SELECTED FINANCIAL DATA AND OPERATING DATA

The following table sets forth certain historical financial and operating data for the Company. The selected historical financial data is qualified by reference to, and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the financial statements and notes thereto included elsewhere in this herein. Certain prior fiscal year balances set forth below have been reclassified to conform to fiscal 2000 presentation.

	Fiscal Year Ended (1)				
	February 3, 2001	**January 29, 2000**	**January 30, 1999**	**January 31, 1998**	**February 1, 1997**
Statement of Operations Data (in thousands, except per share data):					
Net sales	$587,385	$421,496	$283,853	$192,557	$143,838
Cost of sales	339,042	241,188	166,449	123,556	90,071
Gross profit	248,343	180,308	117,404	69,001	53,767
Selling, general and administrative expenses	150,693	105,137	70,313	46,451	35,966
Pre-opening costs	5,456	3,485	3,030	2,127	982
Depreciation and amortization	20,880	13,849	8,607	5,958	4,017
Operating income	71,314	57,837	35,454	14,465	12,802
Interest expense, net	997	346	324	2,647	2,884
Other expense, net	166	54	110	139	396
Income before income taxes and extraordinary loss	70,151	57,437	35,020	11,679	9,522
Provision (benefit) for income taxes (2)	27,461	22,388	14,358	4,695	(20,919)
Income before extraordinary loss	42,690	35,049	20,662	6,984	30,441
Extraordinary loss (3)	0	0	0	1,743	0
Net income	$42,690	$35,049	$20,662	$5,241	$30,441
Diluted income per common share before extraordinary loss	$1.60	$1.32	$0.80	$0.29	
Extraordinary loss per common share	0.00	0.00	0.00	(0.07)	
Diluted net income per common share (4)	$1.60	$1.32	$0.80	$0.22	
Diluted weighted average common shares outstanding (4)	26,668	26,648	25,909	24,358	

	Fiscal Year Ended (1)				
	February 3, 2001	**January 29, 2000**	**January 30, 1999**	**January 31, 1998**	**February 1, 1997**
Selected Operating Data:					
Number of stores open at end of period	400	293	209	155	108
Comparable store sales increase (5) (6)	4%	15%	14%	2%	9%
Average net sales per store (in thousands) (6) (7)	$1,651	$1,656	$1,569	$1,487	$1,479
Average square footage per store (8)	4,170	4,140	4,055	4,123	4,284
Average net sales per gross square foot (6) (9)	$403	$414	$382	$350	$335
Balance Sheet Data (in thousands):					
Working capital	$40,944	$27,340	$35,531	$20,238	$11,951
Total assets	231,696	170,959	110,761	79,353	64,479
Long-term debt	0	0	2	26	20,504
Stockholders' equity	166,667	120,066	80,607	58,467	27,298

(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 2000 mean the fiscal year ended February 3, 2001. Fiscal 2000 was a 53-week year.

(2) The provision (benefit) for income taxes for fiscal 1996 reflected the reversal of a valuation allowance of $20.9 million on a net deferred tax asset.

(3) The extraordinary loss in fiscal 1997 represented the write-off of unamortized deferred financing costs and unamortized debt discount as a result of the repayment of long-term debt in conjunction with our initial public offering in September 1997.

(4) Diluted net income per common share is calculated by dividing net income by the diluted weighted average common shares and common share equivalents outstanding. The weighted average common shares outstanding and common share equivalents used in computing diluted net income per common share for fiscal 1997 are based on the number of common shares and common share equivalents as if our recapitalization at the time of our initial public offering had occurred on the first day of fiscal 1997. During and prior to the fiscal year ended February 1, 1997, our Common Stock was not publicly traded and due to significant changes in our capital structure resulting from a private placement of our Common Stock in July 1996, earnings per share for that year is not presented due to a lack of comparability.

(5) 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.

(6) 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.

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

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

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

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 elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and under the caption "Risk Factors" in the Business Section of the Company's Annual Report on Form 10-K for the year ended February 3, 2001.

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 1, 2001, we operated 431 stores in 43 states, located primarily in regional shopping malls. Over the last several years, we have been aggressively opening new stores to capitalize on our business strengths and strong store economics. During fiscal 1998, fiscal 1999 and fiscal 2000, we opened a total of 54, 84 and 108 new stores, respectively and closed one store in fiscal 2000. We intend to continue our expansion program and currently plan to open approximately 120 stores in fiscal 2001.

Our net sales have grown significantly during the past several years, primarily as a result of new store openings and, to a lesser extent, increases in comparable store sales. We reported comparable store sales growth over prior years of 14%, 15% and 4% during fiscal 1998, fiscal 1999 and fiscal 2000, respectively. We believe that these increases were primarily the result of successful merchandising and operational programs, together with well-positioned store real estate. We do not expect our comparable store sales to continue to increase at rates similar to those experienced over the last three years. During the first nine weeks of fiscal 2001, we experienced negative comparable store sales of 7%. Sales were unfavorably impacted primarily by a difficult economic environment along with unfavorable weather conditions.

