

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the quarterly period ended October 31, 1998

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)

One Dodge Drive
West Caldwell, New Jersey 07006
(Address of Principal Executive Offices) (Zip Code)

(973) 227-8900
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.10 per share, outstanding at December 1, 1998: 24,845,567 shares.

THE CHILDREN'S PLACE RETAIL STORES, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED OCTOBER 31, 1998

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

THE CHILDREN'S PLACE RETAIL STORES, INC.

BALANCE SHEETS

(In thousands, except per share amounts)

ASSETS	October 31, 1998 ----- (Unaudited)	January 31, 1998 -----
Current assets:		
Cash and cash equivalents.....	\$ 1,209	\$ 887
Accounts receivable.....	3,203	1,904
Inventories.....	40,884	20,334
Prepaid expenses and other current assets.....	5,448	4,612
Deferred income taxes.....	10,653	10,653
	-----	-----
Total current assets.....	61,397	38,390
Property and equipment, net.....	41,885	32,121
Deferred income taxes.....	1,703	8,244
Other assets.....	1,027	598
	-----	-----
Total assets.....	\$106,012	\$79,353
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Current liabilities:		
Revolving credit facility.....	\$ 6,148	\$ 1,089
Accounts payable.....	14,784	9,471
Accrued expenses, interest and other current liabilities.....	12,237	7,592
	-----	-----
Total current liabilities.....	33,169	18,152
Other long-term liabilities.....	3,027	2,734
	-----	-----
Total liabilities.....	36,196	20,886
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$.10 par value; 100,000,000 shares authorized; 24,839,259 shares and 24,622,103 shares issued and outstanding, at October 31, 1998 and January 31, 1998, respectively.....	2,484	2,462
Additional paid-in capital.....	83,198	82,589
Accumulated deficit.....	(15,866)	(26,584)
	-----	-----
Total stockholders' equity.....	69,816	58,467
	-----	-----
Total liabilities and stockholders' equity.....	\$106,012	\$79,353
	-----	-----

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

THE CHILDREN'S PLACE RETAIL STORES, INC.

STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 31, 1998	November 1, 1997	October 31, 1998	November 1, 1997
	-----	-----	-----	-----
Net sales	\$ 82,496	\$ 54,489	\$186,509	\$127,226
Cost of sales	46,370	33,081	112,978	82,087
	-----	-----	-----	-----
Gross profit	36,126	21,408	73,531	45,139
Selling, general and administrative expenses	18,664	12,411	46,917	31,609
Pre-opening costs	837	740	2,500	1,962
Depreciation and amortization	2,006	1,601	5,477	4,216
	-----	-----	-----	-----
Operating income	14,619	6,656	18,637	7,352
Interest expense, net	222	708	381	2,523
Other expense, net	15	18	92	124
	-----	-----	-----	-----
Income before income taxes and extraordinary item	14,382	5,930	18,164	4,705
Provision for income taxes	5,897	2,433	7,447	1,940
	-----	-----	-----	-----
Income before extraordinary item	8,485	3,497	10,717	2,765
Extraordinary loss on extinguishment of debt	0	1,743	0	1,743
	-----	-----	-----	-----
Net income	\$ 8,485	\$ 1,754	\$ 10,717	\$ 1,022
	-----	-----	-----	-----
Basic income per common share before extraordinary item	\$ 0.34	\$0.16	\$ 0.43	\$ 0.13
Extraordinary item	--	(0.08)	--	(0.08)
	-----	-----	-----	-----
Basic net income per common share	\$ 0.34	\$0.08	\$ 0.43	\$ 0.05
	-----	-----	-----	-----
Basic weighted average common shares outstanding	24,830	21,821	24,752	20,888
Diluted income per common share before extraordinary item	\$ 0.33	\$0.14	\$ 0.42	\$ 0.11
Extraordinary item	--	(0.07)	--	(0.07)
	-----	-----	-----	-----
Diluted net income per common share	\$ 0.33	\$0.07	\$ 0.42	\$ 0.04
	-----	-----	-----	-----
Diluted weighted average common shares outstanding	25,798	24,439	25,742	24,016

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

THE CHILDREN'S PLACE RETAIL STORES, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

