

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FIFTY-TWO WEEKS ENDED FEBRUARY 1, 2003

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 (I.R.S. employer identification
incorporation or organization) 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: None.
Securities registered pursuant to Section 12(g) of the Act: Common Stock.

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

Yes No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of common stock held by non-affiliates was \$225,464,945 at the close of business on August 2, 2002 (the last business day of the registrant's most recently completed second fiscal quarter) based on the closing price of the common stock as reported on the Nasdaq Stock Market.

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 April 15, 2003: 26,603,030 shares.

Documents Incorporated by Reference: Portions of the Company's Proxy Statement for its annual meeting of stockholders to be held on June 17, 2003, are incorporated partially in Part III hereof.

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THE CHILDREN'S PLACE RETAIL STORES, INC.

ANNUAL REPORT ON FORM 10-K
FOR THE FIFTY-TWO WEEKS ENDED FEBRUARY 1, 2003
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PART I

ITEM 1.--BUSINESS

THIS ANNUAL REPORT ON FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF FEDERAL SECURITIES LAWS, WHICH ARE INTENDED TO BE COVERED BY THE SAFE HARBORS CREATED THEREBY. THOSE STATEMENTS INCLUDE, BUT MAY NOT BE LIMITED TO, THE DISCUSSIONS OF THE COMPANY'S OPERATING AND GROWTH STRATEGY. INVESTORS ARE CAUTIONED THAT ALL FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES INCLUDING, WITHOUT LIMITATION, THOSE SET FORTH UNDER THE CAPTION "RISK FACTORS." ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THE ASSUMPTIONS COULD PROVE TO BE INACCURATE, AND THEREFORE, THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS INCLUDED IN THIS ANNUAL REPORT ON FORM 10-K WILL PROVE TO BE ACCURATE. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD-LOOKING STATEMENTS INCLUDED HEREIN, THE INCLUSION OF SUCH INFORMATION SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES AND PLANS OF THE COMPANY WILL BE ACHIEVED. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLICLY RELEASE ANY REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN TO REFLECT EVENTS AND CIRCUMSTANCES OCCURRING AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-K.

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. We design, source and market our products under our proprietary "The Children's Place" brand name for sale exclusively in our stores and on our website. As of April 15, 2003, we operated 656 stores in the United States and Canada. Our merchandising objective is to offer a unique, coordinated and balanced lifestyle assortment of high quality basic and fashion merchandise, at prices that

represent substantial value to our customers.

We believe that our merchandise assortment appeals to customers from a broad range of socioeconomic and demographic profiles. Our designers interpret style and color fashion trends to develop a selection of fresh and youthful coordinated outfits that distinguishes "The Children's Place" brand. We believe that our up to date merchandise styling, our coordinated, high quality products and our consistent value pricing have created name recognition and customer loyalty for "The Children's Place" brand.

Fiscal 2002 was a disappointing year for The Children's Place, due to a number of factors. We believe we offered our customers a merchandise assortment that was too heavily weighted toward fashion and that contained an over assortment of styles. In addition, we lacked the necessary inventory depth in key items, and experienced late merchandise deliveries, all of which resulted in a significant amount of markdowns. These challenges were further compounded by the continued weakness of the economy, which created a highly promotional retail environment.

Net sales in fiscal 2002 were \$671.4 million, compared to net sales of \$657.0 million reported in fiscal 2001. During fiscal 2002, we experienced a comparable store sales decline of 16%, which primarily reflected the business challenges mentioned above, compared to an 8% decline in fiscal 2001. Net income in fiscal 2002 was \$8.9 million, or \$0.33 per share, compared to net income of \$46.6 million, or \$1.73 per share in fiscal 2001.

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

Over the last several years, we aggressively opened new stores to capitalize on our attractive store economics. During fiscal 2002 we opened 126 new stores, compared to the opening of 121 new stores in fiscal 2001. We closed three stores in fiscal 2002 and one store in fiscal 2001. Included in the 2002 store openings were 28 stores in Canada, our first entry into the international marketplace. While we continue to believe that we have the opportunity to increase our store base, in the near term we have decided to slow our growth until we improve our

comparable store sales trends and see a sustainable turn in the business. As a result, our store growth plan in 2003 includes opening approximately 50 stores, 40 in the United States and 10 in Canada.

We believe that the following core competencies have contributed to our long-term success:

MERCHANDISING STRATEGY. Our merchandising strategy is built on offering an appealing collection of interchangeable outfits and accessories to create a coordinated look distinctive to The Children's Place. 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. Each season is built around a theme that includes an assortment of coordinated basic and fashion apparel with matching accessories designed to encourage multiple item purchases and wardrobe building.

VALUE PRICING 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 attractive price points are an important factor in the broad consumer appeal that our brand has benefited from over the years. The weakness in the economy has created a highly promotional retail environment. We believe this, combined with an increase in the amount of competition, has resulted in a narrowing of the gap between our prices and those of our

competitors. In an effort to regain our advantage, our current strategy calls for enhancing the quality of our garments while reducing our average unit retail prices. With the inception of our everyday value pricing strategy, we intend to reduce the amount of promotional activity that has occurred over the past year.

BRAND IMAGE. We continue to build a strong loyalty and brand image for "The Children's Place" by (1) offering high-quality products at value prices, (2) providing a distinctive collection of coordinated and interchangeable outfits and accessories, (3) maintaining a uniform merchandise presentation, (4) emphasizing our fashionable, youthful image in our marketing visuals and (5) selling our merchandise exclusively in our 656 stores and on our website.

LOW-COST SOURCING. We control the design, sourcing and presentation of our products, all of which are marketed under our proprietary brand name. We believe that this control is essential in assuring the consistency and quality of our merchandise and brand image, as well as in our ability to deliver value to our customers. We have established long-standing relationships with our trading company and buying agents. Through these relationships and our extensive knowledge of low cost sourcing, we are able to offer our customers high-quality products at value prices. We further believe that our integrated merchandise approach, from in-house design to in-store presentation, enables us to quickly identify and respond to market trends, uphold rigorous product quality standards, manage the cost of our merchandise and strengthen our brand name. We believe our Asian offices add to our ability to 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. Our management team is led by Ezra Dabah, who guides the management of The Children's Place using his broad apparel merchandising and buying expertise, which includes approximately 20 years in the children's segment of the market. In addition, the other members of our management team have an average of 17 years of retail or apparel industry experience and an average of 10 years with The Children's Place.

MERCHANDISING

Our merchandising strategy is built on offering a collection of interchangeable outfits and accessories to create a coordinated look distinctive to The Children's Place that fills all of a child's wardrobe needs. We offer a focused and balanced assortment of styles in a variety of colors and patterns 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. In fiscal 2003, we plan to reduce both the number of styles and the number of items offered in our stores to present our customers with a clear and focused merchandise assortment. We are also offering a greater percentage of basic items in an effort to create a better balance between our basic and fashion merchandise. In addition, we have reduced the number of merchandise lines from twelve to nine, by eliminating our three smallest transitional lines.

To execute our merchandising strategy, we rely on the coordinated efforts of our merchandising, design, planning and sourcing teams. These teams, in conjunction with senior management, review our prior season results

and fashion trends to determine the silhouettes, color and graphic design that we will offer in upcoming seasons. Merchandising selects specific silhouettes for production from the assortment of designs that are created by the design team. Then, based upon detail design specifications, including production quantities determined by merchandising and planning, the sourcing team arranges for the manufacture of the selected styles.

Our design team analyzes and interprets current and emerging fashion trends, translating them into a broad selection of youthful children's clothing and accessories in an array of fashionable colors and patterns that are appropriate for upcoming seasons. Work on each of our seasonal lines begins approximately one year before the season, with the gathering of samples and market intelligence on fashion trends. This process 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. After the design team presents the fashion themes for a coming season, the designers, with the direction of merchandising, translate those themes into an assortment of fashion and basic designs that reflect the

theme of the season and fill the customer's needs. These interpretations include variations in fabric and other materials, product color, decoration and age-appropriate silhouette. Potential items are designed using computer aided design technology, giving us the opportunity to consider a wide range of style and fashion options. In addition, our 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's color, fit, texture and quality. Beginning with the Summer 2003 line, we have instituted a process that involves working with our product 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 team creates a detailed purchasing plan for the season covering each department, category and key items, based on historical, current and emerging category trends. The production process takes approximately five months from order confirmation to receipt of merchandise at our distribution facilities. The planning team monitors current and future inventory levels on a weekly basis and analyzes sales patterns to predict future demand for various categories. We regularly monitor sales of each style and color and maintain some flexibility to adjust merchandise on order for future seasons or to accelerate delivery of merchandise. The merchandise allocation team is responsible for planning and allocating merchandise to each store based on sales volume levels, merchandise turns and other factors.

SOURCING AND PROCUREMENT

We combine management's extensive sourcing experience with a cost-based buying strategy in order to control and reduce costs. Management believes it has 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 low prices. Relying on our supplier relationships and management's knowledge of manufacturing costs, we believe we have been able to arrange for the manufacture of high-quality products at low cost.

Our sourcing team makes on-site visits to our independent agents and various manufacturers to negotiate product costs, finalize technical specifications of each product and confirm delivery of merchandise manufactured to our specifications. Our apparel is produced to our specifications by more than 200 independent manufacturers located primarily in Asia. To support our growing inventory needs and to control merchandise costs, we continue to pursue global sourcing opportunities and consider product cost and quality, reliability of the manufacturer, 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 parties to agency agreements with commissioned independent agents to oversee production, assist in sourcing and pre-production approval, quality inspection and to ensure timely delivery of merchandise. We purchase approximately 25% of our products from a commissioned, independent agent in Taiwan, and approximately 10% of our products from a commissioned independent agent in Turkey. We also purchase approximately 40% of our product through a Hong Kong-based trading company. This trading company is responsible for procurements from manufacturers located throughout Asia. Although they are not contractually obligated to do so, the Hong Kong-based trading company, and our commissioned independent agents in Taiwan and Turkey each have exclusive arrangements with The Children's Place. We have developed long-term, continuous relationships with key individual manufacturers and material suppliers, which have yielded numerous benefits, including quality control and low costs, and have afforded

us flexible working arrangements. In addition, we believe our Asian offices enable us to obtain more favorable material and manufacturing costs and more 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 in the Far East. During fiscal 2002, we purchased approximately 8% of our merchandise through our Asian offices directly from various factories. During fiscal 2003, we plan to increase the amount of merchandise purchased directly from various factories.

Together with our agents and key suppliers, we employ tracking systems that enable us to anticipate potential delivery delays in our orders and take action to mitigate the impact of any delays. By using these systems together with our purchase order and advanced shipping notification systems, we and our independent agents 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 have enhanced 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 our finished apparel products until each purchase order receives formal certification of compliance from our agents' or appointed third party inspectors.

COMPANY STORES

EXISTING STORES. As of April 15, 2003, we operated 656 stores in the United States and Canada. Most of our stores are clustered in and around major metropolitan areas. Our stores are concentrated in major regional malls, with the exception of 67 strip center, 51 outlet and 46 street stores. The following table sets forth the number of stores in each state or Canadian province as of April 15, 2003:

UNITED STATES

| STATE ----- | # OF STORES ----- |
|---------------------|-------------------------|
| Alabama..... | 8 |
| Arizona..... | 8 |
| Arkansas..... | 2 |
| California..... | 57 |
| Colorado..... | 8 |
| Connecticut..... | 12 |
| Delaware..... | 4 |
| Florida..... | 37 |
| Georgia..... | 18 |
| Idaho..... | 1 |
| Illinois..... | 35 |
| Indiana..... | 13 |
| Iowa..... | 5 |
| Kansas..... | 5 |
| Kentucky..... | 7 |
| Louisiana..... | 8 |
| Maine..... | 4 |
| Maryland..... | 19 |
| Massachusetts..... | 23 |
| Michigan..... | 21 |
| Minnesota..... | 10 |
| Mississippi..... | 4 |
| Missouri..... | 12 |
| Montana..... | 1 |
| Nebraska..... | 3 |
| New Hampshire..... | 4 |
| New Jersey..... | 36 |
| New Mexico..... | 2 |
| New York..... | 70 |
| Nevada..... | 4 |
| North Carolina..... | 17 |
| North Dakota..... | 1 |
| Ohio..... | 23 |

| | |
|---------------------|----|
| Oklahoma..... | 2 |
| Oregon..... | 9 |
| Pennsylvania..... | 32 |
| Rhode Island..... | 3 |
| South Carolina..... | 7 |
| South Dakota..... | 1 |
| Tennessee..... | 12 |
| Texas..... | 37 |
| Utah..... | 6 |
| Vermont..... | 1 |
| Virginia..... | 17 |
| Washington..... | 9 |
| West Virginia..... | 1 |
| Wisconsin..... | 8 |

CANADA

| PROVINCE ----- | # OF STORES ----- |
|-------------------|-------------------------|
| Ontario..... | 16 |
| Quebec..... | 13 |

STORE TYPE. Our average store is approximately 4,400 square feet and features a design that incorporates 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. Each line is merchandised as a collection of coordinated fashion and basic items, with matching accessories. We continually refine our merchandise presentation strategy to improve the shopping experience of our customers. We believe that our merchandise presentation effectively displays "The Children's Place" coordinated look and creates a visually attractive selling environment that maximizes customer convenience and encourages the purchase of multiple items.

During fiscal 2002, we introduced our new store prototype. All of our Canadian stores were opened in this format, as well as seven domestic stores (including two remodels). In fiscal 2003, all of our new stores, except for outlets, will be in this format. The stores are unique, fun and bright, featuring color-coded arches that create a boutique-like setting and better differentiate the various departments within the store. The stores also feature wide aisles for customers with strollers, and more wall space allowing for enhanced merchandise presentation and ease of shopping.

Our street and strip center locations represent approximately 17% of our store base and provide substantial opportunities for further penetration in established markets.

Our outlet stores generally measure in excess of 6,000 square feet and represent approximately 8% of our store base. Our outlet stores are mostly located in outlet centers and are strategically placed within each market to liquidate markdown merchandise from nearby stores. We also sell an assortment of full-priced merchandise in our outlet stores.

To achieve uniform merchandise presentation and to maximize sales of coordinated items, store management is provided detailed visual floorsets that specify merchandise placement. Standardization of store design, merchandise presentation and window displays also promotes effective usage and productivity of selling space and maximizes customer convenience in merchandise selection. By seeking a uniform appearance in store design and merchandise presentation, we believe that we are able to maintain and enhance "The Children's Place" brand image.

STORE OPERATIONS. Within our domestic store base, our store operations are currently organized into eight regions. Each region is managed by a regional manager who has several district managers report 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. Our store management teams spend a majority of their work week on store selling floors, providing direction, motivation, training and support to store personnel. To maximize selling productivity, we engage in an ongoing process of training management and sales associates in the areas of customer service, selling skills, merchandise presentation, procedures and controls. In order to motivate our store operations management, we offer an incentive compensation plan that awards bonuses for exceeding pre-established goals.

STORE EXPANSION PROGRAM

Over the last several years, we aggressively opened new stores to capitalize on our attractive store economics. During fiscal 2002 we opened 126 new stores, compared to the opening of 121 new stores in fiscal 2001. We closed three stores in fiscal 2002 and one store in fiscal 2001. In addition, we anticipate closing approximately five stores in fiscal 2003. Included in the 2002 store openings were 28 stores in Canada, our first entry into the international marketplace. While we continue to believe that we have the opportunity to increase our store base, in the near term we have decided to slow our growth until we improve our comparable store sales trends and see a sustainable turn in the business. As a result, our store growth plan in 2003 includes opening approximately 50 stores, 40 in the United States and 10 in Canada.

New stores, for which fiscal 2002 was their first full year of operation, had average net sales of approximately \$950,000. The average investment for these stores, including capital expenditures (net of landlord contribution), initial inventory (net of merchandise payables) and pre-opening costs was approximately \$396,000. In fiscal 2002, average store level operating cash flow for these stores was approximately \$138,000, yielding a cash on cash return on investment of approximately 35%. In fiscal 2001, our new stores generated an average cash-on-cash return on investment of approximately 63%.

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To determine the location of our 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.

ELECTRONIC COMMERCE

We believe that our online store is an effective sales and merchandising channel for our existing customers and is 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. Although our online store has represented less than one percent of our sales over the last three years, we believe it is an integral part of our customer service and brand awareness strategies. During fiscal 2002, we strengthened the site's technology platform, improving stability and speed. We also enhanced several features of the site to improve the overall customer experience.

MARKETING

We strive to enhance our reputation and image in the marketplace and build recognition and equity in "The Children's Place" brand by advertising our image, product and value message through our store front windows, direct mail, private label credit card, and in-store marketing. Our direct mail marketing program is designed to increase sales, promote brand loyalty and create customer excitement. We also advertise our image through windows, in-store photographs, signage and product displays.

We view our 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 our stores and credit is extended to such customers on a non-recourse basis to The Children's Place. Our private label credit card accounted for approximately 15% of our net sales in fiscal 2002. 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.

INFORMATION TECHNOLOGY

We are committed to utilizing technology to further enhance our competitive position. Our information technology systems consist of a full range of financial, merchandising, logistics, and product procurement systems that run on a combination of legacy and proprietary software packages. These systems operate on a multi-platform environment, which includes an IBM mainframe computer and several mid-range computers. During fiscal 2002, we made modifications to our systems to improve our productivity and support our Canadian operations. We continually explore opportunities in which technology can provide a competitive advantage.