During fiscal 2001, we plan to focus our efforts on the opening of approximately 120 stores, the start-up of our new West Coast distribution facility, the implementation of certain management information system initiatives, and the re-opening of our e-commerce website, as well as an ongoing assessment of our administrative infrastructure to support our growing business.

To support our growing distribution and warehouse needs in the western portions of the United States, we have leased an approximately 250,000 square foot distribution center in Ontario, California. We expect to make a cash outlay of approximately $8 million to install an automated warehouse management system and other facility improvements. We plan to begin to utilize this facility during the summer of 2001. In addition, we also leased an approximately 72,500 square foot facility located near our headquarters in Secaucus, New Jersey. We plan to use this facility for e-commerce fulfillment, distribution to local stores and ancillary offices to support our growing business. We expect to make a cash outlay of approximately $1 million to renovate this facility.

During fiscal 2001, we expect to make a cash outlay of approximately $9 million on management information system initiatives. These initiatives include various financial, merchandising and store systems planned to enhance the speed and quality of management information within the Company.

During fiscal 2000, our on-line store represented less than 1% of our overall sales. In January 2001, we temporarily closed our online store and anticipate re-opening it in May 2001. We plan to improve operational efficiency and reduce costs by bringing our e-commerce operations and fulfillment services in-house. We also plan to improve the design and layout of our on-line store to create a more user friendly shopping experience. We recorded a $0.7 million non-cash charge in the fourth quarter of fiscal 2000 to write-off intangible assets that are not part of our future e-commerce strategy.

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 3, 2001	January 29, 2000	January 30, 1999
Net sales	100.0%	100.0%	100.0%
Cost of sales	57.7	57.2	58.6
Gross profit	42.3	42.8	41.4
Selling, general and administrative expenses	25.7	25.0	24.8
Pre-opening costs	0.9	0.8	1.1
Depreciation and amortization	3.6	3.3	3.0
Operating income	12.1	13.7	12.5
Interest expense, net	0.2	0.1	0.1
Other expense, net	—	—	0.1
Income before income taxes and extraordinary loss	11.9	13.6	12.3
Provision for income taxes	4.7	5.3	5.0
Net income	7.2%	8.3%	7.3%
Number of stores, end of period	400	293	209

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

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

Gross profit increased $68.0 million to $248.3 million during fiscal 2000 from $180.3 million in fiscal 1999. As a percentage of net sales, gross profit decreased to 42.3% during fiscal 2000 from 42.8% during fiscal 1999. The decrease in gross profit, as a percentage of net sales, was principally due to higher markdowns, increased distribution and store occupancy costs, offset partially by higher initial markups achieved through effective product sourcing and the leveraging of our design, production and buying costs. Our increased distribution costs were attributable to the distribution of merchandise ordered from our e-commerce website and higher freight costs to ship product from our New Jersey distribution center to an increased number of stores in the western portions of the United States. These costs were partially offset by the leveraging of payroll costs to operate our distribution center. Our increased store occupancy costs resulted from our new stores that have not been open long enough to leverage their rent through an established sales base.

Selling, general and administrative expenses increased $45.6 million to $150.7 million in fiscal 2000 from $105.1 million in fiscal 1999. As a percentage of net sales, selling, general and administrative expenses increased to 25.7% of net sales during fiscal 2000 from 25.0% of net sales during fiscal 1999. During fiscal 2000, as a percentage of net sales, selling, general and administrative expenses were unfavorably impacted by higher store payroll wage rates, the settlement of executive severance agreements, the write-off of $0.7 million of intangible assets that were not part of our future e-commerce strategy, and increased marketing costs, partially offset by the leveraging of corporate administrative expenses.

During fiscal 2000, pre-opening costs were $5.5 million, or 0.9% of net sales, as compared to $3.5 million, or 0.8% of net sales during fiscal 1999. The increase in pre-opening costs reflects the opening of 108 stores in fiscal 2000, as compared to 84 stores in fiscal 1999. During fiscal 2000, we incurred higher pre-opening expenses due to increased marketing costs to introduce The Children's Place brand in new markets, as well as increased travel and freight costs to open our first stores on the west coast of the United States.

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

Interest expense, net, for fiscal 2000 was $1.0 million, or 0.2% of net sales, as compared to $0.3 million, or 0.1% of net sales, during fiscal 1999. The increase in interest expense, net, is due to increased borrowings under our working capital facility during fiscal 2000 to support our store growth.

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

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

Year Ended January 29, 2000 Compared to Year Ended January 30, 1999

Net sales increased by $137.6 million, or 48%, to $421.5 million during fiscal 1999 from $283.9 million during fiscal 1998. Net sales for the 84 new stores opened, as well as other stores that did not qualify as comparable stores, contributed $99.0 million of the sales increase. As of January 29, 2000, The Children's Place operated 293 stores in 34 states primarily located in regional shopping malls. Our comparable store sales increased 15% and contributed $38.6 million to the net sales increase during fiscal 1999. Comparable store sales increased 14% during fiscal 1998. Our fiscal 1999 comparable store sales increase was experienced across all major merchandise departments.