Thirty-Nine Weeks Ended
October 31, 1998 November 1, 1997

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$10,717	\$1,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	5,477	4,216
Extraordinary loss on extinguishment of debt.....	0	1,743
Deferred financing fee amortization.....	18	398
Loss on disposals of property and equipment.....	338	30
Deferred taxes.....	6,542	1,401
Changes in operating assets and liabilities:		
Accounts receivable.....	(1,299)	(1,335)
Inventories.....	(20,550)	(12,540)
Prepaid expenses and other current assets.....	(836)	(1,268)
Other assets.....	(583)	(307)
Accounts payable.....	5,313	4,919
Accrued expenses, interest and other current liabilities	4,279	1,688
Other long-term liabilities.....	341	455
	-----	-----
Total adjustments.....	(960)	(600)
	-----	-----
Net cash provided by operating activities.....	9,757	422
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment purchases.....	(15,106)	(15,316)
	-----	-----
Net cash used in investing activities.....	(15,106)	(15,316)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sale of Common Stock.....	0	50,730
Repurchase of Noteholder and Legg Mason Warrants.....	0	(25,757)
Exercise of stock options and employee stock purchases.....	632	0
Borrowings under revolving credit facility.....	90,243	141,642
Repayments under revolving credit facility.....	(85,184)	(131,860)
Repayment of long-term debt.....	0	(21,360)
Payment of obligations under capital leases.....	(20)	(571)
Refund of funds towards common stock subscription.....	0	(488)
Deferred financing costs.....	0	(75)
	-----	-----
Net cash provided by financing activities.....	5,671	12,261
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	322	(2,633)
Cash and cash equivalents beginning of period.....	887	3,422
	-----	-----
Cash and cash equivalents end of period.....	\$1,209	\$789
	-----	-----
OTHER CASH FLOW INFORMATION:		
Cash paid during the period for interest.....	\$339	\$2,149
Cash paid during the period for income taxes.....	\$756	\$538

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

THE CHILDREN'S PLACE RETAIL STORES, INC.

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Certain information and footnote disclosures required by generally accepted accounting principles for complete financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited financial statements contain all material adjustments, consisting of normal recurring accruals, necessary to present fairly the Company's financial position, results of operations and cash flow for the periods indicated, and have been prepared in a manner consistent with the audited financial statements as of January 31, 1998. These financial statements should be read in conjunction with the audited financial statements and footnotes for the fiscal year ended January 31, 1998 included in the Company's Form 10-K filed with the Securities and Exchange Commission. Due to the seasonal nature of the Company's business, the results of operations for the thirteen and thirty-nine weeks ended October 31, 1998 are not necessarily indicative of operating results for a full fiscal year. Certain prior period balances have been reclassified to conform to current period presentation.

2. INITIAL PUBLIC OFFERING

On September 18, 1997, the Company sold 4,000,000 shares of Common Stock at \$14.00 per share in an initial public offering (the "Offering") pursuant to a registration statement filed on Form S-1 (No. 333-31535) with the Securities and Exchange Commission and in its prospectus dated September 18, 1997 (the "Prospectus"). The Company used the net proceeds of \$50.7 million, after deducting the underwriters' discount of \$3.9 million and transaction expenses of \$1.4 million from the Offering, to (i) pay the principal amount of, and accrued interest on, the Senior Subordinated Notes (the "Senior Subordinated Notes") held by Nomura Holding America Inc., (the "Noteholder") of \$20.6 million, (ii) repurchase a warrant held by Nomura Holding America Inc. (the "Noteholder Warrant") for \$20.6 million, (iii) repurchase two-thirds of a warrant held by Legg Mason Wood Walker Inc. (the "Legg Mason Warrant") for \$5.2 million, and (iv) reduce borrowings outstanding under the Company's revolving credit facility (the "Foothill Credit Facility") with the remainder of the net proceeds. The Senior Subordinated Notes, the Noteholder Warrant and the Legg Mason Warrant were issued in conjunction with a 1996 recapitalization of the Company.