LOGISTICS

We currently support our stores with an approximately 200,000 square foot distribution center and corporate headquarters facility located in New Jersey, an approximately 250,000 square foot distribution center in California, and an approximately 30,000 square foot distribution center in Ontario, Canada, all of which are leased. Our domestic distribution centers utilize an automated warehouse system, which employs radio frequency technology and automated conveyor systems. Our Canadian distribution center manually cross-docks merchandise for distribution to our Canadian stores. We expect that our domestic distribution centers should be able to support over 1,000 stores. In addition, we operate other leased facilities located near our headquarters, which we use for e-commerce fulfillment, distribution to local stores and ancillary office space.

COMPETITION

The children's apparel retail business is 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.; J.C. Penney Company, Inc.; Sears, Roebuck and Co. and other department stores that sell children's apparel and accessories, as well as discount stores such as Wal-Mart Stores, Inc.; Target Corporation; Kohl's; Kmart Corporation and Kids "R" Us (a division of Toys "R" Us, Inc.). We also compete with a wide variety of specialty stores, other national and regional retail chains, catalog companies and Internet retailers. One or more of our competitors are present in substantially all of the areas in which we have stores.

We believe that the principal factors of competition in our marketplace are perceived value, price, quality, merchandise assortment, brand name recognition, customer service, and a friendly store environment. We believe

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that we have been able to effectively compete in the children's apparel industry because of our reputation in the marketplace and consistent merchandise offering of high-quality, coordinated basic and fashion outfits for children at consistent value prices, sold in a friendly environment.

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.

EMPLOYEES

As of April 15, 2003, we had approximately 10,200 employees, of whom approximately 600 are based at our distribution centers and corporate headquarters. We have approximately 2,100 full-time store employees and approximately 7,500 part-time store employees. None of our employees are covered by a collective bargaining agreement. We believe our relations with our employees are good.

EXECUTIVE OFFICERS AND DIRECTORS

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

| NAME | AGE | POSITION |
|--------------------------|-----|--|
| Ezra Dabah..... | 49 | Chairman of the Board of Directors and Chief Executive Officer |
| Mario A. Ciampi..... | 42 | Senior Vice President, Store Development and Logistics |
| Seth L. Udasin..... | 46 | Vice President, Finance, Chief Financial Officer and Treasurer |
| Steven Balasiano..... | 40 | Vice President, Human Resources, General Counsel and Corporate Secretary |
| Jodi Barone..... | 46 | Vice President, Marketing |
| Richard Flaks..... | 40 | Vice President, Planning and Allocation |
| Amy Hauk..... | 36 | Vice President, Merchandising |
| Nina L. Miner..... | 53 | Vice President, Design and Trend Development |
| Mark L. Rose..... | 37 | Vice President, Merchandise Procurement |
| Susan F. Schiller..... | 42 | Vice President, Store Operations |
| Malcolm Elvey..... | 61 | Director |
| Sally Frame Kasaks..... | 58 | Director |
| John F. Megrue..... | 44 | Director |
| David J. Oddi..... | 33 | Director |
| Stanley Silverstein..... | 78 | Director |

WEBSITE ACCESS TO REPORTS

The Company makes its periodic filings with the Securities and Exchange Commission available on its website, www.childrensplace.com. These filings are free of charge and are available for viewing as soon as is reasonably practical.

RISK FACTORS

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

OUR STRATEGIC INITIATIVES MAY NOT BE SUCCESSFUL

Throughout fiscal 2003, the Company will be implementing several new strategic initiatives designed to address the challenges we faced in fiscal 2002. We are reducing the number of merchandise styles offered in our stores, increasing the percentage of basic merchandise, enhancing the quality of our garments and reducing our prices. We cannot assure that our customers will respond favorably to our new merchandise presentation, or

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recognize the increased quality and value pricing of our merchandise. Furthermore, we cannot assure that we will be able to generate a sufficient level of transaction volume to offset our price reductions. If these strategies prove unsuccessful, it could have a material adverse effect on the Company's financial results.

NEED TO ANTICIPATE AND RESPOND TO MERCHANDISE TRENDS

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 adversely affect customer acceptance of our products or require substantial markdowns, which could have a material adverse effect on our business.

POTENTIAL DISRUPTIONS IN RECEIVING AND DISTRIBUTION

Our merchandise is shipped directly from manufacturers through freight consolidators to our distribution 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. Furthermore, it is possible that events beyond our control, such as a military action, strike 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.

SENSITIVITY TO ECONOMIC, REGIONAL AND OTHER BUSINESS CONDITIONS

Our business is sensitive to customers' spending patterns which, in turn,

are subject to prevailing regional and national economic conditions such as consumer confidence, recession, interest rates and taxation. During fiscal 2002, we reported a comparable store sales decline of 16%, due in part to the difficult economic climate. If this economic climate is sustained, we will continue to be at risk to comparable store sales declines. We are, and will continue to be, susceptible to changes in regional economic conditions, weather conditions, demographic and population characteristics, consumer preferences and other regional factors.

CHANGES IN COMPARABLE STORE SALES RESULTS FROM PERIOD TO PERIOD

Numerous factors affect our comparable store sales results including, among others, merchandise assortment, retail prices, fashion trends, weather conditions, economic conditions and recession, the retail sales environment and our success in executing our business strategy. During fiscal 2002, we reported a comparable store sales decline of 16%, which we believe was primarily due to a merchandise mix too heavily weighted toward fashion and containing an over assortment of styles, a lack of inventory depth in key items, and late merchandise deliveries. These challenges were further compounded by the continued weakness of the economy. 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. The investment community often follows comparable store sales results closely and significant fluctuations in such results may affect the price of our Common Stock. Any such variations in our comparable store sales results could have a material adverse effect on our business and on the market price of our Common Stock.

INABILITY TO SUSTAIN GROWTH STRATEGY

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 50 stores during fiscal 2003, which will include approximately 10 stores in Canada. 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 our 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 2002, our store base grew by 24%. As evidenced by our store growth plans for fiscal 2003, we anticipate that we will not be able to maintain the annual growth rate experienced in fiscal 2002. 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 cash-on-cash return we experienced in fiscal 2002 of 35% for stores that were operating for their

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first full fiscal year. 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 expect to spend approximately \$25 million to \$30 million in fiscal 2003 on capital expenditures. We believe that cash on hand, 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. However, it is possible that we may be required to seek additional funds for our capital and other cash flow needs, and we cannot assure you that we will be able to obtain such funds.

EFFECT OF FLUCTUATIONS IN QUARTERLY RESULTS AND SEASONALITY ON INCOME

As is the case with many apparel 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 2002, 26%, 19%, 26% and 29% of our net sales for stores open for the full

fiscal year occurred in the first, second, third and fourth quarters, respectively. In fiscal 2002, we experienced a second quarter loss and expect to experience a second quarter loss in fiscal 2003. It is possible 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 and weak sales during this period could have a material adverse effect on our business. In fiscal 2003, we anticipate that the late timing of the Easter holiday will shift our customers' purchasing patterns to later on in the first quarter as compared to the first quarter of fiscal 2002. Our third quarter results are heavily dependent upon back-to-school sales and our fourth quarter results are heavily dependent upon sales during the holiday season. Weak sales during either 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 economic conditions and recession, 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.

RISK OF EXPANSION

Although we operate in 47 states and Canada, approximately 70% of our domestic stores are in the eastern half of the United States, with concentrations of stores in metropolitan areas. In addition, as we continue to open stores in the western half of the United States and Canada, we will increase our susceptibility to differences in demographic and population characteristics, regional economic conditions, consumer preferences and other geographical factors. As we open stores in more extremely hot and cold climates, our merchandise assortments may need to more specifically address different climate and weather-related conditions. We cannot assure you that, as we expand, we will be able to achieve results comparable to those we have achieved in prior periods.

COMPETITION

The children's apparel retail business is 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.; J.C. Penney Company, Inc.; Sears, Roebuck and Co. and other department stores that sell children's apparel and accessories, as well as discount stores such as Wal-Mart Stores, Inc.; Target Corporation; Kohl's; Kmart Corporation and Kids "R" Us (a division of Toys "R" Us, Inc.). We also compete with a wide variety of specialty stores, other national and regional retail chains, catalog companies and Internet retailers. 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 The Children's Place and have access to significantly greater financial, marketing and other resources than we have. We cannot assure you that we will be able to compete successfully against existing or future competition.

DEPENDENCE ON 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 more than 200 independent manufacturers located primarily in Asia. 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 the Hong Kong-based trading company through which we purchase approximately 40% of our products. We also purchase approximately 25% of our products from a single agent in Taiwan and approximately 10% of our products from a single agent in Turkey, which have exclusive arrangements with 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 cover future growth could have a material adverse effect on our business.

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

Our business is subject to the risks generally associated with purchasing from foreign countries. 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. We cannot predict whether such changes or other charges or restrictions will be imposed upon the importation of our products in the future, or the effect any such event would have on our business.

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

THREAT OF TERRORISM OR MILITARY ACTIONS

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 would 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.

RELIANCE ON INFORMATION TECHNOLOGY

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.

RISK OF INTERNATIONAL EXPANSION

During fiscal 2002, we opened our first stores in Canada. Although we believe that our Canadian operation will become profitable, we can make no assurance that this will be the case. We cannot assure you that we will be able to address in a timely fashion the risks of international expansion such as governmental requirements over merchandise importation, employment, taxation and multi-lingual requirements. As a result of international expansion, we are at increased risk to fluctuations in foreign currencies.

FOREIGN CURRENCY FLUCTUATIONS

We conduct our business in U.S. dollars. However, because we purchase substantially all of our products overseas, the cost of these products may be affected by changes in the values of the relevant currencies. To date, we have not considered it necessary to hedge against foreign currency fluctuations. Since our expansion into Canada in fiscal 2002, the risk of foreign currency

fluctuations has increased. Although foreign currency fluctuations have had no material adverse effect on our business in the past, we cannot predict whether such fluctuations will have such an effect in the future.

DEPENDENCE ON KEY PERSONNEL

The leadership and expertise of Ezra Dabah, our Chairman of the Board and Chief Executive Officer, has been instrumental in our success. The loss of the services of Mr. Dabah could have a material adverse effect on our business. We have entered into an employment agreement with Mr. Dabah, but we cannot assure you that we will be able to retain his services. In addition, other members of management have substantial experience and expertise in our business and have made significant contributions to its growth and success. The loss of services of one or more of these individuals, or the inability to attract additional qualified managers or other personnel, 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.

CONTROL BY CERTAIN STOCKHOLDERS

As of April 15, 2003, Ezra Dabah and certain members of his family beneficially own 6,976,370 shares of our Common Stock, constituting approximately 26.1% of the outstanding Common Stock. Two funds managed by Saunders Karp & Megrue, L.P. ("SKM"), The SK Equity Fund, L.P. and SK Investment Fund, L.P. (collectively, the "SK Funds"), beneficially own 6,704,053 shares or approximately 25.2% of our outstanding Common Stock. Under a stockholders agreement, Mr. Dabah and such family members, the SK Funds and certain other stockholders, who own in the aggregate a majority of our outstanding Common Stock, have agreed to vote for the election of two nominees of the SK Funds and three nominees of Ezra Dabah to our Board of Directors in any election of directors. As a result, the SK Funds and Ezra Dabah are, and will continue to be, able to control the election of our directors. In addition, if the SK Funds and Mr. Dabah were to vote together, they would be able to determine the outcome of any matter submitted to a vote of our stockholders for approval.

STOCK PRICE VOLATILITY

Our Common Stock, which is quoted on the Nasdaq National Market, has experienced and is likely to experience in the future significant price and volume fluctuations, which could adversely affect the market price of the Common Stock without regard to 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 apparel retailers, the overall economy, the geopolitical environment and the condition of the financial markets could cause the price of our Common Stock to fluctuate substantially.

ANTI-TAKEOVER PROVISIONS OF APPLICABLE DELAWARE LAW AND OUR CERTIFICATE OF INCORPORATION AND BYLAWS

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 may discourage, delay or prevent a takeover attempt that a stockholder might consider in its best interest. These provisions, among other things, (1) classify our Board of Directors into three classes, each of which will serve for different three year periods, (2) provide that only the Chairman of the Board of Directors may call special meetings of the stockholders, (3) 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, (4) provide that all vacancies on our Board of Directors, including any vacancies resulting from an increase in the number of directors, may be filled by a majority of the remaining directors, even if the number is less than a quorum, (5) establish certain advance notice procedures for nominations of candidates for election as directors and for stockholder proposals to be considered at stockholders' meetings, and (6) require a vote of the holders of more than two-thirds of the shares entitled to vote in order to amend the foregoing provisions and certain other provisions of the Certificate of Incorporation and By-laws. In addition, the Board of Directors, without further action of the stockholders, is permitted to issue and fix the terms of preferred stock, which may have rights senior to those of the Common Stock. Moreover, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, as amended (the "DGCL"), 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 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.

LEGISLATION ACTIONS AND POTENTIAL NEW ACCOUNTING PRONOUNCEMENTS

In order to comply with the newly adopted Sarbanes-Oxley Act of 2002, as well as proposed changes in listing standards by Nasdaq, and proposed accounting changes by the Securities and Exchange Commission, we may be required to increase 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 to account for employee stock options as compensation expense among others, could increase the expenses we report under GAAP and affect our operating results.

ITEM 2.--PROPERTIES

We currently support our stores with an approximately 200,000 square foot distribution center and corporate headquarters facility in New Jersey, an approximately 250,000 square foot distribution center in California, and an approximately 30,000 square foot distribution center in Ontario, Canada, all of which are leased. We expect that our domestic distribution centers should be able to support over 1,000 stores. In addition, we operate other leased facilities located near our headquarters, which we use for e-commerce fulfillment, distribution to local stores and ancillary office space.

We lease all of our existing store locations, with lease terms expiring between 2003 and 2023 and with an average unexpired lease term of 7.4 years. The leases for most of our existing stores are for initial terms of ten 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

We are involved in various legal proceedings arising in the normal course of our business. In the opinion of management, any ultimate liability arising out of such proceedings will not 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

Our Common Stock is listed on the Nasdaq National Market under the symbol "PLCE." The following table sets forth the range of high and low closing sales prices on the Nasdaq National Market of our Common Stock for the calendar periods indicated.

| | HIGH ----- | LOW ----- |
|---------------------|---------------|--------------|
| 2000 | | |
| First Quarter..... | \$ 23.75 | \$ 10.38 |
| Second Quarter..... | 28.19 | 15.50 |
| Third Quarter..... | 35.50 | 20.75 |
| Fourth Quarter..... | 28.75 | 14.94 |
| 2001 | | |
| First Quarter..... | 26.50 | 19.50 |
| Second Quarter..... | 33.25 | 21.90 |
| Third Quarter..... | 26.82 | 16.29 |

| | | |
|---------------------|-------|-------|
| Fourth Quarter..... | 37.30 | 25.01 |
| 2002 | | |
| First Quarter..... | 36.14 | 30.91 |
| Second Quarter..... | 35.75 | 17.82 |
| Third Quarter..... | 20.25 | 6.90 |
| Fourth Quarter..... | 14.11 | 8.75 |

On April 15, 2003, the last reported sale price of our Common Stock was \$14.45 per share. As of April 15, 2003, there were approximately 5,057 holders of record of our Common Stock.

We have never paid dividends on our Common Stock and do not anticipate paying dividends on our Common Stock in the foreseeable future. Our Board of Directors presently intends to retain any future earnings of The Children's Place to finance our operations and the expansion of our business. Our working capital facility prohibits any payment of dividends. Any determination in the future to pay dividends will depend upon our earnings, financial condition, cash requirements, future prospects, covenants in our working capital facility and any future debt instruments and such other factors as the Board of Directors deems appropriate at the time.

ITEM 6. -- SELECTED FINANCIAL DATA

The following table sets forth certain historical financial and operating data for The Children's Place. 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. Certain prior fiscal year balances set forth below have been reclassified to conform to fiscal 2002 presentation.

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

BALANCE SHEET DATA (IN THOUSANDS):

| | | | | | | | | | | |
|----------------------------|----|---------|----|---------|----|---------|----|---------|----|---------|
| Working capital | \$ | 79,274 | \$ | 77,342 | \$ | 40,944 | \$ | 27,340 | \$ | 35,531 |
| Total assets | | 309,328 | | 282,849 | | 231,696 | | 170,959 | | 110,761 |
| Long-term debt | | 0 | | 0 | | 0 | | 0 | | 2 |
| Stockholders' equity | | 229,008 | | 217,006 | | 166,667 | | 120,066 | | 80,607 |

- (1) All references to our fiscal years refer to the 52- or 53-week year ended on the Saturday nearest to January 31 of the following year. For example, references to fiscal 2002 mean the fiscal year ended February 1, 2003. Fiscal 2000 was a 53-week year.
- (2) The asset impairment charges in fiscal 2002 represented the write down of fixed assets in 19 under performing stores to fair value.
- (3) We define comparable store sales as net sales from stores that have been open for more than 14 full months and that have not been substantially remodeled during that time.
- (4) For purposes of determining the comparable store sales increase, average net sales per store and average net sales per gross square foot, fiscal 2000 results were recalculated based on a 52-week year.
- (5) Average net sales per store represents net sales from stores open throughout the full period divided by the number of such stores.
- (6) Average square footage per store represents the square footage of stores open on the last day of the period divided by the number of such stores.
- (7) Average net sales per gross square foot represents net sales from stores open throughout the full period divided by the gross square footage of such stores.

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 16. 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 "RISK FACTORS."

OVERVIEW

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

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

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

As a result of our disappointing performance in fiscal 2002, we recorded a non-cash asset impairment charge of \$3.2 million before taxes for the write down of leasehold improvements and fixtures in 19 underperforming stores. Impairment

charges were recorded because the cash flow projections for these stores over their remaining lease terms were insufficient to recapture the net book value of their assets.

