CHILDRENS PLACE RETAIL STORES INC
Form 10-Q
September 03, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2010

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)
500 Plaza Drive **Secaucus, New Jersey** (Address of Principal Executive Offices)	**07094** (Zip Code)

(201) 558-2400

(Registrant s Telephone Number, Including Area Code)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No 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 the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer x	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 x

The number of shares outstanding of the registrant s common stock with a par value of $0.10 per share, as of August 30, 2010 was 27,240,081 shares.

THE CHILDREN S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED JULY 31, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

THE CHILDREN S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share information)

	(unaudited) July 31, 2010	January 30, 2010	(unaudited) August 1, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	$ 196,033	$ 168,380	$ 152,198
Restricted cash	2,195	2,112	
Accounts receivable	18,905	16,910	21,792
Inventories	214,301	206,227	262,986
Prepaid expenses and other current assets	46,111	45,713	52,236
Deferred income taxes	36,049	17,540	47,907
Total current assets	513,594	456,882	537,119
Long-term assets:			
Property and equipment, net	318,255	312,801	310,795
Deferred income taxes	56,406	79,934	69,753
Other assets	4,270	4,443	5,207
Total assets	$ 892,525	$ 854,060	$ 922,874
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES:			
Current liabilities:			
Short term portion of term loan	$	$	$ 38,000
Accounts payable	68,564	55,547	89,249
Income taxes payable	1,029	1,212	3,869
Accrued expenses and other current liabilities	80,849	88,757	89,219
Total current liabilities	150,442	145,516	220,337
Long-term liabilities:			
Deferred rent liabilities	95,614	98,705	104,043
Other tax liabilities	15,784	15,396	9,100
Other long-term liabilities	5,533	5,473	6,161
Total liabilities	267,373	265,090	339,641
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS EQUITY:			
Preferred stock, $1.00 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at July 31, 2010, January 30, 2010, and August 1, 2009			
Common stock, $0.10 par value, 100,000,000 shares authorized, 27,822,331, 27,474,774 and 29,668,337 issued and outstanding at July 31, 2010, January 30, 2010, and August 1, 2009, respectively	2,782	2,747	2,967

Additional paid-in capital		218,571		204,646		214,358
Accumulated other comprehensive income		10,431		7,561		7,283
Retained earnings		393,368		374,016		358,625
Total stockholders equity		625,152		588,970		583,233
Total liabilities and stockholders equity	$	892,525	$	854,060	$	922,874

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Net sales	$ 345,301	$ 315,676	$ 767,434	$ 717,577
Cost of sales	231,727	210,377	474,156	445,751
Gross profit	113,574	105,299	293,278	271,826
Selling, general and administrative expenses	107,281	106,093	220,736	217,986
Asset impairment charges	1,222	315	2,152	1,414
Depreciation and amortization	18,199	17,564	35,824	35,088
Operating income (loss)	(13,128)	(18,673)	34,566	17,338
Interest income (expense), net	(381)	(1,462)	(837)	(4,730)
Income (loss) from continuing operations before income taxes	(13,509)	(20,135)	33,729	12,608
Provision (benefit) for income taxes	(5,241)	(12,906)	13,990	(3,904)
Income (loss) from continuing operations	(8,268)	(7,229)	19,739	16,512
Income (loss) from discontinued operations, net of income taxes	35	178	(70)	(51)
Net income (loss)	$ (8,233)	$ (7,051)	$ 19,669	$ 16,461
Basic earnings (loss) per share amounts (1)				
Income (loss) from continuing operations	$ (0.30)	$ (0.24)	$ 0.71	$ 0.56
Income (loss) from discontinued operations, net of income taxes	0.00	0.01	(0.00)	(0.00)
Net income (loss)	$ (0.30)	$ (0.24)	$ 0.71	$ 0.56
Basic weighted average common shares outstanding	27,755	29,552	27,669	29,514
Diluted earnings (loss) per share amounts (1)				
Income (loss) from continuing operations	$ (0.30)	$ (0.24)	$ 0.70	$ 0.56
Income (loss) from discontinued operations, net of income taxes	0.00	0.01	(0.00)	(0.00)
Net income (loss)	$ (0.30)	$ (0.24)	$ 0.70	$ 0.55
Diluted weighted average common shares outstanding	27,755	29,552	28,027	29,746