Concurrent with the Offering, the Company effected a 120-for-one stock split of the Series A Common Stock (the "Stock Split"), converted all outstanding shares of the Series B Common Stock into 7,659,889 shares of Series A Common Stock (the "Series B Conversion") and redesignated the Series A Common Stock as Common Stock (the "Reclassification"). The Company also issued 201,414 shares of Common Stock upon the cashless exercise of one-third of the Legg Mason Warrant. The re-purchase in cash of two-thirds of the Legg Mason Warrant and the cashless exercise of one-third of the Legg Mason Warrant was recorded net of deferred tax benefits of \$0.9 million and \$0.6 million, respectively.

3. NET INCOME PER COMMON SHARE

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share," the following table reconciles income and share amounts utilized to calculate basic and diluted net income per common share.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 31, 1998	November 1, 1997	October 31, 1998	November 1, 1997
Net income (in thousands)	\$ 8,485	\$ 1,754	\$ 10,717	\$ 1,022
Basic shares	24,830,397	21,821,160	24,752,151	20,887,513
Dilutive effect of stock options	967,489	2,618,150	989,392	3,128,381
Dilutive shares	25,797,886	24,439,310	25,741,543	24,015,894
Antidilutive options	182,993	183,753	295,564	61,251

Antidilutive options consist of the weighted average of stock options for the respective periods ended at October 31, 1998 and November 1, 1997 that had an exercise price greater than the average market price during the period. Such options are therefore excluded from the computation of diluted shares.

4. LITIGATION

Class Action Suits

On October 16, 1997, Stephen Brosious and Rudy Pallastrone, who allegedly purchased shares of the Company's common stock in or after an initial public offering on or about September 19, 1997 (the "IPO"), filed a lawsuit against the Company, several of the Company's directors and officers, and the underwriters of the IPO (the "Defendants") in the United States District Court for the District of New Jersey (the "Court"). The named plaintiffs purport to maintain a class action on behalf of all persons, other than the Defendants, who purchased the Company's common stock issued in connection with the IPO on or about September 19, 1997 through October 13, 1997. The complaint alleges that the Defendants violated federal securities laws by making materially false or misleading statements and/or omissions in connection with the IPO. The plaintiffs seek monetary damages of an unspecified amount, rescission or rescissory damages and fees and costs. Since October 16, 1997, fifteen additional putative class actions making substantially similar allegations and seeking substantially similar relief have been filed against some or all of the Defendants. On or about January 13, 1998, the sixteen putative class actions were consolidated in the Court and on February 26, 1998, the plaintiffs served and filed their amended consolidated complaint. On April 16, 1998, the Defendants moved to dismiss the Complaint. On September 4, 1998, the Court entered an Order granting the motion to dismiss in part and denying it in part. The Court also dismissed the case against the underwriters without prejudice. On October 5, 1998, the plaintiffs filed an amended complaint against all defendants including the underwriters. The Company filed its answer to the amended complaint on October 26, 1998. The parties have commenced discovery. The Company continues to believe that the allegations made in this complaint are untrue and totally without merit and intends to defend them vigorously.

On October 27, 1997, Bulldog Capital Management, L.P., a limited partnership that serves as a general partner for a series of investment funds which allegedly purchased shares of the Company's common stock issued in connection with the IPO, also filed a lawsuit against the Company and several of the Company's directors and officers in the Superior Court of New Jersey, Essex County Division. The complaint also alleges that by making materially false or misleading statements and/or omissions in connection with the IPO, the Company and several of the Company's directors and officers violated provisions of federal and state law. The plaintiff seeks monetary damages of an unspecified amount, rescission or rescissory damages and fees and costs. This action and the federal action described above have been coordinated for purposes of discovery. The Company believes that the allegations made in this complaint are untrue and totally without merit and intends to defend them vigorously.

In the opinion of management, any ultimate liability arising out of the class action suits will not have a material adverse effect on the Company's financial position or results of operations.

