UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (date of earliest event reported) November 22, 2004

THE CHILDREN'S PLACE RETAIL STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware	0-23071	31-1241495
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer ID Number)

915 Secaucus Road, New Jersey	07094
(Address of principal executive offices)	(Zip Code)
Registrant's Telephone Number, including area code:	(201) 558-2400

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.01 Completion of Acquisition or Disposition of Assets

On November 22, 2004 (effective as of November 21, 2004), two subsidiaries of the Company consummated the acquisition of the "Disney Store" chain of retail stores in North America, pursuant to the terms of the Acquisition Agreement dated as of October 19, 2004, between Hoop Holdings, LLC and Hoop Canada Holdings, Inc. ("Hoop Canada Holdings"), each a wholly-owned subsidiary of the Company, as purchasers, and Disney Enterprises, Inc. ("DEI") and Disney Credit Card Services, Inc. ("DCCS" and together with DEI, the "Sellers," each wholly-owned subsidiaries of The Walt Disney Company).

On November 29, 2004, the Company filed a Current Report on Form 8-K reporting that it had completed the acquisition of the Disney Store chain of retail stores in North America and that the financial statements and pro forma financial information required under Item 9.01 would be filed at a later date. This Amendment No. 1 to the Company’s Current Report on Form 8-K contains the required financial statements and pro forma financial information.

The description contained in this Item 2.01 of the transactions consummated pursuant to the Acquisition Agreement is qualified in its entirety by reference to the description contained in the Company’s Current Report on Form 8-K filed on November 29, 2004.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired:

Audited combined financial statements of The Disney Store North America Group at October 2, 2004 and September 27, 2003 and for each of the years in the period ended October 2, 2004, and the notes related thereto.

(b) Pro Forma Financial Information:

Unaudited pro forma condensed consolidated balance sheet as of October 30, 2004 and unaudited pro forma condensed consolidated statements of income (loss) for the 52 weeks ended January 31, 2004 and the 39 weeks ended October 30, 2004, and the notes related thereto.

(c) Exhibits:

Exhibit 23.1 Consent of PricewaterhouseCoopers LLP.

Exhibit 99.1 Audited combined financial statements of The Disney Store North America Group at October 2, 2004 and September 27, 2003 and for each of the years in the period ended October 2, 2004, and the notes related thereto.

Exhibit 99.2 Unaudited pro forma condensed consolidated balance sheet as of October 30, 2004 and unaudited pro forma condensed consolidated statements of income (loss) for the 52 weeks ended January 31, 2004 and the 39 weeks ended October 30, 2004, and the notes related thereto.

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signature on following page.]

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE CHILDREN'S PLACE RETAIL STORES, INC.

By: /s/ Seth Udasin

Name: Seth Udasin
Title: Vice President and Chief Financial Officer

Dated: February 8, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

THE CHILDREN'S PLACE RETAIL STORES, INC.
EXHIBIT INDEX TO FORM 8-K/A

23.1 Consent of PricewaterhouseCoopers LLP.

99.1 Audited combined financial statements of The Disney Store North America Group at October 2, 2004 and September 27, 2003 and for each of the years in the period ended October 2, 2004, and the notes related thereto.

99.2 Unaudited pro forma condensed consolidated balance sheet as of October 30, 2004 and unaudited pro forma condensed consolidated statements of income (loss) for the 52 weeks ended January 31, 2004 and the 39 weeks ended October 30, 2004, and the notes related thereto.

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-88378) and Form S-8 (No. 333-47065 and 333-85834) of The Children's Place Retail Stores, Inc. of our report dated January 6, 2005 relating to the combined financial statements of The Disney Stores North America Group, which appears in the Current Report on Form 8-K/A of The Children's Place Retail Stores, Inc. dated February 8, 2005.

PricewaterhouseCoopers LLP
Los Angeles, CA
February 7, 2005

The Disney Stores
North America Group

Report and Financial Statements
For the years ended October 2, 2004,
September 27, 2003 and September 28, 2002

PricewaterhouseCoopers LLP
350 S. Grand Ave.
Los Angeles, CA 90017
Telephone (213) 356 6000
Facsimile (813) 637 4444

Report of Independent Auditors

To the Board of Directors of
The Walt Disney Company:

In our opinion, the accompanying combined balance sheets and the related combined statements of operations, cash flows, and group equity present fairly, in all material respects, the financial position of the Disney Stores North America Group (the "Group") at October 2, 2004 and September 27, 2003, and the results of its operations and its cash flows for each of the three years in the period ended October 2, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

January 6, 2005

THE DISNEY STORES NORTH AMERICA GROUP
COMBINED STATEMENTS OF OPERATIONS
(In thousands)

	Year ended October 2, 2004	Year ended September 27, 2003	Year ended September 28, 2002
Net sales	$ 596,253	$ 573,250	$ 615,938
Cost of sales - See Note 5 for related party transactions	379,031	392,625	392,704
Gross profit	217,222	180,625	223,234
Store expenses	197,676	222,798	218,854
Selling, general and administrative	69,613	91,806	93,182
Restructuring and impairment charges (reversals)	(1,307)	15,220	(7,313)
Operating loss	(48,760)	(149,199)	(81,489)
Other income (expense)	539	(347)	(218)
Loss from continuing operations before income taxes	(48,221)	(149,546)	(81,707)
Provision for income taxes (Note 4)	-	-	-
Loss from continuing operations	(48,221)	(149,546)	(81,707)
Discontinued stores (Note 3)			
Loss on discontinued stores	(4,980)	(17,399)	(5,579)
Net loss	$ (53,201)	$ (166,945)	$ (87,286)

See Notes to Combined Financial Statements

THE DISNEY STORES NORTH AMERICA GROUP
COMBINED BALANCE SHEETS
(In thousands)

	October 2, 2004	September 27, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,739	$ 5,903
Accounts receivable, net	7,864	7,675
Inventories, net of valuation allowances of $2,137 at October 2, 2004 and $3,329 at September 27, 2003	100,412	97,402
Prepaid expenses and other current assets	12,752	18,342
Total current assets	130,767	129,322
Property and equipment		
Leasehold improvements	73,771	98,804
Equipment	60,923	64,386
Furniture and fixtures	192,613	233,159
Accumulated depreciation	(280,453)	(329,831)
Projects in progress	162	4,142
Property and equipment, net	47,016	70,660
Other assets	1,931	1,931
Total assets	$ 179,714	$ 201,913
LIABILITIES AND GROUP EQUITY		
Current Liabilities		
Accounts payable	$ 35,596	$ 49,863
Accrued liabilities	24,984	54,720
Deferred revenue	7,389	17,278
Total current liabilities	67,969	121,861
Accrued rent	5,713	6,826
Commitments and contingencies (Note 9)		
Group Equity	106,032	73,226
Total Liabilities and Group Equity	$ 179,714	$ 201,913

See Notes to Combined Financial Statements

THE DISNEY STORES NORTH AMERICA GROUP
COMBINED STATEMENTS OF CASH FLOWS

(In thousands)