(1) *Table may not add due to rounding*

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Twenty-six Weeks Ended	
	July 31, 2010	August 1, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 19,669	$ 16,461
Less (loss) from discontinued operations	(70)	(51)
Income from continuing operations	19,739	16,512
Reconciliation of income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	35,824	35,088
Amortization of deferred financing costs	290	2,140
Loss on disposal of property and equipment	174	493
Asset impairment charges	2,152	1,414
Stock-based compensation	7,208	4,539
Deferred taxes	5,533	(5,879)
Deferred rent expense and lease incentives	(8,354)	(8,361)
Changes in operating assets and liabilities:		
Accounts receivable	(1,914)	(1,901)
Inventories	(6,977)	(48,594)
Prepaid expenses and other assets	101	(3,851)
Accounts payable	12,811	14,977
Accrued expenses and other current liabilities	(3,842)	(12,357)
Income taxes payable, net of prepayments	(797)	(2,396)
Deferred rent and other liabilities	4,819	1,255
Total adjustments	47,028	(23,433)
Net cash provided by (used in) operating activities	66,767	(6,921)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment purchases	(46,958)	(27,085)
Net cash used in investing activities	(46,958)	(27,085)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facilities	75,161	86,300
Repayments under revolving credit facilities	(75,161)	(86,300)
Payments on term loan		(47,000)
Exercise of stock options	6,820	1,840
Purchase of common stock	(385)	(254)
Net cash provided by (used in) financing activities	6,435	(45,414)
Effect of exchange rate changes on cash	1,409	5,412
Net increase (decrease) in cash and cash equivalents	27,653	(74,008)
Cash and cash equivalents, beginning of period	168,380	226,206
Cash and cash equivalents, end of period	$ 196,033	$ 152,198

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Twenty-six Weeks Ended	
	July 31, 2010	August 1, 2009
OTHER CASH FLOW INFORMATION:		
Net cash paid during the year for income taxes	$ 9,266	$ 7,446
Cash paid during the year for interest	376	3,633
(Decrease) in accrued purchases of property and equipment	(4,452)	(600)

See accompanying notes to these condensed consolidated financial statements.

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THE CHILDREN S PLACE RETAIL STORES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated financial position of The Children s Place Retail Stores, Inc. (the Company) as of July 31, 2010 and August 1, 2009, the results of its consolidated operations for the thirteen weeks and twenty-six weeks ended July 31, 2010 and August 1, 2009, and its consolidated cash flows for the twenty-six weeks ended July 31, 2010 and August 1, 2009. The consolidated financial position as of January 30, 2010 was derived from audited financial statements. Due to the seasonal nature of the Company s business, the results of operations for the thirteen and twenty-six weeks ended July 31, 2010 and August 1, 2009 are not necessarily indicative of operating results for a full fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

Terms that are commonly used in the Company s notes to condensed consolidated financial statements are defined as follows:

- Second Quarter 2010 The thirteen weeks ended July 31, 2010.
- Second Quarter 2009 The thirteen weeks ended August 1, 2009.
- Year-To-Date 2010 The twenty-six weeks ended July 31, 2010.
- Year-To-Date 2009 The twenty-six weeks ended August 1, 2009.
- FASB Financial Accounting Standards Board.
- FASB ASC FASB Accounting Standards Codification, which serves as the source for authoritative U.S. GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative U.S. GAAP for SEC registrants.

Restricted Cash

On June 11, 2009, the Company received a notice of assessment in the amount of approximately 2.3 million Canadian dollars from Revenue Quebec regarding the Company s sales tax filings. During the third quarter of fiscal 2009, Revenue Quebec required the Company to guarantee the assessed amount in the form of a deposit into a restricted cash account. The Company has objected to the assessment and until such time that it is resolved, the balance of the account remains the property of the Company. This amount is shown on the accompanying consolidated balance sheet as restricted cash. At July 31, 2010 and January 30, 2010 the U.S. dollar value of this deposit was $2.2 million and $2.1 million, respectively.

