contract Sum, shall be made by the Owner to the Design-Builder no later than 30 days after the Design-Builder has fully performed the Design-Build Contract, including the requirements in Section A.9.10 of Exhibit A, Terms and Conditions, except for the Design-Builder's responsibility to correct non-conforming Work discovered after final payment or to satisfy other requirements, if any, which extend beyond final payment.

ARTICLE 6 DISPUTE RESOLUTION
§ 6.1 The parties appoint the following individual to serve as a Neutral pursuant to Section A.4.2 of Exhibit A, Terms and Conditions:
(Paragraphs deleted)
N/A

§ 6.2 If the parties do not resolve their dispute through mediation pursuant to Section A.4.3 of Exhibit A, Terms and Conditions, the method of binding dispute resolution shall be the following:
(If the parties do not select a method of binding dispute resolution, then the method of binding dispute resolution shall be by litigation in a court of competent jurisdiction.)
(Check one.)

x Arbitration pursuant to Section A.4.4 of Exhibit A, Terms and Conditions

o Litigation in a court of competent jurisdiction

o Other *(Specify)*

§ 6.3 ARBITRATION
§ 6.3.1 If Arbitration is selected by the parties as the method of binding dispute resolution, then any claim, dispute or other matter in question arising out of or related to this Agreement shall be subject to arbitration as provided in Section A.4.4 of Exhibit A, Terms and Conditions.

ARTICLE 7 MISCELLANEOUS PROVISIONS
§ 7.1 The Architect, other design professionals and consultants engaged by the Design-Builder shall be persons or entities duly licensed to practice their professions in the jurisdiction where the Project is located and are listed as follows:
(Insert name, address, license number, relationship to Design-Builder and other information.)

Name and Address	License Number	Relationship to Design-Builder	Other Information
Forum Studio 2199 Innerbelt Business Center Drive St. Louis, MO 63114		Subsidiary	

§ 7.2 Consultants, if any, engaged directly by the Owner, their professions and responsibilities are listed below:
(Insert name, address, license number, if applicable, and responsibilities to Owner and other information.)

Name and Address	License Number	Responsibilities to Owner	Other Information
Goodwyn, Mills and Cawood, Inc. 2701 First Ave., South, Ste 100 Birmingham, AL 35233		Materials Testing Owners Representative	

§ 7.3 Separate contractors, if any, engaged directly by the Owner, their trades and responsibilities are listed below:
(Insert name, address, license number, if applicable, responsibilities to Owner and other information.)

Name and Address	License Number	Responsibilities to Owner	Other Information
Dematic Corp. 6 Powder Horn Drive Warren, NJ 07059		Conveyor Sub.	

§ 7.4 The Owner's Designated Representative is:
(Insert name, address and other information.)

Sal Pepitone
The Children's Place
915 Secaucus Road
Secaucus, New Jersey 07094

§ 7.4.1 The Owner's Designated Representative identified above shall be authorized to act on the Owner's behalf with respect to the Project.

§ 7.5 The Design-Builder's Designated Representative is:

(Insert name, address and other information.)

Dave Moses
Clayco, Inc.
2199 Innerbelt Business Center Drive
St. Louis, MO 63114

§ 7.5.1 The Design-Builder's Designated Representative identified above shall be authorized to act on the Design-Builder's behalf with respect to the Project.

§ 7.6 Neither the Owner's nor the Design-Builder's Designated Representative shall be changed without ten days written notice to the other party.

§ 7.7 Other provisions:

.1 If there is any conflict among the Contract Documents, then the following priority shall be given to the same: first, the provisions of this Agreement (A141) shall govern, second, the provisions of the form of Exhibit A, Terms and Conditions attached hereto shall govern, third, the Outline Specifications shall govern (provided that as to design matters, the Outline Specifications shall govern over A141 and Exhibit A) and fourth, the most recent version of the Drawings approved by Owner and Design-Builder in writing shall govern (provided that as to design matters, the Drawings shall govern over A141 and Exhibit A).

.2 Owner warrants that it holds or will hold, on or before January 26, 2007, fee simple title to the land upon which the Project will be constructed. To the extent that prior to such date Design Builder is entitled to file any liens against Owner with respect to Design Builder's performance under this Agreement, then Design Builder may file such liens in such other jurisdiction in which Owner conducts business, subject in each instance to Design-Builder's obligation to promptly remove any such liens upon the later of the date upon which Owner notifies, in writing, Design Builder that it holds title to the Property or Design-Builder has filed replacement liens in the jurisdiction in which the Property is located.

.3 The Owner is committed to providing a safe working environment on the jobsite. In endeavoring to achieve a safe workplace, the Owner requires that the Design-Builder implement a substance abuse policy covering all Design-Builder, Contractor, and Subcontractor employees of any tier throughout the duration of this Project. Design-Builder agrees that such policy shall be in accordance with the Design-Builder's corporate substance abuse policy; provided that such policy shall meet or exceed the standards set forth by the St. Louis Construction Industry Substance Abuse Consortium and shall be in compliance with applicable law.

.4 The Design-Builder will enter into a direct contractual relationship with the Architect and/or engineers, and/or other design professionals to provide the design of the Project. The Owner acknowledges and agrees that the Design-Builder is not a licensed architect or engineer and is not agreeing to perform services which require such a license in the State in which the Project is located. Such services will be performed by licensed architects, engineers and design-build Contractors under separate agreements, and subject to A.3.2.3, said design professionals shall be solely responsible for the accuracy, adequacy and professional quality of the services provided thereby. The fees and expenses of those design professionals contracted and paid for by the Design-Builder shall be included as part of, as applicable, the Stipulated Sum or the Cost of the Work.

§ 7.7.1 Where reference is made in this Agreement to a provision of another Design-Build Document, the reference refers to that provision as amended or supplemented by other provisions of the Design-Build Documents.

§ 7.7.2 Payments due and unpaid under the Design Build Contract shall bear interest from the date payment is due at the rate stated below, or in the absence thereof, at the legal rate prevailing from time to time at the place where the Project is located.
(Paragraphs deleted)
Three percent (3%) over the "prime rate" as reported in the Wall Street Journal as of the first business day of any applicable month.

§ 7.7.3 Design-Builder acknowledges that the Owner will (1) disclose the material terms of this Agreement in its reports with the Securities and Exchange Commission and (2) file this Agreement as an exhibit to reports it files with the Securities and Exchange Commission.

ARTICLE 8 ENUMERATION OF THE DESIGN-BUILD DOCUMENTS

§ 8.1 The Design-Build Documents, except for Modifications issued after execution of this Agreement, are enumerated as follows:

§ 8.1.1 The Agreement is this executed edition of the Standard Form of Agreement Between Owner and Design-Builder, AIA Document Al41-2004, as modified herein.

§ 8.1.2 The Supplementary and other Conditions of the Agreement, if any, are as follows:
(Either list applicable documents below or refer to an exhibit attached to this Agreement.)

N/A

(Table deleted)
§ 8.1.3 The Project Criteria, including changes to the Project Criteria proposed by the Design-Builder, if any, and accepted by the Owner, consist of the following:
(Either list applicable documents and their dates below or refer to an exhibit attached to this Agreement.)

N/A
(Table deleted)
§ 8.1.4 The Design-Builder's Proposal, consists of the following:
(Paragraphs deleted)
December 18, 2006 Control Budget (Exhibit "D"), and Outline Specifications dated December 18, 2006, (Exhibit "E").

§ 8.1.5 Amendments to the Design-Builder's Proposal, if any, are as follows:
(Either list applicable documents below or refer to an exhibit attached to this Agreement.)

N/A

§ 8.1.6 The Addenda, if any, are as follows:
(Either list applicable documents below or refer to an exhibit attached to this Agreement.)

N/A
(Table deleted)
§ 8.1.7 Exhibit A, Terms and Conditions, as modified in the form attached to this Agreement.
(If the parties agree to substitute terms and conditions other than those contained in AIA Document A141-2004, Exhibit A, Terms and Conditions, then identify such terms and conditions and attach to this Agreement as Exhibit A.)

§ 8.1.8

Exhibit B, Determination of the Cost of the Work, if applicable.
(If the parties agree to substitute a method to determine the cost of the Work other than that contained in AIA Document A141-2004, Exhibit B, Determination of the Cost of the Work, then identify such other method to determine the cost of the Work and attach to this Agreement as Exhibit B. If the Contract Sum is a Stipulated Sum, then Exhibit B is not applicable.)

§ 8.1.9 Exhibit C, Insurance and Bonds, if applicable, as modified in the form attached to this Agreement.
(Complete AIA Document A141-2004, Exhibit C, Insurance and Bonds or indicate "not applicable.")

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§ 8.1.10 Other documents, if any, forming part of the Design-Build Documents are as follows:
(Either list applicable documents below or refer to an exhibit attached to this Agreement.)

Control Budget Dated December 18, 2006, (Exhibit "D")
Outline Specifications Dated December 18, 2006., (Exhibit "E")
Clarifications Dated December 18, 2006, (Exhibit "F")
Exclusions Dated December 18, 2006, (Exhibit "G")
Contract Document List, Dated January 7, 2007 (Exhibit "H")
Project Schedule, Dated December 18, 2006 (Exhibit "I")
Owner's Builders Risk Certificate of Insurance (Exhibit "J")
Schedule of Values, December 18, 2006 (Exhibit "K")

This Agreement is entered into as of the day and year first written above and is executed in at least three original copies, of which one is to be delivered to the Design-Builder and one to the Owner.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

NOTICE TO OWNER:
FAILURE OF THIS CONTRACTOR TO PAY THOSE PERSONS SUPPLYING MATERIAL OR SERVICES TO COMPLETE THIS CONTRACT CAN RESULT IN THE FILING OF A MECHANIC'S LIEN ON THE PROPERTY WHICH IS THE SUBJECT OF THIS CONTRACT. TO AVOID THIS RESULT YOU MAY ASK THIS CONTRACTOR FOR "LIEN WAIVERS" FROM ALL PERSONS SUPPLYING MATERIAL OR SERVICES FOR THE WORK DESCRIBED IN THIS CONTRACT. FAILURE TO SECURE LIEN WAIVERS MAY RESULT IN YOUR PAYING FOR LABOR AND MATERIAL TWICE.

THE CHILDREN'S SERVICE COMPANY, LLC	**CLAYCO, INC.**
/s/ Ezra Dabah 1-18-07	/s/ C. David Moses
OWNER *(Signature)*	**DESIGN-BUILDER *(Signature)***
Ezra Dabah Chief Executive Officer	C. David Moses Exec. Vice President
(Printed name and title)	*(Printed name and title)*

/s/ Susan Riley 1-18-07
OWNER *(Signature)*

Susan Riley
Chief Financial Officer
(Printed name and title)

Terms and Conditions

ADDITIONS AND DELETIONS:

The author of this document has added information needed for its completion. The author may also have revised the text of the original AIA standard form. An *Additions and Deletions Report* that notes added information as well as revisions to the standard form text is available from the author and should be reviewed. A vertical line in the left margin of this document indicates where the author has added necessary information and where the author has added to or deleted from the original AIA text.

This document has important legal consequences. Consultation with an attorney is encouraged with respect to its completion or modification.

Consultation with an attorney is also encouraged with respect to professional licensing requirements in the jurisdiction where the Project is located.

for the following PROJECT:
(Name and location or address)

The design and construction of a distribution center consisting of approximately 670,520 square feet, along with an attached office of approximately 19,650 square feet, located at 1377 Airport Road, Ft. Payne, Alabama 35968.

THE OWNER:
(Name and location)

The Children's Place Services Company, LLC
915 Secaucus Road
Secaucus, NJ 07094

THE DESIGN-BUILDER:
(Name and location)

Clayco, Inc.
2199 Innerbelt Business Center Drive
St. Louis, MO 63114

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/ **User Notes:** (4026764805)

ARTICLE A.1 GENERAL PROVISIONS
§ A.1.1 BASIC DEFINITIONS
§ A.1.1.1 THE DESIGN-BUILD DOCUMENTS
The Design-Build Documents are identified in Section 1.1 of the Agreement.

(Paragraphs deleted)
§ A.1.1.3 ARCHITECT

The Architect is the person or persons lawfully licensed to practice architecture in Alabama or an entity lawfully practicing architecture in Alabama identified as such in the Agreement and having a direct contract with the Design-Builder to perform design services for all or a portion of the Work, and is referred to throughout the Design-Build Documents as if singular in number. The term "Architect" means the Architect or the Architect's authorized representative.

§ A.1.1.4 CONTRACTOR
A Contractor is a person or entity, other than the Architect, lawfully licensed in the State of Alabama, that has a direct contract with the Design-Builder to perform all or a portion of the construction required in connection with the Work. The term "Contractor" is referred to throughout the Design-Build Documents as if singular in number and means a Contractor or an authorized representative of the Contractor. The term "Contractor" does not include a separate contractor, as defined in Section A.6.1.2, or subcontractors of a separate contractor.

§ A.1.1.5 SUBCONTRACTOR
A Subcontractor is a person or entity who has a direct contract with a Contractor to perform a portion of the construction required in connection with the Work at the site. The term "Subcontractor" is referred to throughout the Design-Build Documents as if singular in number and means a Subcontractor or an authorized representative of the Subcontractor.

§ A.1.1.6 THE WORK
The term "Work" means the design, construction and services required by the Design-Build Documents, whether completed or partially completed, and includes all other labor, materials, equipment and services provided or to be provided by the Design-Builder to fulfill the Design-Builder's obligations. The Work may constitute the whole or a part of the Project.

§ A.1.1.7 THE PROJECT
The Project is the total design and construction of which the Work performed under the Design-Build Documents may be the whole or a part, and which may include design and construction by the Owner or by separate contractors.

(Paragraphs deleted)
§ A.1.2 COMPLIANCE WITH APPLICABLE LAWS

§ A. 1.2.1 If the Design-Builder believes that implementation of any instruction received from the Owner would cause a violation of any applicable law, statute, ordinance, building code, rule or regulation, the Design-Builder shall notify the Owner in writing. Neither the Design-Builder nor any Contractor or Architect shall be obligated to perform any act which they believe will violate any applicable law, ordinance, rule or regulation.

§ A.1.2.2 The Design-Builder shall be entitled to rely on the completeness and accuracy of the information contained in the Outline Specifications, but not that such information complies with applicable laws, regulations and codes, which shall be the obligation of the Architect to determine. In the event that a specific requirement of the Outline Specifications conflicts with applicable laws, regulations and codes, the Design-Builder shall furnish Work which complies with such laws, regulations and codes. In such case, the Owner shall issue a Change Order to the Design-Builder unless the Design-Builder actually recognized or should reasonably have knowledge of such non-compliance prior to execution of this Agreement and failed to notify the Owner.

§ A.1.3 CAPITALIZATION
§ A.1.3.1 Terms capitalized in these Terms and Conditions include those which are (1) specifically defined, (2) the titles of numbered articles and identified references to sections in the document, or (3) the titles of other documents published by the American Institute of Architects.

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§A.1.4 INTERPRETATION
§ A.1.4.1 In the interest of brevity, the Design-Build Documents frequently omit modifying words such as “all” and “any” and articles such as “the” and “an,” but the fact that a modifier or an article is absent from one statement and appears in another is not intended to affect the interpretation of either statement.

§ A.1.4.2 Unless otherwise stated in the Design-Build Documents, words which have well-known technical or construction industry meanings are used in the Design-Build Documents in accordance with such recognized meanings.

§ A.1.5 EXECUTION OF THE DESIGN-BUILD DOCUMENTS
§ A.1.5.1 The Design-Build Documents shall be signed by the Owner and Design-Builder.

§ A.1.5.2 Execution of the Design-Build Contract by the Design-Builder is a representation that the Design-Builder has visited the site, become generally familiar with local conditions under which the Work is to be performed, correlated personal observations with requirements of the Design-Build Documents and has no knowledge that the site conditions would have any material adverse consequences for implementation of the Work..

§ A.1.6 OWNERSHIP AND USE OF DOCUMENTS AND ELECTRONIC DATA
§ A.1.6.1 Drawings, specifications, and other documents including those in electronic form, prepared by the Architect and furnished by the Design-Builder are Instruments of Service. The Design-Builder, Design-Builder’s Architect and other providers of professional services individually shall retain all common law, statutory and other reserved rights, including copyright in those Instruments of Services furnished by them. Drawings, specifications, and other documents and materials and electronic data are furnished for use solely with respect to this Project.

§ A.1.6.2 Drawings, specifications and other documents and electronic data shall not be used by the Owner or others on other projects, additions to this Project or, subject to the provisions of Sections A,.2.5.1 and 14.2.2, for the completion of this Project by others, except by agreement in writing and with appropriate compensation to the Design-Builder. If the Owner proceeds to construct other projects, additions to this Project or for the completion of this Project by others through its employees, agents or third parties, then the use of the Instruments of Service are at the Owner’s sole risk without liability or legal exposure to either the Design-Builder, provided however that Design-Builder shall continue to be responsible for Work completed or performed by Design-Builder utilizing the Instruments of Service, Architect or other providers of professional services. The Owner hereby agrees to defend, indemnify and hold harmless the Design-Builder, Architect and other providers of professional services from any and all claims, damages, liabilities, losses and expenses, including attorney’s fees, arising out of or resulting from the use of the Instruments of Service, with respect to any additions to this Project, completion of this Project or other projects, provided, however, that such indemnification shall not apply to Work completed or performed by Design-Builder utilizing the Instruments of Service.

§ A.1.6.3 Prior to any electronic exchange by the parties of the Instruments of Service or any other documents or materials to be provided by one party to the other, the Owner and the Design-Builder shall agree in writing on the specific conditions governing the format thereof, including any special limitations or licenses not otherwise provided in the Design-Build Documents.

§ A.1.6.4 [Deliberately Left Blank]

§ A.1.6.5 Submission or distribution of the Design-Builder’s documents to meet official regulatory requirements or for similar purposes in connection with the Project, including, without limitation any disclosures required by applicable state and federal securities laws, is not to be construed as publication in derogation of the rights reserved in Section A.1.6.1.

ARTICLE A.2 OWNER
§ A.2.1 GENERAL
§ A.2.1.1 The Owner is the person or entity identified as such in the Agreement and is referred to throughout the Design-Build Documents as if singular in number. The term “Owner” means the Owner or the Owner’s authorized representative. The Owner shall designate in writing a representative who shall have express authority to bind the

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Owner with respect to all matters requiring the Owner’s approval or authorization. The Owner shall render decisions in a timely manner and in accordance with the Design-Builder’s schedule submitted to the Owner.

§ A.2.1.2 The Owner shall furnish to the Design-Builder within 15 days after receipt of a written request information necessary and relevant for the Design-Builder to evaluate, give notice of or enforce mechanic’s lien rights. Such information shall include a correct statement of the record legal title to the property on which the Project is located, usually referred to as the site, and the Owner’s interest therein.

§ A.2.1.3 Owner warrants that it holds or will hold, on or before January 26, 2007, fee simple title to the land upon which the Project will be constructed. To the extent that prior to such date Design Builder is entitled to file any liens against Owner with respect to Design Builder’s performance under this Agreement, then Design Builder may file such liens in such other jurisdiction in which Owner conducts business, subject in each instance to Design Builder’s obligation to promptly remove any such liens upon the later of the date upon which Owner notifies, in writing, Design Builder that it holds title to the Property or Design Builder has filed replacement liens in the jurisdiction in which the Property is located.

§ A.2.2 INFORMATION AND SERVICES REQUIRED OF THE OWNER
§ A.2.2.1 Information or services required of the Owner by the Design-Build Documents shall be furnished by the Owner with reasonable promptness. Any other information or services relevant to the Design-Builder’s performance of the Work under the Owner’s control shall be furnished by the Owner after receipt from the Design-Builder of a written request for such information or services.

§ A.2.2.2 The Owner shall be responsible to provide surveys describing physical characteristics, legal limitations, and utility locations for the site of this Project, and a written legal description of the site. The surveys and legal information shall include, as applicable, grades and lines of streets, alleys, pavements, and adjoining property and structures; adjacent drainage; rights-of-way, restrictions, easements, encroachments, zoning, deed restriction, boundaries, and contours of the site; locations, dimensions, and necessary data pertaining to existing buildings, other improvements and trees; and information concerning available utility services and lines, both public and private, above and below grade, including inverts and depths. All the information on the survey shall be referenced to a Project benchmark. The Design-Builder shall be entitled to rely on the accuracy of information furnished by the Owner, unless contradicted by Design-Builder’s personal observations in accordance with Section A.1.5.2, but shall exercise proper precautions relating to the safe performance of the Work.

§ A.2.2.3 The Owner shall provide, to the extent known to the Owner, the results and reports of prior tests, inspections or investigations conducted for the Project involving structural or mechanical systems, chemical, air and water pollution, hazardous materials, geotechnical conditions, or other environmental, subsurface or concealed conditions. The Owner shall disclose all information known to the Owner regarding the presence of hazardous materials, pollutants or contaminants at the Project site.

§ A.2.2.4 The Owner may obtain independent review of the Design-Builder’s design, construction and other documents by a separate architect, engineer, and contractor or cost estimator under contract to or employed by the Owner. Such independent review shall be undertaken at the Owner’s expense in a timely manner and shall not delay the orderly progress of the Work.

§ A.2.2.5 The Owner shall cooperate with the Design-Builder in securing building and other permits, licenses and inspections. The Owner shall be required to pay the fees for such permits, licenses and inspections unless the cost of such fees is the responsibility of the Design-Builder under the Design-Build Documents.

§ A.2.2.6 The services, information, surveys and reports required to be provided by the Owner under Section A.2.2, shall be furnished at the Owner’s expense, and the Design-Builder shall be entitled to rely upon the accuracy and completeness thereof, unless contradicted by Design-Builder’s personal observations in accordance with Section A.1.5.2. except as otherwise specifically provided in the Design-Build Documents or to the extent the Owner advises the Design-Builder to the contrary in writing.

§ A.2.2.7 If the Owner observes or otherwise becomes aware of a fault or defect in the Work or non-conformity with the Design-Build Documents, the Owner shall give prompt written notice thereof to the Design-Builder.

§ A.2.2.8 The Owner shall, at the request of the Design-Builder, prior to execution of the Design-Build Contract and promptly upon request thereafter, furnish to the Design-Builder reasonable evidence that financial arrangements have been made to fulfill the Owner's obligations under the Design-Build Documents. Furnishing of such evidence shall be a condition precedent to commencement or continuation of the Work. After such evidence has been furnished, the Owner shall not materially vary such financial arrangements without prior notice to the Design-Builder.

§ A.2.2.9 The Owner shall communicate through the Design-Builder with persons or entities employed or retained by the Design-Builder, unless otherwise directed by the Design-Builder.

§ A.2.2.10 The Owner shall furnish the services of geotechnical engineers or other consultants, if not required by the Design-Build Documents to be provided by the Design-Builder, for subsoil, air and water conditions when such services are deemed reasonably necessary by the Design-Builder to properly carry out the design services provided by the Design-Builder and the Design-Builder's Architect. Such services may include, but are not limited to, test borings, test pits, determinations of soil bearing values, percolation tests, evaluations of hazardous materials, ground corrosion and resistivity tests, and necessary operations for anticipating subsoil conditions. The services of geotechnical engineer(s) or other consultants shall include preparation and submission of all appropriate reports and professional recommendations. The Design-Builder will contract for testing services as they pertain to Glass and Glazing only. All other material and soils testing to be contracted by the Owner. The Design-Builder will contract with an independent soils engineer for further evaluation of the initial geotechnical report by EGC dated July 21, 2006, with supplemental borings dated August 11, 2006, and Revised Geotechnical Report dated, August 22, 2006, and any recommendations for changes on the behalf of the Owner and the project.

§ A.2.2.11 The Owner shall promptly obtain easements, zoning variances, and legal authorizations regarding site utilization where essential to the execution of the Owner's program.

§ A.2.3 OWNER REVIEW AND INSPECTION

§ A.2.3.1 The Owner shall review and approve or take other appropriate action upon the Design-Builder's submittals, including but not limited to design and construction documents, required by the Design-Build Documents, but only for the limited purpose of checking for conformance with information given and the design concept expressed in the Design-Build Documents. The Owner's action shall be taken with such reasonable promptness as to cause no delay in the Work or in the activities of the Design-Builder or separate contractors. Review of such submittals is not conducted for the purpose of determining the accuracy and completeness of other details, such as dimensions and quantities, or for substantiating instructions for installation or performance of equipment or systems, all of which remain the responsibility of the Design-Builder or the Architect as required by the Design-Build Documents.

§ A.2.3.2 Upon review of the design documents, construction documents, or other submittals required by the Design-Build Documents, the Owner shall take one of the following actions:

.1 Determine that the documents or submittals are in conformance with the Design-Build Documents and approve them. ..

.2 Determine that the documents or submittals are in conformance with the Design-Build Documents but request changes in the documents or submittals which shall be implemented by a Change Order.

.3 Determine that the documents or submittals are not in conformity with the Design-Build Documents and reject them.

.4 Determine that the documents or submittals are not in conformity with the Design-Build Documents, but accept them by implementing a Change Order.

.5 Determine that the documents or submittals are not in conformity with the Design-Build Documents, but accept them and request changes in the documents or submittals which shall be implemented by a Change Order.

§ A.2.3.3 The Design-Builder shall submit to the Owner for the Owner's approval, pursuant to Section A.2.3.1, any proposed change or deviation to previously approved documents or submittals. The Owner shall review each proposed change or deviation to previously approved documents or submittals which the Design-Builder submits to

the Owner for the Owner's approval with reasonable promptness in accordance with Section A.2.3.1 and shall make one of the determinations described in Section A.2.3.2.

§ A.2.3.4 Notwithstanding the Owner's responsibility under Section A.2.3.2, the Owner's review and approval of the Design-Builder's documents or submittals shall not relieve the Design-Builder of responsibility for compliance with the Design-Build Documents unless a) the Design-Builder has notified the Owner in writing of the deviation prior to approval by the Owner or, b) the Owner has approved a Change Order reflecting any deviations from the requirements of the Design-Build Documents.

§ A.2.3.5 The Owner may visit the site to keep informed about the progress and quality of the portion of the Work completed. However, the Owner shall not be required to make exhaustive or continuous on-site inspections to check the quality or quantity of the Work. Visits by the Owner shall not be construed to create an obligation on the part of the Owner to make on-site inspections to check the quantity or quality of the Work. The Owner shall neither have control over or charge of, nor be responsible for, the construction means, methods, techniques, sequences or procedures, or for the safety precautions and programs in connection with the Work, since these are solely the Design-Builder's rights and responsibilities under the Design-Build Documents, except as provided in Section A.3.3.7.

§ A.2.3.6 The Owner shall not be responsible for the Design-Builder's failure to perform the Work in accordance with the requirements of the Design-Build Documents. Owner shall not have control over or charge of and will not be responsible for acts or omissions of the Design-Builder, Architect, Contractors, or their agents or employees, or any other persons or entities performing portions of the Work for the Design-Builder, unless, if after advice from Design-Builder to the contrary, the Owner specifically requests an act or causes an omission by the Design-Builder which leads to a third party claim.

§ A.2.3.7 The Owner may reject Work that does not conform to the Design-Build Documents. Whenever the Owner considers it necessary or advisable, the Owner shall have authority to require inspection or testing of the Work in accordance with Section A. 13.5.2, whether or not such Work is fabricated, installed or completed. However, neither this authority of the Owner nor a decision made in good faith either to exercise or not to exercise such authority shall give rise to a duty or responsibility of the Owner to the Design-Builder, the Architect, Contractors, material and equipment suppliers, their agents or employees, or other persons or entities performing portions of the Work.

§ A.2.3.8 The Owner may appoint an on-site project representative to observe the Work and to have such other responsibilities as the Owner and the Design-Builder agree to in writing.

§ A.2.3.9 The Owner shall promptly conduct inspections to determine the date or dates of Substantial Completion and the date of final completion.

§ A.2.4 OWNER'S RIGHT TO STOP WORK

§ A.2.4.1 If the Design-Builder fails to correct Work which is not in accordance with the requirements of the Design-Build Documents as required by Section A. 12.2 or persistently fails to carry out Work in accordance with the Design-Build Documents, the Owner may issue a written order to the Design-Builder to stop the Work, or any portion thereof, until the cause for such order has been eliminated; however, the right of the Owner to stop the Work shall not give rise to a duty on the part of the Owner to exercise this right for the benefit of the Design-Builder or any other person or entity, except to the extent required by Section A.6.1.3. A work stoppage pursuant to this Section A.2.4.1 shall not result in any extension of the Substantial Completion Date.

§ A.2.5 OWNER'S RIGHT TO CARRY OUT THE WORK

§ A.2.5.1 If the Design-Builder defaults or neglects to carry out the Work in accordance with the Design-Build Documents and fails within a seven-day period after receipt of written notice from the Owner to commence and continue correction of such default or neglect with diligence and promptness, the Owner may after such seven-day period give the Design-Builder a second written notice to correct such deficiencies within a three-day period. If the Design-Builder within such three-day period after receipt of such second notice fails to commence and continue to correct any deficiencies, the Owner may, without prejudice to other remedies the Owner may have, correct such deficiencies. In such case, an appropriate Change Order shall be issued deducting from payments then or thereafter due the Design-Builder the reasonable cost of correcting such deficiencies. If payments then or thereafter due the Design-Builder are not sufficient to cover such amounts, the Design-Builder shall pay the difference to the Owner.

ARTICLE A.3 DESIGN-BUILDER

§ A.3.1 GENERAL

§ A.3.1.1 The Design-Builder is the person or entity identified as such in the Agreement and is referred to throughout the Design-Build Documents as if singular in number. The Design-Builder is an entity legally permitted to do business as a design-builder in the location where the Project is located and is lawfully licensed in such location for any services actually performed by Design-Builder at such location. The term "Design-Builder" means the Design-Builder or the Design-Builder's authorized representative. The Design-Builder's representative is authorized to act on the Design-Builder's behalf with respect to the Project.

§ A.3.1.2 The Design-Builder shall perform the Work in accordance with the Design-Build Documents.

§ A.3.2 DESIGN SERVICES AND RESPONSIBILITIES

§ A.3.2.1 When applicable law requires that services be performed by licensed professionals, the Design-Builder shall provide those services through the performance of qualified persons or entities duly licensed to practice their professions. The Owner understands and agrees that the services performed by the Design-Builder's Architect and the Design-Builder's other design professionals and consultants are undertaken and performed in the sole interest of and for the exclusive benefit of the Design-Builder.

§ A.3.2.2 The agreements between the Design-Builder and Architect or other design professional identified in the Agreement, and any subsequent Modifications, shall be in writing. These agreements, including services and financial arrangements with respect to this Project, shall be promptly and fully disclosed to the Owner upon the Owner's written request.

§ A.3.2.3 The Design-Builder shall be responsible to the Owner for acts and omissions of the Design-Builder's employees, Architect, Contractors, Subcontractors and their agents and employees, and other persons or entities, including the Architect and other design professionals, performing any portion of the Design-Builder's obligations under the Design-Build Documents.

§ A.3.2.4 The Design-Builder shall carefully study and compare the Design-Build Documents, materials and other information provided by the Owner pursuant to Section A.2.2, shall take field measurements of any existing conditions related to the Work, shall observe any conditions at the site affecting the Work, and report promptly to the Owner any errors, inconsistencies or omissions discovered.

§ A.3.2.5 The Design-Builder shall provide to the Owner for Owner's written approval design documents sufficient to establish the size, quality and character of the Project; its architectural, structural, mechanical and electrical systems; and the materials and such other elements of the Project to the extent required by the Design-Build Documents. Deviations, if any, from the Design-Build Documents shall be disclosed in writing.

§ A.3.2.6 Upon the Owner's written approval of the design documents submitted by the Design-Builder, the Design-Builder shall provide construction documents for review and written approval by the Owner. The construction documents shall set forth in detail the requirements for construction of the Project. The construction documents shall include drawings and specifications that establish the quality levels of materials and systems required. Deviations, if any, from the Design-Build Documents shall be disclosed in writing. Construction documents may include drawings, specifications, and other documents and electronic data setting forth in detail the requirements for construction of the Work, and shall:

.1 be consistent with the approved design documents;
.2 provide information for the use of those in the building trades; and
.3 include documents customarily required for regulatory agency approvals.

§ A.3.2.7 The Design-Builder shall meet with the Owner periodically to review progress of the design and construction documents and shall also conduct a regularly scheduled weekly conference call with Owner.

§ A.3.2.8 Upon the Owner's written approval of construction documents, the Design-Builder, with the assistance of the Owner, shall prepare and file documents required to obtain necessary approvals of governmental authorities having jurisdiction over the Project.

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§ A.3.2.9 The Design-Builder shall obtain from each of the Design-Builder's professionals and furnish to the Owner certifications with respect to the documents and services provided by such professionals (a) that, to the best of their knowledge, information and belief, the documents or services to which such certifications relate (i) are consistent with Exhibit E, except to the extent specifically identified in such certificate, (ii) comply with applicable professional practice standards, and (iii) comply with applicable laws, ordinances, codes, rules and regulations governing the design of the Project; and (b) that the Owner and its consultants shall be entitled to rely upon the accuracy of the representations and statements contained in such certifications.

§ A.3.2.10 If the Owner requests the Design-Builder, the Architect or the Design-Builder's other design professionals to execute certificates other than those required by Section A.3.2.9, the proposed language of such certificates shall be submitted to the Design-Builder, or the Architect and such design professionals through the Design-Builder, for review and negotiation at least 14 days prior to the requested dates of execution. Neither the Design-Builder, the Architect nor such other design professionals shall be required to execute certificates that would require knowledge, services or responsibilities beyond the scope of their respective agreements with the Owner or Design-Builder.

§ A.3.3 CONSTRUCTION
§ A.3.3.1 The Design-Builder shall perform no portion of the Work for which the Design-Build Documents require the Owner's review of submittals, such as Shop Drawings, Product Data and Samples, until the Owner has approved each submittal.

§ A.3.3.2 The construction Work shall be in accordance with approved submittals, except that the Design-Builder shall not be relieved of responsibility for deviations from requirements of the Design-Build Documents by the Owner's approval of design and construction documents or other submittals such as Shop Drawings, Product Data, Samples or other submittals unless the Design-Builder has specifically informed the Owner in writing of such deviation at the time of submittal and a Change Order has been issued authorizing the deviation. The Design-Builder shall not be relieved of responsibility for errors or omissions in design and construction documents or other submittals such as Shop Drawings, Product Data, Samples or other submittals by the Owner's approval thereof.

§ A.3.3.3 The Design-Builder shall direct specific attention, in writing or on resubmitted design and construction documents or other submittals such as Shop Drawings, Product Data, Samples or similar submittals, to revisions other than those requested by the Owner on previous submittals. In the absence of such written notice, the Owner's approval of a resubmission shall not apply to such revisions.

§ A.3.3.4 To the extent that Design-Builder has not provided such design standards to Owner, If professional design services or certifications by a design professional related to systems, materials or equipment are specifically required by the Design-Build Documents, the Owner will specify all performance and design criteria that such services must satisfy. When the Design-Build Documents require that a Contractor provide professional design services or certifications related to systems, materials or equipment, or when the Design-Builder in its discretion provides such design services or certifications through a Contractor, the Design-Builder shall cause professional design services or certifications to be provided by a properly licensed, in Alabama, design professional, whose signature and seal shall appear on all drawings, calculations, specifications, certifications, Shop Drawings and other submittals prepared by such professional. Shop Drawings and other submittals related to the Work designed or certified by such professionals, if prepared by others, shall bear such design professional's written approval. The Owner shall be entitled to rely upon the adequacy, accuracy and completeness of the services, certifications or approvals performed by such design professionals, and to the extent that Design-Builder has not provided such design criteria to the Owner, the Owner will specify to the Design-Builder all performance and design criteria that such services must satisfy. The Design-Builder shall not be responsible for the adequacy of the performance or design criteria required by the Design-Build Documents.

§ A.3.3.5 The Design-Builder shall be solely responsible for and have control over all construction means, methods, techniques, sequences and procedures and for coordinating all portions of the Work under the Design-Build Documents, unless the Design-Build Documents give other specific instructions concerning these matters.

§ A.3.3.6 The Design-Builder shall keep the Owner informed of the progress and quality of the Work.