	Year ended October 2, 2004	Year ended September 27, 2003	Year ended September 28, 2002
Cash flows from operating activities:			
Loss from continuing operations	$ (48,221)	$ (149,546)	$ (81,707)
Adjustments to reconcile loss from continuing operations to cash used in operating activities:			
Asset impairments	-	11,020	-
Depreciation	23,779	24,658	23,852
Change in operating assets and liabilities:			
Accounts receivable	(849)	381	(369)
Inventories	(7,452)	37,499	(875)
Prepaid expenses and other assets	4,434	13,852	12,454
Accounts payable	(14,021)	(14,082)	4,463
Accrued liabilities	(17,905)	(6,419)	(14,336)
Deferred revenue	(8,606)	4,990	1,435
Net cash used in operating activities	(68,841)	(77,647)	(55,083)
Cash flows from investing activities:			
Capital expenditures	(5,503)	(12,084)	(20,998)
Net cash used in investing activities	(5,503)	(12,084)	(20,998)
Cash flows from financing activities:			
Equity contributions from Disney, net	85,374	94,068	80,240
Cash provided by financing activities	85,374	94,068	80,240
Effect of exchange rates on cash and cash equivalents	633	880	(19)
Increase in cash and cash equivalents from continuing operations	11,663	5,217	4,140
Cash used in discontinued operations	(7,827)	(9,785)	(2,759)
Net increase (decrease) in cash	3,836	(4,568)	1,381
Cash and cash equivalents, beginning of year	5,903	10,471	9,090
Cash and cash equivalents, end of year	$ 9,739	$ 5,903	$ 10,471

See Notes to Combined Financial Statements

THE DISNEY STORES NORTH AMERICA GROUP
COMBINED STATEMENTS OF GROUP EQUITY
(In thousands)

	Group Equity	Accumulated other comprehensive income (loss)	Total Group Equity
BALANCE AT SEPTEMBER 29, 2001	$ 152,764	$ (476)	$ 152,288
Equity contributions from Disney, net	80,240	-	80,240
Net loss	(87,286)	-	(87,286)
Foreign currency translation adjustment	-	(19)	(19)
BALANCE AT SEPTEMBER 28, 2002	145,718	(495)	145,223
Equity contributions from Disney, net	94,068	-	94,068
Net loss	(166,945)	-	(166,945)
Foreign currency translation adjustment	-	880	880
BALANCE AT SEPTEMBER 27, 2003	72,841	385	73,226
Equity contributions from Disney, net	85,374	-	85,374
Net loss	(53,201)	-	(53,201)
Foreign currency translation adjustment	-	633	633
BALANCE AT OCTOBER 2, 2004	$ 105,014	$ 1,018	$ 106,032

Comprehensive loss is as follows:

	Year ended October 2, 2004	Year ended September 27, 2003	Year ended September 28, 2002
Net loss	$ (53,201)	$ (166,945)	(87,286)
Foreign currency translation adjustment	633	880	(19)
Comprehensive loss	$ (52,568)	$ (166,065)	$ (87,305)

See Notes to Combined Financial Statements

THE DISNEY STORES NORTH AMERICA GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS

1. Description of the Business and Summary of Significant Accounting Policies

The combined financial statements reflect the combination of The Walt Disney Company's (together with its wholly owned subsidiaries referred to as "Disney") retail store distribution operations in North America (collectively, "the Disney Stores North America Group" or "the Group"). The Group operates in one segment, retail distribution of Disney-themed merchandise including toys, apparel, collectibles, and hard goods. Stores operated by the Group are as follows:

	October 2, 2004	September 27, 2003	September 28, 2002
United States of America	301	354	413
Canada	15	15	16
Total stores	316	369	429

Summary of Significant Accounting Policies

Principles of Combination
The combined financial statements reflect the assets, liabilities, revenues, expenses and cash flows related to the Disney Stores North America Group. All significant intergroup transactions and balances have been eliminated. Certain overhead and general and administrative services are provided by Disney and the cost of these services have been allocated to the Group (see Note 5) on various bases, which, in the opinion of management, are reasonable. However, such expenses are not necessarily indicative of expenses that would have been incurred had the Group been operating as a separate business.

Fiscal Year
The Group's fiscal year ends on the Saturday closest to September 30. Fiscal year 2004 consisted of 53 weeks and ended on October 2, 2004. Fiscal years 2003 and 2002 consisted of 52 weeks and ended on September 27, 2003 and September 28, 2002, respectively.

Revenue Recognition
The Group recognizes revenue, net of sales returns, when the customer takes ownership of the merchandise upon purchase at the Group's retail stores. An allowance for estimated sales returns based primarily on historical trends of actual returns is recorded. The allowance for estimated sales returns for continuing operations was approximately $540,000 and $476,000 as of October 2, 2004 and September 27, 2003, respectively.

Gift certificates, stored value cards and video pre-sales are recorded as revenue when they are redeemed for merchandise. Prior to their redemption, cash received for gift certificates, stored value cards and video pre-sales is recorded as deferred revenue.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

Inventories
Inventories, which consist primarily of finished goods, are stated at the lower of cost or market. Cost is determined using the average cost method.

Property and Equipment
Property and equipment are carried at cost and include improvements that extend the useful lives of assets. Depreciation is computed on the straight-line method based upon estimated useful lives as follows:

Store furniture, fixtures, and equipment	3 to 10 years
Leasehold improvements	Shorter of 10 years or the remaining lease term

Credit Concentrations
Financial instruments that potentially subject the Group to credit risk consist primarily of cash and accounts receivable with credit card companies. The Group has cash deposited with financial institutions and, at times, such amounts may be in excess of the FDIC insurance limits. At October 2, 2004 and September 27, 2003, approximately 90% and 94%, respectively, of the Group's accounts receivable are due from two credit card companies. The Group generally does not require collateral on such receivables.

Accounting for Impairment of Long-Lived Assets
The Group evaluates its long-lived assets for impairment on an annual basis, or more often, if certain impairment triggers are present. The Group evaluates each store's performance (after a store has been open for one entire fiscal year) and compares the carrying value of each store's long-lived assets, principally leasehold improvements and fixtures, to its estimated direct future undiscounted cash flows before selling, general and administrative expenses. When the evaluation of a store location indicates that the estimated direct future undiscounted cash flows are not sufficient to recover the carrying value of the long-lived assets at the store, the long-lived assets are considered impaired and are adjusted to their fair values using a discounted cash flow model.

Accrued Rent
Many of the Group's operating leases contain free rent periods and contractually determined fixed increases of the minimum rental payments during the initial lease term. For these leases, the Group recognizes the related rental expense on a straight-line basis and records the difference between the amounts charged to expense and the rent paid as accrued rent.

For leases that have expired but for which the Group still occupies, rent expense is estimated based on the expired contract terms, including contractual penalties. These penalties and rent expense for this period are trued-up when settled with landlords.

Income Taxes
The Group is included in Disney's consolidated tax return. The Group accounts for income taxes under the separate return method as if it were filing a separate tax return. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Amounts owed or to be received for current period taxes from Disney under a separate tax return method are included in group equity.

Stock Options
Certain employees of the Group participate in Disney's stock option plan under which stock options and other awards may be granted to key executives and management at exercise prices equal to or exceeding the market price at the date of grant. The Group applies the intrinsic-value-based method of accounting for its fixed-plan stock options. Under this method, compensation cost is recorded on the date of grant if the current market price of the underlying stock exceeded the exercise price.

The following table illustrates the effect on net income as if the fair-value-based method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock Based Compensation" had been applied to all outstanding and unvested awards in each period (in thousands):

	Year ended October 2, 2004	Year ended September 27, 2003	Year ended September 28, 2002
Net loss, as reported	$ (53,201)	$ (166,945)	$ (87,286)
Less: stock option expense	(2,015)	(2,415)	$ (2,308)
Pro forma net loss	$ (55,216)	$ (169,360)	$ (89,594)

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

Fair Value of Financial Instruments
At October 2, 2004 and September 27, 2003, the Disney Stores North America Group's financial instruments included cash and cash equivalents, receivables, and accounts payable. The fair values of these financial instruments approximated carrying values because of their short-term nature.

Foreign Currency Translation
The Group has determined that the functional currency for its Canadian stores is the Canadian dollar. Accordingly, assets and liabilities denominated in Canadian dollars are translated into U.S. dollars at the current rate of exchange existing at period-end and revenues and expenses are translated at average monthly exchange rates. Related translation adjustments are reported as a separate component of Group Equity.