Gross profit increased by $62.9 million to $180.3 million during fiscal 1999 from $117.4 million in fiscal 1998. As a percentage of net sales, gross profit increased to 42.8% during fiscal 1999 from 41.4% during fiscal 1998. The increase in gross profit, as a percentage of net sales, was principally due to higher initial markups achieved through effective product sourcing and the leveraging of store occupancy costs over a higher sales base, partially offset by higher markdowns, higher distribution costs and costs incurred by our new Hong Kong office. Our higher distribution costs can be attributed to the implementation of our new warehouse system and increased freight costs, due to the increased number of stores in operation west of the Mississippi River.

Selling, general and administrative expenses increased $34.8 million to $105.1 million during fiscal 1999 from $70.3 million during fiscal 1998. As a percentage of net sales, selling, general and administrative expenses increased to 25.0% of net sales during fiscal 1999 from 24.8% of net sales during fiscal 1998. During fiscal 1999, selling, general and administrative expenses were unfavorably impacted by start-up costs and marketing expenses associated with the launch of our e-commerce website, www.childrensplace.com during the fourth quarter of fiscal 1999, and increased marketing expenses. The increase in selling, general and administrative expenses, as a percentage of net sales, were partially offset by the leveraging of store and administrative expenses over a higher sales base.

During fiscal 1999, pre-opening costs were $3.5 million, or 0.8% of net sales, as compared to $3.0 million, or 1.1% of net sales, during fiscal 1998. The increase in pre-opening costs in fiscal 1999 reflected the opening of 84 stores, as compared to 54 stores during fiscal 1998, partially offset by the timing of expenses incurred during fiscal 1998 for approximately 26 stores which were opened during the first quarter of fiscal 1999.

Depreciation and amortization amounted to $13.8 million, or 3.3% of net sales, during fiscal 1999 as compared to $8.6 million, or 3.0% of net sales, during fiscal 1998. The increase in depreciation and amortization primarily was a result of increases in our store base, accelerated depreciation taken in conjunction with store re-fixturings and renovations and the commencement of depreciation for our new distribution center and corporate headquarters facility in the third quarter of fiscal 1999. These increases, as a percentage of net sales, were partially offset by the leveraging of depreciation and amortization expense over a higher sales base.

Our provision for income taxes during fiscal 1999 was $22.4 million, as compared to a provision for income taxes of $14.4 million during fiscal 1998. The increase in our provision for income taxes during fiscal 1999 is due to our increased profitability. Our effective tax rate for fiscal 1999 was 39.0% as compared to an effective tax rate of 41.0% for fiscal 1998. The decrease in our effective tax rate in fiscal 1999 is attributable to our Hong Kong subsidiary and other state tax savings. During fiscal 1999, we utilized the remaining $1.6 million of our net operating loss carryforwards ("NOLs"). We paid for the remainder of our fiscal 1999 tax provision in cash. During fiscal 1998, the majority of our tax provision was not paid in cash due to utilization of our NOLs.

Fiscal 1999 net income increased to $35.0 million from $20.7 million in fiscal 1998.

Liquidity and Capital Resources

Debt Service/Liquidity

During fiscal 2000, our primary uses of cash were financing new store openings and providing for working capital, which primarily represented the purchase of inventory. Our working capital needs follow a seasonal pattern, peaking during the second and third quarters when inventory is purchased for the back-to-school and holiday merchandise lines. During fiscal 2000, we also utilized cash to equip and furnish our new West Coast distribution center. We were able to meet our cash needs principally by using cash flow from operations and borrowings under our working capital facility. As of February 3, 2001, we had no long-term debt obligations.

We currently have a working capital facility that provides for borrowings up to $75 million (including a sublimit for letters of credit of $60 million). Foothill Capital Corporation acts as our agent bank for a syndicated group of lenders on this facility. This working capital facility also contains provisions to increase borrowings up to $100 million (including a sublimit for letters of credit of $80 million), subject to sufficient collateralization and the syndication of the incremental line of borrowing. The amount that can be borrowed under our working capital facility depends upon our levels of inventory and accounts receivable. Amounts outstanding under the facility bear interest at a floating rate equal to the prime rate or, at our option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread is 1.25% to 2.50%, depending upon our financial performance from time to time. Borrowings under the facility mature in July 2003 and provide for one year automatic renewal options. The working capital facility contains certain financial covenants including among others, the maintenance of minimum levels of earnings and current ratios and imposes certain limitations on our annual capital expenditures, as well as the prohibition on the payment of dividends. Credit extended under the working capital facility is secured by a first priority interest in our present and future assets, as well as the assets of our subsidiaries. We were in compliance with all of the financial covenants under our working capital facility as of February 3, 2001.