§ A.3.3.7 The Design-Builder shall be responsible for the supervision and direction of the Work, using the Design-Builder's best skill and attention. If the Design-Build Documents give specific instructions concerning construction

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means, methods, techniques, sequences or procedures, the Design-Builder shall evaluate the jobsite safety thereof and, except as stated below, shall be fully and solely responsible for the jobsite safety of such means, methods, techniques, sequences or procedures. If the Design-Builder determines that such means, methods, techniques, sequences or procedures may not be safe, the Design-Builder shall give timely written notice to the Owner and shall not proceed with that portion of the Work without further written instructions from the Owner. If the Design-Builder is then instructed to proceed with the required means, methods, techniques, sequences or procedures without acceptance of changes proposed by the Design-Builder, the Owner shall be solely responsible for any resulting loss or damage.

§ A.3.3.8 The Design-Builder shall be responsible for inspection of portions of Work already performed to determine that such portions are in proper condition to receive subsequent Work.

§ A.3.4 LABOR AND MATERIALS
§ A.3.4.1 Unless otherwise provided in the Design-Build Documents, the Design-Builder shall provide or cause to be provided and shall pay for design services, labor, materials, equipment, tools, construction equipment and machinery, water, heat, utilities, transportation and other facilities and services necessary for proper execution and completion of the Work, whether temporary or permanent and whether or not incorporated or to be incorporated in the Work.

§ A.3.4.2 When a material is specified in the Design-Build Documents, the Design-Builder may make substitutions only with the consent of the Owner and, if appropriate, in accordance with a Change Order.

§ A.3.4.3 The Design-Builder shall enforce strict discipline and good order among the Design-Builder's employees and other persons carrying out the Design-Build Contract. The Design-Builder shall not permit employment of unfit persons or persons not skilled in tasks assigned to them.

§ A.3.5 WARRANTY
§ A.3.5.1 The Design-Builder warrants to the Owner that materials and equipment furnished under the Design-Build Documents will be of good quality and new unless otherwise required or permitted by the Design-Build Documents, that the Work will be free from defects not inherent in the quality required or permitted by law or otherwise, and that the Work will conform to the requirements of the Design-Build Documents. Work not conforming to these requirements, including substitutions not properly approved and authorized, may be considered defective. The Design-Builder's warranty excludes remedy for damage or defect caused by abuse, modifications not executed by the Design-Builder, improper or insufficient maintenance, improper operation, or normal wear and tear and normal usage. If required by the Owner, the Design-Builder shall furnish satisfactory evidence as to the kind and quality of materials and equipment. All applicable warranties related to the Work, whether pursuant to this Section, the other provisions of the Design-Build Documents or applicable law, shall commence as of the date of Substantial Completion of the Work, and shall terminate and expire one (1) year after Substantial Completion of the Work, except for third party warranties expressly provided in the Design-Build Documents or any other written warranty given to Owner at the end of the Project. **THE DESIGN-BUILDER HEREBY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING WITHOUT LIMITATION, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, EXCEPT AS EXPRESSLY WARRANTED HEREIN. THERE ARE NO WARRANTIES WHICH EXTEND BEYOND THE DESCRIPTION ON THE FACE HEREOF.** All Contractor's, Subcontractor's and manufacturer's warranties shall be deemed furnished and assigned to the Owner pursuant to the Design-Build Documents without further action by the Design-Builder upon Final Payment by the Owner as required under the Design-Build Documents.

§ A.3.6 TAXES

§ A.3.6.1 The Design-Builder shall pay all sales, consumer, use and similar taxes for the Work provided by the Design-Builder which had been legally enacted on the date of the Agreement, whether or not yet effective or merely scheduled to go into effect, provided, however, that Design-Builder and Subcontractors will coordinate with Owner to ensure the sales tax abatement granted to the Owner by the State of Alabama is fully and completely utilized (including the filing of applications for sales tax refunds for sales taxes paid by Owner prior to the date hereof) in all applicable instances arising within the context of this Agreement.

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§ A.3.7 PERMITS, FEES AND NOTICES
§ A.3.7.1 The Design-Builder shall secure building and other permits, licenses and inspections necessary for the proper execution and completion of the Work which are customarily secured after execution of the Design-Build Contract and which were legally required on the date the Owner accepted the Design-Builder's proposal.

§ A.3.7.2 The Design-Builder shall comply with and give notices required by laws, ordinances, rules, regulations and lawful orders of public authorities relating to the Project.

§ A.3.7.3 The Design-Builder shall cause the Architect and other design professionals to ascertain that the Work is in accordance with applicable laws, ordinances, codes, rules and regulations. However, if the Design-Builder observes that portions of the Design-Build Documents are at variance therewith, the Design-Builder shall promptly notify the Owner in writing, and necessary changes shall be accomplished by Change Order.

§ A.3.7.4 If the Design-Builder performs Work contrary to applicable laws, ordinances, codes, rules and regulations, the Design-Builder shall assume responsibility for such Work and shall bear the costs attributable to correction.

§ A.3.8 ALLOWANCES
§ A.3.8.1 The Design-Builder shall include in the Contract Sum all allowances stated in the Design-Build Documents. Items covered by allowances shall be supplied for such amounts and by such persons or entities as the Owner may direct, but the Design-Builder shall not be required to employ persons or entities to which the Design-Builder has reasonable objection.

§ A.3.8.2 Unless otherwise provided in the Design-Build Documents:

- **.1** allowances shall cover the cost to the Design-Builder of materials and equipment delivered at the site and all required taxes, less applicable trade discounts; .
- **.2** Design-Builder's costs for unloading and handling at the site, labor, installation costs, overhead, profit and other expenses contemplated for stated allowance amounts shall be included in the Contract Sum but not in the allowances; and
- **.3** whenever costs are more than or less than allowances, the Contract Sum shall be adjusted accordingly by Change Order. The amount of the Change Order shall reflect (1) the difference between actual costs and the allowances under Section A.3.8.2.1 and (2) changes in Design-Builder's costs under Section A.3.8.2.2.

§ A.3.8.3 Materials and equipment under an allowance shall be selected by the Owner in sufficient time to avoid delay in the Work.

§ A.3.9 DESIGN-BUILDER'S SCHEDULE-EXHIBIT I
§ A.3.9.1 The Design-Builder, promptly after execution of the Design-Build Contract, shall prepare and submit for the Owner's information the Design-Builder's schedule for the Work. The schedule shall not exceed time limits and shall be in such detail as required under the Design-Build Documents, shall be revised at appropriate intervals as required by the conditions of the Work and Project, shall be related to the entire Project to the extent required by the Design-Build Documents, shall provide for expeditious and practicable execution of the Work and shall include allowances for periods of time required for the Owner's review and for approval of submissions by authorities having jurisdiction over the Project.

§ A.3.9.2 The Design-Builder shall prepare and keep current a schedule of submittals required by the Design-Build Documents.

§ A.3.9.3 The Design-Builder shall perform the Work in general accordance with the most recent schedules submitted to the Owner.

§ A.3.10 DOCUMENTS AND SAMPLES AT THE SITE
§ A.3.10.1 The Design-Builder shall maintain at the site for the Owner one record copy of the drawings, specifications, addenda, Change Orders and other Modifications, in good order and marked currently to record field changes and selections made during construction, and one record copy of approved Shop Drawings, Product Data, Samples and similar required submittals. These shall be delivered to the Owner upon completion of the Work.

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§ A.3.11 SHOP DRAWINGS, PRODUCT DATA AND SAMPLES
§ A.3.11.1 Shop Drawings are drawings, diagrams, schedules and other data specially prepared for the Work by the Design-Builder or a Contractor, Subcontractor, manufacturer, supplier or distributor to illustrate some portion of the Work.

§ A.3.11.2 Product Data are illustrations, standard schedules, performance charts, instructions, brochures, diagrams and other information furnished by the Design-Builder to illustrate materials or equipment for some portion of the Work.

§ A.3.11.3 Samples are physical examples that illustrate materials, equipment or workmanship and establish standards by which the Work will be judged.

§ A.3.11.4 Shop Drawings, Product Data, Samples and similar submittals are not Design-Build Documents. The purpose of their submittal is to demonstrate for those portions of the Work for which submittals are required by the Design-Build Documents the way by which the Design-Builder proposes to conform to the Design-Build Documents.

§ A.3.11.5 The Design-Builder shall review for compliance with the Design-Build Documents and approve and submit to the Owner only those Shop Drawings, Product Data, Samples and similar submittals required by the Design-Build Documents with reasonable promptness and in such sequence as to cause no delay in the Work or in the activities of the Owner or of separate contractors.

§ A.3.11.6 By approving and submitting Shop Drawings, Product Data, Samples and similar submittals, the Design-Builder represents that the Design-Builder has determined and verified materials, field measurements and field construction criteria related thereto, or will do so, and has checked and coordinated the information contained within such submittals with the requirements of the Work and of the Design-Build Documents.

§ A.3.12 USE OF SITE
§ A.3.12.1 The Design-Builder shall confine operations at the site to areas permitted by law, ordinances, permits and the Design-Build Documents, and shall not unreasonably encumber the site with materials or equipment.

§ A.3.13 CUTTING AND PATCHING
§ A.3.13.1 The Design-Builder shall be responsible for cutting, fitting or patching required to complete the Work or to make its parts fit together properly.

§ A.3.13.2 The Design-Builder shall not damage or endanger a portion of the Work or fully or partially completed construction of the Owner or separate contractors by cutting, patching or otherwise altering such construction or by excavation. The Design-Builder shall not cut or otherwise alter such construction by the Owner or a separate contractor except with written consent of the Owner and of such separate contractor; such consent shall not be unreasonably withheld. The Design-Builder shall not unreasonably withhold from the Owner or a separate contractor the Design-Builder's consent to cutting or otherwise altering the Work.

§ A.3.14 CLEANING UP
§ A.3.14.1 The Design-Builder shall keep the premises and surrounding area free from accumulation of waste materials or rubbish caused by operations under the Design-Build Contract. At completion of the Work, the Design-Builder shall remove from and about the Project waste materials, rubbish, the Design-Builder's tools, construction equipment, machinery and surplus materials.

§ A.3.14.2 If the Design-Builder fails to clean up as provided in the Design-Build Documents, the Owner may do so and the cost thereof shall be charged to the Design-Builder.

§ A.3.15 ACCESS TO WORK
§ A.3.15.1 The Design-Builder shall provide the Owner access to the Work in preparation and progress wherever located.

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§ A.3.16 ROYALTIES, PATENTS AND COPYRIGHTS

§ A.3.16.1 The Design-Builder shall pay all royalties and license fees. The Design-Builder shall defend suits or claims for infringement of copyrights and patent rights and shall hold the Owner harmless from loss on account thereof, but shall not be responsible for such defense or loss when a particular design, process or product of a particular manufacturer or manufacturers is required by Owner and set forth in the Design-Build Documents or where the copyright violations are contained in drawings, specifications or other documents prepared by or furnished to the Design-Builder by the Owner. However, if the Design-Builder has reason to believe that the required design, process or product is an infringement of a copyright or a patent, the Design-Builder shall be responsible for such loss unless such information is promptly furnished to the Owner.

§ A.3.17 INDEMNIFICATION

§ A.3.17.1 To the fullest extent permitted by law and to the extent claims, damages, losses or expenses are not paid by builder's risk or property insurance maintained with respect to the Project, the Design-Builder shall indemnify and hold harmless the Owner and Owner's shareholders, officers, directors, employees, consultants and agents from and against claims, damages, losses and expenses, including but not limited to attorneys' fees and costs, arising out of or resulting from performance of the Work, provided that such claim, damage, loss or expense is attributable to bodily injury, sickness, disease or death or to injury to or destruction of tangible property other than the Work itself, but only to the extent caused by the negligent acts or omissions of the Design-Builder, the Architect, a Contractor, a Subcontractor, anyone directly or indirectly employed by them or anyone for whose acts they may be liable, but only to the extent that such claim, damage, loss or expense is not caused by breach, negligence or willful misconduct of the Owner. To the fullest extent permitted by law, the Owner shall indemnify and hold harmless the Design-Builder, its Contractors, the Architect, and the agents and employees of any of them from and against claims, damages, losses and expenses, including but not limited to attorneys' fees, arising out of the Project, provided that such claim, damage, loss or expense is attributable to bodily injury, sickness, disease or death, or to injury to or destruction of tangible property, but only to the extent caused by the Owner's breach of the Design-Build Documents, or the negligent acts or omissions of the Owner, the Owner's separate contractors (as contemplated in Section A.6.1), anyone directly or indirectly employed by them or anyone for whose acts they may be liable (other than the Design-Builder, its Contractors, and the Architect), but only to the extent that such claim, damage, loss or expense is not caused by breach, negligence or willful misconduct of Design Builder, its Contractors, Architect, or respective agents and employees. .Such indemnity obligations shall not be construed to negate, abridge or reduce other rights or obligations of indemnity that would otherwise exist as to a party or person described in this Section A.3.17.

§ A.3.17.2 In claims against any person or entity indemnified under this Section A.3.17 by an employee of the Design-Builder, the Architect, a Contractor, a Subcontractor, anyone directly or indirectly employed by them or anyone for whose acts they may be liable, the indemnification obligation under Section A.3.17.1 shall not be limited by a limitation on amount or type of damages, compensation or benefits payable by or for the Design-Builder, the Architect or a Contractor or a Subcontractor under workers' compensation acts, disability benefit acts or other employee benefit acts.

ARTICLE A.4 DISPUTE RESOLUTION

§ A.4.1 CLAIMS AND DISPUTES

§ A.4.1.1 Definition. A Claim is a demand or assertion by one of the parties seeking, as a matter of right, adjustment or interpretation of Design-Build Contract terms, payment of money, extension of time or other relief with respect to the terms of the Design-Build Contract. The term "Claim" also includes other disputes and matters in question between the Owner and Design-Builder arising out of or relating to the Design-Build Contract. Claims must be initiated by written notice. The responsibility to substantiate Claims shall rest with the party making the Claim.

§ A.4.1.2 Time Limits on Claims. Claims by either party must be initiated within 21 days after occurrence of the event giving rise to such Claim or within 21 days after the claimant first recognizes the condition giving rise to the Claim, whichever is later. Claims must be initiated by written notice to the other party.

§ A.4.1.3 Continuing Performance. Pending final resolution of a Claim, except as otherwise agreed in writing or as provided in Section A.9.7.1 and Article A.14, the Design-Builder shall proceed diligently with performance of the Design-Build Contract and the Owner shall continue to make payments in accordance with the Design-Build Documents.

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§ A.4.1.4 Claims for Concealed or Unknown Conditions. If conditions are encountered at the site which are (1) subsurface or otherwise concealed physical conditions which differ materially from those indicated in the Design-Build Documents or (2) unknown physical conditions of an unusual nature which differ materially from those ordinarily found to exist and generally recognized as inherent in construction activities of the character provided for in the Design-Build Documents, then the observing party shall give notice to the other party promptly before conditions are disturbed and in no event later than 21 days after first observance of the conditions. If the conditions encountered are materially different, the Contract Sum and Contract Time shall be equitably adjusted, but if the Owner and Design-Builder cannot agree on an adjustment in the Contract Sum or Contract Time, the matter shall be considered a Claim and be resolved in accordance with this Article A.4.

§ A.4.1.5 Claims for Additional Cost. If the Design-Builder wishes to make Claim for an increase in the Contract Sum, written notice as provided herein shall be given before proceeding to execute the Work. Prior notice is not required for Claims relating to an emergency endangering life or property arising under Section A.10.6.

§ A.4.1.6 If the Design-Builder believes additional cost is involved for reasons including but not limited to (1) an order by the Owner to stop the Work where the Design-Builder was not at fault, (2) a written order for the Work issued by the Owner, (3) failure of payment by the Owner, (4) termination of the Design-Build Contract by the Owner, (5) Owner's suspension, (6) a written interpretation from the Owner, or (7) other reasonable grounds, Claim shall be filed in accordance with this Section A.4.1.

§ A.4.1.7 Claims for Additional Time

§ A.4.1.7.1 If the Design-Builder wishes to make Claim for an increase in the Contract Time, written notice as provided herein shall be given. The Design-Builder's Claim shall include an estimate of the time and its effect on the progress of the Work. In the case of a continuing delay, only one Claim is necessary.

§ A.4.1.7.2 If adverse weather conditions or adverse site conditions caused by adverse weather are the basis for a Claim for additional time, such Claim shall be documented by data substantiating that either (i) weather conditions were abnormal for the period of time, could not have been reasonably anticipated and had an adverse effect on the scheduled construction, or (ii) weather conditions prevented the type of Work then scheduled, or (iii) adverse site conditions caused by adverse weather prevented the type of Work then scheduled.

§ A.4.1.8 Injury or Damage to Person or Property. If either party to the Design-Build Contract suffers injury or damage to person or property because of an act or omission of the other party or of others for whose acts such party is legally responsible, written notice of such injury or damage, whether or not insured, shall be given to the other party within a reasonable time not exceeding 21 days after discovery. The notice shall provide sufficient detail to enable the other party to investigate the matter.

§ A.4.1.9 If unit prices are stated in the Design-Build Documents or subsequently agreed upon, and if quantities originally contemplated are materially changed in a proposed Change Order so that application of such unit prices to quantities of Work proposed will cause substantial inequity to the Design-Builder, the applicable unit prices shall be equitably adjusted.

§ A.4.1.10 Claims for Consequential Damages. Design-Builder and Owner waive Claims against each other for consequential damages arising out of or relating to the Design-Build Contract. This mutual waiver includes:

.1 damages incurred by the Owner for rental expenses, for losses of use, income, profit, financing, business and reputation, and for loss of management or employee productivity or of the services of such persons; and

.2 damages incurred by the Design-Builder for principal office expenses including the compensation of personnel stationed there, for losses of financing, business and reputation, and for loss of profit except anticipated profit arising directly from the Work.

This mutual waiver is applicable, without limitation, to all consequential damages due to either party's termination in accordance with Article A-14. Nothing contained in this Section A.4.1.10 shall be deemed to preclude an award of liquidated direct damages, when applicable, in accordance with the requirements of the Design-Build Documents.

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§ A.4.1.11 If the enactment or revision of codes, laws or regulations or official interpretations which govern the Project cause an increase or decrease of the Design-Builder's cost of, or time required for, performance of the Work, the Design-Builder, unless such enactment or revision could have been reasonably foreseen by Design-Builder, shall be entitled to an equitable adjustment in Contract Sum or Contract Time. If the Owner and Design-Builder cannot agree upon an adjustment in the Contract Sum or Contract Time, the Design-Builder shall submit a Claim pursuant to Section A.4.1.

§ A.4.2 RESOLUTION OF CLAIMS AND DISPUTES

§ A.4.2.1 [Deliberately Left Blank]

§ A.4.2.2 [Deliberately Left Blank]

§ A.4.2.3 [Deliberately Left Blank]

§ A.4.2.4 In the event of a Claim against the Design-Builder, the Owner may, but is not obligated to, notify the surety, if any, of the nature and amount of the Claim. If the Claim relates to a possibility of a Design-Builder's default, the Owner may, but is not obligated to, notify the surety and request the surety's assistance in resolving the controversy.

§ A.4.2.5 If a Claim relates to or is the subject of a mechanic's lien, the party asserting such Claim may proceed in accordance with applicable law to comply with the lien notice or filing deadlines prior to resolution of the Claim.

§ A.4.3 MEDIATION

§ A.4.3.1 Any Claim arising out of or related to the Design-Build Contract shall be subject to mediation as a condition precedent to arbitration or the institution of legal or equitable or other binding dispute resolution proceedings by either party, except as provided in Section 4.3.2.

§ A.4.3.2 The parties shall endeavor to resolve their Claims by mediation which, unless the parties mutually agree otherwise, shall be in accordance with the Construction Industry Mediation Rules of the American Arbitration Association currently in effect at the time of the mediation. Mediation shall be completed within 30 days after written demand for mediation is served upon the other party. If mediation has not been completed in this time frame, either party may

proceed to file for arbitration in accordance with Section 4.4 without further delay, and the parties shall have no further obligation to mediate their Claims.

§ A.4.3.3 The parties shall share the mediator's fee and any filing fees equally. The mediation shall be held in Huntsville, Alabama. Agreements reached in mediation shall be enforceable as settlement agreements in any court having jurisdiction thereof.

§ A.4.4 ARBITRATION
§ A.4.4.1 Claims which have not been resolved by mediation shall be decided by arbitration which, unless the parties mutually agree otherwise, shall be in accordance with the Construction Industry Arbitration Rules of the American Arbitration Association currently in effect at the time of the arbitration, and held in Huntsville, Alabama. The demand for arbitration shall be filed in writing with the other party to the Design-Build Contract and with the American Arbitration Association.

§ A.4.4.2 A demand for arbitration may be made no earlier than after the mediation is concluded or terminated, or after 30 days have passed since the written demand for mediation, whichever is earlier, but in no event shall it be made after the date when institution of legal or equitable proceedings based on such Claim would be barred by the applicable statute of limitations as determined pursuant to Section A.13.6.

§ A.4.4.3 An arbitration pursuant to this Section A.4.4 may be joined with an arbitration involving common issues of law or fact between the Owner or Design-Builder and any person or entity with whom the Owner or Design-Builder has a contractual obligation to arbitrate disputes which does not prohibit consolidation or joinder. The foregoing agreement to arbitrate and other agreements to arbitrate with an additional person or entity duly consented to by the parties to the Agreement shall be specifically enforceable in accordance with applicable law in any court having jurisdiction thereof.

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§ A.4.4.4 Claims and Timely Assertion of Claims. The party filing a notice of demand for arbitration must assert in the demand all Claims then known to that party on which arbitration is permitted to be demanded.

§ A.4.4.5 Judgment on Final Award. The award rendered by the arbitrator or arbitrators shall be final, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

§ A.4.4.6 Prevailing Party Fees. In any dispute between Owner and Design-Builder related to this Agreement, the prevailing party shall be entitled to recover its attorneys fees, expert fees, and costs from the non-prevailing party. Determination of which party prevailed shall be made by the arbitrator(s). Determination of which party prevailed shall be made by the Arbitrator(s).

§ A.4.4.7 Timing For Arbitration Hearings. The arbitration hearings for any arbitration conducted pursuant to this Agreement shall commence at the earliest practical time acceptable to the Arbitrator(s), but not later than 90 days after the Demand for Arbitration is filed, and shall continue to completion on successive week days (not including Saturdays, Sundays and holidays) until the taking of evidence is completed; provided, however, that the arbitrator(s) shall have the right in their discretion to adjust the schedule of the hearings after they have commenced based upon the special needs and considerations related to the circumstances of the dispute.

ARTICLE A.5 AWARD OF CONTRACTS
§ A.5.1 Unless otherwise stated in the Design-Build Documents or the bidding or proposal requirements, the Design-Builder, as soon as practicable after award of the Design-Build Contract, shall furnish in writing to the Owner the names of additional persons or entities not originally included in the Design-Builder's proposal or in substitution of a person or entity (including those who are to furnish design services or materials or equipment fabricated to a special design) proposed for each principal portion of the Work. The Owner will promptly reply to the Design-Builder in writing stating whether or not the Owner has reasonable objection to any such proposed additional person or entity. Failure of the Owner to reply promptly shall constitute notice of no reasonable objection. Notwithstanding anything herein to the contrary, the Owner hereby agrees that the Design-Builder may contract portions of the Work to the Design-Builder or divisions or subsidiaries of the Design-Builder pursuant to a contractual agreement, and the contract sum thereof shall constitute, as applicable, a Cost of the Work or a portion of the Stipulated Sum. It is anticipated that Design-Builder will subcontract the scopes of work for tilt up concrete, floor slabs and foundations to Concrete Strategies.

§ A.5.2 The Design-Builder shall not contract with a proposed person or entity to whom which the Owner has made reasonable and timely objection. The Design-Builder shall not be required to contract with anyone to whom the Design-Builder has made reasonable objection.

§ A.5.3 If the Owner has reasonable objection to a person or entity proposed by the Design-Builder, the Design-Builder shall propose another to whom the Owner has no reasonable objection. If the proposed but rejected additional person or entity was reasonably capable of performing the Work, the Contract Sum and Contract Time shall be increased or decreased by the difference, if any, occasioned by such change, and an appropriate Change Order shall be issued before commencement of the substitute person's or entity's Work. However, no increase in the Contract Sum or Contract Time shall be allowed for such change unless the Design-Builder has acted promptly and responsively in submitting names as required.

§ A.5.4 The Design-Builder shall not change a person or entity previously selected if the Owner, after receiving written notice of such change, makes reasonable objection to such substitute.

§ A.5.5 CONTINGENT ASSIGNMENT OF CONTRACTS
§ A.5.5.1 Each agreement for a portion of the Work is assigned by the Design-Builder to the Owner provided that:

.1 assignment is effective only after termination of the Design-Build Contract by the Owner for cause pursuant to Section A.14.2 and only for those agreements which the Owner accepts by notifying the Contractor and Design-Builder in writing; and

.2 assignment is subject to the prior rights of the surety, if any, obligated under bond relating to the Design Build Contract.

§ A.5.5.2 Upon such assignment, if the Work has been suspended for more than 30 days, the Contractor's compensation shall be equitably adjusted for increases in cost resulting from the suspension.

ARTICLE A.6 CONSTRUCTION BY OWNER OR BY SEPARATE CONTRACTORS
§ A.6.1 OWNER'S RIGHT TO PERFORM CONSTRUCTION AND TO AWARD SEPARATE CONTRACTS
§ A.6.1.1 The Owner reserves the right to perform construction or operations related to the Project with the Owner's own forces and to award separate contracts in connection with other portions of the Project or other construction or operations on the site , and where factually warranted and commercially reasonable, under terms and conditions identical or substantially similar to those contained in the Design-Build Documents, including those portions related to insurance and waiver of subrogation. The Design-Builder shall use reasonable efforts to cooperate with the Owner and separate contractors whose work might interfere with the Design-Builder's Work. If the Design-Builder claims that delay or additional cost is involved because of such action by the Owner or separate contractors, the Design-Builder shall make such Claim as provided in Section A.4.1.

§ A.6.1.2 The term "separate contractor" shall mean any contractor retained by the Owner pursuant to Section A.6.1.1.

§ A.6.1.3 The Owner shall provide for coordination of the activities of the Owner's own forces and of each separate contractor with the Work of the Design-Builder, who shall cooperate with them. The Design-Builder shall participate with other separate contractors and the Owner in reviewing their construction schedules when directed to do so. The Design-Builder shall make any revisions to the construction schedule deemed necessary after a joint review and mutual agreement. The construction schedules shall then constitute the schedules to be used by the Design-Builder, separate contractors and the Owner until subsequently revised.

§ A.6.1.4
Unless otherwise provided in the Design-Build Documents, (a) should Owner perform construction related to the Project with Owner's own forces, then Owner shall be deemed to be subject to the same obligations and to have the same rights which apply to Design Builder under the Design-Build Documents and (b) should Owner perform construction related to the Project pursuant to separate contracts with other contractors, then Owner shall utilize, to the extent suitable, standard AIA forms of agreements and exercise its best efforts to include provisions in such contracts which, based upon the facts of the work required by the separate contractors, are substantially similar to the provisions of the Design-Build Documents including, without limitation, the provisions included in Articles A.3, A.6, A.10, A.1 1 and A.1 2. Without limiting the generality of the foregoing, if the Owner awards separate contracts with any other contractors for any work at the Project site during the performance of the Work, then the Owner shall cause each and every such other separate contractor (and their subcontractors of any tier) to name the Design-Builder as an additional insured on all liability insurance policies maintained by such separate contractor (and their subcontractors of any tier) to the extent such policies cover liabilities relating to the Project or other work being performed at the Project site. The Owner shall furnish to the Design-Builder written evidence that such insurance is in effect and that the Design-Builder has been named an additional insured as aforesaid upon execution of any such separate contract.

§ A.6.2 MUTUAL RESPONSIBILITY
§ A.6.2.1 The Design-Builder shall afford the Owner and separate contractors reasonable opportunity for introduction and storage of their materials and equipment and performance of their activities and shall connect and coordinate the Design-Builder's construction and operations with theirs as required by the Design-Build Documents.

§ A.6.2.2 If part of the Design-Builder's Work depends for proper execution or results upon design, construction or operations by the Owner or a separate contractor, the Design-Builder shall, prior to proceeding with that portion of the Work, promptly report to the Owner apparent discrepancies or defects in such other construction that would render it unsuitable for such proper execution and results. Failure of the Design-Builder so to report shall constitute an acknowledgment that the Owner's or separate contractor's completed or partially completed construction is fit and proper to receive the Design-Builder's Work, except as to defects not then reasonably discoverable.

§ A.6.2.3 The Owner shall be reimbursed by the Design-Builder for costs incurred by the Owner which are payable to a separate contractor because of delays, improperly timed activities or defective construction of the Design-Builder. The Owner shall be responsible to the Design-Builder for costs incurred by the Design-Builder because of delays, improperly timed activities, damage to the Work or defective construction of a separate contractor.

§ A.6.2.4 The Design-Builder shall promptly remedy damage wrongfully caused by the Design-Builder to completed or partially completed construction or to property of the Owner or separate contractors as provided in Section A.10.2.5.

§ A.6.2.5 The Owner and each separate contractor shall have the same responsibilities for cutting and patching as are described for the Design-Builder in Section A.3.13.

§ A.6.3 OWNER'S RIGHT TO CLEAN UP
§ A.6.3.1 If a dispute arises among the Design-Builder, separate contractors and the Owner as to the responsibility under their respective contracts for maintaining the premises and surrounding area free from waste materials and rubbish, the Owner may clean up and the cost among those responsible shall be equitably allocated.

ARTICLE A.7 CHANGES IN THE WORK
§A.7.1 GENERAL
§ A.7.1.1 Changes in the Work may be accomplished after execution of the Design-Build Contract, and without invalidating the Design-Build Contract, by Change Order, subject to the limitations stated in this Article A.7 and elsewhere in the Design-Build Documents.

§ A.7.1.2 A Change Order shall be based upon agreement between the Owner and Design-Builder as provided in the Agreement.

§ A.7.1.3 Changes in the Work shall be performed under applicable provisions of the Design-Build Documents, and the Design-Builder shall proceed promptly, unless otherwise provided in the Change Order.

§A.7.2 CHANGE ORDERS
§ A.7.2.1 If the other provisions of the Design-Build Documents require that a Change Order be issued and the Owner and the Design-Builder are unable to agree upon the terms thereof as provided in the Agreement within ten days of a written demand given by either party to the other party to so agree, then the dispute shall be resolved as provided in Article A.4 herein. In any such dispute resolution proceedings the parties agree that the following terms of the Change Order shall be determined:

.1 a change in the Work;
.2 the amount of the adjustment, if any, in the Contract Sum; and
.3 the extent of the adjustment, if any, in the Contract Time.

§ A.7.2.2 If the Owner requests a proposal for a change in the Work from the Design-Builder and subsequently elects not to proceed with the change, a Change Order shall be issued to reimburse the Design-Builder for any costs incurred for estimating services, design services or preparation of proposed revisions to the Design-Build Documents.

§ A.7.2.3 In any dispute resolution proceeding over a Change Order, the methods used in determining adjustments to the Contract Sum may include those listed in Section A.7.3.6. Nothing in this Article A.7 shall limit, reduce or otherwise affect the rights of the Design-Builder under the Agreement to condition its obligation to make any changes in the Work requested or directed by the Owner based upon the full execution and delivery of an acceptable Change Order as provided in the Agreement.

§ A.7.2.4 Execution of any Change Order shall constitute a final agreement on all matters relating to the change in the Work which is the subject of the Change Order, including, but not limited to, all direct and indirect costs associated with such change and any and all adjustments to the Contract Sum and the construction schedule. In the event a Change Order increases the Contract Sum, Design-Builder shall include the Work covered by such Change Orders in Applications for Payment as if such Work were originally part of the contract Documents.

§ A.7.3 CONSTRUCTION CHANGE DIRECTIVES
§ A.7.3.1 [Deliberately Left Blank]

§ A.7.3.2 [Deliberately Left Blank]

§ A.7.3.3 [Deliberately Left Blank]

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.4

§ A.7.3.4 [Deliberately Left Blank]

§ A.7.3.5 [Deliberately Left Blank]

§ A.7.3.6 In any dispute between the Design-Builder and the Owner over the method for adjustment in the Contract Sum in connection with any Change Order or in connection with any other adjustment in the Contract Sum to which the Design-Builder is entitled under the Design-Build Documents, then the method and the adjustment shall be determined on the basis of reasonable expenditures and savings of those performing the Work attributable to the change, including, in case of an increase in the Contract Sum, a reasonable allowance for overhead. In such case, the Design-Builder shall keep and present a reasonably itemized accounting together with appropriate supporting data. Unless otherwise provided in the Design-Build Documents, costs for the purposes of this Section A.7.3.6 shall be limited to the following:

.1 additional costs of professional services;
.2 costs of labor, including social security, old age and unemployment insurance, fringe benefits required by agreement or custom, and workers' compensation insurance;
.3 costs of materials, supplies and equipment, including cost of transportation, whether incorporated or consumed;
.4 rental costs of machinery and equipment, exclusive of hand tools, whether rented from the Design-Builder or others;
.5 costs of premiums for all bonds and insurance, permit fees, and sales, use or similar taxes related to the Work;
.6 additional costs of supervision and field office personnel directly attributable to the change; and
.7 where the Contract Sum is based upon the Cost of the Work plus Design-Builder's Fee with or without a Guaranteed Maximum Price, all other costs that would be considered to be Costs of the Work under the Design-Build Documents; and

§ A.7.3.7 The amount of credit to be allowed by the Design-Builder to the Owner for a deletion or change that results in a net decrease in the Contract Sum shall be actual net cost. When both additions and credits covering related Work or substitutions are involved in a change, the allowance for overhead shall be figured on the basis of net increase, if any, with respect to that change.

§ A.7.3.8 Pending final determination of the total cost of a Change Order, amounts not in dispute for such changes in the Work shall be included in Applications for Payment accompanied by a Change Order indicating the parties' agreement with part or all of such costs and the Owner shall be obligated to pay such costs together with any fee as otherwise provided for in the Agreement.

§ A.7.3.9 When the Owner and Design-Builder reach agreement concerning any adjustments in any one or more of the Work, the Contract Sum or the Contract Time, or otherwise reach agreement upon the adjustments, such agreement shall be effective immediately and shall be recorded by preparation and execution of an appropriate Change Order.

§ A.7.4 MINOR CHANGES IN THE WORK
§ A.7.4.1 [Deliberately Left Blank]

ARTICLE A.8 TIME
§A.8.1 DEFINITIONS
§ A.8.1.1 Unless otherwise provided, Contract Time is the period of time, including authorized adjustments, allotted in the Design-Build Documents for Substantial Completion of the Work.

§ A.8.1.2 The date of commencement of the Work shall be the date stated in the Agreement unless provision is made for the date to be fixed in a notice to proceed issued by the Owner.

§ A.8.1.3 The date of Substantial Completion is the date when Substantial Completion is actually achieved in accordance with Section A.9.8.

§ A.8.1.4 The term "day" as used in the Design-Build Documents shall mean calendar day unless otherwise specifically defined.

§ A.8.2 PROGRESS AND COMPLETION
§ A.8.2.1 Time limits stated in the Design-Build Documents are of the essence of the Design-Build Contract. By executing the Design-Build Contract, the Design-Builder confirms that the Contract Time is a reasonable period for performing the Work.

§ A.8.2.2 The Design-Builder shall not knowingly, except by agreement or instruction of the Owner in writing, prematurely commence construction operations on the site or elsewhere prior to the effective date of insurance required by Article A.11 to be furnished by the Design-Builder and Owner. The date of commencement of the Work shall not be changed by the effective date of such insurance. Unless the date of commencement is established by the Design-Build Documents or a notice to proceed given by the Owner, the Design-Builder shall notify the Owner in writing not less than five days or other agreed period before commencing the Work to permit the timely filing of mortgages, mechanic's liens and other security interests.

§ A.8.2.3 The Design-Builder shall proceed expeditiously with adequate forces and shall achieve Substantial Completion within the Contract Time.

