

CHILDRENS PLACE RETAIL STORES INC
Form 10-K
March 28, 2011

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[PART IV](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fifty-two weeks ended January 29, 2011

**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)

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**

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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 No

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 No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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 No

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

Indicate by check mark whether the registrant is 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 Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting Company)

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

The aggregate market value of common stock held by non-affiliates was \$1,160,536,086 at the close of business on July 31, 2010 (the last business day of the registrant's fiscal 2010 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 23, 2011: 26,004,400.

Documents Incorporated by Reference: Portions of The Children's Place Retail Stores, Inc. Definitive Proxy Statement for its Annual Meeting of Stockholders to be held in 2011 are incorporated by reference into Part III.

Table of Contents

THE CHILDREN'S PLACE RETAIL STORES, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FIFTY-TWO WEEKS ENDED JANUARY 29, 2011

TABLE OF CONTENTS

		PAGE
<u>PART I</u>		
<u>Item 1.</u>	<u>Business</u>	<u>1</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>14</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>24</u>
<u>Item 2.</u>	<u>Properties</u>	<u>24</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>25</u>
<u>Item 4.</u>	<u>Reserved</u>	<u>25</u>
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>26</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>28</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>49</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>50</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>51</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>51</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>53</u>
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors and Executive Officers of the Registrant and Corporate Governance</u>	<u>53</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>53</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>53</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions and Director Independence</u>	<u>53</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>53</u>
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>54</u>

Table of Contents

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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 current expectations and assumptions of The Children's Place Retail Stores, Inc. (the "Company") 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.

PART I

ITEM 1. BUSINESS

As used in this Annual Report on Form 10-K, references to the "Company", "The Children's Place", "we", "us", "our" and similar terms refer to The Children's Place Retail Stores, Inc. and its subsidiaries. Our fiscal year ends on the Saturday on or nearest to January 31. Other terms that are commonly used in this Annual Report on Form 10-K are defined as follows:

Fiscal 2010 The fifty-two weeks ended January 29, 2011

Fiscal 2009 The fifty-two weeks ended January 30, 2010

Fiscal 2008 The fifty-two weeks ended January 31, 2009

Fiscal 2007 The fifty-two weeks ended February 2, 2008

Fiscal 2011 Our next fiscal year representing the fifty-two weeks ending January 28, 2012

GAAP Generally Accepted Accounting Principles

Comparable Store Sales Net sales, in constant currency, from stores that have been open at least 14 full months and that have not been substantially remodeled during that time

Comparable Retail Sales Comparable Store Sales plus comparable sales from our e-commerce store

SEC Securities and Exchange Commission

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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

CPSA Consumer Product Safety Act

Table of Contents

CPSC Consumer Products Safety Commission

CPSIA Consumer Product Safety Improvement Act of 2008

General

The Children's Place Retail Stores, Inc. is the largest pure-play children's specialty apparel retailer in North America. We provide apparel, accessories and shoes for children from newborn to ten years old. We design, contract to manufacture and sell fashionable, high-quality, value-priced merchandise, virtually all of which is under the proprietary "The Children's Place" brand name. Our stores offer spacious, bright and airy shopping in a friendly and convenient environment for both children and adults. The Children's Place has differentiated departments and is dedicated to serving the wardrobe needs of Girls and Boys (sizes 4-14), Baby Girls and Boys (sizes 6 mos.-4T) and Newborn (sizes 0-12 mos.). Stores are distinctly merchandised to appeal to each age and gender segment and they provide for easy shopping of the latest collection available as we flow seasonal merchandise into our stores throughout the year. Our merchandise is also available at our online store located at www.childrensplace.com. Our customers are able to shop at our online store, at their convenience, and receive the same high quality, value-priced merchandise and customer service that are available in our physical stores.

The Children's Place Retail Stores, Inc. was incorporated in June 1988 operating fewer than 100 stores. At the time of our initial public offering in September 1997, we had grown to approximately 200 stores located in 26 states in the eastern half of the United States. By April 2003, we had grown to 656 stores and our geographical coverage included 47 states and a newly established presence in Canada. The growth of the Children's Place stores and brand has since continued, and as of January 29, 2011, we operated 995 stores throughout North America as well as our online store. During Fiscal 2010, we opened 67 stores compared to 38 in Fiscal 2009, and we closed 19 stores in Fiscal 2010, compared to eight in Fiscal 2009. Our store growth plan for Fiscal 2011 includes opening approximately 85 new The Children's Place stores and closing approximately 20.

