CHILDRENS PLACE RETAIL STORES INC
Form 10-K
April 02, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fifty-two weeks ended February 2, 2008

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

For the transition period from to
Commission file number 0-23071

THE CHILDREN'S PLACE RETAIL STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**31-1241495** (I.R.S. employer identification number)
915 Secaucus Road **Secaucus, New Jersey** (Address of Principal Executive Offices)	**07094** (Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

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

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting Company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of common stock held by non-affiliates was $738,484,725 at the close of business on August 4, 2007 (the last business day of the registrant's fiscal 2007 second fiscal quarter) based on the closing price of the common stock as reported on the Nasdaq Global Select Market. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: Common Stock, par value $0.10 per share, outstanding at March 28, 2008: 29,186,397.

Documents Incorporated by Reference: Portions of The Children's Place Retail Stores, Inc. 2008 Definitive Proxy Statement for its Annual Meeting of Stockholders to be held on June 27, 2008 are incorporated by reference into Part III.

THE CHILDREN'S PLACE RETAIL STORES, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FIFTY-TWO WEEKS ENDED FEBRUARY 2, 2008
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PART I

ITEM 1. BUSINESS

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

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

Recent Developments

Since November 2004, we have operated the Disney Store retail chain in North America (the "DSNA Business") through two wholly-owned subsidiaries. (For clarification, the "DSNA Business" refers to the historical business we acquired from certain affiliates of The Walt Disney Company ("Disney") as of November 21, 2004, whereas the "Disney Store business" refers to the Disney Store business we have operated since the acquisition.) The Company's subsidiaries that operated the Disney Store business are referred to herein interchangeably and collectively as "Hoop."

As a result of the acquisition, these subsidiaries acquired 313 Disney Stores, consisting of all existing Disney Stores in the United States and Canada, other than "flagship" stores and stores located at Disney theme parks and other Disney properties, along with certain other assets used in the Disney Store business. In addition, the lease obligations for all 313 stores and other legal obligations became obligations of the Company's subsidiaries. Subsequently, the Company's subsidiaries acquired two Disney Store flagship stores, one in Chicago, Illinois and the other in San Francisco, California as well as certain Disney Store outlet stores.

Concurrent with the acquisition of the DSNA Business, the Company entered into a License and Conduct of Business Agreement with Disney (the "License Agreement") and a Guaranty and Commitment (the "Guaranty and Commitment Agreement"). Under the License Agreement, Hoop has the right to use certain Disney intellectual property, subject to Disney approval, in the Disney Store business in exchange for ongoing royalty payments. Pursuant to the terms of the License Agreement, Hoop operates retail stores in North America using the "Disney Store" name and sells merchandise featuring Disney-branded characters.

In October 2007, the Company's Board and management embarked on a review of strategic alternatives, assessing a wide variety of options to improve our business and competitive position, including, but not limited to, opportunities for organizational and operational improvement, a possible recapitalization, or other transactions. After a thorough review of the operation of the Disney Store business, its potential for earnings growth, its capital needs and its ability to fund such needs from its own resources, the Company announced on March 20, 2008 that it has decided to exit the Disney Store business. Reflecting its decision to exit the Disney Store business, the Company recognized a pre-tax asset impairment charge of $80.3 million in the fourth quarter of fiscal 2007. For more information please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Unrelated to the Company's decision to exit the Disney Store business, Hoop recently received notices of several material breaches under the License Agreement. Hoop believes it has cured some of the asserted breaches and intends to cure or to assert defenses to the other asserted breaches.

On March 26, 2008, Hoop Holdings, LLC, Hoop Retail Stores, LLC and Hoop Canada Holdings, Inc. each filed a voluntarily petition for relief under Chapter 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "US Bankruptcy Court") (Case Nos. 08-10544, 08-10545, and 08-10546, respectively), and Hoop Canada, Inc. filed for protection pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA") in the Ontario Superior Court of Justice (Commercial List) ("Canadian Bankruptcy Court") on March 27, 2008. The Hoop entities currently manage, and will continue to manage, their properties and operate their businesses as "debtors-in-possession" under the jurisdiction of the US Bankruptcy Court or Canadian Bankruptcy Court, as applicable, and in accordance with the applicable provisions of the Bankruptcy Code or the CCAA, as applicable.

As a result of the filing of the bankruptcy cases (the "Filings"), Hoop's obligations under various agreements may be accelerated. Further, the Company has provided notice that it is discontinuing the Guaranty and Commitment Agreement and, on March 28, 2008, Disney sent the Company notice that it disputes the validity of the discontinuance. Valid discontinuance will constitute an event of default under the Guaranty and Commitment Agreement. The Filings also constituted an event of default under the Guaranty and Commitment Agreement. Under the Guaranty and Commitment Agreement, the Company has agreed to guarantee Hoop's royalty payments and other obligations to TDS Franchising LLC, an affiliate of Disney ("TDSF"), subject to a maximum guaranty liability of $25 million, plus expenses. Additionally, the Company made an initial investment of $50 million to Hoop and agreed to invest, under certain conditions, up to an additional $50 million to ensure Hoop's ability to pay its obligations under its license agreement with TDSF and to fund Hoop's operating losses. On March 18, 2008, the Company made a capital contribution to Hoop of approximately $8.3 million in cash.

As a result of the Filings, outstanding indebtedness, in the amount of approximately $9.3 million, under the Amended Hoop Loan Agreement (as defined and further described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Facilities Amended Hoop Loan Agreement") will be frozen and capped as of the March 26, 2008. In order to fund the bankruptcy proceedings and all projected working capital needs and subject to US Bankruptcy Court approval, Hoop entered into a Debtor-In-Possession Loan and Security Agreement, dated March 26, 2008, as described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Facilities Amended Hoop Loan Agreement."

In addition, the bankruptcy proceedings may give rise to other material obligations of the Company and exit costs as discussed in this Annual Report on Form 10-K.

In connection with the Filings, Hoop intends to pursue the transfer of a substantial portion of the Disney Store business and assets to Disney (the "Private Sale"), subject to court approval. In connection with the proposed Private Sale, the Hoop entities filed motions for orders that grant authority to sell their assets to Disney pursuant to section 363 of the Bankruptcy Code (and a similar provision under the CCAA) and that request the courts to set a hearing date for the proposed Private Sale.

The proposed Private Sale would be subject to the satisfaction of certain conditions, including approval of the US Bankruptcy Court and Canadian Bankruptcy Court, and would be targeted for completion by April 30, 2008. The Company continues to expect the pre-tax cash costs to exit the Disney Store business to be within the previously stated range of $50 million to $100 million, payable over a period of time, including estimated severance and other employee costs for the Company's employees servicing Hoop, professional fees and other costs the Company may incur during the Hoop bankruptcy cases, as well as claims that might be asserted against the Company in the bankruptcy proceedings.

In the event of a transfer of all or a portion of the Disney Store business to Disney during the ongoing bankruptcy proceedings and subject to the satisfaction of other conditions, the Company would be released from liabilities and claims that have been or might be asserted by Disney, including those described above.

Overview

In this Annual Report, the words the "Company", "we", "us", "our" and similar terms collectively refer to The Children's Place Retail Stores, Inc. and subsidiaries. As described in "Recent Developments" and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments," the Company has determined to exit the Disney Store business. In an effort to facilitate an understanding of our financial condition and results of operation for the fiscal year ended February 2, 2008 ("fiscal 2007"), as well as the Company's fiscal 2007 audited financial statements and notes thereto, included in this Annual Report on Form 10-K, we have included a discussion of the Disney Store business, as such business was a part of our Company during fiscal 2007. For the fiscal year ended January 31, 2009 ("fiscal 2008"), the Disney Store business will be classified as "Discontinued Operations."