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

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

merchandise assortment that satisfies customer demand. Any inability to provide the proper quantity of appropriate merchandise in a timely manner could increase future markdown rates.

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

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

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

RESULTS OF OPERATIONS

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

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

YEAR ENDED FEBRUARY 1, 2003 COMPARED TO YEAR ENDED FEBRUARY 2, 2002

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

During fiscal 2002, our comparable store sales decline resulted from a merchandise mix that was too heavily weighted towards fashion and contained an over assortment of styles and low inventory levels partially caused by late deliveries. In the third and fourth quarters of fiscal 2002, the West Coast ports labor dispute also contributed to delivery delays of our holiday lines. These shipment delays resulted in a disjointed store presentation and adversely impacted the customers' ability to purchase a coordinated outfit. Our comparable store sales decline was also unfavorably impacted by a slowdown in store traffic

that was caused in part by the difficult economic climate. As a result, we experienced a lower average transaction size and a lower number of comparable store transactions compared to fiscal 2001. In addition, our average retail price was lower as a result of aggressive markdowns taken throughout fiscal 2002, as well as our strategic decision to lower prices in order to be more competitive during the third and fourth quarters of fiscal 2002.

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

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

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

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

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

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

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

YEAR ENDED FEBRUARY 2, 2002 COMPARED TO YEAR ENDED FEBRUARY 3, 2001

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

Our comparable store sales decline in fiscal 2001 was attributable in part

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

Gross profit increased \$31.7 million to \$279.7 million during fiscal 2001 from \$248.0 million 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

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2001, as compared with 26.5% of net sales during fiscal 2000. The increase, as a percentage of net sales, was primarily due to higher store payroll and medical costs, partially offset by lower marketing costs, and the leveraging of corporate administrative expenses. In addition, fiscal 2000 included certain one-time expenses.

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

DEBT SERVICE/LIQUIDITY

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

During fiscal 2002, our principal working capital facility provided for borrowings up to \$75 million (including a sublimit for letters of credit of \$60 million). Foothill Capital Corporation acted as our agent bank for a syndicated group of lenders on this facility. This working capital facility also contained provisions to increase borrowings up to \$100 million (including a sublimit for letters of credit of \$80 million), subject to sufficient collateralization and the syndication of the incremental line of borrowing. The amount that could be borrowed under our working capital facility depended upon our levels of inventory and accounts receivable. Amounts outstanding under the facility bore interest at a floating rate equal to the prime rate or, at our option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread was 1.25% to 2.50%,

depending upon our financial performance from time to time. Borrowings under the facility matured in July 2003 and the facility provided for one year renewal options. The working capital facility contained certain financial covenants, including among others, the maintenance of minimum levels of earnings and current ratios, and imposed certain limitations on our annual capital expenditures, as well as the prohibition on the payment of dividends. Credit extended under the working capital facility was secured by a first priority interest in our present and future assets, as well as the assets of our subsidiaries. We were in compliance with all of the financial covenants under our working capital facility as of February 1, 2003.

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

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

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credit facility was \$3.2 million as of February 1, 2003. Interest rates charged under the Canadian credit facility were 4.5% as of February 1, 2003.

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

CASH FLOWS/CAPITAL EXPENDITURES

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

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

made in fiscal 2000 to equip and furnish our West Coast distribution center.

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

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

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

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

| CONTRACTUAL OBLIGATIONS (DOLLARS IN THOUSANDS) | PAYMENTS DUE BY PERIOD | | | | |
|---|------------------------|---------------------|-------------|-------------|---------------|
| | TOTAL | LESS THAN 1 YEAR | 1 - 3 YEARS | 4 - 5 YEARS | AFTER 5 YEARS |
| Long-term Debt | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Capital Leases | 0 | 0 | 0 | 0 | 0 |
| Operating Leases | 786,515 | 96,287 | 292,589 | 171,611 | 226,028 |

| OTHER COMMERCIAL COMMITMENTS (DOLLARS IN THOUSANDS) | TOTAL AMOUNTS COMMITTED | AMOUNTS OF COMMITMENT EXPIRATION PER PERIOD | | | |
|---|-------------------------------|---|-------------|-------------|---------------|
| | | LESS THAN 1 YEAR | 1 - 3 YEARS | 4 - 5 YEARS | AFTER 5 YEARS |
| Working Capital Facility | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Merchandise Letters of Credit | 27,686 | 27,686 | 0 | 0 | 0 |
| Standby Letters of Credit (1) | 4,970 | 4,641 | 250 | 79 | 0 |

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

QUARTERLY RESULTS AND SEASONALITY

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

Our business is also subject to seasonal influences, with heavier concentrations of sales during the back-to-school and holiday seasons. As is the case with many retailers of apparel and related merchandise, we typically experience lower net sales and net income during the first two fiscal quarters, and net sales and net income are lower during the second fiscal quarter than during the first fiscal quarter. Our first quarter results are heavily dependent upon sales during the period leading up to the Easter holiday. In fiscal 2003, we anticipate that the late timing of the Easter holiday will shift our customers purchasing patterns to later on in the first quarter as compared to the first quarter of 2002. Our third quarter results are heavily dependent upon back-to-school sales and our fourth quarter results are heavily dependent upon sales during the holiday season. We experienced losses in the second quarter of 2002 and the second quarter of 2001 and expect to experience a second quarter loss in fiscal 2003. It is also possible we could experience losses in other quarters. Because of these fluctuations in net sales and net income (loss), the

results of operations of any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year or any future quarter.

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

| FISCAL YEAR ENDED FEBRUARY 1, 2003 | | | | |
|---|------------------|-------------------|------------------|-------------------|
| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
| (DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE DATA) | | | | |
| Net sales..... | \$ 173,047 | \$ 128,295 | \$ 173,403 | \$196,664 |
| Gross profit..... | 79,128 | 36,386 | 61,740 | 71,434 |
| Operating income (loss)..... | 24,485 | (16,652) | 2,491 | 4,541 |
| Net income (loss)..... | 15,208 | (10,167) | 1,604 | 2,289 |
| Basic net income (loss) per common share..... | \$0.58 | \$ (0.38) | \$0.06 | \$0.09 |
| Diluted net income (loss) per common share..... | \$0.56 | \$ (0.38) | \$0.06 | \$0.09 |
| Comparable store sales (decrease)..... | (11)% | (9)% | (21)% | (19)% |
| Stores open at end of period..... | 554 | 600 | 629 | 643 |

| FISCAL YEAR ENDED FEBRUARY 2, 2002 | | | | |
|---|------------------|-------------------|------------------|-------------------|
| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
| (DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE DATA) | | | | |
| Net sales..... | \$ 160,461 | \$ 116,318 | \$ 181,433 | \$198,744 |
| Gross profit..... | 68,162 | 40,819 | 84,070 | 86,619 |
| Operating income (loss)..... | 21,041 | (6,267) | 30,898 | 30,329 |
| Net income (loss)..... | 12,818 | (3,892) | 18,719 | 18,937 |
| Basic net income (loss) per common share..... | \$0.49 | \$ (0.15) | \$0.71 | \$0.72 |
| Diluted net income (loss) per common share..... | \$0.48 | \$ (0.15) | \$0.70 | \$0.70 |
| Comparable store sales (decrease)..... | (2)% | (16)% | (9)% | (6)% |
| Stores open at end of period..... | 437 | 481 | 513 | 520 |

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

None.

ITEM 8.-- FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 16.

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

In July 2002, the Company made a determination not to engage its former independent accountants, Arthur Andersen LLP, as its independent public accountants and appointed Deloitte & Touche LLP as its new independent accountants, effective immediately. Additional information regarding this change in independent accountants is contained in the Company's report on Form 8-K dated July 15, 2002 and in the Company's Proxy Statement to be filed with the Securities and Exchange Commission for its annual meeting of stockholders to be held on June 17, 2003 ("2003 Proxy Statement").

ITEM 10.--DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated herein by reference to the sections entitled "Election of Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the 2003 Proxy Statement. See also Item 1.

ITEM 11.- EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections entitled "Information Regarding the Board of Directors - Compensation of Directors" and "Executive Compensation" in the 2003 Proxy Statement to be filed with the Securities and Exchange Commission.

ITEM 12.--SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the 2003 Proxy Statement to be filed with the Securities and Exchange Commission.

ITEM 13.--CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the sections entitled "Executive Compensation - Employment Agreements," and "Compensation Committee Interlocks and Insider Participation" and "Certain Relationships and Related Transactions" in the 2003 Proxy Statement to be filed with the Securities and Exchange Commission.

ITEM 14.--CONTROLS AND PROCEDURES

During the 90-day period prior to the filing of this report, management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, and as of the date of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

ITEM 15.--PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section entitled "Fees Paid to Accountants for Services Rendered During the Last Fiscal Year in the 2003 Proxy Statement to be filed with the Securities and Exchange Commission.

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PART IV

ITEM 16.--EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) FINANCIAL STATEMENTS

The following documents are filed as part of this report:

Independent Auditors' Report
Report of Independent Public Accountants
Consolidated Balance Sheets as of February 1, 2003 and February 2, 2002
Consolidated Statements of Income for each of the three fiscal years
ended February 1, 2003
Consolidated Statements of Changes in
Stockholders' Equity for each of the three fiscal years ended
February 1, 2003
Consolidated Statements of Cash Flows for each of the three fiscal
years ended February 1, 2003
Notes to Consolidated Financial Statements

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE FISCAL YEARS ENDED
 FEBRUARY 1, 2003, FEBRUARY 2, 2002 AND FEBRUARY 3, 2001
 THE CHILDREN'S PLACE RETAIL STORES, INC.

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| Report of Independent Public Accountants..... | 27 |
| Consolidated Balance Sheets..... | 28 |
| Consolidated Statements of Income..... | 29 |
| Consolidated Statements of Changes in Stockholders' Equity..... | 30 |
| Consolidated Statements of Cash Flows..... | 31 |
| Notes to Consolidated Financial Statements..... | 32 |

INDEPENDENT AUDITORS' REPORT

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

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

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

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

As discussed above, the consolidated financial statements of The Children's Place Retail Stores, Inc. as of February 2, 2002 and for the fiscal years ended February 2, 2002 and February 3, 2001 were audited by other auditors who have ceased operations. As described in Note 1, these financial statements have been revised to include the disclosures as required by Statement of Financial

Accounting Standards No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION -TRANSITION AND DISCLOSURE, AN AMENDMENT OF FASB STATEMENT NO. 123. Our audit procedures with respect to the disclosures in Note 1 with respect to the years ended February 2, 2002 and February 3, 2001 included (1) comparing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing compensation expense, net of tax, as calculated under Statement of Financial Accounting Standards No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, to the Company's underlying analysis obtained from management, and (2) testing the mathematical accuracy of the reconciliation of reported net income to pro forma net income and the related earnings per share amounts. In our opinion, the disclosures relating to stock based compensation for the fiscal years ended February 2, 2002 and February 3, 2001 in Note 1 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements as of February 2, 2002 and for the fiscal years ended February 2, 2002 and February 3, 2001 of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as of February 2, 2002 and for the fiscal years ended February 2, 2002 and February 3, 2001 taken as a whole.

DELOITTE & TOUCHE LLP

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

Arthur Andersen LLP

New York, New York
February 28, 2002

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CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | FEBRUARY 1, 2003 | FEBRUARY 2, 2002 |
|--|---------------------|---------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 36,645 | \$ 45,191 |
| Accounts receivable | 13,571 | 11,895 |
| Inventories | 75,417 | 59,095 |
| Prepaid expenses and other current assets | 19,277 | 11,997 |
| Deferred income taxes | 293 | 3,847 |
| | ----- | ----- |
| Total current assets | 145,203 | 132,025 |
| Property and equipment: | | |
| Leasehold improvements | 118,252 | 98,864 |
| Store fixtures and equipment | 116,980 | 96,710 |
| Capitalized software | 20,284 | 14,760 |
| Construction in progress | 973 | 4,461 |
| | ----- | ----- |
| | 256,489 | 214,795 |
| Less accumulated depreciation and amortization . | (101,489) | (70,138) |
| | ----- | ----- |
| Property and equipment, net | 155,000 | 144,657 |
| Deferred income taxes | 8,288 | 5,332 |
| Other assets | 837 | 835 |
| | ----- | ----- |
| Total assets | \$ 309,328 | \$ 282,849 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Current liabilities:

| | | |
|--|-----------|-----------|
| Accounts payable | \$ 30,805 | \$ 22,177 |
| Taxes payable | 198 | 6,195 |
| Accrued expenses and other current liabilities . | 34,926 | 26,311 |
| | ----- | ----- |
| Total current liabilities | 65,929 | 54,683 |
| Other long-term liabilities | 14,391 | 11,160 |
| | ----- | ----- |
| Total liabilities | 80,320 | 65,843 |
| | ----- | ----- |

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

| | | |
|--|------------|------------|
| Common stock, \$0.10 par value | 2,657 | 2,637 |
| Preferred stock, \$1.00 par value | 0 | 0 |
| Additional paid-in capital | 98,765 | 95,982 |
| Accumulated other comprehensive income (loss) | 253 | (12) |
| Retained earnings | 127,333 | 118,399 |
| | ----- | ----- |
| Total stockholders' equity | 229,008 | 217,006 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 309,328 | \$ 282,849 |
| | ===== | ===== |

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

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

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

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

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

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

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME | TOTAL STOCKHOLDERS' EQUITY | COMPREHENSIVE (LOSS) INCOME |
|--|--------------|----------|----------------------------------|----------------------|--|----------------------------------|-----------------------------------|
| | SHARES | AMOUNT | | | | | |
| BALANCE, January 29, 2000 | 25,698 | \$ 2,570 | \$ 88,376 | \$ 29,127 | \$ (7) | \$ 120,066 | |
| Exercise of stock options and employee stock purchases..... | 397 | 40 | 2,585 | -- | -- | 2,625 | |
| Tax benefit of stock option exercises | -- | -- | 1,291 | -- | -- | 1,291 | |
| Change in cumulative translation adjustment..... | -- | -- | -- | -- | (5) | (5) | \$ (5) |
| Net income | -- | -- | -- | 42,690 | -- | 42,690 | 42,690 |
| Comprehensive income | | | | | | | \$ 42,685 |
| BALANCE, February 3, 2001 | 26,095 | 2,610 | 92,252 | 71,817 | (12) | 166,667 | |
| Exercise of stock options and employee stock purchases..... | 277 | 27 | 2,689 | -- | -- | 2,716 | |
| Tax benefit of stock option exercises | -- | -- | 1,041 | -- | -- | 1,041 | |
| Net income | -- | -- | -- | 46,582 | -- | 46,582 | \$ 46,582 |
| Comprehensive income | | | | | | | \$ 46,582 |

| | | | | | | | |
|--|--------|----------|-----------|------------|--------|------------|----------|
| BALANCE, February 2, 2002 | 26,372 | 2,637 | 95,982 | 118,399 | (12) | 217,006 | |
| Exercise of stock options and employee stock purchases..... | 198 | 20 | 2,034 | -- | -- | 2,054 | |
| Tax benefit of stock option exercises | -- | -- | 749 | -- | -- | 749 | |
| Change in cumulative translation adjustment..... | -- | -- | -- | -- | 265 | 265 | \$ 265 |
| Net income | -- | -- | -- | 8,934 | -- | 8,934 | \$ 8,934 |
| Comprehensive income | | | | | | | \$ 9,199 |
| | | | | | | | ===== |
| BALANCE, February 1, 2003 | 26,570 | \$ 2,657 | \$ 98,765 | \$ 127,333 | \$ 253 | \$ 229,008 | |
| | ===== | ===== | ===== | ===== | ===== | ===== | |

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

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THE CHILDREN'S PLACE RETAIL STORES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

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

OTHER CASH FLOW INFORMATION:

| | | | | | | |
|--|----|--------|----|--------|----|--------|
| Cash paid during the year for interest | \$ | 197 | \$ | 904 | \$ | 1,983 |
| Cash paid during the year for income taxes | | 14,896 | | 25,555 | | 25,907 |

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

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 1, 2003, the Company operated 643 stores in the United States and Canada. The Company also has offices in Asia which enables the Company to capitalize on new sourcing opportunities, respond to changing merchandise trends and ensure product quality assurance.

FISCAL YEAR

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

USE OF ESTIMATES

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

CONSOLIDATION

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

RECLASSIFICATIONS

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

REVENUE RECOGNITION

The Company recognizes revenue, including shipping and handling fees billed to customers, upon purchase at the Company's retail stores or when shipped from a distribution center if the product was purchased on the Company's website. An allowance for estimated sales returns is recorded and is reflected in accrued

expenses in the accompanying consolidated balance sheets. The allowance for estimated sales returns were approximately \$860,000 and \$861,000 as of February 1, 2003 and February 2, 2002, respectively. The Company's policy with respect to gift cards is to record revenue as the gift cards are redeemed for merchandise. Prior to their redemption, gift cards are recorded as a liability. Additionally, a portion of revenue is deferred for our private label credit card promotions that provide a future discount on purchases once a minimum customer purchase threshold is satisfied.