Stockholders Equity

On July 29, 2009, the Company entered into a securities purchase agreement with Ezra Dabah, the Company s former Chief Executive Officer, Renee Dabah and certain related trusts (collectively, the Sellers) pursuant to which the Company agreed to purchase from the Sellers an aggregate of approximately 2.45 million shares of the Company s common stock at a price of $28.88 per share, which represented a discount of 5% to the average of the closing prices of the Company s common stock of the three days ended July 28, 2009 (the Sale). On August 3, 2009, the Sale was completed with the Company making total payments to the Sellers of approximately $70.8 million. In addition, the Company incurred approximately $2.7 million in transaction costs related to the Sale, which are included in the cost of the acquired shares. Immediately after the Sale, the acquired shares of common stock were retired.

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Additionally, pursuant to restrictions imposed by the Company s equity plan during black-out periods, the Company withholds and retires shares of vesting stock awards in exchange for payments to satisfy the withholding tax requirements of certain recipients. The Company s payment of the withholding taxes in exchange for the shares constitutes a purchase of its common stock. For Year-To-Date 2010 the Company retired approximately eight thousand shares and made related withholding tax payments of approximately $0.4 million.

In accordance with the *Equity* topic of the FASB ASC, a portion of the purchase price of shares retired is charged against additional paid-in capital using a pro rata allocation based on total shares outstanding. The par value of the shares is charged against common stock, and the remaining purchase price is charged to retained earnings. For Year-To-Date 2010 approximately $0.3 million was charged to retained earnings.

The Disney Store Business

In the first quarter of fiscal 2008, the Company discontinued its operation of the Disney Store business, which had operated under a licensing agreement with The Walt Disney Company. Amounts included in loss from discontinued operations relate to the wind down of the Disney Store business.

Recently Adopted Accounting Standards

The Company has reviewed recent accounting standards issued under FASB ASC and has determined that they will have no financial impact on the Company s condensed consolidated financial statements.

Fair Value Measurement and Financial Instruments

The *Fair Value Measurements and Disclosure* topic of the FASB ASC provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities.

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities

- Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly

- Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

The Company s cash and cash equivalents, accounts receivable, accounts payable, credit facilities and certain other short-term financial instruments are all short-term in nature. As such, their carrying amounts approximate fair value.

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2. STOCK-BASED COMPENSATION

The following table summarizes the Company s stock-based compensation expense (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Stock option expense	$ 13	$ 94	$ 35	$ 146
Deferred stock expense (1)	1,476	1,113	3,544	2,996
Restricted stock expense	216	253	432	432
Performance award expense	1,656	206	3,197	965
Total stock-based compensation expense	$ 3,361	$ 1,666	$ 7,208	$ 4,539

(1) Approximately $0.3 million in each of the Second Quarter 2010 and the Second Quarter 2009 was recorded in cost of goods sold. Approximately $0.6 million in each of Year-To-Date 2010 and Year-To-Date 2009 was recorded in cost of goods sold.

The Company recognized a tax benefit related to stock-based compensation expense of $2.9 million and $1.8 million for Year-To-Date 2010 and Year-To-Date 2009, respectively.

Long Term Incentive Plan

The 2008 Long Term Incentive Plan provides for the issuance of deferred stock awards and performance awards to key members of management (the Participants). Each award is based on salary level and the fair market value of the Company s common stock on the date the Compensation Committee of the Company s Board of Directors approves the grant. The deferred stock awards vest on a graded basis over three years and have a service requirement only. Key features of the performance awards are as follows:

- Each performance award has a defined number of shares that a Participant can earn (the Target Shares). Based on performance levels, Participants can earn up to 200% of their Target Shares.
- The awards have a service requirement and performance criteria that must be achieved for the awards to vest.
- The performance criteria are based on the Company s achievement of operating income levels in each of the fiscal years 2008, 2009 and 2010, as well as in the aggregate, except that those awards issued since January 2010 are based only on fiscal 2010 s operating performance.