The Company was incorporated in June 1988 and is a leading specialty retailer of children's merchandise. We design, contract to manufacture and sell high-quality, value-priced merchandise under our proprietary "The Children's Place" and licensed "Disney Store" brand names. As of February 2, 2008 we owned and operated 904 The Children's Place stores and 335 Disney Stores across North America and operated Internet stores at www.childrensplace.com and www.disneystore.com.

In fiscal 2007 we were structured such that our administrative functions (e.g., finance, real estate, human resources, legal, information technology, logistics) were shared by both The Children's Place and the Disney Store brands. Functions such as design, merchandising, marketing and store operations were run independently of each other to maintain clearly defined and differentiated brands. Historically, each brand was overseen by a President who managed the day-to-day operations and who reported directly to our Chief Executive Officer ("CEO"). Because of the recent departure of the Company's President, who was responsible for leading the Children's Place brand operations, our interim CEO also is serving in the capacity of Company President. In anticipation of our exit from the Disney Store business in fiscal 2008, the Company has begun to reduce its shared services infrastructure. If a sale to Disney is completed through the Chapter 11 process, the Company is prepared to contract services to Disney during a transitional period.,

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

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

During fiscal 2007, we opened 54 The Children's Place stores compared to 69 store openings in fiscal 2006. We also opened 15 Disney Stores in fiscal 2007 compared to 19 in fiscal 2006. We closed 16

The Children's Place stores and eight Disney Stores in fiscal 2007, compared to five The Children's Place store closures and eight Disney Store closures in fiscal 2006. Our store growth plan for fiscal 2008 includes opening approximately 30 The Children's Place stores.

Key Capabilities

We believe that the following capabilities have been and continue to be critical to our long-term success:

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

High Quality/Value Pricing Strategy. We believe that our high quality, value price positioning is an important component of our long-term strategy. We offer high-quality clothing and accessories under "The Children's Place" brand name at prices below most of our direct mall-based competitors. We employ this value pricing strategy across our entire merchandise offering.

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

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

Low-Cost Sourcing. We control the design, sourcing and presentation of our products. We believe that this control is essential in assuring the consistency and quality of our merchandise, as well as our ability to deliver value to our customers. We have established long-standing relationships with our vendors and suppliers. Through these relationships and our extensive knowledge of low cost sourcing, we are able to offer our customers high-quality products at value prices. Our offices in Hong Kong, Shanghai and New Delhi allow us to capitalize on new sourcing opportunities, increase our control over product quality and enable us to respond to changing merchandise trends effectively and efficiently.

Merchandising Process

To execute our merchandising strategies, we rely on the coordinated efforts of our design, merchandising, planning and sourcing teams. These teams, in conjunction with senior management, "hindsight" prior season results and review fashion trends, colors and design concepts that we will offer in upcoming seasons. Merchandising selects items for production from the assortment of merchandise designs that are created by the design team. Then, based upon detail design specifications and production quantities determined by merchandising and planning, the sourcing team arranges for the issuance of purchase orders and manufacture of the selected items.

Work on each of our seasonal lines begins approximately one year before the season. However, the Company maintains, and at times exercises, the ability to develop and deliver product on an expedited timeline. The merchandising process includes purchasing of samples and gathering market intelligence on fashion trends, which involves extensive European and domestic market research, studying media and fashion magazines, attending trade shows, engaging the services of fashion and color forecast organizations, and analyzing prior season performance. After the design teams present their ideas, the designers, with the direction of the merchandising team, translate those ideas into a merchandise assortment that reflects the theme of the season. These interpretations include variations in fabric and other materials, product color, decoration and age-appropriate silhouettes. Potential items are designed using computer aided design technology, which allows for a wide range of style and fashion options. Our sourcing teams and Asian offices coordinate the production of prototype samples which enable our merchandising teams to ensure that our merchandise will properly reflect our design concepts. We have also instituted a process that involves working with prototype samples in a simulated in-store environment.

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

Sourcing and Procurement

We combine management's extensive apparel sourcing experience with a cost-based buying strategy to control merchandise costs, infuse quality features into our products and deliver value to our customers. We believe that our understanding of the economics of apparel manufacturing, including costs of materials and components enables us to identify cost-effective countries and manufacturers from which to source each item and obtain high quality at low product cost.

Four times a year, our U.S. sourcing team makes on-site visits to our independent agents and various manufacturers to negotiate product costs, finalize technical specifications for each product and confirm delivery of merchandise manufactured to our specifications. During fiscal 2007, approximately 300 independent manufacturers located primarily in Asia produced merchandise sold at The Children's Place and Disney Store to our specifications. To support our inventory needs and to control merchandise costs, we continue to pursue global sourcing opportunities and consider product quality and cost, reliability of the manufacturer, and service and product lead times, among other factors.

We have no exclusive or long-term contracts with our manufacturers and typically transact business on an item-by-item basis under purchase orders at freight on board cost in U.S. dollars. We are party to agency agreements with commissioned independent agents who oversee production, assist in sourcing and pre-production approval, provide quality inspection and ensure timely delivery of merchandise. During fiscal 2007, we purchased approximately 16% of our products through the support of a commissioned, independent agent in Taiwan, and approximately 13% of our products through an independent Hong Kong-based trading company. This trading company is responsible for procurement from wholly-owned facilities as well as contract manufacturers located throughout Asia. In addition, we believe our offices in Hong Kong, Shanghai and New Delhi enable us to obtain more favorable material and manufacturing costs and quickly identify and act on new sourcing and supplier opportunities. Our Asian offices also facilitate our prototype sample production and enable us to foster stronger relationships with our suppliers, manufacturers, agents and trading companies. During fiscal

2007, we purchased approximately 49% of our total merchandise without the aid of commissioned buying agents or trading companies. In addition, approximately 54% of our total goods were sourced from China. Specific to The Children's Place brand, in 2007, approximately 40% of our Children's Place merchandise was purchased without the aid of commissioned buying agents or trading companies, and approximately 47% was purchased from China. Using our purchase order, advanced shipping notification and tracking systems, our independent agents and our sourcing department actively monitor the status of each purchase order from order confirmation to merchandise receipt.

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 in our Asian offices, independent agents and trading company visit the various manufacturing facilities to monitor the quality control and production process. Our Asian offices enhance our quality control by enabling us to monitor component and manufacturing quality at close range and address related problems at an early stage. With this focus on pre-production quality, we are generally able to detect and correct quality-related problems before bulk production begins. We do not accept finished goods until each purchase order receives formal certification of compliance from our own quality assurance associates, agents or appointed third-party inspectors.

In addition to our quality control procedures, we administer a social compliance program designed to promote compliance with local legal regulations, as well as ethical and socially responsible business practices.

Company Stores

The following section highlights various store information for both The Children's Place and Disney Store brands as of February 2, 2008.

Existing Stores. As of February 2, 2008, we operated a total of 1,239 stores: 904 The Children's Place stores and 335 Disney Stores in North America. Most of The Children's Place stores are clustered in and around major metropolitan areas in regional malls, with the exception of 150 strip center, 113 outlet and 48 street stores. All of the Disney Stores as of February 2, 2008 were in regional malls with the exception of 30 outlet stores, three strip stores and two street locations. The following table sets forth the number of stores in each state, Puerto Rico and Canadian province as of February 2, 2008:

State	The Children's Place	Disney Store	Total Number of Stores
Alabama	9	4	13
Arizona	15	7	22
Arkansas	5	1	6
California	82	51	133
Colorado	14	5	19
Connecticut	14	7	21
Delaware	4	3	7
Florida	47	26	73
Georgia	22	6	28
Hawaii	4	1	5
Idaho	1	1	2
Illinois	41	17	58
Indiana	18	7	25
Iowa	6	1	7
Kansas	5	2	7
Kentucky	8	3	11

Louisiana	13	3	16
Maine	4	1	5
Maryland	23	6	29
Massachusetts	25	7	32
Michigan	23	9	32
Minnesota	12	1	13
Mississippi	6	1	7
Missouri	15	8	23
Montana	1	0	1
Nebraska	3	1	4
New Hampshire	4	3	7
New Jersey	45	16	61
New Mexico	3	2	5
New York	76	21	97
Nevada	7	3	10
North Carolina	21	7	28
North Dakota	1	0	1
Ohio	30	10	40
Oklahoma	3	2	5
Oregon	9	3	12
Pennsylvania	48	21	69
Rhode Island	3	1	4
South Carolina	13	2	15
South Dakota	1	0	1
Tennessee	17	7	24
Texas	57	25	82
Utah	7	1	8
Vermont	1	0	1
Virginia	18	8	26
Washington	12	3	15
West Virginia	1	2	3
Wisconsin	13	3	16
Puerto Rico	14	0	14
Total United States and Puerto Rico	**824**	**319**	**1,143**

Province	**The Children's Place**	**Disney Store**	**Total Number of Stores**
Alberta	7	3	10
British Columbia	9	1	10
Manitoba	2	1	3
New Brunswick	3	1	4
Nova Scotia	2	1	3
Ontario	38	9	47
Quebec	17	0	17
Saskatchewan	2	0	2
Total Canada	**80**	**16**	**96**
Total Stores	**904**	**335**	**1,239**

Store Type.