§ A.8.3 DELAYS AND EXTENSIONS OF TIME
§ A.8.3.1 The schedule in Exhibit I contains provisions for 2 lost work days per month from November 1, 2006 to July 1, 2007. If the Design-Builder is delayed at any time in the commencement or progress of the Work by an act or neglect of the Owner, or of an employee of Owner, or of a separate contractor employed by the Owner, or by changes ordered in the Work, or by labor disputes, fire, unusual delay in deliveries, the imposition of quotas or other restrictions on the ability of the Design-Builder to obtain material or equipment, unavoidable casualties or other causes beyond the Design-Builder's control, adverse weather conditions or adverse site conditions caused by adverse weather which prevent construction activities of the type then scheduled, delays caused by governmental authorities (not caused as a result of fault on the part of the Design-Builder), or by delay authorized by the Owner pending resolution of disputes pursuant to the Design-Build Documents, then the Contract Time shall be extended by Change Order for a reasonable time and the Contract Sum shall be adjusted by Change Order to the extent reasonably necessary to compensate the Design-Builder for any increases in the cost of the Work caused by such delay and to the extent that Design-Builder has exhausted the 2 lost work days.

§ A.8.3.2 Claims relating to time shall be made in accordance with applicable provisions of Section A.4.1.7.

§ A.8.3.3 This Section A.8.3 does not preclude recovery of damages for delay by either party under other provisions of the Design-Build Documents.

ARTICLE A.9 PAYMENTS AND COMPLETION
§ A.9.1 CONTRACT SUM
§ A.9.1.1 The Contract Sum is stated in the Design-Build Documents and, including authorized adjustments, is the total amount payable by the Owner to the Design-Builder for performance of the Work under the Design-Build Documents.

§ A.9.2 SCHEDULE OF VALUES
§ A.9.2.1 Before the first Application for Payment, where the Contract Sum is based upon a Stipulated Sum or the Cost of the Work plus Design-Builder's Fee with a Guaranteed Maximum Price, the Design-Builder shall submit to the Owner an initial schedule of values allocated to various portions of the Work prepared in such form and supported by such data to substantiate its accuracy as the Owner may require. This schedule, unless objected to by the Owner, shall be used as a basis for reviewing the Design-Builder's Applications for Payment. The schedule of values may be updated periodically to reflect changes in the allocation of the Contract Sum.

§ A.9.3 APPLICATIONS FOR PAYMENT
§ A.9.3.1 At least twenty days before the date established for each progress payment, the Design-Builder shall submit to the Owner an itemized Application for Payment for operations completed in accordance with the current schedule of values. Such application shall be notarized, if required, and supported by such data substantiating the Design-Builder's right to payment as the Owner may reasonably require, such as copies of requisitions from Contractors and material suppliers, and reflecting retainage if provided for in the Design-Build Documents.

§ A.9.3.1.1 [Deliberately Left Blank]

§ A.9.3.1.2 Such applications may not include requests for payment for portions of the Work for which the Design-Builder does not intend to pay to a Contractor or material supplier or other parties providing services for the Design-Builder, unless such Work has been performed by others whom the Design-Builder intends to pay.

§ A.9.3.2 Unless otherwise provided in the Design-Build Documents, payments shall be made on account of materials and equipment delivered and suitably stored at the site for subsequent incorporation in the Work. If approved in advance by the Owner, payment may similarly be made for materials and equipment suitably stored off the site at a location agreed upon in writing. Payment for materials and equipment stored on or off the site shall be conditioned upon compliance by the Design-Builder with procedures satisfactory to the Owner to establish the Owner's title to such materials and equipment or otherwise protect the Owner's interest and shall include the costs of applicable insurance, storage and transportation to the site for such materials and equipment stored off the site.

§ A.9.3.3 The Design-Builder warrants that title to all Work other than Instruments of Service covered by an Application for Payment will pass to the Owner no later than the time of payment. The Design-Builder further warrants that, upon submittal of an Application for Payment, all Work for which payments have been received from the Owner shall be free and clear of liens, claims, security interests or encumbrances in favor of the Design-Builder, Contractors, Subcontractors, material suppliers, or other persons or entities making a claim by reason of having provided labor, materials and equipment relating to the Work.

§ A.9.4 ACKNOWLEDGEMENT OF APPLICATION FOR PAYMENT
§ A.9.4.1 The Owner shall, within twenty days after receipt of the Design-Builder's Application for Payment, either pay the amount of such Application for Payment to the Design-Builder, or notify the Design-Builder in writing of the Owner's reasons for withholding payment in whole or in part as provided in Section A.9.5.1.

§ A.9.4.2 The making of a Payment will constitute an acknowledgement by the Owner that the Work has progressed to the point indicated in the Schedule of Values. The making of a Payment will further constitute an acknowledgement that the Design-Builder is entitled to payment in the amount requested in the Application for Payment. The foregoing acknowledgements are subject to an evaluation of the Work for conformance with the Design-Build Documents upon Substantial Completion, to results of subsequent tests and inspections, to correction of minor deviations from the Design-Build Documents prior to completion and to specific qualifications expressed by the Owner.

§ A.9.5 DECISIONS TO WITHHOLD PAYMENT
§ A.9.5.1 If the Owner withholds a payment of all or any portion of an Application for Payment, then the Owner will notify the Design-Builder as provided in Section A.9.4.1. If the Design-Builder and the Owner cannot agree on a revised amount, the Owner will promptly pay the amount which is not in dispute. The Owner may withhold a Payment or, because of subsequently discovered evidence, may nullify the whole or a part of an Application for Payment previously issued to such extent as may be reasonably necessary to protect the Owner from loss for which the Design-Builder is responsible, resulting from acts and omissions, because of the following:

.1 defective Work not remedied;
.2 third-party claims filed or reasonable evidence indicating probable filing of such claims unless security acceptable to the Owner is provided by the Design-Builder;
.3 failure of the Design-Builder to make payments properly to Contractors or for design services labor, materials or equipment;
.4 reasonable evidence that the Work cannot be completed for the unpaid balance of the Contract Sum;
.5 damage to the Owner or a separate contractor;
.6 reasonable evidence that the Work will not be completed within the Contract Time and that the unpaid balance would not be adequate to cover actual or liquidated damages for the anticipated delay; or

.7 persistent failure to carry out the Work in accordance with the Design-Build Documents.

§ A.9.5.2 When the above reasons for withholding payment are removed, payment will be made for amounts previously withheld. Notwithstanding anything to the contrary in the foregoing, if the Design-Builder provides the Owner with a lien bond sufficient to cover mechanics' liens filed by the Design-Builder or any Contractor, the Owner shall not withhold payment as set forth in Section A.9.5.1.3 herein. The Design-Builder will diligently pursue the removal of any lien filed by a Contractor (unless in the reasonable determination of the Design-Builder, the ultimate obligation for the Claim filed by the Contractor lies with the Owner), and, regardless of whether a lien bond is provided as set forth above, during such time the Owner shall not satisfy or pay off the lien or otherwise settle or compromise the Contractor's claim; provided, however, that promptly after a final, non-appealable judgment is rendered directing that the property be sold to satisfy the lien, and in any event prior to the date of such sale, the Design-Builder will satisfy the lien and pay the Contractor all amounts owing.

§ A.9.6 PROGRESS PAYMENTS
§ A.9.6.1 After the Owner has received an Application for Payment that complies with the requirements of the Design-Build Documents, the Owner shall make payment of the amount, in the manner and within the time provided in the Design-Build Documents.

§ A.9.6.2 The Design-Builder shall promptly pay the Architect, each design professional and other consultants retained directly by the Design-Builder, upon receipt of payment from the Owner, out of the amount paid to the Design-Builder on account of each such party's respective portion of the Work, the amount to which each such party is entitled.

§ A.9.6.3 The Design-Builder shall promptly pay each Contractor, upon receipt of payment from the Owner, out of the amount paid to the Design-Builder on account of such Contractor's portion of the Work, the amount to which said Contractor is entitled, reflecting percentages actually retained from payments to the Design-Builder on account of the Contractor's portion of the Work. The Design-Builder shall, by appropriate agreement with each Contractor, require each Contractor to make payments to Subcontractors in a similar manner.

§ A.9.6.4 The Owner shall have no obligation to pay or to see to the payment of money to a Contractor except as may otherwise be required by law.

§ A.9.6.5 Payment to material suppliers shall be treated in a manner similar to that provided in Sections A.9.6.3 and A.9.6.4.

§ A.9.6.6 A progress payment, or partial or entire use or occupancy of the Project by the Owner, shall not constitute acceptance of Work not in accordance with the Design-Build Documents.

§ A.9.6.7 Unless the Design-Builder provides the Owner with a payment bond in the full penal sum of the Contract Sum, payments received by the Design-Builder for Work properly performed by Contractors and suppliers shall be held by the Design-Builder for those Contractors or suppliers who performed Work or furnished materials, or both, under contract with the Design-Builder for which payment was made by the Owner. Nothing contained herein shall require money to be placed in a separate account and not be commingled with money of the Design-Builder, shall create any fiduciary liability or tort liability on the part of the Design-Builder for breach of trust or shall entitle any person or entity to an award of punitive damages against the Design-Builder for breach of the requirements of this provision.

§ A.9.7 FAILURE OF PAYMENT
§ A.9.7.1 If the Owner does not issue a Payment on an Application for Payment within the time period required by Section 5.1.3 of the Agreement, or if the Owner withholds payment pursuant to Section 9.5.1 without notice as provided in Section A.9.4.1 or if the Owner does not pay the Design-Builder within seven days after the date established in the Design-Build Documents any other amount due to the Design-Builder hereunder or within the time specified in any dispute resolution, then the Design-Builder may stop the Work until payment of the amount owing has been received. The Contract Time shall be extended appropriately and the Contract Sum shall be increased by the amount of the Design-Builder's reasonable costs of shutdown, delay and start-up, plus interest as provided for in the Design-Build Documents. This right to stop work for non-payment is an agreed upon exception to the Design-Builder's general agreement not to stop work during the dispute resolution process.

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§ A.9.8 SUBSTANTIAL COMPLETION
§ A.9.8.1 Substantial Completion is the stage in the progress of the Work when the Work or designated portion thereof is sufficiently complete in accordance with the Design-Build Documents so that the Owner can occupy or use the Work or a portion thereof for its intended use.

§ A.9.8.2 When the Design-Builder considers that the Work, or a portion thereof which the Owner agrees to accept separately, is substantially complete, the Design-Builder shall prepare and submit to the Owner a comprehensive list of items to be completed or corrected prior to final payment. Failure to include an item on such list does not alter the responsibility of the Design-Builder to complete all Work in accordance with the Design-Build Documents.

§ A.9.8.3 Upon receipt of the Design-Builder's list, the Owner shall make an inspection to determine whether the Work or designated portion thereof is substantially complete. If the Owner's inspection discloses any item, whether or not included on the Design-Builder's list, which is not substantially complete, the Design-Builder shall complete or correct such item. In such case, the Design-Builder shall then submit a request for another inspection by the Owner to determine whether the Design-Builder's Work is substantially complete.

§ A.9.8.4 In the event of a dispute regarding whether the Design-Builder's Work is substantially complete, the dispute shall be resolved pursuant to Article A.4.

§ A.9.8.5 When the Work or designated portion thereof is substantially complete, the Design-Builder shall prepare for the Owner's signature an Acknowledgement of Substantial Completion which, when signed by the Owner, shall establish (1) the date of Substantial Completion of the Work, (2) responsibilities between the Owner and Design-Builder for security, maintenance, heat, utilities, damage to the Work and insurance, and (3) the time within which the Design-Builder shall finish all items on the list accompanying the Acknowledgement. When the Owner's inspection discloses that the Work or a designated portion thereof is substantially complete, the Owner shall sign the Acknowledgement of Substantial Completion. Warranties required by the Design-Build Documents shall commence on the date of Substantial Completion of the Work or designated portion thereof unless otherwise provided in the Acknowledgement of Substantial Completion.

§ A.9.8.6 Upon execution of the Acknowledgement of Substantial Completion and consent of surety, if any, the Owner shall make payment of retainage applying to such Work or designated portion thereof. Such payment shall be adjusted for Work that is incomplete or not in accordance with the requirements of the Design-Build Documents.

§ A.9.9 PARTIAL OCCUPANCY OR USE
§ A.9.9.1 The Design-Builder will strive for partial occupancy of the building (Column lines 10 thru 27 and A thru C.5) for the purpose of beginning erection of mezzanine and conveyor systems. This area will not be complete at time of mobilization by others and work in this area by the Design-Builder will still be in progress. The Owner may occupy or use any completed or partially completed portion of the Work at any stage when such portion is designated by separate agreement with the Design-Builder, provided such occupancy or use is consented to by the insurer, if so required by the insurer, and authorized by public authorities having jurisdiction over the Work. Such partial occupancy or use may commence whether or not the portion is substantially complete, provided the Owner and Design-Builder have accepted in writing the responsibilities assigned to each of them for payments, retainage, if any, security, maintenance, heat, utilities, damage to the Work and insurance, and have agreed in writing concerning the period for completion or correction of the Work and commencement of warranties required by the Design-Build Documents. When the Design-Builder considers a portion substantially complete, the Design-Builder shall prepare and submit a list to the Owner as provided under Section A.9.8.2. Consent of the Design-Builder to partial occupancy or use shall not be unreasonably withheld. The stage of the progress of the Work shall be determined by written agreement between the Owner and Design-Builder.

(Paragraphs deleted)
§ A.9.9.2 Immediately prior to such partial occupancy or use, the Owner and Design-Builder shall jointly inspect the area to be occupied or portion of the Work to be used to determine and record the condition of the Work.

§ A.9.9.3 Unless otherwise agreed upon, partial occupancy or use of a portion or portions of the Work shall not constitute acceptance of Work not complying with the requirements of the Design-Build Documents.

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§ A.9.10 FINAL COMPLETION AND FINAL PAYMENT
§ A.9.10.1 Upon receipt of written notice that the Work is ready for final inspection and acceptance and upon receipt of a final Application for Payment, the Owner shall promptly make such inspection and, when the Work has been finally completed in accordance with the Design-Build Documents and fully performed, the Owner shall, subject to Section A.9.10.2, promptly make final payment of all amounts due and owing to the Design-Builder under the Design-Build Documents.

§ A.9.10.2 Neither final payment nor any remaining retained percentage will become due until the Design-Builder submits to the Owner (1) an affidavit that payrolls, bills for materials and equipment, and other indebtedness connected with the Work for which the Owner or the Owner's property might be responsible or encumbered (less amounts withheld by Owner) have been paid or otherwise satisfied, (2) a certificate evidencing that insurance required by the Design-Build Documents to remain in force after final payment is currently in effect and will not be cancelled or allowed to expire until at least 30 days' prior written notice has been given to the Owner, (3) a written statement that the Design-Builder knows of no substantial reason that the insurance will not be renewable to cover the period required by the Design-Build Documents, (4) consent of surety, if any, to final payment, (5) if required by the Owner, other data establishing payment or satisfaction of obligations, such as receipts, releases and waivers of liens, claims, security interests or encumbrances arising out of the Design-Build Contract, to the extent and in such form as may be designated by the Owner, and (6) as-built documents, start up demonstrations, equipment manuals and warranties. If a Contractor refuses to furnish a release or waiver required by the Owner, the Design-Builder may furnish a bond satisfactory to the Owner to indemnify the Owner against such lien. If such lien remains unsatisfied after payments are made, the Design-Builder shall refund to the Owner all money that the Owner may be liable to pay in connection with the discharge of such lien, including all costs and reasonable attorneys' fees.

§ A.9.10.3 If, after Substantial Completion of the Work or a designated portion thereof, final completion thereof is materially delayed through no fault of the Design-Builder or by issuance of a Change Order affecting final completion, the Owner shall, upon application by the Design-Builder, make payment of the balance due for that portion of the Work fully completed and accepted. If the remaining balance for Work not fully completed or corrected is less than retainage stipulated in the Design-Build Documents, and if bonds have been furnished, the written consent of surety to payment of the balance due for that portion of the Work fully completed and accepted shall be submitted by the Design-Builder. Such payment shall be made under terms and conditions governing final payment, except that it shall not constitute a waiver of claims.

§ A.9.10.4 The making of final payment shall constitute a waiver of Claims by the Owner except those arising from:
- **.1** liens, Claims, security interests or encumbrances arising out of the Design-Build Documents and unsettled;
- **.2** failure of the Work to comply with the requirements of the Design-Build Documents; or .
- **.3** terms of special warranties required by the Design-Build Documents.

§ A.9.10.5 Acceptance of final payment by the Design-Builder, the Architect, a Contractor or material supplier shall constitute a waiver of claims by that payee except those previously made in writing and identified by that payee as unsettled at the time of final Application for Payment.

ARTICLE A.10 PROTECTION OF PERSONS AND PROPERTY
§ A.10.1 SAFETY PRECAUTIONS AND PROGRAMS
§ A.10.1.1 The Design-Builder shall be responsible for initiating and maintaining all safety precautions and programs in connection with the performance of the Design-Build Contract.

§ A.10.2 SAFETY OF PERSONS AND PROPERTY
§ A.10.2.1 The Design-Builder shall take reasonable precautions for safety of, and shall provide reasonable protection to prevent damage, injury or loss to:

.1 employees on the Work and other persons who may be affected thereby;
.2 the Work and materials and equipment to be incorporated therein, whether in storage on or off the site or under the care, custody or control of the Design-Builder or the Design-Builder's Contractors or Subcontractors; and
.3 other property at the site or adjacent thereto, such as trees, shrubs, lawns, walks, pavements, roadways, structures and utilities not designated for removal, relocation or replacement in the course of construction.

§ A.10.2.2 The Design-Builder shall give notices and comply with applicable laws, ordinances, rules, regulations and lawful orders of public authorities bearing on safety of persons or property or their protection from damage, injury or loss.

§ A.10.2.3 The Design-Builder shall erect and maintain, as required by existing conditions and performance of the Design-Build Documents, reasonable safeguards for safety and protection, including posting danger signs and other warnings against hazards, promulgating safety regulations and notifying owners and users of adjacent sites and utilities.

§ A.10.2.4 When use or storage of explosives or other hazardous materials or equipment or unusual methods are necessary for execution of the Work, the Design-Builder shall exercise utmost care and carry on such activities under supervision of properly qualified personnel.

§ A.10.2.5 The Design-Builder shall promptly remedy damage and loss (other than damage or loss insured under property insurance required by the Design-Build Documents) to property referred to in Sections A. 10.2.1.2 and A. 10.2.1.3 caused in whole or in part by the Design-Builder, the Architect, a Contractor, a Subcontractor, or anyone directly or indirectly employed by any of them or by anyone for whose acts they may be liable and for which the Design-Builder is responsible under Sections A. 10.2.1.2 and A. 10.2.1.3, except damage or loss attributable to acts or omissions of the Owner or anyone directly or indirectly employed by the Owner, or by anyone for whose acts the Owner may be liable, and not attributable to the fault or negligence of the Design-Builder. The foregoing obligations of the Design-Builder are in addition to the Design-Builder's obligations under Section A.3.17.

§ A.10.2.6 The Design-Builder shall designate to the Owner a responsible individual whose duty shall be the prevention of accidents.

§ A.10.2.7 The Design-Builder shall not load or permit any part of the construction or site to be loaded so as to endanger its safety.

§ A.10.3 HAZARDOUS MATERIALS
§ A.10.3.1 If reasonable precautions will be inadequate to prevent foreseeable bodily injury or death to persons resulting from a material or substance, including but not limited to asbestos or polychlorinated biphenyl (PCB), encountered on the site by the Design-Builder, the Design-Builder shall, upon recognizing the condition, immediately stop Work in the affected area and report the condition to the Owner.

§ A.10.3.2 The Owner shall obtain the services of a licensed laboratory to verify the presence or absence of the material or substance reported by the Design-Builder and, in the event such material or substance is found to be present, to verify that it has been rendered harmless. Unless otherwise required by the Design-Build Documents, the Owner shall furnish in writing to the Design-Builder the names and qualifications of persons or entities who are to perform tests verifying the presence or absence of such material or substance or who are to perform the task of removal or safe containment of such material or substance. The Design-Builder shall promptly reply to the Owner in writing stating whether or not the Design-Builder has reasonable objection to the persons or entities proposed by the Owner. If the Design-Builder has an objection to a person or entity proposed by the Owner, the Owner shall propose another to whom the Design-Builder has no reasonable objection. When the material or substance has been rendered harmless, work in the affected area shall resume upon written agreement of the Owner and Design-Builder. The Contract Time shall be extended appropriately, and the Contract Sum shall be increased in the amount of the Design-Builder's reasonable additional costs of shutdown, delay and start-up, which adjustments shall be accomplished as provided in Article A.7.

§ A.10.3.3 To the fullest extent permitted by law, the Owner shall indemnify and hold harmless the Design-Builder, Contractors, Subcontractors, Architect, Architect's consultants and the agents and employees of any of them from and against Claims, damages, losses and expenses, including but not limited to attorneys' fees, arising out of or resulting from performance of the Work in the affected area if in fact the material or substance presents the risk of bodily injury or death as described in Section A. 10.3.1 and has not, after receipt of notice from Design-Builder pursuant to A 10.3.1, been rendered harmless, provided that such Claim, damage, loss or expense is attributable to bodily injury, sickness, disease or death or to injury to or destruction of tangible property (other than the Work itself) and provided that such damage, loss or expense is not due to the negligence of a party seeking indemnity.

§ A.10.4 The Owner shall not be responsible under Section A.10.3 for materials and substances brought to the site by the Design-Builder unless such materials or substances were required by the Design-Build Documents.

§ A.10.5 If, without negligence on the part of the Design-Builder, the Design-Builder is held liable for the cost of remediation of a hazardous material or substance solely by reason of performing Work as required by the Design-Build Documents, the Owner shall indemnify the Design-Builder for all cost and expense thereby incurred.

§A.10.6 EMERGENCIES
§ A.10.6.1 In an emergency affecting safety of persons or property, the Design-Builder shall act, at the Design-Builder's discretion, to prevent threatened damage, injury or loss. Additional compensation or extension of time claimed by the Design-Builder on account of an emergency shall be determined as provided in Section A.4.1.7 and Article A.7.

ARTICLE A.11 INSURANCE AND BONDS
§ A.11.1 Except as may otherwise be set forth in the Agreement or elsewhere in the Design-Build Documents, the Owner and Design-Builder shall purchase and maintain the following types of insurance with limits of liability and deductible amounts and subject to such terms and conditions, as set forth in this Article A.11.

§ A.11.2 DESIGN-BUILDER'S LIABILITY INSURANCE
§ A.11.2.1 The Design-Builder shall purchase from and maintain in a company or companies lawfully authorized to do business in the jurisdiction in which the Project is located such insurance, specified in Exhibit C, as will protect the Design-Builder from claims set forth below that may arise out of or result from the Design-Builder's operations under the Design-Build Contract and for which the Design-Builder may be legally liable, whether such operations be by the Design-Builder, the Architect, by a Contractor or by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable:
.1 claims under workers' compensation, disability benefit and other similar employee benefit acts which are applicable to the Work to be performed;
.2 claims for damages because of bodily injury, occupational sickness or disease, or death of the Design-Builder's employees;
.3 claims for damages because of bodily injury, sickness or disease, or death of any person other than the Design-Builder's employees;
.4 claims for damages insured by usual personal injury liability coverage;
.5 claims for damages, other than to the Work itself, because of injury to or destruction of tangible property, including loss of use resulting therefrom;
.6 claims for damages because of bodily injury, death of a person or property damage arising out of ownership, maintenance or use of a motor vehicle;
.7 claims for bodily injury or property damage arising out of completed operations; and
.8 claims involving contractual liability insurance applicable to the Design-Builder's obligations under Section A3.17.

§ A.11.2.2 The insurance required by Section A.11.2.1 shall be written for not less than limits of liability specified in the Design-Build Documents or required by law, whichever coverage is greater. Coverages, whether written on an occurrence or claims-made basis, shall be maintained without interruption from date of commencement of the Work until date of final payment and termination of any coverage required to be maintained after final payment.

§ A.11.2.3 Certificates of insurance acceptable to the Owner shall be filed with the Owner prior to commencement of the Work. These certificates and the insurance policies required by this Section A.11.2 shall contain a provision that coverages afforded under the policies will not be canceled or allowed to expire until at least 30 days' prior written notice has been given to the Owner. If any of the foregoing insurance coverages are required to remain in force after final payment and are reasonably available, an additional certificate evidencing continuation of such coverage shall be submitted with the final Application for Payment as required by Section A.9.10.2. Information concerning reduction of coverage on account of revised limits or claims paid under the General Aggregate, or both, shall be furnished by the Design-Builder with reasonable promptness in accordance with the Design-Builder's information and belief.

§ A.11.3 OWNER'S LIABILITY INSURANCE
§ A.11.3.1 The Owner shall be responsible for purchasing and maintaining the Owner's usual liability insurance.

§ A.1 1.4 PROPERTY INSURANCE Owner shall purchase and maintain in a company or companies lawfully authorized to do business in the jurisdiction in which the Project is located, property insurance , as specified in Exhibit C, written on a builder's risk, "all-risk" or equivalent policy form in the amount of the initial Contract Sum, plus the value of subsequent Design-Build Contract modifications and cost of materials supplied or installed by others, comprising total value for the entire Project at the site on a replacement cost basis without optional deductibles. Such property insurance shall be maintained, unless otherwise provided in the Design-Build Documents or otherwise agreed in writing by

all persons and entities who are beneficiaries of such insurance, until final payment has been made as provided in Section A.9.10 or until no person or entity other than the Owner has an insurable interest in the property required by this Section A.1 1.4 to be covered, whichever is later. This insurance shall include interests of the Owner, Design-Builder, Contractors and Subcontractors in the Project.

(Paragraphs deleted)
§ A.11.4.1.1 Property insurance shall be on an "all-risk" or equivalent policy form and shall include, without limitation, insurance against the perils of fire (with extended coverage) and physical loss or damage including, without duplication of coverage, theft, vandalism, malicious mischief, collapse, earthquake, flood, windstorm, falsework, testing and startup, temporary buildings and debris removal, including demolition occasioned by enforcement of any applicable legal requirements, and shall cover reasonable compensation for Design-Builder's services and expenses required as a result of such insured loss.

§ A.11.4.1.2 [Deliberately Left Blank].

§ A.11.4.1.3 If the property insurance requires deductibles, the Owner shall pay costs of such deductibles.

§ A.11.4.1.4 This property insurance shall cover portions of the Work stored off the site and also portions of the Work in transit.

§ A.11.4.1.5 Partial occupancy or use in accordance with Section A.9.9 shall not commence until the insurance company or companies providing property insurance have consented to such partial occupancy or use, by endorsement or otherwise. The Owner and the Design-Builder shall take reasonable steps to obtain consent of the insurance company or companies and shall, without mutual written consent, take no action with respect to partial occupancy or use that would cause cancellation, lapse or reduction of insurance.

§ A.11.4.2 Boiler and Machinery Insurance. The Owner shall purchase and maintain boiler and machinery insurance required by the Design-Build Documents or by law, which shall specifically cover such insured objects during installation and until final acceptance by the Owner; this insurance shall include interests of the Owner, Design-Builder, Contractors and Subcontractors in the Work, and the Owner and Design-Builder shall be named insureds.

§ A.11.4.3 Loss of Use Insurance. The Owner, at the Owner's option, may purchase and maintain such insurance as will insure the Owner against loss of use of the Owner's property due to fire or other hazards, however caused. The Owner waives all rights of action against the Design-Builder, Architect, the Design-Builder's other design professionals, if any, Contractors and Subcontractors for loss of use of the Owner's property, including consequential losses due to fire or other hazards, however caused.

§ A.11.4.4 [Deliberately Left Blank]

§ A.11.4.5 If during the Project construction period the Owner insures properties, real or personal or both, at or adjacent to the site by property insurance under policies separate from those insuring the Project, or if after final payment property insurance is to be provided on the completed Project through a policy or policies other than those insuring the Project during the construction period, the Owner shall waive all rights in accordance with the terms of Section A. 11.4.7 for damages caused by fire or other causes of loss covered by this separate property insurance. All separate policies shall provide this waiver of subrogation by endorsement or otherwise.

§ A.11.4.6 Before an exposure to loss may occur, the Owner shall file with the Design Builder a copy of each policy that includes insurance coverages required by this Section A.1 1.4. Each policy shall contain all generally applicable

conditions, definitions, exclusions and endorsements related to this Project. Each policy shall contain a provision that the policy will not be canceled or allowed to expire and that its limits will not be reduced until at least 30 days' prior written notice has been given to the Design-Builder.

§ A.11.4.7 Waivers of Subrogation. The Owner and Design-Builder waive all rights against each other and any of their consultants, separate contractors described in Section A.6.1, if any, Contractors, Subcontractors, agents and employees, each of the other, and any of their contractors, subcontractors, sub-subcontractors, agents and employees, for damages caused by fire or other causes of loss to the extent covered by property insurance obtained pursuant to this Section A.11.4 or other property insurance applicable to the Work, except such rights as they have to proceeds of such insurance held by the Owner or Design-Builder as fiduciary. The Owner or Design-Builder, as appropriate, shall require of the separate contractors described in Section A.6.1, if any, and the contractors, subcontractors, sub-subcontractors, agents and employees of any of them, by appropriate agreements, written where legally required for validity, similar waivers each in favor of other parties enumerated herein. The policies shall provide such waivers of subrogation by endorsement or otherwise. A waiver of subrogation shall be effective as to a person or entity even though that person or entity would otherwise have a duty of indemnification, contractual or otherwise, even though the person or entity did not pay the insurance premium directly or indirectly, and whether or not the person or entity had an insurable interest in the property damaged.

§ A.11.4.8 A loss insured under Owner's property insurance shall be adjusted by the Owner as fiduciary and made payable to the Owner as fiduciary for the insureds, as their interests may appear, subject to requirements of any applicable mortgagee clause and of Section A.11.4.10. A loss insured under Design-Builder's all risk insurance shall be adjusted by the Design Builder as fiduciary and made payable to the Design-Builder as fiduciary for the insureds, as their interests may appear, subject to requirements of any applicable mortgagee clause and of Section A. 11.4.10. The Design-Builder shall pay Contractors their just shares of insurance proceeds received by the Design-Builder, and, by appropriate agreements, written where legally required for validity, shall require Contractors to make payments to their Subcontractors in similar manner.

§ A.11.4.9 If required in writing by a party in interest, the Owner as fiduciary shall, upon occurrence of an insured loss, give bond for proper performance of the Owner's duties. The cost of required bonds shall be charged against proceeds received as fiduciary. The Owner shall deposit in a separate account proceeds so received, which the Owner shall distribute in accordance with such agreement as the parties in interest may reach, or in accordance with any dispute resolution as provided in the Design-Build Documents. If after such loss no other special agreement is made and unless the Owner terminates the Design-Build Contract for convenience, replacement of damaged property shall be performed by the Design-Builder after notification of a Change in the Work in accordance with Article A.7.

§ A.11.4.10 The Owner as fiduciary shall have power to adjust and settle a loss with insurers unless one of the parties in interest shall object in writing within five days after occurrence of loss to the Owner's exercise of this power; if such objection is made, the dispute shall be resolved as provided in Article A.4. The Owner as fiduciary shall, in the case of a decision or award, make settlement with insurers in accordance with directions of a decision or award. If distribution of insurance proceeds by arbitration is required, the arbitrators will direct such distribution. The same provisions shall apply to Design-Builder with respect to its responsibilities to adjust and settle losses with the insurers under the all risk policy.

§ A.11.5 PERFORMANCE BOND AND PAYMENT BOND
§ A.11.5.1 See Exhibit C.

ARTICLE A.12 UNCOVERING AND CORRECTION OF WORK
§ A.12.1 UNCOVERING OF WORK
§ A.12.1.1 If a portion of the Work is covered contrary to requirements specifically expressed in the Design-Build Documents, it must, if required in writing by the Owner, be uncovered for the Owner's examination and be replaced at the Design-Builder's expense without change in the Contract Time.

§ A.12.1.2 If a portion of the Work has been covered which the Owner has not specifically requested to examine prior to its being covered, the Owner may request to see such Work and it shall be uncovered by the Design-Builder. If such Work is in accordance with the Design-Build Documents, costs of uncovering and replacement shall, by appropriate Change Order, be at the Owner's expense. If such Work is not in accordance with the Design-Build

Documents, correction shall be at the Design-Builder's expense unless the condition was caused by the Owner or a separate contractor, in which event the Owner shall be responsible for payment of such costs.

§ A.12.2 CORRECTION OF WORK
§ A.12.2.1 BEFORE SUBSTANTIAL COMPLETION.
§ A.12.2.1.1 The Design-Builder shall promptly correct Work failing to conform to the requirements of the Design-Build Documents, that is discovered before Substantial Completion and whether or not fabricated, installed or completed. Costs of correcting such nonconforming Work, including additional testing, shall be at the Design-Builder's expense.

§ A.12.2.2 AFTER SUBSTANTIAL COMPLETION
§ A.12.2.2.1 In addition to the Design-Builder's obligations under Section A.3.5, if, within one year after the date of Substantial Completion or after the date for commencement of warranties established under Section A.9.8.5 or by terms of an applicable special warranty required by the Design-Build Documents, any of the Work is found to be not in accordance with the requirements of the Design-Build Documents, the Design-Builder shall correct it promptly after receipt of written notice from the Owner to do so unless the Owner has previously given the Design-Builder a written acceptance of such condition. The Owner shall give such notice promptly after discovery of the condition. During the one-year period for correction of Work, if the Owner fails to notify the Design Builder and give the Design-Builder an opportunity to make the correction, the Owner waives the rights to require correction by the Design-Builder and to make a claim for breach of warranty. If the Design-Builder fails to correct non-conforming Work within a reasonable time during that period after receipt of notice from the Owner, the Owner may correct it in accordance with Section A.2.5.

§ A.12.2.2.2 The one-year period for correction of Work shall be extended with respect to portions of Work first performed after Substantial Completion by the period of time between Substantial Completion and the actual performance of the Work.

§ A.12.2.2.3 The one-year period for correction of Work shall not be extended by corrective Work performed by the Design-Builder pursuant to this Section A.12.2.

§ A.12.2.3 The Design-Builder shall remove from the site portions of the Work which are not in accordance with the requirements of the Design-Build Documents and are neither corrected by the Design-Builder nor accepted by the Owner.

§ A.12.2.4 The Design-Builder shall bear the cost of correcting destroyed or damaged construction, whether completed or partially completed, of the Owner or separate contractors caused by the Design-Builder's correction or removal of Work which is not in accordance with the requirements of the Design-Build Documents.

§ A.12.2.5 Nothing contained in this Section A.12.2 shall be construed to establish a period of limitation with respect to other obligations the Design-Builder might have under the Design-Build Documents. Establishment of the one-year period for correction of Work as described in Section A. 12.2.2 relates only to the specific obligation of the Design-Builder to correct the Work, and has no relationship to the time within which the obligation to comply with the Design-Build Documents may be sought to be enforced, nor to the time within which proceedings may be commenced to establish the Design-Builder's liability with respect to the Design-Builder's obligations other than specifically to correct the Work.

§ A.12.3 ACCEPTANCE OF NONCONFORMING WORK
§ A.12.3.1 If the Owner prefers to accept Work not in accordance with the requirements of the Design-Build Documents, the Owner may do so instead of requiring its removal and correction, in which case the Contract Sum will be equitably adjusted by Change Order. Such adjustment shall be effected whether or not final payment has been made.

ARTICLE A.13 MISCELLANEOUS PROVISIONS
§ A.13.1 GOVERNING LAW
§ A.13.1.1 The Design-Build Contract shall be governed by the law of the place where the Project is located.

§ A.13.2 SUCCESSORS AND ASSIGNS
§ A.13.2.1 The Owner and Design-Builder respectively bind themselves, their partners, successors, assigns and legal representatives to the other party hereto and to partners, successors, assigns and legal representatives of such other party in respect to covenants, agreements and obligations contained in the Design-Build Documents. For purposes of this Agreement, the term "successors" shall include any party to whom Owner transfers ownership of the Property to prior to final payment of the Contract amount. Except as provided in Section A.13.2.2, neither party to the Design-Build Contract shall assign the Design-Build Contract as a whole without written consent of the other. If either party attempts to make such an assignment without such consent, that party shall nevertheless remain legally responsible for all obligations under the Design-Build Contract.

§ A.13.2.2 The Owner may, without consent of the Design-Builder, assign the Design-Build Contract to an institutional lender providing construction financing for the Project. In such event, the lender shall assume the Owner's rights and obligations under the Design-Build Documents. The Design-Builder shall execute all consents reasonably required to facilitate such assignment.