- Awards may be earned in each of the fiscal years based upon meeting the established performance criteria for that year, however, except in certain circumstances, the Participants must be employed by the Company at the end of the three year performance period or their awards are forfeited.

The current performance period ends on January 29, 2011 and as of July 31, 2010, the Company estimates that on a weighted average basis the Participants will earn approximately 192% of their Target Shares.

New Awards

During Year-To-Date 2010 the Company granted an aggregate of 43,385 deferred stock awards, of which 22,885 vest over one year and 20,500 vest on a graded basis over three years. Also awarded during Year-To-Date 2010 were performance awards that provide for the issuance of 13,750 Target Shares if the Company achieves a specified level of operating income for fiscal 2010. These awards vest on an accelerated basis over three years.

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Deferred and Restricted Stock (Deferred Awards)

Changes in the Company s unvested Deferred Awards for Year-To-Date 2010 were as follows:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested deferred awards beginning of period	512	$ 30.34
Granted	43	39.51
Vested	(119)	28.88
Forfeited	(37)	31.37
Unvested deferred awards, end of period	399	$ 31.68

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated $9.4 million as of July 31, 2010, which will be recognized over a weighted average period of approximately 1.6 years.

Performance Awards

Changes in the Company s unvested performance awards for Year-To-Date 2010 were as follows:

	Number of Performance Shares (1) (in thousands)	Weighted Average Grant Date Fair Value
Unvested performance shares, beginning of period	174	$ 27.65
Granted	14	46.80
Vested		
Forfeited	(13)	20.97
Unvested performance shares, end of period	175	$ 29.65

(1) The number of unvested performance shares is based on the Participants earning their Target Shares at 100%. As of July 31, 2010, the Company estimates that on a weighted average basis the Participants will earn 192% of their Target Shares. The cumulative expense recognized reflects changes in estimates as they occur.

Total unrecognized stock-based compensation expense related to unvested performance awards approximated $3.9 million as of July 31, 2010, which will be recognized over a weighted average period of approximately 0.9 years.

Stock Option Plans

During fiscal 2008, the Company ceased issuing stock options in favor of Deferred Awards. Activity for all outstanding options is below.

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Changes in the Company s outstanding stock options for Year-To-Date 2010 were as follows:

	Number of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 30, 2010	731	$ 33.22	4.6	$ 2,831
Granted				
Exercised	(237)	28.77	N/A	3,887
Forfeited	(10)	30.21	N/A	117
Options outstanding at July 31, 2010	484	$ 35.46	4.7	$ 3,831
Options exercisable at July 31, 2010	460	$ 35.96	4.5	$ 3,448

Changes in the Company s unvested stock options for Year-To-Date 2010 were as follows:

	Number of Options (in thousands)	Weighted Average Grant Date Fair Value
Unvested stock options, beginning of period	40	$ 11.24
Granted		
Vested	(16)	11.08
Forfeited		
Unvested stock options, end of period	24	$ 11.34

Total unrecognized stock-based compensation expense related to unvested stock options approximated $22,000 as of July 31, 2010, which will be recognized over a weighted average period of approximately 0.4 years.

3. NET INCOME (LOSS) PER COMMON SHARE

The following table reconciles net income and share amounts utilized to calculate basic and diluted net income per common share (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Income (loss) from continuing operations	$ (8,268)	$ (7,229)	$ 19,739	$ 16,512

Income (loss) from discontinued operations, net of taxes	35	178	(70)	(51)
Net income (loss)	$ (8,233)	$ (7,051)	$ 19,669	$ 16,461
Basic weighted average common shares	27,755	29,552	27,669	29,514
Dilutive effect of stock awards			358	232
Diluted weighted average common shares	27,755	29,552	28,027	29,746
Antidilutive stock awards	1,400	1,650	139	1,035

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Antidilutive stock awards (stock options, Deferred Awards and performance awards) represent those awards that are excluded from the earnings per share calculation as a result of their antidilutive effect in the application of the treasury stock method in accordance with the *Earnings Per Share* topic of the FASB ASC.