The Children's Place. Our average Children's Place store is approximately 4,700 square feet. The majority of The Children's Place stores are in our "Apple-Maple" prototype.

During fiscal 2002, we introduced our "Technocolor" store prototype, which uses color to create boutique-like settings that better differentiate the various departments within the store. As of February 2, 2008, 328 stores were in this format, or approximately 36% of The Children's Place store base. In fiscal 2007, some of our new stores and remodels (except for outlets) were updated to our Technocolor store format, and averaged approximately 5,500 square feet in size to accommodate our new "store-within-a-store" shoe store, which the Company launched in July 2007. Our street and strip center locations represent approximately 22% of The Children's Place store base.

Our typical outlet stores are approximately 6,800 square feet and represent approximately 13% of The Children's Place store base. Our outlet stores are primarily located in outlet centers and are strategically placed within each market to liquidate clearance merchandise from nearby stores. Given the brand's value orientation, we also sell an assortment of full-priced merchandise in our outlet stores.

Disney Store. The average Disney Store is approximately 4,800 square feet. As of February 2, 2008, several Disney Store formats were in operation, as follows:

	% of Store Base
Pink and Green	33%
Piperail	28%
Mickey	20%
Millennium	6%
Castle	5%
Outlet*	8%
Total	100%

*

Note: Disney Store outlets reflect various formats.

Store Operations

The Children's Place store operations are organized into ten regions. We employ two Zone Vice Presidents who oversee our operations and to whom regional managers report. A regional manager oversees each region and has several district managers reporting to them. Each district manager is responsible for approximately eight to ten stores. 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 leadership teams spend a high percentage of their time on the store selling floors providing direction, motivation, and development to store personnel. To maximize selling productivity, our teams emphasize greeting, replenishment, presentation standards, procedures and controls. In order to motivate our store leadership, we offer a monthly incentive compensation plan that awards bonuses for achieving certain financial goals.

Store Expansion Program

The Children's Place. During fiscal 2007, we opened 54 stores and closed 16, compared to opening 69 stores and closing five in fiscal 2006. We plan to open approximately 30 stores and remodel approximately 17 Children's Place stores in fiscal 2008.

Our new store return on investment (defined as the return on investment for stores in which the then current fiscal year was their first full year of operation) for The Children's Place chain for fiscal 2007, 2006 and fiscal 2005 approximated 47%, 87% and 81%, respectively. We define return on investment as store level operating cash flow for new stores divided by new store investment. Store

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

Average store level operating cash flow for stores in which fiscal 2007 was their first full year of operation approximated $281,200, a 31% decrease compared to fiscal 2006. Average new store investment for this group of stores approximated $595,500, a 28% increase from fiscal 2006. Average store investment includes store capital expenditures, initial inventory and pre-opening costs less lease incentives and an estimate for merchandise payables. This increase in average new store investment primarily reflects a higher capital investment in our store prototype. New stores in which fiscal 2007 was their first full year of operation had average net sales of approximately $1.5 million, comparable to fiscal 2006.

New 'Store-within-a-Store' Children's Place Shoe Store. In fiscal 2007, we launched a new 'store-within-a-store' shoe store during the back-to-school season. At the end of fiscal 2007, we operated 54 stores which feature our expanded shoe assortment, or approximately 6% of the chain. Our expanded shoe offering is also available for sale on our childrensplace.com website. While initially stores that carry the expanded shoe assortment were approximately 1,000 square feet larger than a typical store, we are considering a reduction in the amount of square footage dedicated solely to shoes in an effort to drive increased profitability.

Disney Store. In fiscal 2007 we opened 15 Disney Stores, closed eight, and remodeled seven, compared to opening 19, closing eight and remodeling 14 in fiscal 2006.

Our new store return on investment (defined as the return on investment for stores in which the then current fiscal year was their first full year of operation) for the Disney Stores in fiscal 2007 and fiscal 2006 approximated 23% and 62%, respectively. Average store level operating cash flow for new stores in which fiscal 2007 was their first full year of operation approximated $174,400, a 53% decrease compared to fiscal 2006. Average store investment for these stores approximated $762,300, a 27% increase from fiscal 2006, and included store capital expenditures, initial inventory and pre-opening costs less lease incentives and estimated merchandise payables. Fiscal 2007 new stores had average net sales of approximately $2.1 million, a 16% decrease compared to fiscal 2006.

Seasonality

Our business is also subject to seasonal influences, with heavier concentrations of sales during the back-to-school and holiday seasons. Our first quarter results are heavily dependent upon sales during the period leading up to the Easter holiday. Our third quarter results are heavily dependent upon back-to-school sales at The Children's Place. Our fourth quarter results are heavily dependent upon sales during the holiday season. In fiscal 2007, the Disney Store business was highly dependent upon Halloween sales in the third quarter and holiday sales in the fourth quarter, which is reflected in our fiscal 2007 results. For more information regarding the seasonality of our business, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Quarterly Results and Seasonality.

Internet Sales

Our The Children's Place Internet business represented approximately 3.6% of The Children's Place sales in fiscal 2007, compared to 2.9% of sales in fiscal 2006. This profitable business continues to grow at a rapid rate and we believe it is an integral part of our customer service and brand awareness strategies.

Beginning in July 2007, the Company's subsidiaries commenced Internet commerce operations through an alliance with a Disney affiliate in which certain Disney Store merchandise is sold on the disneyshopping.com website. For the use of the Disney Internet commerce website, the Company paid fees to a Disney affiliate based on a percentage of e-commerce sales, a portion of which is allocated to cost of sales and a portion to selling, general and administrative expenses, as reflected in our fiscal 2007 financial results. Given our decision to exit the Disney Store business, our fiscal 2008 results will only reflect a portion of sales and related expenses reflective of the Disney Store e-commerce operation.

Marketing

We strive to build brand recognition and equity by marketing our image, product and value message primarily through our store front windows, in-store marketing, direct mail, magazine advertising and "The Children's Place" private label credit card.

We view The Children's Place private label credit card as an important marketing and communication tool. Pursuant to a merchant services agreement, private label credit cards are issued to our customers for use exclusively at The Children's Place stores, and credit is extended to such customers through a third-party financial institution on a non-recourse basis to us. Our private label credit card accounts for approximately 13% of The Children's Place net sales. We believe that our private label credit card promotes affinity and loyalty among those customers who use the card and facilitates communication with such customers through delivery of coupons and promotional materials.

Logistics

As of February 2, 2008 we supported both The Children's Place stores and Disney Stores with a leased 525,000 square foot distribution center in South Brunswick Township, New Jersey; a leased 250,000 square foot distribution center in Ontario, California; a leased 95,000 square foot distribution center in Ontario, Canada; and an owned 700,000 square foot distribution center in Ft. Payne, Alabama, which we opened in August 2007 to support projected growth at both brands. Our approximately 150,000 square foot leased fulfillment center in Secaucus, New Jersey is used to support our Children's Place Internet business. In addition, we operate other leased facilities on a seasonal basis to support warehousing needs. Going forward, given our decision to exit the Disney Store North America business, our logistics capacity will be used to support The Children's Place brand only.