§A.13.3 WRITTEN NOTICE
§ A.13.3.1 Written notice shall be deemed to have been duly served if delivered in person to the individual or a member of the firm or entity or to an officer of the corporation for which it was intended, or if sent by registered or certified mail to the last business address known to the party giving notice. Notwithstanding the foregoing, any notice to the Design-Builder, including, without limitation, any notice given pursuant to Section A.12.2.2.1, shall include a copy to the Vice-President of Risk Avoidance of Design-Builder, but failure to deliver this copy to the Vice-President of Risk Avoidance of Design-Builder shall not invalidate the written notice.

§ A.13.4 RIGHTS AND REMEDIES
§ A.13.4.1 Duties and obligations imposed by the Design-Build Documents and rights and remedies available thereunder shall be in addition to and not a limitation of duties, obligations, rights and remedies otherwise imposed or available by law.

§ A.13.4.2 No action or failure to act by the Owner or Design-Builder shall constitute a waiver of a right or duty afforded them under the Design-Build Documents, nor shall such action or failure to act constitute approval of or acquiescence in a breach thereunder, except as may be specifically agreed in writing.

§ A.13.5 TESTS AND INSPECTIONS
§ A.13.5.1 Tests, inspections and approvals of portions of the Work required by the Design-Build Documents or by laws, ordinances, rules, regulations or orders of public authorities having jurisdiction shall be made at an appropriate time. Unless otherwise provided, the Design-Builder shall make arrangements for such tests, inspections and approvals with an independent testing laboratory or entity acceptable to the Owner or with the appropriate public authority, and shall bear all related costs of tests, inspections and approvals. The Design-Builder shall give the Owner timely notice of when and where tests and inspections are to be made so that the Owner may be present for such procedures.

§ A.13.5.2 If the Owner or public authorities having jurisdiction determine that portions of the Work require additional testing, inspection or approval not included under Section A.13.5.1, the Owner shall in writing instruct the Design-Builder to make arrangements for such additional testing, inspection or approval by an entity acceptable to the Owner, and the Design-Builder shall give timely notice to the Owner of when and where tests and inspections are to be made so that the Owner may be present for such procedures. Such costs, except as provided in Section A. 13.5.3, shall be at the Owner's expense.

§ A.13.5.3 If such procedures for testing, inspection or approval under Sections A.13.5.1 and A.13.5.2 reveal failure of the portions of the Work to comply with requirements established by the Design-Build Documents, all costs made necessary by such failure, including those of repeated procedures, shall be at the Design-Builder's expense.

§ A.13.5.4 Required certificates of testing, inspection or approval shall, unless otherwise required by the Design-Build Documents, be secured by the Design-Builder and promptly delivered to the Owner.

§ A.13.5.5 If the Owner is to observe tests, inspections or approvals required by the Design-Build Documents, the Owner will do so promptly and, where practicable, at the normal place of testing.

§ A.13.5.6 Tests or inspections conducted pursuant to the Design-Build Documents shall be made promptly to avoid unreasonable delay in the Work.

§ A.13.6 COMMENCEMENT OF STATUTORY LIMITATION PERIOD
§ A.13.6.1 As between the Owner and Design-Builder:

- **.1** **Before Substantial Completion.** As to acts or failures to act occurring prior to the relevant date of Substantial Completion, any applicable statute of limitations shall commence to run and any alleged cause of action shall be deemed to have accrued in any and all events not later than such date of Substantial Completion;
- **.2** **Between Substantial Completion and Final Application for Payment.** As to acts or failures to act occurring subsequent to the relevant date of Substantial Completion and prior to issuance of the final Application for Payment, any applicable statute of limitations shall commence to run and any alleged cause of action shall be deemed to have accrued in any and all events not later than the date of issuance of the final Application for Payment; and
- **.3** **After Final Application for Payment.** As to acts or failures to act occurring after the relevant date of issuance of the final Application for Payment, any applicable statute of limitations shall commence to run and any alleged cause of action shall be deemed to have accrued in any and all events not later than the date of any act or failure to act by the Design-Builder pursuant to any Warranty provided under Section A.3.5, the date of any correction of the Work or failure to correct the Work by the Design-Builder under Section A.12.2, or the date of actual commission of any other act or failure to perform any duty or obligation by the Design-Builder or Owner, whichever occurs last.

ARTICLE A.14 TERMINATION OR SUSPENSION OF THE DESIGN/BUILD CONTRACT
§ A.14.1 TERMINATION BY THE DESIGN-BUILDER
§ A.14.1.1 The Design-Builder may terminate the Design-Build Contract if the Work is stopped for a period of 30 consecutive days through no act or fault of the Design-Builder or a Contractor, Subcontractor or their agents or employees or any other persons or entities performing portions of the Work under direct or indirect contract with the Design-Builder, for any of the following reasons:

- **.1** issuance of an order of a court or other public authority having jurisdiction which requires all Work to be stopped;
- **.2** an act of government, such as a declaration of national emergency which requires all Work to be stopped;
- **.3** the Owner has failed to make payment to the Design-Builder in accordance with the Design-Build Documents; or
- **.4** the Owner has failed to furnish to the Design-Builder promptly, upon the Design-Builder's request, reasonable evidence as required by Section A.2.2.8.

§ A.14.1.2 The Design-Builder may terminate the Design-Build Contract if, through no act or fault of the Design-Builder or a Contractor, Subcontractor or their agents or employees or any other persons or entities performing portions of the Work under direct or indirect contract with the Design-Builder, repeated suspensions, delays or interruptions of the entire Work by the Owner, as described in Section A.14.3, constitute in the aggregate more than 100 percent of the total number of days scheduled for completion, or 120 days in any 365-day period, whichever is less.

§ A.14.1.3 If one of the reasons described in Sections A.14.1.1 or A.14.1.2 exists, the Design-Builder may, upon seven days' written notice to the Owner, terminate the Design-Build Contract and recover from the Owner payment for Work executed and for proven loss with respect to materials, equipment, tools, and construction equipment and machinery, including reasonable overhead, Design-Builder's Fee and damages, including, without limitation, overhead and Design-Builder's Fee on the Work not executed.

§ A.14.1.4 If the Work is stopped for a period of 60 consecutive days through no act or fault of the Design-Builder or a Contractor or their agents or employees or any other persons performing portions of the Work under a direct or indirect contract with the Design-Builder because the Owner has persistently failed to fulfill the Owner's obligations under the Design-Build Documents with respect to matters important to the progress of the Work, the Design-Builder may, upon seven additional days' written notice to the Owner, terminate the Design-Build Contract and recover from the Owner as provided in Section A.14.1.3.

§ A.14.2 TERMINATION BY THE OWNER FOR CAUSE

§ A.14.2.1 The Owner may terminate the Design-Build Contract if the Design-Builder:

- **.1** persistently or repeatedly refuses or fails to supply enough properly skilled workers or proper materials;
- **.2** fails to make payment to Contractors for services, materials or labor in accordance with the respective agreements between the Design-Builder and the Architect and Contractors;
- **.3** persistently disregards laws, ordinances or rules, regulations or orders of a public authority having jurisdiction; or
- **.4** otherwise is guilty of material breach of a provision of the Design-Build Documents.

§ A.14.2.2 When any of the above reasons exist, the Owner,, shall, without prejudice to any other rights or remedies of the Owner, provide Design-Builder and the Design-Builder's surety, if any, twenty one days' written notice of the factual basis for the termination condition (the "Cure Period"). Design-Builder shall within the Cure Period remedy and correct the identified deficiency and/or provide the Owner with a reasonable plan for remedying and correcting the identified deficiencies in the future, demonstrating that proactive steps are being taken to carry out such plan. If the Design Builder fails to cure the deficiencies as provided for in this Paragraph, the Owner may then terminate employment of the Design-Builder and may, subject to any prior rights of the surety:

- **.1** take possession of the site;
- **.2** accept assignment of contracts pursuant to Section A.5.5.1; and
- **.3** finish the Work by whatever reasonable method the Owner may deem expedient. Upon request of the Design-Builder, the Owner shall furnish to the Design-Builder a detailed accounting of the costs incurred by the Owner in finishing the Work.

§ A.14.2.3 When the Owner terminates the Design-Build Contract for one of the reasons stated in Section A.14.2.1, the Design-Builder shall not be entitled to receive further payment until the Work is finished.

§ A.14.2.4 If the unpaid balance of the Contract Sum exceeds costs of finishing the Work and other damages incurred by the Owner and not expressly waived, such excess shall be paid to the Design-Builder. If such costs and damages exceed the unpaid balance, the Design-Builder shall pay the difference to the Owner.

§ A.14.3 SUSPENSION BY THE OWNER FOR CONVENIENCE

§ A.14.3.1 The Owner may, without cause, order the Design-Builder in writing to suspend, delay or interrupt the Work in whole or in part for such period of time as the Owner may determine.

§ A.14.3.2 The Contract Sum and Contract Time shall be adjusted for increases in the cost and time caused by suspension, delay or interruption as described in Section A.14.3.1. Adjustment of the Contract Sum shall include profit. No adjustment shall be made to the extent:

- **.1** that performance is, was or would have been so suspended, delayed or interrupted by another cause for which the Design-Builder is responsible; or
- **.2** that an equitable adjustment is made or denied under another provision of the Design-Build Contract.

§ A.14.4 TERMINATION BY THE OWNER FOR CONVENIENCE

§ A.14.4.1 The Owner may, at any time, terminate the Design-Build Contract for the Owner's convenience and without cause.

§ A.14.4.2 Upon receipt of written notice from the Owner of such termination for the Owner's convenience, the Design-Builder shall:

- **.1** cease operations as directed by the Owner in the notice;
- **.2** take actions necessary, or that the Owner may direct, for the protection and preservation of the Work; and
- **.3** except for Work directed to be performed prior to the effective date of termination stated in the notice, terminate all existing contracts and purchase orders and enter into no further contracts and purchase orders.

§ A.14.4.3 In the event of termination for the Owner's convenience prior to commencement of construction, the Design-Builder shall be entitled to receive payment for design services performed, costs incurred by reason of such

termination and reasonable overhead and profit on design services not completed. In case of termination for the Owner's convenience after commencement of construction, the Design-Builder shall be entitled to receive payment for Work executed and costs incurred by reason of such termination, along with reasonable overhead and Design-Builder's Fee on the Work not executed.

AIA® Document A141™ – 2004 Exhibit B

Determination of the Cost of the Work

ADDITIONS AND DELETIONS:
The author of this document has added information needed for its completion. The author may also have revised the text of the original AIA standard form. An *Additions and Deletions Report* that notes added information as well as revisions to the standard form text is available from the author and should be reviewed. A vertical line in the left margin of this document indicates where the author has added necessary information and where the author has added to or deleted from the original AIA text.

This document has important legal consequences. Consultation with an attorney is encouraged with respect to its completion or modification.

Consultation with an attorney is also encouraged with respect to professional licensing requirements in the jurisdiction where the Project is located.

for the following PROJECT:
(Name and location or address)

The design and construction of a distribution center consisting of approximately 670,520 square feet, along with an attached office of approximately 19,650 square feet, located at 1377 Airport Road, Ft. Payne, Alabama 35968.

THE OWNER:
(Name and address)

The Children's Place Services Company, LLC
915 Secaucus Road
Secaucus, NJ 07094

THE DESIGN-BUILDER:
(Name and address)

Clayco, Inc.
2199 Innerbelt Business Center Drive
St. Louis, MO 63114

(Paragraphs deleted)

ARTICLE B.2 COSTS TO BE REIMBURSED
§ B.2.1 COST OF THE WORK
The term Cost of the Work shall mean costs necessarily incurred by the Design-Builder in the proper performance of the Work. Such costs shall be at rates not higher than the standard paid at the place of the Project except with prior consent of the Owner. The Cost of the Work shall include only the items set forth in this Article B.2.

§ B.2.2 LABOR COSTS
§ B.2.2.1 Wages of construction workers directly employed by the Design-Builder to perform the construction of the Work at the site or, with the Owner's approval, at off-site locations.

§ B.2.2.2 Wages or salaries of the Design-Builder's supervisory and administrative personnel, based upon the time expended on the Project, regardless of where such personnel are located.

§ B.2.2.3 Wages and salaries of the Design-Builder's supervisory or administrative personnel engaged at factories, workshops or on the road, in expediting the production or transportation of materials or equipment required for the Work, but only for that portion of their time required for the Work.

§ B.2.2.4 Costs paid or incurred by the Design-Builder for taxes, insurance, contributions, assessments and benefits required by law or collective bargaining agreements and, for personnel not covered by such agreements, customary benefits such as sick leave, medical and health benefits, holidays, vacations and pensions, provided such costs are based on wages and salaries included in the Cost of the Work under Sections B.2.2.1 through B.2.2.3.

§ B.2.3 CONTRACT COSTS
§ B.2.3.1 Payments made by the Design-Builder to Contractors (including, without limitation, the Design-Builder if the Design-Builder or a division or subsidiary of the Design-Builder is also a Contractor) in accordance with the requirements of their contracts.

§ B.2.4 COSTS OF MATERIALS AND EQUIPMENT INCORPORATED IN THE COMPLETED CONSTRUCTION
§ B.2.4.1 Costs, including transportation and storage, of materials and equipment incorporated or to be incorporated in the completed construction.

§ B.2.4.2 Costs of materials described in the preceding Section B.2.4.1 in excess of those actually installed to allow for reasonable waste and spoilage. Unused excess materials, if any, shall become the Owner's property at the completion of the Work or, at the Owner's option, shall be sold by the Design-Builder. Any amounts realized from such sales shall be credited to the Owner as a deduction from the Cost of the Work.

§ B.2.5 COSTS OF OTHER MATERIALS AND EQUIPMENT, TEMPORARY FACILITIES AND RELATED ITEMS
§ B.2.5.1 Costs, including transportation and storage, installation, maintenance, dismantling and removal of materials, supplies, temporary facilities, machinery, equipment, and hand tools not customarily owned by construction workers, that are provided by the Design-Builder at the site and fully consumed in the performance of the Work; and cost (less salvage value) of such items if not fully consumed, whether sold to others or retained by the Design-Builder. The basis for the cost of items previously used by the Design-Builder shall mean the fair market value.

§ B.2.5.2 Rental charges for temporary facilities, machinery, equipment, and hand tools not customarily owned by construction workers that are provided by the Design-Builder at the site, whether rented from the Design-Builder or others, and costs of transportation, installation, minor repairs and replacements, dismantling and removal thereof. Rates and quantities of equipment rented from the Design-Builder shall not exceed the fair market value thereof.

§ B.2.5.3 Costs of removal of debris from the site.

§ B.2.5.4 Cost of document reproductions, facsimile transmissions and long-distance telephone calls, postage and parcel delivery charges, telephone service at the site and reasonable petty cash expenses of the site office.

§ B.2.5.5 That portion of the reasonable expenses of the Design-Builder's personnel incurred while traveling in discharge of duties connected with the Work.

§ B.2.5.6 Costs of materials and equipment suitably stored off the site at a mutually acceptable location, if approved in advance by the Owner.

§ B.2.6 DESIGN AND OTHER CONSULTING SERVICES

§ B.2.6.1 Compensation, including fees and reimbursable expenses, paid by the Design-Builder for design and other consulting services required by the Design-Build Documents.

§ B.2.7 MISCELLANEOUS COSTS

§ B.2.7.1 That portion of Design Builder's insurance and bond premiums that can be directly attributed to this Design-Builds Contract. The Parties stipulate and agree that Design-Builder's cost for the providing Design-Builder's insurance (not including the insurance costs of Contractors or any builder's risk insurance to be providing by Design-Builder) is 1.0 % of Cost of the Work (provided that such cost of insurance shall be excluded from the Cost of the Work solely for purposes of applying such percentage).

§ B.2.7.2 Sales tax, use tax or taxes of any other kind or nature imposed by a governmental authority that are related to the Work, subject to sales tax abatements set forth in A.3.6.1.

§ B.2.7.3 Fees and assessments for the building permit and for other permits, licenses and inspections for which the Design-Builder is required by the Design-Build Documents to pay.

§ B.2.7.4 Fees of laboratories for tests required by the Design-Build Documents, except those related to defective or non-conforming Work for which reimbursement is excluded by Section A.13.5.3 of Exhibit A, Terms and Conditions, or other provisions of the Design-Build Documents, and which do not fall within the scope of Section A.13.5.3.

§ B.2.7.5 Royalties and license fees paid for the use of a particular design, process or product required by the Design-Build Documents; the cost of defending suits or claims for infringement of patent rights arising from such requirement of the Design-Build Documents; and payments made in accordance with legal judgments against the Design-Builder resulting from such suits or claims and payments of settlements made with the Owner's consent. However, such costs of legal defenses, judgments and settlements shall not be included in the calculation of the Design-Builder's Fee or subject to the Guaranteed Maximum Price. If such royalties, fees and costs are excluded by the last sentence of Section A.3.16.1 of Exhibit A, Terms and Conditions, or other provisions of the Design-Build Documents, then they shall not be included in the Cost of the Work.

§ B.2.7.6 Data processing costs related to the Work.

§ B.2.7.7 Deposits lost for causes other than the Design-Builder's negligence or failure to fulfill a specific responsibility to the Owner as set forth in the Design-Build Documents.

§ B.2.7.8 Legal, mediation and arbitration costs, including attorneys' fees, other than those arising from disputes between the Owner and Design-Builder, reasonably incurred by the Design-Builder in the performance of the Work and with the Owner's prior written approval, which approval shall not be unreasonably withheld.

§ B.2.7.9 Expenses incurred in accordance with the Design-Builder's standard personnel policy for relocation and temporary living allowances of personnel required for the Work, if approved by the Owner.

§ B.2.7.10 Payments by the Design-Builder into reserves established under the Clayco Coordinated Insurance Program (the "CCIP") for the Project for providing commercial general liability, workers' compensation, and overlying umbrella insurance for enrolled Contractors and Subcontractors. The Design-Builder represents that the amount of such reserve payments shall not exceed the insurance premiums that reasonably would be incurred for the Project in the absence of the CCIP.

§ B.2.7.11 Other direct expenses incurred by the Design-Builder in connection with the Project to the extent not described in this Section B.2.7.

§ B.2.8 OTHER COSTS AND EMERGENCIES

§ B.2.8.1 Other costs incurred in the performance of the Work if and to the extent approved in advance in writing by the Owner.

§ B.2.8.2 Costs due to emergencies incurred in taking action to prevent threatened damage, injury or loss in case of an emergency affecting the safety of persons and property, as provided in Section A.10.6 of Exhibit A, Terms and Conditions.

§ B.2.8.3 Cost of repairing or correcting damaged or non-conforming Work executed by the Design- Builder. Contractors, Subcontractors or suppliers, provided that such damaged or non-conforming Work was not caused by negligence or failure to fulfill a specific responsibility of the Design-Builder and only to the extent that the cost of repair or correction is not recovered by the Design-Builder from insurance, sureties, Contractors, Subcontractors or suppliers.

ARTICLE B.3 COSTS NOT TO BE REIMBURSED

§ B.3.1 The Cost of the Work shall not include:

§ B.3.1.1 Salaries and other compensation of the Design-Builder's personnel stationed at the Design-Builder's principal office or offices other than the site office, except as specifically provided in Sections B.2.2.2 and B.2.2.3.

§ B.3.1.2 Except to the extent provided in Article B.2, expenses of the Design-Builder's principal office and offices other than the site office.

§ B.3.1.3 Overhead and general expenses, except as may be expressly included in Article B.2 of this Exhibit.

§ B.3.1.4 The Design-Builder's capital expenses, including interest on the Design-Builder's capital employed for the Work.

§ B.3.1.5 Rental costs of machinery and equipment, except as specifically provided in Section B.2.5.2.

§ B.3.1.6 Except as provided in Section B.2.8.3 of this Agreement, costs due to the negligence or failure of the Design-Builder to fulfill a specific responsibility of the Design-Builder, Contractors, Subcontractors and suppliers or anyone directly or indirectly employed by any of them or for whose acts any of them may be liable.

§ B.3.1.7 Any cost not specifically and expressly described in Article B.2, Costs to be Reimbursed.

§ B.3.1.8 Costs, other than costs included in Change Orders approved by the Owner, that would cause the Guaranteed Maximum price, if any, to be exceeded.

ARTICLE B.4 DISCOUNTS, REBATES AND REFUNDS

§ B.4.1 Cash discounts obtained on payments made by the Design-Builder shall accrue to the Owner if (1) before making the payment, the Design-Builder included them in an Application for Payment and received payment from the Owner, or (2) the Owner has deposited funds with the Design-Builder with which to make payments; otherwise, cash discounts shall accrue to the Design-Builder. Trade discounts, rebates, refunds and amounts received from sales of surplus materials and equipment shall accrue to the Owner, and the Design-Builder shall make provisions so that they can be secured.

§ B.4.2 Amounts that accrue to the Owner in accordance with the provisions of Section B.4.1 shall be credited to the Owner as a deduction from the Cost of Work.

ARTICLE B.5 CONTRACTS AND OTHER AGREEMENTS OTHER THAN FOR DESIGN PROFESSIONALS HIRED BY THE DESIGN-BUILDER

§ B.5.1 The Owner hereby agrees that portions of the Work may be contracted to the Design-Builder or any division or subsidiary of the Design-Builder. Those portions of the Work that the Design-Builder does not perform with the Design-Builder's own personnel (or which are not contracted to the Design-Builder or a division or subsidiary thereof as aforesaid) shall be performed by others under contracts or by other appropriate agreements with the

Design-Builder. The Owner may designate specific persons or entities from a list of proposed bidders to be submitted by the Design-Builder to the Owner for all contracted work and from whom the Design-Builder shall obtain bids. The Design-Builder shall obtain bids from Contractors and from suppliers of materials or equipment fabricated especially for the Work and shall deliver such bids to the Owner. The Owner shall then determine which bids will be accepted. The Design-Builder shall not be required to contract with anyone to whom the Design-Builder has reasonable objection.

§ B.5.2 Contracts or other agreements shall conform to the applicable payment provisions of this Design-Build Contract, and shall not be awarded on the basis of cost plus a fee without the Owner's prior consent.

§ B.5.3 The Owner shall be invited to all contract bid and design review meetings.

ARTICLE B.6 ACCOUNTING RECORDS

§ B.6.1 The Design-Builder or any affiliated person or entity which performs a portion of the Work shall keep full and detailed accounts and exercise such controls as may be necessary for proper financial management under this Agreement, and the accounting and control systems shall be satisfactory to the Owner. The Owner and the Owner's accountants shall be afforded access to, and shall be permitted to audit and copy, the Design-Builder's records, books, correspondence, instructions, receipts, contracts, purchase orders, vouchers, memoranda and other data relating to this Agreement, and the Design-Builder shall preserve these for a period of three years after final payment, or for such longer period as may be required by law.

§ B.6.2 When the Design-Builder believes that all the Work required by the Agreement has been fully performed, the Design-Builder shall deliver to the Owner's accountant a final accounting of the Cost of the Work.

§ B.6.3 The Owner's accountants will review and report in writing on the Design-Builder's final accounting within 21 days after delivery of the final accounting. Based upon such Cost of the Work as the Owner's accountants report to be substantiated by the Design-Builder's final accounting, and provided the other conditions of Section A.9.10 of the Agreement have been met, the Owner will, within seven days after receipt of the written report of the Owner's accountants, either make the final payment or deliver to the Design-Builder a copy of the Owner's accountant's report and notify the Design-Builder in writing of the Owner's reasons for withholding final payment.

§ B.6.4 If the Owner's accountants report the Cost of the Work as substantiated by the Design-Builder's final accounting to be less than claimed by the Design-Builder, the Design-Builder shall be entitled to initiate resolution of the dispute pursuant to Article 6 of the Agreement and Article A.4 of Exhibit A, Terms and Conditions, for the disputed amount. If the Design-Builder fails to so initiate resolution of the dispute within the period of time required by Section A.4.1.2 of Exhibit A, Terms and Conditions, the substantiated amount reported by the Owner's accountants shall become binding on the Design-Builder. Pending a final resolution pursuant to Article 6 of the Agreement and Article A.4 of Exhibit A, Terms and Conditions, the Owner shall pay the Design-Builder the amount, if any, determined by the Owner's accountant to be due the Design-Builder.

§ B.6.5 If, subsequent to final payment and at the Owner's request, the Design-Builder incurs costs in connection with the correction of defective or non-conforming work as described in Article B.2, Costs to be Reimbursed, and not excluded by Article B.3, Costs Not to be Reimbursed, the Owner shall reimburse the Design-Builder such costs and the Design-Builder's Fee applicable thereto on the same basis as if such costs had been incurred prior to final payment, but not in excess of the Guaranteed Maximum Price, if any. If the Design-Builder has participated in savings as provided in Section 4.4.3.1 of the Agreement, the amount of such savings shall be recalculated and appropriate credit given to the Owner in determining the net amount to be paid by the Owner to the Design-Builder.

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for the following PROJECT:
(Name and location or address)

The design and construction of a distribution center consisting of approximately 670,520 square feet, along with an attached office of approximately 16,650 square feet, located at 1377 Airport Road, Ft. Payne, Alabama 35968.

THE OWNER:
(Name and address)

The Children's Place Services Company, LLC
915 Secaucus Road
Secaucus, NJ 07094

THE DESIGN-BUILDER:
(Name and address)

Clayco, Inc.
2199 Innerbelt Business Center Drive
St. Louis, MO 63114

ARTICLE C.1
The Owner and Design-Builder shall provide policies of insurance as required by the Design-Build Documents, or as follows:
(Specify changes, if any, to the requirements of the Design-Build Documents, and for each type of insurance identify applicable limits and deductible amounts.)

As specified in Section A.11.4 of Exhibit A, Owner will obtain and maintain at all times Builder's Risk insurance for the Project and such insurance shall name the Design-Builder as an additional insured. Current evidence of such insurance shall be furnished to Design-Builder upon request. Owner shall be responsible for the deductible. Design-Builder will maintain the following insurance coverage which policies shall state that the insurance is primary insurance for claims caused by Design-Builder, unless the claim is a Builder's Risk claim covered by the Builder's Risk policy, (i) commercial general liability insurance as described in Section A.11.2 of Exhibit A, Terms and Conditions, with coverage limits of not less than $1,000,000 per occurrence, (ii) employer's liability coverage with limits of not less than $1,000,000, (iii) worker's compensation with limits of not less than $1,000,000, (iv) automobile liability coverage of not less than $1,000,000, (v) umbrella liability with limits of not less than $10,000,000. All such insurance shall name Owner as an additional insured.

ARTICLE C.2
The Design-Builder shall provide surety bonds as follows:
(Specify type and penal sum of bonds.)

In the event Owner decides to directly finance the costs of the Project and the Lender selected by Owner requires performance and/or payment bonds as a condition to such financing, then, upon receipt by Design-Builder of a written request from Owner, Design-Builder shall secure such bonds within a commercially reasonable time period and the cost of such bonds shall be paid by Owner.

Type	**Penal Sum $(0.00)**

§ C.2.1 Upon the request of any person or entity appearing to be a potential beneficiary of bonds covering payment of obligations arising under the Agreement, the Design-Builder shall promptly furnish a copy of the bonds or shall permit a copy to be made.

Exhibit D

CLAYCO
THE ART & SCIENCE OF BUILDING

Children's Place - Disney
690,170 sf Warehouse & Office Conceptual Budget
December 18, 2006

		CONTROL BUDGET	COST PER/SF
02000	**SITE WORK**		
02050	Demolition / Site Clearing	$ 7,000	$ 0.01
02200	Earthwork	$ 2,887,330	$ 4.18
02201	Rock Excavation	$ 2,082,000	$ 3.02
02500	Asphalt Paving and Striping	$ 2,940,070	$ 4.26
02510	Concrete Paving & Curbs	$ 734,233	$ 1.06
02605	Sanitary Sewer	$ 61,870	$ 0.09
02660	Water Distribution	$ 444,054	$ 0.64
02680	Gas Main to Building - EXCLUDED	$ 0	$ 0.00
02700	Storm Sewers	$ 209,822	$ 0.30
02780	Electric Co. Charges - EXCLUDED	$ 0	$ 0.00
02781	Underground Electric Conduit	$ 21,112	$ 0.03
02783	Underground Telephone Conduit	$ 7,800	$ 0.01
02800	Misc. Site Improvements	$ 80,227	$ 0.12
02806	Fencing & Gates	$ 115,470	$ 0.17
02808	Railroad Work - EXCLUDED	$ 0	$ 0.00
02850	Hardscape Allowance	$ 0	$ 0.00
02900	Landscaping Allowance	$ 100,000	$ 0.14
02950	Irrigation Allowance	$ 50,000	$ 0.07
	SITE WORK TOTAL	**$ 9,740,988**	**$ 14.11**
02000	**EARTHWORK**		

02220	Excavation and Backfill	$	85,448	$	0.12
02370	Piles and Caissons - EXCLUDED	$	0	$	0.00
	EARTHWORK TOTAL	**$**	**85,448**	**$**	**0.12**

03000	**CONCRETE**				
03210	Reinforcing Steel	$	189,648	$	0.27
03300	Cast-in-Place Concrete	$	571,649	$	0.83
03345	Concrete Flatwork	$	2,551,304	$	3.70
03350	Caulk Floor Joints - MM80	$	84,000	$	0.12
03355	Concrete Sealer - Ashford	$	80,462	$	0.12
03400	Architectural Concrete Wall Panels	$	1,678,605	$	2.43
	CONCRETE TOTAL	**$**	**5,155,668**	**$**	**7.47**
04000	**MASONRY**				
04210	Masonry	$	61,452	$	0.09
	MASONRY TOTAL	**$**	**61,452**	**$**	**0.09**
05000	**METALS**				
05120	Structural Steel	$	1,260,798	$	1.83
05200	Misc. Metals for Tilt-up Panels	$	20,233	$	0.03
05210	Steel Joists	$	1,570,137	$	2.28
05300	Metal Decking	$	426,541	$	0.62
05340	Structural Erection	$	687,970	$	1.00
	METALS TOTAL	**$**	**3,965,679**	**$**	**5.75**
06000	**WOOD & PLASTICS**				
06100	Rough Carpentry	$	72,114	$	0.10
06200	Finish Carpentry	$	0	$	0.00
	WOOD & PLASTICS TOTAL	**$**	**72,114**	**$**	**0.10**
07000	**THERMAL & MOISTURE PROTECTION**				
07100	Waterproofing	$	0	$	0.00
07200	Insulation	$	2,112	$	0.00
07500	Roofing	$	1,528,800	$	2.22
07600	Flashing and Sheet Metal	$	74,650	$	0.11
07700	Skylights & Roof Hatch	$	1,700	$	0.00
07920	Sealants and Caulking	$	52,513	$	0.08
	MOISTURE PROTECTION TOTAL	**$**	**1,659,775**	**$**	**2.40**

08000	**DOORS & WINDOWS**				
08200	Doors, Frames and Hardware	$	55,862	$	0.08
08300	Overhead Doors & Operators	$	105,500	$	0.15
08800	Glass & Glazing	$	198,522	$	0.29
	DOORS & WINDOWS TOTAL	**$**	**359,884**	**$**	**0.52**
09000	**FINISHES**				
09200	Framing and Drywall	$	8,488	$	0.01
09500	Acoustical Treatment	$	0	$	0.00
09650	Ceramic / Quarry Tile	$	0	$	0.00
09680	Carpet & Resilient Flooring	$	0	$	0.00
09900	Painting	$	211,317	$	0.31
09950	Wall Coverings / Zolotone Allowance	$	0	$	0.00
	FINISHES TOTAL	**$**	**219,805**	**$**	**0.32**
10000	**SPECIALTIES**				
10150	Toilet Partitions and Access.	$	0	$	0.00
10550	Lockers & Benches	$	0	$	0.00
10600	Miscellaneous Specialties	$	11,021	$	0.02
10610	Appliances	$	0	$	0.00
10900	Interior Signage & Directory Allowance	$	0	$	0.00
10950	Exterior Signage Allowance	$	0	$	0.00
	SPECIALTIES TOTAL	$	11,021	$	0.02
11000	**EQUIPMENT**				
11161	Miscellaneous Dock Equipment	$	7,200	$	0.01
11160	Hyd. Dock Levelers (35,000 LB Static Load Capa	$	270,750	$	0.39
11161	Reduce Qunatity of Dock Levelers	$	(125,400)	$	(0.18)
11162	Form Pits	$	34,304	$	0.05
11164	Truck Restraints - Automatic	$	0	$	0.00
11165	Dock Seals	$	78,375	$	0.11
11166	Dock Shelters	$	0	$	0.00
11167	Dock Lights	$	14,400	$	0.02
	EQUIPMENT TOTAL	**$**	**279,629**	**$**	**0.41**

12000	**FURNISHINGS**				
12510	Window Treatment	$	0	$	0.00
	FURNISHINGS TOTAL	**$**	**0**	**$**	**0.00**
13000	**SPECIAL CONSTRUCTION**				
13320	Access Flooring	$	0	$	0.00
13350	Pre-Engineered Const	$	0	$	0.00

	SPECIAL CONSTRUCTION TOTAL	**$ 0**	**$ 0.00**
14000	**CONVEYING SYSTEMS**		
14200	Elevators	$ 0	$ 0.00
14300	Bridge Cranes	$ 0	$ 0.00
	CONVEYING SYSTEMS TOTAL	**$ 0**	**$ 0.00**
15000	**MECHANICAL SYSTEMS**		
15300	Fire Protection	$ 1,036,099	$ 1.50
15310	Booster Pumps	$ 65,000	$ 0.09
15400	Plumbing	$ 199,755	$ 0.29
15500	HVAC	$ 945,346	$ 1.37
	MECHANICAL SYSTEMS TOTAL	**$ 2,246,200**	**$ 3.25**
16000	**ELECTRICAL**		
16050	Electrical	$ 2,950,485	$ 4.28
16100	Site Lighting	$ 266,020	$ 0.39
	ELECTRICAL TOTAL	**$ 3,216,505**	**$ 4.66**

17000	**CONSULTING SERVICES**		
17000	Peer Reviews	$ 3,500	$ 0.01
17100	Architectural Services	$ 160,384	$ 0.23
17200	Structural Services	$ 115,845	$ 0.17
17300	Mechanical-Electrical-Plumbing-Sprinklers	$ 14,500	$ 0.02
17400	Civil Services	$ 118,900	$ 0.17
17470	Subsurface Soils Report	$ 48,593	$ 0.07
17500	Testing Services Allowance	$ 3,500	$ 0.01
17600	Renderings	$ 2,950	$ 0.00
17900	Reimbursables / Reproduction	$ 20,705	$ 0.03
	CONSULTING SERVICES TOTAL	**$ 488,877**	**$ 0.71**
18000	**TENANT FINISH**		
03345	Concrete Flatwork	$ 0	$ 0.00
04210	Masonry	$ 0	$ 0.00
05120	Structural Steel	$ 0	$ 0.00
06200	Finish Carpentry	$ 0	$ 0.00
08200	Doors & Frames	$ 0	$ 0.00
08800	Glass & Glazing	$ 0	$ 0.00
09200	Framing and Drywall	$ 0	$ 0.00
09500	Acoustical Treatment	$ 0	$ 0.00
09650	Ceramic / Quarry Tile	$ 0	$ 0.00
09680	Carpet & Resilient Flooring	$ 0	$ 0.00
09900	Painting	$ 0	$ 0.00
09950	Wall Coverings / Zolotone Allowance	$ 0	$ 0.00
10150	Toilet Partitions and Access.	$ 0	$ 0.00
10550	Lockers & Benches	$ 0	$ 0.00
10600	Miscellaneous Specialties	$ 0	$ 0.00
10900	Interior Signage & Directory Allowance	$ 0	$ 0.00
12510	Window Treatment	$ 0	$ 0.00
13320	Access Flooring	$ 0	$ 0.00
15300	Fire Protection	$ 0	$ 0.00
15400	Plumbing	$ 0	$ 0.00
15500	HVAC	$ 0	$ 0.00
16050	Electrical	$ 0	$ 0.00
18001	Office Finish-out Allowance	$ 1,284,000	$ 1.86
	TENANT FINISH TOTAL	**$ 1,284,000**	**$ 1.86**

01000	**GENERAL CONDITIONS**		
18010	Project Management	$ 192,722	$ 0.28
18020	Field Supervision	$ 241,749	$ 0.35
18025	Travel Expenses	$ 116,425	$ 0.17
18030	Drawing Reproduction & Progress Photos	$ 13,000	$ 0.02
18060	Construction Cleaning & General Labor	$ 72,238	$ 0.10
18100	Equipment Rental & Small Tools	$ 80,700	$ 0.12
18200	Misc. GCs	$ 40,909	$ 0.06
18210	Weather Protection Allowance	$ 300,000	$ 0.43
18270	Temporary Utilities	$ 23,850	$ 0.03
	GENERAL CONDITIONS TOTAL	**$ 1,081,593**	**$ 1.57**

	SUMMARY	CONTROL BUDGET	COST PER/SF
02000	SITE WORK	$ 9,740,988	$ 14.11
02000	EARTHWORK	$ 85,448	$ 0.12
03000	CONCRETE	$ 5,155,668	$ 7.47
04000	MASONRY	$ 61,452	$ 0.09
05000	METALS	$ 3,965,679	$ 5.75
06000	WOOD & PLASTICS	$ 72,114	$ 0.10
07000	THERMAL & MOISTURE PROTECTION	$ 1,659,775	$ 2.40
08000	DOORS & WINDOWS	$ 359,884	$ 0.52
09000	FINISHES	$ 219,805	$ 0.32
10000	SPECIALTIES	$ 11,021	$ 0.02
11000	EQUIPMENT	$ 279,629	$ 0.41
12000	FURNISHINGS	$ 0	$ 0.00
13000	SPECIAL CONSTRUCTION	$ 0	$ 0.00
14000	CONVEYING SYSTEMS	$ 0	$ 0.00
15000	MECHANICAL SYSTEMS	$ 2,246,200	$ 3.25
16000	ELECTRICAL	$ 3,216,505	$ 4.66

18000	TENANT FINISH	$	1,284,000	$	1.86
17000	CONSULTING SERVICES	$	488,877	$	0.71
01000	GENERAL CONDITIONS	$	1,081,593	$	1.57
	CONTINGENCY	$	150,000	$	0.22
	LUMP SUM ADJUSTMENT	$	0	$	0.00
	MISCELLANEOUS	$	0	$	0.00
	INSURANCE	$	316,500	$	0.46
	BUILDERS RISK INSURANCE	$	0	$	0.00
	OTHER INSURANCE	$	0	$	0.00
	PERFORMANCE & PAYMENT BONDS			$	0.00
	BUILDING PERMITS	$	0	$	0.00
	OTHER PERMITS & FEES	$	0	$	0.00
	2.5% Development Fee	$	0	$	0.00
	OVERHEAD & PROFIT	$	1,594,841	$	2.31
	TOTAL ESTIMATE	**$**	**31,989,979**	**$**	**46.35**

Exhibit E

OUTLINE SPECIFICATIONS

The Children's Place
Ft. Payne, Alabama

December 18, 2006

These specifications are intended to establish the scope of work necessary to design and construct a 670,520 sf Distribution Center with approximately 19,650 sf of attached office for The Children's Place in Fort Payne, Alabama. The scope of work is further described in the following:

The drawing document list below is a narrative only. Please refer to the attached Document list for a complete list of current documents.