Restructuring
The Group adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146) effective September 28, 2002, which did not have a material impact on its combined results of operations and financial position. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred, rather than when the exit or disposal plan was committed to, as was generally the case under previous accounting rules.

Prior to September 28, 2002, the Group accounted for restructuring charges under EITF No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," which generally required accrual of severance and store closure costs upon management's intent to exit an activity. See Note 2 for discussion of restructuring charges recognized by the Group.

Discontinued Stores
Under SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," a component of a business is required to be classified as discontinued operations when a) the operations and cash flow of the stores have been (or will be) eliminated from the Group's ongoing operations and b) the Group will not have any significant continuing involvement in the operations after closure. The Group considers each store to be a component of its operations. The Group has generally determined that for stores where another operating Disney store was not within fifteen miles, the operations and cash flows of the stores are eliminated from the Group's ongoing operations and, accordingly, these stores are presented as discontinued stores.

Use of Estimates
The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and footnotes thereto. Significant items subject to such estimates and assumptions include the carrying value of property and equipment; valuation allowances for inventories; store closure and employee severance accruals; and sales return reserves. Actual results may differ from those estimates.

2. Restructuring and Impairment Charges

During the year ended September 29, 2001, the Group entered into a plan to close approximately 71 stores due to declining operating performance and recorded charges related to the write down of fixed assets, lease termination costs, severance and other related store closure costs. During the year ended September 28, 2002, the Group expanded the plan to

close an additional 45 stores due to continued poor operating results. During the year ended September 28, 2002, the Group had favorable experience in the closure process for actual lease termination and other related store closure costs and recorded a recovery of its previously recorded restructuring charges of $7,313,000. The Group completed the closure of the stores under this plan in March 2003.

During the year ended September 27, 2003, Disney announced that it was pursuing strategic options for the Group including possible sale. In connection with preparing the Group for sale, Disney announced that it expected to close certain underperforming stores. During the years ended October 2, 2004 and September 27, 2003, the Group recorded charges totaling $5,132,000 and $15,220,000, respectively, principally reflecting fixed asset write downs related to stores it expects to close and the cost of certain administrative headcount reductions. Charges during the year ended October 2, 2004 were reduced by a change in estimate of the cost to exit a long term lease associated with a store closed as part of the 2001 restructuring. Fixed assets associated with the stores identified for closure have been written down to their fair value, determined on the basis of estimated discounted cash flows through the expected date of closure. See discussion of the store closures that represent discontinued operations in Note 3.

Restructuring reserve activity, which primarily related to lease obligations for continuing and discontinuing operations from September 29, 2001 through the periods indicated, is as follows (in thousands):

	Continuing Operations	Discontinued Operations	Total
Balance at September 29, 2001	$ 24,619	$ 6,972	$ 31,591
Payments	(2,855)	(661)	(3,516)
Reversals credited to operations	(7,313)	-	(7,313)
Balance at September 28, 2002	14,451	6,311	20,762
Additions charged to operations	15,220	-	15,220
Fixed asset impairments	(11,020)	-	(11,020)
Payments	(7,351)	(4,821)	(12,172)
Balance at September 27, 2003	11,300	1,490	12,790
Additions charged to operations	4,193	939	5,132
Reversals credited to operations	(5,500)	-	(5,500)
Payments	(4,509)	(2,429)	(6,938)
Balance at October 2, 2004	$ 5,484	$ -	$ 5,484

The remaining restructuring reserve relates principally to future lease obligations for a store closed as part of the 2001 restructuring. Management is currently negotiating with the landlord to settle the remaining lease obligations, and anticipates that the remaining accrual balance will be sufficient to cover any such settlement.

3. Discontinued stores

Management evaluated the 53, 61 and 54 stores closed during the years ended October 2, 2004, September 28, 2003 and September 29, 2002, respectively, and determined that in many cases, the operations and cash flows of the stores were eliminated from the Group's ongoing operations and, therefore, the stores should be classified as discontinued operations. The Group generally determined that for stores closed where another operating Disney store was not within fifteen miles, the operations and cash flows of the stores were eliminated from the Group's ongoing operations. Based on this assessment, the results of operations for 32, 41 and 25 stores closed during years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively, were presented as discontinued operations.

Assets and liabilities included in the combined balance sheet associated with discontinued stores at September 27, 2003 were comprised of the following (in thousands):

Accounts receivable, net	$ 660
Inventories, net	4,442
Prepaid expenses and other current assets	1,147
Property and equipment, net	480
Assets associated with discontinued stores	$ 6,729
Accounts payable	$ 246
Accrued liabilities	8,056
Deferred revenue	1,283
Liabilities associated with discontinued stores	$ 9,585

There were no amounts associated with stores presented as discontinued operations included in the combined balance sheet at October 2, 2004. Net sales for stores presented as discontinued operations for the years ended October 2, 2004, September 27, 2003 and September 28, 2002 were $30,456,000, $79,224,000 and $111,276,000, respectively.

4. Income Taxes

The Group has incurred significant operating losses for all periods presented. Under the separate return method, the Group has not recorded an income tax benefit as it would not be entitled to a current tax refund. Accordingly, no benefit has been recorded for income taxes from continuing operations or from discontinued stores for all periods presented.

The Group has certain items that would result in deferred tax balances. These consist of differences between the book and tax bases of property and equipment and items that are not currently deductible for tax purposes such as restructuring reserves, accrued rent, and inventory obsolescence reserves. Additionally, under a separate return method, the Group would have significant net operating loss carryforwards. These net operating loss carryforwards have been utilized by Disney to reduce its current tax obligations in Disney's consolidated tax returns. The Group has recorded a full valuation allowance for deferred tax assets as it is more likely than not that they will not be realized.

5. Related Party Transactions

Treasury-related Activities
Disney manages most treasury activities on a centralized, combined basis. These activities include the investment of surplus cash and the issuance, repayment and repurchase of short-term and long-term debt, issuing letters of credit for the purchase of inventory in foreign countries, and hedging the foreign exchange risk related to the operations of the Canadian stores. Disney has provided all necessary funding for the operations and investments of the Group since inception and such funding has been accounted for as equity contributions from Disney. Accordingly, no interest charge from Disney has been reflected in the accompanying combined financial statements. Surplus cash transferred to Disney from time to time has been accounted for as a return of equity. Net cash contributed to the Group by Disney during the years ended October 2, 2004, September 27, 2003 and September 28, 2002 was $85,374,000, $94,068,000 and $80,240,000, respectively.

Disney manages the foreign currency exposure of all of its international subsidiaries on a net basis. Disney allocates hedge results to its various subsidiaries based on its forecasted exposures. The Group's primary foreign currency exposure is related to forecasted Canadian dollar cash flows. Allocated gains and losses on contracts hedging forecasted Canadian dollar cash flows are transferred to the Group from Disney and recognized in revenues. Gains (losses) allocated from these transactions were ($1,803,000), ($918,000), and $472,000 for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

General and Administrative Allocations
Corporate general and administrative ("G&A") allocations included in the accompanying combined statements of operations include charges for legal, accounting (tax and financial), treasury, tax planning and strategic planning services; risk management; employee benefit plans and administration thereof; information and telecommunications services; purchasing and material procurement; public and investor relations; corporate travel; and corporate offices, warehouses and other facilities. Disney allocates the cost of corporate G&A services and facilities to the Group generally based on relevant utilization measures such as transactions, headcount and square footage. Where determinations based on utilization alone are impractical, Disney uses other methods and criteria that management believes to be a reasonable estimate of costs attributable to the Group. G&A allocations include, without limitation, all costs and expenses of personnel employed in connection with such services and facilities, including payroll, payroll taxes and fringe benefit costs; all overhead costs and expenses directly related to such personnel and the services or facilities provided by personnel and all materials used in connection with such services or facilities. Total charges allocated to the Group included in selling, general and administrative expense were $12,783,000, $14,000,000 and $10,800,000 during the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

Insurance Coverage
The Group is covered under Disney's insurance policy and is responsible for paying all related claims to the extent that claims fall within Disney's deductible limits. Disney

allocates a portion of its insurance costs to the Group which is reflected in the Group's statements of operations in either store expense or selling, general and administrative expense depending on the type of insurance coverage provided. The Group recorded $321,000, $861,000, and $1,638,000 of these costs in store expenses for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively, and $1,354,000, $1,094,000, and $1,600,000 in selling, general and administrative for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

Beginning in fiscal 2003, the Group pays an additional premium to Disney as insurance from paying any claim amounts that are within Disney's deductible limits of its insurance policy. These premiums are calculated based on the Group's historical claim data. The Group recorded $3,967,000 and $2,573,000 of these premium costs in store expense for the years ended October 2, 2004 and September 27, 2003, respectively, and $321,000 and $861,000 in selling, general and administrative expense for the years ended October 2, 2004 and September 27, 2003, respectively.