As of February 3, 2001 and January 29, 2000, there were $3.3 million and $6.5 million in borrowings under our working capital facility, respectively. In addition, as of February 3, 2001 and January 29, 2000, we had outstanding $13.8 million and $16.0 million, respectively, in letters of credit under our working capital facility. Availability under the working capital facility as of February 3, 2001 and January 29, 2000 was $47.5 million and $21.4 million, respectively. The interest rates charged under the working capital facility were 8.50% per annum as of February 3, 2001 and January 29, 2000.

Cash Flows/Capital Expenditures

Cash flows provided by operating activities were $59.7 million, $34.7 million and $35.0 million in fiscal 2000, fiscal 1999 and fiscal 1998, respectively. In fiscal 2000, cash flows from operating activities increased as a result of an increase in operating earnings and increases in current liabilities, partially offset by increased inventory to support our new store growth. In fiscal 1999, cash flows from operating activities decreased as a result of cash payment of our tax liabilities, increased inventory to support our new store growth and earlier receipt of spring 2000 merchandise due to Year 2000 concerns, partially offset by increased operational earnings and increases in our current liabilities.

Cash flows used in investing activities were $53.1 million, $58.2 million and $19.8 million in fiscal 2000, fiscal 1999 and fiscal 1998, respectively. Cash flows used in investing activities relate primarily to store openings and remodelings. In fiscal 2000, fiscal 1999 and fiscal 1998, we opened 108, 84 and 54 stores while remodeling 14, 11 and 3 stores, respectively. During fiscal 2000, cash flows used in investing activities represented capital expenditures of approximately $44 million for store openings and remodelings and approximately $5 million to equip and furnish our new West Coast distribution center. The remainder of fiscal 2000 capital expenditures were used for other capital projects. During fiscal 1999, cash flows used in investing activities represented capital expenditures of approximately $36 million for store openings, remodelings and re-fixturings and approximately $13 million to renovate and furnish our Secaucus distribution center and corporate headquarters facility. The remainder of fiscal 1999 capital expenditures were used on our new warehouse management system, our new point-of-sale ("POS") system and other capital projects.

Cash flows used by financing activities were $0.7 million in fiscal 2000. During fiscal 1999 and fiscal 1998, cash flows provided by financing activities were $9.3 million and $0.4 million, respectively. In 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. In fiscal 1999, cash flows provided by financing activities reflected net borrowings under our working capital facility and funds received from the exercise of employee stock options and employee stock purchases.

In a typical new store, capital expenditures (net of landlord contribution), initial inventory (net of merchandise payables) and pre-opening costs approximate $0.4 million. We anticipate that total capital expenditures will approximate $60 million in fiscal 2001. These expenditures will relate primarily to the opening of approximately 120 stores, store remodelings, the completion of our new West Coast distribution center and auxillary Secaucus facility, hardware and software to support our MIS initiatives, ongoing store maintenance programs and ongoing administrative office and warehouse equipment needs. We plan to fund these capital expenditures primarily with cash flow from operations.

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

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

Quarterly Results and Seasonality

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

Our business is also subject to seasonal influences, with heavier concentrations of sales during the back-to-school and holiday seasons. As is the case with many retailers of apparel and related merchandise, we typically experience lower net sales and net income during the first two fiscal quarters, and net sales and net income are lower during the second fiscal quarter than during the first fiscal quarter. Our first quarter results are heavily dependent upon sales during the period leading up to the Easter holiday. Our third quarter results are heavily dependent upon back-to-school sales and our fourth quarter results are heavily dependent upon sales during the holiday season. We have experienced second quarter losses in the past and expect to experience a second quarter loss in fiscal 2001. 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 2000			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	(in thousands, except for store data)			
Net sales	$130,181	$107,764	$165,885	$183,555
Operating income	15,528	2,938	28,054	24,794
Comparable store sales increase	5%	7%	5%	1%
Stores open at end of period	335	371	392	400

	Fiscal 1999			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	(in thousands, except for store data)			
Net sales	$92,621	$73,920	$119,442	$135,513
Operating income	12,232	2,284	21,713	21,608
Comparable store sales increase	32%	19%	15%	5%
Stores open at end of period	239	261	282	293

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 3, 2001 and January 29, 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended February 3, 2001. 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 3, 2001 and January 29, 2000, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

New York, New York
March 1, 2001

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

	February 3, 2001	January 29, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$8,141	$2,204
Accounts receivable	9,118	5,112
Inventories	68,105	56,021
Prepaid expenses and other current assets	11,054	8,527
Deferred income taxes	2,555	1,720
Total current assets	98,973	73,584
Property and equipment:		
Leasehold improvements	78,589	61,235
Store fixtures and equipment	73,763	50,804
Construction in progress	13,445	3,009
	165,797	115,048
Less accumulated depreciation and amortization	(43,822)	(27,374)
Property and equipment, net	121,975	87,674
Deferred income taxes	4,166	5,051
Other assets	6,582	4,650
Total assets	$231,696	$170,959
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Current liabilities:		
Revolving credit facility	$3,324	$6,507
Accounts payable	28,366	20,216
Taxes payable	2,656	3,495
Accrued expenses, interest and other current liabilities	23,683	16,026
Total current liabilities	58,029	46,244
Other long-term liabilities	7,000	4,649
Total liabilities	65,029	50,893
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $0.10 par value	2,610	2,570
Preferred stock, $1.00 par value	0	0
Additional paid-in capital	92,252	88,376
Cumulative translation adjustments	(12)	(7)
Accumulated earnings	71,817	29,127
Total stockholders' equity	166,667	120,066
Total liabilities and stockholders' equity	$231,696	$170,959

