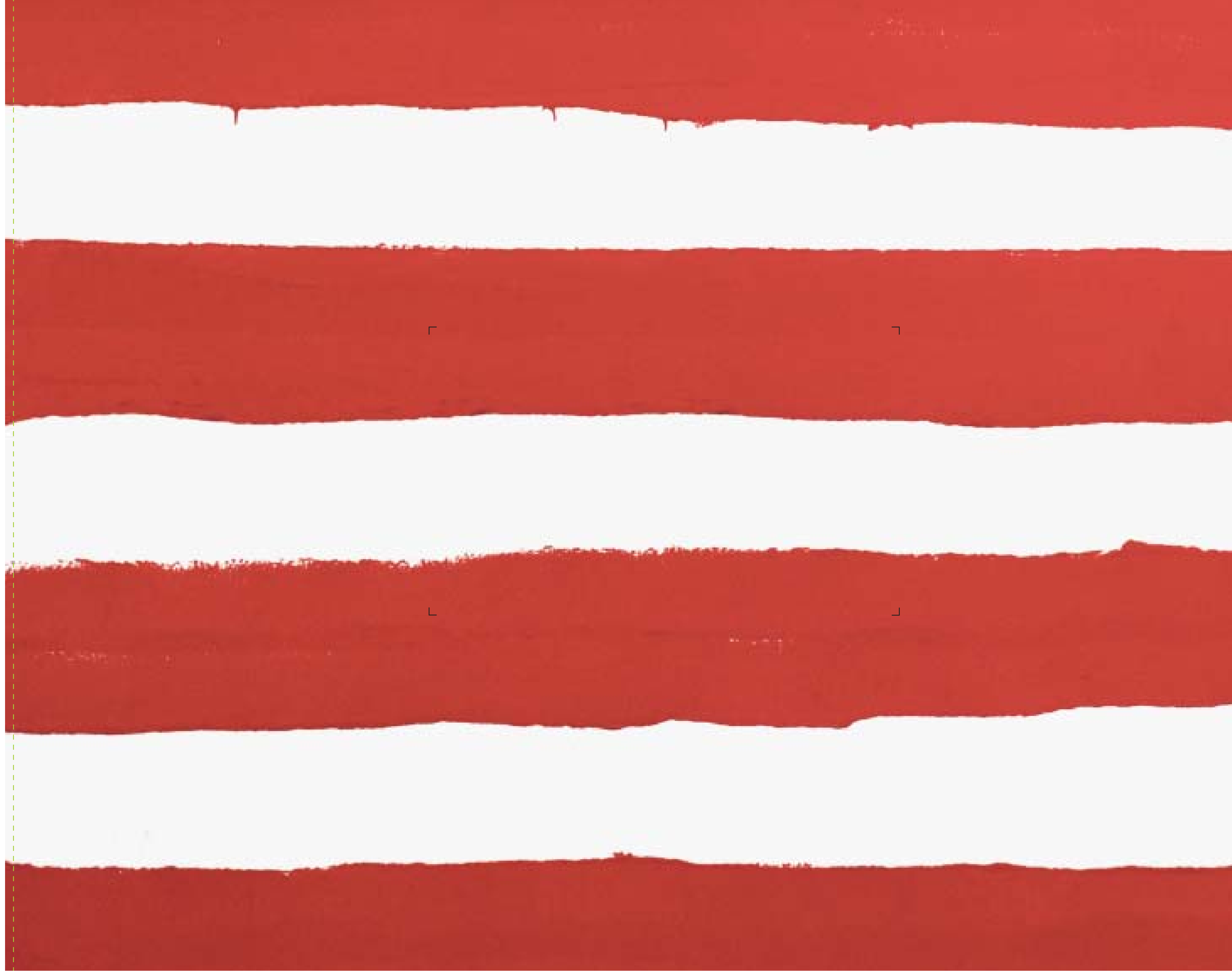
THE CHILDREN'S
PLACE

To our shareholders,

In the year 2001, The Children's Place continued its steadfast aggressive expansion towards becoming the #1 children's apparel specialty retailer in the United States.

We celebrated the opening of our 500th store in October. We opened 121 new stores across the country, with the largest number of new stores in California, bringing our store total to 520 at year-end.

Strong performance across all demographics and in all retail venues yielded a 63% return on investment for our class of 2000 stores for which 2001 was their first full fiscal year. This high return on investment coupled with the broad consumer appeal of our brand, are key factors to our successful expansion strategy and reinforces our confidence that we can grow The Children's Place concept to 1,000 stores by the end of 2005.

Our Company posted record sales and record earnings in 2001, despite experiencing negative comparable store sales. Total sales increased 12% to $657.0 million and net income increased by 9% to $46.6 million, resulting in record diluted earnings per share of $1.73. This performance was achieved primarily due to our improved gross margin as a result of lower product cost.

Watch us grow...

Our aggressive and profitable growth strategy continues. In May 2001, we commenced operation in our new state-of-the-art West Coast Distribution Center, marking an important step towards building our infrastructure to support our goal of operating more than 1,000 stores. Our proprietary Children's PLACE credit card and customer database continue to grow and are a vital part of our loyalty and branding strategy. We plan to open 130 stores in fiscal 2002, ending the year with approximately 650 stores.

And grow...

We are excited about bringing our successful fashionable brand of high quality value-priced merchandise to the Canadian consumer and establishing a strong position across our northern border with our entry into the Canadian market, through the acquisition of 23 children's apparel stores. By August 2002 we will convert these stores to sell our proprietary "The Children's Place" brand throughout Ontario and Quebec. This acquisition gives The Children's Place the foundation to expand up to 125 stores in the Canadian market. We remain committed to growth and continue to look at additional expansion opportunities in national and international markets that complement our growth strategy.

And grow some more...

We have also identified an internal growth opportunity to increase our total selling square footage by expanding our Children's PLACE / babyPLACE combo stores. We are extremely excited about this new larger store concept, which allows us to showcase a broader merchandise assortment, add new product classifications and enhance our overall image to our customers. This expansion is being introduced into additional high volume locations to generate increased store sales and profitability.

We look forward with confidence to the year 2002. All of our efforts are well underway to manage our strong anticipated earnings growth. Our infrastructure is in place with distribution centers on both coasts. Our office facilities in Hong Kong and China are in place. Our information systems have been upgraded. And, with our coordinated, well designed and fashion right merchandise at an appealing price point, we are very excited about the future.

We will continue executing and maximizing our highly successful formula as we develop The Children's Place into the #1 children's apparel specialty retailer in the United States and Canada. We could not accomplish our goals without the hard work, care and dedication we receive from our associates. We thank all our associates and shareholders for your continued confidence and support in our Company.