Medical Plans
Employees of the Group participate in Disney's medical plans. Disney allocates a portion of its medical plan costs to the Group based on headcount of the participants. The Group recorded $2,160,000, $2,743,000, and $2,286,000 in store expense for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively, and $1,978,000, $3,647,000, and $3,115,000 in selling, general and administrative expense for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

Stores Transferred to Disney
During the year ended October 2, 2004, the Group transferred two stores to a wholly owned subsidiary of Disney and no longer combined the two stores' balance sheets and results of their operations with the Group. The results from the operations of these stores prior to the transfer have been included in discontinued operations and their balance sheets were included in the combined balance sheet associated with discontinued stores in Note 3.

Product Transactions with Disney
The Group purchases home video and DVD products for resale from Disney. Purchases, net of returns, for continuing operations for the years ended October 2, 2004, September 27, 2003 and September 28, 2002 amounted to $55,787,000, $48,853,000 and $56,111,000, respectively. Amounts included within inventories of continuing operations at October 2, 2004 and September 27, 2003 amounted to $14,155,000 and $14,829,000, respectively. Purchases for discontinued operations for the years ended October 2, 2004, September 27, 2003 and September 28, 2002 amounted to $2,876,000, $6,782,000 and $10,173,000, respectively. Amounts included within inventories of discontinued operations at October 2, 2004 and September 27, 2003 amounted to $0 and $2,059,000, respectively.

The Group purchases park entrance passes from various theme parks that are wholly or partially owned by Disney for sale to the Group's customers. The Group earns an average commission of 7% on such sales. Commission revenue for continuing operations recognized in net sales during the years ended October 2, 2004, September 27, 2003 and September 28, 2002 amounted to $8,186,000, $6,194,000 and $4,920,000, respectively. Park pass inventory for continuing operations is included within prepaid expenses and other current assets at October 2, 2004 and September 27, 2003 and amounted to $3,652,000 and $7,844,000, respectively. Commission revenue for discontinued operations recognized during the years ended October 2, 2004, September 28, 2003 and September 29, 2002 amounted to $226,000, $555,000 and $553,000, respectively.

The Group purchases Disney issued gift certificates ("Disney Dollars") that are accepted at theme parks and retail stores for sale to the Group's customers. The Group earns a commission on such sales. Commission revenue for continuing operations recognized in net sales during the years ended October 2, 2004, September 27, 2003 and September 28, 2002 amounted to $346,000, $298,000 and $286,000, respectively. Disney Dollar inventory for continuing operations is included within prepaid expenses and other current assets at October 2, 2004 and September 27, 2003 and amounted to $1,323,000 and $2,149,000, respectively.

Royalty Arrangement with Disney
The Group pays Disney a royalty of 7.5% and 5.0% of net sales (subject to certain adjustments) in the United States and Canada, respectively, for the right to operate retail stores using Disney's trade names and design logos. Royalty expense for continuing operations recorded in cost of sales amounted to $42,980,000, $41,903,000 and $45,238,000 for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively. Royalty expense included in discontinued operations amounted to $2,269,000, $5,900,000 and $8,243,000 for the years ended October 2, 2004, September 28, 2003 and September 29, 2002, respectively.

6. Pension and Other Benefit Programs

Certain employees of the Group participate in Disney's pension and postretirement medical benefit plans. These plans are accounted for by the Group as multi-employer plans which require the Group to expense its annual required contributions. The Group recorded in selling, general and administrative expenses pension and postretirement medical benefit plan expenses of $2,793,000, $1,031,000, and $1,057,000 for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively. The Group recorded in store expenses pension and postretirement medical benefit plan expenses of $634,000, $234,000, and $119,000 for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

Additionally, certain of the Group's employees participate in a Disney savings and investment plan that allows eligible employees to allocate up to 10% of salary through payroll deductions. The Group matches 50% of the employee's pre-tax contributions, up to plan limits. The Group recorded charges of $339,000, $446,000, and $449,000 within selling, general and administrative for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

7. Stock Incentive Plans

Certain employees of the Group participate in Disney's stock option plans. Under these plans, the Group may grant stock options and other awards to key executives and management at exercise prices equal to or exceeding the market price at the date of grant. In general, options for common stock become exercisable over a four to five year period from the grant date and expire ten years after the date of grant.

The following table summarizes information about stock options for Disney common stock held by employees of the Disney Store North America Group (shares in thousands):

	Number of shares	Weighted average exercise price
Balance at September 29, 2001	1,317	$ 30.03
Awards granted	742	22.03
Awards cancelled	(323)	30.02
Awards exercised	(15)	18.66
Awards transferred, net	28	27.34
Balance at September 28, 2002	1,749	26.72
Awards granted	511	17.32
Awards cancelled	(883)	22.60
Awards exercised	(45)	13.63
Awards transferred, net	(64)	26.04
Balance at September 27, 2003	1,268	26.13
Awards granted	201	24.64
Awards cancelled	(427)	27.64
Awards exercised	(93)	20.81
Awards transferred, net	2	63.75
Balance at October 2, 2004	951	$ 25.75

The following table summarizes information about stock options held by the Disney Stores North America Group employees outstanding at October 2, 2004 (shares in thousands):

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$14.93-22.20	401	7.28	$19.37	115	$20.08
24.64-34.91	491	6.86	28.50	232	30.52
38.53-40.78	53	4.80	39.26	45	39.22
60.23-66.21	4	5.69	61.59	4	61.59
182.14	2	5.12	182.14	2	182.14
	951			398	

The weighted average fair values of options at their grant date during the years ended October 2, 2004, September 27, 2003 and September 28, 2002 were $9.92, $6.71 and $8.02, respectively. The estimated fair value of each Disney option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

	Year ended October 2, 2004	Year ended September 27, 2003	Year ended September 28, 2002
Risk-free interest rate	3.4%	3.4%	4.8%
Expected years until exercise	6 years	6 years	6 years
Expected stock volatility	40%	40%	30%
Dividend yield	.85%	1.21%	.96%

8. Certain balance sheet accounts

	October 2, 2004	September 27, 2003
Prepaid expenses and other current assets		
Prepaid rent	$ 6,313	$ 7,290
Park entrance passes	3,652	7,946
Disney Dollars	1,323	2,263
Other assets	1,464	843
	$ 12,752	$ 18,342
Accrued liabilities		
Restructuring reserve	$ 5,484	$ 12,790
Accrued rent	756	6,309
Sales and use tax	3,144	3,416
Fixed asset purchase accruals	168	5,056
Other	15,432	27,149
	$ 24,984	$ 54,720

9. Commitments and Contingencies

Commitments
The Group leases all of its stores and distribution facilities under leases expiring at various dates through 2016. Certain leases include options to renew. The leases require fixed minimum rental payments plus, under the terms of certain leases, additional payments for taxes, other expenses and additional contingent rentals based upon sales.