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

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

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Net sales	$587,385	$421,496	$283,853
Cost of sales	339,042	241,188	166,449
Gross profit	248,343	180,308	117,404
Selling, general and administrative expenses	150,693	105,137	70,313
Pre-opening costs	5,456	3,485	3,030
Depreciation and amortization	20,880	13,849	8,607
Operating income	71,314	57,837	35,454
Interest expense, net	997	346	324
Other expense, net	166	54	110
Income before income taxes	70,151	57,437	35,020
Provision for income taxes	27,461	22,388	14,358
Net income	$42,690	$35,049	$20,662
Basic net income per common share	$1.65	$1.38	$0.83
Basic weighted average common shares outstanding	25,847	25,382	24,788
Diluted net income per common share	$1.60	$1.32	$0.80
Diluted weighted average common shares outstanding	26,668	26,648	25,909

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

THE CHILDREN'S PLACE RETAIL STORES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED, JANUARY 30, 1999, JANUARY 29, 2000 AND FEBRUARY 3, 2001
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated (Deficit) Earnings	Cumulative Translation Adjustment	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount					
BALANCE, January 31, 1998	24,622	$2,462	$82,589	$(26,584)	$—	$58,467	
Exercise of stock options and employee stock purchases	351	35	1,443	—	—	1,478	
Net income	—	—	—	20,662	—	20,662	$20,662
Comprehensive income	—	—	—	—	—	—	$20,662
BALANCE, January 30, 1999	24,973	2,497	84,032	(5,922)	—	80,607	
Exercise of stock options and employee stock purchases	725	73	2,834	—	—	2,907	
Tax benefit of stock option exercises	—	—	1,510	—	—	1,510	
Change in cumulative translation adjustment	—	—	—	—	(7)	(7)	$(7)
Net income	—	—	—	35,049	—	35,049	35,049
Comprehensive income	—	—	—	—	—	—	$35,042
BALANCE, January 29, 2000	25,698	2,570	88,376	29,127	(7)	120,066	
Exercise of stock options and employee stock purchases	397	40	2,585	—	—	2,625	
Tax benefit of stock option exercises	—	—	1,291	—	—	1,291	
Change in cumulative translation adjustment	—	—	—	—	(5)	(5)	$(5)
Net income	—	—	—	42,690	—	42,690	42,690
Comprehensive income	—	—	—	—	—	—	$42,685
BALANCE, February 3, 2001	26,095	$2,610	$92,252	$71,817	$(12)	$166,667	

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

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

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$42,690	$35,049	$20,662
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	20,880	13,849	8,607
Deferred financing fee amortization	57	35	25
Loss on disposals of property and equipment	1,124	346	803
Deferred taxes	1,886	2,726	11,959
Changes in operating assets and liabilities:			
Accounts receivable	(4,006)	(2,370)	(838)
Inventories	(12,084)	(20,682)	(15,005)
Prepaid expenses and other current assets	(2,527)	(2,905)	(1,010)
Other assets	(2,667)	(4,194)	(519)
Accounts payable	8,150	6,871	3,874
Accrued expenses, interest and other	6,239	5,948	6,401
Total adjustments	17,052	(376)	14,297
Net cash provided by operating activities	59,742	34,673	34,959
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment purchases	(53,120)	(58,181)	(19,841)
Net cash used in investing activities	(53,120)	(58,181)	(19,841)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit facility	613,623	305,845	143,155
Repayments under revolving credit facility	(616,806)	(299,338)	(144,244)
Payment of obligations under capital leases	0	(2)	(24)
Exercise of stock options and employee stock purchases	2,625	2,907	1,478
Deferred financing costs	(122)	(63)	0
Net cash (used by) provided by financing activities	(680)	9,349	365
Effect of exchange rate change on cash	(5)	(7)	(0)
Net increase (decrease) in cash and cash equivalents	5,937	(14,166)	15,483
Cash and cash equivalents, beginning of period	2,204	16,370	887
Cash and cash equivalents, end of period	$8,141	$2,204	$16,370
OTHER CASH FLOW INFORMATION:			
Cash paid during the year for interest	$1,983	$676	$439
Cash paid during the year for income taxes	25,907	17,065	2,085

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. As of February 3, 2001, the Company operated 400 stores in 43 states, located primarily in regional shopping malls. The Company also has an office in Hong Kong 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 2000, fiscal 1999 and fiscal 1998 represent the 53-week period ended February 3, 2001, the 52-week period ended January 29, 2000 and the 52-week period ended January 30, 1999, respectively.