The diluted loss per share amounts presented in the condensed consolidated statements of operation for the Second Quarter 2010 and the Second Quarter 2009, excludes the dilutive effect of the Company s stock awards, which would have been anti-dilutive as a result of the loss from continuing operations.

4. COMPREHENSIVE INCOME (LOSS)

The following table presents the Company s comprehensive income (loss) (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 2010	**August 1, 2009**	**July 31, 2010**	**August 1, 2009**
Net income (loss)	$ (8,233)	$ (7,051)	$ 19,669	$ 16,461
Foreign currency translation adjustment	(954)	7,721	2,870	10,373
Comprehensive income (loss)	$ (9,187)	$ 670	$ 22,539	$ 26,834

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	Asset Life	**July 31, 2010**	**January 30, 2010**	**August 1, 2009**
Property and equipment:				
Land and land improvements		$ 3,403	$ 3,403	$ 3,403
Building and improvements	25 yrs	33,886	30,451	30,451
Material handling equipment	10-15 yrs	48,506	31,243	31,243
Leasehold improvements	Lease life	388,954	378,097	367,636
Store fixtures and equipment	3-10 yrs	267,970	259,641	253,680
Capitalized software	5 yrs	68,848	65,869	62,225
Construction in progress		10,262	17,770	8,482
		821,829	786,474	757,120
Less accumulated depreciation and amortization		(503,574)	(473,673)	(446,325)
Property and equipment, net		$ 318,255	$ 312,801	$ 310,795

During the Second Quarter 2010, the Company recorded $1.2 million of impairment charges primarily related to three underperforming stores. During the Second Quarter 2009, the Company recorded $0.3 million of impairment charges related to one underperforming store.

During Year-To-Date 2010, the Company recorded $2.2 million of impairment charges primarily related to four underperforming stores. During Year-To-Date 2009, the Company recorded $1.4 million of impairment charges related to three underperforming stores.

As of July 31, 2010, January 30, 2010 and August 1, 2009, the Company had $3.1 million, $7.5 million and $3.5 million, respectively, in property and equipment for which payment had not been made. These amounts are included in accounts payable and accrued expenses and other current liabilities.

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6. CREDIT FACILITIES

On July 31, 2008, the Company and certain of its domestic subsidiaries entered into a five year credit agreement (the 2008 Credit Agreement) with Wells Fargo Retail Finance, LLC (Wells Fargo), Bank of America, N.A., HSBC Business Credit (USA) Inc., and JPMorgan Chase Bank, N.A. as lenders (collectively, the Lenders) and Wells Fargo, as Administrative Agent, Collateral Agent and Swing Line Lender.

The 2008 Credit Agreement consists of a $200 million asset based revolving credit facility, with a $175 million sublimit for standby and documentary letters of credit. Revolving credit loans outstanding under the 2008 Credit Agreement bear interest, at the Company s option, at:

(i) the prime rate plus a margin of 0.0% to 0.5% based on the amount of the Company s average excess availability under the facility; or

(ii) the London InterBank Offered Rate, or LIBOR , for an interest period of one, two, three or six months, as selected by the Company, plus a margin of 2.00% to 2.50% based on the amount of the Company s average excess availability under the facility.

An unused line fee of 0.50% or 0.75%, based on total facility usage, will accrue on the unused portion of the commitments under the facility. Letter of credit fees range from 1.25% to 1.75% for commercial letters of credit and range from 2.00% to 2.50% for standby letters of credit. Letter of credit fees are determined based on daily average undrawn stated amount of such outstanding letters of credit. The 2008 Credit Agreement expires on July 31, 2013. The amount available for loans and letters of credit under the 2008 Credit Agreement is determined by a borrowing base consisting of certain credit card receivables, certain inventory and the fair market value of certain real estate, subject to certain reserves.