COST OF SALES

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

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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 (CONTINUED)

PROPERTY AND EQUIPMENT

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

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

DEFERRED FINANCING COSTS

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

ACCOUNTING FOR IMPAIRMENT OF LONG-LIVED ASSETS

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

PRE-OPENING COSTS

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

MARKETING COSTS

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

DEFERRED RENT

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

INCOME TAXES

The Company computes income taxes using the liability method. This standard requires recognition of deferred tax assets and liabilities, measured by enacted rates, attributable to temporary differences between financial statement and income tax basis of assets and liabilities. Temporary differences result primarily from accelerated

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

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

INCOME TAXES (CONTINUED)

depreciation and amortization for tax purposes and various accruals and reserves being deductible for future tax periods.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

ACCOUNTING FOR STOCK BASED COMPENSATION

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

| FISCAL YEAR ENDED | | |
|---------------------|---------------------|---------------------|
| FEBRUARY 1, 2003 | FEBRUARY 2, 2002 | FEBRUARY 3, 2001 |
| ----- | ----- | ----- |

| | | | |
|---|---------------------|----------------------|----------------------|
| Net income - | | | |
| As reported..... | \$ 8,934,000 | \$ 46,582,000 | \$ 42,690,000 |
| Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects..... | 3,642,000 | 3,230,000 | 3,044,000 |
| Pro forma..... | <u>\$ 5,292,000</u> | <u>\$ 43,352,000</u> | <u>\$ 39,646,000</u> |
| Earnings per share - | | | |
| Basic - as reported..... | \$ 0.34 | \$ 1.77 | \$ 1.65 |
| Basic - pro forma..... | \$ 0.20 | \$ 1.65 | \$ 1.53 |
| Diluted - as reported..... | \$ 0.33 | \$ 1.73 | \$ 1.60 |
| Diluted - pro forma..... | \$ 0.20 | \$ 1.61 | \$ 1.49 |

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

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

ACCOUNTING FOR STOCK BASED COMPENSATION (CONTINUED)

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

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

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

NET INCOME PER COMMON SHARE

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

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

| | FOR THE FISCAL YEAR ENDED | | |
|---|---------------------------|---------------------|---------------------|
| | FEBRUARY 1, 2003 | FEBRUARY 2, 2002 | FEBRUARY 3, 2001 |
| Net income (in thousands)..... | \$ 8,934 | \$ 46,582 | \$ 42,690 |
| Basic weighted average common shares..... | 26,501,315 | 26,262,173 | 25,846,517 |
| Dilutive effect of stock options..... | 476,412 | 701,489 | 821,828 |
| Diluted weighted average common shares..... | <u>26,977,727</u> | <u>26,963,662</u> | <u>26,668,345</u> |
| Antidilutive options..... | 891,117 | 257,237 | 356,740 |

Antidilutive options consist of the weighted average of stock options for the respective periods ended February 1, 2003, February 2, 2002 and February 3, 2001 that had an exercise price greater than the average market price during the

period. Such options are therefore excluded from the computation of diluted shares.

DERIVATIVE INSTRUMENTS

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

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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 (CONTINUED)

DERIVATIVE INSTRUMENTS (CONTINUED)

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

FOREIGN CURRENCY TRANSLATION

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

NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends SFAS No. 13 "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that

have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The adoption of this new principle did not have a material impact on the Company's results of operations or financial position.

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

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In

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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
(CONTINUED)

NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to SFAS 123 contained in SFAS 148 are effective for financial statements for fiscal years ending after December 15, 2002. See this note and Note 9 - Stock Option and Purchase Plans for the required disclosures.

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

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

2. SHORT-TERM BORROWINGS

FOOTHILL CREDIT FACILITY

The Company has a working capital facility (the "Foothill Credit Facility") with Foothill Capital Corporation ("Foothill Capital"). The Foothill Credit Facility provides for up to \$75 million in borrowings which includes a sublimit of up to \$60 million in letters of credit. Foothill Capital acts as our agent

bank for a syndicated group of lenders on this facility. This working capital facility also contains provisions to increase borrowings up to \$100 million (including a sublimit for letters of credit of \$80 million), subject to sufficient collateralization and the syndication of the incremental line of borrowing. The amount that can be borrowed under the working capital facility depends on the Company's levels of inventory and accounts receivable.

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

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

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

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

2. SHORT-TERM BORROWINGS (CONTINUED)

FOOTHILL CREDIT FACILITY (CONTINUED)

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

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

| | FOR THE FISCAL YEAR ENDED | |
|--|---------------------------|---------------------------|
| | ----- FEBRUARY 1, 2003 | ----- FEBRUARY 2, 2002 |
| | ----- | ----- |
| Weighted average balances outstanding..... | \$ 196 | \$ 9,307 |
| Weighted average interest rate..... | 4.61% | 5.57% |
| Maximum balance outstanding..... | \$ 1,259 | \$ 31,034 |

TORONTO DOMINION CREDIT FACILITY

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

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

FOR THE FISCAL YEAR ENDED
FEBRUARY 1, 2003

| | | |
|--|----|-------|
| Weighted average balances outstanding..... | \$ | 992 |
| Weighted average interest rate..... | | 4.5% |
| Maximum balance outstanding..... | \$ | 1,647 |

3. CANADIAN LEASE ACQUISITION

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

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

4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

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

5. COMMITMENTS AND CONTINGENCIES

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

Rent expense is as follows (dollars in thousands):

FOR THE FISCAL YEAR ENDED

| | | FEBRUARY 1, 2003 | | FEBRUARY 2, 2002 | | FEBRUARY 3, 2001 |
|---|----|---------------------|----|---------------------|----|---------------------|
| | | ----- | | ----- | | ----- |
| Store and distribution facilities rent: | | | | | | |
| Minimum rentals | \$ | 78,743 | \$ | 62,521 | \$ | 47,314 |

| | | | |
|--|-----------|-----------|-----------|
| Additional rent based upon sales | 161 | 528 | 848 |
| Total rent expense | \$ 78,904 | \$ 63,049 | \$ 48,162 |

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

| | OPERATING LEASES |
|------------------------------------|---------------------|
| | ----- |
| Fiscal year | |
| 2003 | \$ 96,287 |
| 2004 | 98,667 |
| 2005 | 98,047 |
| 2006 | 95,875 |
| 2007 | 89,223 |
| Thereafter | 308,416 |
| | ----- |
| Total minimum lease payments | \$ 786,515 |
| | ===== |

6. LITIGATION

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

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

7. INCOME TAXES

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

| | FISCAL YEAR ENDED | | |
|----------------------------------|---------------------|---------------------|---------------------|
| | FEBRUARY 1, 2003 | FEBRUARY 2, 2002 | FEBRUARY 3, 2001 |
| | ----- | | |
| Current - | | | |
| Federal | \$ 4,405 | \$ 25,480 | \$ 21,477 |
| Foreign | 702 | 679 | 694 |
| State | 772 | 5,466 | 4,278 |
| Deferred - | | | |
| Federal | 1,268 | (2,099) | 311 |
| State | (669) | (359) | 701 |
| | ----- | ----- | ----- |
| Provision for income taxes | \$ 6,478 | \$ 29,167 | \$ 27,461 |
| | ===== | ===== | ===== |

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

| | FISCAL YEAR ENDED | | |
|---|---------------------|---------------------|---------------------|
| | FEBRUARY 1, 2003 | FEBRUARY 2, 2002 | FEBRUARY 3, 2001 |
| | ----- | | |
| Calculated income tax provision | \$ 5,394 | \$ 26,512 | \$ 24,553 |
| State income taxes, net of federal benefit | 68 | 3,320 | 3,236 |
| Foreign tax | (554) | (718) | (733) |
| Losses for which no tax benefit is recognized | 1,589 | 0 | 0 |
| Nondeductible expenses | 10 | 38 | 16 |
| Other | (29) | 15 | 389 |

| | | | |
|--|-------------------|--------------------|--------------------|
| Tax provision as shown on the statements of income | ----- \$ 6,478 | ----- \$ 29,167 | ----- \$ 27,461 |
| | ===== | ===== | ===== |

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

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

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

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

8. STOCKHOLDERS' EQUITY

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

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

9. STOCK OPTION AND PURCHASE PLANS

STOCK OPTION PLANS

The Company has two stock option plans: the 1996 Plan and the 1997 Plan. The 1996 Plan authorized the granting of incentive stock options with respect to 1,743,240 shares of Common Stock. The 1997 Plan was authorized and amended to grant options with respect to 4,000,000 shares of Common Stock. As of February

1, 2003, there were 57,300 shares available for grant under the 1996 Plan and 1,754,360 shares available for grant under the 1997 Plan.

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

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

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

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

| EXERCISE PRICES | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|-----------------|---------------------------------|---|---------------------------------|---------------------------------|---------------------------------|
| | OUTSTANDING AT FEBRUARY 1, 2003 | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | EXERCISABLE AT FEBRUARY 1, 2003 | WEIGHTED AVERAGE EXERCISE PRICE |
| \$2.68 - 2.68 | 158,680 | 3.4 | \$ 2.68 | 158,680 | \$ 2.68 |
| \$8.70 - 12.48 | 437,705 | 7.6 | 10.06 | 188,335 | 9.29 |
| \$13.97 - 20.31 | 687,950 | 6.7 | 16.86 | 378,670 | 16.39 |
| \$21.63 - 30.97 | 632,330 | 8.4 | 25.49 | 163,479 | 25.38 |
| \$32.80 - 41.47 | 168,600 | 7.1 | 36.84 | 71,480 | 37.76 |
| ===== | ===== | ===== | ===== | ===== | ===== |
| \$2.68 - 41.47 | 2,085,265 | 7.2 | \$18.59 | 960,644 | \$15.85 |
| ===== | ===== | ===== | ===== | ===== | ===== |

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

9. STOCK OPTION AND PURCHASE PLANS (CONTINUED)

STOCK PURCHASE PLANS

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

10. SAVINGS AND INVESTMENT PLAN

The Company has adopted The Children's Place 401(k) Savings and Investment Plan (the "401(k) Plan"), which qualifies under Section 401(k) of the Internal

Revenue Code of 1986, as amended. The 401(k) Plan is a defined contribution plan established to provide retirement benefits for all employees who have completed one year of service with the Company and attained 21 years of age.

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

11. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

| | FISCAL YEAR ENDED FEBRUARY 1, 2003 | | | |
|--|------------------------------------|----------------|---------------|----------------|
| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
| Net sales | \$ 173,047 | \$ 128,295 | \$ 173,403 | \$ 196,664 |
| Gross profit | 79,128 | 36,386 | 61,740 | 71,434 |
| Net income (loss) | 15,208 | (10,167) | 1,604 | 2,289 |
| Basic net income (loss) per common share | \$ 0.58 | \$ (0.38) | \$ 0.06 | \$ 0.09 |
| Diluted net income (loss) per common share | \$ 0.56 | \$ (0.38) | \$ 0.06 | \$ 0.09 |

| | FISCAL YEAR ENDED FEBRUARY 2, 2002 | | | |
|---|------------------------------------|----------------|---------------|----------------|
| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
| Net sales | \$ 160,461 | \$ 116,318 | \$ 181,433 | \$ 198,744 |
| Gross profit | 68,162 | 40,819 | 84,070 | 86,619 |
| Net income (loss) | 12,818 | (3,892) | 18,719 | 18,937 |
| Basic net income (loss) per common share | \$ 0.49 | \$ (0.15) | \$ 0.71 | \$ 0.72 |
| Diluted net income (loss) per common share..... | \$ 0.48 | \$ (0.15) | \$ 0.70 | \$ 0.70 |

12. RELATED PARTY TRANSACTIONS

SKM FINANCIAL ADVISORY SERVICES

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

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

12. RELATED PARTY TRANSACTIONS (CONTINUED)

SKM FINANCIAL ADVISORY SERVICES (CONTINUED)

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

STOCKHOLDERS AGREEMENT

The Company and certain of its stockholders, who as of February 1, 2003 own in the aggregate a majority of the Common Stock, are parties to a Stockholders Agreement (the "Stockholders Agreement"). The Stockholders Agreement places certain limitations upon the transfer, in privately negotiated transactions, of

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

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

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

EMPLOYMENT AGREEMENTS

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

EXECUTIVE OFFICERS

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

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

SHAREHOLDER RECEIVABLE

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

13. SUBSEQUENT EVENT

WELLS FARGO CREDIT FACILITY

In April 2003, the Company amended, restated and extended its principal

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

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(a) (2) FINANCIAL STATEMENT SCHEDULES

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

(a) (3) EXHIBITS

3.1* Amended and Restated Certificate of Incorporation of the Company.
3.2* Amended and Restated By-Laws of the Company.
4.1* Form of Certificate for Common Stock of the Company.
9.1* Amended and Restated Stockholders Agreement, dated as of September 18, 1997.
10.1* 1996 Stock Option Plan of The Children's Place Retail Stores, Inc.
10.2* 1997 Stock Option Plan of The Children's Place Retail Stores, Inc.
10.3* The Children's Place Retail Stores, Inc. 401(k) Plan.
10.4* Form of The Children's Place Retail Stores, Inc. Employee Stock Purchase Plan.
10.5* The Children's Place Retail Stores, Inc. Management Incentive Plan.
10.8* Employment Agreement dated as of June 27, 1996 between the Company and Ezra Dabah.
10.10* Form of Indemnification Agreement between the Company and the members of its Board of Directors.
10.12* Form of Amended and Restated Registration Rights Agreement, dated as of September 18, 1997.
10.17* Buying Agency Agreement dated September 17, 1996 between the Company and KS Best International.
10.18* Advisory Agreement dated June 28, 1996 between the Company and Saunders Karp & Megrue, L.P.
10.20** Lease for a distribution center and corporate headquarters facility between the Company and Hartz Mountain Associates, dated June 30, 1998.
10.21** Software Purchase and license agreement between the Company and Trimax Inc. dated August 14, 1998.
10.22*** Amendment to a lease for a distribution center and corporate headquarters facility between the Company and Hartz Mountain Associates, dated November 20, 1998.
10.23## Second Amended and Restated Loan and Security Agreement between the Company and Foothill Capital Corporation, dated July 5, 2000.
10.24++ Amended and Restated Merchant Services Agreement between the Company and Hurley State Bank, dated as of July 1, 2000.
10.25++ Lease Agreement between the Company and Haven Gateway LLC, dated as of August 17, 2000.
10.26++ Lease Agreement between the Company and Hartz Mountain Associates, dated as of October 31, 2000.
10.27< Agreement as of May 23, 2002 between the Company and Toronto-Dominion Bank for a Demand Facility.
10.28# Lease Agreement as of August 21, 2000 between Orion Properties LTD., and Orlando Corporation and HMV Canada, Inc. Together with, Consent to Assignment as of April 5, 2002 between the Company and Orion Properties LTD., and Orlando Corporation and HMV Canada, Inc. Together with, Assignment of Lease as of April 10, 2002 between the Company and HMV Canada, Inc.
10.29@ Amendment Number One to Second Amended and Restated Loan and Security Agreement between the Company and Foothill Capital Corporation, dated April, 2002.
10.30@ Letter Amendment to Second Amended and Restated Loan and Security Agreement between the Company and Foothill Capital Corporation, dated September 26, 2002.
10.31 Third Amended and Restated Loan and Security Agreement between the Company, the financial institutions named herein and Wells Fargo Retail Finance, LLC, dated April 25, 2003.
21.1 Subsidiaries of the Company
23.1 Independent Auditors' Consent
23.2 Notice Regarding Arthur Andersen LLP

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

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** Incorporated by reference to the registrant's quarterly report on Form 10-Q for the period ended August 1, 1998. Exhibit 10.20 was filed previously as Exhibit 10.2 and Exhibit 10.21 was filed previously as Exhibit 10.3 in such quarterly report.

*** Incorporated by reference to the registrant's quarterly report

on Form 10-Q for the period ended October 31, 1998. Exhibit 10.22 was filed previously as Exhibit 10.5 in such quarterly report.

Incorporated by reference to the registrant's quarterly report on Form 10-Q for the period ended July 29, 2000. Exhibit 10.23 was filed previously as Exhibit 10.1 in such quarterly report.

++ Incorporated by reference to the registrant's quarterly report on Form 10-Q for the period ended October 28, 2000. Exhibit 10.24 was filed previously as Exhibit 10.2 in such quarterly report, Exhibit 10.25 was filed previously as Exhibit 10.3 in such quarterly report and Exhibit 10.26 was filed previously as Exhibit 10.4 in such quarterly report.

< < Incorporated by reference to the registrant's quarterly report on Form 10-Q for the period ended May 4, 2002. Exhibit 10.27 was filed previously as Exhibit 10.1 in such quarterly report.

Incorporated by reference to the registrant's quarterly report on Form 10-Q for the period ended August 3, 2002. Exhibit 10.28 was filed previously as Exhibit 10.2 in such quarterly document.

@ Incorporated by reference to the registrant's quarterly report on Form 10-Q for the period ended November 2, 2002. Exhibit 10.29 was filed previously as Exhibit 10.3 in such quarterly report and Exhibit 10.30 was filed previously as Exhibit 10.4 in such quarterly report.

(b) REPORTS ON FORM 8-K

None.

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SIGNATURES

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

THE CHILDREN'S PLACE RETAIL STORES, INC.
By:

/s/ Ezra Dabah

Ezra Dabah
Chairman of the Board and
Chief Executive Officer
May 1, 2003

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

| SIGNATURE ----- | TITLE ----- | DATE ---- |
|---|--|--------------|
| /s/ Ezra Dabah ----- Ezra Dabah | Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer) | May 1, 2003 |
| /s/ Seth L. Udasin ----- Seth L. Udasin | Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | May 1, 2003 |
| /s/ Malcolm Elvey ----- Malcolm Elvey | Director | May 1, 2003 |
| /s/ Sally Frame Kasaks ----- Sally Frame Kasaks | Director | May 1, 2003 |
| /s/ John Megrue ----- John Megrue | Director | May 1, 2003 |

/s/ David J. Oddi Director

May 1, 2003

David J. Oddi

/s/ Stanley Silverstein Director

May 1, 2003

Stanley Silverstein

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CERTIFICATIONS

I, Ezra Dabah, 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 annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

By: /s/ Ezra Dabah

Chairman of the Board and
Chief Executive Officer

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CERTIFICATIONS

I, Seth L. Udasin, 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 annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

By: /s/ Seth L. Udasin

Vice President and
Chief Financial Officer

CERTIFICATIONS

I, Ezra Dabah, Chairman and 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 as follows:

1. The annual report of the Company on Form 10-K for the year ended February 1, 2003 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 1st day of May, 2003.