Other Litigation

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

5. STOCK OPTION RE-PRICING

On March 26, 1998, the Board of Directors authorized the re-pricing of certain stock options granted in conjunction with the Offering under its 1996 Stock Option Plan (the "1996 Plan") and its 1997 Stock Option Plan (the "1997 Plan") from an exercise price of \$14.00 per share to the average market price on March 27, 1998 of \$8.70 per share. The re-pricing re-established the options granted to employees as an incentive to improve the overall performance of the Company. Options granted to officers were not re-priced. As required under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Issued to Employees," the estimated incremental impact of the stock option re-pricing on proforma compensation expense disclosures creates an additional expense of approximately \$120,000, net of taxes, for the fifty-two weeks ending January 30, 1999.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of federal securities laws, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, the discussions of the Company's operating and growth strategy. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, those set forth under the caption "Risk Factors" in the Business section of the Company's Annual Report on Form 10-K for the year ended January 31, 1998. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could prove to be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this quarterly report on Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company undertakes no obligation to publicly release any revisions to any forward-looking statements contained herein to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with the Company's unaudited financial statements and notes thereto included elsewhere in this quarterly report on Form 10-Q and the annual audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 1998 filed with the Securities and Exchange Commission.

Results of Operations

The following table sets forth, for the periods indicated, selected income statement data expressed as a percentage of net sales:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 31, 1998	November 1, 1997	October 31, 1998	November 1, 1997
Net sales.....	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	56.2	60.7	60.6	64.5
Gross profit.....	43.8	39.3	39.4	35.5
Selling, general and administrative expenses.....	22.6	22.8	25.2	24.9
Pre-opening costs.....	1.0	1.4	1.3	1.5
Depreciation and amortization.....	2.5	2.9	2.9	3.3
Operating income.....	17.7	12.2	10.0	5.8
Interest expense, net.....	0.3	1.3	0.2	2.0
Other expense, net.....	--	--	0.1	0.1
Income before income taxes and extraordinary item.....	17.4	10.9	9.7	3.7
Provision for income taxes.....	7.1	4.5	4.0	1.5
Extraordinary item.....	--	3.2	--	1.4
Net income.....	10.3%	3.2%	5.7%	0.8%
Number of stores, end of period.....	203	151	203	151

Thirteen Weeks Ended October 31, 1998 (the "Third Quarter 1998") Compared to Thirteen Weeks Ended November 1, 1997 (the "Third Quarter 1997")

Net sales increased by \$28.0 million, or 51.4%, to \$82.5 million during the Third Quarter 1998 from \$54.5 million during the Third Quarter 1997. Net sales for the 14 new stores opened during the Third Quarter 1998, and the 34 stores opened during the twenty-six weeks ending August 1, 1998 as well as the other stores that did not qualify as comparable stores, contributed \$19.3 million of the net sales increase. As of October 31, 1998, the Company operated 203 stores in 26 states, primarily located in regional shopping malls in the eastern half of the United States. During fiscal 1998, the Company opened 54 new stores, substantially all in existing and contiguous markets. No additional store openings are planned for fiscal 1998.

The Company's comparable store sales increased 18% and contributed \$8.7 million of the net sales increase during the Third Quarter 1998. Comparable store sales were flat during the Third Quarter 1997. The Third Quarter 1998 comparable store sales increase was experienced across all merchandise divisions.

Gross profit increased by \$14.7 million to \$36.1 million during the Third Quarter 1998 from \$21.4 million during the Third Quarter 1997. As a percentage of net sales, gross profit increased to 43.8% during the Third Quarter 1998 from 39.3% during the Third Quarter 1997. The increase in gross profit as a percentage of net sales was principally due to higher initial markups achieved through more effective product sourcing, the leveraging of store occupancy, distribution, production and design costs, and lower markdowns.

Selling, general and administrative expenses increased \$6.3 million to \$18.7 million during the Third Quarter 1998 from \$12.4 million during the Third Quarter 1997. Selling, general and administrative expenses were 22.6% of net sales during the Third Quarter 1998 as compared with 22.8% during the Third Quarter 1997. The small decrease as a percentage of net sales was primarily due to the leveraging of store expenses over a higher sales base partially offset by increases in the administrative infrastructure to support the Company's growth.

During the Third Quarter 1998, pre-opening costs were \$0.8 million, or 1.0% of net sales, as compared to \$0.7 million, or 1.4% of net sales, during the Third Quarter 1997. The decrease in pre-opening costs, as a percentage of net sales, during the Third Quarter 1998 reflected the leverage over a higher sales base and fewer stores opened during the Third Quarter 1998. The Company opened 14 stores and 17 stores, during the Third Quarter 1998 and the Third Quarter 1997, respectively.