The outstanding obligations under the 2008 Credit Agreement may be accelerated upon the occurrence of certain events, including, among others, non-payment, breach of covenants, the institution of insolvency proceedings, defaults under other material indebtedness and a change of control, subject, in the case of certain defaults, to the expiration of applicable grace periods. Had the Company terminated the 2008 Credit Agreement prior to August 1, 2010 the Company would have been required to pay an early termination fee in the amount of 0.25% of the revolving credit facility ceiling then in effect. After July 31, 2010 the Company is no longer subject to any early termination fees.

The 2008 Credit Agreement contains covenants, which include limitations on annual capital expenditures, stock buybacks and the payment of dividends or similar payments. Credit extended under the 2008 Credit Agreement is secured by a first or second priority security interest in substantially all of the Company s assets.

On August 18, 2010, in connection with the approval of the Company s share repurchase program (see Note 12), the 2008 Credit Agreement was amended to increase the allowable amount, subject to certain restrictions, that the Company may spend on share repurchases.

The Company capitalized an aggregate of approximately $2.6 million in deferred financing costs related to the 2008 Credit Agreement, which is being amortized on a straight-line basis over its term.

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The table below presents the components (in millions) of the Company s credit facilities:

	July 31, 2010	January 30, 2010	August 1, 2009
Credit facility maximum	$ 200.0	$ 200.0	$ 200.0
Borrowing base	169.8	164.1	199.0
Outstanding borrowings	$	$	$
Letters of credit outstanding merchandise	37.1	32.4	35.3
Letters of credit outstanding standby	10.9	15.2	16.1
Utilization of credit facility at end of period	48.0	47.6	51.4
Availability	121.8	116.5	147.6
Interest rate at end of period	3.3%	3.3%	3.3%

	Year-To-Date 2010	Fiscal 2009	Year-To-Date 2009
Average loan balance during the period		0.1	
Highest borrowings during the period		3.3	0.3
Average interest rate	3.3%	3.3%	3.3%

Letter of Credit Fees

Letter of credit fees approximated $0.2 million in each of Year-To-Date 2010 and Year-To-Date 2009. Letter of credit fees are included in cost of sales.

7. TERM LOAN

On July 31, 2008, concurrently with the execution of the 2008 Credit Agreement, the Company and certain of its domestic subsidiaries and Sankaty Credit Opportunities III, L.P., Sankaty Credit Opportunities IV, L.P., RGIP, LLC, Crystal Capital Fund, L.P., Crystal Capital Onshore Warehouse LLC, 1903 Onshore Funding, LLC, and Bank of America, N.A., all as note purchasers, together with Sankaty Advisors, LLC, as Collateral Agent, and Crystal Capital Fund Management, L.P., as Syndication Agent, entered into a note purchase agreement (Note Purchase Agreement).

Under the Note Purchase Agreement, the Company issued $85.0 million of non-amortizing secured notes (the Notes) which were due and payable on July 31, 2013. Amounts outstanding under the Note Purchase Agreement bore interest at the greater of (i) LIBOR, for an interest period of one, two, three or six months, as selected by the Company, or (ii) 3.00%, plus, in each case, a margin of between 8.50% and 9.75% depending on the Company s leverage ratio.

On April 13, 2009, the Company prepaid $47.0 million of the Notes, which included a $32.0 million mandatory payment plus a penalty free optional payment of $15.0 million. On August 3, 2009, the remaining principal amount of $38.0 million was prepaid (the Final Payment). In accordance with the terms of the Note Purchase Agreement, the Company was required to pay a prepayment premium of 1.5%, or approximately $0.6 million, on the Final Payment. Also, in connection with the Final Payment, the Note Purchase Agreement and the Company s obligations under the Note Purchase Agreement were terminated.