Competition

The following discussion contemplates a competitive set for both The Children's Place and Disney Store North America brands as of February 2, 2008. Our fiscal 2007 results are reflective of this competitive universe.

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

Payless, as well as smaller shoe retailers. We also compete with a wide variety of specialty stores, other national and regional retail chains, catalog companies and Internet retailers. The Disney Store business also competes with the Disney theme parks and with third parties selling Disney-branded merchandise under license. In addition, media items such as compact discs and DVDs can be purchased in virtually every retail channel. One or more of our competitors are present in substantially all of the areas in which we have stores.

Trademarks and Service Marks

"The Children's Place," "babyPLACE," "Place," "The Place," "TCP," "PLC" and certain other marks have been registered as trademarks and/or service marks with the United States Patent and Trademark Office. The registration of the trademarks and the service marks may be renewed to extend the original registration period indefinitely, provided the marks are still in use. We intend to continue to use and protect our trademarks and service marks and maintain their registrations. We have also registered our trademarks in Canada and other countries and are continuing to take steps to register our trademarks in certain other foreign countries. We believe our trademarks and service marks have received broad recognition and are of significant value to our business.

The trademarks and copyrights used by the Disney Store business are licensed by Hoop from Disney for use by the Disney Store so long as the License Agreement remains in effect. After completion of our exit from the Disney Store business, the License Agreement will terminate, and we will no longer be able to use such trademarks and copy rights.

Employees

As of February 2, 2008, we had approximately 23,800 employees, of whom approximately 1,900 are based at our corporate headquarters in New Jersey; our Disney Store office in Pasadena, California; our distribution centers; and international offices. We had approximately 4,250 full-time store employees and approximately 17,650 part-time store employees. None of our employees are covered by a collective bargaining agreement. We believe we have good relations with our employees. In addition, as of February 2, 2008, we employed approximately 9,700 seasonal part-time employees.

Primarily as a result of our decision to exit the Disney Store business, our employee headcount will decline in fiscal 2008. For reference, of the 23,800 employees as of February 2, 2008, 8,350 were Disney Store employees and 250 were corporate employees that worked out of the Pasadena office.

Internet Access to Reports

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

Our website address is http://www.childrensplace.com. We make available, without charge, through our website, copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such reports are filed with or furnished to the SEC. References in this document to our website are not and should not be considered part of this Annual Report on Form 10-K, and the information on our website is not incorporated by reference into this Annual Report on Form 10-K.

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

ITEM 1A. RISK FACTORS

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

We depend on generating sufficient cash flow and having access to additional liquidity sources to fund our ongoing operations, the Disney Store business exit costs, capital expenditures, and debt repayment.

Our ability to fund our ongoing operations, anticipated exit costs associated with the wind-down of the Disney Store business, planned capital expenditures and debt repayment obligations will depend on our ability to generate cash flow and to access, if necessary, additional liquidity sources. Our cash flow is dependent on many factors, including:

- seasonal fluctuations in our net sales and net income, which typically are lowest in the second fiscal quarter;
- the timing of inventory purchases for upcoming seasons, which typically result in increased cash expenditures in the second fiscal quarter as we purchase merchandise for the back-to-school season;
- the amount and timing of cash expenditures associated with our exit from the Disney Store business, which could exceed the current estimated range of $50 million to $100 million and may be significant during our second fiscal quarter when sales are low and inventory costs are high;
- vendor and other supplier terms and related conditions, which may be less favorable to us in the future as a result of the Disney Store bankruptcy proceedings or as the Company becomes smaller upon its exit from the Disney Store business; and
- general business conditions, economic uncertainty or slowdown, including the recent significant slowdown in the overall economy.

Some of these factors are beyond our control. It is difficult to assess the impact that the general economic downturn will have on consumer spending and our financial results. However, we believe there is risk that the economic slowdown could result in reduced spending by our customers, which could reduce our revenues and our cash flows from operating activities from those that otherwise would have been generated. In addition, steps that we take to limit cash expenditures, such as delaying the purchase of inventory, may not be successful or could delay the arrival of merchandise for future selling seasons, which could reduce our net sales or profitability. If we are unable to generate sufficient cash flow, we may not be able to fund our ongoing operations, anticipated exit costs associated with the wind-down of the Disney Store business, planned capital expenditures and debt repayment obligations and may be required to access additional sources of liquidity.

Recent turmoil in the credit markets may make it difficult for us to obtain additional financing on commercially reasonable terms or at all. If we obtain additional financing, it may be on terms and with pricing significantly less favorable than our current financing arrangements. An inability to access, if necessary, additional sources of liquidity could materially adversely affect our ability to operate our business, our growth, our financial condition and our results of operations.

In fiscal 2007, we experienced deterioration in our profitability. If we are unable to anticipate and respond to merchandise trends, we may continue to suffer adverse business consequences.

We have experienced deterioration in our sales trends and profitability. Our continued success will depend in part on our ability to anticipate and respond to fashion trends and consumer preferences. Our design, manufacturing and distribution process generally takes up to one year, during which time fashion trends and consumer preferences may change. For the majority of fiscal 2007 our merchandise did not resonate with consumers and, as a result, our sales declined and inventory levels were too high. Failure to anticipate, identify or respond to future fashion trends may continue to adversely affect customer acceptance of our products or require substantial markdowns, which could continue to have a material adverse effect on our business.

Management and the Board have re-evaluated the Company's inventory strategy and have taken steps to reduce inventory levels and shortened inventory cycle periods, where possible. These steps may not be sufficient to prevent further markdowns and erosion of our profitability, particularly in the current difficult economic climate, and our results of operations could be materially and adversely affected.

Hoop may not be able to obtain confirmation of the plan of liquidation.

To complete the wind-down of the Disney Store business under the protection of the bankruptcy court, Hoop, like any debtor, must obtain approval of a plan of liquidation from its creditors and confirmation of the plan through the bankruptcy court. This process requires Hoop to solicit and obtain creditor acceptances of the proposed plan, meet certain statutory requirements with respect to the adequacy of disclosure concerning the proposed plan, and fulfill other statutory conditions relating to plan confirmation. Such a process is complex, involves numerous parties, and requires disclosure to and voting by creditors and confirmation by the bankruptcy court. It is possible that creditors would seek to file and confirm an alternative plan. Further, it is possible that a trustee could be appointed or the case converted to a liquidation under Chapter 7 of the Bankruptcy Code.

If Hoop does not reach an agreement with Disney, it is likely that the Disney Store business will be liquidated in the bankruptcy proceeding. In this case, Disney may seek to terminate the License Agreement and restrict the manner in which the Disney Store assets can be sold in a liquidation sale which, if approved by the Court, could have a detrimental effect on the Disney Store business and its ability to realize the maximum value from such assets. Moreover, in such a situation Disney may bring litigation against us and assert various claims under the Guaranty and Commitment Agreement and other agreements, which could include payment of substantial damages. Any such litigation with Disney could be lengthy, could require substantial management time and professional expense and, if our defense is not successful, an adverse judgment in a significant amount.

If the bankruptcy court were to enforce the termination provisions of the License Agreement for the Disney Store, we could be required to sell the Disney Store business to Disney or to a buyer selected by Disney or to rapidly wind down the remaining Disney Store business. Under these circumstances, our subsidiaries that operate the Disney Store business would have significant financial and other obligations to Disney, lenders, landlords, vendors and other third parties.