Jane Elfers, who became our President and Chief Executive Officer on January 4, 2010, has outlined five key growth initiatives that we are executing, as follows:

1. *Improving the merchandise* The merchandise team is focused on modernizing the merchandise offerings and differentiating by age and gender. In addition, we are expanding our line of shoes and accessories sold in all stores, and plan to begin introducing "made-for-outlet" merchandise for our outlet stores, which represent approximately 13% of our total stores, during the second half of Fiscal 2011.
2. *Accelerating new store growth with a focus on Value Oriented Centers (VOCs)* VOCs currently account for approximately 9% of the fleet. During Fiscal 2010, we opened 67 stores of which 42 were VOCs. During Fiscal 2011, we plan to open 85 new stores of which approximately half will be VOCs, which have to date provided a higher return on investment as a result of favorable lease and build-out costs.
3. *Improving inventory management* Our goal is to have the right merchandise in the right store at the right time. As such, we realigned our planning and allocation organization into four channels: U.S. Place stores, U.S. Outlets, E-commerce and Canada stores. In Fiscal 2010, we began reducing initial inventory allocations to stores with more frequent replenishments.
4. *Sharpening our marketing message* We improved our marketing during Fiscal 2010 by providing clearer, streamlined messages focused on value and fashion. We have increased the frequency of our communications with customers through the internet. Our e-mail marketing reach during Fiscal 2010 was more than three times what it was during Fiscal 2009 and we are actively engaging customers through social media.

Table of Contents

5.

Driving e-commerce growth E-commerce is a rapidly expanding channel with significant growth potential as moms are increasingly likely to shop online. We are focused on making continual site enhancements to improve the user experience. During the fourth quarter of Fiscal 2010, we began international shipping from our U.S. based e-commerce website.

Segment Reporting

After the disposal of our Disney Store Business during Fiscal 2008, management continued its reassessment of our internal reporting structure. At January 31, 2009, net sales of Canadian operations had grown by approximately 56% over the prior three fiscal years, and after the disposal of the Disney Store Business, its percentage of consolidated net sales had grown from approximately 9% to approximately 12%. Further, the fluctuations of the Canadian dollar relative to the U.S. dollar in recent years have had a significant impact on our Canadian operating results. Beginning in Fiscal 2009, our chief operating decision maker required, and we began reporting, discrete financial information for our Canadian operations.

We report 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 our U.S. based stores, including Puerto Rico, and our e-commerce store, *www.childrensplace.com*. We measure our segment profitability based on operating income, defined as income from continuing operations before interest and taxes. Net sales and direct costs are recorded by each segment. Certain centrally managed inventory procurement functions such as production and design are allocated to each segment based upon usage. Corporate overhead, including executive management, finance, real estate, human resources, legal, and information technology services are allocated to the segments based primarily on net sales. Included in the allocation of corporate overhead is depreciation and amortization expense; however, the related assets are not allocated. We periodically review these allocations and adjust them based upon changes in business circumstances. Net sales from customers are derived primarily from merchandise sales and we have no customers that account for more than 10% of our net sales. The

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Table of Contents

following tables show by segment our net sales and operating income for the past three fiscal years, and total assets as of January 29, 2011 and January 30, 2010 (in thousands):

	Fiscal Year Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
Net sales:			
The Children's Place U.S.	\$ 1,450,116	\$ 1,441,562	\$ 1,428,073
The Children's Place Canada	223,883	202,025	202,250
 Total net sales	 \$ 1,673,999	 \$ 1,643,587	 \$ 1,630,323
Operating income:			
The Children's Place U.S.	\$ 96,881	\$ 90,873	\$ 85,412
The Children's Place Canada	39,455	39,199	36,985
 Total operating income	 \$ 136,336	 \$ 130,072	 \$ 122,397
Operating income as a percent of net sales			
The Children's Place U.S.	6.7%	6.3%	6.0%
The Children's Place Canada	17.6%	19.4%	18.3%
Total operating income as a percent of net sales	8.1%	7.9%	7.5%

	January 29, 2011	January 30, 2010
Total assets:		
The Children's Place U.S.	\$ 720,951	\$ 752,827
The Children's Place Canada	133,380	101,233
 Total assets	 \$ 854,331	 \$ 854,060

All foreign net sales are in The Children's Place Canada segment while certain foreign expenses related to our buying operations are allocated between the two segments. Our foreign subsidiaries, primarily in Canada, have operating results based in foreign currencies and are thus subject to the fluctuations of the corresponding translation rates into U.S. dollars. Included in The Children's Place U.S. operating income for Fiscal 2009 is approximately \$2.0 million of exit costs related to the relocation of the Company's e-commerce fulfillment center. We relocated our e-commerce fulfillment center from a leased facility in New Jersey to an owned facility in Alabama as a result of the continued growth in our e-commerce business.