Ezra Dabah
Chairman and Chief Executive Officer

Financial Highlights

Once again, we are pleased to report record net sales and net income for the fiscal year 2001.

Statement of Operations Data *($000 except per share data)*	**Fiscal 2001**	**Fiscal 2000**	**Fiscal 1999**
Net sales	$656,956	$587,385	$421,496
percentage change year to year	*12%*	*39%*	*48%*
Operating income	76,001	71,314	57,837
percentage change year to year	*7%*	*23%*	*63%*
Net income	46,582	42,690	35,049
percentage change year to year	*9%*	*22%*	*70%*
Earnings per share	$1.73	$1.60	$1.32
percentage change year to year	*8%*	*21%*	*65%*

Selected Operating Data

Number of stores open year end	520	400	293
Comparable store sales (decrease) increase	(8)%	4%	15%
Net sales per average store ($000)	$1,389	$1,651	$1,656
Net sales per average gross square foot	$334	$403	$414

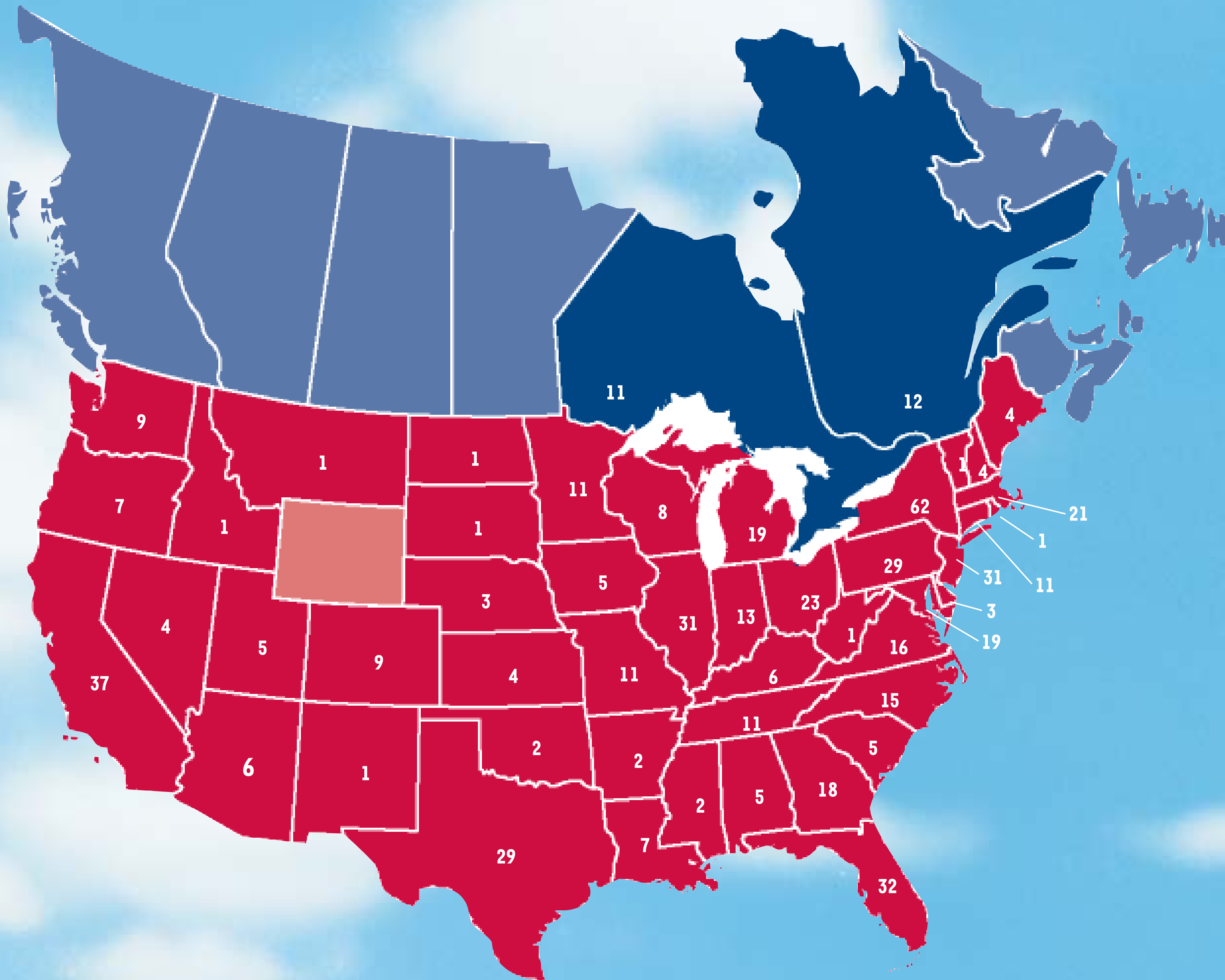
Balance Sheet Data ($000)

Working capital	$77,342	$40,944	$27,340
Total assets	282,849	231,696	170,959
Stockholders' equity	217,006	166,667	120,066

Net Sales (millions)

Net Income (millions)

Number of Stores



As of April 6, 2002, we operated 547 stores in 47 states. We look forward to opening 23 Canadian stores in the third quarter, 2002.

Committed to Growth

We are committed to growth and continue to seek additional expansion opportunities in both the national and international markets. We believe our broad consumer appeal coupled with a high return on investment, will enable us to operate more than 1,000 stores in the U.S.

The Children's Place / babyPLACE combo stores provide an internal growth opportunity for approximately 300 babyPLACE stores. This expansion allows us to increase our square footage and sales without increasing our store count.

We are also very excited about our entry into the Canadian market. We plan to open approximately 30 new Canadian stores in 2002, and foresee the potential of operating over 125 stores in Canada.

In 2001, we opened 121 new stores and celebrated our 500th store opening. We look forward to becoming the #1 children's apparel specialty retailer in the United States and Canada.


LOVE

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SELECTED FINANCIAL AND OPERATING DATA

The following table sets forth certain historical financial and operating data for the Company. The selected historical financial data is qualified by reference to, and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the financial statements and notes thereto included elsewhere in this report. Certain prior fiscal year balances set forth below have been reclassified to conform to fiscal 2001 presentation.