The License Agreement under which we operate the Disney Store business imposes significant restrictions on the actions that we, our secured lenders or any inventory liquidation firm may take to wind-down the Disney Store business. Although we may continue to sell Disney Store merchandise in the ordinary course, the License Agreement prohibits us, among other things, from promoting a "going out of business" or "liquidation sale" or from selling any Disney merchandise through distribution channels other than the Disney Stores and the Disney Store website. Although we have proposed to transfer a substantial portion of the Disney Store business and assets to Disney through the Private Sale subject to approval of the bankruptcy courts, if the Private Sale is not completed and if enforced by the bankruptcy court, these restrictions could interfere with our ability to liquidate all Disney merchandise on favorable terms, if at all. Under the License Agreement, any remaining Disney merchandise not sold by the end of the wind-down period must be destroyed and would be of no value.

In addition, the License Agreement provides that Hoop remains liable to Disney for royalties on sales of Disney merchandise through the end of the wind-down period and for any other amounts, such as contractual breach fees, owed to Disney. These subsidiaries would also have substantial liabilities under Disney Store leases and for payments due to vendors, including obligations under non-cancellable purchase orders for Disney merchandise (the amount of which fluctuates based on seasonality), as well as obligations to repay outstanding amounts under the credit facility supporting the Disney Store business. As of February 2, 2008, the total liability of Hoop under Disney Store leases through fiscal 2018, a portion of which could be payable if the leases were terminated, was approximately $318.2 million and the total liability of Hoop under outstanding purchase orders for merchandise was approximately $102 million.

The creditors of Hoop could attempt to make claims against the Company, such as claims under piercing the corporate veil, alter ego, control person or related theories. If successful, these claims would have a material adverse effect on our financial condition and liquidity.

Though neither the Company nor any of its subsidiaries other than Hoop has commenced a Chapter 11 proceeding, it is possible that a creditor of Hoop could attempt to make claims against the Company, including under piercing the corporate veil, alter ego, control person or other related theories. Factors that are generally considered in determining whether the parent company is an "alter ego" of the subsidiary include: the failure to follow corporate formalities; the day-to-day control of the subsidiary by the parent; inadequate capitalization of the subsidiary; overlap in directors, officers and personnel; commingling of assets; and use of the subsidiary for unjust or fraudulent purposes. A court could resolve the issue in a manner adverse to us and make the Company's assets available to satisfy obligations of Hoop. If a court were to allow such claims against the Company, we could be required to devote considerable resources to defending them. If these claims were determined adversely to us, a judgment could have a material adverse effect on us and our ability to make payments on our obligations, and could ultimately cause us to seek to restructure under the protection of the bankruptcy laws.

A prolonged continuation of the Hoop wind-down may harm our businesses.

A prolonged continuation of the Disney Store bankruptcy proceedings could adversely affect our businesses and operations. So long as the bankruptcy proceedings and disposition of the assets of the Disney Store business continues, our senior management will be required to spend a significant amount of time and effort dealing with the wind down of Hoop, including, while Hoop operates the Disney Store business as debtor-in-possession, obtaining approval of the bankruptcy court prior to engaging in activities or transactions outside the ordinary course of business, instead of focusing exclusively on The Children's Place brand. In the bankruptcy proceedings, it is possible that claims may be asserted against us or our subsidiaries other than Hoop or that there could be an attempt to substantively consolidate the Company with Hoop, whether or not such claims have any merit. As a result, we or any such subsidiary may need to defend against such claims relating to Hoop's bankruptcy proceedings, which could require substantial management time and professional fees. The longer the Hoop wind-down continues, the more likely it is that our vendors and suppliers will lose confidence in our ability to successfully reorganize our businesses and may refuse to deliver merchandise to us on open credit terms. In addition, prolonged continuation of the Hoop wind-down also may make it more difficult to attract and retain management and other key personnel necessary to the success and growth of our business. Furthermore, so long as the wind-down continues, we will be required to incur substantial costs for professional fees and other expenses associated with the proceedings.

Because we have not held our fiscal 2006 shareholders' meeting, our common stock may be delisted from the Nasdaq Global Select Market, in which event we may suffer adverse business consequences.

Our common stock is subject to delisting from trading on the Nasdaq Global Select Market. We were notified on February 6, 2008, that the Company is not in compliance with the requirements for continued listing on Nasdaq due to our failure to hold the fiscal 2006 annual meeting of stockholders by February 3, 2008. We expect to hold our annual meeting on June 27, 2008 and have requested that the Nasdaq Listing Qualifications Panel permit the continued listing of our common stock until we hold our annual meeting.

Pending a decision by the Panel, the Company's common stock will remain listed on The Global Select Market. However, there can be no assurance that the Panel will grant the Company's request for continued listing. If our common stock were delisted, stockholders' ability to quickly sell their shares in a liquid market or obtain the market price for their shares would be significantly impaired or eliminated.

Following the resignation of an independent member of the Company's Board of Directors in February 2008, the Company has six directors, three of whom are independent directors. As a result of this resignation, the Company's Board is no longer comprised of a majority of independent directors and therefore is not in compliance with Nasdaq Marketplace Rule 4350(c)(1). The Company has until August 2008 to regain compliance to avoid delisting. There can be no assurance that we will find a suitable, qualified candidate to fill the vacancy and regain compliance with the listing standards.

Our failure to timely file required filings with the SEC restricts our ability to file short-form registration statements, which could materially and adversely affect our financial condition and results of operations.

We have lost for the 12 months following the date we file our proxy statement our status as a "well known seasoned issuer," including the registration advantages associated with such status even though we have become current with our delinquent filings with the SEC. As a result, we will not be able to register any new shares of our securities on certain short-form registration statements under the Securities Act of 1933, as amended (the "Securities Act"), including Form S-3, until we have filed all reports required under the Exchange Act for a continuous period of 12 months. Our inability to register securities on Form S-3 could adversely affect our ability to engage in financing transactions on attractive terms or on an accelerated basis.

Because the trading price of our common stock has significantly declined over the last year, it is possible that one or more parties may seek to acquire the Company. There is no assurance that any proposal to acquire the Company will be made or that a sale of the Company will occur, nor has our Board determined that a sale of the Company is advisable.

On February 6, 2008, Ezra Dabah, our former CEO, submitted a letter to the Board of Directors of the Company requesting that the Board authorize, pursuant to Section 203 of the Delaware General Corporation Law, Mr. Dabah to enter into one or more agreements with Golden Gate Private Equity, Inc. for the purpose of making a proposal to the Board to acquire the Company's outstanding stock. While the Company may be approached by other parties in addition to Mr. Dabah, there can be no assurance that any proposal to acquire the Company will be made by Mr. Dabah or any other party or as to the terms of any such proposal. At this time, the Board has not waived the provisions of Section 203 of the Delaware General Corporation Law, nor has it made any determination to seek offers for the sale of the Company. However, consistent with its fiduciary duties, the Board has engaged an investment banking firm to act as its financial advisor in undertaking a review of strategic alternatives to improve operations and enhance shareholder value.

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

In the event that Mr. Dabah, either acting alone or in combination with others, or any other party were to make an offer to acquire the Company, the analysis and any negotiations relating to any such offer will likely require substantial time and attention of the Company's Board and senior management that could distract them from focusing on the Company's business, as well as result in significant expense to the Company. Mr. Dabah has commenced an action in Delaware court to compel us to hold the fiscal 2006 annual meeting and has stated that he may commence a proxy fight to elect one or more directors to our Board. At our annual meeting on June 27, 2008, two classes of directors, which constitutes a majority of our Board, will be up for re-election. The actions taken by Mr. Dabah have required and will continue to require the time and attention of our management and may involve significant expense on the part of the Company.

Although remediated as of February 2, 2008, the material weaknesses in our internal control over financial reporting that we identified as of February 3, 2007 could have resulted in a reasonable possibility that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected on a timely basis in future periods.