Depreciation and amortization amounted to \$2.0 million, or 2.5% of net sales, during the Third Quarter 1998 as compared to \$1.6 million, or 2.9% of net sales, during the Third Quarter 1997. The increase in depreciation and amortization primarily was a result of the increase in the store base. The decrease in depreciation and amortization as a percentage of net sales during the Third Quarter 1998 reflects the leverage over a higher sales base.

Interest expense, net, for the Third Quarter 1998 was \$0.2 million, or 0.3% of net sales, as compared to \$0.7 million, or 1.3% of net sales, during the Third Quarter 1997. The decrease in interest expense was primarily due to the elimination of interest expense on the Senior Subordinated Notes which were repaid with a portion of the proceeds from the Company's initial public offering in September 1997.

Due to the Company's improved operating performance, the Company's provision for income taxes for the Third Quarter 1998 was \$5.9 million, as compared to \$2.4 million during the Third Quarter 1997. Due to the Company's utilization of its net operating loss ("NOL") carry forwards, the majority of the Company's 1998 tax provision will not be paid in cash, but will reduce the deferred tax asset on the balance sheet. However, the Company expects to make cash tax payments for the federal alternative minimum tax, state minimum taxes and state taxes in states where the Company does not have an NOL.

In the Third Quarter 1997, as a result of the repayment of the Senior Subordinated Notes with a portion of the net proceeds from the Offering, the Company recorded a non-cash extraordinary item of \$1.7 million, net of taxes, that represented the write-off of unamortized deferred financing costs and unamortized debt discount.

The Company recorded net income of \$8.5 million and \$1.8 million during the Third Quarter 1998 and the Third Quarter 1997, respectively.

Thirty-Nine Weeks Ended October 31, 1998 Compared to Thirty-Nine Weeks Ended November 1, 1997

Net sales increased by \$59.3 million, or 46.6%, to \$186.5 million during the thirty-nine weeks ended October 31, 1998 from \$127.2 million during the thirty-nine weeks ended November 1, 1997. Net sales for the 48 stores opened during the thirty-nine weeks ended October 31, 1998, as well as the other stores that did not qualify as comparable stores, contributed \$46.1 million of the net sales increase. These stores represent the entrance into several new markets, which include Atlanta, St. Louis, Kansas City and further penetration into the Midwest.

During the thirty-nine weeks ended October 31, 1998, the Company's comparable store sales increased 12% and contributed \$13.2 million of the net sales increase as compared with a 1% comparable store sales increase for the thirty-nine weeks ended November 1, 1997. During the thirty-nine weeks ended October 31, 1998, the comparable store sales increase was experienced across all merchandise divisions.

Gross profit increased \$28.4 million to \$73.5 million during the thirty-nine weeks ended October 31, 1998 from \$45.1 million during the thirty-nine weeks ended October 31, 1997. As a percentage of net sales, gross profit increased to 39.4% during the thirty-nine weeks ended October 31, 1998 from 35.5% during the thirty-nine weeks ended November 1, 1997. The increase in gross profit, as a percentage of net sales, was principally due to higher initial markups achieved through more effective product sourcing and lower markdowns. As a percentage of net sales, gross profit was also favorably impacted by the leveraging of store occupancy and production, design and distribution expenses.

Selling, general and administrative expenses increased \$15.3 million to \$46.9 million during the thirty-nine weeks ended October 31, 1998 from \$31.6 million during the thirty-nine weeks ended November 1, 1997. As a percentage of net sales, selling, general and administrative expenses were 25.2% during the thirty-nine weeks ended October 31, 1998 as compared with 24.9% during the thirty-nine weeks ended November 1, 1997. The increase as a percentage of net sales was primarily due to an increase in the administrative infrastructure required to support the Company's growth, partially offset by the leveraging of store expenses over the higher sales base.

During the thirty-nine weeks ended October 31, 1998, pre-opening costs were \$2.5 million, or 1.3% of net sales, as compared with \$2.0 million, or 1.5% of net sales, during the thirty-nine weeks ended October 31, 1997. The increase in pre-opening costs during the thirty-nine weeks ended October 31, 1998, reflected the opening of 48 stores as compared to the opening of 43 stores during the thirty-nine weeks ended November 1, 1997.