Future minimum annual lease payments, excluding contingent rentals, under the Group's operating leases at October 2, 2004, are as follows (in thousands):

Years ended:	Operating Leases
2005	37,997
2006	27,836
2007	23,105
2008	18,985
2009	16,004
Thereafter	46,245
	170,172

Store rent expense for continuing operations (included in store expenses) amounted to $39,257,000, $50,712,000, and $45,481,000 for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively. Administrative and distribution center rent expense for continuing operations (included in selling, general and administrative expenses) amounted to $7,013,000, $8,285,000, and $7,560,000 for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively. Store rent expense for discontinued operations amounted to $4,593,000, $10,895,000, and $10,886,000 for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

At September 27, 2003, the Group had 32 stores that were operating under expired lease agreements that resulted in $4,718,000 of rent expense and penalties which were included in accrued rent at year end. During the year ended October 2, 2004, the Group was able to favorably renegotiate these lease agreements and therefore reversed this accrual against store expense.

Contingencies
The Group is a defendant or co-defendant in various legal actions involving claims incident to the conduct of its businesses. Management does not expect a material impact to its results of operations, financial position or cash flows by reason of these actions.

10. Subsequent Events

On November 21, 2004, Disney sold substantially all of The Disney Store chain in North America under a long-term licensing arrangement to a wholly-owned subsidiary of The Children's Place ("TCP"). Pursuant to the terms of sale, The Disney Store North America will retain its lease obligations and will become a wholly owned subsidiary of TCP. TCP will pay Disney a royalty on the physical retail store sales beginning on the second anniversary of the closing date of the sale, and pay Disney a royalty on internet retail stores beginning in October 2005.

As of October 2, 2004, no impairment of long lived assets related to the transaction with TCP has been recognized by the Group, which continues to evaluate the recoverability of its long lived assets under a held for use model. Under this model, estimated direct future undiscounted cash flows were sufficient to recover the carrying value of the long lived assets.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On November 22, 2004, effective as of November 21, 2004 (the "Closing Date"), two wholly-owned subsidiaries of The Children's Place Retail Stores, Inc. (the "Company") consummated the acquisition (the "Closing") of the "Disney Store" chain of 313 retail stores and an Internet store in North America (the "DSNA Business"), pursuant to an Acquisition Agreement dated as of October 19, 2004 (the "Acquisition Agreement") with subsidiaries of The Walt Disney Company ("Disney"), as sellers (the "Sellers"). The DSNA Business was acquired for a preliminary working capital payment of $101.5 million, subject to a post-closing true-up, and an estimated $7.3 million in transaction costs, for a total preliminary acquisition cost of $108.7 million. These amounts were funded using cash-on-hand, borrowings under the Company's amended credit facility and an additional credit facility for two of its subsidiaries, and a short-term sellers' payable.

The accompanying Unaudited Pro Forma Condensed Consolidated Statements of Income (Loss) for the fifty-two weeks ended January 31, 2004 ("Fiscal 2003") and the thirty-nine weeks ended October 30, 2004, and the Unaudited Pro Forma Condensed Consolidated Balance Sheet as of October 30, 2004 (collectively, the "Unaudited Pro Forma Financial Statements") give pro forma effect to four transactions consummated as of November 21, 2004 (the "Transactions"):

1. The acquisition of the DSNA Business,
2. The license of certain intellectual property of subsidiaries of Disney,
3. The incurrence of debt for the acquisition and the funding requirement under the Guaranty and Commitment, defined below, pursuant to the terms of the Company's credit facility with Wells Fargo Retail Finance, LLC ("Wells Fargo"), and
4. The incurrence of debt for the acquisition pursuant to the terms of a new credit facility for the DSNA Business.

The accompanying Unaudited Pro Forma Condensed Consolidated Statements of Income (Loss) assume that the Transactions took place on February 2, 2003, the first day of Fiscal 2003. The accompanying Unaudited Pro Forma Condensed Consolidated Balance Sheet as of October 30, 2004 assumes that the Transactions took place on that date. The Disney Stores North America Group's ("TDSNA") historical financial statements were prepared using a fiscal year that ends on the Saturday closest to September 30. This differs from the Company's fiscal year, which ends on the Saturday closest to January 31. For purposes of the Unaudited Pro Forma Financial Statements, the Company has used TDSNA's unaudited historical results for the fifty-two week period ended December 27, 2003 and the forty week period ended October 2, 2004. These periods are five and four weeks different, respectively, from the Company's fiscal periods. Management believes these differences in fiscal calendars do not materially impact the pro forma results presented.

At the Closing, subsidiaries of the Company and Disney entered into a long-term license and conduct of business agreement (the "License Agreement") under which the Company's subsidiaries have the right to use certain Disney intellectual property in the DSNA Business in exchange for ongoing royalty payments. Subsidiaries of the Company and TDS Franchising, LLC ("TDSF"), an affiliate of the Sellers, entered into the License Agreement, under which, in consideration of a royalty on store sales to be paid by Hoop Retail Stores, LLC ("Hoop USA") and Hoop Canada, Inc. (collectively, the "Hoop Operating Entities") to TDSF beginning in November 2006, the Hoop Operating Entities will operate retail stores in the United States and Canada from and after the Closing using the "Disney Store" name. The DSNA Business will continue to manufacture, source, offer and sell merchandise featuring "Disney-branded" characters, past, present and future. In addition, beginning in October 2005, the Hoop Operating Entities will operate the disneystore.com Internet site and e-commerce store featuring a select assortment of merchandise offered in the physical retail locations of the Disney Stores, paying a royalty to TDSF on Internet sales. The initial term of the License Agreement is 15 years, and may be extended at the Company's option for up to an additional 30 years (in 10-year increments), subject to certain conditions.

In addition, the Company and Hoop Holdings, LLC, a direct, wholly-owned subsidiary of the Company which holds the entire equity interest in Hoop USA, entered into a Guaranty and Commitment (the "Guaranty and Commitment") dated as of November 21, 2004, in favor of the Hoop Operating Entities and TDSF. As required by the Guaranty and Commitment and the Acquisition Agreement, the Company invested $50 million in the Hoop Operating Entities concurrently with the consummation of the acquisition and agreed to invest up to an additional $50 million, as necessary, from time to time in the future, to enable the Hoop Operating Entities and/or their affiliates to comply with their respective obligations under the License Agreement, to prevent and/or cure certain breaches under the License Agreement, to provide for the remodeling and other ongoing capital expenditure requirements of the Disney Stores and to fund the operations of the Disney Stores.

The Company funded its capital commitment and the preliminary working capital payment, as applicable, through cash flow from operations, through a seller's payable that was subsequently paid in full on December 14, 2004, and through short-term borrowings under its amended credit facility with Wells Fargo. The Company also negotiated a separate credit facility with Wells Fargo for the Hoop Operating Entities, which funded a portion of the working capital adjustment under the Acquisition Agreement, and also provides for the Hoop Operating Entities' working capital needs.

This acquisition is being accounted for under the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations ("SFAS No. 141"). The accompanying Unaudited Pro Forma Financial Statements reflect the Company's unaudited preliminary working capital payment allocation using the principles proscribed therein. The Company has not completed its determination of accounting for the acquisition, and adjustments reflected in the accompanying Unaudited Pro Forma Financial Statements are subject to change. These Unaudited Pro Forma Financial Statements are presented for illustrative purposes only and are not necessarily indicative of the financial position or results of operations which would actually have been reported had the acquisition been in effect during the periods presented, or which may be reported in the future. The Unaudited Pro Forma Financial Statements include all material adjustments required to give effect to the Transactions. The Company has made no adjustments for anticipated revenue improvements resulting from its store growth and renovation strategy or anticipated operating cost savings as a result of the Company's different merchandise sourcing strategies and the elimination of duplicative facilities and administrative staff.