	Fiscal Year Ended (1)				
	February 2, 2002	February 3, 2001	January 29, 2000	January 30, 1999	January 31, 1998
Statement of Operations Data					
(in thousands, except per share data):					
Net sales	$656,956	$587,385	$421,496	$283,853	$192,557
Cost of sales	377,286	339,407	241,188	166,449	123,556
Gross profit	279,670	247,978	180,308	117,404	69,001
Selling, general and administrative expenses	176,103	155,784	108,622	73,343	48,578
Depreciation and amortization	27,566	20,880	13,849	8,607	5,958
Operating income	76,001	71,314	57,837	35,454	14,465
Interest expense, net	252	1,163	400	434	2,786
Income before income taxes and extraordinary loss	75,749	70,151	57,437	35,020	11,679
Provision for income taxes	29,167	27,461	22,388	14,358	4,695
Income before extraordinary loss	46,582	42,690	35,049	20,662	6,984
Extraordinary loss (2)	0	0	0	0	1,743
Net income	$46,582	$42,690	$35,049	$20,662	$5,241
Diluted income per common share before extraordinary loss	$1.73	$1.60	$1.32	$0.80	$0.29
Extraordinary loss per common share	0.00	0.00	0.00	0.00	(0.07)
Diluted net income per common share	$1.73	$1.60	$1.32	$0.80	$0.22
Diluted weighted average common shares outstanding	26,964	26,668	26,648	25,909	24,358

	Fiscal Year Ended (1)				
	February 2, 2002	February 3, 2001	January 29, 2000	January 30, 1999	January 31, 1998
Selected Operating Data:					
Number of stores open at end of period	520	400	293	209	155
Comparable store sales increase (decrease) (3) (4)	(8)%	4%	15%	14%	2%
Average net sales per store (in thousands) (4) (5)	$1,389	$1,651	$1,656	$1,569	$1,487
Average square footage per store (6)	4,307	4,170	4,140	4,055	4,123
Average net sales per gross square foot (4) (7)	$334	$403	$414	$382	$350
Balance Sheet Data (in thousands):					
Working capital	$77,342	$40,944	$27,340	$35,531	$20,238
Total assets	282,849	231,696	170,959	110,761	79,353
Long-term debt	0	0	0	2	26
Stockholders' equity	217,006	166,667	120,066	80,607	58,467

(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 2001 mean the fiscal year ended February 2, 2002. Fiscal 2000 was a 53-week year.
(2) The extraordinary loss in fiscal 1997 represented the write-off of unamortized deferred financing costs and unamortized debt discount as a result of the repayment of long-term debt in conjunction with our initial public offering in September 1997.
(3) We define comparable store sales as net sales from stores that have been open for more than 14 full months and that have not been substantially remodeled during that time.
(4) For purposes of determining the comparable store sales increase, average net sales per store and average net sales per gross square foot, fiscal 2000 results were recalculated based on a 52-week year.
(5) Average net sales per store represents net sales from stores open throughout the full period divided by the number of such stores.
(6) Average square footage per store represents the square footage of stores open on the last day of the period divided by the number of such stores.
(7) Average net sales per gross square foot represents net sales from stores open throughout the full period divided by the gross square footage of such stores.

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

The following discussion should be read in conjunction with our audited financial statements and notes thereto included in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and under the caption "Risk Factors" in the Business Section of the Company's Annual Report on Form 10-K for the year ended February 2, 2002.

Overview

The Children's Place Retail Stores, Inc. is a specialty retailer of apparel and accessories for children from newborn to twelve years of age. As of March 15, 2002, we operated 543 stores in 47 states, located primarily in regional shopping malls. We also sell our merchandise on our website. Over the last several years, we have been aggressively opening new stores to capitalize on our business strengths and strong store economics. During fiscal 1999, fiscal 2000 and fiscal 2001, we opened a total of 84, 108 and 121 new stores, respectively. We closed one store in fiscal 2000 and one store in fiscal 2001. We intend to continue our expansion program and currently plan to open approximately 130 stores in fiscal 2002, which will include approximately 30 stores in Canada.

Our net sales have grown significantly during the past several years, primarily as a result of new store openings. During fiscal 2001, we reported a comparable store sales decline of 8% due in part to the difficult economic climate which caused a slowdown in store traffic. We reported comparable store sales growth of 15% and 4% during fiscal 1999 and fiscal 2000, respectively. Despite the weak sales environment, net income increased 9% to $46.6 million in fiscal 2001 from $42.7 million in fiscal 2000. We were able to achieve improved profitability in fiscal 2001 through higher margins on our merchandise, a focus on our inventory levels and expense control. Earnings per share also increased 8% to $1.73 per share in fiscal 2001 from $1.60 in fiscal 2000.

During fiscal 2002, we plan to focus our efforts on the opening of approximately 130 stores, the start-up of our Canadian operations and distribution facility, and the implementation of certain information system initiatives, as well as an ongoing assessment of our administrative infrastructure to support our growing business.

Critical Accounting Policies

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

Revenue Recognition – Sales are recognized upon purchase by customers at our retail stores or when shipped from our distribution center if the product was purchased from our website. Actual return rates have historically been within our expectations and the reserve established. However, in the unlikely event that the actual rate of sales returns by customers increased significantly, our operational results could be adversely affected.

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

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

Results of Operations

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

	Fiscal Year Ended		
	February 2, 2002	February 3, 2001	January 29, 2000
Net sales	100.0%	100.0%	100.0%
Cost of sales	57.4	57.8	57.2
Gross profit	42.6	42.2	42.8
Selling, general and administrative expenses	26.8	26.5	25.8
Depreciation and amortization	4.2	3.6	3.3
Operating income	11.6	12.1	13.7
Interest expense, net	0.1	0.2	0.1
Income before income taxes	11.5	11.9	13.6
Provision for income taxes	4.4	4.7	5.3
Net income	7.1%	7.2%	8.3%
Number of stores, end of period	520	400	293

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

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

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

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

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

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

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

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

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

Year Ended February 3, 2001 Compared to Year Ended January 29, 2000

Net sales increased by $165.9 million or 39% to $587.4 million during fiscal 2000 from $421.5 million during fiscal 1999. Net sales for the 108 new stores opened, as well as other stores that did not qualify as comparable stores, contributed $142.9 million of the sales increase. Comparable store sales, restated to reflect a comparable 52-week period, increased 4% and contributed approximately $14.2 million of the increase in net sales. Comparable store sales increased 15% in fiscal 1999. Sales for our folding Yaak scooter, which was a trend item introduced in our stores in the third quarter of fiscal 2000, represented $16.1 million, or approximately 3% of net sales. In addition, fiscal 2000 was a 53-week year, with the extra week contributing $8.8 million to fiscal 2000 net sales.

Gross profit increased $67.7 million to $248.0 million during fiscal 2000 from $180.3 million in fiscal 1999. As a percentage of net sales, gross profit decreased to 42.2% during fiscal 2000 from 42.8% during fiscal 1999. The decrease in gross profit, as a percentage of net sales, was principally due to higher markdowns, increased distribution and store occupancy costs, offset partially by higher initial markups achieved through effective product sourcing and the leveraging of our design, production and buying costs. Our increased distribution costs were attributable to the distribution of merchandise ordered from our e-commerce website and higher freight costs to ship product from our New Jersey distribution center to an increased number of stores in the western portions of the United States. These costs were partially offset by the leveraging of payroll costs to operate our distribution center. Our increased store occupancy costs resulted from our new stores that have not been open long enough to leverage their rent through an established sales base.