As defined in Rule 13a-15(e) promulgated under the Exchange Act, our management evaluated the design and effectiveness of our internal control over financial reporting as of February 2, 2008 and determined that it was effective. However, management reported three material weaknesses and concluded that our internal control over financial reporting was not effective as of February 3, 2007 in controls over the granting of stock options; controls to ensure adherence to certain policies and procedures surrounding our control environment; and controls over the period-end financial close and reporting process. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

During the fourth quarter of 2007, we took remedial actions to address the material weaknesses identified as of February 3, 2007 and concluded that our internal control over financial reporting as of February 2, 2008 was effective. However, if additional material weaknesses in our internal control are discovered in the future, we may fail to meet our future reporting obligations on a timely basis, our financial statements may contain material misstatements, our operating results may be harmed, and we may be subject to litigation. Any failure to address any additional material weaknesses in our internal control could also adversely affect the results of future management evaluations regarding the effectiveness of our "internal control over financial reporting" that are required under Section 404 of the Sarbanes-Oxley Act of 2002. Internal control deficiencies could also cause investors to lose confidence in our reported financial information.

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

Numerous factors affect our comparable store sales results, including, among others, merchandise assortment, retail prices, fashion trends, weather conditions, macro-economic conditions, the retail sales environment and our success in executing our business strategy. During fiscal 2007, we reported a comparable store sales increase of 2%, compared to an 11% comparable store sales increase achieved during fiscal 2006. 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, particularly in the current difficult economic climate, which may result in further declines in consumer spending. 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 these results may affect the price of our common stock. Accordingly, any variations in our comparable store sales results could have a material adverse effect on the market price of our common stock.

Our success depends upon the continuing service and capabilities of our management team. The failure to retain management could have a material adverse effect on our business.

Our success will be dependent on our continued ability to attract, retain and motivate highly skilled employees. On September 24, 2007, Ezra Dabah resigned as CEO. Although Mr. Dabah remains our largest shareholder and a member of the Company's Board of Directors, Mr. Dabah's leadership and expertise, and his unique relationships with manufacturers and independent buying agents, were instrumental in our success. On September 26, 2007, the Board appointed Charles Crovitz, a member of our Board of Directors, to serve as Interim CEO. The Board of Directors is currently conducting a search for a permanent CEO. Leadership transitions can be inherently difficult to manage and may cause disruption to our business or further turnover in our workforce or management team. On December 19, 2007, our President, Neal Goldberg, who was responsible for leading The Children's Place business, resigned from the Company. The loss of services of one or more other members of senior management, or the inability to attract additional qualified managers or other personnel, could have a material adverse effect on our business. We are not protected by any key-man or similar life insurance for any of our executive officers.

If we are unable to open and operate new stores successfully, our future operating results will be adversely impacted.

We anticipate opening approximately 30 The Children's Place stores during fiscal 2008. Our ability to open and operate new stores successfully depends on many factors, including, among others, the availability of suitable store locations, the ability to negotiate acceptable lease terms, the ability to timely complete necessary construction, the ability to successfully integrate new stores into our existing operations, the ability to hire and train store personnel and the ability to recognize and respond to regional and climate-related differences in customer preferences.

We cannot assure you that we will achieve our planned expansion on a timely and profitable basis or that we will be able to achieve results similar to those achieved in existing locations in prior periods. In fiscal 2007, our total store base grew by 4% compared to 7% during fiscal 2006, and is anticipated to grow at a rate of approximately 3% in fiscal 2008. Operating margins may also be adversely affected during periods in which we have incurred expenses in anticipation of new store openings.

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

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

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

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

On September 21, 2007 a second stockholder class action was filed against the Company and certain current and former senior executives in the United States District Court, Southern District of New York. This complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. It alleges that more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks money damages plus interest as well as costs and disbursements of the lawsuit. On October 10, 2007, a third stockholder class action was filed in the United States District Court, Southern District of New York, against the Company and certain of its current and former senior executives. This complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, thereby causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. According to this complaint, more recent disclosures establish the misleading nature of these earlier disclosures. This complaint seeks, among other relief, class certification of the lawsuit, compensatory damages plus interest, and costs and expenses of the lawsuit, including counsel and expert fees. These two actions have been consolidated and the plaintiff filed a consolidated amended class action complaint on February 28, 2008.

On or about February 21, 2008, a stockholder class action was filed in the Superior Court of New Jersey, Chancery Division, Hudson County against the Company and all of the members of our Board of Directors. In response to the possibility that Ezra Dabah may acquire the Company, the complaint alleges, among other things, that approval of the proposed acquisition would constitute a breach of Mr. Dabah's duty of loyalty and would constitute unfair dealing. The complaint also alleges that the proposed acquisition allegedly does not satisfy the entire fairness standard and none of the Board of Directors can, consistent with their fiduciary duties of care and good faith, approve the proposed acquisition. The complaint seeks, among other things, to permanently enjoin us from approving the proposed acquisition, declaratory judgment, and fees, expenses and costs.

On or about July 12, 2006, Joy Fong, a former Disney Store manager in the San Francisco district, filed a lawsuit against the Company and its subsidiary Hoop Retail Stores LLC in the Superior Court of California, County of Los Angeles. The lawsuit alleges violations of the California Labor Code and California Business and Professions Code and seeks class action status on behalf of Ms. Fong and other individuals similarly situated. We filed our answer on August 11, 2006 denying any and all liability, and on January 14, 2007, Ms. Fong filed an amended complaint, adding a subsidiary of Disney as a defendant. Effective as of March 26, 2008, the prosecution of this lawsuit against Hoop was stayed under the automatic stay provisions of the U.S. Bankruptcy Code by reason of Hoop's petition for relief filed that same day.

On or about September 28, 2007, Meghan Ruggiero filed a complaint against the Company and its subsidiary, Hoop Retail Stores, LLC, in the United States District Court, Northern District of Ohio on behalf of herself and other similarly situated individuals. The lawsuit alleges violations of the Fair and Accurate Credit Transactions Act ("FACTA") and seeks class certification, an award of statutory and punitive damages, attorneys' fees and costs, and injunctive relief. The plaintiff filed an amended complaint on January 25, 2008. Effective as of March 26, 2008, the prosecution of this lawsuit against Hoop was stayed under the automatic stay provisions of the US Bankruptcy Code by reason of Hoop's petition relief filed that same day.

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

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

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

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

Our business is subject to the risks generally associated with purchasing from foreign countries, particularly China, from where approximately 54% (47% as it relates specifically to The Children's Place brand) of our merchandise is imported. Some of these risks are foreign governmental regulations, political instability, currency and exchange risks, quotas on the amounts and types of merchandise which may be imported into the United States and Canada from other countries, pressures from non-governmental organizations, disruptions or delays in shipments and changes in economic conditions in countries in which our manufacturing sources are located. Recent media scrutiny and well-publicized failures of the safety of a wide range of imported products manufactured in China may lead consumers to avoid such goods. We cannot predict the effect that such factors will have on our business arrangements with foreign manufacturing sources. If any of these factors rendered the conduct of business in a particular country undesirable or impractical, or if our current foreign manufacturing sources ceased doing business with us for any reason, our business could be materially adversely affected. Our business is also subject to the risks associated with changes in U.S. and Canadian legislation and regulations relating to imported apparel products, including quotas, duties, taxes and other charges or restrictions on imported apparel. Such changes or other changes or restrictions with regard to China could have a material adverse impact on our business. We cannot predict whether such changes or other charges or restrictions will be imposed upon the importation of our products in the future.

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

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

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

Because we operate certain stores outside the United States and purchase most of our products overseas, some of our revenues, product costs and other expenses are subject to foreign economic risks.

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

While our business is primarily conducted in U.S. dollars, we purchase substantially all of our products overseas, and the cost of these products may be affected by changes in the values of the relevant currencies. The recent substantial decline in the value of the U.S. dollar has caused our expenses to rise and may have an even greater impact on us in the future. To date, we have not significantly hedged against foreign currency fluctuations; however, we may pursue hedging alternatives in the future. Foreign currency fluctuations could have a material adverse effect on our business and results of operations.