Use of Estimates

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

Consolidation

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

Reclassifications

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

Cash and Cash Equivalents

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

Inventories

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

Revenue Recognition

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

During the fourth quarter of fiscal 2000, the Company applied the provisions of the Emerging Issues Task Force 00-10, "Shipping and Handling Fees and Costs," ("EITF 00-10"), which requires that all amounts billed to customers for shipping and handling, be classified as revenue and the costs incurred for such shipping and handling, be classified as costs of goods sold. Prior to the application of EITF 00-10, the Company recorded the amounts billed to its e-commerce customers for shipping and handling netted against its cost of goods sold. The impact of this reclassification increased net sales by approximately $428,000 in fiscal 2000, $0 in fiscal 1999 and $0 in fiscal 1998.

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

Cost of Sales

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

Property and Equipment

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

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

Deferred Financing Costs

The Company capitalizes costs directly associated with acquiring third-party financing. Deferred financing costs are included in other assets and are amortized over the term of the indebtedness. As of February 3, 2001, 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 $130,000.

Accounting for Impairment of Long-Lived Assets

The Company continually evaluates the carrying value and the economic useful lives of its long-lived assets based on the Company's operating performance and the expected undiscounted future net cash flows and adjusts the carrying value of assets which may not be recoverable. The Company does not believe that any impairment exists as of February 3, 2001 in the recoverability of its long-lived assets.

Pre-opening Costs

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

Advertising Costs

The Company expenses the cost of advertising when the advertising is first run or displayed. Included in selling, general and administrative expenses for fiscal 2000, fiscal 1999 and fiscal 1998 are advertising costs of approximately $12,943,000, $9,218,000 and $3,526,000, respectively.

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

Income Taxes

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

Fair Value of Financial Instruments

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

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

Accounting for Stock Based Compensation

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

Net Income per Common Share

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

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

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 3, 2001	January 29, 2000	January 30, 1999
Net income (in thousands)	$42,690	$35,049	$20,662
Basic weighted average common shares	25,846,517	25,381,694	24,787,698
Dilutive effect of stock options	821,828	1,266,416	1,120,901
Diluted weighted average common shares	26,668,345	26,648,110	25,908,599
Antidilutive options	356,740	112,075	223,807

Antidilutive options consist of the weighted average of stock options for the respective periods ended February 3, 2001, January 29, 2000 and January 30, 1999 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 issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. Changes in the derivative's fair value should be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement or other comprehensive income and requires that a company must formally document, designate and assess the effectiveness of transactions that qualify as hedging.

SFAS No. 133, as amended, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (February 4, 2001 for the Company) and cannot be applied retroactively. The Company does not feel that the adoption of SFAS No. 133, as amended, will have a material effect on the Company's consolidated financial statements.

Foreign Currency Translation

The Company has determined that the local currency of its Hong Kong subsidiary is the functional currency. In accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," the assets and liabilities denominated in foreign currency are translated into U.S. dollars at the current rate of exchange existing at period-end and revenues and expenses are translated at average monthly exchange rates. Related translation adjustments are reported as a separate component of stockholders' equity. The effect of exchange rate changes on cash is insignificant.

2. SHORT-TERM BORROWINGS

The Foothill Credit Facility

The Company has a working capital facility (the "Foothill Credit Facility") with Foothill Capital Corporation ("Foothill Capital"). During fiscal 2000, the Foothill Credit Facility was amended and restated to provide for up to $75 million in borrowings which included 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. As of January 29, 2000, the Foothill Credit Facility provided for up to $50 million in borrowings which included a sublimit of up to $40 million in letters of credit.

The Foothill Credit Facility expires in July 2003 and provides for one year automatic renewal options. The Company had $3.3 million and $ 6.5 million outstanding under the Foothill Credit Facility as of February 3, 2001 and January 29, 2000, respectively. Letters of credit outstanding as of February 3, 2001 and January 29, 2000 were $13.8 million and $16.0 million, respectively. Availability as of February 3, 2001 and January 29, 2000 was $47.5 million and $21.4 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 3, 2001, the Company was in compliance with all of its covenants under the Foothill Credit Facility. Noncompliance with these covenants could result in additional fees or could affect the availability of the facility.

Amounts outstanding under the Foothill Credit Facility bear interest at a floating rate equal to the prime rate or, at the Company's option, a LIBOR Rate plus a pre-determined spread. The LIBOR spread is 1.25% to 2.50% depending on the Company's financial performance from time to time. The interest rate charged under the Foothill Credit Facility was 8.50% as of February 3, 2001 and January 29, 2000. In addition, the Company was also required to pay an anniversary fee of $93,750, $37,500 and $75,000 during fiscal 2000, fiscal 1999 and fiscal 1998, respectively.