Selling, general and administrative expenses increased $47.2 million to $155.8 million in fiscal 2000 from $108.6 million in fiscal 1999. As a percentage of net sales, selling, general and administrative expenses increased to 26.5% of net sales during fiscal 2000 from 25.8% of net sales during fiscal 1999. During fiscal 2000, as a percentage of net sales, selling, general and administrative expenses were unfavorably impacted by higher store payroll wage rates, the settlement of executive severance agreements, the write-off of $0.7 million of intangible assets that were not part of our future e-commerce strategy, and increased marketing costs, partially offset by the leveraging of corporate administrative expenses.

Depreciation and amortization amounted to $20.9 million, or 3.6% of net sales, during fiscal 2000, as compared to $13.8 million, or 3.3% of net sales, during fiscal 1999. The increase in depreciation and amortization primarily was a result of increases in our store base. In addition, we recorded a full year of depreciation on our distribution center and corporate headquarters facility and e-commerce assets during fiscal 2000. During fiscal 1999, depreciation commenced on our distribution center and corporate headquarters during the third quarter of 1999 and amortization of our e-commerce assets commenced in the fourth quarter of 1999. These increases, as a percentage of net sales, were partially offset by the leveraging of depreciation and amortization over a higher sales base and by accelerated depreciation taken in fiscal 1999 in conjunction with store re-fixturings and renovations.

Interest expense, net, for fiscal 2000 was $1.2 million, or 0.2% of net sales, as compared to $0.4 million, or 0.1% of net sales, during fiscal 1999. The increase in interest expense, net, was due to increased borrowings under our working capital facility during fiscal 2000 to support our store growth.

Our provision for income taxes in fiscal 2000 was $27.5 million, as compared to a provision for income taxes of $22.4 million during fiscal 1999. The increase in our provision for income taxes during fiscal 2000 was due to our increased profitability. Our effective tax rate was 39.1% and 39.0% for fiscal 2000 and fiscal 1999, respectively.

Fiscal 2000 net income increased to $42.7 million from $35.0 million in fiscal 1999.

Liquidity and Capital Resources

Debt Service/Liquidity

During fiscal 2001, our primary uses of cash were financing new store openings and providing for working capital, which primarily represented the purchase of inventory. Our working capital needs follow a seasonal pattern, peaking during the second and third quarters when inventory is purchased for the back-to-school and holiday merchandise lines. We were able to meet our cash needs principally by using cash flow from operations and borrowings under our working capital facility. As of February 2, 2002, we had no long-term debt obligations.

We currently have a working capital facility that provides for borrowings up to $75 million (including a sublimit for letters of credit of $60 million). Foothill Capital Corporation acts as our agent bank for a syndicated group of lenders on this facility. This working capital facility also contains provisions to increase borrowings up to $100 million (including a sublimit for letters of credit of $80 million), subject to sufficient collateralization and the syndication of the incremental line of borrowing. The amount that can be borrowed under our working capital facility depends upon our levels of inventory and accounts receivable. Amounts outstanding under the facility bear interest at a floating rate equal to the prime rate or, at our option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread is 1.25% to 2.50%, depending upon our financial performance from time to time. Borrowings under the facility mature in July 2003 and the facility provides for one year automatic renewal options. The working capital facility contains certain financial covenants, including among others, the maintenance of minimum levels of earnings and current ratios, and imposes certain limitations on our annual capital expenditures, as well as the prohibition on the payment of dividends. Credit extended under the working capital facility is secured by a first priority interest in our present and future assets, as well as the assets of our subsidiaries. We were in compliance with all of the financial covenants under our working capital facility as of February 2, 2002.

As of February 2, 2002 and February 3, 2001, there were no borrowings and $3.3 million in borrowings under our working capital facility, respectively. In addition, as of February 2, 2002 and February 3, 2001, we had outstanding $9.4 million and $13.8 million, respectively, in letters of credit under our working capital facility. Availability under the working capital facility as of February 2, 2002 and February 3, 2001 was $57.2 million and $47.5 million, respectively. The interest rates charged under the working capital facility were 4.75% and 8.50% per annum as of February 2, 2002 and February 3, 2001, respectively.

Cash Flows/Capital Expenditures

Cash flows provided by operating activities were $86.8 million, $61.8 million and $38.4 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively. In fiscal 2001, cash flows from operating activities increased primarily as a result of lower inventory levels and increased operating earnings. In fiscal 2000, cash flows from operating activities increased as a result of an increase in operating earnings and increases in current liabilities, partially offset by increased inventory to support our new store growth.

Cash flows used in investing activities were $49.1 million, $55.2 million and $62.0 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively. Cash flows used in investing activities relate primarily to store openings and remodelings. In fiscal 2001, fiscal 2000 and fiscal 1999, we opened 121, 108 and 84 stores while remodeling 14, 14 and 11 stores, respectively. Cash flows used in investing activities decreased in fiscal 2001 primarily due to capital expenditures made in fiscal 2000 to equip and furnish our West Coast distribution center and in fiscal 1999 to equip and furnish our Secaucus distribution center and corporate headquarters facility, partially offset by information system initiatives.

Cash flows used by financing activities were $0.6 million and $0.7 million in fiscal 2001 and fiscal 2000, respectively. During fiscal 1999, cash flows provided by financing activities were $9.3 million. In fiscal 2001 and fiscal 2000, cash flows used in financing activities reflected the net repayment of borrowings under our working capital facility offset partially by funds received from the exercise of employee stock options and employee stock purchases.

We anticipate that total capital expenditures will approximate $50 to $60 million in fiscal 2002, including our expansion into Canada. These expenditures will relate primarily to the opening of approximately 130 stores, the establishment of a distribution center in Canada, store remodelings, hardware and software to support our information system initiatives, ongoing store maintenance programs and ongoing administrative office and warehouse equipment needs. We plan to fund these capital expenditures primarily with cash flow from operations.

We believe that cash generated from operations and funds available under our working capital facility will be sufficient to fund our capital and other cash flow requirements for at least the next 12 months. In addition, as we continue our store expansion program we will consider additional sources of financing to fund our long-term growth.

Our ability to meet our capital requirements will depend on our ability to generate cash from operations and successfully implement our store expansion plans.