Depreciation and amortization amounted to \$5.5 million, or 2.9% of net sales, during the thirty-nine weeks ended October 31, 1998, as compared with \$4.2 million, or 3.3% of net sales, during the thirty-nine weeks ended November 1, 1997. The increase in depreciation and amortization primarily was a result of the increase in the store base. The decrease in depreciation and amortization as a percentage of net sales during the thirty-nine weeks ended October 31, 1998 reflects the leverage over a higher sales base.

Interest expense, net, for the thirty-nine weeks ended October 31, 1998, was \$0.4 million, or 0.2% of net sales, as compared with \$2.5 million, or 2.0% of net sales, during the thirty-nine weeks ended November 1, 1997. The decrease in interest expense, net was primarily due to the elimination of interest expense on the Senior Subordinated Notes which were repaid with a portion of the proceeds from the Company's initial public offering in September 1997 and lower utilization of the Foothill Credit Facility.

Other expense, net during the thirty-nine weeks ended October 31, 1998 was \$0.1 million, or 0.1% of net sales, as compared to \$0.1 million, or 0.1% of net sales during the thirty-nine weeks ended November 1, 1997. Other expense, net was comprised primarily of anniversary fees under the Foothill Credit Facility in both periods.

Due to the Company's improved operating performance during the thirty-nine weeks ended October 31, 1998, a provision for income taxes was recorded of \$7.4 million as compared to \$1.9 million during the thirty-nine weeks ended November 1, 1997. Due to the Company's utilization of its NOL carry forwards, the majority of the Company's 1998 tax provision will not be paid in cash, but will reduce the deferred tax asset on the balance sheet. However, the Company expects to make cash tax payments for the federal alternative minimum tax, state minimum taxes and state taxes where the Company does not have an NOL.

In the Third Quarter 1997, as a result of the repayment of the Senior Subordinated Notes with a portion of the net proceeds from the Offering, the Company recorded a non-cash extraordinary item of \$1.7 million, net of taxes, that represented the write-off of unamortized deferred financing costs and unamortized debt discount.

The Company recorded net income of \$10.7 million and \$1.0 million during the thirty-nine weeks ended October 31, 1998, and November 1, 1997, respectively.

Liquidity and Capital Resources

Debt Service/Liquidity

The Company's primary uses of cash are to finance new store openings and provide for working capital, which principally represents the purchase of inventory. Since the Offering, the Company has had no long-term debt obligations other than obligations under capital leases. During the thirty-nine weeks ended October 31, 1998, the Company has been able to meet its cash needs primarily through cash flows from operations and borrowings under the Foothill Credit Facility.

The Company's working capital needs follow a seasonal pattern, peaking during the second and third quarters when inventory is purchased for the Back to School and Holiday merchandise lines. As of October 31, 1998, the Company had \$6.1 million in borrowings under the Foothill Credit Facility and had outstanding letters of credit of \$9.3 million. Availability under the Foothill Credit Facility as of October 31, 1998 was \$14.5 million. During the Third Quarter 1998, the interest rates charged under the Foothill Credit Facility for reference rate borrowings were 8.37% per annum and LIBOR borrowings bore interest at 7.10% per annum.

As of October 31, 1998, the Company was in compliance with all of its covenants under the Foothill Credit Facility. Management believes that the Company will be able to comply with the financial covenants contained in the Foothill Credit Facility and does not believe that compliance with these covenants will interfere with its business or the implementation of its growth strategy.

Cash Flows/Capital Expenditures

Cash flows provided by operating activities were \$9.8 million during the thirty-nine weeks ended October 31, 1998 as compared with \$0.4 million during the thirty-nine weeks November 1, 1997. During the thirty-nine weeks ended October 31, 1998, cash flows provided by operating activities increased as a result of improved operating earnings, the utilization of the Company's NOL carry forwards and increases in current liabilities, partially offset by an increased investment in inventory to support the store expansion program. In addition, the Company's inventory increase during the thirty-nine weeks ended October 31, 1998 also reflected the planned earlier receipt of holiday seasonal merchandise to better control the flow of goods to the stores and to support the Company's fourth quarter sales plans.