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

	For the Fiscal Year Ended	
	February 3, 2001	January 29, 2000
Weighted average balances outstanding	$16,574	$8,720
Weighted average interest rate	8.47%	7.73%
Maximum balance outstanding	$32,345	$24,185

3. ACCRUED EXPENSES, INTEREST AND OTHER CURRENT LIABILITIES

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

	February 3, 2001	January 29, 2000
Accrued salaries and benefits	$5,628	$3,710
Accrued real estate expenses	2,690	2,588
Customer liabilities	3,290	2,189
Taxes payable	2,030	1,004
Severance	954	0
Asset accruals	3,710	1,331
Other accrued expenses	5,381	5,204
Accrued expenses, interest and other current liabilities	$23,683	$16,026

4. COMMITMENTS AND CONTINGENCIES

The Company leases all of its stores and distribution facilities, and certain office equipment, store fixtures and automobiles, under leases expiring at various dates through 2014. 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 3, 2001	January 29, 2000	January 30, 1999
Store and distribution facilities rent:			
Minimum rentals	$47,314	$32,633	$23,022
Additional rent based upon sales	848	646	351
Total rent expense	$48,162	$33,279	$23,373

4. COMMITMENTS AND CONTINGENCIES (Continued)

Future minimum annual lease payments under the Company's operating leases at February 3, 2001, are as follows (dollars in thousands):

	Operating Leases
Fiscal year—	
2001	$60,774
2002	64,210
2003	63,120
2004	62,716
2005	62,249
Thereafter	235,232
Total minimum lease payments	$548,301

5. LITIGATION

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

6. INCOME TAXES

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

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Current—			
Federal	$21,477	$14,900	$799
Foreign	694	533	0
State	4,278	3,500	1,600
Deferred—			
Federal	311	2,574	10,209
State	701	881	1,750
Provision for income taxes	$27,461	$22,388	$14,358

6. INCOME TAXES (Continued)

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

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Calculated income tax provision	$24,553	$20,103	$12,257
State income taxes, net of federal benefit	3,236	2,848	2,101
Foreign tax	(733)	(563)	0
Nondeductible expenses	16	0	(160)
Other	389	0	160
Tax provision as shown on the statements of income	$27,461	$22,388	$14,358

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 3, 2001, there are accumulated unremitted earnings from the Company's Hong Kong subsidiary on which deferred taxes have not been provided as the undistributed earnings of the foreign subsidiary are indefinitely reinvested.

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

	February 3, 2001	January 29, 2000
Current—		
Uniform inventory capitalization	$2,002	$1,254
Inventory	732	411
Expenses not currently deductible	(179)	55
Total current	2,555	1,720
Noncurrent—		
Depreciation	1,682	3,392
Deferred rent	2,484	1,659
Total noncurrent	4,166	5,051
Total deferred tax asset	$6,721	$6,771

7. STOCKHOLDERS' EQUITY

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

	February 3, 2001	January 29, 2000
Common stock:		
Authorized number of shares, $0.10 par value	100,000,000	100,000,000
Issued and outstanding number of shares	26,095,296	25,698,120
Preferred stock:		
Authorized number of shares, $1.00 par value	1,000,000	1,000,000
Issued and outstanding number of shares	0	0

8. STOCK OPTION AND PURCHASE PLANS

Stock Option Plans

The Company accounts for its stock option plans in accordance with the provisions of SFAS 123. Accordingly, no compensation expense has been recognized for stock-based compensation, since the options granted were at prices that equaled or exceeded their estimated fair market value at the date of grant. If compensation expense for the Company's stock options issued in fiscal 2000, fiscal 1999 and fiscal 1998 had been determined based on the fair value method of accounting, the Company's net income would have been reduced to the pro forma amounts indicated below for the three fiscal years in the period ended February 3, 2001:

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Net income —			
As reported	$42,690,000	$35,049,000	$20,662,000
Pro forma	$39,644,000	$33,111,000	$19,042,000
Pro forma diluted net income per share -			
As reported	$1.60	$1.32	$0.80
Pro forma	$1.49	$1.24	$0.73

8. STOCK OPTION AND PURCHASE PLANS (Continued)

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

	February 3, 2001	January 29, 2000	January 30, 1999
Dividend yield	0%	0%	0%
Volatility factor	60.00%	57.00%	45.00%
Weighted average risk-free interest rate	6.21%	5.89%	5.17%
Expected life of options	5 years	5 years	5 years
Weighted average fair value on grant date	$18.63 per share	$13.22 per share	$3.52 per share

The Company has two stock option plans: the 1996 Plan and the 1997 Plan. The 1996 Plan authorized the granting of incentive stock options with respect to 1,743,240 shares of Common Stock. The 1997 Plan was authorized and amended to grant options with respect to 2,500,000 shares of Common Stock. As of February 3, 2001, there were 57,300 shares available for grant under the 1996 Plan and 860,880 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. The options canceled and re-granted during fiscal 1998 will vest in accordance with their original vesting schedule.