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

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

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

The children's apparel, toy and media retail markets are highly competitive. We compete in substantially all of our markets with GapKids, babyGap and Old Navy (each of which is a division of The Gap, Inc.); The Gymboree Corporation; Too, Inc.; Babies "R" Us and Toys "R" Us (each of which is a division of Toys "R" Us, Inc.); J.C. Penney Company, Inc.; Sears (a division of Sears Holdings Corporation); Kohl's and other department stores, as well as discount stores such as Wal-Mart Stores, Inc.; Target Corporation; and K-Mart (a division of Sears Holdings Corporation). In addition, the Company's new store-within-a-store shoe store competes with well-known national retailers such as Stride Rite and Payless as well as smaller shoe retailers. We also compete with a wide variety of specialty stores, other national and regional retail chains, catalog companies and Internet retailers. One or more of our competitors are present in substantially all of the areas in which we have stores. Many of our competitors are larger than us and have access to significantly greater financial, marketing and other resources than we have. We cannot assure you that we will be able to continue to compete successfully against existing or future competition.

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

We do not own or operate any manufacturing facilities, and therefore, are dependent upon independent third parties for the manufacture of all of our products. Our products are currently manufactured to our specifications, pursuant to purchase orders, by approximately 300 independent manufacturers located primarily in Asia. In addition, in fiscal 2007, we sourced approximately 54% (47% as it relates specifically to the Children's Place brand) of our merchandise from China. We have no exclusive or long-term contracts with our manufacturers and compete with other companies for manufacturing facilities. In addition, we have no formal written agreement with a Hong Kong-based trading company through which we purchased approximately 13% of our products in fiscal 2007. We purchase merchandise through a Hong Kong-based trading company using negotiated purchase orders. We also purchased approximately 16% of our products in fiscal 2007 through the support of a single agent in Taiwan, which has an exclusive arrangement with us, but is not obligated to sell exclusively to us. Although we believe that we have established close relationships with our trading company, independent agents and principal manufacturers, the inability to maintain such relationships or to find additional sources to support future growth could have a material adverse effect on our business.

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

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

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

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

- Classify our Board into three classes, each of which will serve for different three year periods (provided that because we will elect two classes of directors at our annual meeting on June 27, 2008, which constitutes a majority of our Board, the anti-takeover effect of this provision is diminished);
- Provide that only the Chairman of the Board may call special meetings of the stockholders;
- Provide that a director may be removed by stockholders only for cause by a vote of the holders of more than two-thirds of the shares entitled to vote;
- Provide that all vacancies on our Board, including any vacancies resulting from an increase in the number of directors, may be filled by a majority of the remaining directors, even if the number is less than a quorum;

Establish certain advance notice procedures for nominations of candidates for election as directors and for stockholder proposals to be considered at stockholders' meetings; and

Require a vote of the holders of more than three quarters of the shares entitled to vote in order to amend the foregoing provisions and certain other provisions of the Certificate of Incorporation and By-laws.

In addition, the Board, without further action of the stockholders, is permitted to issue and fix the terms of preferred stock, which may have rights senior to those of the common stock. Moreover, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, as amended, which would require a two-thirds vote of stockholders for any business combination (such as a merger or sales of all or substantially all of our assets) between The Children's Place Retail Stores, Inc. and an "interested stockholder," unless such transaction is approved by a majority of the disinterested directors or meets certain other requirements. On February 6, 2008, Mr. Dabah submitted a letter to the Board of Directors of the Company requesting that the Board authorize, pursuant to Section 203, Mr. Dabah to enter into one or more agreements with Golden Gate Private Equity, Inc. for the purpose of making a proposal to the Board to acquire the Company's outstanding stock. The Board has not waived the application of Section 203. The existence of these provisions, which inhibit or discourage takeover attempts, could reduce the market value of our common stock.

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

Our business is sensitive to customers' spending patterns which are subject to prevailing regional and national economic conditions such as consumer confidence, recession, interest rates, energy prices and taxation. The current difficult economic climate has had, and is expected to continue to have, an impact on consumer confidence and spending, which could result in lower sales at our stores. We are, and will continue to be, susceptible to changes in national and regional economic conditions, weather conditions, demographics, hourly wage legislation, consumer preferences and other regional factors.

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

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

A privacy breach could adversely affect our business.

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

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

We generally lease our stores for an initial term of ten years. Our operating results and cash flows could be adversely affected if we are unable to continue to negotiate acceptable lease and renewal terms. Additionally, due to the Hoop bankruptcy filings and the number of common landlords, our ability to negotiate acceptable lease terms for The Children's Place business may be negatively impacted.

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

As is the case with many retailers, we experience seasonal fluctuations in our net sales and net income. Our net sales and net income are generally weakest during the first two fiscal quarters, and are lower during the second fiscal quarter than during the first fiscal quarter. For example, in fiscal 2007, 22%, 20%, 27% and 31% of our consolidated net sales occurred in the first, second, third and fourth quarters, respectively. In fiscal 2006 and fiscal 2007, we experienced second quarter losses. It is likely that we will continue to experience second quarter losses in future periods. It is also possible that we could experience losses in other quarters. Our first quarter results are heavily dependent upon sales during the period leading up to the Easter holiday. Our third quarter results are heavily dependent upon back-to-school sales at The Children's Place. Our fourth quarter results are heavily dependent upon sales during the holiday season.

Our quarterly results of operations may also fluctuate significantly from quarter to quarter as a result of a variety of other factors, including overall macro-economic conditions, the timing of new store openings and related pre-opening and other start-up costs, net sales contributed by new stores, increases or decreases in comparable store sales, weather conditions, shifts in the timing of certain holidays, changes in our merchandise mix and pricing strategy. Any failure by us to meet our business plans for, in particular, the third and fourth quarter of any fiscal year, as we experienced in fiscal 2007, 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.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of February 2, 2008 we supported both The Children's Place stores and Disney Stores with a leased 525,000 square foot distribution center in South Brunswick Township, New Jersey; a leased 250,000 square foot distribution center in Ontario, California; a leased 95,000 square foot distribution center in Ontario, Canada; and an owned 700,000 square foot distribution center in Ft. Payne, Alabama, which we opened in August 2007 to support projected growth at both brands. Our distribution centers utilize automated warehouse systems, which employ radio frequency technology and automated conveyor systems. In addition, we lease our approximately 150,000 square foot fulfillment center in Secaucus, New Jersey to support our Internet business. We operate our headquarters in Secaucus, New Jersey and Pasadena, California, as well as other leased facilities to support warehousing and administrative office needs. We also lease offices in Hong Kong, Shanghai and New Delhi to capitalize on new and existing sourcing opportunities and monitor product quality.

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

ITEM 3. LEGAL PROCEEDINGS

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

On January 17, 2007, a stockholder derivative action was filed in the United States District Court, District of New Jersey against certain current members of our Board and certain current and former senior executives. The Company has been named as a nominal defendant. The complaint alleges, among other things, that certain of our current and former officers and directors (i) breached their fiduciary duties to the Company and its stockholders and were unjustly enriched by improperly backdating certain grants of stock options to officers and directors of the Company, (ii) caused the Company to file false and misleading reports with the SEC, (iii) violated the Exchange Act and common law, (iv) caused the Company to issue false and misleading public statements, and (v) were negligent and abdicated their responsibilities to the Company and its stockholders. The complaint seeks money damages from the defendants, an accounting for the proceeds of sales of any allegedly backdated stock options, and the costs and disbursements of the lawsuit, as well as equitable relief. The defendants have moved to dismiss the action, and on or about June 15, 2007, the plaintiff filed an amended complaint adding, among other things, a claim for securities fraud under SEC rule 10b-5. On February 4, 2008, the plaintiff filed a second amended complaint adding additional defendants and claims.