8. LEGAL AND REGULATORY MATTERS

On June 16, 2009, a putative stockholder derivative action was filed in the Superior Court of New Jersey, Hudson County, Chancery Division, against the Company and certain of its current and former directors and senior executives. The

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Company has been named as a nominal defendant. The complaint alleges, among other things, that certain of the Company s current and former directors and executives breached their fiduciary duties to the Company and its stockholders by causing the Company to issue false and misleading public statements and by abdicating their responsibilities to the Company and its stockholders, in violation of state law. The complaint also alleges that the defendants committed corporate waste in connection with a severance payment to the Company s former Chief Executive Officer. The complaint seeks monetary damages from the individual defendants as well as costs and disbursements of the lawsuit, including expert fees, as well as equitable relief. On November 20, 2009, defendants moved to dismiss the complaint, on the grounds that, among other things, (i) the claims asserted in the action are barred by the prior settlement of the stockholder class action filed in the United States District Court for the Southern District of New York, and (ii) plaintiff failed to make a demand on the Company s Board of Directors to initiate the lawsuit, as required by applicable state law. The court heard oral arguments on the motion to dismiss on March 25, 2010 and on June 3, 2010 the court issued an oral decision denying the defendants motion to dismiss, while stating that the court took no position on the merits of the case. On July 28, 2010, the defendants filed a motion in the Superior Court of New Jersey, Appellate Division, seeking extraordinary leave to appeal from the interlocutory order denying defendants motion to dismiss, which motion was denied on August 20, 2010. The outcome of this litigation is uncertain and no estimate can be made at this time of any potential loss or range of losses. While we believe there are valid defenses to the claims and we will defend ourselves vigorously, no assurance can be given as to the outcome of this litigation. The litigation could distract our management and directors from the Company s affairs, the costs and expenses of the litigation could have a material adverse effect on the Company s financial position, results of operations and cash flows and an unfavorable outcome could adversely affect the reputation of the Company.

On or about September 28, 2007, Meghan Ruggiero filed a complaint against the Company and its subsidiary, Hoop Retail Stores, LLC (Hoop), 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 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 U.S. Bankruptcy Code by reason of Hoop s petition for relief filed that same day. On March 2, 2010, the court granted the plaintiff leave to file an amended complaint dismissing the Company and to replace the Company with its subsidiary, The Children s Place Services Company, LLC, and on March 27, 2010 the plaintiff filed a second amended complaint. On October 15, 2009, the parties filed a joint notice of settlement, and the parties subsequently entered into a settlement agreement that provided for, among other things, payment in the amount of $0.3 million. On March 4, 2010, the Court preliminarily approved the settlement, authorized the dissemination of notice of the settlement to the Company s shareholders and scheduled a hearing to consider the fairness and final approval of the settlement. The parties entered into an amendment to the settlement agreement on July 2, 2010, and the hearing on final approval of the amended settlement is scheduled for September 16, 2010. The Company has accrued for the cost of this settlement and the related expense was charged to discontinued operations.

During the Second Quarter 2010, neither the Company nor any of its subsidiaries became a party to, nor did any of their property become the subject of, any material legal proceedings. Except as noted above, there were no material developments to any legal proceedings previously reported in the Company s Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

The Company is also involved in various legal proceedings arising in the normal course of business. In the opinion of management, any ultimate liability arising out of these proceedings will not have a material effect on the Company s financial condition.

9. INCOME TAXES

The Company computes income taxes using the liability method. This method requires recognition of deferred tax assets and liabilities, measured by enacted rates, attributable to temporary differences between the financial statement and income tax bases of assets and liabilities. Deferred tax assets and liabilities are comprised largely of book tax differences relating to depreciation, rent expense, inventory and various accruals and reserves.

During the first quarter of fiscal 2009, the Company recorded a $4.5 million benefit related to the settlement of an IRS income tax audit. During the Second Quarter 2009, the Company recorded a $4.8 million tax benefit related to excess foreign tax credits generated by a one time dividend from its Canada subsidiaries. As a result, the Company s effective tax rate from continuing operations for the Second Quarter 2009 and Year-To-Date 2009 was 64.1% and (31.0)%, respectively, compared to 38.8% and 41.5% during the Second Quarter 2010 and Year-To-Date 2010, respectively. The repatriation of

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cash from Canada did not impact the Company s ability to remain permanently reinvested in the earnings of its Canadian subsidiaries.