Document	Date	Title	Author
C 1 – C27	10-27-06	Civil Drawings Water, Sanitary	Stock & Associates
A0-00 – A11-01	11-03-06	Architectural Drawings Progress Set #4	Forum Studio
S1-1 – S6-1	11-07-06	Structural Drawings MEP Coordination	Alper Audi
R-1		Rendering	Forum Studio
	August 31, 2006	Geotechnical Study	EGC, Inc.

DIVISION 1 - GENERAL REQUIREMENTS

Section 1A - Summary of Work

1. The building footprint is 690,170 square feet. The area is subdivided into the following areas:

a. Office 17,450 square feet
1. 2,200 square feet Shipping & Receiving
b. Warehouse 668,760 square feet
c. Pump / Electric 1,760 square feet
d. Mezzanine Area 101,500 sf (By Owner)

2. The warehouse/distribution facility will have an interior clear height of 36'-0", except at the dock bays and conveyor bays, which will be 34'-9" at conveyor areas and 35'-3" at the South dock bays, 35'-11" at the North dock bays.

3. Typical column bay spacing will be 50' x 58'.

4. The project consists of a One Hundred and five (105) acre site.

5. Parking for Four Hundred and Eight (408) cars will be provided.

6. Parking for Three Hundred and Twenty Six (326) trucks will be provided.

7. The work consists of site improvements and construction of a facility with associated parking and dock areas. The initial design will accommodate Ninety-Six (96) dock locations. Four (4) drive-in overhead doors have been included in the design, at the four building corners facing the North and South exposures.

8. The exterior of the building is to be load bearing, tilt-up concrete, architectural wall panels, with aluminum framed punched windows, and curtainwall.

Section 1B - General Conditions

1. The following items will be provided by Children's Place for the Design/Builder's use:

a. Phase I Environmental Report

b. Utilities to the building

c. Boundary Survey / Topography

d. Soil Borings / Geotechnical Report

2. The Design/Builder shall include the following items as required for the execution and/or completion of the work. PLEASE NOTE: This listing is not to be considered all-inclusive or complete, but merely as a guide for the major items to be included under this Division.

a. Architectural and engineering documents will be provided. Plumbing, mechanical, electrical, and fire protection drawings will be completed on a design/build basis.

The Design/Builder shall cause the preparation and design of all construction drawings and specifications utilizing a licensed, registered, insured Architect and Engineer for all design and structural components of the building. The Design/Builder will cause the design to comply with all applicable local, state, and national codes, and all design requirements for obtaining the necessary permits.

Provide all shop drawings, cut sheets, samples, submittals, and other required items for Owner's review. Simultaneously, both Design/Builder and design professionals are to review and approve all shop drawings and submittals subject to final review by Owner.

In addition to all other insurance requirements of the Design/Builder set forth in these general conditions or the general conditions attached to the AIA Contract Agreement, the Design/Builder shall require its Architect and all other professional sub-Design/Builders to obtain and maintain professional errors and omissions coverage in connection with such sub-Design/Builder's work. Professional errors and omissions insurance shall be endorsed to provide contractual liability coverage. Such coverage for the Architect and any other professional sub-Design/Builder shall be in amounts not less than $2,000,000 each. Certified copies of the policies evidencing such coverage shall be furnished at the same time as the other evidence of insurance required under this agreement.

The Design/Builder is not licensed as an Architect or Engineer in the State of Alabama and is not authorized by law to perform design services. Accordingly, Design/Builder will not perform design services pursuant to the contract documents, but will furnish and warrant such services as otherwise herein provided.

b. Temporary Utilities

Water, telephone, natural gas and electricity, shall be provided by the City of Ft. Payne of sufficient capacity and at the locations required for the work. Temporary toilet facilities will be included and paid for by the Design / Builder. The Children's Place / The City of Ft. Payne, shall pay for all costs to establish service and usage for the duration of the project.

c. Supervision

Any and all Design/Builder project site and office supervision required for the work shall be included, including a fulltime, qualified Field Superintendent.

A Project Manager will be provided to coordinate both design and construction and to serve as liaison between the design team, Owner's representatives, and the Field Superintendent. The cost of this Project Manager is included. A part time Project Director will be provided to coordinate all start up activities and act as a direct laison between The Children's Place and the design team.

d. A progress schedule will be a part of the contract and the schedule will be updated and delivered to the Owner's representatives not less than once monthly.

The Design/Builder's personnel will direct project progress meetings at the jobsite. The Owner's representatives will be invited, as well as the Owner's Project Manager, all sub-Design/Builders, and key equipment and material suppliers.

There will be written minutes of the meetings and distributed copies to all parties concerned within three (3) days following the meeting.

e. Progress photographs to document completion of the work will be submitted on a monthly basis.

f. Payment requests will be submitted monthly using AIA G702 format and G703 schedule of values. Billing procedures will be confirmed with the Owner's representatives.

g. The Design/Builder will submit all claims for changes to the Owner's representative for approval, including the add or credit cost of the change and the effect on contract completion date. No change order work will be started prior to Owner's approval.

h. Security

The Children's Place, at their discretion, will provide and maintain jobsite security, as required to secure the project during the construction duration. Clayco will provide electronic security for the jobsite trailer.

i. Insurance Coverage

Provide a Certificate of Insurance issued to the Owner evidencing insurance coverage as follows:

Workmen's Compensation	$ 1,000,000
General Liability including Contractual Liability	$ 2,000,000
Comprehensive Auto	$ 1,000,000

Provide $50,000,000 umbrella coverage.

Builders Risk Insurance is **excluded** by the Design / Builder.

j. Surveys and Layout

Owner shall provide a monumented boundary survey of the parcel. The Design / Builder shall perform all work required for the layout of the work, including line and grade surveying.

k. Testing Services

Testing Services to be provided by The Childrens Place.

l. Materials and Workmanship

Materials used in the work will conform to the latest Standard Specification of the American Society for Testing Materials, The American Concrete Institute, The American Institute of Steel Construction, American Welding Society, American Society of Mechanical Engineers, National Electric Code, N.E.M.A., American Institute of Electrical Engineers, and the rules and regulations of the National Fire Protection Association.

The workmanship will be consistent with the best practice of the various building trades and will conform to the standards of good construction for this class of work.

Where a product is specified by a trade name, a product of equal performance may be substituted only with the prior approval of the Architect or Engineer of Record.

m. Color Selections

Owner and/or Architect will provide a finish color schedule of the exposed surfaces of the work in a timely manner for the Design/Builder's use in coordinating building shell and tenant improvements.

n. Temporary Heat, Water, and Power

Temporary heat, water, and power will be provided by others until the building is permanently or temporarily enclosed. After this time, it is assumed that the installation of the permanent heating system will have progressed far enough for it to be used for heating the building. No winter conditions have been included.

o. Guarantees

Upon notice from the Owner, the Design/Builder will remedy any defects due to defective workmanship or materials that appear within a period of one (1) year from the date of Substantial Completion of the work.

p. The following items are included in the General Conditions/General Requirements for the Design/Builder:

1. General expenses, such as office equipment, stationery and office supplies, postage, telephone, shop drawing blueprints, reproduction costs, progress photographs, computer and EDP expenses, first aid supplies, insurance, and other such miscellaneous expenses.

2. Project staff, including salaries and benefits for, but not limited to Project Executive, Project Director, Project Manager, Project Superintendent, Safety Personnel, Engineers, Accountants, Assistants, Estimators, Purchasing, Secretaries, and Clerks.

3. Tools and supplies, including hand tools and construction equipment having an individual new value of less than $100 and consumable items that are used in the construction operation, such as chalk, kerosene, brooms, brushes, etc.

4. Job office, including rental of trailers, temporary buildings, or office space for project staff. Also, include interior modification and mechanical/electrical work as required to said job offices.

5. Plant, vehicles, and repairs, such as purchase of rental charges for plant owned by Design/Builder or outside parties. Items include transits and levels, rental or purchase of job vehicles, repairs and maintenance of plant, and vehicles used specifically on this project.

6. Temporary buildings, barricades, and installations, including labor, lumber, millwork, and other building materials used in the construction of tool sheds and other temporary structures with the exception of the job office that is included above.

q. Project close-out requirements will be provided as follows:

1. Record drawing plans that will be maintained in the field trailer of all field changes on the contract drawings and at the conclusion of the project a set of reproducible stamped “Record Drawing”, including field changes, will be turned over to the Owner.

2. Three (3) sets of operating and maintenance manuals will be delivered to the Owner.

3. Operating instructions for major systems will be provided to the Owner’s representatives. Walk the Owner’s designate through all

systems and demonstrate the proper sequence of starting, normal operation, and adjustments and shutdown. Include physical verification that all safeties work properly.

4. Provide job cleanup during the project and final cleanup. Clean and wash windows, remove all debris inside and out, and leave the entire building “broom clean”.

r. All building permits and fees by any Authority having jurisdiction are not included.

DIVISION 2 - SITE WORK

Section 2A - Subsurface Investigation

1. A soils investigation shall be completed by others. We have based our foundation design on an acceptable bearing capacity of 3,000 psf and assumed that the on site soils can be used for building purposes, with the addition of lime stabilization at the building pad.

Section 2B - Demolition

1. This proposal does not include cutting / capping and demolition or relocation of existing utilities.

Section 2C - Site Preparation

1. Clearing, and grubbing (Including stumps / root ball) shall be provided by others, to remove vegetation, trees and/or shrubs in the area of the new construction. Site development is included by the Design / Builder.

Section 2D - Earthwork

1. The site will be rough and fine graded as necessary to attain the grades indicated on the concept site and grading plan.

   We have included 2” of topsoil depth, per the EGC Geotechnical Report dated, July 21, 2006.

2. Installation of soil erosion measures is included in this proposal.

3. We are balancing the site and planning to utilize the existing soils for filling purposes. We have not included any cost for importing or exporting site material. We have raised the building as much as practicle to mitigate rock removal. Available chert material will be used at the building pad. Lime stabilization is

included at this time, due an excessive amount of rainfall and per the building pad / soils remediation letter dated November 10, 2006, accepted by The Children’s Place. The amount of this soils remediation is included in the amount of $431,879. An additional earthwork contingency allowance in the amount of $150,000 is included, for unforeseen weather and circumstances.

4. This proposal includes the import and placement of 2’-0” of Chert material for the future expansion to the bottom of the stone below the slab on grade. The stone sub-base at the expansion is not included at this time. Stone base will be provided as described in the November 10 letter.

5. This proposal includes finish grading of areas around the building, paving, and sidewalks to achieve proper drainage and uniform surfaces to a 0.1 foot (±) tolerance.

6. Mass rock removal has been included as a lump sum, with the earthwork contractor. Additional trench rock removal for all remaining underground activities, including foundations, and site utilities is included as an allowance of $195,000.

7. Landscaped areas will be fine graded for planting by landscaping contractor. Topsoil will be generated from the site and placed, unscreened, in the greenbelt areas.

8. We exclude any remediation work for poor soils (wet conditions, un-compacted areas, sink holes, special wetland mitigation work, etc)

Section 2E - Storm Drainage

1. Surface runoff of storm water shall be by sheet flow, diverted into the detention basins shown on the site plan.

2. The roof area will drain to exterior gutters and downspouts, and will daylight at the dock aprons on the North and South elevations of the facility.

Section 2F - Asphalt Paving

1. Asphalt paving in the truck maneuvering areas to be 7.5” asphalt paving over 9” of granular base at the North, East and West. Truck maneuvering areas to be 4” asphalt paving over 4” granular base at the South.

2. Car paving areas shall be 4” of asphalt paving over 6” of granular base. Concrete curb and gutters are included.

3. All paved area will be striped as shown on the attached site plan.

4. We are basing the asphalt section as designed based upon a twenty (20) year life space, per the Geotechnical Report from EGC, dated July 21, 2006.

5. We are assuming that the traffic on the paved asphalt will not exceed 1,000 cars per day and 100 trucks per day. This is subject to verification of the final CBR analysis and evaluation of truck traffic / cycles, however, we are designing the parking areas based on the information provided below by The Childrens Place:

- All product arrives via semis using ocean-going shipping containers (i.e., tractor, container, trailer dolly axle unit).

- The incoming loads are dropped at an area other than the dock.

- The yard tractor moves the loaded container at least once within the yard; sometimes twice.

- All of their product moves out via FedEx or UPS trucks.

- The empty shipping containers leave as empty semis.

Based on the above information, we have modeled the traffic as follows:

Standard-duty Pavement

1000 passenger vehicles per day

Heavy-duty Pavement

100 incoming loaded semis per day, 80K, five axles

150 yard moves of loaded containers per day, 80K, four axles (the yard tractor has only one drive axle and it gets heavily loaded when moving containers)

400 FedEx/UPS trucks per day (4:1 ratio of lighter trucks moving product out vs. incoming semis), 24K, two axles

100 outbound empty semis per day, 25K, five axles

It should be noted that the heavy-duty pavement is for the drive lanes. The concrete dock apron will get fewer passes of trucks as will the trailer parking stalls. We will reduce the sections in these areas accordingly. The risk is that heavy traffic swings through or cuts across trailer parking stall pavement if a number of adjacent stalls are unoccupied.

Every attempt will be made to evaluate additional paving sections as well as concrete for all current asphalt areas, to determine the most cost effective solution for the project.

Section 2G - Site Utilities

1. The following is our assumptions for the on site utilities:

Description	Avg. Depth	Connection Pt.	Total Length
Storm	6’	W-E Property Line	1,300 LF

2. We assume the local utility company’s and municipalities will provide adequate pressure and capacity to the building.
3. The local utility company will provide gas service to the building.
4. Water to the building for fire protection and domestic water is included, by the utilities. We have assumed adequate flow and pressure will be available at the site.
5. We have assumed that telephone service, supplied by others, will be provided, to the building, and jobsite trailers.
6. We have not included any road bores or open road cuts.
7. We have not included any pump stations for the storm system.
8. We have included a fire loop with approximately 4,425 LF of 10” main around the current footprint of the building, not including expansion.

Section 2H – Miscellaneous Site Improvements

1. We have included the following items:
   a. One (1) trash enclosure.
   b. 4,415 lineal feet of (6)’ fence with (3) strands of barb wire and Four (4) motorized gates.
   c. Two (2) flag poles.
   d. Guardhouse allowance of $45,000 including a restroom is included.
   e. An allowance of $30,000 for a pneumatic tube delivery system at the guard shack.

Section 2I – Landscaping

1. Landscaping and irrigation are included in this proposal as a $150,000 allowance, including design.

DIVISION 3 – CONCRETE

Section 3A – Site Concrete

1. Walks to be 4” thick with a concrete compressive strength of 3500 psi and placed on 4” granular base.
2. A standard broom finish will be provided on concrete sidewalks.
3. A 6” thick wire mesh reinforced concrete dumpster pad will be provided.
4. Truck aprons, 60’ deep, 7” thick, will be installed in front of the dock doors. The aprons will be constructed of 4000 psi reinforced concrete, (assumes no granular fill under concrete).
5. Concrete curbs will be provided where paving abuts landscaped areas at the car parking areas. Truck parking areas will not include curbs, due to sheetflow of site water. Concrete bumpers are included at the truck parking areas.

Section 3B – Cast-In-Place Concrete

1. Reinforced concrete used for foundations will have a compressive strength of 3500 psi at twenty-eight (28) days.
2. All concrete work will be completed in accordance with the structural drawings and current ACI requirements.
3. Reinforced concrete spread footing will be designed using the recommendations of the geotechnical engineer. For the purposes of this proposal, we are including a bearing capacity of 3000 psf.
4. Interior column pads at all mezzanine areas will be designed to accommodate both the building column and adjacent mezzanine columns, per loads dictated by Wildeck and Dematic.
5. Footings for mezzanine along the dock wall are included. The additional 75 interior columns pads and anchor bolt / templates for the added mezzanine columns are included.
6. The interior office floor slab will be a 5” thick, 3500 psi, non-reinforced concrete slab installed over 4” compacted granular base.

7. Interior warehouse floor slab to be 8 1/2” (4000 psi) over 4” granular material, between column lines “D” and H.5 (North to South), and Column lines 4 through 27 (East to West). 8 ½” floor slab areas shall have a floor flatness of Ff 50 and FL 30 average. 6” (4000 psi) over 4” granular material, between column lines “A” to “D” and “H.5” to “L” (North to South) and Column lines 4 through 27 (East to West). Floor flatness shall be F_F50 and F_L30, average. Floor slabs will be saw cut with control joints on maximum 15’ spacing to control shrinkage cracks.
8. One (1) coat of Ashford formula will be applied to the floor slab as a sealer/hardener.
9. Non-shrink, non-metallic grout will be provided at all column base plates.
10. Metzger McQuire MM-80 floor joint sealant will be provided at all construction and control joints in the open warehouse areas only.

Section 3C – Tilt-Up Concrete Panels

1. All concrete panels will be completed as site cast, reinforced, un-insulated, concrete tilt-up panels. All tilt-up panels will be designed and constructed with the most up-to-date quality assurance programs available through the Tilt-Up Concrete Association, Concrete Specification Institute, Concrete Council, and Clayco Construction Company’s in-house quality control standards.
2. Interior warehouse walls not covered by insulation will receive a smooth trowel finish.

DIVISION 4 – MASONRY

Section 4A – Masonry

1. Masonry block walls (8”) will be provided at the shipping / receiving offices. Masonry walls will be reinforced as required.

DIVISION 5 – METALS

Section 5A – Structural Metal Framing

1. Structural steel shall comply with ASTM A-36 and A572, GD50 and structural steel framing shall include the following:
    a. Structural steel column and beam system to support the roof structures.
    b. Miscellaneous structural steel as required for new construction.
    c. Steel channel framing as required for roof blockouts.

    d. Structural beam / joist to support the owner supplied conveyor systems.
2. All structural steel, joists, and joist girders shall receive factory primer or primer subsequent to fabrication.
3. Typical office bay spacing to be approximately 50’ x 50’.
4. Typical warehouse bay spacing to be approximately 50’ x 58’.
5. The structural design will incorporate vertical lateral bracing along column lines 13 and 18, which will extend below the clear height in a planned location.
6. The budget includes increased overhead support between column lines “14” and “16”/ “B” to “O”.

Section 5B – Metal Joist and Metal Decking

1. Steel roof decking to support roofing system per SDI Standard No. 1 with factory white primer. Metal decking to be 20 and 22 gauge. Roof deck and joist shall slope to exterior dock walls to provide for positive roof drainage.
2. Joist girders, metal joists, and metal deck will support the roof. The metal joist shall be designed as outlined in the SJI specifications. Joists and beams within the conveyor areas will be designed to support the conveyor loads imposed based upon information provided by Dematic.
3. A clear height of 36’ will be achieved at the lowest point of the warehouse, except for the dock bays and conveyor bays.

Section 5C – Metal Fabrications

1. We have included the following metal fabrication:
    a. (21) exterior dock stairs and handrails
    b. (0) interior exit stairs
    c. (0) decorative interior stairs (to be supplied by others)
    d. (253) 6” bollards
    e. (1) bi-fold partition support, Included In TI Allowance.
    f. 250 LF of steel guardrail protection, included in TI allowance
2. Miscellaneous steel will be provided for rooftop unit supports, exterior stairs and handrails, and pipe bollards.
3. Exterior metal stairs with handrails will be provided at the building perimeter as shown on architectural drawing.

4. All lintels, 6” pipe bollards (concrete filled), steel tube, dock nosing, and hand rails will be provided, as required.
5. 1,470 LF of dock canopy is included.

DIVISION 6 - WOODS AND PLASTICS

Section 6A – Rough Carpentry

1. Wood blocking, nailers, grounds blocking at parapet walls, furring and framing with standard construction grade #2 yellow pine or Douglas fir lumber required to complete all new construction (fire treated as required by Code).

DIVISION 7 - THERMAL AND MOISTURE PROTECTION

Section 7A – Insulation

1. Perimeter foundation insulation is included at the perimeter of the office area.

Section 7B – Roofing

1. A mechanically fastened TPO roof, FM I-60 wind uplift rating, with a wind speed of 55 MPH.
2. An approved roofing consultant will be required during roof installation to observe job progress and quality of work. The roof consultant to be provided by The Children’s Place.
3. Flashings and counter flashings will be installed as recommended by the roof manufacturer.
4. 2” of poly-iso insulation roof insulation (R-13) will be provided and installed in accordance with the manufacturer recommendations.
5. The roof system includes a ten (10) year manufacturers warranty.

Section 7C – Flashing and Sheet Metal

1. “Kynar” finished aluminum sheet metal installed at locations requiring flashing and counterflashing.
2. “Slip sheet” counter-flashings at all HVAC curb and similar penetrations will be provided

3. “Kynar” finished aluminum coping will be installed at all parapets.

Section 7D – Roof Accessories

1. Two (2) roof hatches and ladders for access to the roof will be provided.

Section 7E – Caulking

1. Caulking will be installed at required joints and intersections to two (2) different materials. Exterior joints shall use two (2) component polyurethane based sealing compounds, Tremco Dymeric, or equal. Interior joints and under thresholds shall be architectural grade caulking compounds, Sonneborn Kaukit, or equal. Provide closed cell backer rod as required.

DIVISION 8 - DOORS AND WINDOWS

Section 8A - Metal Doors, Frames, and Hardware

1. Hollow metal doors and frames will be primed and coated with two (2) coats of gloss enamel paint. All hollow metal frames will have welded seams. All doors to be 18 gauge, 1-3/4" thick with finish faces. Exterior doors shall be insulated.
2. Finish door hardware will be commercial grade and shall be Schlage Commercial US 26D or approved equal.
3. Hollow metal, insulated exterior doors shall include cylinder locks, hydraulic closers, drip cap, strike lock shields, doorstops, sill sweeps, 1½ pair hinges, and code required panic hardware (where required). Hollow metal interior doors shall have 1½ pair hinges, cylinder locks, silencers, and doorstops.
4. All doors required by code to be fire rated and shall have labels designating hourly ratings per underwriter's laboratory standards.

Section 8B – Overhead Doors

1. Provide Ninety-Six (96) exterior 8' x 10' manually operated overhead doors
2. Provide three (3) 12' x 14', manually operated, grade level doors.
3. Provide One (1) 12' x 14', manually operated, coiling door.
4. All exterior doors to be insulated.
5. Doors to have 3" wide, heavy-duty tracks and rollers with one (1) 6" x 12" view panel.

Section 8C - Glass and Glazing

1. Furnish and install an insulated window system at locations indicated by the architectural drawings. Clear anodized aluminum finish per the architectural drawings, glazed with insulated glass units per the architectural drawings is included.
2. Tempered glass doors and sidelights are included, where required by code.
3. Exterior windows shall be glazed with 1" insulated reflective (Color to be determined) or tinted glass (laminated or tempered as required by Code).
4. Glass entry doors will be provided at entry locations.

DIVISION 9 - FINISHES

Section 9 – Tenant Improvement Finishes

Section 9A - Drywall

1. 400 square feet of drywall soffit is included for the main lobby area.
2. All remaining gypsum board systems shall be included in the tenant finish allowance.
3. An allowance of $4,200 is included for an added wall between platforms near Column line "12".

Section 9B - Acoustical Ceiling Tile

1. All Acoustical Ceilings to be included as part of the tenant finish allowance.

Section 9C - Flooring

1. All flooring shall be part of the tenant finish allowance.

Section 9D – Finish Carpentry

1. All finish carpentry shall be included in overall tenant finish allowance. A tenant finish allowance of $40 / sf for the main office and $80 / sf for the warehouse offices, is included.

Section 9D - Interior Painting

1. Painting of all interior gypsum board systems to be part of the tenant finish allowance.
2. All interior masonry will receive two (2) coats of latex paint.
3. Epoxy flooring for 3,000 sf. is included.
4. Painting of all exterior stairs and handrails is included.
5. Painting of interior tilt up walls is included.
6. Interior floor striping is excluded.

Section 9E - Exterior Painting

1. The exterior of the building will be prepared per coating manufacturer's recommendations to receive a one (1) coat MODAC paint system or a two (2) coat elastomeric system on all surfaces. A five (5) year, no fade warranty is included.
2. The hollow metal doors and frames will be painted with two (2) coats of paint.
3. All pipe bollards, handrails, and miscellaneous exposed metals are to be painted.
4. Interior masonry walls at the pump room are to receive block filler and one (1) coat latex paint.
5. Overhead door numbering / stenciling is excluded.

Section 9F – Interior Design Services

1. Forum Studio will be the Interior Design of Record. An allowance for interior services by others is not provided.

DIVISION 10 – SPECIALTIES

Section 10A - Toilet Partitions and Accessories

1. Toilet partitions and accessories are included as part of the tenant finish allowance.

Section 10B – Signage

1. Exterior handicap signage will be provided as required and necessary.

2. All Interior signage has been excluded.

3. Exterior corporate signage is excluded.

Section 10C – Lockers

1. Lockers to be provided as part of the tenant finish allowance.

Section 10D – Miscellaneous Items

1. Provide code required fire extinguishers with cabinets at the warehouse. Additional extinguishers and cabinets to be included as part of the tenant finish allowance.

2. Entrance mats and window treatments to be included as part of the tenant finish allowance.

DIVISION 11 – EQUIPMENT

Section 11A - Dock Levelers

1. Provide Fifty-One (51) 6’ x 8’ recessed “Air Bag” dock levelers; 30,000 pound mechanical dock levelers by McGuire, Kelly or equal.

2. Provide Ninety-Five (95) dock bumpers.

Section 11B - Dock Seals

1. Provide Ninety-Five (95) dock seals at overhead dock doors with heavy-duty, urethane coated nylon covering and truck bumpers.

Section 11C - Dock Lights

1. Provide Ninety-Five (95) 150 watt dock “swing” lights, and receptacles (one switch duplex outlet) are included at overhead doors.

DIVISION 15 – MECHANICAL

Section 15A – Fire Sprinkler System

1. Work will begin at the connection to the water main and shall include, but not be limited to the following:
    a. Underground piping, detector check, valves, hydrants, fittings, and blocking.
    b. Backflow preventor.

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    c. ESFR wet pipe head sprinkler systems for all warehouse areas and standard sprinkler heads for all office type areas.
    d. We have assumed that adequate flow and pressure is available at the site, and that no site water storage tank is included.
    e. An electric fire pump, (size to be determined as required) is included in the price.
    f. Sprinklers for individual mezzanines are included, as Ordinary Hazard, group 2. (.2 GPM / 1500sf). ESFR heads and draft curtains are not included at this time, as not enough mezzanine framing information is available.
    g. Sprinklers below conveyors are excluded, due to lack of conveyor information.
2. All work will be designed and installed in accordance with all applicable codes and requirements of the local governing authorities, and referenced design standards and recommended practices:
    a. 2003 International Building Code
    b. 2002 NFPA 13, Sprinkler Systems
    c. 2003 NFPA 20, Centrifugal Fire Pumps
    d. 2002 NFPA 24, Private Fire Service Mains
3. FM Global requirements for the sprinkler system design have been included.
4. The site loop will be located approximately 40’ from the face of the building. Post indicating valves and building leads will be positioned in islands extending approximately 40’ from the building at maximum practical spacing.
5. Hose Stations at racks are not included. 2 ½” Hand hose stations at perimeter doors are included.
6. The burden has been updated to include increased fire protection density beneath the large platform to 33 gpm / 2100 sf.

Section 15B – Warehouse Heating and Ventilating

1. We have provided roof mounted, gas fired, make up air heating units to maintain 50 deg F. at 18 deg F. outdoor design winter time temperature. Each unit to be equipped with roof curb, inlet hood with air filters, thermostat, remote control panel, and recirculation feature to avoid over-pressurization. The control panel and thermostats will be located on the column closest to the unit and on the column row closest to the docks.

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2. We have provided cool smoke / summer ventilation system for the entire warehouse area using roof mounted exhaust fans and wall mounted air intake louvers. The design will be based upon approximately 3 air changes per hour of air in the warehouse, based upon the warehouse total volume being filled with approximately 40% product.
3. Toilet exhaust systems will be provided for each toilet room per Code requirements.
4. The Shipping and Receiving offices will be heated and cooled using roof mounted heating and air conditioning units.
5. Gas piping will be extended from the gas meter with minimum five (5) pound gas pressure to the make up air heating units and roof top heating and cooling units (RTU’s). We have assumed that five (5) pound gas pressure is available from the utility. The gas piping riser shall be located inside the building with the remainder of the piping located on the roof.
6. The mezzanine level will include 250 Tons of cooling to provide tempered air to the south mezzanine upper floor level. The mezzanine will be enclosed with heavy sheet plastic curtains (by others). The design is based upon maintaining 80 degrees at the upper deck at the outdoor air design temperature of 94 degree dry bulb and 75 degree wet bulb.
7. We have included complete system start, check, and balance.

Section 15C – Office Heating and Ventilating

1. The office will be heated and cooled with gas fired heating, electric cooling, roof mounted heating and air conditioning units (RTU’s).
2. Zone control will be by using variable air volume (VAV) units or by the use of multiple single zone RTU’s. Interior zones will be handled separately from the perimeter zones in either system.
3. The computer room will have two separate, ceiling mounted Liebert MiniMate units, each rated at approximately 3 Tons. Each unit will be individually controlled but are not sized for redundancy.
4. The front lobby entrance will have an electric cabinet or wall heater.
5. Toilet exhaust systems will be provided for each toilet room per code requirements.
6. Office design criteria is:

a.	Outdoor Temperature	Summer Winter	94°F dry bulb / 75°F wet bulb 20°F
b.	Indoor Temperature dehumidification system	Summer	75°F 50% RH with no separate
		Winter	72°F, no humidification added

7. Shell and Core:

   a. Small single zone constant volume air systems, or variable air volume (VAV) cooling system – package roof mounted, gas fired heating and electric direct expansion cooling units with standard roof curb, gravity relief, modulating gas fired burner, outdoor air dampers, insulated single wall economizer, and electrical disconnect switch, sealed medium pressure duct distribution system with sound lining.

   b. All ductwork will be sheet metal. Medium pressure mains for the VAV systems, and low pressure for the rest of the duct systems. All ductwork will be constructed to SMACNA guidelines. Thermal and acoustical insulation will be included where required.

   c. Toilet room exhaust systems – roof mounted exhaust fan, low pressure duct distribution system, and inlet registers.

   d. All RTU's will incorporate their own operating controls, and remote space mounted programmable thermostat controllers will be provided for occupant local control.

8. Tenant Finishes:

   All components of the office HVAC systems are provided as part of the tenant finish allowance.

Section 15D – Plumbing

1. Water service to be provided to the building by others.
2. All office plumbing to be part of the tenant finish allowance.
3. We have included 1,300 lineal feet of overhead water line in our proposal.
4. We have included 1,200 lf of sanitary lateral extending to the main office and the shipping and receiving offices. Sanitary lines for the future expansion are not included and would require an additional tap at Airport Road.

5. All interior pipe trenches are to be backfilled with excavated material per the soil engineer's requirements. All exterior pipe trenches under the paved areas will be backfilled with granular material.
6. We have included the following fixtures in the estimate: All remaining plumbing fixtures shall be included as part of the tenant finish allowance.

Description	Quantity
Water Heater (30 gallon)	1
Eye Wash Station	1
Acid Dilution @ battery	1
Exterior Hose bibs	5
Scrubber Dump	1
Floor Drains	12
Interior Roof Drains at Office	4

DIVISION 16 – ELECTRICAL WORK

Section 16A - Site Electric

1. We have assumed an underground electrical service to the building.
2. Two (2) main pad mounted transformer (2,500 KVA each) shall be located at the building, by the power company. PVC conduits from the transformer to the property line will be provided with manholes as required. Excavation and granular backfill under paved areas shall be included. We have presumed the Power Company will provide the two required services, complete from the property line to and including the transformers.
3. The design is based on standard secondary service with the Power Company owning and maintaining the transformer and incoming power lines, and not primary service. An economical layout of poles, lamp sizes, and pole locations will be submitted for review during the design phase.

Section 16B - Site Lighting

1. Site lighting shall consist of Twenty-Four (24), 400 watt wall packs and Forty-Eight (48), 30' pole units with single 1000 watt heads on each. Lighting levels of approximately 0.50 foot candles average shall be maintained in parking areas and drive lanes.
2. An allowance of $7,500 is included for added lighting to the Guard Shack.

Section 16C - Electrical Distribution

1. The main building service will be two (2) 3,000 amp distribution systems at 277/480 Volt, 3 phase, 4 wire. Each transformer will feed a main switchboard which will feed distribution panels, power panels, mechanical equipment, and step down transformers for lighting and receptacles.
2. The budget has been updated to include the following:
   a. Deletion of conduits along perimeter.
   b. Deletion of power feeds to Compactor, baler, and compressor.
   c. Addition of 300 general receptacles.
   d. Deletion of four (4) 600 AMP panels.
   e. Addition of six (6) 800 AMP panels.
   f. Revise conductor to aluminum.

Section 16D - Interior Lighting and Power

1. Battery operated or Generator powered egress and exit lights have been included.
2. A 500 KW Genset is included for life safety, as required by code.
3. Based on limited conveyor electrical requirements, we have included 300 quadplex outlets at perimeter walls and columns.
4. General office lighting shall consist of recessed 2' x 4' fluorescent troffers with parabolic lenses. Lighting fixtures will be designed in such a pattern as to provide approximately fifty foot (50) candles average maintained at 36" above finish floor in all offices and open office areas. All office lighting shall be included as part of the tenant finish allowance.
5. General warehouse lighting shall consist of 6-Tube, T-5 HO light fixtures with motion sensors (at aisles only). The fixtures for the mezzanines will be standard 8' dual tube surface mounted fluorescent fixtures. Fixtures shall be modular wired and switched to comply with the energy code model. Lighting fixtures will be designed in such a pattern as to provide Thirty (30) foot candles maintained average at 36" above finish floor, at all racking aisles, and Thirty (30) foot candles, maintained average at 36" above finish floor, at all open warehouse areas, including mezzanine.