Contractual Obligations and Commercial Commitments

The following tables summarize our contractual and commercial obligations as of February 2, 2002:

	Payments Due By Period				
Contractual Obligations (dollars in thousands)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-term Debt	$0	$0	$0	$0	$0
Capital Leases	0	0	0	0	0
Operating Leases	611,034	74,117	221,850	136,350	178,717

	Amounts of Commitment Expiration Per Period				
Other Commercial Commitments (dollars in thousands)	**Total Amounts Committed**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Working Capital Facility	$0	$0	$0	$0	$0
Merchandise Letters of Credit	8,949	8,949	0	0	0
Standby Letters of Credit	429	275 (1)	154	0	0

(1) We expect to be released from standby letters of credit securing real estate leases during fiscal 2002. No payment will be required for these releases.

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 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 overall economic conditions.

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

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

	Fiscal 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(dollars in thousands, except for per share data)			
Net sales	$160,461	$116,318	$181,433	$198,744
Operating income (loss)	$21,041	$(6,267)	$30,898	$30,329
Diluted net income (loss) per common share	$0.48	$(0.15)	$0.70	$0.70
Comparable store sales (decrease)	(2)%	(16)%	(9)%	(6)%
Stores open at end of period	437	481	513	520

	Fiscal 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(dollars in thousands, except for per share data)			
Net sales	$130,181	$107,764	$165,885	$183,555
Operating income	$15,528	$2,938	$28,054	$24,794
Diluted net income per common share	$0.36	$0.06	$0.63	$0.56
Comparable store sales increase	5%	7%	5%	1%
Stores open at end of period	335	371	392	400



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

Arthur Andersen LLP

New York, New York
February 28, 2002

THE CHILDREN'S PLACE RETAIL STORES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	February 2, 2002	February 3, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$45,191	$8,141
Accounts receivable	11,895	9,118
Inventories	59,095	68,105
Prepaid expenses and other current assets	11,997	11,054
Deferred income taxes	3,847	2,555
Total current assets	132,025	98,973
Property and equipment:		
Leasehold improvements	98,864	78,589
Store fixtures and equipment	96,710	73,763
Capitalized software	14,760	6,627
Construction in progress	4,461	13,445
	214,795	172,424
Less accumulated depreciation and amortization	(70,138)	(45,181)
Property and equipment, net	144,657	127,243
Deferred income taxes	5,332	4,166
Other assets	835	1,314
Total assets	$282,849	$231,696
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Current liabilities:		
Revolving credit facility	$0	$3,324
Accounts payable	22,177	28,345
Taxes payable	6,195	2,656
Accrued expenses, interest and other current liabilities	26,311	23,704
Total current liabilities	54,683	58,029
Other long-term liabilities	11,160	7,000
Total liabilities	65,843	65,029
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $0.10 par value	2,637	2,610
Preferred stock, $1.00 par value	0	0
Additional paid-in capital	95,982	92,252
Cumulative translation adjustments	(12)	(12)
Retained earnings	118,399	71,817
Total stockholders' equity	217,006	166,667
Total liabilities and stockholders' equity	$282,849	$231,696

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

THE CHILDREN'S PLACE RETAIL STORES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Fiscal Year Ended		
	February 2, 2002	February 3, 2001	January 29, 2000
Net sales	$656,956	$587,385	$421,496
Cost of sales	377,286	339,407	241,188
Gross profit	279,670	247,978	180,308
Selling, general and administrative expenses	176,103	155,784	108,622
Depreciation and amortization	27,566	20,880	13,849
Operating income	76,001	71,314	57,837
Interest expense, net	252	1,163	400
Income before income taxes	75,749	70,151	57,437
Provision for income taxes	29,167	27,461	22,388
Net income	$46,582	$42,690	$35,049
Basic net income per common share	$1.77	$1.65	$1.38
Basic weighted average common shares outstanding	26,262	25,847	25,382
Diluted net income per common share	$1.73	$1.60	$1.32
Diluted weighted average common shares outstanding	26,964	26,668	26,648

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

THE CHILDREN'S PLACE RETAIL STORES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED, JANUARY 29, 2000, FEBRUARY 3, 2001 AND FEBRUARY 2, 2002
(In thousands)

	Common Stock		Additional Paid-In	Retained (Deficit)	Cumulative Translation	Total Stockholders'	Comprehensive
	Shares	Amount	Capital	Earnings	Adjustment	Equity	Income
BALANCE, January 30, 1999	24,973	$2,497	$84,032	$(5,922)	$ —	$80,607	
Exercise of stock options and employee stock purchases	725	73	2,834	—	—	2,907	
Tax benefit of stock option exercises	—	—	1,510	—	—	1,510	
Change in cumulative translation adjustment	—	—	—	—	(7)	(7)	$(7)
Net income	—	—	—	35,049	—	35,049	35,049
Comprehensive income	—	—	—	—	—	—	$35,042
BALANCE, January 29, 2000	25,698	2,570	88,376	29,127	(7)	120,066	
Exercise of stock options and employee stock purchases	397	40	2,585	—	—	2,625	
Tax benefit of stock option exercises	—	—	1,291	—	—	1,291	
Change in cumulative translation adjustment	—	—	—	—	(5)	(5)	$(5)
Net income	—	—	—	42,690	—	42,690	42,690
Comprehensive income	—	—	—	—	—	—	$42,685
BALANCE, February 3, 2001	26,095	2,610	92,252	71,817	(12)	166,667	
Exercise of stock options and employee stock purchases	277	27	2,689	—	—	2,716	
Tax benefit of stock option exercises	—	—	1,041	—	—	1,041	
Net income	—	—	—	46,582	—	46,582	$46,582
Comprehensive income	—	—	—	—	—	—	$46,582
BALANCE, February 2, 2002	26,372	$2,637	$95,982	$118,399	$(12)	$217,006	

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

THE CHILDREN'S PLACE RETAIL STORES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended		
	February 2, 2002	February 3, 2001	January 29, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$46,582	$42,690	$35,049
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,566	20,880	13,849
Deferred financing fee amortization	62	57	35
Loss on disposals of property and equipment	819	1,124	346
Deferred taxes	490	1,886	2,726
Changes in operating assets and liabilities:			
Accounts receivable	(2,777)	(4,006)	(2,370)
Inventories	9,010	(12,084)	(20,682)
Prepaid expenses and other current assets	(943)	(2,527)	(2,905)
Other assets	417	(619)	(423)
Accounts payable	(6,168)	8,184	6,815
Accrued expenses, interest and other	11,714	6,204	6,004
Total adjustments	40,190	19,099	3,395
Net cash provided by operating activities	86,772	61,789	38,444
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment purchases	(49,114)	(55,167)	(61,952)
Net cash used in investing activities	(49,114)	(55,167)	(61,952)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit facility	571,898	613,623	305,845
Repayments under revolving credit facility	(575,222)	(616,806)	(299,338)
Payment of obligations under capital leases	0	0	(2)
Exercise of stock options and employee stock purchases	2,716	2,625	2,907
Deferred financing costs	0	(122)	(63)
Net cash (used by) provided by financing activities	(608)	(680)	9,349
Effect of exchange rate change on cash	(0)	(5)	(7)
Net increase (decrease) in cash and cash equivalents	37,050	5,937	(14,166)
Cash and cash equivalents, beginning of period	8,141	2,204	16,370
Cash and cash equivalents, end of period	$45,191	$8,141	$2,204
OTHER CASH FLOW INFORMATION:			
Cash paid during the year for interest	$904	$1,983	$676
Cash paid during the year for income taxes	25,555	25,907	17,065