During the Second Quarter 2010 and Year-To-Date 2010, the Company recognized approximately $0.2 million and $0.4 million, respectively, of additional interest expense related to its unrecognized tax benefits. During the Second Quarter 2009 and Year-To-Date 2009, the Company recognized approximately $0.2 million and $0.3 million, respectively of additional interest expense related to its unrecognized tax benefits. The Company recognizes accrued interest and penalties related to unrecognized income tax liabilities in income tax expense.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax audits for years through fiscal 2006. With limited exception, the Company is no longer subject to state, local or non-U.S. income tax audits by taxing authorities for years through fiscal 2003.

10. INTEREST INCOME (EXPENSE), NET

The following table presents the components of the Company s interest (expense) income, net (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Interest income	$ 129	$ 169	$ 221	$ 503
Tax-exempt interest income	14	5	18	11
Total interest income	143	174	239	514
Less:				
Interest expense term loan		1,687		3,858
Interest expense credit facilities	55	82	126	139
Unused line fee	293	94	594	191
Amortization of deferred financing fees (1)	145	1,103	290	2,140
Other interest and fees (2)	31	(1,330)	66	(1,084)
Total interest expense	524	1,636	1,076	5,244
Interest income (expense), net	$ (381)	$ (1,462)	$ (837)	$ (4,730)

(1) The Second Quarter 2009 and Year-To-Date 2009 include approximately $1.0 million and $1.9 million, respectively, of accelerated deferred financing costs associated with prepayments made on the Company s term loan.

(2) The Second Quarter 2009 and Year-To-Date 2009 include a credit of approximately $1.5 million of interest accrual reversals related to the settlement of an Internal Revenue Service employment tax audit related to stock options.

11. SEGMENT INFORMATION

In accordance with the *Segment Reporting* topic of the FASB ASC, the Company reports segment data based on management responsibility: The Children s Place U.S. and The Children s Place Canada. Included in The Children s Place U.S. segment are the Company s U.S. based stores, including Puerto Rico, and its e-commerce store, *www.childrensplace.com*. The Company measures its segment profitability based on operating income, defined as earnings before interest and taxes. Net sales and direct costs are recorded by each segment. Certain inventory procurement functions such as production and design as well as corporate overhead, including executive management, finance, real estate, human resources, legal, and information technology services are managed by The Children s Place U.S. segment. Expenses related to these functions, including depreciation and amortization, are allocated to The Children s Place Canada segment based primarily on net sales. The assets related to these functions are not allocated. The Company periodically reviews these allocations and adjusts them based upon changes in business circumstances. Net sales from external customers are derived from merchandise sales and the Company has no major customers that account for more than 10% of its net sales. As of July 31, 2010, The Children s Place U.S. operated 880 stores and The Children s Place Canada operated 97 stores. As of August 1, 2009, The Children s Place U.S. operated 848 stores and The Children s Place Canada operated 89 stores.

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The following tables provide segment level financial information for the Second Quarter 2010, the Second Quarter 2009, Year-To-Date 2010 and Year-To-Date 2009 (dollars in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Net sales:				
The Children s Place U.S.	$ 297,329	$ 275,947	$ 670,742	$ 639,018
The Children s Place Canada	47,972	39,729	96,692	78,559
Total net sales	$ 345,301	$ 315,676	$ 767,434	$ 717,577

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Operating income (loss):				
The Children s Place U.S.	$ (17,456)	$ (22,007)	$ 21,867	$ 8,780
The Children s Place Canada	4,328	3,334	12,699	8,558
Total operating income (loss)	$ (13,128)	$ (18,673)	$ 34,566	$ 17,338
Operating income (loss) as a percent of net sales:				
The Children s Place U.S.	-5.9%	-8.0%	3.3%	1.4%
The Children s Place Canada	9.0%	8.4%	13.1%	10.9%
Total operating income (loss)	-3.8%	-5.9%	4.5%	2.4%

Thirteen Weeks Ended