The accompanying Unaudited Pro Forma Financial Statements should be read in conjunction with the historical financial statements of The Children's Place Retail Stores, Inc., filed on Form 10-K and Form 10-Q's, and The Disney Stores North America Group, filed herewith.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME (LOSS)
For the Fifty-two Weeks Ended January 31, 2004
(In thousands, except per share amounts)

	Historical Results		Pro Forma Adjustments				
	The Children's Place Retail Stores, Inc. 52 weeks ended January 31, 2004	The Disney Stores North America Group 52 weeks ended December 27, 2003	Fair Value of assets acquired and liabilities assumed adjustments (Note 1)	License Agreement adjustments (Note 2)	Wells Fargo credit facilities adjustments (Note 3)	Income Tax provision (benefit) adjustment (Note 4)	Unaudited Pro Forma Condensed Consolidated Statement of Loss
Net sales	$797,938	$ 580,240	$(35,920)	$ -0-	$ -0-	$ -0-	$1,342,258
Cost of sales	485,671	386,970	(19,274)	(42,173)	-0-	-0-	811,194
Gross profit	312,267	193,270	(16,646)	42,173	-0-	-0-	531,064
Selling, general and administrative expenses	275,321	306,186	(43,511)	25,892	-0-	-0-	563,888
Restructuring and impairment charges (reversals)	448	15,509	(15,509)	-0-	-0-	-0-	448
Operating income (loss)	36,498	(128,425)	42,374	16,281	-0-	-0-	(33,272)
Other income (expense)	255	(408)	-0-	-0-	(4,270)	-0-	(4,423)
Income (loss) from continuing operations before taxes	36,753	(128,833)	42,374	16,281	(4,270)	-0-	(37,695)
Income tax provision (benefit)	13,796	-0-	-0-	-0-	-0-	(27,932)	(14,136)
Income (loss) from continuing operations	$ 22,957	$(128,833)	$ 42,374	$ 16,281	$(4,270)	$ 27,932	$(23,559)
Basic net income (loss) from continuing operations per common share	$0.86	N/A					$(0.88)
Basic weighted average common shares outstanding	26,646						26,646
Diluted net income (loss) from continuing operations per common share	$0.85	N/A					$(0.88)
Diluted weighted average common							

shares outstanding	27,099	26,646

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME (LOSS)
For the Thirty-nine Weeks Ended October 30, 2004
(In thousands, except per share amounts)

	Historical Results		Pro Forma Adjustments				
	The Children's Place Retail Stores, Inc. 39 weeks ended October 30, 2004	The Disney Stores North America Group 40 weeks ended October 2, 2004	Fair Value of assets acquired and liabilities assumed adjustments (Note 1)	License Agreement adjustments (Note 2)	Wells Fargo credit facilities adjustments (Note 3)	Income Tax provision (benefit) adjustment (Note 4)	Unaudited Pro Forma Condensed Consolidated Statement of Loss
Net sales	$695,440	$ 358,317	$ (1,946)	$ -0-	$ -0-	$ -0-	$1,051,811
Cost of sales	431,300	231,378	(3,095)	(25,829)	-0-	-0-	633,754
Gross profit	264,140	126,939	1,149	25,829	-0-	-0-	418,057
Selling, general and administrative expenses	232,109	187,772	(14,166)	14,934	-0-	-0-	420,649
Restructuring and impairment charges (reversals)	-0-	(1,596)	1,596	-0-	-0-	-0-	-0-
Operating income (loss)	32,031	(59,237)	13,719	10,895	-0-	-0-	(2,592)
Other income (expense)	154	1,361	-0-	-0-	(3,202)	-0-	(1,687)
Income (loss) from continuing operations before taxes	32,185	(57,876)	13,719	10,895	(3,202)	-0-	(4,279)
Income tax provision (benefit)	12,881	-0-	-0-	-0-	-0-	(14,593)	(1,712)
Income (loss) from continuing operations	$ 19,304	$ (57,876)	$ 13,719	$ 10,895	$(3,202)	$ 14,593	$ (2,567)
Basic net income (loss) from continuing operations per common share	$0.72	N/A					$(0.10)
Basic weighted average common shares outstanding	26,867						26,867
Diluted net income (loss) from continuing operations per common share	$0.70	N/A					$(0.10)
Diluted weighted average common shares outstanding	27,475						26,867

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
As of October 30, 2004
(In thousands, except per share amounts)

	The Children's Place Retail Stores, Inc. October 30, 2004	The Disney Stores North America Group October 2, 2004	Preliminary working capital payment allocation (Note 1)	Unaudited Pro Forma Condensed Consolidated Balance Sheet
ASSETS				
Cash and cash equivalents	$ 45,344	$9,739	$ (9,202)	$ 45,881
Accounts receivable	14,249	7,864	(195)	21,918
Inventories	143,367	100,412	(175)	243,604
Prepaid expenses and other current assets	23,588	12,752	(775)	35,565
Total current assets	226,548	130,767	(10,347)	346,968
Property & equipment, net	153,866	47,016	(47,016)	153,866
Other long-term assets	14,054	1,931	(4,218)	11,767
Fair value of net assets acquired over (under) cost	-0-	-0-	-0-	-0-
Total assets	$394,468	$179,714	$(61,581)	$512,601
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Accounts payable	$ 40,721	$ 35,596	$ (882)	$ 75,435
Accrued expenses, interest and other current liabilities	56,183	32,373	6,119	94,675
Borrowings under credit facilities	-0-	-0-	40,056	40,056
Total current liabilities	96,904	67,969	45,293	210,166
Deferred rent liabilities	15,608	-0-	3,500	19,108
Other long-term liabilities	-0-	5,713	(5,713)	-0-
Total liabilities	112,512	73,682	43,080	229,274
STOCKHOLDERS' EQUITY:				
Common stock	2,694	-0-	-0-	2,694
Additional paid-in-capital	103,963	-0-	-0-	103,963
Accumulated other comprehensive income	5,705	-0-	-0-	5,705
Retained earnings	169,594	-0-	1,371	170,965
Group equity	-0-	106,032	(106,032)	-0-
Total stockholders' equity	281,956	106,032	(104,661)	283,327
Total liabilities and stockholders' equity	$394,468	$179,714	$ (61,581)	$512,601

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Preliminary Working Capital Payment Allocation

The acquisition of the DSNA Business is being accounted for under the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. As such, the Company has undertaken an analysis of the fair value of tangible and intangible assets acquired and liabilities assumed, and determined the preliminary value of any excess of value of net assets acquired over cost.

As of the date of the Unaudited Pro Forma Condensed Consolidated Balance Sheet, the Company's preliminary working capital payment allocation is as follows:

	Preliminary working capital payment allocation
Preliminary Purchase Price Paid:	
Cash consideration	$ 40,056
Transaction costs	7,250
Total cost	47,306

Preliminary Fair Value of Assets Acquired and Liabilities Assumed:	
Inventories	100,237
Prepaid expenses and other current assets	20,183
Property & equipment	36,022
Accounts payable and accrued expenses	(67,329)
Deferred rent and other long-term liabilities	(3,500)
Total fair value of net assets acquired	85,613
Preliminary Fair Value of Assets Acquired and Liabilities Assumed	38,307
Allocation of Excess of Fair Value of Net Assets Acquired over Cost to Long-lived Assets	36,022
Extraordinary gain on the acquisition of The Disney Stores	$2,285
Extraordinary gain on the acquisition of The Disney Stores, net of tax	$1,371

This preliminary working capital payment allocation is subject to finalization, as discussed below, and may differ materially from the Company's final working capital payment allocation, which could have a material effect on the Company's financial position or results of operations.