Cash flows used in investing activities were \$15.1 million and \$15.3 million in the thirty-nine weeks ended October 31, 1998 and November 1, 1997, respectively. During the thirty-nine weeks ended October 31, 1998 and November 1, 1997, cash flows used in investing activities related primarily to new store openings and store remodelings. In the thirty-nine weeks ended October 31, 1998 and November 1, 1997, the Company opened 48 and 43 stores and remodeled 3 and 7 stores, respectively. Management anticipates that total capital expenditures during fiscal 1998 will approximate \$25 million. These expenditures primarily relate to the opening of 54 stores and 3 store remodelings and capital expenditures related to the relocation of the distribution center and corporate headquarters facility. Capital expenditures also include ongoing store capital programs, new point of sale software and equipment and a warehouse management system and equipment. Management plans to fund these capital expenditures principally from cash flow from operations.

Cash flows provided by financing activities were \$5.7 million and \$12.3 million in the thirty-nine weeks ending October 31, 1998 and November 1, 1997, respectively. During the thirty-nine weeks ended October 31, 1998, cash flows provided by financing activities reflected net borrowings under the Foothill Credit Facility and funds received from the exercise of employee stock options and employee stock purchases. During the thirty-nine weeks ended November 1, 1997, cash flows provided by financing activities reflected the proceeds received from the Offering and net borrowings under the Foothill Credit Facility partially offset by the re-purchase of the Noteholder and Legg Mason Warrants and the payment of the principal and accrued interest on the Senior Subordinated Notes and other debt obligations.

The Company has entered into an eight year lease with a three-year option period for a distribution center and corporate headquarters facility located in Secaucus, New Jersey. The lease also provides the Company with an option to terminate the lease at the end of the fifth year. Annual rent for the 204,000 square foot facility is approximately \$1.2 million per year. The Company plans to relocate its distribution center during the first quarter of fiscal 1999 and its corporate headquarters facility during the second quarter of fiscal 1999. The Company expects to make a cash outlay of approximately \$7.6 million to renovate the facility, of which approximately \$3.4 million will be spent in fiscal 1998. The Company also plans to install a new warehouse management system at a

total cost of approximately \$4.4 million, of which approximately \$3.6 million will be spent in fiscal 1998. The existing distribution center and corporate headquarters facility lease expires in March 1999. The Company intends to extend its lease arrangement for its existing distribution center and corporate headquarters facility to cover the period until its operations are relocated to the new facility.

The Company believes that its current financing arrangements under the Foothill Credit Facility and its anticipated level of internally generated funds will be adequate to fund its capital requirements for at least the next 18 months. Nonetheless, to provide greater financial flexibility, the Company has requested an increase in its credit line under the Foothill Credit Facility. The Company's ability to meet its capital requirements, will depend on its ability to generate cash from operations and successfully implement its store expansion plans. This request is currently under consideration by Foothill Capital Corporation.

Year 2000 Compliance

The Year 2000 issue exists because many computer applications currently use two-digit date fields to designate a year. As the century date occurs, date sensitive systems may not properly recognize and process the Year 2000, which could cause a system failure or other computer errors, leading to disruptions in normal business processing. During fiscal 1997, the Company began a program to ensure that its operations would not be adversely impacted by software and other system and equipment failures related to the Year 2000.

During the second quarter of 1998, the Company engaged the services of Arthur Andersen LLP to help ensure that it has fully assessed the risks associated with the Year 2000 and to assist in the development of a comprehensive implementation plan. Concurrent with the engagement of Arthur Andersen, the Company established a project team to coordinate and address the Year 2000 issue. The Year 2000 project has been divided into four phases: (i) inventory and risk assessment; (ii) remediation of non-compliant systems, equipment and suppliers; (iii) implementation and testing; and (iv) contingency planning.

The inventory and risk assessment phase of the Year 2000 project is substantially complete. During this phase, the Company assessed the Company's information systems hardware and software, equipment containing date-sensitive embedded chips, electronic data interchange and the Year 2000 preparedness of its key suppliers and service providers.

The Company's plans call for its critical information systems to be Year 2000 compliant by the end of the second quarter of 1999. The Company believes that approximately 55% of its systems are currently Year 2000 compliant. The Company plans to rely primarily on existing management information systems staff supplemented by outside consultants to modify, replace and test systems for Year 2000 compliance. The total cost of modifying the Company's current systems is not expected to exceed \$0.5 million. These costs are not expected to have a material adverse impact on the Company's financial position, results of operation or cash flows in future periods.