By: /s/ Ezra Dabah

Chairman of the Board and
Chief Executive Officer

I, Seth L. Udasin, Vice President and Chief Financial 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 as follows:

1. The annual report of the Company on Form 10-K for the year ended February 1, 2003 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 1st day of May, 2003.

By: /s/ Seth L. Udasin

Vice President and
Chief Financial Officer

EXHIBIT 10.31

THE CHILDREN'S PLACE RETAIL STORES, INC.
THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT
BETWEEN THE CHILDREN'S PLACE RETAIL STORES, INC.,
THE FINANCIAL INSTITUTIONS NAMED HEREIN AND
WELLS FARGO RETAIL FINANCE LLC, DATED APRIL 25, 2003

EXHIBIT 10.31

=====
THIRD AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

AMONG
THE CHILDREN'S PLACE RETAIL STORES, INC.,
AS BORROWER,
THE FINANCIAL INSTITUTIONS NAMED HEREIN,
AS LENDERS,
AND
WELLS FARGO RETAIL FINANCE LLC,
AS AGENT

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THIRD AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (THIS "AGREEMENT"), is entered into as of April 25, 2003, among THE CHILDREN'S PLACE RETAIL STORES, INC., a Delaware corporation ("Borrower"), with 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, on the other hand.

RECITALS

A. Borrower and Foothill Capital Corporation are parties to that certain Second Amended and Restated Loan and Security Agreement dated as of July 31, 1997 (as amended, the "Existing Loan Agreement").

B. Wells Fargo Retail is the assignee of Foothill Capital Corporation as a Lender and the Agent under this Agreement.

C. Borrower, 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 Borrower arising out of the sale or lease of goods or the rendition of services by Borrower, irrespective of whether earned by performance, and any and all credit insurance, guaranties, or security therefor.

"ADJUSTED EURODOLLAR RATE" means, with respect to each Interest Period for any Eurodollar 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 Eurodollar Rate for such Interest Period by (b) a percentage equal to (i) 100% minus (ii) the Reserve Percentage. The Adjusted Eurodollar

Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

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"ADDITIONAL FINANCING" means any increase in the Maximum Amount from \$100,000,000 to an amount not to exceed \$120,000,000.

"ADVANCES" has the meaning set forth in SECTION 2.1(a).

"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(h).

"AGENT LOAN" has the meaning set forth in SECTION 2.1(g).

"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.

"AGREEMENT" has the meaning set forth in the preamble hereto.

"APPLICABLE PREPAYMENT PREMIUM" means, as of any date of determination, an amount equal to (a) during the period of time from and after the date of the execution and delivery of this Agreement up to the date that is the second anniversary of the Closing Date, 0.25% times the sum of the Maximum Amount, and (b) at all times on or after the second anniversary of the date of this Agreement 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 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 the Borrowing Base or the Maximum Amount, LESS (b) the Revolving Facility Usage.

"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.

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"BANKRUPTCY CODE" means the United States Bankruptcy Code (11 U.S.C. Section 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 Borrower, any Subsidiary of Borrower, or any ERISA Affiliate has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"BORROWER" has the meaning set forth in the preamble to this Agreement.

"BORROWER'S BOOKS" means all of Borrower's books and records including: ledgers; records indicating, summarizing, or evidencing Borrower's properties or assets (including the Collateral) or liabilities; all information relating to Borrower's business operations or financial condition; and all

computer programs, disk or tape files, printouts, runs, or other computer prepared information.

"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).

"BUSINESS DAY" means (a) any day that is not a Saturday, Sunday, or a day on which banks in Los Angeles, California, are required or permitted to be closed, and (b) with respect to all notices, determinations, fundings and payments in connection with the Eurodollar Rate or Eurodollar 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 Borrower's and its Subsidiaries' business plans attached hereto as Exhibit B-1, together with any amendment, modification, or revision to such business plan approved by Agent.

"CHANGE OF CONTROL" shall be deemed to have occurred at such time as Borrower'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 40% of the total voting power of all classes of stock then outstanding of Borrower 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 the date of the first to occur of the making of the initial Advance or the issuance of the initial Letter of Credit.

"CODE" means the California Uniform Commercial Code.

"COLLATERAL" means each of the following:

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- (a) the Accounts,
- (b) Borrower's 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 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, Borrower's 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 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 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.

"COMPLIANCE CERTIFICATE" means a certificate substantially in the form of EXHIBIT C-1 and delivered by the chief accounting officer of Borrower to Agent.

"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.

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"DEEMS ITSELF INSECURE" means that the Person deems itself insecure in accordance with the provisions of Section 1208 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(f)(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 Borrower maintained with Borrower's Designated Account Bank, or such other deposit account of Borrower (located within the United States) which has been designated, in writing and from time to time, by Borrower to Agent.

"DESIGNATED ACCOUNT BANK" means First Union National Bank, whose office is located at 100 Fidelity Plaza, North Brunswick, New Jersey 08905 and whose ABA number is 021200025.

"DISBURSEMENT LETTER" means an instructional letter executed and delivered by Borrower to Agent regarding the extensions of credit to be made on the Closing Date, the form and substance of which shall be satisfactory to Agent.

"DOLLARS OR \$" means United States dollars.

"ELIGIBLE ACCOUNTS" means those Accounts created by Borrower in the ordinary course of business, that arise out of Borrower's sale of goods or rendition of services, that strictly comply with each and all of the representations and warranties respecting Accounts made by Borrower to the Lender Group in the Loan Documents, and that are and at all times continue to be reasonably acceptable to Agent in all respects; PROVIDED, HOWEVER, that standards of eligibility may be fixed and revised from time to time by Agent in Agent's reasonable credit judgment. Eligible Accounts shall not include the following:

(a) Accounts that the Account Debtor has failed to pay within 90 days of invoice date;

(b) Accounts owed by an Account Debtor or its Affiliates where 50% or more of all Accounts owed by that Account Debtor (or its Affiliates) are deemed ineligible under clause (a) above;

(c) Accounts with respect to which the Account Debtor is an employee, Affiliate, or agent of Borrower;

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(d) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold,

or other terms by reason of which the payment by the Account Debtor may be conditional;

(e) Accounts that are not payable in Dollars or with respect to which the Account Debtor: (i) does not maintain its chief executive office in the United States, or (ii) is not organized under the laws of the United States or any State thereof, or (iii) is the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof, unless (y) the Account is supported by an irrevocable letter of credit satisfactory to Agent (as to form, substance, and issuer or domestic confirming bank) that has been delivered to Agent and is directly drawable by Agent, or (z) the Account is covered by credit insurance in form and amount, and by an insurer, satisfactory to Agent;

(f) Accounts with respect to which the Account Debtor is either (i) the United States or any department, agency, or instrumentality of the United States (exclusive, however, of Accounts with respect to which Borrower has complied, to the satisfaction of Agent, with the Assignment of Claims Act, 31 U.S.C. Section 3727), or (ii) any State of the United States (exclusive, however, of Accounts owed by any State that does not have a statutory counterpart to the Assignment of Claims Act);

(g) Accounts with respect to which the Account Debtor is a creditor of Borrower, has or has asserted a right of setoff, has disputed its liability, or has made any claim with respect to the Account;

(h) Accounts with respect to which the Account Debtor is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business; and

(i) Accounts the collection of which Agent, in its reasonable credit judgment, believes to be doubtful by reason of the Account Debtor's financial condition.

"ELIGIBLE INVENTORY" means Inventory consisting of first quality finished goods held for sale in the ordinary course of Borrower's business (other than inventory of Children's Place Canada), that is reasonably acceptable to Agent in all respects, that is located at Borrower's premises identified on Schedule E-1 or that is in transit to Borrower if: (a) title to such Inventory has been transferred to 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 Borrower's representations and warranties to the Lender Group. If Eligible Inventory is in transit to 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 Borrower's business, Inventory subject to a security interest or

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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 Borrower.

"EQUIPMENT" means all of Borrower's 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 assets acquired by Borrower with the proceeds of a Capital Expenditure Loan, (b) any interest of Borrower in any of the foregoing, and (c) 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. Sections 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 Borrower; (ii) treated, together with Borrower, as a single employer; (iii) treated as a member of an affiliated service group of which Borrower is also treated as a member; or (iv) is otherwise aggregated with the 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 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 Borrower, any of its Subsidiaries or ERISA Affiliates from a

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Multiemployer Plan, or (g) providing any security to any Plan under Section 401(a)(29) of the IRC by Borrower or its Subsidiaries or any of their ERISA Affiliates.

"EURODOLLAR RATE" means, with respect to the Interest Period for a Eurodollar 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 Eurodollar Rate market selected by Agent) on or about 11:00 a.m. (California time) two Business Days prior to the commencement of such Interest Period in amounts comparable to the amount of the Eurodollar Rate Loans requested by and available to Borrower in accordance with this Agreement.

"EURODOLLAR 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 Eurodollar Rate.

"EURODOLLAR RATE MARGIN" means 1.50% initially and shall be subject to review on June 1, 2003, and at the end of each Fiscal Month thereafter to the following levels corresponding to the following amount of Availability:

| AMOUNT OF AVAILABILITY | EURODOLLAR RATE MARGIN |
|--|------------------------|
| Greater than \$40,000,000 | 1.50% |
| Equal to or less than \$40,000,000 and greater than \$30,000,000 | 1.75% |
| Equal to or less than \$30,000,00 and greater than \$20,000,000 | 2.25% |
| Equal to or less than \$20,000,000 and greater than \$10,000,000 | 2.75% |

Less than \$10,000,000

3.00% (subject, however, to
waiver by the Required Lenders)

"EVENT OF DEFAULT" has the meaning set forth in SECTION 8.

"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.

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"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"GENERAL INTANGIBLES" means all of Borrower's 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.

"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: (a) all obligations of Borrower for borrowed money, (b) all obligations of Borrower evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations of Borrower in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all obligations of Borrower under capital leases, (d) all obligations or liabilities of others secured by a Lien on any property or asset of Borrower, irrespective of whether such obligation or liability is assumed, and (e) any obligation of Borrower guaranteeing or intended to guarantee (whether guaranteed, endorsed, co-made, discounted, or sold with recourse to Borrower) any indebtedness, lease, dividend, letter of credit, or other obligation of any other Person.

"INDEMNIFIED LIABILITIES" 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,

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compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"INTANGIBLE ASSETS" means, with respect to any Person, that portion of the book value of all of such Person's assets that would be treated as intangibles under GAAP.

"INTEREST PERIOD" means, for any Eurodollar Rate Loan, the period commencing on the Business Day such Eurodollar Rate Loan is disbursed or continued, or on the Business Day on which a Reference Rate Loan is converted to such Eurodollar Rate Loan, and ending on the date that is one, three or six months thereafter, as selected by 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 Borrower has any interest, including goods held for sale or lease or to be furnished under a contract of service and all of 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 In-Transit Inventory by Borrower, plus (b) the estimated reclamation claims of unpaid sellers of Inventory sold to Borrower.

"INVESTMENT PROPERTY" means all of Borrower's presently existing and hereafter acquired or arising investment property (as that term is defined in Section 9115 of the Code).

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"L/C" has the meaning set forth in SECTION 2.2(a).

"L/C GUARANTY" has the meaning set forth in SECTION 2.2(a).

"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 Borrower 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 Borrower, including, fees or charges for photocopying, notarization, couriers and messengers,

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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 Borrower (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 Borrower's 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 Borrower 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 Borrower 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).

"LETTER OF CREDIT" means an L/C or an L/C Guaranty, as the context requires.

"LETTER OF CREDIT AMOUNT" means 0.75% per annum.

"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 Disbursement Letter, the Letters of Credit, the Lockbox Agreements, the Stock Pledge, any note or notes executed by Borrower and payable to the Lender Group, and any other agreement entered into, now or in the future, in connection with this Agreement.

"LOCKBOX ACCOUNT" shall mean a depository account established pursuant to one of the Lockbox Agreements.

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"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 Borrower, Agent, and one of the Lockbox Banks.

"LOCKBOX BANKS" means First Union National Bank, or any replacement bank chosen by Borrower 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 Borrower, (b) the material impairment of 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.

"MAXIMUM AMOUNT" means \$75,000,000, initially and \$100,000,000 once one or more Lenders have additional Commitments in the aggregate of \$25,000,000 PLUS the amount of the Additional Financing if it is provided by the Lenders.

"MULTIEMPLOYER PLAN" means a "multiemployer plan" (as defined in SECTION 4001(a)(3) of ERISA) to which Borrower, 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 Borrower's present and future letters of credit, notes, drafts, instruments, certificated and

uncertificated securities (including the shares of stock of subsidiaries of Borrower, but limited to 66% of the outstanding shares of each class of stock of any foreign Subsidiary), investment property, security entitlements, documents, personal property leases (wherein Borrower is the lessor), chattel paper, and Borrower's Books relating to any of the foregoing.

"NRLV" means at any time of determination thereof, the ratio, expressed as a percentage, of the net retail liquidation value of Borrower's 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 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 Borrower's 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 Borrower to the Lender Group of any kind and description (whether

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pursuant to or evidenced by the Loan Documents or pursuant to any other agreement between the Lender Group and 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 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 Borrower is required to pay or reimburse by the Loan Documents, by law, or otherwise.

"ORIGINATING LENDER" has the meaning set forth in SECTION 15.1(e).

"OVERADVANCE" has the meaning set forth in SECTION 2.6.

"PARTICIPANT" has the meaning set forth in SECTION 15.1(c).

"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 7.21 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 Borrower 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 Borrower 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 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 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, and (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 Borrower or the value of the Lender Group's Lien thereon or therein, or materially interfere with the ordinary conduct of the business of Borrower.

"PERMITTED PROTEST" means the right of Borrower 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 Borrower in an amount that is

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reasonably satisfactory to Agent, (b) any such protest is instituted and diligently prosecuted by Borrower 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 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.

"REAL PROPERTY" means any estates or interests in real property now owned or hereafter acquired by 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.

"RENEWAL DATE" has the meaning set forth in SECTION 3.4.

"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, Agent together with such other Lenders whose Pro Rata Shares together with Agent aggregate 50.1% or more of the Commitments; PROVIDED, HOWEVER, that in all circumstances in which there are two or more Lenders, Required Lenders shall include at least one Lender that is not the Agent or an Affiliate of Agent.

"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

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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 FACILITY USAGE" means, as of any date of determination, the aggregate amount of Advances and undrawn or unreimbursed Letters of Credit outstanding.

"SETTLEMENT" has the meaning set forth in SECTION 2.1(h)(i).

"SETTLEMENT DATE" has the meaning set forth in SECTION 2.1(h)(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 PLEDGE" means that certain Security Agreement-Stock Pledge, dated as of January 31, 1999, between Borrower and Agent.

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"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.

"VOIDABLE TRANSFER" has the meaning set forth in SECTION 15.8.

"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 "Borrower" is used in respect of a financial covenant or a related definition, it shall be understood to mean Borrower 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. 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 ("Advances") to Borrower 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 LESS the aggregate amount of all undrawn or unreimbursed Letters of Credit, or (ii) the Borrowing Base LESS the aggregate amount of all undrawn or unreimbursed Letters of

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Credit. For purposes of this Agreement, "Borrowing Base", as of any date of determination, shall mean the result of:

(w) 90% of Eligible Accounts, PLUS

(x) 30% of the retail value of Borrower's Eligible Inventory, NOT TO EXCEED 90% of the NRLV of Borrower's gross Inventory for months other than June through November of each year and 95% of the NRLV of Borrower's gross Inventory for the months of June through November of each year; PLUS

(y) an amount equal to 70% of the Borrower's cost of Inventory to be acquired pursuant to outstanding commercial Letters of Credit (except that inventory acquired by Letters of Credit for Children's Place Canada shall not be included in this Section). Such Letters of Credit must not allow partial draws unless such draws are for finished goods Inventory concurrently transferred to Borrower, and draws thereunder must require documentation reflecting the transfer of title to Borrower (in form and substance satisfactory to Agent) of first quality finished goods Inventory conforming to Borrower's contract with the seller; LESS

(z) the aggregate amount of reserves, if any, established by Agent under SECTIONS 2.1(b), 6.14 AND 10.

(b) RESERVES. Anything to the contrary in this SECTION 2.1 notwithstanding, 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 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 Borrower is 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 Borrower 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.

(c) 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.

(d) PROCEDURE FOR BORROWING. Each Borrowing shall be made upon Borrower's irrevocable request therefor delivered to Agent (which notice must be received by Agent no later than 10:00 a.m. (California time) on the Funding Date if such advance is for \$8,000,000 or less or no later than 10:00 a.m. (California time) on the Business Day immediately preceding the requested Funding Date if such advance is for more than \$8,000,000) specifying (i)

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the amount of the Borrowing; and (ii) the requested Funding Date, which shall be a Business Day.