The Disney Store Business

From November 2004 through April 2008, through four wholly owned subsidiaries, the Company operated the Disney Store retail chain in North America (the "Disney Store Business") under a license agreement (the "License Agreement") with the Walt Disney Company ("Disney"). On March 20, 2008, after a thorough review of the Disney Store Business, including its potential for earnings growth, its capital needs and its ability to fund such needs from its own resources, we decided to exit the Disney Store Business. On March 26, 2008, the Company's subsidiaries that operated the Disney Store Business, Hoop Holdings, LLC, Hoop Retail Stores, LLC, Hoop Canada Holdings, Inc. and Hoop Canada Inc. (collectively "Hoop"), each filed a voluntary petition for relief under bankruptcy provisions in their respective jurisdictions. On April 30, 2008, with approval of the respective bankruptcy courts, Hoop sold the Disney Store Business to affiliates of Disney, including a majority of the Disney stores and related assets and effectively ended the License Agreement. During the remainder of Fiscal 2008,

Table of Contents

those stores not acquired by Disney were closed, and the remaining affairs of Hoop were mostly wound down. For further discussion of the Disney Store Business, see Note 16 of the Notes to our Consolidated Financial Statements.

As a result of our decision to exit the Disney Store Business and in accordance with U.S. GAAP, we have reclassified the Disney Store Business as a discontinued operation in our consolidated financial statements for all periods presented. Related to the Disney Store Business during Fiscal 2010, Fiscal 2009 and Fiscal 2008, we recorded income (loss) from discontinued operations, net of income taxes of \$(0.5) million, \$(0.5) million and \$8.4 million, respectively. Included in income (loss) from discontinued operations, net of income taxes for Fiscal 2008, are net sales of \$129 million.

Key Capabilities

Our objective is to deliver trend-right, high-quality value-priced assortments for children ranging from newborn to age ten. Our expansive assortment offers one stop shopping across apparel, shoes and accessories. Our strategies to achieve this objective are as follows:

Merchandising Strategy

Our merchandising strategy is to offer a compelling assortment of apparel, shoes, and accessories that enable our customer to wardrobe their child. We strive to ensure that our assortments are modern and colorful, are balanced by category and lifestyle, and are fun and easy to put together. We build our deliveries by season and incorporate basics, key items, and fashion merchandise.

High Quality/Value Pricing

We believe that offering high quality, trend-right, age appropriate merchandise under "The Children's Place" brand name at value prices is our competitive advantage. We design and merchandise our apparel and accessories to offer a compelling value to our customers.

Brand Image

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

Offering high-quality products and trend-right fashion at value prices;

Providing colorful coordinated outfits and accessories for our customers' lifestyle needs;

Creating strong merchandising and visual presentations to create a compelling in-store experience;

Emphasizing our great value and fashion in marketing visuals to convey a consistent brand message across all channels;

Leveraging our customer database to frequently communicate with our customers and tailor promotions to maximize customer satisfaction; and

Providing exclusive assortments in our e-commerce and outlet channels to further expand our brand recognition.

The Children's Place branded products are sold exclusively in our stores and on our website.

Low-Cost Sourcing

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We control the design, sourcing and production of The Children's Place branded 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

Table of Contents

most of 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, China, India and Bangladesh allow us to capitalize on new sourcing opportunities, increase our control over product quality, communicate efficiently and respond to changing business needs effectively.

Merchandising Process

The strong collaboration between the cross functional teams in Merchandising, Planning and Allocation, Sourcing and Design have enabled us to build and grow our brand. Cross functional teams are aligned by department.

Design

The Design team gathers information from trends, color services, international and domestic shopping trips, and trade shows. Findings and concepts are presented to the Merchandising team to initiate the cross functional building of a seasonal assortment.

Merchandising

Each quarter we develop seasonal strategies for each department and for each category within the department. The cross functional teams review prior season results and set the strategies in place for the future season. Merchandising builds a roadmap of our style needs based on historical information with the Design team's input. The Design and Merchandising teams work collaboratively throughout the sketch and sample reviews to ensure we are developing the appropriate balance of fashion and key items within the line.

Merchandise Planning and Allocation

The Merchandise Planning and Allocation organization works collaboratively with the Merchandising and Sourcing teams to develop annual and seasonal sales and margin plans to support our financial objectives and merchandising strategies. These plans are developed with consideration of our channels to ensure that we are maximizing key programs each season. Further, this team plans the flow of inventory to ensure that we are adequately supporting floor sets and key promotional periods. Special attention is paid to our store types as they differ in capacity. All allocation methods incorporate visual presentations as well as inventory levels and sales trends.

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 manufacturers and suppliers from which to source a continuous allotment of products and obtain high quality at low product cost.

Production, Quality, Control and Social Compliance

During Fiscal 2010, we engaged approximately 160 independent manufacturers located primarily in Asia. The availability of raw materials to these manufacturers is subject to price fluctuations due to global market trends. To support our inventory needs and to control merchandise costs, we continue to pursue global sourcing opportunities and consider such factors as product quality, cost, reliability of the manufacturer, service, product lead times, and 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.