6. Process Power: Owner requirements for conveyors have not yet been determined. This proposal anticipates that 3,000 Amps will be required for all process equipment. This proposal includes an allowance of $325,400 for the following process power and distribution:

    a. SWBD breakers; feeders (below grade), disconnect switches and connections to equipment / panels but no distribution downstream of the panels provided by the equipment / conveyor supplier.

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    b. Distribute power for conveyor equipment to 4 – 600 amp panels. Assume panel locations to be at B-10, B-22, K-8 and K-22.

    c. Provide a 400 amp, 480 volt feed to a baler located near column line 5-C.

    d. Provide a 60 amp, 480/3/60 feed to a weatherproof local disconnect for a trash compactor near column line 5, along the North wall. Provide connection to equipment as required when the equipment is set.

    e. Provide a 200 amp feed to a local disconnect for compressor equipment at the compressor room.

    f. Provide one length of 4" conduit adjacent to the Shipping and Receiving areas (i.e. Approximately 1,100 l.f. each side) with stubs turned up through the floor slab every 150'.

7. The budget has been updated to include the following:

    a. Deletion of conduits along perimeter.

    b. Deletion of power feeds to baler and compressor.

    c. Addition of 300 general receptacles for Dematic Equipment.

    d. Deletion of four (4) 600 AMP panels.

    e. Addition of six (6) 800 AMP panels.

    f. Revise conductor between the main switchboard and the 800 AMP distribution panels to aluminum.

    g. Installation of a concrete pad and conduits for future full power generator. Generator by others asian allowance of $25,000.00.

Section 16E – Mechanical Provisions

1. Power wiring to MUA, RTU's and exhaust fans has been included per the design requirement. Duct mounted smoke detectors will be provided where required to comply with the Code.

Section 16F – Fire Suppression System

1. A digital communicator (as part of the fire alarm system) will be provided for the monitoring and supervision of the fire suppression system. Tamper and flow switches will be wired to the communicator for the monitoring of activation.

Section 16G – Fire Alarm System

1. A fire alarm system allowance of $68,841 is included.

Section 16H – Specialty Items

1. We are assuming that the owner is responsible for the following items:

    a. Generators and associated gear and transfer switches.

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    b. Security systems

    c. Data/communication/low voltage wiring

    d. Lightning protection systems

Exhibit F

CLARIFICATIONS
The Children's Place
Ft. Payne, Alabama
December 18, 2006

1. The building elevations and exterior materials selections are subject to municipal approvals.

2. We are assuming a construction start date of October 2, 2006, once all clearing and grubbing operations are completed by others.

3. We are assuming the following site conditions:

    a. 2" of topsoil, which will be reused.
    b. All utilities are brought to the building by others.
    c. Existing site is cleared and properly drained.

4. We are assuming the following foundation conditions:

    a. Compactable existing material.
    b. Typical trench foundation.
    c. Spoils are reusable on site.
    d. On site material for backfill.

5. We have included the cost for the following professional services:

    a. Landscape Design
    b. Architectural
    c. Interior Architectural
    d. Structural
    e. Civil
    f. Testing (Glass systems only). Material testing by others.

6. We have included the following allowances:

a.	Earthwork	$	2,462,451.00
b.	Landscape / Irrigation	$	150,000.00
c.	Guardhouse	$	45,000.00
d.	Rock Trenching	$	195,000.00
e.	Materials Testing	$	3,500.00
f.	Tenant Improvement Budget	$	1,284,000.00
g.	Warehouse office Budget	$	Included in "f" above

h.	Fire Alarm System	$	68,841.00

i.	Site Contigency	$	150,000.00
j	Generator Pad and Conduits	$	25,000.00
k.	Process wiring	$	343,305.00
l.	Soils Remediation	$	431,879.00
m.	Pneumatic Tube Delivery	$	30,000.00
n.	Guard Shack Lighting	$	7,500.00
o.	Winter Conditions	$	300,000.00

7. We have included the following weather related budgets:

a.	Temporary Roads	$	20,596.00
b.	Temporary Utilities	$	0.00
c.	Temporary Enclosure/Protection	$	0.00

Exhibit G

EXCLUSIONS
The Children's Place
Ft. Payne, Alabama
December 18, 2006

1. Development impact fees, tap fees, lateral fees, city/governing authority fees, and bonds.
2. Environmental testing and studies.
3. Acceleration/deceleration lanes, bike paths, road improvements, Airport Road sidewalks, road bores, or off site utility improvements.
4. Work associated with hazardous material.
5. All demolition or removal of existing debris or structures currently on site.
6. Cost associated with the removal of unforeseen conditions such as hidden foundation, dewatering rock removal, sink holes, and contaminated material.
7. Export or import of any soils.
8. Lime Stablization at parking areas.
9. Wetland mitigation/relocation.
10. Deep foundations (piers, caissons, piling, etc.).
11. Concrete shake-on hardener and concrete floor finishes, other than epoxy at the battery charging area.
12. MFL walls at the West wall.
13. Furniture or work related to owner supplied equipment.
14. Smoke and draft curtains.
15. Generators and associated gear and transfer switches.
16. Lightning protection systems
17. Security systems

18. All work related to communications, data, security systems.
19. Primary power cost.
20. Separate utility meters for multiple tenant buildings.
21. Interior Floor striping .
22. Exterior overhead door numbering / stenciling.
23. Premium Time
24. Winter conditions / Winter Concrete, in excess of $300,000 Allowance.

Exhibit H

CLAYCO
THE ART & SCIENCE OF BUILDING

Contract Document List

Clayco
19500 Victor Parkway
Suite 375
Livonia Michigan 48152
734-462-0200 Fax 734-462-1266

Project # 7-106-010
The Children's Place / Disney Store
1377 Airport Rd.
Fort Payne, AL 35968

Tel: 256-845-1162 Fax: 256-845-1820
Printed on: 1/12/2007

[illegible]	Rev	Rev Date	Title	Notes
C1	10	12/19/2006	Title Sheet	Coordination Set
C2	4	12/19/2006	Specifications Sheet	Coordination Set
C3	4	12/19/2006	Existing Conditions Plan	Coordination Set

C4	4	12/19/2006	Erosion Control Plan	Coordination Set
C5	4	12/19/2006	Erosion Control Details and Specifications	Coordination Set
C6	4	12/19/2006	Overall Site and Grading Plan	Coordination Set
C7	4	12/19/2006	Site & Grading Plan	Coordination Set
C8	4	12/19/2006	Site & Grading Plan	Coordination Set
C9	4	12/19/2006	Site & Grading Plan	Coordination Set
C10	4	12/19/2006	Site & Grading Plan	Coordination Set
C11	4	12/19/2006	Site & Grading Plan	Coordination Set
C12	4	12/19/2006	Site & Grading Plan	Coordination Set
C13	5	12/19/2006	Overall Geometric & Utility Plan	Coordination Set
C14	5	12/19/2006	Geometric Plan	Coordination Set
C15	5	12/19/2006	Geometric Plan	Coordination Set
C16	5	12/19/2006	Geometric Plan	Coordination Set
C17	5	12/19/2006	Geometric Plan	Coordination Set
C18	5	12/19/2006	Geometric Plan	Coordination Set
C19	5	12/19/2006	Geometric Plan	Coordination Set
C20	4	12/19/2006	Construction Details	Coordination Set
C21	4	12/19/2006	Sewer Details	Coordination Set
C22	4	12/19/2006	Sewer Details	Coordination Set
C23	4	12/19/2006	Sewer Details	Coordination Set
C24	3	12/19/2006	Storm Sewer Profiles	Coordination Set
C25	3	12/19/2006	Predevelopment Drainage Area Map	Coordination Set
C26	3	12/19/2006	Post Development Drainage Area Map	Coordination Set
C27	3	12/19/2006	Post Development Drainage Area Map	Coordination Set

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
A0-00	4	12/18/2006	Cover Sheet	Coordination Set
A0-01	6	12/18/2006	Index Sheet	Coordination Set
A0-02	3	12/18/2006	Egress Plan & Code Sheet	Coordination Set
A1-01	4	12/18/2006	Overall Site Plan	Coordination Set
A1-02	4	12/18/2006	Architectural Site Plan	Coordination Set
A1-03	4	12/18/2006	Site Details	Coordination Set

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
A1-04	4	12/18/2006	Enlarged Site Plan	Coordination Set
A1-05	1	10/18/2006	Guardshack Details	Progress Set 4
A2-00	3	12/18/2006	Equipment & Racking Plan	Coordination Set
A2-01	7	12/18/2006	Overall Floor Plan	Coordination Set
A2-02	5	12/18/2006	Mezzanine Plan	Coordination Set
A2-03	5	12/18/2006	Roof Plan	Coordination Set
A2-04	5	12/18/2006	Enlarged Office Roof Plan	Coordination Set
A2-05	3	12/18/2006	Roof Details	Coordination Set
A3-01	4	12/18/2006	Exterior Elevations	Coordination Set
A3-02	3	12/18/2006	Enlarged Elevations	Coordination Set
A3-10	2	12/18/2006	Building Sections	Coordination Set
A3-11	1	12/18/2006	Exterior Details	Coordination Set
A4-01	7	1/7/2007	Enlarged Plans	Revision
A4-02	9	12/27/2006	Enlarged Plans	Plumb. Coordination
A4-03	1	12/18/2006	Enlarged Plans	Coordination Set
A5-01	2	12/18/2006	Interior Elevations	Coordination Set
A5-02	1	12/18/2006	Interior Elevations	Coordination Set
A5-03	1	12/18/2006	Office Interior Elevations	Coordination Set
A5-04	1	12/18/2006	Office Interior Elevations	Coordination Set
A6-01	2	1/7/2007	Reflected Ceiling Plan	Revision
A7-01	2	12/18/2006	Roof Ladder “A”	Coordination Set
A7-02	2	12/18/2006	Roof Ladder “B”	Coordination Set
A8-01	4	12/18/2006	Wall Sections	Coordination Set
A8-02	3	12/18/2006	Wall Sections	Coordination Set
A8-03	3	12/18/2006	Office Wall Sections	Coordination Set
A9-01	4	12/18/2006	Partition Types & Details	Coordination Set
A9-02	4	12/18/2006	Door Schedules & Details	Coordination Set
A9-03	4	12/18/2006	Door Details	Coordination Set
A9-04	4	1/7/2007	Misc. Details	Revision
A10-01	1	12/18/2006	Plan Details	Coordination Set
A11-01	1	12/18/2006	Office Furniture Plan	Coordination Set

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S1-1	7	12/18/2006	General Notes	Coordination Set
S1-2	5	12/18/2006	General Notes	Coordination Set
S1-3	5	12/18/2006	Typical Sections & Details	Coordination Set
S1-4	6	12/18/2006	Typical Sections & Details	Coordination Set
S2-1	7	1/3/2007	Foundation Plan Area “A”	Loader/Unloader Revision
S2-2	7	1/3/2007	Foundation Plan Area “B”	Loader/Unloader Revision
S2-3	8	12/18/2006	Roof Framing Plan Area “A”	Coordination Set
S2-4	7	12/18/2006	Roof Framing Plan Area “B”	Coordination Set
S2-5	6	12/18/2006	Enlarged Office Roof Framing Plan	Coordination Set
S2-6	4	12/18/2006	Roof Deck Attachment Plan	Coordination Set
S2-7	2	11/10/2006	Guard House Plans & Details	Revise Entire Sheet
S3-1	5	12/18/2006	Foundation Details	Coordination Set
S3-2	2	1/3/2007	Foundation Details	Loader/Unloader Revision

Dwg No.	Rev.	Rev Date	Title	Notes
S4-1	5	12/18/2006	Framing Sections	Coordination Set
S4-2	2	12/18/2006	Framing Sections	Coordination Set
S4-3	2	12/18/2006	Framing Sections	Coordination Set
S5-1	6	12/18/2006	Column Schedule & Details	Coordination Set
S6-1	5	12/18/2006	Braced Frame Elevations & Details	Coordination Set

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
T1-1	1	12/18/2006	Panel Layout Plan	Coordination Set

T1-2	1	12/18/2006	Panel Layout Plan	Coordination Set
T2-1	1	12/18/2006	Typical Sections and Details	Coordination Set
T3-1	1	12/18/2006	Wall Elevation Line A	Coordination Set
T3-2	3	12/18/2006	Wall Elevation Line A	Coordination Set
T3-3	1	12/18/2006	Wall Elevation Line A	Coordination Set
T3-4	1	12/18/2006	Wall Elevation Line L	Coordination Set
T3-5	1	12/18/2006	Wall Elevation Line L	Coordination Set
T3-6	1	12/18/2006	Wall Elevation Line L	Coordination Set
T3-7	1	12/18/2006	Wall Elevation Line 27	Coordination Set
T3-8	1	12/18/2006	Wall Elevation Line 4	Coordination Set
T3-9	3	12/18/2006	Office Wall Elevations	Coordination Set
T4-1	1	12/18/2006	Panel Reinforcing Details	Coordination Set
T4-2	1	12/18/2006	Panel Reinforcing Details	Coordination Set
T4-3	0	12/18/2006	Panel Reinforcing Details	Coordination Set
Fire Protection	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**
FP-1.1	1	12/14/2006	Fire Protection Zones 1, 2, & 3	Submittal #1
FP-1.2	1	12/14/2006	Fire Protection Zones 4, 5, 6, & 7	Submittal #1
FP-1.3	1	12/14/2006	Fire Protection Zones 8 & 9	Submittal #1
FP-1.4	1	12/14/2006	Fire Protection Zones 10 & 11	Submittal #1
FP-1.5	1	12/14/2006	Fire Protection Zones 12, 13, & 14	Submittal #1
FP-1.6	1	12/14/2006	Fire Protection Zones 15, 16, 17, & 18	Submittal #1
FP-2.0	0	12/14/2006	Fire Protection Notes and Details	Submittal #1
FP-4.0	0	12/14/2006	Fire Pump Room Layout	Submittal #1
FP-UG	2	12/12/2006	Fire Protection Site Plan	Warehouse CD
Mechanical	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**
M0-00	1	12/13/2006	Mechanical Symbols & Legends	Permits
M1-01	1	12/13/2006	Overall Mechanical HVAC Plan	Permits
M1-02	1	12/13/2006	Mezzanine Mechanical HVAC Plan	Permits
M1-03	1	12/13/2006	Enlarged Mechanical HVAC Plans	Permits
M1-04	1	12/13/2006	Roof Mechanical HVAC Plan	Permits
M2-00	1	12/13/2006	Overall Sanitary Plumbing Plan	Permits
M2-01	1	12/13/2006	Overall Domestic Plumbing Plan	Permits
M2-02	1	12/13/2006	Enlarged Sanitary Plumbing Plans	Permits
M2-03	1	12/13/2006	Enlarged Domestic Plumbing Plans	Permits
M2-04	1	12/13/2006	Enlarged Storm Plumbing Plan	Permits
M2-05	0	12/13/2006	Roof Plumbing Plan	Permits
M3-01	1	12/13/2006	Mechanical HVAC Schedules	Permits

Dwg No.	**Rev.**	**Rev Date**	**Title**	**Notes**
M3-02	1	12/13/2006	Plumbing Schedules	Permits
M4-01	0	12/13/2006	Mechanical HVAC Details	Permits
M4-02	0	12/13/2006	Plumbing Details	Permits
[illegible]	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**
ES-1	0	12/12/2006	Electrical Site Plan	Coordination Set
E-00	0	12/12/2006	Overall Lighting Plan	Coordination Set
E-01	0	12/12/2006	Overall Power Plan	Coordination Set
E-02	0	12/12/2006	Overall HVAC Power Plan	Coordination Set
E-1	0	12/12/2006	Area A Lighting Plan	Coordination Set
E-2	0	12/12/2006	Area B Lighting Plan	Coordination Set
E-3	0	12/12/2006	Area C Lighting Plan	Coordination Set
E-4	0	12/12/2006	Area D Lighting Plan	Coordination Set
E-5	0	12/12/2008	Mezzanine North and South Lighting Plan	Coordination Set
E-6	0	12/12/2006	Area A Power Plan	Coordination Set
E-7	0	12/12/2006	Area B HVAC Power Plan	Coordination Set
E-8	0	12/12/2006	Area C HVAC Power Plan	Coordination Set
E-9	1	12/12/2006	Area D HVAC Power Plan	Coordination Set
E-10	1	12/12/2006	One Line Diagram and Legend	Coordination Set
E-11	0	12/12/2006	Panel Schedules	Coordination Set

CHILDREN'S PLACE DISTRIBUTION FACILITY **CLAYCO, INC** **December 18, 2006**
FORT PAYNE, ALABAMA **CONTRACT SCHEDULE** **Exhibit "I"**
[GRAPHIC]

CHILDREN'S PLACE DISTRIBUTION FACILITY **CLAYCO, INC** **December 18, 2006**
FORT PAYNE, ALABAMA **CONTRACT SCHEDULE** **Exhibit "I"**
[GRAPHIC]

1	Earthwork	2,979,778	1,571,525	898,277		2,469,802	83	509,976	246,980
2	Rock Excavation	2,082,000	1,247,655	280,812		1,528,467	73	553,533	152,847
3	Asphalt	2,940,070	0			0	0	2,940,070	0
4	Site Concrete	734,233	0			0	0	734,233	0
5	Site Utilities	744,658	0			0	0	744,658	0
6	Guard House	45,000	0			0	0	45,000	0
	Pnuematic Tube to Guard House	30,000							
7	Flag Pole	5,227	0			0	0	5,227	0
8	Fencing	115,470	0			0	0	115,470	0
9	Landscape and Irrigation	150,000	0			0	0	150,000	0
10	Cast In Place Concrete	761,297	151,367	438,898		590,265	78	171,032	59,027
11	Concrete Flatwork	2,281,761	0	250,000		250,000	11	2,031,761	25,000
12	Floor Sealer	434,005	0			0	0	434,005	0
13	Concrete Wall Panels	1,678,605	0	256,651		256,651	15	1,421,954	25,665
14	Masonry	61,452	0			0	0	61,452	0
15	Structural Steel	3,965,679	485,097	105,858		590,955	15	3,374,724	59,096
17	Rough Carpentry	72,114	0			0	0	72,114	0
19	Roofing	1,607,262	0			0	0	1,607,262	0
20	Sealants	52,513	0			0	0	52,513	0
21	Doors, Frames and Hardware	55,862	0			0	0	55,862	0
22	Overhead Doors	105,500	0			0	0	105,500	0
23	Glass and Glazing	198,522	0			0	0	198,522	0
24	Drywall	8,488	0			0	0	8,488	0

25	Painting	211,317	0			0	0	211,317	0
26	Miscellaneous Specialties	11,021	0			0	0	11,021	0
27	Dock Equipment	279,629	0			0	0	279,629	0
29	Fire Protection	1,101,099	0			0	0	1,101,099	0
30	Plumbing	199,755	8,000	79,405		87,405	44	112,350	8,741
31	HVAC	945,346	13,500	8,100		21,600	2	923,746	2,160
32	Electrical	3,216,505	10,000	49,400		59,400	2	3,157,105	5,940
33	TI Allowance	1,284,000	0			0	0	1,284,000	0
34	Architectural and Engineering Svc	488,877	308,167	63,250		371,417	76	117,460	37,142
35	Insurance	316,500	43,675			43,675	14	272,825	4,367
37	Site Contingency	150,000	0			0	0	150,000	0
38	General Conditions	1,081,593	234,574	84,642		319,216	30	762,377	31,922
39	Clayco Overhead & Profit	1,594,841	220,075	130,790		350,865	22	1,243,976	35,087
40	TOTAL	31,989,979	4,293,635	2,646,083	0	6,939,718	22	25,020,261	693,972

THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") dated as of August 9, 2007 among:

Wells Fargo Retail Finance, LLC (in such capacity, herein the "**Agent**"), a Delaware limited liability company with offices at One Boston Place — 19th Floor, Boston, Massachusetts 02109, as agent for the ratable benefit of the "**Revolving Credit Lenders**", who are, at present, those financial institutions identified on the signature pages of this Amendment and who in the future are those Persons (if any) who become "Revolving Credit Lenders" in accordance with the provisions of Article 17 of the Loan Agreement described below;

and

The Revolving Credit Lenders;

and

Hoop Retail Stores, LLC, a Delaware limited liability company with its principal executive offices at c/o The Children's Place Retail Stores, Inc., 915 Secaucus Road, Secaucus, New Jersey 07094 (as successor in interest to The Disney Store, LLC, a California limited liability company) (the "**Borrower**"),

in consideration of the mutual covenants herein contained and benefits to be derived herefrom.

BACKGROUND:

The Borrower, the Revolving Credit Lenders, and the Agent, among others, have entered into a certain Loan and Security Agreement dated as of November 21, 2004 as amended by that certain First Amendment to Loan and Security Agreement dated as of April 11, 2006 and by that Second Amendment to Loan and Security Agreement dated as of June 28, 2007 (as amended and in effect, the "**Loan Agreement**"). At this time, the Borrower and the Revolving Credit Lenders desire to amend and modify certain terms and provisions of the Loan Agreement.

NOW THEREFORE, in consideration of the mutual promises and agreements herein contained, the parties hereto hereby agree that subject to the satisfaction of the Conditions Precedent set forth in Section 3 hereof, the Loan Agreement is hereby amended as follows:

1. Incorporation of Terms and Conditions of Loan Agreement. All of the terms and conditions of the Loan Agreement (including, without limitation, all definitions set forth therein) are specifically incorporated herein by reference. All capitalized terms not otherwise defined herein shall have the same meaning as in the Loan Agreement.

2. Representations and Warranties. The Borrower hereby represents and warrants that, (i) except as the Agent may have expressly waived in writing prior to the date of this Amendment, the Borrower is not In Default under the Loan Agreement or under any other Loan Document, and (ii) except with respect to those representations and warranties which are based upon written disclosure schedules (which have not been updated as of the date of this Amendment), all representations and warranties contained in the Loan Agreement and the other Loan Documents, as amended hereby, are true and correct as of the date hereof.

3. Conditions Precedent. It shall be a condition to the effectiveness of this Amendment that the following shall be satisfied to the satisfaction of the Agent:

   a. The Agent shall have received counterparts of this Amendment duly executed by each of the parties hereto;

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   b. After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing on the date hereof, nor shall result from the consummation of the transaction contemplated herein;

4. Effective Date. Upon satisfaction of the Conditions Precedent set forth in Paragraph 3 hereof the amendments to the Loan Agreement set forth herein shall be effective as of June 28, 2007.

5. Amendment to Article 2 of the Loan Agreement. Article 2 of the Loan Agreement is hereby amended as follows:

   a. Section 2.19 of the Loan Agreement is amended by deleting the pricing grid contained therein in its entirety, and the following is inserted in its place:

Level	Standby Fee	Documentary Fee	Average Excess Availability
I	1.25 %	0.75%	Greater than $20,000,000.00
II	1.50 %	1.00%	Less than or equal to $20,000,000.00

6. No Further Modification. Except as expressly modified in the manner set forth above, the Loan Agreement and the other Loan Documents shall remain unmodified and in full force and effect.

7. No Claims; Waiver. The Borrower acknowledges, confirms and agrees that as of the date hereof the Borrower has no knowledge of any offsets, defenses, claims or counterclaims against the Agent or any Revolving Credit Lender with respect to, under or relating to the Loans, the Loan Documents, or the transactions contemplated therein, and, to the extent that the Borrower has or has ever had any such offsets, defenses, claims or counterclaims arising on or before the date hereof, the Borrower hereby specifically **WAIVES** and **RELEASES** any and all rights to such offsets, defenses, claims or counterclaims.

8. Binding Agreement. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their heirs, representatives, successors and assigns.

9. Multiple Counterparts. This Amendment may be executed in multiple counterparts, each of which shall constitute an original and together which shall constitute but one and the same instrument.

10. Governing Law; Sealed Instrument. This Amendment shall be construed, governed, and enforced pursuant to the law of The Commonwealth of Massachusetts without regard to principles of conflicts of laws, and shall take effect as a sealed instrument.

[*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK*]

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by each of the parties hereto as of the date first above written.

(the "Borrower")

HOOP RETAIL STORES, LLC

By: _____
Print Name: _____
Title: _____

("Agent")

WELLS FARGO RETAIL FINANCE, LLC

By: _____
Print Name: Michele Ayou
Title: Vice President

WELLS FARGO RETAIL FINANCE, LLC,
As Revolving Credit Lender

By: _____
Print Name: Michele Ayou
Title: Vice President

WACHOVIA CAPITAL FINANCE CORPORATION
(NEW ENGLAND), As Documentation Agent and as
Revolving Credit Lender

By: _____
Print Name: _____
Title: _____

LASALLE RETAIL FINANCE,
a Division of LaSalle Business Credit, LLC,
as Agent for Standard Federal Bank National Association,
As Co-Agent and as Revolving Credit Lender

By: _____
Print Name: _____
Title: _____

JPMORGAN CHASE BANK, N.A.,
as Revolving Credit Lender

By: _____
Print Name: _____
Title: _____

CITICORP USA, INC.,
as Revolving Credit Lender

By: _____
Print Name: _____
Title: _____

HSBC Bank USA, National Association,
as Revolving Credit Lender

By: _____
Print Name: _____
Title: _____

REFURBISHMENT AMENDMENT
TO
LICENSE AND CONDUCT OF BUSINESS AGREEMENT

THIS REFURBISHMENT AMENDMENT TO LICENSE AND CONDUCT OF BUSINESS AGREEMENT (this "**Amendment**") is entered into on August 29, 2007 (the "**Refurbishment Execution Date**") but effective as of June 6, 2007 (the "**Refurbishment Effective Date**"), by and among TDS Franchising, LLC, a California limited liability company ("**TDSF**"), The Children's Place Retail Stores, Inc., a Delaware corporation ("**TCP**"), Hoop Retail Stores, LLC, a Delaware limited liability company and successor to The Disney Store, LLC ("**Hoop USA**"), and Hoop Canada, Inc., a Canadian corporation and successor to The Disney Store (Canada) Ltd. ("**Hoop Canada**" and, together with Hoop USA, "**Licensee**").

W I T N E S S E T H :

WHEREAS, TDSF and Licensee previously entered into that certain License and Conduct of Business Agreement dated as of November 21, 2004 (as amended to date, the "**License Agreement**") (capitalized terms used herein shall have the meanings set forth on Schedule 1 hereto or in the body of this Amendment or, if no definition is set forth herein, then as set forth in the License Agreement); and

WHEREAS, pursuant to a letter dated June 6, 2007 (the "**Letter**"), TDSF, Licensee and TCP agreed to amend the Refurbishment obligations of Licensee under the License Agreement as well as certain other provisions of the License Agreement; and

WHEREAS, as contemplated by the Letter, each of TDSF, Licensee and TCP desires to set forth the terms of the Letter in this Amendment of the License Agreement, which Amendment, subject to execution by the parties hereto, supersedes and replaces the Letter (together with any amendments thereto entered into between the Refurbishment Effective Date and the Refurbishment Execution Date) in its entirety effective as of the Refurbishment Effective Date.

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein, in the Letter and in the License Agreement, the parties hereto agree as follows:

A. Refurbishment Program and Amendment of Subparagraphs (i) and (ii) of Section 9.3.5(b) of the License Agreement.

During the period from the Refurbishment Effective Date until January 31, 2012 (unless this Amendment is terminated earlier pursuant to Section G hereof), Licensee's obligations under subparagraphs (i) and (ii) of Section 9.3.5(b) of the License Agreement are hereby suspended and replaced by the provisions of this Section A of this Amendment, provided that, following January 31, 2012 (or, if earlier, a termination of this Amendment pursuant to Section G hereof), Licensee's obligations under subparagraphs (i) and (ii) of Section 9.3.5(b) of the License Agreement will be automatically reinstated and deemed to be in full force and effect, without any further notice or action on the part of TDSF or Licensee.

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1. 2007 Model Design.

(a) No later than June 27, 2007, Licensee will obtain TDSF's approval under Section 9.19.2 of the License Agreement of a new Model Design for Store Facilities and a new Model Design for Outlet Facilities to be used during 2007 and thereafter through January 31, 2012 (collectively, the "**2007 Model Design**"). By November 30, 2007, Licensee will incorporate into the 2007 Model Design any desired modifications or scope adjustments requested by TDSF or Licensee that have been submitted to and approved by TDSF pursuant to Section 9.19.2 of the License Agreement, which modifications and scope adjustments will be effective for all Facilities utilizing the 2007 Model Design with respect to which the Refurbishment or construction commences after January 1, 2008 or, with respect to any such modifications or scope adjustments that are substantial in nature, after the earliest, reasonably practicable date in 2008. In order to satisfy the June 27, 2007 deadline, the parties will comply with the following submission and response timeline, each such submission to be subject to the terms of Section 9.19.2 of the License Agreement:

Licensee Submission of Draft Facility Designs:	May 16, 2007
TDSF Response to Draft Facility Designs:	May 31, 2007
Licensee Submission of Final Facility Designs:	June 13, 2007
TDSF Response to Final Facility Designs:	June 27, 2007

(b) Licensee will implement the 2007 Model Design in (i) the nine (9) Facilities set forth on Exhibit 1-A hereto in accordance with the timelines set forth on Exhibit 1-A (provided that, as noted on Exhibit 1-A, Licensee shall be entitled to implement the P&G Maintenance Plan (rather than the 2007 Model Design) at the Facility located at Crenshaw Plaza, Crenshaw, California), and (ii) the eighteen (18) new Facilities set forth on Exhibit 1-B hereto during either the Contract Year ending January 31, 2008 or the Contract Year ending January 31, 2009. Licensee will be entitled to propose substitutes to the Facilities listed on Exhibit 1-A or Exhibit 1-B hereto, provided that (1) Licensee will be required to substitute an existing Facility of the same "type" as the replaced Facility as set forth on such exhibits, (2) the timeline for any substitute Facility on Exhibit 1-A will remain the same as the timeline for the replaced Facility, unless otherwise agreed to in writing by TDSF in its sole discretion, and (3) all substitutions will be subject to TDSF's approval in its sole discretion. In addition, Licensee will be entitled to propose up to four (4) new Facilities other than those set forth on Exhibit 1-B hereto in which to implement the 2007 Model Design during the Contract Year ending January 31, 2008, subject to Licensee's compliance with all of the approval requirements under Section 9.19 of the License Agreement.

(c) During the Contract Years ending January 31, 2008, 2009, 2010, 2011 and 2012, Licensee will implement the 2007 Model Design in the Facilities set forth on Exhibit 2 hereto in accordance with the timeline set forth on such exhibit.

(d) Licensee will be entitled to perform its obligations under this Section A.1 by implementing the 2007 Model Design in either existing or new Facilities, subject to the limitations set forth in Section 9.3.1(a) of the License Agreement, which is hereby deleted and replaced in its entirety with the following (which amendment of Section 9.3.1(a) shall survive the completion of the Refurbishment program under this Section A indefinitely):

"9.3.1 (a) Permitted Openings. Subject to the provisions of Section 9.3.1(c) and Section 9.3.3, Licensee shall be permitted to open Facilities at locations selected by Licensee without seeking or obtaining TDSF's approval of such locations as follows (collectively, the "**Permitted Openings**"): (i) during the Stub Period and the first (1st) and second (2nd) Contract Years (ending January 31, 2006 and 2007, respectively), Licensee shall be permitted to open up to (but not more than) fifteen (15) Facilities in the aggregate at locations selected by Licensee, provided, that (A) the aggregate number of such Facilities opened by Licensee during the Stub Period and the first (1st) Contract Year shall not exceed seven (7) and (B) the aggregate amount of liability under each lease for each such Facility (consisting of base rent, percentage rent, common area maintenance charges, taxes and other comparable payment obligations) during the full term of such lease entered into during the Stub Period or the first (1st) or second (2nd) Contract Year shall not exceed Five Million Dollars ($5,000,000) per lease with respect to more than ten (10) of such Facilities or Seven Million Five Hundred Thousand Dollars ($7,500,000) with respect to any lease for any such Facility; (ii) during the third (3rd) Contract Year (ending January 31, 2008), Licensee shall be permitted to open any or all of the eighteen (18) new Facilities set forth on Exhibit 1-B hereto; (iii) during each of the fourth (4th), fifth (5th), sixth (6th) and seventh (7th) Contract Years (ending January 31, 2009, 2010, 2011 and 2012, respectively), Licensee shall be permitted to open up to (but not more than) twenty-five (25) new Facilities at locations selected by Licensee, provided that, during the fourth (4th) Contract Year, Licensee shall open any of the eighteen (18) new Facilities set forth on Exhibit 1-B hereto that were not opened during the third (3rd) Contract Year (provided that any unused portion of such allotment in any such Contract Year may be rolled over to the next succeeding Contract Year so long as the maximum number of new Facilities in any Contract Year set forth in this subparagraph (iii), including roll-overs, will not exceed thirty (30)); and (iv) during the eighth (8th) Contract Year (ending January 31, 2013) and each Contract Year thereafter, Licensee shall be permitted to open up to (but not more than) twenty percent (20%) of the number of Facilities operated by Licensee on the first day of each such Contract Year at locations selected by Licensee, provided that (I) in the event that Licensee does not open the maximum number of Facilities permitted by this subparagraph (iv) in a particular Contract Year (the "**Permitted Openings Measurement Year**"), the number of Facilities that Licensee shall be permitted to open at locations selected by Licensee in the next Contract Year shall be increased by the lesser of (x) the number of Facilities so permitted but not opened during the Permitted Openings Measurement Year and (y) five percent (5%) of the number of Facilities operated by Licensee on the first day of the Permitted Openings Measurement Year and (II) during any Contract Year in which Licensee is not in full compliance with all Refurbishment, retrofit, remodel, refresh, enhancement and maintenance obligations hereunder, the number of Facilities that Licensee shall be permitted to open at locations selected by Licensee during such Contract Year pursuant to this subparagraph (iv) shall be limited to twenty-five (25). For purposes of clarification, the number of Permitted Openings permitted by this Section 9.3.1(a) shall be in addition to (1) Lease Extension Arrangements with respect to Facilities already operating during the applicable Contract Year, and (2) replacements of any Facilities that are closed during the applicable Contract Year (excluding replacements of Non-Core Stores unless a new Facility replacing any such Non-Core Store shall be opened in the same Shopping Mall, Select Street Location or Qualifying Strip Center as the closed Non-Core Store). Thus, by way of example and not limitation, if, at the beginning of the eighth (8th) Contract Year, Licensee operated three hundred (300) Facilities, and if, during such eighth (8th) Contract Year, Licensee

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entered into Lease Extension Arrangements to renew expiring Lease Agreements for ten (10) of such Facilities and closed five (5) Facilities in accordance with the terms of this Agreement, Licensee would be permitted to select the locations at which to open five (5) new Facilities to replace the five (5) closed Facilities plus sixty (60) additional locations pursuant to subparagraph (iv) of this Section 9.3.1(a), in each case without seeking or obtaining TDSF's approval of such locations."

(e) Without limiting any other term contained in this Section A.1, for each Facility subject to this Section A.1, Licensee will comply with all of the approval requirements under Section 9.19 of the License Agreement, including, without limitation, the submission for TDSF's approval of the budget and background information required under Section 9.19.2(a) and all construction Contracts under Section 9.19.3.