(e) AGENT'S ELECTION. Promptly after receipt of a request for a Borrowing pursuant to SECTION 2.1(d) in excess of \$8,000,000, the Agent shall elect, in its discretion, (i) to have the terms of SECTION 2.1(f) apply to such requested Borrowing, or (ii) to make an Agent Loan pursuant to the terms of SECTION 2.1(g) in the amount of the requested Borrowing. Any requested Borrowing of \$8,000,000 or less shall be made as an Agent Loan pursuant to the terms of SECTION 2.1(g).

(f) MAKING OF ADVANCES.

(i) In the event that the Agent shall elect to have the terms of this SECTION 2.1(f) apply to a requested Borrowing in excess of \$8,000,000 as described in SECTION 2.1(e), then promptly after receipt of a request for a Borrowing pursuant to SECTION 2.1(d), the Agent shall notify the Lenders, not later than 1:00 p.m. (California time) on the Business Day immediately preceding the Funding Date applicable thereto, 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 11:00 a.m. (California 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 Borrower on the applicable Funding Date by transferring same day funds equal to the proceeds of such Advances received by the Agent to the Designated Deposit Account; PROVIDED, HOWEVER, that, subject to the provisions of SECTION 2.1(l), 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 Borrower 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 Borrower 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 Borrower 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

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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 Borrower of such failure to fund and, upon demand by Agent, Borrower

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 Borrower 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 Borrower 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 Borrower 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 Borrower of their duties and obligations hereunder.

(g) MAKING OF AGENT LOANS.

(i) In the event the Agent shall elect to have the terms of this SECTION 2.1(g) apply to a requested Borrowing in excess of \$8,000,000 as described in SECTION 2.1(e) or in the event of any requested Borrowing of \$8,000,000 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(g) being referred to as an "Agent Loan" and such Advances being referred to collectively as "Agent Loans") available to Borrower on the Funding Date applicable thereto by transferring same day funds to Borrower's Designated Deposit 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(l), 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

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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.

(h) AGENT ADVANCES.

(i) Agent hereby is authorized by Borrower 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 Borrower 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, (B) to enhance the likelihood of, or maximize the amount of, repayment of the Obligations, or (C) to pay any other amount chargeable to Borrower 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(h) being hereinafter referred to as "Agent Advances"); PROVIDED, that Agent shall not make any Agent Advances to Borrower without the consent of the Required Lenders if the amount thereof would exceed \$8,000,000 in the aggregate at any one time.

(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.

(i) 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 Borrower) 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. (California time) on the Business Date 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

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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. (California 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. (California 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 Borrower 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; PROVIDED, HOWEVER, that the closing fee payable by Borrower under Section 2.12(b) shall be distributed to the Lenders within three Business Days following the Closing Date without regard to the netting of amounts owing to or owed by any Lender as part of a 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

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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.

(j) 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.

(k) 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.

(l) OVERADVANCES. 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(h)(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 (including Agent Loans) to Borrower such failure of condition notwithstanding, so long as, at any time, (i) either (A) 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 or (B) (y) the outstanding Revolving Facility Usage would not exceed the Borrowing Base by more than the amount proposed by Agent and agreed to by the Required Lenders, and (z) such Advances are made pursuant to a plan (proposed by Agent and agreed to by the Required Lenders) for the elimination of the outstanding Revolving Facility Usage in excess of the Borrowing Base, 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 Borrower in any way. The Advances and Agent Loans, as applicable, that are made pursuant to this SECTION 2.1(l) 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; PROVIDED, that the Required Lenders may, at any time, revoke Agent's authorization contained in this SECTION 2.1(l) to make Overadvances (except for and excluding amounts charged to the applicable Loan Account for interest, fees, or Lender Group Expenses), any such revocation to be in writing and to become effective upon Agent's receipt thereof; PROVIDED FURTHER, HOWEVER, that the making of such Overadvances shall not constitute a waiver of such Event of Default arising therefrom.

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In the event Agent obtains actual knowledge that Revolving Facility Usage exceeds the amount permitted by the preceding paragraph, regardless of the amount of or reason for such excess, Agent shall notify Lenders as soon as practicable (and prior to making any (or any further) intentional Overadvances (except for and excluding amounts charged to the applicable Loan Account for interest, fees, or Lender Group Expenses) unless Agent determines that prior notice would result in imminent harm to the Collateral or its value), and Lenders thereupon shall, together with Agent, jointly determine the terms of arrangements that shall be implemented with Borrower intended to reduce, within a reasonable time, the outstanding principal amount of the Advances to Borrower to an amount permitted by the preceding paragraph. In the event any Lender disagrees over the terms of reduction and/or repayment of any Overadvance, the terms of reduction and/or repayment thereof shall be implemented according to the determination of the Required Lenders.

Each Lender shall be obligated to settle with Agent as provided in SECTION 2.1(i) for the amount of such Lender's Pro Rata Share of any unintentional Overadvances by Agent reported to such Lender, any intentional Overadvances made as permitted under this SECTION 2.1(1), and any Overadvances resulting from the charging to the applicable Loan Account of interest, fees, or Lender Group Expenses.

(m) 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).

(n) ADDITIONAL FINANCING. At Borrower's request, subject to each of the following conditions, Agent and Lenders may provide the Additional Financing:

(i) no Event of Default or prospective Event of Default shall exist;

(ii) any increases in the Maximum Amount (and any concurrent increases in the maximum amount of the Letter of Credit facility) will be in a minimum amount of \$5,000,000 and \$5,000,000 increases thereto (provided that the Maximum Amount will not in any event exceed \$120,000,000 and the maximum Letter of Credit facility will not exceed \$100,000,000), and at the effective date thereof, Borrower shall pay to Agent for the ratable benefit of Lenders, an amendment fee in the amount of 0.125% of the amount of any increase in the Maximum Amount;

(iii) Agent and Lenders shall have received and approved Borrower's updated Business Plan;

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(iv) Borrower shall have Borrowing Base Availability (without being limited by the Maximum Amount) as of the end of each of the three months prior to such increase of at least \$10,000,000;

(v) Borrower shall have given Agent and Lenders not less than 90 days advance written notice of its desire for the Additional Financing during which time Agent shall use its best efforts to obtain additional binding commitments of new Lenders or from existing Lenders; and

(vi) Agent shall have received binding commitments of new Lenders (or from existing Lenders) for the increase in the Maximum Amount.

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 for the account of Borrower (each, an "L/C") or to issue guarantees of payment (each such guaranty, an "L/C Guaranty") with respect to letters of credit issued by an issuing bank for the account of Borrower; PROVIDED, HOWEVER, Borrower shall have the right to cause Letters of Credit for the purchase of inventory by Children's Place Canada. For purposes of

clarification, the inventory referred to herein is not part of Inventory as that term is defined in this Agreement. Agent shall have no obligation to issue a Letter of Credit if any of the following would result:

(i) 100% of the aggregate amount of all undrawn and unreimbursed Letters of Credit, would exceed the Borrowing Base less the amount of outstanding Advances (including any Agent Advances and Agent Loans); or

(ii) the aggregate amount of all undrawn or unreimbursed Letters of Credit would exceed the lower of: (x) the Maximum Amount less the amount of outstanding Advances (including any Agent Advances and Agent Loans); or (y) \$80,000,000 or up to \$100,000,000 in accordance with SECTION 2.1(n) relating to Additional Financing.

Borrower expressly understands and agrees 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. Borrower 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 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 the Lender Group is obligated to advance funds under a Letter of Credit, Borrower immediately shall reimburse such amount to Agent and, 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. 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

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Lender Group arising out of or in connection with any Letter of Credit. Borrower agrees to be bound by the issuing bank's regulations and interpretations of any letters of credit guaranteed by the Lender Group and opened to or for Borrower's account or by Agent's interpretations of any Letter of Credit issued by Agent to or for Borrower's account, even though this interpretation may be different from Borrower's own, and 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 Borrower's instructions or those contained in the Letter of Credit or any modifications, amendments, or supplements thereto. 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 Borrower against such issuing bank. 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. Borrower hereby authorizes and directs 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. 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, Borrower 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, Borrower agrees 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

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(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 Borrower, and Borrower 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 Borrower 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 be 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 Borrower 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;

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(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 BORROWER.

(i) All payments to be made by Borrower 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 Borrower 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 11:00 a.m. (California time) on the date specified herein. Any payment received by Agent later than 11:00 a.m. (California 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 Borrower prior to the date on which any payment is due to the Lenders that Borrower will not make such payment in full as and when required, Agent may assume that Borrower has 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 Borrower has 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 OF PAYMENTS. Except as otherwise provided with respect to Defaulting Lenders, aggregate principal and interest payments shall be apportioned ratably among the Lenders (according to the unpaid principal balance of the Advances to which such payments relate held by each Lender) and payments of the fees (other than fees designated for Agent's separate account) shall, as applicable, be apportioned ratably among the Lenders. All payments shall be remitted to Agent and all such payments not relating to specific Advances, and not constituting payment of specific fees and all proceeds of Collateral received by Agent, shall be applied, first, to pay any fees or expense reimbursements then due to Agent from Borrower; second, to pay any fees or expense reimbursements then due to the Lenders from Borrower; third, to pay interest due in respect of all Advances, including Agent Loans and Agent Advances; fourth, to pay or prepay principal of Agent Loans and Agent Advances; fifth, ratably to pay principal of the Advances (other than Agent Loans and Agent Advances) and unreimbursed obligations in respect of Letters of Credit; and sixth, ratably to pay any other Obligations due to Agent or any

Lender by Borrower. Agent shall promptly distribute to each Lender, pursuant to the applicable wire transfer instructions received from each Lender in writing, such funds as it may be entitled to receive, subject to a Settlement delay as provided for in SECTION 2.1(h).

2.6 OVERADVANCES. If, at any time or for any reason, the amount of Obligations owed by Borrower 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"), Borrower 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), below, all Obligations shall bear interest on the Daily Balance as follows:

(i) each Eurodollar Rate Loan shall bear interest at a per annum rate equal to the Adjusted Eurodollar Rate plus the Eurodollar 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. Borrower 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 3.00% above the Reference Rate, and (ii) the

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Letter of Credit fee provided in SECTION 2.6(b) 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.

(d) INTENTIONALLY OMITTED.

(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 Eurodollar 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. Borrower hereby authorizes Agent, at its option, without prior notice to 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), and all installments or other payments due under any Loan Document to 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. Borrower 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, Borrower is and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrower 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. Borrower 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 Borrower to remit all Collections in respect thereof to such Lockboxes. Borrower, 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. Borrower agrees that all Collections and other amounts received by Borrower 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 Borrower without the prior written consent of Agent. Upon the terms and subject to the conditions set

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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 depository selected by Agent.

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 Borrower 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. California time. If any Collection item is received into the Agent's Account on a non-Business Day or after 11:00 a.m. California 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 Borrower's option, monies shall be transferred from the Lock Box to Agent or to Borrower's operating account on a daily basis, and if transferred to Borrower's operating 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). 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 Borrower and made by the Lender Group hereunder. Unless otherwise agreed by Agent and Borrower, any Advance requested by Borrower 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 Borrower (the "Loan Account") on which Borrower will be charged with all Advances made by the Lender Group to Borrower or for Borrower's account, including, accrued interest, Lender Group Expenses, and any other payment Obligations of Borrower. In accordance with SECTION 2.9, the Loan Account will be credited with all payments received by Agent from Borrower or for Borrower's account, including all amounts received in the Agent's Account from any Lockbox Bank. Agent shall render statements regarding the Loan Account to 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 Borrower and the Lender Group unless, within 30 days after receipt thereof by Borrower, Borrower shall deliver to Agent written objection thereto describing the error or errors contained in any such statements.

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2.12 FEES. Borrower shall pay to Agent for the ratable benefit of the Lender Group (except where otherwise indicated) the following fees:

(a) CLOSING FEE. A closing fee in the amount of \$150,000, payable on the Closing Date.

(b) ANNIVERSARY FEE. An anniversary fee equal to 0.125% of the Maximum Amount, which fee shall be due and payable in full on each of the first anniversary and second anniversary of the Closing Date; PROVIDED, HOWEVER, the Agreement has not previously been terminated.

(c) UNUSED LINE FEE. On the first day of each month commencing June 1, 2003, 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 0.375% per annum times the Average Unused Portion of the Maximum Amount.

(d) SERVICING FEE. On the first day of each month during the term of this Agreement, and thereafter so long as any Obligations are outstanding, a servicing fee solely for the Agent in an amount equal to \$2,000.

(e) APPRAISALS; FINANCIAL EXAMINATION AND APPRAISAL FEES. The Agent or its designee, at the sole expense of Borrower, shall conduct periodic appraisals of Borrower's Inventory. So long as no Event of Default has occurred and is continuing, Borrower shall not be liable to pay more than \$30,000 per year (exclusive of out of pocket expenses) for financial analyses and examinations and periodic appraisals of Inventory in the aggregate.

2.13 EURODOLLAR RATE LOANS. Any other provisions herein to the contrary notwithstanding, the following provisions shall govern with respect to Eurodollar Rate Loans as to the matters covered:

(a) BORROWING; CONVERSION; CONTINUATION. 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 Eurodollar Rate Loans; (ii) that Reference Rate Loans be converted into Eurodollar Rate Loans; or (iii) that existing Eurodollar Rate Loans continue for an additional Interest Period. Any such request shall specify the aggregate amount of the requested Eurodollar Rate Loans, the proposed funding date therefor (which shall be a Business Day, and with respect to continued Eurodollar Rate Loans shall be the last day of the Interest Period of the existing Eurodollar Rate Loans being continued), and the proposed Interest Period (in each case subject to the limitations set forth below). Eurodollar 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;

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(x) the amount of each Eurodollar 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 Eurodollar Rate is available to it and can be readily determined as of the date of the request for such Eurodollar Rate Loan by Borrower; and

(z) Agent shall have received such request at least two Business Days prior to the proposed funding date therefor.

Any request by Borrower to borrow Eurodollar Rate Loans, to convert Reference Rate Loans to Eurodollar Rate Loans, or to continue any existing Eurodollar 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 Eurodollar Rate Loans cannot be made or continued.

(b) DETERMINATION OF INTEREST PERIOD. By giving notice as set forth in SECTION 2.12(a), Borrower shall select an Interest Period for such Eurodollar 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) Borrower may not select an Interest Period which expires later than the Maturity Date.

(c) AUTOMATIC CONVERSION: OPTIONAL CONVERSION BY AGENT. Any Eurodollar 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 Eurodollar Rate Loan at least two Business Days prior to the end of such Interest Period in accordance with the terms of SECTION 2.13(a). Any Eurodollar Rate Loan shall, at Agent's option, upon notice to Borrower, 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 Borrower shall

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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 Eurodollar Rate Loans as contemplated by this Agreement, (a) the obligation of such Lender hereunder to make Eurodollar Rate Loans, continue Eurodollar Rate Loans as such, and convert Reference Rate Loans to Eurodollar Rate Loans shall forthwith be suspended and (b) such Lender's then outstanding Eurodollar 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 Eurodollar Rate Loans. If any such conversion of a Eurodollar Rate Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, Borrower 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 Borrower, and upon receipt of such notice, the obligations of such Lender to make or continue Eurodollar Rate Loans or to convert Reference Rate Loans into Eurodollar 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 Eurodollar 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 Eurodollar 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

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(iii) shall impose on such Lender any other condition with respect to Eurodollar 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 Eurodollar Rate Loans or to increase the cost to such Lender in respect of Eurodollar Rate Loans, by an amount which such Lender deems to be material, or to reduce any amount receivable hereunder in respect of Eurodollar Rate Loans, or to forego any other sum payable thereunder or make any payment on account thereof in respect of Eurodollar Rate Loans, then, in any such case, Borrower 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 Eurodollar lending office if the making of such designation would allow such Lender or its Eurodollar lending office to continue to perform its obligations to make Eurodollar Rate Loans or to continue to fund or maintain Eurodollar 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 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 Borrower shall be conclusive in the absence of manifest error. Within five Business Days after a Lender notifies Agent and Borrower of any increased cost pursuant to the foregoing provisions of this Section 2.15, Borrower may convert all Eurodollar 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 Borrower of a prompt written request therefor, Borrower 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.

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2.16 INDEMNITY. 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 Borrower in payment when due of the principal amount of or interest on any Eurodollar Rate Loan, (b) default by Borrower in making a Borrowing of, conversion into, or continuation of Eurodollar Rate Loans after Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (c) default by Borrower in making any prepayment of a Eurodollar Rate Loan after Borrower has given a notice thereof in accordance with the provisions of this Agreement, or (d) the making of a prepayment of Eurodollar 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 Borrower 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 Eurodollar Rate Loan through the purchase of a deposit bearing interest at the Eurodollar Rate in an amount equal to the amount of such Eurodollar Rate Loan and having a maturity comparable to the relevant Interest Period; PROVIDED, HOWEVER, that each Lender may fund each of the Eurodollar 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 Loans and all other amounts payable hereunder for a period of nine months thereafter.

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 April 28, 2003;
- (b) Agent shall have received and filed amendments to its financing statements;
- (c) Agent shall have received each of the following documents, duly executed, and each such document shall be in full force and effect:
 - (1) the Disbursement Letter; and
 - (2) an amendment to the Stock Pledge;
- (d) Agent shall have received a certificate from the Secretary of Borrower attesting to the resolutions of Borrower's Board of Directors authorizing its execution,

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delivery, and performance of this Agreement and the other Loan Documents to which Borrower is a party and authorizing specific officers of Borrower to execute the same;

(e) Agent shall have received copies of Borrower's Governing Documents, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of Borrower;

(f) Agent shall have received a certificate of status with respect to Borrower, dated within 10 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of Borrower, which certificate shall indicate that Borrower is in good standing in such jurisdiction;

(g) Agent shall have received a certificate of insurance, together with the endorsements thereto, as are required by SECTION 6.10, the form and substance of which shall be satisfactory to Agent and its counsel;

(h) Agent shall have received an opinion of Borrower's counsel in form and substance satisfactory to Agent in its sole discretion;

(i) 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 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 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.