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


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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Children's Place Retail Stores, Inc., ("the Company,") is a specialty retailer of apparel and accessories for children from newborn to twelve years of age. The Company designs, sources and markets its products under "The Children's Place" brand name for sale exclusively in its stores and on its website. As of February 2, 2002, the Company operated 520 stores in 46 states, located primarily in regional shopping malls. The Company also has offices in Asia which enables the Company to capitalize on new sourcing opportunities, respond to changing merchandise trends and ensure product quality assurance.

Fiscal Year

The Company's fiscal year is a 52-week or 53-week period ending on the Saturday nearest to January 31. The results for fiscal 2001, fiscal 2000 and fiscal 1999 represent the 52-week period ended February 2, 2002, the 53-week period ended February 3, 2001 and the 52-week period ended January 29, 2000, respectively.

Use of Estimates

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

Consolidation

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

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

Cash and Cash Equivalents

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

Inventories

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

Revenue Recognition

The Company recognizes revenue when its customers take possession of the merchandise. An appropriate reserve for estimated sales returns is recorded and is reflected in accrued expenses in the accompanying consolidated balance sheets. The Company's policy with respect to gift cards is to record revenue as the gift cards are redeemed for merchandise. Prior to their redemption, gift cards are recorded as a liability.

During the fourth quarter of fiscal 2000, the Company applied the provisions of the Emerging Issues Task Force 00-10, "Shipping and Handling Fees and Costs," ("EITF 00-10"), which requires that all amounts billed to customers for shipping and handling, be classified as revenue and the costs incurred for such shipping and handling, be classified as costs of goods sold. Prior to the application of EITF 00-10, the Company recorded the amounts billed to its website customers for shipping and handling as a reduction of its cost of goods sold. The impact of this reclassification increased net sales by approximately $212,000 in fiscal 2001, $428,000 in fiscal 2000 and $0 in fiscal 1999.

Cost of Sales

In addition to the cost of inventory sold, the Company includes its buying, distribution and occupancy expenses in its cost of sales.

Property and Equipment

Property and equipment are stated at cost, except for store fixtures and equipment under capital leases which are recorded at the present value of the

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

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

During fiscal 1999, the Company adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). In accordance with SOP 98-1, internal use software and other related costs are capitalized. External direct costs of materials, consulting services and payroll costs of employees working solely on the application development stage of the project are also capitalized in accordance with SOP 98-1. These capitalized costs are amortized based upon their estimated useful lives, which range from three to seven years, commencing with when the system is placed in service. Training and travel costs related to systems implementations are expensed as incurred. The Company capitalized approximately $1,180,000, $788,000 and $798,000 in programming and development costs of employees in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

Deferred Financing Costs

The Company capitalizes costs directly associated with acquiring third-party financing. Deferred financing costs are included in other assets and are amortized over the term of the indebtedness. As of February 2, 2002, unamortized deferred financing costs represent the cost of acquiring the Company's working capital facility and were approximately $259,000, net of accumulated amortization of $192,000. As of February 3, 2001, unamortized deferred financing costs were approximately $259,000, net of accumulated amortization of $130,000.

Accounting for Impairment of Long-Lived Assets

The Company continually evaluates the carrying value and the economic useful lives of its long-lived assets based on the Company's operating performance and the expected undiscounted future net cash flows and adjusts the carrying value of assets which may not be recoverable. The Company does not believe that any impairment exists as of February 2, 2002 in the recoverability of its long-lived assets.

Pre-opening Costs

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

Advertising 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 2001, fiscal 2000 and fiscal 1999 are advertising costs of approximately $12,049,000, $12,943,000 and $9,218,000, respectively.

Income Taxes

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

Fair Value of Financial Instruments

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

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

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

Accounting for Stock Based Compensation

The Company accounts for its 1996 Stock Option Plan (the "1996 Plan"), its 1997 Stock Option Plan (the "1997 Plan") and its Employee Stock Purchase Plan (the "ESPP") under the provisions of Accounting Principles Bulletin No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Refer to Note 8. — Stock Option and Purchase Plans for pro forma disclosures required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Net Income per Common Share

The Company reports its earnings per share in accordance with Statement of Financial Accounting Standards 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:

	Fiscal Year Ended		
	February 2, 2002	**February 3, 2001**	**January 29, 2000**
Net income (in thousands)	$46,582	$42,690	$35,049
Basic weighted average common shares	26,262,173	25,846,517	25,381,694
Dilutive effect of stock options	701,489	821,828	1,266,416
Diluted weighted average common shares	26,963,662	26,668,345	26,648,110
Antidilutive options	257,237	356,740	112,075

Antidilutive options consist of the weighted average of stock options for the respective periods ended February 2, 2002, February 3, 2001 and January 29, 2000 that had an exercise price greater than the average market price during the period. Such options are therefore excluded from the computation of diluted shares.

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

Derivative Instruments

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

Effective February 4, 2001, the Company adopted SFAS No. 133, as amended. The adoption of SFAS No. 133, as amended, did not have a material effect on the Company's consolidated financial statements, as the Company has not entered into any derivative contracts.

Foreign Currency Translation

The Company has determined that the local currency of its Hong Kong subsidiary is the functional currency. In accordance with Statement of Financial Accounting Standards 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. The effect of exchange rate changes on cash is insignificant.

Newly Issued Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141"), and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and is effective for all business combinations initiated after June 30, 2001. SFAS 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. SFAS 142 is effective for fiscal years beginning after December 15, 2001.

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

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets," ("SFAS 144"), which is effective for fiscal years beginning after December 15, 2001, and addresses financial accounting and reporting for the impairment of disposal of long-lived assets. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of segment of a business. The Company plans to adopt the standard at the beginning of fiscal 2002, and does not expect that the adoption of SFAS 144 will have a material impact on its results of operations, financial position or cash flows.