On September 21, 2007 a second stockholder class action was filed in the United States District Court, Southern District of New York against the Company and certain current and former senior executives. The complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. It alleges that more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks money damages plus interest as well as costs and disbursements of the lawsuit. On October 10, 2007, a third stockholder class action was filed in the United States District Court, Southern District of New York, against the Company and certain of its current and former senior executives. The complaint alleges, among other things, that certain of the Company's current and former officers made statements to the investing public which misrepresented material facts about the business and operations of the Company, or omitted to state material facts required in order for the statements made by them not to be misleading, thereby causing the price of the Company's stock to be artificially inflated in violation of provisions of the Exchange Act, as amended. According to the complaint, more recent disclosures establish the misleading nature of these earlier disclosures. The complaint seeks, among other relief, class certification of the lawsuit, compensatory damages plus interest, and costs and expenses of the lawsuit, including counsel and expert fees. These two actions have been consolidated and the plaintiffs filed a consolidated amended class action complaint on February 28, 2008.

On or about February 21, 2008, a stockholder class action was filed in the Superior Court of New Jersey, Chancery Division, Hudson County against the Company and all of the members of our Board of Directors. In response to the possibility that Ezra Dabah may acquire the Company, the complaint alleges, among other things, that approval of the proposed acquisition would constitute a breach of Mr. Dabah's duty of loyalty and would constitute unfair dealing. The complaint also alleges that the proposed acquisition allegedly does not satisfy the entire fairness standard and none of the Board of Directors can, consistent with their fiduciary duties of care and good faith, approve the proposed acquisition. The complaint seeks, among other things, to permanently enjoin us from approving the proposed acquisition, declaratory judgment, and fees, expenses and costs.

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

On or about July 12, 2006, Joy Fong, a former Disney Store manager in the San Francisco district, filed a lawsuit against the Company and its subsidiary Hoop Retail Stores LLC in the Superior Court of California, County of Los Angeles. The lawsuit alleges violations of the California Labor Code and California Business and Professions Code and seeks class action status on behalf of Ms. Fong and other individuals similarly situated. We filed our answer on August 11, 2006 denying any and all liability, and on January 14, 2007, Ms. Fong filed an amended complaint, adding a subsidiary of Disney as a defendant. We believe we have meritorious defenses to the claims. The outcome of this litigation is uncertain; while we believe there are valid defenses to the claims and will defend ourselves vigorously; we cannot reasonably estimate the amount of loss or range of loss that might be incurred as a result of this matter. Effective as of March 26, 2008, the prosecution of this lawsuit against Hoop was stayed under the automatic stay provisions of the U.S. Bankruptcy Code by reason of Hoop's petition for relief filed that same day.

On or about September 28, 2007, Meghan Ruggiero filed a complaint against the Company and its subsidiary, Hoop Retail Stores, LLC, in the United States District Court, Northern District of Ohio on behalf of herself and other similarly situated individuals. The lawsuit alleges violations of the Fair and Accurate Credit Transactions Act ("FACTA") and seeks class certification, an award of statutory and punitive damages, attorneys' fees and costs, and injunctive relief. The plaintiff filed an amended complaint on January 25, 2008. The outcome of this litigation is uncertain; while we believe there are valid defenses to the claims and will defend ourselves vigorously, we cannot reasonably estimate the amount of loss or range of loss that might be incurred as a result of this matter. Effective as of

March 26, 2008, the prosecution of this lawsuit against Hoop was stayed under the automatic stay provisions of the US Bankruptcy Code by reason of Hoop's petition relief filed that same day.

On or about February 15, 2005, Michael Scott Smith, a former co-sales manager for The Children's Place in the San Diego district, filed a lawsuit against the Company in the Superior Court of California, County of Los Angeles. The lawsuit alleges violations of the California Labor Code and California Business and Professions Code and seeks class action on behalf of Mr. Smith and other individuals similarly situated. On October 19, 2007, the Company entered into a class action settlement with the plaintiff's counsel and signed a memorandum of understanding providing for, among other things, a maximum total payment of $2.1 million, inclusive of attorneys' fees, costs and expenses, service payments to the class representative and administration costs, in exchange for a full release of all claims and dismissal of the lawsuit. The court granted preliminary approval of the settlement on November 29, 2007 in the amount of $1.6 million and set a hearing for final approval of the settlement on March 28, 2008.

On February 21, 2008, Ezra Dabah filed an action against the Company in the Court of Chancery of the State of Delaware requesting that the Court compel us to hold an annual meeting of stockholders within 45 days from the filing of the action and seeking costs and fees associated with the action. On March 25, 2008, Mr. Dabah's claims were denied by the Court.

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

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

None.

PART II

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

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

	High	Low
2007		
First Quarter	$ 58.89	$ 49.49
Second Quarter	57.89	31.04
Third Quarter	35.43	20.56
Fourth Quarter	30.73	14.92
2006		
First Quarter	$ 62.98	$ 42.33
Second Quarter	67.70	51.67
Third Quarter	71.37	53.45
Fourth Quarter	71.81	52.16

On March 31, 2008, the last reported sale price of our common stock was $24.56 per share, the number of holders of record of our common stock was approximately 105 and the number of beneficial holders of our common stock was approximately 7,700.

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

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain historical financial and operating data for The Children's Place Retail Stores, Inc. and subsidiaries. The selected historical financial data is qualified by reference to, and should be read in conjunction with, Item 7. Management's Discussion and Analysis of

Financial Condition and Results of Operations, and the financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

	Fiscal Year Ended(1)				
Statement of Operations Data (in thousands, except per share data):	**February 2, 2008**	**February 3, 2007**	**January 28, 2006**	**January 29, 2005(2)**	**January 31, 2004**
Net sales	$ 2,162,559	$ 2,017,713	$ 1,668,736	$ 1,157,548	$ 797,938
Cost of sales	1,364,096	1,189,300	1,008,722	705,422	476,884
Gross profit	798,463	828,413	660,014	452,126	321,054
Selling, general and administrative expenses	698,590	625,490	513,994	336,610	238,177
Asset impairment charges(3)	96,851	17,066	244	164	448
Other costs(4)	12,020	761			
Depreciation and amortization	79,700	65,701	52,886	49,049	46,251
Operating income (loss)	(88,698)	119,395	92,890	66,303	36,178
Interest income (expense), net	(53)	3,933	563	(22)	255
Income (loss) before income taxes (benefit) and extraordinary gain	(88,751)	123,328	93,453	66,281	36,433
Provision (benefit) for income taxes	(29,184)	35,938	35,149	25,905	13,851
Income (loss) before extraordinary gain	(59,567)	87,390	58,304	40,376	22,582
Extraordinary gain, net of taxes(5)			1,665	273	
Net income (loss)	$ (59,567)	$ 87,390	$ 59,969	$ 40,649	$ 22,582
Diluted income (loss) per common share before extraordinary gain	$ (2.05)	$ 2.92	$ 2.03	$ 1.47	$ 0.84
Extraordinary gain, net of taxes(5)			0.06	0.01	
Diluted net income (loss) per common share	$ (2.05)	$ 2.92	$ 2.09	$ 1.48	$ 0.84
Diluted weighted average common share outstanding	29,090	29,907	28,687	27,545	27,042
Selected Operating Data:					
Number of stores open at end of period	1,239	1,194	1,119	1,056	691
Comparable store sales increase(2)(6)	2%	11%	9%	16%	4%
Average net sales per store(2)(7)	$ 1,716	$ 1,707	$ 1,501	$ 1,344	$ 1,159
Average square footage per store(8)	4,741	4,590	4,562	4,591	4,472
Average net sales per gross square foot(2)(9)	$ 368	$ 372	$ 329	$ 300	$ 262
Balance Sheet Data (in thousands) (as restated):					
Working capital(10)	$ 200,381	$ 282,049	$ 230,052	$ 178,956	$ 116,589
Total assets(11)	997,537	936,985	758,170	614,067	415,548
Long-term debt					
Stockholders' equity	472,233	521,787	395,650		