3.3 INTENTIONALLY OMITTED.

3.4 TERM; AUTOMATIC RENEWAL. This Agreement shall become effective upon the execution and delivery hereof by Borrower and the Lender Group and shall continue in

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full force and effect for a term ending on April 25, 2006 (the "Renewal Date") and automatically shall be renewed for successive one year periods thereafter, unless sooner terminated pursuant to the terms hereof. Either Borrower or Agent (on behalf of the Lender Group) may terminate this Agreement effective on the Renewal Date or on any year anniversary of the Renewal Date by giving the other party at least 90 days prior written notice. The foregoing notwithstanding, 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 Borrower with respect to any outstanding Letters of Credit) immediately shall become due and payable without notice or demand. No termination of this Agreement, however, shall relieve or discharge Borrower of Borrower's 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 BORROWER. Borrower has 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 Revolver Commitment in an amount equal to 105% of the then outstanding Letter of Credit Usage, or (b) causing the outstanding original Letters of Credit to be returned to the Issuing Lender, in full, together with the Applicable Prepayment Premium (to be allocated based upon letter agreements between Agent and individual Lenders). If Borrower has sent a notice of termination pursuant to the provisions of this Section, then the Commitments shall terminate and Borrower 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 Revolver Commitment in an amount equal to 105% of the then outstanding Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to the Issuing Lender, in full,

together with the Applicable Prepayment Premium, 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 Maturity Date, 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, Borrower shall pay the Applicable Prepayment Premium to Agent (to be allocated based upon letter agreements between Agent and individual Lenders), measured as of the date of such termination.

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4. CREATION OF SECURITY INTEREST.

4.1 GRANT OF SECURITY INTEREST. 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 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 Borrower. 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 Borrower's stores, Borrower has 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, Borrower, 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 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. Borrower agrees that 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 Borrower.

4.4 DELIVERY OF ADDITIONAL DOCUMENTATION REQUIRED. At any time upon the request of Agent, Borrower 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. Borrower hereby irrevocably makes, constitutes, and appoints Agent (and any of Agent's officers, employees, or agents designated by Agent) as Borrower's true and lawful attorney, with power to (a) if Borrower refuses to, or fails timely to execute and deliver any of the documents described in SECTION 4.4, sign the name of 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 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 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 Borrower's mail to an address designated by Agent, to receive and open all mail addressed to Borrower, and to retain all mail relating to the Collateral and forward all other mail to 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 Borrower's 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 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 Borrower's Books and to check, test, and appraise the Collateral in order to verify Borrower's 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, 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. 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 Borrower 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 Borrower's business, unconditionally owed to Borrower 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 Borrower includes an Eligible Account in a Borrowing Base calculation or certification,

Borrower has 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 Borrower's business and is fit for such purposes.

5.5 LOCATION OF INVENTORY AND EQUIPMENT. The Inventory 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. Borrower keeps correct and accurate records itemizing and describing the kind, type, quality and quantity of its Inventory and 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 Borrower is located at the address indicated in the preamble to this Agreement and Borrower's FEIN is 31-1241495.

5.8 DUE ORGANIZATION AND QUALIFICATION; SUBSIDIARIES.

(a) 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 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 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 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. Borrower is duly organized and existing and in good standing under the laws of the state of its incorporation and qualified and

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licensed to do business in, and in good standing in, any state where the failure to be so licensed or qualified could reasonably be expected to have a material adverse effect on the business, operations, condition (financial or otherwise), finances, or prospects of Borrower or on the value of the Collateral to Agent.

5.10 LITIGATION. There are no actions or proceedings pending by or against Borrower before any court or administrative agency and Borrower does not have knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrower or any guarantor of the Obligations, except for: (a) ongoing collection matters in which Borrower is the plaintiff; and (b) current matters that, if decided adversely to Borrower, 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 Borrower or any guarantor of the Obligations that have been delivered by Borrower to the Lender Group have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and fairly present Borrower's (or such guarantor's, as applicable) financial condition as of the date thereof and Borrower's results of operations for the period then ended. There has not been a Material Adverse Change with respect to Borrower (or such guarantor, as applicable) since the date of the latest financial statements submitted to the Lender Group on or before the Closing Date.

5.12 SOLVENCY. BORROWER IS SOLVENT. No transfer of property is being made by Borrower and no obligation is being incurred by 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 Borrower.

5.13 EMPLOYEE BENEFITS. None of 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. 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. None of 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. None of 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 Borrower's properties or assets has ever been used by Borrower or, to the best of Borrower's knowledge, by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials. None of Borrower's 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

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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 Borrower. Borrower has 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 Borrower resulting in the releasing or disposing of Hazardous Materials into the environment.

6. AFFIRMATIVE COVENANTS.

Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Borrower shall do all of the following:

6.1 ACCOUNTING SYSTEM AND SCHEDULES.

(a) Borrower shall 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. Borrower 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, Borrower shall provide Agent with schedules describing all Accounts. Agent's failure to request such schedules or Borrower's 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. Borrower agrees to deliver to Agent: (a) as soon as available, but in any event within 30 days after the end of each month (or 45 days after the end of fiscal quarter) during each of Borrower's fiscal years, a company prepared balance sheet, income statement, and cash flow statement covering Borrower's operations during such period; and (b) as soon as available, but in any event within 90 days after the end of each of Borrower's Fiscal Years, financial statements of Borrower 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 Borrower to comply with SECTION 7.20. 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 Borrower 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, Borrower agrees to deliver financial statements prepared on a consolidating basis so as to present Borrower and each such related entity separately, and on a consolidated basis.

Together with the above, Borrower also shall deliver to Lenders

Borrower's Form 10-Q Quarterly Reports, Form 10-K Annual Reports, and Form 8-K Current Reports, and any other filings made by Borrower with the Securities and Exchange Commission,

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if any, as soon as the same are filed, or any other information that is provided by Borrower to its public shareholders, and any other report reasonably requested by Agent relating to the Collateral and financial condition of Borrower.

Each month, together with the financial statements provided pursuant to SECTION 6.2(a), Borrower shall deliver to Agent a 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 Borrower; (ii) Borrower is in timely compliance with all of its covenants and agreements hereunder; (iii) the representations and warranties of Borrower 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 Borrower has taken, is taking, or proposes to take with respect thereto).

Borrower shall deliver to Agent its Business Plan for the fiscal year commencing on or about February 1, 2004 on or before March 31, 2004, and for the fiscal year commencing on or about February 1, 2005 on or before March 31, 2005.

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 Borrower that Agent may request. Borrower hereby irrevocably authorizes and directs all auditors, accountants, or other third parties to deliver to Agent, at Borrower's expense, copies of Borrower's 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 Borrower.

6.3 TAX RETURNS. Deliver to Agent copies of each of Borrower's future federal income tax returns, and any amendments thereto, concurrently with the filing thereof with the Internal Revenue Service.

6.4 DESIGNATION OF INVENTORY. Borrower shall now and from time to time hereafter, but not less frequently than weekly (or monthly so long as Borrower has maintained at least \$25,000,000 of Availability without being limited by the Maximum Amount) (to be delivered each Monday based upon the close of business on the preceding Saturday), execute and deliver to Agent a designation of Inventory specifying the retail selling price of Borrower's Inventory, and not less frequently than monthly, execute and deliver to Agent a designation of Inventory specifying Borrower's 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. Borrower 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 Borrower without letter of credit financing.

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6.5 STORE OPENINGS AND CLOSINGS AND RENTS REPORTS. Borrower shall give Agent reasonable prior notice of new store openings and closing of its stores. Borrower shall make timely payment of all rents on real property leases where 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 Borrower becomes delinquent in its 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, Borrower 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, Borrower 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 Borrower or any of its 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. Borrower 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. Borrower 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 Borrower has made such payments or deposits.

6.9 INSURANCE.

(a) Borrower, at its 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. Borrower also shall maintain business interruption, public liability, product liability, and property damage insurance relating to Borrower's 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

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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. 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 Borrower 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 and Equipment only at the locations identified on SCHEDULE 6.11; PROVIDED, HOWEVER, that Borrower 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, Borrower provides any financing statements necessary to perfect and continue perfected the Lien of Agent for the benefit of the Lender Group in such assets, and Borrower will use its 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 Borrower 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 Borrower describing such ERISA Event and any action that is being taking with respect thereto by Borrower, any such Subsidiary or ERISA Affiliate, and any action taken or threatened by the IRS, Department of Labor, or PBGC. Borrower 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 Borrower, any of its Subsidiaries or, to the knowledge of Borrower, any ERISA Affiliate with respect to such request, and (iii) promptly, and in any event within three Business Days after receipt by Borrower, any of its Subsidiaries or, to the knowledge of Borrower, 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.

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(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 Borrower 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 Borrower 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 Borrower 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 Borrower 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 Borrower is a party or by which Borrower's properties and assets are bound, unless such payments are the subject of a Permitted Protest. To the extent that Borrower fails timely to make payment of such rents and other amounts payable when due under its leases, Agent shall be entitled, in its discretion, to reserve an amount equal to such unpaid amounts against the Borrowing Base.

7. NEGATIVE COVENANTS.

Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Borrower 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 Borrower, (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

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(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; and

(f) Indebtedness subordinated to the Obligations on terms and conditions satisfactory to Agent.

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 Lender's 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), or convey, sell, assign, lease, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its property or assets.

7.4 DISPOSAL OF ASSETS. Sell, lease, assign, transfer, or otherwise dispose of any material portion of Borrower's properties or assets other than sales of (a) Inventory to buyers in the ordinary course of Borrower's business as currently conducted and (b) Equipment having a fair market value, in the aggregate, of up to \$500,000 in any Fiscal Year.

7.5 CHANGE NAME. Change Borrower's name, FEIN, corporate structure (within the meaning of SECTION 9402(7) of the Code), 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 by endorsement of instruments or items of payment for deposit to the account of Borrower or which are transmitted or turned over to Agent.

7.7 NATURE OF BUSINESS. Make any change in the principal nature of Borrower's business.

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).

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7.9 CHANGE OF CONTROL. Except for transfers of shares by Borrower'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 Borrower's capital stock, of any class, whether now or hereafter outstanding; PROVIDED, HOWEVER, Borrower 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 Borrower's accounting records without said accounting firm or service bureau agreeing to provide Agent information regarding the Collateral or Borrower's financial condition. 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;

(b) so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, Borrower 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, including without limitation Pada Industrial (Far East) Co., Ltd. so long as (A) there has been at least \$10,000,000 of borrowing Availability pursuant to SECTION 2.1 (without being limited by the Maximum Amount) 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

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replacements does not exceed the amount of such investments in existence on the date hereof; and

(d) so long as no Event of Default shall have occurred and be continuing, or would occur as a consequence thereof, Borrower may make loans and advances to its Subsidiaries in the aggregate amount of \$5,000,000 outstanding at any one time.

7.14 TRANSACTIONS WITH AFFILIATES. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for: (a) transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms, that are fully disclosed to Agent, and that are no less favorable to Borrower than would be obtained in arm's length transaction with a non-Affiliate, (b) the employment agreement between Borrower and Ezra Dabah, and (c) the advisory agreement between Borrower and SKM Investors.

7.15 SUSPENSION. Suspend or go out of a substantial portion of its business.

7.16 USE OF PROCEEDS. Use (a) the proceeds of the Advances for any

purpose other than (i) on the Closing Date, to pay transactional costs and expenses incurred in connection with this Agreement, (ii) assuming the Obligations under the Existing Loan Agreement, and (iii) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted corporate purposes.

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, Borrower provides any financing statements or fixture filings necessary to perfect and continue perfected the Lien of Agent (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 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 Borrower to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

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(d) terminate, or permit any Subsidiary of Borrower to terminate, any Benefit Plan where such event would result in any liability of Borrower, any of its Subsidiaries or any ERISA Affiliate under Title IV of ERISA;

(e) fail, or permit any Subsidiary of Borrower to fail, to make any required contribution or payment to any Multiemployer Plan;

(f) fail, or permit any Subsidiary of 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 Borrower to amend, a Plan resulting in an increase in current liability for the plan year such that either of Borrower, any Subsidiary of 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 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 Borrower, any of its Subsidiaries or any ERISA Affiliate in excess of \$100,000.

7.19 FINANCIAL COVENANT. Fail to maintain Availability at all times of not less than \$10,000,000.

7.20 CAPITAL EXPENDITURES. Make capital expenditures (based upon Borrower's Statement of Cash Flows for Investing Activities, exclusive of non-capital items) 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, 2004 | \$ 35,000,000 |

Agent and Borrower shall reasonably agree upon the maximum capital expenditures for the Fiscal Years ending on or about January 31, 2005 and January 31, 2006 based upon Borrower's Business Plan for each such Fiscal Year.

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:

8.1 If 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),

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fees and charges due the Lender Group, reimbursement of Lender Group Expenses, or other amounts constituting Obligations);

8.2 If 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 between Borrower and the Lender Group; PROVIDED, HOWEVER, that Borrower's 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;

8.3 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;

8.4 If any material portion of Borrower's 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;

8.5 If an Insolvency Proceeding is commenced by Borrower;

8.6 If an Insolvency Proceeding is commenced against Borrower and any of the following events occur: (a) 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, Borrower; or (e) an order for relief shall have been issued or entered therein;

8.7 If 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;

8.8 If a notice of Lien, levy, or assessment is filed of record with respect to any of 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 Borrower's properties or assets and the same is not paid on the payment date thereof;

8.9 If (a) an action or proceeding is brought against Borrower which is reasonably likely to be decided adversely to 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 Borrower's properties or assets and shall remain outstanding 30 days or longer;

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8.10 If there is a default in an agreement involving Indebtedness of \$500,000, or more, or any material agreement to which 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 Borrower's obligations thereunder;

8.11 If 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;

8.12 If any material misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or report made to the Lender Group by Borrower or any officer, employee, agent, or director of Borrower, or if any such warranty or representation is withdrawn; or

8.13 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.

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, 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 Borrower:

(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 Borrower under this Agreement, under any of the Loan Documents, or under any other agreement between Borrower 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 Borrower's 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 Borrower to hold all returned Inventory in trust for the Lender Group, segregate all returned Inventory from all other property of Borrower or in

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Borrower's possession and conspicuously label said returned Inventory as the property of the Lender Group;

(f) Without notice to or demand upon Borrower or any guarantor, make such payments and do such acts as Agent considers necessary or reasonable to protect its security interests in the Collateral. Borrower agrees to assemble the Collateral if Agent so requires, and to make the Collateral available to Agent as Agent may designate. 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 Borrower's owned or leased premises, Borrower hereby grants 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 Borrower (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 Borrower 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 Borrower held by the Lender Group;

(h) Hold, as cash collateral, any and all balances and deposits of Borrower 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, Borrower's 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 Borrower's 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 Borrower's 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 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

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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 Borrower as provided in SECTION 12, at least five days before the date fixed for the sale, or at least five 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 Borrower 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 five 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 Borrower. Any excess will be returned, without interest and subject to the rights of third Persons, by Agent to Borrower.

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 Borrower fails 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 Borrower could result in a Material Adverse Change, in its discretion and without prior notice to Borrower, 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 Borrower's 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

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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. 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 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 Borrower.

11.3 INDEMNIFICATION. 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"). 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 Borrower or to Agent, as the case may be, at its address set forth below:

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IF TO 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: Tom Morgan, Vice President
Fax No. 617.523.4027

WITH COPIES TO: BUCHALTER, NEMER, FIELDS & YOUNGER
601 So. Figueroa Street
Suite 2400
Los Angeles, California 90017
Attn: Robert C. Colton, Esq.
Fax No. 213.896.0400

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 9504 or 9505 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. Borrower acknowledges and agrees that notices sent by Agent in connection with Sections 9504 or 9505 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

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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 STATE OF CALIFORNIA. 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 LOS ANGELES, STATE OF CALIFORNIA 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. 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. BORROWER AND EACH MEMBER OF THE LENDER GROUP HEREBY WAIVES THEIR 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. 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 BORROWER'S 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 Borrower requests, in writing, the return of said documents, schedules, or other papers and makes arrangements, at Borrower's expense, for their return.

15. ASSIGNMENTS AND PARTICIPATIONS; SUCCESSORS.

15.1 ASSIGNMENTS AND PARTICIPATIONS.

(a) Any Lender may, with the written consent of Agent, 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 Borrower 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 Borrower and Agent by such Lender and the Assignee; (ii) such Lender and its Assignee shall have delivered to Borrower and Agent a fully executed

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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 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 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 Borrower 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 Borrower or any guarantor or the performance or observance by Borrower 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

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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, 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) Borrower 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 Borrower 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, Borrower, 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 Borrower 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 Borrower or Borrower's business.

(g) Notwithstanding any other provision in this Agreement, 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

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Regulation A of the FRB or U.S. Treasury Regulation 31 CFR Section 203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

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 Borrower 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 Borrower from its 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 Borrower 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 Borrower 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 Borrower 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 Borrower and acknowledged by Agent, do any of the following:

- (a) increase or extend the Commitment of any Lender;
- (b) 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;
- (c) reduce the principal of, or the rate of interest specified herein on, any Loan, or any fees or other amounts payable hereunder or under any other Loan Document;
- (d) 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;
- (e) 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);
- (f) amend this Section or any provision of the Agreement providing for consent or other action by all Lenders;
- (g) release Collateral other than as permitted by SECTION 17.11;
- (h) change the definition of "Required Lenders";
- (i) release Borrower from any Obligation for the payment of money; or
- (j) amend any of the provisions of ARTICLE 17.