Preliminary Working Capital Payment Amount

Under the Acquisition Agreement, the preliminary working capital payment amount was determined using acquired net working capital, as defined, as of the Closing Date, subject to true-up. The amount of the true-up has not been reflected in the accompanying Unaudited Pro Forma Financial Statements since it has not been finalized by the Company. However, the Company believes that the true-up amount will not have a material impact on its financial position or results of operations.

The preliminary working capital payment amount of $40,056,000 reflected in the Unaudited Pro Forma Condensed Consolidated Balance Sheet differs materially from the amount actually paid at the Closing Date of $101.5 million because of an increase in acquired net working capital after October 2, 2004 driven by higher inventory levels in advance of holiday sales and lower accounts payable and accrued liabilities. The Company does not anticipate that the actual amount of the extraordinary gain on the acquisition of the DSNA Business will differ materially from the pro forma amount below as a result of this difference between the actual and pro forma preliminary working capital amounts. In addition to the amount paid for the DSNA Business, the Company incurred approximately $7,250,000 in transaction costs, including professional fees for legal, investment banking and accounting services in connection with the acquisition.

The accompanying Unaudited Pro Forma Balance Sheet reflects the pro forma adjustments to record these preliminary working capital payment components, as follows:

	Record pro forma preliminary working capital payment amount	Record transaction fees
ASSETS		
Other long-term assets	$ -0-	$(2,287)
Fair value of net assets acquired over (under) cost	40,056	7,250
Total assets	$40,056	$ 4,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accrued expenses, interest and other current liabilities	$ -0-	$4,963
Borrowings under credit facilities	40,056	-0-
Total liabilities	40,056	4,963
STOCKHOLDERS' EQUITY:		
Total stockholders' equity	-0-	-0-
Total liabilities and stockholders' equity	$40,056	$4,963

Preliminary Fair Value of Assets Acquired and Liabilities Assumed

The Company has determined that certain assets and liabilities, such as inventories and obligations under real estate leases, require fair value adjustments and is in the process of finalizing these amounts with the Company's valuation advisors. Although not anticipated by the Company, the actual fair values of these items may differ materially from the Company's current fair value estimates that are reflected in the accompanying Pro Forma Financial Statements, which could have a material effect on the Company's financial position or results of operations.

The Company accounts for its inventories using the retail inventory method, a different method than the average cost method reflected in TDSNA's historical financial statements. The Company has not conformed the different accounting methods in the accompanying Pro Forma Financial Statements since the relevant historical data required to do so was not available. The Company has reflected the acquired inventory at its estimated fair value in the accompanying Unaudited Pro Forma Financial Statements. The Company believes the retail inventory method would reflect a lower inventory balance on a prospective basis.

In addition, under the provisions of the Acquisition Agreement, certain assets were not acquired and certain liabilities were not assumed, such as certain store locations, all distribution center and administrative office property and equipment and liabilities, all Federal and state deferred income tax assets and liabilities, and certain payroll and employee benefit-related liabilities. The accompanying Unaudited Pro Forma Financial Statements reflect these pro forma adjustments to the historical book value of these assets and liabilities. Management has not made any adjustments for duplicative administrative and distribution center costs that were not acquired since they represent potentially unrealizable cost savings.

The adjustments for elimination of assets not acquired and liabilities not assumed reflect a reduction of revenues and expenses from the elimination of losses from stores not acquired. In addition, the majority of the fair value adjustments below reflect the elimination of depreciation expenses in conjunction with the write down of long-lived assets as discussed below. The adjustments in the Unaudited Pro Forma Condensed Consolidated Statement of Income (Loss) are comprised as follows:

	52 weeks ended January 31, 2004		39 weeks ended October 30, 2004	
	Remove stores and assets not acquired and liabilities not assumed	Fair value adjustments	Remove stores and assets not acquired and liabilities not assumed	Fair value adjustments
Net sales	$(35,920)	$ -0-	$(1,946)	$ -0-
Cost of sales	(22,283)	3,009	(2,014)	(1,081)
Gross profit	(13,637)	(3,009)	68	1,081
Selling, general and administrative expenses	(17,933)	(25,578)	(1,541)	(12,625)
Restructuring and impairment charges (reversals)	(15,509)	-0-	1,596	-0-
Operating income (loss)	$ 19,805	$ 22,569	$ 13	$ 13,706

The adjustment to remove stores and assets not acquired and liabilities not assumed is higher in the fifty-two weeks ended January 31, 2004 versus the thirty-nine weeks ended October 30, 2004 because TDSNA management executed a significant restructuring and store closing program during the period ended January 31, 2004, whose results of operations were already excluded from the period ended October 30, 2004. Since these closed stores' operations were not included in the 313 stores acquired by the Company, they have been removed from TDSNA's historical financial results using this pro forma adjustment.

The adjustments in the Unaudited Pro Forma Condensed Consolidated Balance Sheet relate primarily to the exclusion of all distribution center and administrative office property and equipment and liabilities, all Federal and state deferred income tax assets and liabilities, and certain payroll and employee benefit-related liabilities, and are comprised as follows:

	Remove stores and assets not acquired and liabilities not assumed	Fair value adjustments
ASSETS		
Cash and cash equivalents	$(9,202)	$-0-
Accounts receivable	(195)	-0-
Inventories	(2,487)	2,312
Prepaid expenses and other current assets	(316)	(459)
Total current assets	(12,200)	1,853
Property & equipment	(10,994)	-0-
Other long-term assets	(1,931)	-0-
Fair value of net assets acquired over (under) cost	(88,196)	2,583
Total assets	$(113,321)	$4,436
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	$ (882)	$-0-
Accrued expenses, interest and other current liabilities	(694)	936
Total current liabilities	(1,576)	936
Deferred rent liabilities	-0-	3,500
Other long-term liabilities	(5,713)	-0-
Total liabilities	(7,289)	4,436
STOCKHOLDERS' EQUITY:		
Group equity	(106,032)	-0-
Total stockholders' equity	(106,032)	-0-
Total liabilities and stockholders' equity	$(113,321)	$4,436

Allocation of Excess of Fair Value of Net Assets Acquired over Cost to Long-lived Assets

Under SFAS No. 141, any excess of fair value of net assets acquired over cost (the "Excess") is to be allocated to all acquired assets except financial assets, assets to be disposed of by sale, deferred tax assets and prepaid assets relating to pension or other postretirement benefit plans, and any other current assets. Therefore, the Company has allocated the Excess to its acquired property and equipment. The accompanying Pro Forma Condensed Consolidated Statements of Income (Loss) reflect lower depreciation expense due to this decreased recorded basis in property and equipment upon acquisition.

If any Excess remains after allocation to long-lived assets, SFAS No. 141 states that remaining Excess should be recorded as an extraordinary gain. The Company anticipates that such an extraordinary gain will exist upon finalization of the actual working capital payment allocation, but has not recorded a pro forma amount in the accompanying Unaudited Pro Forma Condensed Consolidated Statements of Income (Loss).

The accompanying Unaudited Pro Forma Balance Sheet reflects pro forma adjustments to record the allocation of the Excess to acquired property and equipment and to reflect the balance sheet impact of the recognition of an extraordinary gain, as follows:

	Allocate excess of fair value of net assets acquired over cost to long-lived assets
ASSETS	
Property & equipment	$(36,022)
Fair value of net assets acquired over (under) cost	38,307
Total assets	$2,285
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES:	
Accrued expenses, interest and other current liabilities	$914
Total liabilities	914
STOCKHOLDERS' EQUITY:	
Retained earnings	1,371
Total stockholders' equity	1,371
Total liabilities and stockholders' equity	$2,285

Note 2: License Agreement

At the Closing, subsidiaries of the Company and Disney entered into the License Agreement under which the Company's subsidiaries have the right to use certain Disney intellectual property in exchange for ongoing royalty payments. Subsidiaries of the Company and TDSF, an affiliate of the Sellers, entered into the License Agreement, under which, in consideration of a royalty on store sales to be paid by the Hoop Operating Entities to TDSF beginning in November 2006, the Hoop Operating Entities will operate retail stores in the United States and Canada from and after the Closing using the "Disney Store" name. The DSNA Business will continue to manufacture, source, offer and sell merchandise featuring "Disney-branded" characters, past, present and future. In addition, beginning in October 2005, the Hoop Operating Entities will operate the disneystore.com Internet site and e-commerce store featuring a select assortment of merchandise offered in the physical retail locations of the Disney Stores, paying a royalty to TDSF on Internet sales. The initial term of the License Agreement is 15 years, and may be extended at the Company's option for up to an additional 30 years, subject to certain conditions.