8. STOCK OPTION AND PURCHASE PLANS (Continued)

Changes in common shares under option for the three fiscal years in the period ended February 3, 2001 are summarized below:

	February 3, 2001		January 29, 2000		January 30, 1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning of year	1,965,856	$12.21	2,185,706	$6.43	1,981,120	$5.82
Granted	552,150	18.55	561,700	24.13	931,500(1)	9.66
Exercised	(371,474)	5.86	(713,560)	3.70	(339,294)	3.41
Canceled	(245,800)	11.44	(67,990)	14.70	(387,620)(1)	13.73
End of year	1,900,732	$15.41	1,965,856	$12.21	2,185,706	$6.43
Exercisable at end of year	768,800	$10.01	600,186	$7.83	793,378	$4.85

(1) Includes 363,700 options that were canceled and re-granted on March 26, 1998. The canceled shares had an exercise price of $14.00 and were re-granted at the average market price on March 27, 1998 of $8.70 per share.

The following table summarizes information regarding options outstanding at February 3, 2001:

	Options Outstanding			Options Exercisable	
Exercise Prices	Outstanding at February 3, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at February 3, 2001	Weighted Average Exercise Price
$2.68–2.68	314,868	5.4	$2.68	314,868	$2.68
$7.31–9.75	361,570	7.2	9.16	194,450	8.97
$11.84–16.81	690,444	8.4	15.85	183,902	15.29
$18.63–27.13	344,200	9.3	21.04	35,650	23.70
$29.69–41.47	189,650	8.3	36.65	39,930	36.38
$2.68–41.47	1,900,732	7.8	$15.41	768,800	$10.01

Stock Purchase Plans

The Company's ESPP, is authorized to issue up to 360,000 shares of Common Stock for employee purchase through payroll deductions at 85% of fair market value. All employees of the Company, who have completed at least 90 days of employment and attained 21 years of age, are eligible to participate, except for employees who own Common Stock or options on such common stock which represents 5% or more of the Company. During fiscal 2000, fiscal 1999 and fiscal 1998, there were 25,702 shares, 11,659 shares and 11,504 shares issued under the ESPP.

9. SAVINGS AND INVESTMENT PLAN

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

The 401(k) Plan is employee funded up to an elective annual deferral and also provides an option for the Company to contribute to the 401(k) Plan at the discretion of the 401(k) Plan's trustees. During fiscal 2000, fiscal 1999 and fiscal 1998, the Company matched the lesser of 50% of the participant's contribution or 2.5% of the participant's compensation. During fiscal 2000, fiscal 1999 and fiscal 1998, the Company's matching contributions to the 401(k) Plan were approximately $605,000, $367,000 and $300,000, respectively.

10. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	Fiscal Year Ended February 3, 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$130,181	$107,764	$165,885	$183,555
Gross profit	56,858	40,530	72,601	78,354
Net income	9,374	1,516	16,845	14,955
Basic net income per common share	$0.36	$0.06	$0.65	$0.58
Diluted net income per common share	$0.36	$0.06	$0.63	$0.55

	Fiscal Year Ended January 29, 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$92,621	$73,920	$119,442	$135,513
Gross profit	39,323	26,797	54,507	59,681
Net income	7,383	1,402	12,734	13,530
Basic net income per common share	$0.29	$0.06	$0.50	$0.53
Diluted net income per common share	$0.28	$0.05	$0.48	$0.51

11. RELATED PARTY TRANSACTIONS

SKM Financial Advisory Services

In 1996, the Company entered into a management agreement with SKM which provides for the payment of an annual fee of $150,000, payable quarterly in advance, in exchange for certain financial advisory services. This management agreement remains in effect until SKM or any of its affiliates' total ownership of the Company's Common Stock is less than 10% on a fully diluted basis. Pursuant to the management agreement, the Company incurred fees and expenses of approximately $150,000, $151,000 and $151,000 during fiscal 2000, fiscal 1999 and fiscal 1998, respectively.

Stockholders Agreement

The Company and certain of its stockholders, who as of February 3, 2001 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, Stanley Silver 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, 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 our affiliates (not including the SK Funds), take action to amend the ByLaws or Certificate of Incorporation or increase or decrease the size of the entire Board of Directors. The Stockholders Agreement also provides that certain specified types of corporate transactions and major corporate actions will require the approval of at least two-thirds of the members of the Board of Directors.

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

11. RELATED PARTY TRANSACTIONS (Continued)

Merchandise for Re-Sale

During fiscal 1998, the Company purchased approximately $290,000 in bath products from HBA Technologies, LLC. Haim Dabah, Ezra Dabah's brother, is the majority owner of HBA Technologies, LLC.

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

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 mature on or about April 15, 2001 and bear interest at the prime rate as quoted by Chase Manhattan Bank. The loans are secured by the principal residence of these executive officers. As of February 3, 2001, approximately $749,000 was outstanding on these loans, including accrued interest.

12. SUBSEQUENT EVENT (UNAUDITED)

Executive Officers

In April 2001, the Company extended the term on one executive loan to April 15, 2002. As of April 30, 2001, this loan had a balance and accrued interest outstanding totaling approximately $513,000.