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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 Borrower, shall not require consent by or the agreement of Borrower.

16.2 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 Borrower 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 Borrower 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 Borrower 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

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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 Borrower, 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 delegates 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 Borrower, or any Subsidiary or Affiliate of Borrower, 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 Borrower 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

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in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books, or records of Borrower, or any of Borrower's 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 Borrower 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 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

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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 Borrower and its 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 Borrower 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 Borrower. 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 Borrower, 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 Borrower, 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 Borrower is obligated to reimburse Agent or Lenders for such expenses pursuant to the Loan 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 Borrower and without limiting the obligation of Borrower 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

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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 Borrower. 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

Borrower 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 Borrower or their Affiliates and any other Person party to any Loan Documents that is subject to confidentiality obligations in favor of Borrower 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 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 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 Borrower, to deliver to Agent and Borrower:

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(i) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Forms 1001 and W-8 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 4224 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 Borrower 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 1001 and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of Borrower, such Lender agrees to notify Agent and Borrower of the percentage amount in which it is no longer the beneficial owner of Obligations of Borrower to such Lender. To the extent of such percentage amount, Agent and Borrower will treat such Lender's IRS Form 1001 as no longer valid.

(c) If any Lender claiming exemption from United States withholding tax by filing IRS Form 4224 with Agent sells, assigns, grants a

participation in, or otherwise transfers all or part of the Obligations of Borrower 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 Borrower 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 Borrower of a change in circumstances which rendered the exemption from, or reduction of,

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withholding tax ineffective, or for any other reason) such Lender shall indemnify Agent and Borrower fully for all amounts paid, directly or indirectly, by Agent or Borrower as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to Agent or Borrower 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 Borrower of all Obligations; and upon such termination and payment Agent shall deliver to Borrower, at 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 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 Borrower owned no interest at the time the Lien was granted or at any time thereafter; or (iv) constituting property leased to Borrower 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 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 Borrower in respect of) all interests retained by Borrower, 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 Borrower, 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.

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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 Borrower or any accounts of Borrower 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 Borrower 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 Division 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.

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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 it becomes available, a copy of each field audit or examination report (each a "Report" and collectively, "Reports") prepared 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 Borrower and will rely significantly upon Borrower's books and records, as well as on representations of Borrower's 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 Borrower 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, or (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; PROVIDED, HOWEVER, that, unless prohibited by applicable law, statute, regulation, or court order, such Lender shall notify Borrower of any request by any court, governmental or administrative agency, or pursuant to any subpoena or other legal process for disclosure of any such non-public material information 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

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other credit accommodations that the indemnifying Lender has made or may make to Borrower, or the indemnifying Lender's participation in, or the indemnifying Lender's purchase of, a loan or loans of Borrower; 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 Borrower 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 Borrower, 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 Borrower 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 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 Borrower 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.

18. GENERAL PROVISIONS.

18.1 EFFECTIVENESS. This Agreement shall be binding and deemed effective when executed by Borrower 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.

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18.3 INTERPRETATION. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against the Lender Group or Borrower, 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.

(a) If the incurrence or payment of the Obligations by Borrower 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 Borrower 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.

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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: /s/ SETH L. UDASIN

Title: VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

WELLS FARGO RETAIL FINANCE LLC,
a Delaware limited liability company,
as Agent and as a Lender

By: /s/ THOMAS F. MORGAN

Title: VICE PRESIDENT

S-1
Third Amended and Restated
Loan and Security Agreement

COMMITMENTS ON CLOSING DATE

| | |
|--------------------------------|----------------|
| Wells Fargo Retail Finance LLC | \$ 75,000,000 |
| Total | \$ 75,000,000* |

* \$100,000,000 if syndication has been completed by the Closing Date.

Schedule C-1
COMMITMENT ON CLOSING DATE

SCHEDULE E-1

Eligible Inventory

See Schedule 6.11

Schedule C-1
COMMITMENT ON CLOSING DATE

SCHEDULE P-1

Permitted Liens

1. Security Interest filed April 19, 1999 of Raymond Leasing Corporation in leased forklift machines securing the lease obligation.
2. Security Interest filed August 27, 1997 of International Leasing Corporation in five traffic counting machines securing a lease obligation.
3. Security Interest filed July 13, 1999 of Newcourt Communications Finance Corporation in telecommunications equipment securing a lease obligation.
4. Security Interest filed May 7, 1999 of Forsythe/McArthur Associate Inc. in computer communications equipment securing a lease obligation.
5. Security Interest filed January 22, 1996 of General Electric Capital Corp. in pattern making equipment securing a lease obligation.

6. Security Interest filed June __, 2001 of TCF Leasing, Inc. in an electronic conveyer system securing a lease obligation.
7. Security Interest filed June __, 2001 of Manufacturers Bank in an electronic conveyer system securing a lease obligation.

Schedule C-1
COMMITMENT ON CLOSING DATE

SCHEDULE 5.8

Subsidiaries of The Children's Place Retail Stores, Inc.

- The Children's Place (Hong Kong) Limited, a Hong Kong corporation
 - Number of Shares of Stock of Subsidiary: 10,000
 - Number (and Percentage) Owned by Parent: 9,999 (99.99%)
- TCPIP, Inc., a Delaware corporation
 - Number of Shares of Stock of Subsidiary: 1,000
 - Number (and Percentage) Owned by Parent: 1,000 (100%)
- thechildrensplace.com, inc., a Delaware corporation
 - Number of Shares of Stock of Subsidiary: 10,000
 - Number (and Percentage) Owned by Parent: 10,000 (100%)
- The Children's Place (Australia) Pty. Ltd., an Australian corporation
 - Number of Shares of Stock of Subsidiary: 1
 - Number (and Percentage) Owned by Parent: 1 (100%)
- TCP Canada, Inc., a Nova Scotia limited liability corporation
 - Number of Shares of Stock of Subsidiary: 1
 - Number (and Percentage) Owned by Parent: 1 (100%)
- TCP Resources, LLC, a Delaware limited liability company
 - Parent is Sole Member owning 100% interest
- The Children's Place (Virginia), Inc., a Virginia corporation
 - Number of Shares of Stock of Subsidiary: 100
 - Number (and Percentage) Owned by Parent: 100 (100%)
- The Children's Place Canada Holdings, Inc., a Delaware corporation
 - Number of Shares of Stock of Subsidiary: 1,500
 - Number (and Percentage) Owned by Parent: 1,500 (100%)
- TCP Investment Canada I Corp., a Nova Scotia unlimited liability corporation
 - Number of Shares of Stock of Subsidiary: 1
 - Number (and Percentage) Owned by Parent: 1 (100%)*
- TCP Investment Canada II Corp., a Nova Scotia unlimited liability corporation
 - Number of Shares of Stock of Subsidiary: 1
 - Number (and Percentage) Owned by Parent: 1 (100%)**
- The Children's Place (Canada), LP, an Ontario limited partnership
 - TCP Investment Canada II Corp. owns 1% interest, and is General Partner

Schedule C-1
COMMITMENT ON CLOSING DATE

TCP Investment Canada I Corp. owns 99% interest

* - Shares are owned by The Children's Place Canada Holdings, Inc., which is a wholly-owned subsidiary of Parent

** - Shares are owned by TCP Investment Canada I Corp., which is a wholly-owned subsidiary of The Children's Place Canada Holdings, Inc., a wholly-owned subsidiary of Parent

Schedule C-1
COMMITMENT ON CLOSING DATE

SCHEDULE 5.13

ERISA Benefit Plans

The Children's Place 401(k) Plan

Schedule C-1
COMMITMENT ON CLOSING DATE

SCHEDULE 5.14

Environmental Condition

In connection with Schedule 5.14, the only exception involves the purchase of certain children's pearl necklaces from The Children's Place's agent, March Development of Taiwan, in or about October 1991. The Children's Place sold the pearl necklaces to Leonard Howard who distributed the necklaces to Name Brand Stores. The United States Testing Company, Inc. determined that the necklaces contained straight chain hydrocarbon (oil) that was within each pearl. A sample of the liquid filled necklace indicated that it is free from bacterial contamination and did not have detectable viable bacteria. Accordingly, The Children's Place took measures to properly dispose of all of the necklaces which had been sold and/or distributed. The oil in the remaining necklaces has been drained into a drum. Safety-Kleen, an environmental substance cleanup company, has disposed of this drum.

Schedule C-1
COMMITMENT ON CLOSING DATE

SCHEDULE 6.11

Locations of Inventory and Equipment

915 Secaucus Road, Secaucus, New Jersey
900 Secaucus Road, Secaucus, New Jersey
45 Enterprise Avenue, Secaucus, New Jersey
3800 E. Philadelphia Street, Ontario, California
300 Delaware Avenue, Suite 1262, Wilmington, Delaware
1 Hung-To Road, 30th Floor, Kwun Tong, Kowloon, Hong Kong
3519 Citic Square, 1168 Nanjing Road West, Shanghai, P.R. China
See Attached Store List

Schedule C-1
COMMITMENT ON CLOSING DATE

SCHEDULE 7.1

Indebtedness

None

Schedule C-1
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 Third Amended and Restated Loan and Security Agreement, dated as of April 25, 2003 (as amended, amended and restated, modified, supplemented or renewed from time to time, the "LOAN AGREEMENT"), among The Children's Place Retail Stores, Inc. ("Borrower"), the several financial institutions from time to time party thereto (including the Assignor, collectively, the "LENDERS"), and Wells Fargo Retail Finance LLC, a Delaware corporation, 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 Loans (the "COMMITTED LOANS") to the Borrower in an aggregate amount not to exceed \$ (the "COMMITMENT");

C. [The Assignor has made Committed Loans in the aggregate principal amount of \$_____ to the Borrower] [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

EXHIBIT A-1, PAGE 1

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

EXHIBIT A-1, PAGE 2

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) _____, 199_; 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 Borrower and the Agent for acknowledgement by the Agent, a Notice of Assignment [substantially] in the form attached hereto as SCHEDULE 1.

EXHIBIT A-1, PAGE 3

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 Borrower 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 Borrower prior to the time that the Agent or the Borrower is 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

EXHIBIT A-1, PAGE 4

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 Borrower, or the performance or observance by the Borrower, 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 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.

EXHIBIT A-1, PAGE 5

(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.

EXHIBIT A-1, PAGE 6

[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: _____

EXHIBIT A-1, PAGE 7

SCHEDULE 1
NOTICE OF ASSIGNMENT AND ACCEPTANCE

_____, 200__

Wells Fargo Retail Finance LLC
One Boston Place
Suite 1800
Boston, Massachusetts 02108
Attn: Tom Morgan, Vice President

[Name and Address of Borrower]

Ladies and Gentlemen:

We refer to the Third Amended and Restated Loan and Security Agreement, dated as of April 25, 2003 (as amended, amended and restated, modified, supplemented or renewed from time to time, the "Loan Agreement"), among The Children's Place Retail Stores, Inc. ("Borrower"), 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: _____

EXHIBIT A-1, PAGE 8

(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: _____

EXHIBIT A-1, PAGE 9

ACKNOWLEDGED:

THE CHILDREN'S PLACE RETAIL
STORES, INC., a Delaware corporation,
as Borrower

By: _____
Title: _____

ACKNOWLEDGED AND ASSIGNMENT
CONSENTED TO:

WELLS FARGO RETAIL FINANCE LLC,
a Delaware limited liability company, as Agent

By: _____
Title: _____

EXHIBIT A-1, PAGE 10

EXHIBIT C-1

COMPLIANCE CERTIFICATE SAMPLE COPY

Date _____, 200__

WELLS FARGO RETAIL FINANCE LLC
One Boston Place
Suite 1800
Boston, Massachusetts 02108
Attn: Tom Morgan, Vice President

RE: THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT, DATED AS OF
APRIL 25, 2003 (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. ("BORROWER").

Dear _____:

In accordance with Section 6.2 of the Agreement, this letter shall serve as
certification to Agent that to the best of my knowledge: (i) all financial
statements have been prepared in accordance with GAAP and fairly represent the
financial condition of Borrower, (ii) the representations and warranties of
Borrower set forth in the Agreement and other Loan Documents are true and
correct in all material respects on and as of the date of this certification,
(iii) Borrower is in compliance with each of its financial covenants set forth
in Sections 7.19 and 7.20 of the Agreement as of the date of this certification,

and (iv) there does not exist any condition or event that constitutes a Default or Event of Default. Such certification is made as of the fiscal month ending _____, 200__.

Sincerely,

Chief Financial Officer

SCHEDULE C-1

AMENDMENT NUMBER ONE TO SECURITY AGREEMENT -
STOCK PLEDGE

This AMENDMENT NUMBER ONE TO SECURITY AGREEMENT - STOCK PLEDGE ("Amendment") is entered into as of April 25, 2003 between The Children's Place Retail Stores, Inc., a Delaware corporation ("Pledgor") and Wells Fargo Retail Finance LLC, a Delaware corporation ("Wells Fargo Retail"), as Agent, on the other hand.

RECITALS

A. Wells Fargo Retail is the successor of Foothill Capital Corporation, a California corporation with respect to the Security Agreement - Stock Pledge dated as of January 31, 1999 (the "Pledge Agreement");

B. Pledgor is the record owner of 1,000 shares of the Common Stock of TCPIP, Inc., a Delaware corporation (formerly known as TCPIP Holding Company, Inc.).

C. Pledgor and Wells Fargo Retail in its capacity as Agent, hereby amend and supplement the Pledge Agreement as follows:

1. All references to Foothill in the Pledge Agreement shall mean Wells Fargo Retail as a lender and as the Agent.

2. All references to Company shall now mean TCPIP, Inc., a Delaware corporation.

3. Recitals A and C of the Pledge Agreement are amended to read as follows:

"A. Pledgor and Wells Fargo Retail, in its capacity as a Lender and Agent, are parties to that certain Third Amended and Restated Loan and Security Agreement, dated as of April 25, 2003 (as may hereafter be amended, supplemented or restated from time to time in accordance with the terms thereof, the "Loan Agreement")."

"C. Pursuant to the terms of the Loan Agreement, Pledgor and Wells Fargo Retail, as Agent for the benefit of the Lenders, have entered into this Agreement as additional security for the Obligations (as defined in the Loan Agreement)."

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on date first set forth above.

THE CHILDREN'S PLACE RETAIL
STORES, INC., a Delaware corporation

By: /S/ SETH L. UDASIN

Title: Vice President and CFO

WELLS FARGO RETAIL FINANCE LLC,
a Delaware corporation, as Agent and Lender

By: /S/ THOMAS F. MORGAN

Title: Vice President

EXHIBIT 21.1

THE CHILDREN'S PLACE RETAIL STORES, INC.

SUBSIDIARIES OF THE COMPANY

The Children's Place Retail Stores, Inc. has the following wholly owned subsidiaries:

TCPIP, Inc., a Delaware Corporation.

The Children's Place (Hong Kong) Limited, a Hong Kong Corporation.

thechildrensplace.com, inc., a Delaware Corporation.

The Children's Place (Australia) Pty. Ltd., an Australian Corporation.

The Children's Place (Virginia), Inc., a Virginia Corporation.

TCP Canada, Inc., a Nova Scotia Limited Liability Company.

TCP Resources, LLC, a Delaware 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.

EXHIBIT 23.1

THE CHILDREN'S PLACE RETAIL STORES, INC.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-47065 of The Children's Place Retail Stores, Inc. on Form S-8 of our report dated March 10, 2003, except for Note 12 and Note 13 as to which the date is April 25, 2003, relating to the consolidated financial statements of The Children's Place Retail Stores, Inc. as of and for the fiscal year ended February 1, 2003 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the application of procedures relating to certain disclosures and reclassifications of financial statement amounts related to the consolidated financial statements for the fiscal years ended February 2, 2002 and February 3, 2001 that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures and reclassifications), appearing in this Annual Report on Form 10-K of The Children's Place Retail Stores, Inc. for the fiscal year ended February 1, 2003.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey
April 29, 2003

EXHIBIT 23.2

THE CHILDREN'S PLACE RETAIL STORES, INC.

NOTICE REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is provided that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

On July 15, 2002, the Board of Directors of The Children's Place Retail Stores, Inc. (the "Company"), upon recommendation of its Audit Committee, decided to end the engagement of Arthur Andersen LLP ("Arthur Andersen") as the Company's independent public accountants, effective after Arthur Andersen's review of the Company's financial results for the quarter ended May 4, 2002 and the filing of the Company's Form 10-Q for such quarter, and authorized the engagement of Deloitte & Touche LLP to serve as the Company's independent public accountants for the fiscal year ending February 1, 2003. For additional information, see the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on July 15, 2002.

After reasonable efforts, the Company has been unable to obtain Arthur Andersen's written consent to the incorporation by reference into the Company's registration statement (Form S-8 No. 333-47065) of Arthur Andersen's audit report with respect to the Company's consolidated financial statements as of February 2, 2001 and for the two fiscal years in the period then ended. Under these circumstances, Rule 437a under the Securities Act permits the Company to file this Annual Report on Form 10-K, which is incorporated by reference into the Registration Statements, without a written consent from Arthur Andersen. As a result, with respect to transactions in the Company's securities pursuant to the Registration Statement that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Arthur Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Arthur Andersen under Section 11(a) of the Securities Act.