The License Agreement provides for a royalty payable to TDSF equal to 5% of Net Sales, as defined therein, from physical store locations operated by the Hoop Operating Entities from and after the second anniversary of the Closing Date (November 21, 2006) throughout the remainder of the initial 15-year term of the License Agreement and any extensions thereof. With respect to certain stores, in addition to a variable initial abatement period determined on a store-by-store basis, there is a further three-year deferral of the royalty commencement date. The License Agreement also calls for a royalty payment to TDSF from the Hoop Operating Entities, beginning in October 2005, equal to 5% of Net Sales for the Internet store that will be operated by the Hoop Operating Entities. In October 2006, the Internet store royalty will increase to 9% (or, in certain circumstances 10%) of Net Sales for the duration of the term of the License Agreement.

In addition, after the second anniversary of the Closing Date, the License Agreement requires the Hoop Operating Entities to make minimum royalty payments. If the royalty payable in the contract year is less than the minimum royalty amount, the Hoop Operating Entities must pay the additional royalty. The Company believes that royalty payable in the normal course of business will exceed this minimum royalty amount.

The Company's accounting policy for such royalties is to recognize royalty expense, reduced by the straight-line amount of the estimated value of the royalty abatement throughout the initial fifteen-year term of the royalty agreement. The actual value of the abatement is not determinable until the completion of the valuation period, and may differ materially from the Company's current estimate. Royalty expense recognized in excess of cash royalty payments is accounted for on the Company's consolidated balance sheet as deferred royalty expense. There is no amount recorded for such excess in the accompanying Unaudited Pro Forma Condensed Consolidated Balance Sheet since it assumes the Transactions took place on October 30, 2004. As such, no royalty expense in excess of cash royalty payments would have been recorded prior to that date.

The adjustments reflect a reclassification of the historical amounts of royalty expense recorded by TDSNA from cost of sales to selling, general and administrative expenses to conform to the Company's presentation, and a reduction of the royalty expense due to the lower royalty rate charged to the Hoop Operating Entities versus the royalty rate charged to TDSNA.

These adjustments are comprised as follows:

	52 weeks ended January 31, 2004		39 weeks ended October 30, 2004	
	Reclassify royalty expense	Reduce royalty rate and record abatement benefit	Reclassify royalty expense	Reduce royalty rate and record abatement benefit
Cost of sales	$(42,173)	$ -0-	$(25,829)	$ -0-
Gross profit	42,173	-0-	25,829	-0-
Selling, general and administrative expense	42,173	(16,281)	25,829	(10,895)
Operating income (loss)	$ -0-	$ 16,281	$ -0-	$ 10,895

The accompanying Pro Forma Condensed Consolidated Statements of Income (Loss) reflect the pro forma adjustments to record the royalty expense under the License Agreement, net of the estimated value of the abatement. Royalty expense recorded in the TDSNA historical statements of loss for the fifty-two weeks ended December 27, 2003 and for the 40 weeks ended October 2, 2004 approximates $42.2 million and $25.8 million, respectively. The net royalty expense in the accompanying Unaudited Pro Forma Condensed Consolidated Statements of Income (Loss) for Fiscal 2003 and the thirty-nine weeks ended October 30, 2004 amounts to $22,539,000 and $14,242,000 respectively.

Note 3: Wells Fargo Credit Facilities

In connection with the Closing, certain of the Company's subsidiaries entered into a Loan and Security Agreement (the "Hoop Loan Agreement") dated as of November 21, 2004 with certain financial institutions and Wells Fargo, as administrative agent, establishing a senior secured credit facility for Hoop USA. The Hoop Loan Agreement provides for borrowings of up to $100 million (including a sub-limit for letters of credit of $80 million), subject to the amount of eligible inventory and accounts receivable of Hoop USA from time to time. The term of the facility extends until November 1, 2007 with successive one-year renewal options. Amounts outstanding under the Hoop Loan Agreement bear interest at a floating rate equal to the prime rate plus a pre-determined margin or, at the Company's option, the LIBOR rate plus a pre-determined margin. The prime rate margin will be 0.25% and the LIBOR margin will be 2.0% or 2.25%, depending on Hoop USA's level of excess availability from time to time. The Hoop Loan Agreement contains various covenants, including limitations on indebtedness, maintenance of certain levels of excess collateral and restrictions on the payment of dividends and payment of any indebtedness of the Hoop Operating Entities held by the Company. Credit extended under the Hoop Loan Agreement is secured by a first priority security interest in substantially all the assets of the Hoop Operating Entities and their subsidiaries. Neither the Company nor Hoop Holdings has guaranteed the obligations of the Hoop Operating Entities under the Hoop Loan Agreement or pledged any assets owned directly by them as collateral for such obligations. Borrowings and letters of credit under the Hoop Loan Agreement will be used by Hoop USA and its subsidiary Hoop Canada for working capital purposes for the Disney Stores.

As of October 30, 2004, the Company amended and restated its then-existing credit facility with Wells Fargo (the "Amended Loan Agreement"), partly in connection with its acquisition of the DSNA Business. The Amended Loan Agreement provides for borrowings of up to $130 million (including a sub-limit for letters of credit of $100 million) and extends the term of the facility until November 1, 2007 with successive one-year renewal options. Amounts outstanding under the Amended Loan Agreement bear interest at a floating rate equal to the prime rate or, at the Company's option, a LIBOR rate plus a pre-determined margin. The LIBOR margin will be 1.50% to 3.00%, depending on the Company's level of excess availability from time to time. The Company expects to use borrowings under the Amended Loan Agreement for working capital purposes and to support the acquisition of the Disney Stores.

The accompanying Pro Forma Condensed Consolidated Statements of Income (Loss) reflect the pro forma adjustments to record the interest expense under the Hoop Loan Agreement and the Amended Loan Agreement. Given expected future operating and store expansion and renovation cash needs, the Company anticipates that borrowings under these agreements will be higher on average than historically experienced by the Company. Therefore, for Unaudited Pro Forma Condensed Consolidated Statements of Income (Loss) purposes, the Company has assumed that acquisition related borrowings under these loan agreements were outstanding for the entire period.

The adjustments reflect higher interest expense due to the higher outstanding loan balance as well as additional amortization of debt issuance costs. For Fiscal 2003, the adjustment amount is comprised of $292,000 of amortization of debt issuance costs and $3,978,000 of interest expense. For the thirty-nine weeks ended October 30, 2004, the adjustment amount is comprised of $219,000 of amortization of debt issuance costs and $2,983,000 of interest expense.

Note 4: Income Tax Provision (Benefit)

Given the Company's historical taxable earnings, the accompanying Pro Forma Condensed Consolidated Statements of Income (Loss) reflect the pro forma adjustment to record the tax benefit resulting from the pro forma pre-tax losses, which the Company believes would have been realizable through tax loss carry backs. The Company does not anticipate its effective tax rate changing materially as a result of the acquisition of the DSNA Business, therefore, the accompanying Pro Forma Financial Statements use the Company's historical effective tax rates.