2. SHORT-TERM BORROWINGS

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

The Foothill Credit Facility expires in July 2003 and provides for one year automatic renewal options. The Company had no outstanding borrowings and $3.3 million outstanding under the Foothill Credit Facility as of February 2, 2002 and February 3, 2001, respectively. Letters of credit outstanding as of February 2, 2002 and February 3, 2001 were $9.4 million and $13.8 million, respectively. Availability as of February 2, 2002 and February 3, 2001 was $57.2 million and $47.5 million, respectively.

The Foothill Credit Facility also contains certain financial covenants, including, among others, the maintenance of minimum levels of earnings and current ratios and imposes certain limitations on the Company's annual capital expenditures, as defined in the Foothill Credit Facility, as well as a prohibition on the payment of dividends. As of February 2, 2002, the Company was in compliance with all of its covenants under the Foothill Credit Facility. Noncompliance with these covenants could result in additional fees or could affect the availability of the facility.

Amounts outstanding under the Foothill Credit Facility bear interest at a floating rate equal to the prime rate or, at the Company's option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread is 1.25% to 2.50% depending on the Company's financial performance from time to time. The interest rate charged under the Foothill Credit Facility was 4.75% and 8.50% as of February 2, 2002 and February 3, 2001, respectively. In addition, the Company was also required to pay an anniversary fee of $93,750, $93,750 and $37,500 during fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

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

	For the Fiscal Year Ended	
	February 2, 2002	**February 3, 2001**
Weighted average balances outstanding	$9,307	$16,574
Weighted average interest rate	5.57%	8.47%
Maximum balance outstanding	$31,034	$32,345


3. ACCRUED EXPENSES, INTEREST AND OTHER CURRENT LIABILITIES

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

	February 2, 2002	February 3, 2001
Accrued salaries and benefits	$7,881	$5,628
Accrued real estate expenses	3,058	2,743
Customer liabilities	4,927	3,290
Taxes payable	2,810	2,250
Severance	0	954
Asset accruals	389	3,710
Other accrued expenses	7,246	5,129
Accrued expenses, interest and other current liabilities	$26,311	$23,704

4. COMMITMENTS AND CONTINGENCIES

The Company leases all of its stores and distribution facilities, and certain office equipment, store fixtures and automobiles, under leases expiring at various dates through 2017. Certain leases include options to renew. The leases require fixed minimum annual rental payments plus, under the terms of certain leases, additional payments for taxes, other expenses and additional rent based upon sales.

Rent expense is as follows (dollars in thousands):

	Fiscal Year Ended		
	February 2, 2002	February 3, 2001	January 29, 2000
Store and distribution facilities rent:			
Minimum rentals	$62,521	$47,314	$32,633
Additional rent based upon sales	528	848	646
Total rent expense	$63,049	$48,162	$33,279

4. COMMITMENTS AND CONTINGENCIES (Continued)

Future minimum annual lease payments under the Company's operating leases at February 2, 2002, are as follows (dollars in thousands):

	Operating Leases
Fiscal year	
2002	$74,117
2003	75,240
2004	73,730
2005	72,880
2006	71,119
Thereafter	243,948
Total minimum lease payments	$611,034

5. LITIGATION

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

6. INCOME TAXES

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

	Fiscal Year Ended		
	February 2, 2002	February 3, 2001	January 29, 2000
Current			
Federal	$25,480	$21,477	$14,900
Foreign	679	694	533
State	5,466	4,278	3,500
Deferred			
Federal	(2,099)	311	2,574
State	(359)	701	881
Provision for income taxes	$29,167	$27,461	$22,388

6. INCOME TAXES *(Continued)*

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

	Fiscal Year Ended		
	February 2, 2002	**February 3, 2001**	**January 29, 2000**
Calculated income tax provision	$26,512	$24,553	$20,103
State income taxes, net of federal benefit	3,320	3,236	2,848
Foreign tax	(718)	(733)	(563)
Nondeductible expenses	38	16	0
Other	15	389	0
Tax provision as shown on the statements of income	$29,167	$27,461	$22,388

Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes as measured by tax laws. As of February 2, 2002, there are accumulated unremitted earnings from the Company's Hong Kong subsidiary on which deferred taxes have not been provided as the undistributed earnings of the foreign subsidiary are indefinitely reinvested.

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

	February 2, 2002	**February 3, 2001**
Current		
Uniform inventory capitalization	$2,430	$2,002
Inventory	804	732
Expenses not currently deductible	613	(179)
Total current	3,847	2,555
Noncurrent		
Depreciation	1,924	1,682
Deferred rent	3,408	2,484
Total noncurrent	5,332	4,166
Total deferred tax asset	$9,179	$6,721

7. STOCKHOLDERS' EQUITY

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

	February 2, 2002	February 3, 2001
Common stock:		
Authorized number of shares, $0.10 par value	100,000,000	100,000,000
Issued and outstanding number of shares	26,372,144	26,095,296
Preferred stock:		
Authorized number of shares, $1.00 par value	1,000,000	1,000,000
Issued and outstanding number of shares	0	0

8. STOCK OPTION AND PURCHASE PLANS

Stock Option Plans

The Company accounts for its stock option plans in accordance with the provisions of SFAS 123. Accordingly, no compensation expense has been recognized for stock-based compensation, since the options granted were at prices that equaled or exceeded their estimated fair market value at the date of grant. If compensation expense for the Company's stock options issued in fiscal 2001, fiscal 2000 and fiscal 1999 had been determined based on the fair value method of accounting, the Company's net income would have been reduced to the pro forma amounts indicated below for the three fiscal years in the period ended February 2, 2002:

	Fiscal Year Ended		
	February 2, 2002	February 3, 2001	January 29, 2000
Net income			
As reported	$46,582,000	$42,690,000	$35,049,000
Pro forma	$43,308,000	$39,644,000	$33,111,000
Pro forma diluted net income per share			
As reported	$1.73	$1.60	$1.32
Pro forma	$1.61	$1.49	$1.24

8. STOCK OPTION AND PURCHASE PLANS (Continued)

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

	Fiscal Year Ended		
	February 2, 2002	February 3, 2001	January 29, 2000
Dividend yield	0%	0%	0%
Volatility factor	59.00%	60.00%	57.00%
Weighted average risk-free interest rate	4.45%	6.21%	5.89%
Expected life of options	5 years	5 years	5 years
Weighted average fair value on grant date	$13.90 per share	$18.63 per share	$13.22 per share

The Company has two stock option plans: the 1996 Plan and the 1997 Plan. The 1996 Plan authorized the granting of incentive stock options with respect to 1,743,240 shares of Common Stock. The 1997 Plan was authorized and amended to grant options with respect to 2,500,000 shares of Common Stock. As of February 2, 2002, there were 57,300 shares available for grant under the 1996 Plan and 425,300 shares available for grant under the 1997 Plan.