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Table of Contents

During Fiscal 2010, we purchased approximately 48% of our total merchandise without the aid of commissioned buying agents. We believe our offices in Hong Kong, China, India and Bangladesh enable us to obtain favorable material and manufacturing costs and to quickly identify and act on new sourcing and supplier opportunities. Our Asian offices also facilitate our prototype sample production and enable us to foster stronger relationships with our suppliers, manufacturers, agents and trading companies. In addition, we are party to agency agreements with commissioned independent agents who assist in sourcing and pre-production approval, oversee production, provide quality inspection and ensure timely delivery of merchandise. During Fiscal 2010, we purchased approximately 28% of our products through the support of a commissioned, independent agent in Taiwan, and approximately 12% of our products through an independent Hong Kong-based trading company. We sourced approximately 40% of our total goods from China and approximately 15% each from Vietnam, Cambodia and Sub-Saharan Africa. We did not source more than 15% from any other country or region. 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. This program is comprised of four components as follows:

Vendor Code of Conduct By formally acknowledging and agreeing to our code of conduct, our vendors affirm their commitment to integrate our corporate compliance standards into their manufacturing and sourcing practices. These standards cover the areas of: child labor, forced labor, coercion/harassment, non-discrimination, health and safety, compensation, environment, subcontracting, monitoring & compliance and publication.

Ongoing Monitoring Program We administer a corporate monitoring program as performed by our internal social compliance team and/or professional third party auditors who visit factory locations to assess the working conditions in all factories that manufacture The Children's Place products. The Ongoing Monitoring Program involves: (1) visual inspection of work facilities and dormitories; (2) interview of factory management regarding policies and practices; (3) interview of factory workers to verify workplace policies and practices; and (4) review of wage, hour, age and other records. At the conclusion of the factory audit/visit, our auditor will review the Corrective Action Plan Acknowledgement Report together with factory management.

Corrective Action Plan Acknowledgement Report ("CAPAR") The CAPAR contains findings from the factory visit for each of the areas covered by our standards, a remediation plan for any violations found (if applicable), as well as a re-audit timeframe. If violations are not remediated in accordance with the remediation plan, we cease using that factory or vendor.

Ongoing Training and Seminars We continually conduct training programs and seminars to communicate with our internal and external partners regarding the requirements of our program. Additionally, our social compliance team attends third party seminars, industry courses and training in the Corporate Social Responsibility area.

Table of Contents

We require all entities that produce or manufacture The Children's Place merchandise to undergo a Social Compliance audit and demonstrate compliance with the requirements of our Vendor Code of Conduct. By requiring our manufacturers and suppliers to participate in our social compliance program, we are able to monitor factories to ensure that they operate using safe and humane working conditions, and that we are working with factory managers that appreciate and comply with socially responsible practices. Additionally, because our social compliance program requires us to be diligent about changes in local laws and other conditions (e.g., political instability) in the countries from which we source, we are able to make informed decisions about where we are sourcing our products and, prior to placing orders, analyze potential risks to our sourcing capabilities arising as a result of factors external to a factory's production capabilities. In the event that external risks to our sourcing capabilities arise with respect to one or more factories, our social compliance program helps to identify such risks early and enables us to source from another factory thereby mitigating the risk and reducing the potential disruption to our business.

Company Stores

The following section highlights various store information for The Children's Place brand as of January 29, 2011.

Existing Stores

As of January 29, 2011, we operated a total of 995 The Children's Place stores, most of which are clustered in and around major metropolitan areas, and our internet store at www.childrensplace.com. We have 618 stores located in malls, 202 in strip centers, 132 in outlet centers and 43 street stores. The following table sets forth the number of stores in each U.S. state, Puerto Rico and Canadian provinces as of the current and prior fiscal year end:

Location	Number of Stores	
	January 29, 2011	January 30, 2010
<i>United States & Puerto Rico</i>		
Alabama	11	9
Arizona	19	18
Arkansas	6	6
California	90	86
Colorado	14	14
Connecticut	14	14
Delaware	4	4
District of Columbia	1	1
Florida	44	46
Georgia	28	21
Hawaii	4	4
Idaho	1	1
Illinois	37	39
Indiana	19	19
Iowa	10	8
Kansas	5	5
Kentucky	12	8
Louisiana	14	14
Maine	4	4
Maryland	22	22
Massachusetts	23	24
		8

Table of Contents

Location	Number of Stores	
	January 29, 2011	January 30, 2010
Michigan	22	22
Minnesota	12	13
Mississippi	12	8
Missouri	14	13
Montana	1	1
Nebraska	3	2
New Hampshire	5	5
New Jersey	47	48
New Mexico	4	