2. Retrofit Plan for Mickey Facilities.

(a) No later than July 5, 2007, Licensee will (i) conduct and deliver to TDSF a written review of all existing Facilities bearing the "Mickey" design (excluding those "Mickey" design Facilities that will be Refurbished under the preceding Section A.1) and the "Castle" design (if such "Castle" design was constructed by Licensee after the date of the License Agreement) (collectively, including such "Castle" design Facilities, the "**Mickey Stores**"), which review will be based on the information contained in the Gear Management report previously submitted by TDSF to Licensee and such additional information as is reasonably related thereto, and (ii) based on such review, prepare and deliver to TDSF an enhanced maintenance, remodel and retrofit plan for the Mickey Stores (the "**Mickey Retrofit Plan**"). The parties agree that the Mickey Retrofit Plan will be implemented at all Mickey Stores (other than the two (2) identified on Exhibit 3 hereto) in accordance with the following schedule: The Mickey Retrofit Plan will be completed at (x) a minimum of five (5) Mickey Stores by December 31, 2007, (y) a minimum of fourteen (14) additional Mickey Stores by March 31, 2008 (i.e., a total of nineteen (19) by March 31, 2008), and (z) all remaining Mickey Stores by June 30, 2008. The Mickey Retrofit Plan will be deemed to include such implementation schedule, which will supersede and replace any other implementation schedule that may have been submitted by Licensee as part of the Mickey Retrofit Plan. Licensee will also submit construction timelines for each Mickey Store consistent with the foregoing implementation schedule, which construction timelines, subject to the written approval of TDSF in its sole discretion, shall also become part of the Mickey Retrofit Plan and will supersede and replace any other construction timelines that may have been submitted by Licensee as part of the Mickey Retrofit Plan. In the event Licensee desires at any time to modify any such construction timeline (but still consistent with the foregoing implementation schedule for the Mickey Stores), Licensee may submit such proposed modification to TDSF for approval, which approval shall be granted or denied by TDSF in writing in its sole discretion, and any such modification that is so approved by TDSF shall be deemed to be incorporated into the Mickey Retrofit Plan.

(b) Subject to TDSF's approval of the Mickey Retrofit Plan pursuant to Section 9.19.2 of the License Agreement, Licensee will implement the Mickey Retrofit Plan at two (2) Mickey Stores on a test basis as set forth on Exhibit 3 hereto and in accordance with the timeline set forth on such exhibit and, subject to TDSF's approval pursuant to Section 9.19.2 of the License Agreement, will incorporate therein any desired modifications or scope adjustments

based on such test sites. Thereafter, Licensee will implement the Mickey Retrofit Plan in accordance with the implementation schedule described in the preceding subparagraph (a).

(c) Without limiting any other term contained in this Section A.2, for each Mickey Store included in the Mickey Retrofit Plan, Licensee will comply with all of the approval requirements under Section 9.19 of the License Agreement, including, without limitation, the submission for TDSF's approval of the Design Proposal, budget and background information required under Section 9.19.2(a) and all construction Contracts under Section 9.19.3.

3. Maintenance Plan for Pink & Green Facilities.

(a) Licensee will conduct a review of all existing Facilities bearing the "Pink & Green" design and the "Castle" design (if such "Castle" design was constructed prior to the date of the License Agreement) (collectively, including such "Castle" design Facilities, the "**P&G Stores**"). Such review will be based on the condition of each P&G Store and, as applicable, the shopping mall condition, planned shopping mall improvements and planned closures.

(b) Based on such review, Licensee will prepare and deliver to TDSF enhanced maintenance and remodel plans for the P&G Stores, which will include, without limitation, carpet replacement, media wall repairs, cleaning, and fixture and theming repair (excluding animatronics) (the "**P&G Maintenance Plan**"). The P&G Maintenance Plan will be delivered to TDSF with respect to at least one-half (1/2) of the P&G Stores by July 17, 2007 and with respect to the remainder by September 15, 2007. In addition, subject to any required TDSF approvals under Section 9.19 of the License Agreement, Licensee will implement an enhanced maintenance and remodel of the two (2) P&G Stores set forth on Exhibit 4 hereto on a test basis and in accordance with the timeline set forth on such exhibit. Subject to TDSF's approval pursuant to Section 9.19.2 of the License Agreement, Licensee will incorporate into the P&G Maintenance Plan any modifications or scope adjustments requested by TDSF or Licensee based on such test sites. The P&G Maintenance Plan will be implemented at a minimum of one-half of the P&G Stores during the period from August 1, 2007 to March 31, 2008 and at all remaining P&G Stores during the period from April 1, 2008 to June 30, 2008, which implementation schedule is deemed to be included in the P&G Maintenance Plan (notwithstanding anything to the contrary that may have been submitted by Licensee as part of the P&G Maintenance Plan). Licensee will be entitled, by providing written notice to TDSF, to move one or more P&G Stores between these two time periods, provided that Licensee shall nonetheless still implement the P&G Maintenance Plan at a minimum of one-half of the P&G Stores by March 31, 2008 and at the remainder by June 30, 2008. In addition, with respect to any P&G Store, Licensee may elect to implement the 2007 Model Design rather than the P&G Maintenance Plan (in which case the requirement to implement the P&G Maintenance Plan with respect to such P&G Store will be deemed to be complied with by Licensee by implementation of the 2007 Model Design instead), provided that (i) Licensee commences the implementation of the 2007 Model Design at such P&G Store within the time period otherwise required for the completion of the P&G Maintenance Plan at such P&G Store, (ii) Licensee informs TDSF in writing of such election and of the completion date for the implementation of the 2007 Model Design at such P&G Store, and TDSF approves such completion date in its sole discretion, and (iii) the completion of the 2007

Model Design at such P&G Store by such approved completion date will be deemed to be a new, distinct, separate and binding obligation of Licensee hereunder.

(c) Licensee will obtain TDSF's final approval of the P&G Maintenance Plan, together with any modifications or scope adjustments thereto, by September 30, 2007. Once approved by TDSF in its sole discretion, Licensee will implement the P&G Maintenance Plan in accordance with the implementation schedule described in the preceding subparagraph (b).

(d) Without limiting any other term contained in this Section A.3, for each P&G Store included in the P&G Maintenance Plan (or at which the 2007 Model Design will be implemented, if applicable), Licensee will comply with all of the approval requirements under Section 9.19 of the License Agreement, including, without limitation, the submission for TDSF's approval of the Design Proposal, budget and background information required under Section 9.19.2(a) and all construction Contracts under Section 9.19.3.

4. Michigan Avenue Store Remodel.

No later than May 31, 2007, Licensee will prepare and deliver to TDSF a refresh and enhancement plan for the Michigan Avenue Store, which will require an aggregate capital expenditure investment of not less than Two Hundred Thousand Dollars ($200,000). Such plan will be subject to the approval of TDSF pursuant to Section 9.19.2 of the License Agreement. Once approved by TDSF, Licensee will complete such refresh and enhancement of the Michigan Avenue Store by October 31, 2007.

5. Board Approval.

TCP and Licensee hereby represent and warrant to TDSF that, prior to the execution of the Letter by TCP and Licensee, the Boards of Directors of each of TCP and Licensee specifically authorized and approved (i) the Refurbishments, retrofits, remodels, refreshes, enhancements and maintenance of the Facilities set forth in this Section A in accordance with the provisions contained herein, (ii) capital expenditures of One Hundred Seventy-Five Million Dollars ($175,000,000) in connection therewith during the period of time commencing on the Refurbishment Effective Date and continuing through and including the Contract Year ending January 31, 2012 (based on the estimated costs set forth in Exhibit 5 hereto), and (iii) a sources and uses table approved by TDSF setting forth the specific sources of all funds anticipated to be used in connection with Licensee's performance of such obligations.

6. Certification of Compliance.

Within thirty (30) days following the end of each Fiscal Quarter of Licensee beginning with the Fiscal Quarter in which the Refurbishment Effective Date occurred, TCP and Licensee will provide a written certification (the "**Quarterly Compliance Certification**") to TDSF stating that Licensee has complied with all of its Refurbishment, retrofit, remodel, refresh, enhancement and maintenance obligations under the License Agreement (subject to the first paragraph of this Section A), the Michigan Purchase Agreement, the Outlet Acquisition Agreement and any other related agreements entered into in connection therewith, including and specifically referencing those obligations set forth in this Section A, except with respect to any

non-compliance that is specifically described in any such Quarterly Compliance Certification in sufficient detail for TDSF to understand the nature and extent of such non-compliance. Each Quarterly Compliance Certification will be duly executed by the Chief Financial Officer(s) of each of TCP and Licensee, provided that such Chief Financial Officer(s) will not have personal liability for the Quarterly Compliance Certifications. Each of TCP and Licensee will be responsible for and jointly and severally liable for the truth and accuracy of the Quarterly Compliance Certifications.

7. General Terms Pertaining to Refurbishment Obligations.

(a) To the extent the approval of TDSF is required in connection with the Refurbishment, retrofit, remodel, refresh, enhancement and maintenance program set forth in this Section A (whether pursuant to this Section A or any provision of the License Agreement), TDSF's grant of an "approval with comments" will be deemed to constitute an approval for such purposes so long as, within five (5) Business Days following Licensee's receipt thereof, Licensee shall in writing accept all of such comments and agree to fully comply therewith.

(b) All timelines and deadlines contained herein constitute firm commitments from Licensee, with no right to any extensions based on any required landlord consents, governmental permits, unforeseeable events or other variables or contingencies that may occur during the course of the refurbishment and renovation activities contemplated hereby, all of which variables and contingencies must be taken into account by Licensee as part of its planning to satisfy the required timelines and deadlines.

B. Amendment of Section 7.1.2 of the License Agreement.

Section 7.1.2 of the License Agreement is hereby amended by adding the following at the end thereof:

"Notwithstanding the foregoing provisions of this Section 7.1.2, for any Non-Core Store with respect to which the original Lease Agreement has been or is renewed or extended pursuant to a Long-Term Lease, the full Monthly Facilities Royalty Amount of five percent (5%) shall become payable with respect to Net Retail Sales from such Non-Core Store (if it had not previously become payable under the other provisions of this Section 7.1.2) effective as of the later to occur of (i) the Non-Core Required Refurbishment Date for such Non-Core Store or (ii) February 4, 2007, unless, by the Non-Core Required Refurbishment Date for such Non-Core Store, such Non-Core Store has been Refurbished (in which event the other provisions of this Section 7.1.2 shall be controlling); provided that this sentence shall not apply to the Michigan Avenue Store or to the Facility located on Post Street, San Francisco, California or the Facility in the Crenshaw Plaza, Crenshaw, California. The preceding sentence shall be deemed to be effective as of February 4, 2007."

C. Amendments Pertaining to Section 6 of the License Agreement.

1. Section 6.1.1 of the License Agreement is hereby amended by replacing subparagraph (a) thereof with the following:

"(a) the "flagship" and studio stores located at (i) 711 Fifth Avenue, New York, New York, which exists as of the Effective Date and operates under the name "*World of Disney*", provided that, at any time and from time to time TDSF and its Affiliates may elect, in their sole discretion, to rename such store and/or to replace such store (and replace any replacement of such store) by relocating such store (and any replacement of such store) to any location within the area between 38th Street and 60th Street and between Park Avenue and Tenth Avenue within the Borough of Manhattan, New York, New York (and provided that any such existing store and any such replacement store may co-exist concurrently for a reasonably limited period of time during any transition from any such existing store to any such replacement store), and (ii) 500 South Buena Vista Street, Burbank, California (Disney Studio Lot) existing as of the Effective Date and operating under the "*Disney Store*" name (collectively, the "**TDSF Flagship Stores**"),"

2. Section 6.2.2 of the License Agreement is hereby deleted and replaced in its entirety with the following:

"6.2.2 In addition to the provisions of Section 6.2.1, TDSF's and its Affiliates' right to grant one (1) or more DTR Licenses with respect to any and all categories of consumer products to one (1) or more chains of Children's Specialty Retail Stores shall be subject to the following limitations:

(a) During the Term, (i) at least fourteen (14) Business Days prior to granting or voluntarily renewing any DTR License authorizing one (1) or more Property-Product Combinations to a chain of Children's Specialty Retail Stores, TDSF or any such Affiliate shall provide to Licensee written notice of its desire to so grant or voluntarily renew such DTR License (the "**DTR Notice**"), which DTR Notice shall set forth (x) the approximate proposed initial term and renewal term(s), if any, of such DTR License and only such additional material non-economic, non-financial terms or information of such DTR License as are necessary to enable Licensee to perform the calculations required pursuant to this Section 6.2.2(a) (without any requirement to identify by name the entity potentially entering into such DTR License) and (y) the aggregate Licensee Percent LTM Sales for all Property-Product Combinations authorized under all other DTR Licenses granted to chains of Children's Specialty Retail Stores by TDSF or its Affiliates after the Effective Date but prior to the date of such DTR Notice that remain in effect at the time of such DTR Notice (and that will remain in effect at the time the proposed new DTR License to a chain of Children's Specialty Retail Stores will be granted) as such Licensee Percent LTM Sales were originally calculated at the time such other DTR Licenses were granted or voluntarily renewed (i.e., not the Licensee Percent LTM Sales for the Property-Product Combinations authorized under such other DTR Licenses at the time of such DTR Notice for the proposed new DTR License) ("**Pre-Existing Percent LTM Sales**"), and (ii) TDSF and its Affiliates shall not so grant or voluntarily renew the DTR License described in such DTR Notice if, at the time of such DTR Notice, the Licensee Percent LTM Sales for the Property-Product Combination(s) to be authorized under such DTR License, together with the Pre-Existing Percent LTM Sales, would in the aggregate exceed (A) during the Stub Period and each of the first (1st) and second (2nd) Contract Years, ten percent (10%); (B) during each of the third (3rd) and fourth (4th) Contract Years, twenty percent (20%); and (C) during the fifth (5th) Contract year and each Contract Year thereafter, thirty percent (30%); provided, that (xx) the preceding subparagraphs (i) and (ii) of this Section 6.2.2(a) shall apply only in the case of any such voluntary renewal following the expiration date of the applicable DTR License as provided

under the terms thereof and shall not under any circumstances apply in the case of any such renewal that is automatic under, or otherwise required or permitted (including, without limitation, upon the exercise of any option or right to renew or extend for any specified period(s) of time) by, the terms of such DTR License and (yy) for purposes of clarification, (1) if any such DTR License to be granted by TDSF or its Affiliates to a chain of Children's Specialty Retail Stores does not provide for a license with respect to any of the DTR Product Categories or (2) if any such DTR License to be granted by TDSF or its Affiliates to a chain of Children's Specialty Retail Stores does not provide for a license with respect to any of the Character Properties or (3) if any such DTR License is to be granted to a Specialty Retail Store but such Specialty Retail Store does not qualify as a Children's Specialty Retail Store, then in any such case the provisions of this Section 6.2.2 shall not be applicable to such DTR License nor limit, restrict or otherwise prohibit such DTR License in any manner whatsoever;

(b) During the Initial Term, TDSF and its Affiliates shall not grant to any individual chain of Children's Specialty Retail Stores any DTR License (or, in connection therewith, enter into any related Contract or authorization) authorizing the use of any individual Character Property in connection with more than six (6) DTR Product Categories, provided, that Licensee acknowledges and agrees that this Section 6.2.2(b) shall not, and shall not be deemed to, limit, restrict or otherwise prohibit TDSF and/or its Affiliates in any manner whatsoever from granting DTR Licenses to more than one (1) chain of Children's Specialty Retail Stores, which DTR Licenses may taken together authorize the use of any individual Character Property in connection with more than six (6) DTR Product Categories;

(c) During the Term, TDSF and its Affiliates shall not grant to any chain of Children's Specialty Retail Stores any DTR License (or, in connection therewith, enter into any related Contract or authorization) authorizing the use, in connection with any DTR Product Category, of any Character Property that was introduced to the public within the Territory for the first time during the six (6) Retail Months immediately preceding the date on which such DTR License is granted unless such Character Property is derived from or based on or featured or displayed in, in whole or in part, directly or indirectly, (i) any Disney-Branded Property existing as of the Effective Date or, if introduced after the Effective Date, that has been in use within the Territory for at least six (6) Retail Months or (ii) any Motion Picture Property that is derived from or based on or is a sequel to any other Motion Picture Property; provided that, with respect to any Character Property to which the restriction contained in this Section 6.2.2(c) would otherwise apply, such restriction shall not apply and shall be rendered null and void unless, at least sixty (60) days prior to the first introduction of such Character Property to the general public, Licensee shall have submitted to TDSF a written, reasonably detailed merchandising and sales plan with respect to Disney Merchandise featuring such Character Property, together with a written certification from the Chief Financial Officer of Licensee and TCP stating that, in the good faith, reasonable judgment of such person(s), sales of Disney Merchandise that feature such Character Property will exceed five percent (5%) of the Net Retail Sales generated by all of the Facilities during the period commencing on the date that is one (1) week prior to the first introduction of such Character Property to the general public and ending eight (8) weeks thereafter; and

(d) During the Term, each DTR License granted by TDSF or any of its Affiliates to any chain of Children's Specialty Retail Stores that is subject to the provisions of

this Section 6.2.2 shall include a provision expressly prohibiting the use of any Character Properties authorized for use thereunder in a manner that is not authorized thereby or does not comply therewith; provided, that, in the event such express prohibition is breached or violated by such chain of Children's Specialty Retail Stores or any Children's Specialty Retail Store therein, TDSF or such Affiliate shall determine in its sole discretion whether, to what extent and in what manner, if any, to enforce such express prohibition, and Licensee shall have no recourse or remedy nor be entitled to any abatement or reduction of any payments or other obligations hereunder on account of such unauthorized or non-compliant use by such chain of Children's Specialty Retail Stores or such Children's Specialty Retail Store therein or any determination to enforce (in whole or in part) or not enforce (in any manner whatsoever, in whole or in part) such prohibition that is made by TDSF or such Affiliate with respect thereto;"

3. Section 6.2.4 of the License Agreement is hereby deleted and replaced in its entirety with the following:

"6.2.4 For purposes of clarification, the limitations set forth in the preceding Sections 6.2.2 and 6.2.3 shall not, under any circumstances, apply to or be deemed to apply to (i) any Non-Disney-Branded Properties; (ii) any consumer products offered for sale by any Mass Merchandiser or Children's Specialty Retail Store that are acquired by such retailer by any means other than by a DTR License ("**Non-DTR Products**") (e.g., consumer products acquired by a Children's Specialty Retail Store from another licensee of TDSF or its Affiliates would not be subject to such limitations), provided, that, if seventy percent (70%) or more of the gross leaseable square feet of any Walled Store-Within-a-Store or unwalled Store-Within-a-Store Format within a physical retail store operated by a Mass Merchandiser is occupied by Softlines and/or Toys/Plush that bear, feature or incorporate any Character Property and are produced under a General DTR License granted by TDSF or any of its Affiliates to such Mass Merchandiser, any Non-DTR Products that bear, feature or incorporate one (1) or more Disney-Branded Properties and that occupy any portion of such Walled Store-Within-a-Store or unwalled Store-Within-a-Store Format shall be included among the consumer products aggregated into such Walled Store-Within-a-Store or unwalled Store-Within-a-Store Format for purposes of calculating the size of such Walled Store-Within-a-Store or unwalled Store-Within-a-Store Format pursuant to Section 6.2.3; (iii) digital video discs, home videos or other comparable forms of home entertainment products; or (iv) any DTR License with respect to Disney-Branded Properties previously granted to any chain of Specialty Retail Stores and existing as of the Effective Date ("**Existing DTR Licenses**" and any such Existing DTR License with a Children's Specialty Retail Store, an "**Existing Children's DTR License**"), including, without limitation, any such DTR License with respect to one (1) or more DTR Product Categories set forth on Schedule 6.2.4, and any such Existing Children's DTR Licenses shall be excluded for purposes of the calculations required pursuant to Section 6.2.2(a), provided, that, (a) following the Effective Date, under no circumstances shall any such Existing DTR License with respect to Disney-Branded Properties and pertaining to one (1) or more DTR Product Categories previously granted to any chain of Children's Specialty Retail Stores described in this subparagraph (iv) that would violate the terms of either of Sections 6.2.2 or 6.2.3 be extended or voluntarily renewed following the expiration date of any such Existing Children's DTR License as provided under the terms thereof unless such extension or renewal is automatic under, or otherwise required or permitted (including, without limitation, upon the exercise of any option or right to renew or extend for any specified period(s) of time) by, the terms of such Existing

Children's DTR License, and (b) in the event that any such Existing Children's DTR License with respect to Disney-Branded Properties and pertaining to one (1) or more DTR Product Categories previously granted to any chain of Children's Specialty Retail Stores described in this subparagraph (iv) is extended or voluntarily renewed following the expiration date thereof as provided under the terms of such Existing Children's DTR License (other than any such extension or renewal that is automatic under, or otherwise required or permitted (including, without limitation, upon the exercise of any option or right to renew or extend for any specified period(s) of time) by, the terms of such Existing Children's DTR License), such Existing Children's DTR License shall be included for purposes of the calculations required pursuant to Section 6.2.2(a). For purposes of clarification, the Existing DTR Licenses set forth on Schedule 6.2.4 reflect TDSF's good faith efforts to identify all Existing DTR Licenses with respect to Disney-Branded Properties and pertaining to one (1) or more DTR Product Categories previously granted to any chain of Specialty Retail Stores and existing as of the Effective Date, but Schedule 6.2.4 shall not be deemed to be an exhaustive list of all such Existing DTR Licenses and the omission of any such Existing DTR License from such Schedule 6.2.4 shall not be or be deemed to be a breach by TDSF of this Section 6.2.4 or any other provision of this Agreement, and no representation or warranty is made or deemed to be made hereby with respect to the completeness or accuracy of Schedule 6.2.4."

4. The definitions of "Licensee Percent LTM Sales," "Property-Product Combination" and "Specialty Retail Store" in the License Agreement are hereby deleted and replaced in their entirety with the following:

"**Licensee Percent LTM Sales**" shall mean, with respect to any proposed new DTR License to be granted by TDSF or its Affiliates after the Effective Date to a chain of Children's Specialty Retail Stores, the percentage of Licensee's Net Retail Sales derived, during the full twelve (12) Retail Month period completed immediately preceding the Retail Month in which the DTR Notice pertaining to such proposed new DTR License is provided, from a particular Property-Product Combination authorized or to be authorized under such DTR License."

"**Property-Product Combination**" shall mean, with respect to a DTR License granted to a chain of Children's Specialty Retail Stores by TDSF or its Affiliates, the combination of (i) a particular Character Property authorized to be used under such DTR License and (ii) a particular DTR Product Category in connection with which such particular Character Property is authorized to be used under such DTR License."

"**Specialty Retail Store**" shall mean a retail store that, within the Territory, is known, identified, promoted or held out to the public as being part of a chain of retail stores with the following elements and characteristics: (i) all stores in the chain within the Territory operate under the same nationally or regionally recognizable brand name (regardless of whether such stores are operated by one owner or by different franchisees), (ii) the chain consists of more than eighty (80) retail stores within the Territory (or, for purposes of the limitations on DTR Licenses granted by TDSF and/or its Affiliates to one (1) or more chains of Children's Specialty Retail Stores set forth in Section 6.2.2, the chain of Children's Specialty Retail Stores consists of more than sixty (60) retail stores within the Territory), (iii) the average size of stores within the chain within the Territory is less than twenty thousand (20,000) gross leaseable square feet, (iv) all

stores within the chain within the Territory primarily offer Softlines and/or Hardlines with a specific emphasis on one category or type of consumer product (e.g., apparel, cookware, electronics, music, etc.) as opposed to a wide variety of consumer products organized by department or otherwise, such as in a Department Store, and (v) the stores within the chain within the Territory generally offer merchandise on a full-retail pricing model rather than a discount or warehouse pricing model, except for periodic promotional and seasonal sales."

5. The following definition of "Children's Specialty Retail Store" is hereby added to the License Agreement:

"**Children's Specialty Retail Store**" shall mean a Specialty Retail Store that, within the Territory, is primarily focused on the offer, sale and promotion of Softlines and/or Hardlines for use by children up to and including fourteen (14) years of age, even though a portion of its product offerings may consist of products and merchandise designed for individuals older than fourteen (14) years of age. As of the Effective Date, examples of "Children's Specialty Retail Stores" shall be deemed to include Gap Kids, Baby Gap, Pottery Barn Kids, Gymboree, The Children's Place, Pumpkin Patch, Janie and Jack, and Carters."

6. Schedule 1(c) of the License Agreement is hereby deleted and replaced in its entirety with Exhibit 6 hereto, and Schedule 6.2.4 of the License Agreement is hereby amended by deleting the following sentence therefrom:

"Notwithstanding anything to the contrary contained in the Agreement, the Limited Too DTR License described above shall be deemed to be included for purposes of the calculations required pursuant to Section 6.2.2(a) of the Agreement."

7. The parties hereby agree that, for purposes of calculating Pre-Existing Percent LTM Sales under Section 6.2.2(a) of the License Agreement, from and after the Refurbishment Effective Date, (i) DTR Licenses granted to Fossil, Swarovski and Payless Shoe Stores will be specifically excluded from such calculations, and (ii) the only DTR License existing as of the Refurbishment Effective Date that may potentially be included in such calculation is the DTR License granted to Stride Rite/Robeez, provided that, in the case of such DTR License, (x) such DTR License remains in effect at the time any proposed new DTR License to a chain of Children's Specialty Retail Stores is granted and (y) this subparagraph (ii) does not constitute an admission or acknowledgement by TDSF that Stride Rite/Robeez does or will constitute a "Children's Specialty Retail Store" hereunder at the time any proposed new DTR License to a chain of Children's Specialty Retail Stores is granted in the future, which determination will be made at such time.

D. Amendment of Section 9.6.1 of the License Agreement.

Section 9.6.1 of the License Agreement is hereby amended by adding the following at the end thereof:

"No later than December 31, 2007, Licensee will conduct consumer research regarding the shopping behavior of customers of the Outlet Facilities, with the format, content, methodology and all other elements and components of such consumer research to be subject to

the approval of TDSF in its sole discretion and the results of such consumer research to be presented by Licensee to TDSF in such form and format as TDSF may request in its business judgment. If the results of such consumer research indicate that a differentiated merchandise plan for the Outlet Facilities will be likely to improve the performance of such Facilities or will otherwise be advantageous as determined by TDSF in its business judgment, Licensee will (i) during 2008, develop a merchandising plan for the Outlet Facilities that is differentiated from the Store Facilities, which plan will be subject to the approval of each of Licensee and TDSF in its respective business judgment, and establish the manufacturing, administrative and distribution infrastructure necessary to implement such merchandising plan, and (ii) no later than February 1, 2009, implement such merchandising plan in all of the Outlet Facilities."

E. Amendment of Section 5.1.3(h) of the License Agreement.

Section 5.1.3(h) of the License Agreement is hereby deleted and replaced in its entirety with the following:

"(h) In the event that Licensee demonstrates, to the satisfaction of TDSF in its business judgment, that a Disney-Branded Property proposed to be featured on or incorporated in any SKU of any Article submitted by Licensee to TDSF for approval under this Section 5.1 is, at the time of such submission, featured on or incorporated in a consumer product of the exact same type as such submitted Article, which consumer product is available for retail purchase either (1) from TWDC or its Affiliates through DISNEYLAND Resort and/or WALT DISNEY WORLD Resort (excluding souvenirs offered through DISNEYLAND Resort and/or WALT DISNEY WORLD Resort), (2) from an Other Disney Store Operator in Europe, or (3) from Department Stores or Specialty Retail Stores within the Territory that offer such consumer product that has been manufactured by TWDC's third party licensees, then TDSF shall not withhold its approval of the use of such Disney-Branded Property on such SKU of such Article proposed by Licensee, provided, that, (i) if such Disney-Branded Property is, at the time of such submission, featured on a consumer product that is available for purchase from an Other Disney Store Operator in Europe, TDSF may, in its sole discretion, impose conditions or other restrictions in connection with such approval of the use of such Disney-Branded Property on such SKU of such Article by Licensee within the Territory based on such considerations and factors relating to the Territory as TDSF may deem relevant in its sole discretion, including, without limitation, release schedules for entertainment properties within the Territory, overexposure and underexposure of particular Disney-Branded Properties within the Territory and other factors relating to the timing of the introduction of such SKU of such Article within the Territory, and (ii) Licensee shall nonetheless be required to obtain all other approvals from TDSF required pursuant to this Section 5.1, including, without limitation, approval of the form, style and manner in which such Disney-Branded Property is used in connection with such SKU of such Article. If Licensee believes any submission to TDSF is made in accordance with this Section 5.1.3(h), Licensee shall so indicate to TDSF in writing at the same time Licensee submits Conceptual Materials to TDSF in accordance with Section 5.1.1."

F. Amendment of Section 16 of the License Agreement.

1. Section 16.2 of the License Agreement is hereby deleted and replaced in its entirety with the following:

"16.2 Early Termination. In the event of the early termination of this Agreement by either party hereto, Licensee shall continue to have the rights hereunder with respect to the use of the Licensed Materials provided in, and shall continue to operate the Business in accordance with, and each of the parties shall continue to be bound by the terms and conditions of, Sections 1 (as applicable), 3 (other than Section 3.2), 4 (other than Section 4.11), 5, 7, 9 (other than Sections 9.9.3 and 9.9.8), 10, 11, 12, 15, 16, 17, 18, 19 and 21 until (i) if TDSF or any of its Affiliates elects (within the time period specified by Section 15.1.3) to purchase or cause a Third Party Purchaser to purchase all of the Facilities pursuant to Section 15, the date as of which the Purchase Process is completed, (ii) if TDSF or any of its Affiliates elects (within the time period specified by Section 15.1.3) to purchase or cause a Third Party Purchaser to purchase any Designated Facilities pursuant to Section 15 and such Purchase Process is completed but for less than all of the Facilities, or if such Purchase Process is commenced but subsequently abandoned, then the date that is six (6) months following such partial completion or such abandonment, or (iii) if TDSF and its Affiliates do not elect (within the time period specified by Section 15.1.3) to purchase or cause a Third Party Purchaser to purchase any Designated Facilities pursuant to Section 15, the date that is six (6) months following the date of such termination of this Agreement; provided, that, with respect to any Facility that Licensee has been unable to close within the six (6) month period referenced in the preceding subparagraph (ii) or (iii) notwithstanding the exercise of Licensee's best efforts, such six (6) month period will be extended up to a maximum of twelve (12) months so long as Licensee continues to use its best efforts to close such Facility as soon as practicable during such extended period. Following such time period described in the preceding sentence, Licensee shall, at its sole cost and expense, cease any and all uses of the Licensed Materials, whether in connection with the Disney Merchandise, the FF&E Materials, the Marketing Materials or otherwise, and shall no longer be entitled to use the same in connection with the Facilities, the Internet Store or the Business, except (a) for such materials already in existence and previously distributed to the public, and (b) to the extent that Licensee may have rights to use any Licensed Materials pursuant to any separate agreements with TDSF or any of its Affiliates apart from this Agreement."

2. Section 16 of the License Agreement is hereby amended by adding the following new Section 16.6:

"16.6 Notwithstanding anything contained herein to the contrary, unless otherwise agreed to in writing by TDSF in its sole discretion, (i) following the expiration or termination of this Agreement in accordance with its terms and following either, as applicable, the completion (in whole or in part) or abandonment of the Purchase Process contemplated by Section 15 or the expiration of the period in which TDSF may elect to exercise its right to conduct a Purchase Process under Section 15 without any exercise of such right by TDSF, Licensee will immediately cease ordering any additional Disney Merchandise and will immediately cancel any orders for Disney Merchandise with respect to which the manufacturing thereof had not yet commenced as of such time and the cancellation of which will not cause Licensee to incur any material liability to the manufacturer, even if, pursuant to Section 16.1 or 16.2 hereof, Licensee may continue to operate the Business and use the Licensed Materials for a limited period of time thereafter, and (ii) upon the expiration or termination of this Agreement, Licensee will not have any rights to liquidate, sell or otherwise Transfer any Licensed Materials other than Disney Merchandise, whether consisting of FF&E Materials (including, without

limitation, artwork, sculptures, flooring, signage and supplies used in the Facilities), Marketing Materials or otherwise."

G. TDSF Conditional Forbearance With Respect to Covered Breaches.

TDSF hereby agrees that TCP's and Licensee's compliance in full with the terms of this Amendment constitutes a Cure of the Covered Breaches and that, so long as this Amendment is not terminated pursuant to this Section G, TDSF will forbear from enforcing its rights and remedies under the License Agreement with respect to the Covered Breaches and will disregard the Covered Breaches in determining its rights of termination under the License Agreement (the "**TDSF Conditional Forbearance**"), provided that each of TCP and Licensee hereby agrees as follows:

1. If, on any one (1) or more occasions, TCP and/or Licensee (i) fails to Refurbish, retrofit, remodel, refresh and/or enhance any individual Facility in accordance with the manner, time period and other terms specified in this Amendment, (ii) fails to deliver any single Quarterly Compliance Certification within the time period and in the manner required under Section A.6 hereof, or (iii) violates, breaches or fails to perform or comply with any other agreement, term, covenant, condition, representation, warranty or other obligation or commitment in this Amendment, in the case of each of the preceding subparagraphs (i) through (iii) whether or not cured, then, upon TDSF's election in its sole discretion made by providing written notice thereof to TCP and Licensee, the TDSF Conditional Forbearance and this Amendment will be revoked and rendered null and void *ab initio* as if this Amendment had never been agreed to or executed by the parties, and TDSF will be entitled to enforce any and all of its rights and remedies arising under the License Agreement, at law or in equity with respect to the Covered Breaches, with the sole exception that, if any Covered Breach was Cured prior to the date of the occurrence of the event described in any of the preceding subparagraphs (i) through (iii) of this Section G.1, such Covered Breach will no longer be deemed to be a continuing, uncured Material Breach under the License Agreement;

2. If, on any three (3) or more occasions, TCP and/or Licensee (i) fails to Refurbish, retrofit, remodel, refresh and/or enhance any individual Facility in accordance with the manner, time period and other terms specified in this Amendment, (ii) fails to deliver any single Quarterly Compliance Certification within the time period and in the manner required under Section A.6 hereof, or (iii) violates, breaches or fails to perform or comply with any other agreement, term, covenant, condition, representation, warranty or other obligation or commitment in this Amendment, in the case of each of the preceding subparagraphs (i) through (iii) whether or not cured, then, in addition to any other rights or remedies TDSF may have under Contract, at law or in equity, the amount of Eighteen Million Dollars ($18,000,000) will become immediately due and payable to TDSF by TCP and Licensee (each of whom will be jointly and severally liable therefor) in respect of the Covered Breaches pursuant to Section 21.24 of the License Agreement, without demand, notice or other action on the part of TDSF and without any right to defend, counterclaim, protest or cure on the part of TCP or Licensee and without regard to whether any of the Covered Breaches had been Cured prior to the occurrence of the three (3) or more events described in any of the preceding subparagraphs (i) through (iii) of this Section G.2; provided that (I) this Section G.2 will not constitute an admission by TCP or Licensee regarding Licensee's obligations under Section 21.24 of the License Agreement (including the method of

calculation of any Licensee Infringement/Breach Fee Maximum Amounts) (x) with respect to any breaches of the License Agreement other than the Covered Breaches or (y) with respect to the Covered Breaches if this Amendment is terminated in accordance with Section G.1 prior to the time TDSF is entitled to exercise its rights under this Section G.2, and (II) for purposes of clarification, this Section G.2 *does* constitute an admission by TCP and Licensee regarding the obligations under Section 21.24 of the License Agreement (including the method of calculation of the Licensee Infringement/Breach Fee Maximum Amounts) solely with respect to the Covered Breaches if TDSF becomes entitled to exercise its rights under this Section G.2 before this Amendment has been terminated; and

3. If, on any five (5) or more occasions during any rolling twenty-four (24) Retail Month period following the Refurbishment Effective Date, TCP and/or Licensee (i) fails to Refurbish, retrofit, remodel, refresh and/or enhance any individual Facility in accordance with the manner, time period and other terms specified in this Amendment, (ii) fails to deliver any single Quarterly Compliance Certification within the time period and in the manner required under Section A.6 hereof, or (iii) violates, breaches or fails to perform or comply with any other agreement, term, covenant, condition, representation, warranty or other obligation or commitment in this Amendment, in the case of each of the preceding subparagraphs (i) through (iii) whether or not cured, then, in addition to any other rights or remedies TDSF may have under Contract, at law or in equity, TDSF will have the right to terminate the License Agreement by providing written notice of such termination to TCP and Licensee, without any further action on the part of TDSF and without any right to defend, counterclaim, protest or cure on the part of TCP or Licensee and without regard to whether any of the Covered Breaches had been Cured prior to the occurrence of the five (5) or more events described in any of the preceding subparagraphs (i) through (iii) of this Section G.3.

TDSF's rights and remedies under the preceding Sections G.1, G.2 and G.3 are cumulative and exercisable by TDSF either together or separately, subject only to the occurrence of the requisite number of events described in any of subparagraphs (i) through (iii) of Sections G.1, G.2 and/or G.3 and provided that, if the TDSF Conditional Forbearance and this Amendment are revoked by TDSF pursuant to Section G.1 prior to the occurrence of the requisite number of events described in subparagraphs (i) through (iii) of Section G.2 or G.3, then, without limiting any of its rights or remedies under the License Agreement, TDSF will not be entitled to exercise its rights under Section G.2 or G.3, as applicable. Subject to the first paragraph of Section A of this Amendment, the TDSF Conditional Forbearance will not apply to any Material Breaches other than the Covered Breaches nor to any future or different breach of the same terms or conditions of the License Agreement that are the subject of the Covered Breaches.