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

Changes in common shares under option for the three fiscal years in the period ended February 2, 2002 are summarized below:

	February 2, 2002		February 3, 2001		January 29, 2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning of year	1,900,732	$15.41	1,965,856	$12.21	2,185,706	$6.43
Granted	565,800	25.43	552,150	18.55	561,700	24.13
Exercised	(255,769)	8.84	(371,474)	5.86	(713,560)	3.70
Canceled	(130,120)	23.04	(245,800)	11.44	(67,990)	14.70
End of year	2,080,643	$18.49	1,900,732	$15.41	1,965,856	$12.21
Exercisable at end of year	839,383	$12.95	768,800	$10.01	600,186	$7.83


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8. STOCK OPTION AND PURCHASE PLANS *(Continued)*

The following table summarizes information regarding options outstanding at February 2, 2002:

	Options Outstanding			Options Exercisable	
Exercise Prices	Outstanding at February 2, 2002	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at February 2, 2002	Weighted Average Exercise Price
$2.68 – 2.68	223,168	4.4	$2.68	223,168	$2.68
$8.70 – 11.84	271,175	6.5	9.34	194,535	9.11
$13.97 – 20.31	781,150	7.6	16.87	314,500	16.13
$21.63 – 31.63	666,300	9.3	25.43	51,400	25.60
$32.80 – 41.47	138,850	7.1	37.62	55,780	37.85
$2.68 – 41.47	2,080,643	7.6	$18.49	839,383	$12.95

Stock Purchase Plans

The Company's ESPP is authorized to issue up to 360,000 shares of Common Stock for employee purchase through payroll deductions at 85% of fair market value. All employees of the Company, who have completed at least 90 days of employment and attained 21 years of age, are eligible to participate, except for employees who own Common Stock or options on such Common Stock which represents 5% or more of the Company. During fiscal 2001, fiscal 2000 and fiscal 1999, there were 20,679 shares, 25,702 shares and 11,659 shares issued under the ESPP.

9. SAVINGS AND INVESTMENT PLAN

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

The 401(k) Plan is employee funded up to an elective annual deferral and also provides an option for the Company to contribute to the 401(k) Plan at the discretion of the 401(k) Plan's trustees. During fiscal 2001, fiscal 2000 and fiscal 1999, the Company matched the lesser of 50% of the participant's contribution or 2.5% of the participant's compensation. During fiscal 2001, fiscal 2000 and fiscal 1999, the Company's matching contributions to the 401(k) Plan were approximately $888,000, $605,000 and $367,000, respectively.

10. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

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

	Fiscal Year Ended February 3, 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$130,181	$107,764	$165,885	$183,555
Gross profit	56,749	40,451	72,520	78,258
Net income	9,374	1,516	16,845	14,955
Basic net income per common share	$0.36	$0.06	$0.65	$0.58
Diluted net income per common share	$0.36	$0.06	$0.63	$0.56

11. RELATED PARTY TRANSACTIONS

SKM Financial Advisory Services

In 1996, the Company entered into a management agreement with SKM which provides for the payment of an annual fee of $150,000, payable quarterly in advance, in exchange for certain financial advisory services. This management agreement remains in effect until SKM or any of its affiliates' total ownership of the Company's Common Stock is less than 10% on a fully diluted basis. Pursuant to the management agreement, the Company incurred fees and expenses of approximately $160,000, $150,000 and $151,000 during fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

Stockholders Agreement

The Company and certain of its stockholders, who as of February 2, 2002 own in the aggregate a majority of the Common Stock, are parties to a Stockholders Agreement (the "Stockholders Agreement"). The Stockholders Agreement places certain limitations upon the transfer, in privately negotiated transactions, of shares of Common Stock beneficially owned by Ezra Dabah and the SK Funds. In addition, the Stockholders Agreement provides that (1) so long as Ezra Dabah, together with members of his family, beneficially owns shares representing at least 25% of the shares of Common Stock owned by such parties on the date of the Stockholders Agreement, the stockholders party to the Stockholders Agreement will be obligated to vote all shares as to which they have voting rights in a manner such that the Board of Directors will at all times include three directors nominated by Ezra Dabah and (2) so long as the SK Funds beneficially own shares

11. RELATED PARTY TRANSACTIONS *(Continued)*

representing at least 25% of the shares of Common Stock owned by such parties on the date of the Stockholders Agreement, the stockholders party to the Stockholders Agreement will be obligated to vote all shares as to which they have voting rights in a manner such that the Board of Directors will at all times include two directors nominated by the SK Funds. Should the number of directors comprising the Board of Directors be increased, nominees for the remaining director positions will be designated by the Board of Directors.

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

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

Merchandise for Re-Sale

During fiscal 1999, the Company purchased approximately $565,000 in footwear from Nina Footwear Corporation. Stanley Silverstein, a member of the Company's Board of Directors and Ezra Dabah's father-in-law, owns Nina Footwear Corporation with his brother.

Employment Agreements

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

Executive Officers

On or about April 15, 2000, the Company made loans to seven executive officers ranging from $200,000 to $500,000. The aggregate amount of these loans totaled $2.2 million. The loans matured on or about April 15, 2001 and bore interest at the prime rate as quoted by Chase Manhattan Bank. The loans were secured by the principal residences of these executive officers. With the exception of one loan, the executive loans were repaid prior to their maturity. In April 2001, the Company extended the term on one executive loan to April 15, 2002. As of February 2, 2002, this loan had principal and accrued interest outstanding totaling approximately $539,000.

Directors

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

Officers

Ezra Dabah
Chairman and Chief Executive Officer

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

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

Steven Balasiano
Vice President, General Counsel and Secretary

Jodi Barone
Vice President, Marketing

Edward DeMartino
Vice President, Information Technology

Robert Finkelstein
Vice President, Planning and Allocation

Michael Kule
Vice President, Asian Operations

Nina L. Miner
Vice President, Design and Trend Development

Salvatore W. Pepitone
Vice President, Distribution

Mark L. Rose
Vice President, Manufacturing

Susan Schiller
Vice President, Store Operations

Corporate Offices

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

Store Locations

Call 1 877 PLACE USA or
visit us @ childrensplace.com

Transfer Agent and Registrar

American Stock Transfer
New York, NY

Corporate Counsel

Stroock & Stroock & Lavan LLP
New York, NY

Independent Auditors

Arthur Andersen LLP
New York, NY

Stock Exchange Listing

NASDAQ National Market
Symbol: PLCE

Annual Meeting

The annual meeting of Stockholders will be held at 10:00 am on Thursday, June 6, 2002 at the Company Headquarters, 915 Secaucus Road, Secaucus, NJ 07094.
You are cordially invited to attend.

Form 10K

A copy of the Company's 2001 Form 10K as filed with the SEC may be obtained by calling or writing Investor Relations at the Corporate Offices.

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