H. Miscellaneous.

This Amendment is subject to the other terms and conditions of the License Agreement (to the extent not specifically modified hereby), including, without limitation, the confidentiality provisions set forth in Section 17.2 of the License Agreement, the representations and warranties set forth in Sections 18 and 19 of the License Agreement, and the miscellaneous provisions contained in Section 21 of the License Agreement (including, without limitation, the notice provisions of Section 21.5). Except as expressly contained herein, the License Agreement

remains in full force and effect and this Amendment shall not be construed to alter, amend or change any of the other terms or conditions set forth in the License Agreement. The terms contained in this Amendment supersede and replace prior agreements among the parties, whether written or oral, pertaining to the Covered Breaches, including, without limitation, the Letter and any amendment thereto entered into between the Refurbishment Effective Date and the Refurbishment Execution Date, which Letter and such amendments are hereby terminated and replaced in their entirety by this Amendment with retroactive effect to the Refurbishment Effective Date, the date on which the Letter was executed by the parties. This Amendment may be executed in one or more counterparts, all of which taken together shall constitute one instrument, and via facsimile.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives as of the date first set forth above.

TDS FRANCHISING, LLC

By: _____
Name:
Title:

HOOP RETAIL STORES, LLC

By: _____
Name:
Title:

HOOP CANADA, INC.

By: _____
Name:
Title:

THE CHILDREN'S PLACE
RETAIL STORES, INC.

By: _____
Name:
Title:

Schedule 1

Defined Terms

As used in this Amendment, the following capitalized terms shall have the respective meanings set forth below:

"**2007 Model Design**" has the meaning specified in Section A.1(a) hereof.

"**Amendment**" has the meaning specified in the Preamble hereto.

"**Covered Breaches**" means an aggregate of one hundred twenty (120) Material Breaches of the License Agreement that are alleged by TDSF to have been committed by Licensee and that consist of the following: (i) the failure to Refurbish the eighty-six (86) Facilities listed on Schedule 2 hereto within the time period required under Section 9.3.5(b)(ii)(A) of the License Agreement; (ii) the failure to Refurbish the twenty-five (25) Facilities listed on Schedule 3 hereto within the time period required under Section 9.3.5(b)(ii)(B) of the License Agreement; (iii) the failure to Refurbish the four (4) Outlet Facilities listed on Schedule 4 hereto within the time period required under the Outlet Acquisition Agreement; (iv) the failure to refresh and remodel the Michigan Avenue Store within the time period required under the Michigan Purchase Agreement; (v) the failure to obtain TDSF's prior written consent to the opening of the two (2) Store Facilities in the locations identified on Schedule 5 hereto that, within the prior two (2) years, had been TCP stores, as required by Section 9.3.1(c) of the License Agreement; and (vi) the failure to provide TDSF with written notice of the TCP Board Meetings held on March 22, 2006 and January 10, 2007, as required by Section 9.13.1(a) of the License Agreement.

"**Hoop Canada**" has the meaning specified in the Preamble hereto.

"**Hoop USA**" has the meaning specified in the Preamble hereto.

"**Letter**" has the meaning specified in the Recitals hereto.

"**License Agreement**" has the meaning specified in the Recitals hereto.

"**Licensee**" has the meaning specified in the Preamble hereto.

"**Michigan Avenue Store**" means the Store Facility located at 717 North Michigan Avenue, Chicago, Illinois.

"**Michigan Purchase Agreement**" means the Store Purchase Agreement entered into in April 2005 among Disney Credit Card Services, Inc., Hoop USA and TCP.

"**Mickey Retrofit Plan**" has the meaning specified in Section A.2(a) hereof.

"**Mickey Stores**" has the meaning specified in Section A.2(a) hereof.

"**Non-Core Required Refurbishment Date**" means, with respect to any Non-Core Store with respect to which the original Lease Agreement has been renewed or extended pursuant to a Long-Term Lease, either (x) the date that is eighteen (18) months following the date of expiration or termination of the initial term of the original Lease Agreement for such Non-Core Store if the renewal or extension pursuant to a Long-Term Lease occurs before January 31, 2008 or (y) twelve (12) months following the date of expiration or termination of the initial term of the original Lease Agreement for such Non-Core Store in all other cases. In the case of each of the preceding subparagraphs (x) and (y), the date of expiration or termination of the initial term of the original Lease Agreement for the respective Non-Core Store shall be determined without regard to any renewal, month-to-month tenancy, option exercise or other extension.

"**Outlet Acquisition Agreement**" means the Store Acquisition Agreement dated as of August 2, 2005, between Disney Direct Marketing Services, Inc. and Hoop USA.

"**P&G Maintenance Plan**" has the meaning specified in Section A.3(b) hereof.

"**P&G Stores**" has the meaning specified in Section A.3(a) hereof.

"**Quarterly Compliance Certification**" has the meaning specified in Section A.6 hereof.

"**TCP**" has the meaning specified in the Preamble hereto.

"**TDSF**" has the meaning specified in the Preamble hereto.

"**TDSF Conditional Forbearance**" has the meaning specified in Section G hereof.

Schedule 2

86 Facilities Not Refurbished Within the Time Period Required Under Section 9.3.5(b)(ii)(A) of the License Agreement

#	TCP Store #	Mall Name	City	St	Cntry
1.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MD	USA
2.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
3.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
4.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
5.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	AL	USA
6.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NH	USA
7.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MO	USA
8.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
9.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CT	USA
10.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	RI	USA
11.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NC	USA
12.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	AZ	USA
13.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
14.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	VA	USA
15.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	AZ	USA
16.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NM	USA
17.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
18.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	KY	USA
19.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

#	TCP Store #	Mall Name	City	St	Cntry
20.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TX	USA
21.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NC	USA
22.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
23.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NJ	USA
24.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	IN	USA
25.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TX	USA
26.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MA	USA
27.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TX	USA
28.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
29.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
30.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
31.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	OH	USA
32.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
33.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TN	USA
34.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
35.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MA	USA
36.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
37.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	IL	USA
38.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	FL	USA
39.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
40.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

#	TCP Store #	Mall Name	City	St	Cntry
41.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
42.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	WI	USA
43.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	OK	USA
44.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
45.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	IL	USA
46.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NJ	USA
47.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
48.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	ON	Canada
49.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MB	Canada
50.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CT	USA
51.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	FL	USA
52.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	AB	Canada
53.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	FL	USA
54.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MA	USA
55.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MO	USA
56.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
57.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MD	USA
58.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	IL	USA
59.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
60.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	FL	USA

61.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NC	USA

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

#	TCP Store #	Mall Name	City	St	Cntry
62.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NC	USA
63.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	FL	USA
64.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	OR	USA
65.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
66.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	IN	USA
67.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
68.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	FL	USA
69.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
70.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
71.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	WA	USA
72.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	GA	USA
73.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TX	USA
74.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MI	USA
75.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	KS	USA
76.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CO	USA
77.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	IA	USA
78.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
79.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CO	USA
80.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NM	USA
81.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	WV	USA
82.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

#	TCP Store #	Mall Name	City	St	Cntry
83.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
84.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	VA	USA
85.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	VA	USA
86.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MO	USA

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

Schedule 3

25 Facilities Not Refurbished Within the Time Period Required Under Section 9.3.5(b)(ii)(B) of the License Agreement

#	TCP Store #	Mall Name	City	St	Cntry
1.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MI	USA
2.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NY	USA
3.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CO	USA
4.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NJ	USA
5.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	ON	Canada
6.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
7.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	CA	USA
8.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	ON	Canada
9.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	FL	USA
10.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TX	USA
11.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	GA	USA
12.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	OH	USA
13.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TX	USA
14.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TX	USA
15.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
16.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	AB	Canada
17.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	PA	USA
18.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	LA	USA
19.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	AZ	USA

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

#	TCP Store #	Mall Name	City	St	Cntry
20.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	OH	USA
21.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	OH	USA
22.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	TX	USA
23.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	OH	USA
24.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	NV	USA
25.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	MI	USA

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

Schedule 4

4 Outlets Facilities Not Refurbished Within the Time Period Required Under the Outlet Acquisition Agreement

#	TCP Store #	Mall Name	City	St	Cntry
1.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	USA
2.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	USA
3.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	USA

4.	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	USA

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

Schedule 5

Facilities Converted From TCP Stores

1. Jackson Premium Outlets, Jackson, New Jersey
2. Grapevine Mills, Grapevine, Texas

Exhibit 1-A

2007 Model Design
Implementation Schedule for the First Nine (9) Facilities

	Location	Type	First Licensee Submission (Construction Documents)	Second Licensee Submission (Construction Documents)	Store Opening
1.	Willowbrook Mall, Houston, TX	Remodel/Relo	5/16/2007	6/13/2007	12/31/2007
2.	*[REDACTED]***	Remodel/Mickey	6/20/2007	7/18/2007	12/31/2007
3.	*[REDACTED]***	Remodel/Relo	05/31/2008	06/30/2008	9/30/2008*
4.	*[REDACTED]***	Remodel/Mickey	6/20/2007	7/18/2007	12/31/2007
5.	*[REDACTED]***	Remodel/Relo	05/31/2008	06/30/2008	9/30/2008
6.	*[REDACTED]***	Outlet/DDM	7/5/2007	8/9/2007	12/31/2007
7.	*[REDACTED]***	Outlet/Relo	7/19/2007	8/23/2007	12/31/2007
8.	*[REDACTED]***	Mall/Relo	7/6/2007	8/9/2007	12/31/2007
9.	*[REDACTED]***	Outlet/DDM	7/5/2007	8/9/2007	12/31/2007

* Licensee may, at its election, either (i) relocate this Facility to another location and remodel it in accordance with the 2007 Model Design by 9/30/2008 or (ii) maintain this Facility at its current location and refresh it in accordance with the P&G Maintenance Plan (rather than the 2007 Model Design) by 6/30/2008.

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

Exhibit 1-B

2007 Model Design
Implementation Schedule for New Facilities
For Contract Year Ending January 31, 2008 or January 31, 2009

	Location	Type
1.	*[REDACTED]*** *NJ*	Outlet/New
2.	*[REDACTED]*** *MI*	Outlet/New
3.	*[REDACTED]*** *FL*	Mall/New
4.	*[REDACTED]*** *ON*	Outlet/New
5.	*[REDACTED]*** *SC*	Outlet/New
6.	*[REDACTED]*** *UT*	Mall/New
7.	*[REDACTED]*** *NY*	Outlet/New
8.	*[REDACTED]*** *PA*	Outlet/New
9.	*[REDACTED]*** *CA*	Outlet/New
10.	*[REDACTED]*** *PA*	Outlet/New
11.	*[REDACTED]*** *CA*	Mall/New
12.	*[REDACTED]*** *MD*	Outlet/New
13.	*[REDACTED]*** *AZ*	*[REDACTED]***
14.	*[REDACTED]*** *TX*	Outlet/New
15.	*[REDACTED]*** *AZ*	*[REDACTED]***
16.	*[REDACTED]*** *GA*	Outlet/New
17.	*[REDACTED]*** *MS*	Outlet/New
18.	*[REDACTED]*** *NC*	Outlet/New

** *This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.*

Exhibit 2

2007 Model Design
Implementation Schedule
(Including First Nine Facilities from Exhibit 1-A
But Not Including 18 New Facilities from Exhibit 1-B)

		Contract Year Ending January 31,				
	Store Type	2008*	2009*	2010	2011	2012
1.	Mickey	*[REDACTED]***	*[REDACTED]***	—	—	—
2.	Pink & Green	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***	*[REDACTED]***
3.	Pipe Rail	*[REDACTED]***	*[REDACTED]***	—	*[REDACTED]***	*[REDACTED]***
4.	Millennium	*[REDACTED]***	—	*[REDACTED]***	—	—
5.	Former Disney Direct Marketing Outlets	*[REDACTED]***	*[REDACTED]***	—	—	—

* For purposes of clarification, all seven (7) of the Facilities listed on this Exhibit 2 for the Contract Year ending January 31, 2008 and two (2) of the Facilities listed on this Exhibit 2 for the Contract Year ending January 31, 2009 are Facilities that are listed on Exhibit 1-A, and the specific timelines set forth on Exhibit 1-A shall be controlling with respect to the Facilities listed on Exhibit 1-A but repeated on this Exhibit 2.

** This information is confidential and has been omitted and separately filed with the Securities and Exchange Commission.

Exhibit 3

Mickey Retrofit Plan Test Sites

	Location	First Licensee Submission (Program Scope)	Second Licensee Submission (Final Program Scope and Construction Documents)	Completion of Construction
1.	Concord Mall, Wilmington, DE	5/9/2007	5/11/2007	9/15/2007
2.	Galleria at Tyler, Riverside, CA	4/15/2007	7/5/2007	12/15/2007*

* This completion date accepted by TDSF solely on the condition that Licensee has committed to removing the storefront and installing an entirely new storefront design (without the Mickey Mouse ears), which will require architectural drawings, permits and landlord approval.

Exhibit 4

P&G Maintenance Plan Test Sites

	Location	First Licensee Submission (Program Scope)	Second Licensee Submission (Final Program Scope and Construction Documents)	Completion of Construction
1.	Montebello Town Center, Montebello, CA	03/31/2007	05/16/2007	06/21/2007
2.	Montclair Plaza, Montclair, CA	03/31/2007	05/16/2007	06/21/2007

Exhibit 5

Refurbishment Costs

Refurbishment Obligation	Per Location Cost	Total Cost
2007 Model Design		
Pink & Green	108 locations @ appx. $650,000	**$ 70,200,000**
Piperail	86 locations @ appx. $650,000	**55,900,000**
Mickey	35 locations @ appx. $650,000	**22,750,000**
Millennium	2 locations @ appx. $650,000	**1,300,000**
Disney Direct Marketing Outlets	5 locations @ appx. $550,000	**2,750,000**
Mickey Retrofit Plan	35 locations @ appx. $150,000	**5,250,000**
P&G Maintenance Plan	118 locations @ appx. $75,000	**8,850,000**
Michigan Avenue Store	1 location @ at least $200,000	**200,000**
Castle Maintenance	11 locations @ $75,000	**825,000**
Castle Retrofit	5 locations @ $150,000	**750,000**
Subtotal		**$ 168,775,000**
Contingency		**$ 6,225,000**
TOTAL		**$ 175,000,000**

Exhibit 6

DTR Product Categories

From time to time during the Term, upon the request of TDSF, Licensee agrees to consider in good faith proposed amendments to this Schedule 1(c) that are recommended by TDSF and approve any such amendments that, in the business judgment of Licensee, reasonably reflect changes that have occurred in the merchandising plans and other operations of the Facilities and/or changes in the children's specialty retail industry.

As used herein, "Kids" refers to the applicable products intended for use primarily by children up to and including the age of fourteen (14).

Kids Toys

Kids Tech
Kids Educational
Kids Action Figures & Playsets
Kids Dolls & Doll Accessories
Other Kids Toys

Kids Plush

Kids Standard
Kids Oversize
Baby
Kids Holiday
Kids Bean Bag
Kids Fashion
Other Kids Plush

Kids Hardlines

Kids Home Décor – Walls
Kids Home Décor – Furniture
Kids Tabletop
Kids Bed, Bath & Room
Kids Stationery

Kids Seasonal

Kids Christmas
Kids Halloween
Kids Other Holiday

Kids Roleplay

Kids Costumes & Accessories

Kids Softlines

Kids (14 and under) Apparel
Kids (14 and under) Outerwear
Kids Swimwear & Coverups

Kids Accessories (includes bags and hat categories and traditional accessory items)
Kids Jewelry & Watches
Kids Sleepwear
Kids Underwear & Socks
Kids Footwear
Kids Towels

Infant/Newborn

Infant/Newborn Apparel
Infant/Newborn Accessories and Footwear

November 12, 2007

TDS Franchising, LLC
c/o The Walt Disney Company
500 South Buena Vista Street
Burbank, California 91521
Attention: Mr. Stephen M. Finney
Senior Vice President

Re: Disney Store License and Conduct of Business Agreement

Ladies and Gentlemen:

This will confirm our discussions regarding certain provisions of the License and Conduct of Business Agreement dated as of November 21, 2004 (as amended to date (including letter agreement amendments), the "**License Agreement**") by and among TDS Franchising, LLC ("**TDSF**"), Hoop Retail Stores, LLC, successor to The Disney Store, LLC ("**Hoop USA**"), and Hoop Canada, Inc., successor to The Disney Store (Canada) Ltd. ("**Hoop Canada**" and, together with Hoop USA, "**Licensee**"). Capitalized terms used in this letter without definition have the respective meanings assigned to such terms in the License Agreement.

The License Agreement as currently in effect establishes an "Internet Start Date" corresponding to a date mutually agreed upon by the parties, but in any event not later than April 1, 2007. Pursuant to the terms of the License Agreement, Licensee was to have launched an Internet Store not later than such Internet Start Date.

Prior to April 1, 2007, TDSF and Licensee determined that, in lieu of an Internet Store as contemplated by the License Agreement, it would be beneficial for the parties to implement an alternative arrangement under which the proposed Internet Store would occupy a portion of the website owned and operated by certain of TSDF's Affiliates and located at *www.disneyshopping.com*. This alternative arrangement was tentatively instituted in July 2007, subject to and contingent upon the parties' preparation and execution of a definitive agreement pertaining thereto. In furtherance thereof, the parties have exchanged drafts of a definitive "Internet Store Amendment" that would modify the provisions of the License Agreement to give effect to this alternative arrangement. To allow sufficient time to try to complete this definitive agreement, the parties hereby agree that the "Internet Start Date" as defined in the License Agreement is hereby changed to be January 31, 2008; provided, however, that for purposes of Section 7.1.1(II) of the License Agreement, the Internet Start Date shall remain October 1, 2005.

This amendment to change the Internet Start Date shall be deemed to take effect retroactively as of April 1, 2007.

In addition, Licensee has advised TDSF that Licensee's independent auditors, Deloitte & Touche LLP, have declined to accept reappointment for the 2007 fiscal year and that Licensee will engage BDO Seidman LLP as its auditors for the 2007 fiscal year. TDSF and Licensee hereby agree (i) that Licensee has provided sufficient notice of such change in auditors in accordance with the last sentence of Section 9.14 of the License Agreement and (ii) that Section 9.14 of the License Agreement is amended to add the following sentence at the end of such Section: "Notwithstanding the foregoing, the firm of BDO Seidman LLP may serve as Licensee's auditors." Such amendment shall be deemed to take effect retroactively as of October 8, 2007.

Except as specifically provided herein, all other terms and conditions of the License Agreement shall not be modified, changed or amended in any manner and shall remain in full force and effect.

Please confirm your agreement with the matters set forth herein by executing a copy of this letter where indicated below and returning it to us, whereupon this letter will be deemed a binding amendment to the License Agreement.

Very truly yours,

HOOP RETAIL STORES, LLC

By: _____
Name: _____
Title: _____

HOOP CANADA, INC.

By: _____
Name: _____
Title: _____

Acknowledged and Agreed:

TDS FRANCHISING, LLC

By: _____
Name: _____
Title: _____

---

cc:

Hoop Retail Stores, LLC
Hoop Canada, Inc.
c/o The Children's Place Retail Stores, Inc.
915 Secaucus Road
Secaucus, New Jersey 07094
Attention: General Counsel
Facsimile: (201) 558-2825

The Walt Disney Company
500 South Buena Vista Street
Burbank, California 91521-0599
Attention: James Kapenstein, Esq.
Facsimile: (818) 562-1813

Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, New York 10038
Attention: Jeffrey S. Lowenthal, Esq.
Facsimile: (212) 806-6006

Exhibit 10.49

EXECUTION COPY

THE CHILDREN'S PLACE RETAIL STORES, INC.

INTERIM CHIEF EXECUTIVE OFFICER

A. Agreement

1. Effective Date

The Effective Date shall be the date on which both (i) Board approval of the terms set forth in this term sheet has been obtained and (ii) the Term Sheet has been duly executed by both parties. From and after the Effective Date, this Term Sheet shall be binding and enforceable as to the rights and obligations set forth herein, until superseded by definitive employment and other appropriate documentation as necessary to carry out the understandings set forth herein.

2. Position

Interim Chief Executive Officer ("Executive").

Executive will continue as a member of the Board.

Executive to be based at headquarters of TCP (the "Company").

Executive to have all duties and responsibilities customarily held by a chief executive officer of a public company of like size to the Company.

All senior executive officers shall report to Executive, provided that, as currently, the Executive Vice President-Finance and Administration shall report jointly to Executive and Board.

Executive to report solely to the Board.

3. Employment Term; Consulting Term; Further Agreement

From September 26, 2007 ("Start Date") until February 2, 2009 or until such earlier time as a new permanent Chief Executive Officer has been appointed and commenced employment. The employment term will be followed by a consulting term extending for the following two calendar months, during which Executive will assist in the transition of the responsibilities of the Chief Executive Officer; for the period ending at the end of the first month on a substantially full-time basis but in the second month Executive shall not be required to provide his consulting services on more than a half-time basis. For his consulting services, Executive shall receive a consulting fee per month equal to the full salary per month he would have received as an employee and

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shall be entitled to continuation of all benefits to which he was entitled during his employment term except as prohibited by any benefit plan to be so extended ("Minimum Consulting").

Executive may terminate his employment without Good Reason on 30 days' written notice to the Company; the Board may terminate his employment without Cause upon 30 days written notice to Executive and may terminate his employment for Cause at any time but subject to the provisions of Exhibit A.

The Company and Executive will promptly enter into definitive employment and equity award agreements reflecting terms consistent with this term sheet, at which time such agreements shall supersede this Term Sheet.

B. On-Going

1. Base Salary

$1,000,000 per annum. In all events salary payments will be made for a minimum of six months (through March 2008), even if the employment period ends earlier ("Minimum Salary").

2. Annual Bonus

For the year starting 2/1/08, participation in the Company's Annual Management Incentive Bonus Program for such year, on the same terms, including performance criteria, as other senior executives participate in the program but with (i) a target bonus amount equal to 100% of annual Base Salary ("Target Bonus") and (ii) a maximum bonus opportunity for extraordinary performance of not less than the maximum bonus opportunity, when expressed as a percentage of target bonus opportunity, provided under the Company's annual bonus plan for any other senior executive. If employment terminates prior to 2/3/09, bonus to be pro-rated through date of termination, but with no requirement that Executive be employed at the year then ended or thereafter, other than in the event of a termination for Cause or by Executive without Good Reason before expiration of the employment period. Award shall be based on level of attainment of corporate performance criteria for the fiscal year ended 2/3/09, as determined by the Compensation Committee in good faith in accordance with the terms of the Plan and on the same basis as determined for other senior

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executives. (the arrangements described herein are referred to as "Annual Bonus")

C. Other Compensation

1. Equity Award

As soon as practicable after Company is legally able to resume making equity awards, and whether or not Executive's employment has then terminated, the Company will make a restricted share grant to Executive pursuant to which it will issue shares in the name of the Executive, subject to vesting as provided below, having a grant date value (determined in accordance with the valuation practices for such awards customarily used by the Company) of $1,000,000. All shares of restricted stock covered by this grant will be held by the Company in escrow the name of Executive and will be released from escrow as and when vesting occurs, net of required withholding for taxes, which will be satisfied by withholding of shares having a closing trading price on the vesting date equal to the taxes required to be withheld.

Vesting shall occur ratably over 36 months based on (i) his months of employment with the Company from October 1, 2007 through Executive's date of termination of employment and (ii) unless Executive's employment has been terminated by the Company for Cause or by Executive without Good Reason, his post-employment service as a director of the Company. Notwithstanding the forgoing, upon a Change in Control during such 36 month period or, if Executive is not nominated for election to the Board, or, if nominated, is not elected, during any part of such period, the remaining unvested portion of such award shall become fully vested.

Notwithstanding vesting, no such shares shall be saleable until the earliest to occur of (i) January 31, 2010, the first day of fiscal 2010, (ii) one year after the Executive's termination of employment for any reason, or (iii) the date on which such restricted stock grant has become fully vested for any reason.

The Company shall cooperate with Executive so that he has the opportunity to take whatever actions are necessary on a timely basis to receive the same consideration with respect to the restricted shares as

other stockholders receive with respect to their shares at the Closing of a Change in Control transaction.

"Change in Control" shall have the meaning provided in the Company's equity plan as in effect on the Start Date.

The number of restricted shares to be issued to Executive at each vesting event shall be reduced by the number of shares having a value at the time of vesting equal to the minimum amount required to be withheld for Federal, state and local income taxes.

The restricted shares once vested shall not be subject to any restrictions on transfer, except for such as may apply under the securities laws or the Company's securities trading policies or as may apply before the first day of fiscal 2010 as described above.

The Equity Award shall be in addition to any equity compensation due under the Company's normal non-employee director compensation program with respect to continued post-employment services as a director.

2. Benefits, Perquisites and Indemnification.

Executive will participate in all executive benefit plans, and will be provided substantially the same benefits and perquisites, from time to time maintained by the Company for senior executives, except that additional incentive awards will not be provided and, in lieu of the Company providing a car to Executive, the Company will provide Executive with (or reimburse Executive for) a car service to/from Manhattan to the Company's offices on an as-needed and reasonable basis.

In addition to and without limitation upon Executive's rights to indemnification as they existed immediately prior to the Start Date, Executive shall at all times during the Term, and thereafter in respect of actions taken, or not taken, by Executive during the Term, be entitled to indemnification, fee advancement to the maximum extent permitted by law and the Company's charter and by laws as in effect on the Start Date, or thereafter to the extent any greater protections are implemented, and coverage under policies of directors and officers liability insurance during Executive's employment to the same extent provided for other senior executives and after Executive's employment terminated to the same extent provided for former

senior executives. Executive's Indemnification rights shall survive any termination of employment for any reason. (such rights, collectively, "Indemnification")

3. Relocation Allowance.

Temporary living allowance for New York City apartment selected by Executive at $15,500 per month (which has already been selected and leased for a one year term), plus payment by Company of any commissions, security deposit, utilities and the like due under or related to the lease, plus a furniture rental allowance of $2,000 per month, in each case for the period of his employment and the consultancy period referred to below ("Rental Costs") and the Company will also be responsible for, and hold Executive harmless against any lease termination costs ("Lease Termination Costs"). Executive shall be entitled to occupy the specified apartment until termination of the employment and consultancy period.

Round trip airfare to permanent residence for two trips per month through 2007 calendar year end and one trip per month thereafter through end of term.

The Company will also make "gross up" payments to Executive sufficient to cover all income and employment taxes Executive will owe as a result of relocation allowance payments or gross up payments made with respect thereto.

4. Post-employment Benefits

(i) In addition to the Minimum Salary (if applicable) and Minimum Consulting payments referred to earlier, if Executive's employment ends before February 2, 2009, the Company will continue to provide Executive through such date the same health insurance benefits he is entitled to during his employment.

(ii) Upon termination of Executive's employment the Company will also be responsible for all of its" Accrued Obligations" to Executive, comprised of (A) Base Salary and accrued and unused PTO through the date of termination, (B) any Annual Bonus when payable in accordance with the plan, (C) all accrued and vested benefits under employee benefit (including 401(k)) and welfare plans in which Executive participates, in accordance with applicable plan terms, (D) unreimbursed business expenses incurred through the termination date, in

accordance with Company business expense reimbursement policy, plus unreimbursed Rental Costs, and (E) continued Indemnification rights, with respect to acts or omissions occurring prior to date of termination.

Executive, upon termination of employment, shall provide the Company a release of all claims against the Company in the form customarily provided to the Company by departing Executives, provided that such release shall in no event require release of any rights to Indemnification, or to defend or pursue counterclaims against any person or entity which has brought claims against Executive on or prior to date of Release or require continued services of any nature without compensation consistent with the rates set forth herein.

"Cause" and "Good Reason" are defined on Attachment A.

5. Termination for Cause; Quit without Good Reason

Accrued Obligations.

Retain vested equity awards.

6. Restrictive Covenants

Following termination of employment, except for the stipulated limitations previously agreed upon by counsel, Executive will be subject to substantially the same (i) confidentiality and (ii) non-competition and non-solicitation restrictions as apply under the Company's form of agreement used in connection with its 2005-2007 performance share plan, for a term not in excess of one year in the case of the obligations under clause (ii).

D. General

1. Disputes

All disputes will be resolved through binding arbitration to be conducted in New York City in accordance with the rules, and under the auspices, of JAMS Endispute. The Company (or successor) will pay all arbitration fees and all of Executive's reasonable legal expenses if Executive prevails on at least one material issue in dispute, as determined by the arbitrator. This obligation shall survive any termination of employment. All agreements to be governed by New York law

2. Legal fees

Executive's reasonable legal and consulting fees in connection with the preparation of this Term Sheet and related employment documentation shall be reimbursed by the Company at his counsel's standard hourly rates promptly upon presentation of a customary invoice.

3. Code Section 409A

Amounts payable and benefits provided under these terms will be structured in a manner to comply with Code Section 409A while preserving the economic benefit for the Executive to the maximum extent so permitted.

4. Mitigation;Offset

No Mitigation.

No Company offset of amounts owed to Executive by amounts owed by Executive.

This Term Sheet and Attachment A annexed have been entered into this day of November, 2007.

THE CHILDREN'S PLACE

RETAIL STORES, INC.

By: _____
CHARLES CROVITZ

By: _____
Sally Frame Kasaks,

Acting Chair of the Board

ATTACHMENT A

"Cause" shall mean any of the following:

(i) Executive engaging in an act of willful misconduct that has a material adverse impact on the reputation, business, business relationships or financial condition of the Company;

(ii) Executive's conviction of, or plea of guilty or nolo contendere to, a felony, or any crime involving moral turpitude not involving a traffic offense;

(iii) Executive's willful refusal to perform the specific lawful directives of the Board which are consistent with the scope of Executive's duties and responsibilities hereunder.

provided, however, that no action taken by Executive in the reasonable, good faith belief that it was in the best interests of the Company shall be treated as a basis for termination of Executive's employment for Cause under clause (i) above, and no failure of Executive or the Company to achieve performance goals, alone, shall be treated as a basis for termination of Executive's employment for Cause under clause (i) or (iii) above. In connection with any termination for Cause, the Executive shall be given a statement of the specific reasons constituting the grounds for termination for Cause and shall have the right to appear before the Board (with counsel) to respond to allegations of any actions allegedly constituting Cause prior to any termination by the Board with Cause becoming effective and no such termination shall be effective for such purpose unless a majority of the Board determines, in a meeting duly called for such purpose, that Cause for such termination exists; it being understood that the foregoing shall not prevent Board from (i) removing Executive from office or terminating Executive's position and services as Interim CEO at any time for any reason, subject in the event of a termination for Cause to continued payment of salary and benefits until the Board proceeding and requisite Board determination has occurred.

"Good Reason" shall mean any of the following:

(i) Any material breach of this Agreement by the Company (where the Company fails to cure such breach within ten (10) business days after being notified in writing by Executive of such breach);

(ii) The diminution, without Executive's written consent, of Executive's position, title, authority, duties or responsibilities as indicated in the Employment Agreement, or the formal or tacit appointment of any other person, whether or not an Employee of the Company, without Executive's written consent, to perform any material part of such duties, or to exercise any of such responsibilities, including without limitation, the failure of Executive to have any part of such authorities, duties and responsibilities as are set forth in Section 2 hereof; provided, however, that another executive may be authorized by the Board to carry out such duties and responsibilities if Executive by reason of temporary disability is unable to perform such duties or responsibilities.

(iii) Executive not being elected as a member of the Board by the Company's shareholders or being removed from the Board without cause in accordance with the Company's bylaws; and

(iv) The failure by the Company to obtain the assumption in writing of its obligation to perform under the Agreement by any successor to all or substantially all of the assets of the Company.

Executive may terminate his employment for Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, within ninety (90) days of the occurrence of such event. During such thirty (30) day notice period, the Company shall have the opportunity to cure (if curable) the event that constitutes Good Reason, and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period.

EXHIBIT 21.1

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

SUBSIDIARIES OF THE COMPANY

The Children's Place Retail Stores, Inc. has the following direct and indirect wholly-owned subsidiaries:

The Children's Place (Hong Kong) Limited, a Hong Kong Corporation.

thechildrensplace.com, inc. a Delaware Corporation.

The Children's Place (Virginia), LLC, a Virginia Limited Liability Company.

TCP Canada, Inc., a Nova Scotia Limited Liability Company.

The Children's Place Canada Holdings, Inc., a Delaware Corporation.

TCP Investment Canada I Corp., a Nova Scotia Unlimited Liability Company.

TCP Investment Canada II Corp., a Nova Scotia Unlimited Liability Company.

The Children's Place (Canada), LP, an Ontario Limited Partnership.

The Children's Place Charitable Foundation, Inc., a New York not-for-profit Corporation.

The Children's Place (Barbados) Inc., a Barbados Corporation.

Twin Brook Insurance Company, Inc., a New York Corporation.

The Children's Place Services Company, LLC, a Delaware Limited Liability Company.

Hoop Holdings, LLC, a Delaware Limited Liability Company.

Hoop Retail Stores, LLC, a Delaware Limited Liability Company.

Hoop Canada Holdings, Inc., a Delaware Corporation.

Hoop Canada, Inc., a New Brunswick Corporation.

The Children's Place International Trading (Shanghai) Co. Ltd., a foreign enterprise organized under the laws of the Peoples Republic of China.

EXHIBIT 23.1

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

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-47065, 333-85834 and 333-135211 of The Children's Place Retail Stores, Inc. on Form S-8 and in Registration Statement No. 333-88378 of The Children's Place Retail Stores, Inc. on Form S-3 of our reports relating to the consolidated financial statements and financial statement schedule of The Children's Place Retail Stores, Inc. and subsidiaries dated December 5, 2007, (which report is unqualified and included explanatory paragraphs relating to (i) the restatement as discussed in Note 2 to the consolidated financial statements, (ii) adoption of the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" as discussed in Note 3 to the consolidated financial statements, and (iii) a refurbishment amendment to the Company's license agreement for the Disney Store chain in North America relating to non-compliance by the Company with certain provisions of the license agreement, as discussed in Note 5 to the consolidated financial statements, and our report relating to management's report on the effectiveness of internal control over financial reporting dated December 5, 2007 (which report expresses adverse opinions on (i) management's assessment relating to the disclosure of the Company's control environment material weakness and (ii) the effectiveness of the Company's internal control over financial reporting because of material weaknesses), appearing in the Annual Report on Form 10-K of The Children's Place Retail Stores, Inc. for the fiscal year ended February 3, 2007.

Deloitte & Touche LLP
Parsippany, New Jersey
December 5, 2007

EXHIBIT 31

SECTION 302 CERTIFICATIONS

CERTIFICATIONS

I, Charles Crovitz, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Children's Place Retail Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles:

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 5, 2007

By: /s/ CHARLES CROVITZ
Interim Chief Executive Officer
(A Principal Executive Officer)

CERTIFICATIONS

I, Susan Riley, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Children's Place Retail Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13A—15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles:

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 5, 2007

By: /s/ SUSAN RILEY
Executive Vice President, Finance and Administration and Interim Chief Financial Officer
(A Principal Executive Officer and
Principal Financial and Accounting Officer)

EXHIBIT 32

SECTION 906 CERTIFICATIONS

CERTIFICATIONS

I, Charles Crovitz, Interim Chief Executive Officer of The Children's Place Retail Stores, Inc. (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, do hereby certify that to my knowledge:

1. The Annual Report of the Company on Form 10-K for the year ended February 3, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this Certification this 5th day of December, 2007.

By: /s/ CHARLES CROVITZ
Interim Chief Executive Officer
(A Principal Executive Officer)

I, Susan Riley, Executive Vice President of Finance and Administration of The Children's Place Retail Stores, Inc. (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, do hereby certify that to my knowledge:

1. The Annual Report of the Company on Form 10-K for the year ended February 3, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this Certification this 5th day of December, 2007.

By: /s/ SUSAN RILEY
Executive Vice President, Finance and Administration and Interim Chief Financial Officer
(A Principal Executive Officer and
Principal Financial and Accounting Officer)