The Company is in the process of assessing the Year 2000 preparedness of its service providers and key suppliers through written communications, oral communications and visual inspection. Despite these efforts, the Company cannot assure the timely compliance of these service providers and suppliers and may be adversely affected by a failure of a significant third party to become Year 2000 compliant. Additionally, since the Company procures most of its merchandise from foreign sources, it is also at risk to the extent foreign infrastructures are not properly prepared to handle the Year 2000.

Although the Company is working to minimize any business disruption caused by the Year 2000, there can be no assurances that the Company will not be adversely impacted by a failure caused by the Year 2000. These risks include, but are not limited to, power and communications disruptions, failures of the Company's information technology systems, the inability of a significant supplier or service provider to become Year 2000 compliant and disruptions in the distribution channels to include ports, customs, and transportation vendors.

The Company has commenced its contingency planning which will allow for the continuation of business operations in the event that the Company or any of its significant suppliers or service providers do not properly address Year 2000 issues. The Company expects to have a completed plan by the end of the second quarter of 1999. Where needed, the Company will modify its contingency plans based on test results and the assessment of risk associated with third party suppliers and service providers. The cost of the conversions and the completion dates set forth above are based on management's estimates and may be updated as additional information becomes available.

Item 3. Quantitative and Qualitative Disclosures about Market Risks (Not applicable)

Item 1. Legal Proceedings

Class Action Suits

On October 16, 1997, Stephen Brosious and Rudy Pallastrone, who allegedly purchased shares of the Company's common stock in or after an initial public offering on or about September 19, 1997 (the "IPO"), filed a lawsuit against the Company, several of the Company's directors and officers, and the underwriters of the IPO (the "Defendants") in the United States District Court for the District of New Jersey (the "Court"). The named plaintiffs purport to maintain a class action on behalf of all persons, other than the Defendants, who purchased the Company's common stock issued in connection with the IPO on or about September 19, 1997 through October 13, 1997. The complaint alleges that the Defendants violated federal securities laws by making materially false or misleading statements and/or omissions in connection with the IPO. The plaintiffs seek monetary damages of an unspecified amount, rescission or rescissory damages and fees and costs. Since October 16, 1997, fifteen additional putative class actions making substantially similar allegations and seeking substantially similar relief have been filed against some or all of the Defendants. On or about January 13, 1998, the sixteen putative class actions were consolidated in the Court and on February 26, 1998, the plaintiffs served and filed their amended consolidated complaint. On April 16, 1998, the Defendants moved to dismiss the complaint. On September 4, 1998 the Court entered an Order granting the motion to dismiss in part and denying it in part. The Court also dismissed the case against the underwriters without prejudice. On October 5, 1998, the plaintiffs filed an amended complaint against all defendants including the underwriters. The Company filed its answer to the amended complaint on October 26, 1998. The parties have commenced discovery. The Company continues to believe that the allegations made in this complaint are untrue and totally without merit and intends to defend them vigorously.

On October 27, 1997, Bulldog Capital Management, L.P., a limited partnership that serves as a general partner for a series of investment funds which allegedly purchased shares of the Company's common stock issued in connection with the IPO, also filed a lawsuit against the Company and several of the Company's directors and officers in the Superior Court of New Jersey, Essex County Division. The complaint also alleges that by making materially false or misleading statements and/or omissions in connection with the IPO, the Company and several of the Company's directors and officers violated provisions of federal and state law. The plaintiff seeks monetary damages of an unspecified amount, rescission or rescissory damages and fees and costs. This action and the federal action described above have been coordinated for purposes of discovery. The Company believes that the allegations made in this complaint are untrue and totally without merit and intends to defend them vigorously.

In the opinion of management, any ultimate liability arising out of the class action suits will not have a material adverse effect on the Company's financial position or results of operations.

Other Litigation

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description of Document -----
10.5	Amendment to a lease for a distribution center and corporate headquarters facility between the Company and Hartz Mountain Associates, dated November 20, 1998.
27.1	Financial Data Schedule.

(b) Reports on Form 8-K

None

SIGNATURES

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

Date: December 11, 1998

THE CHILDREN'S PLACE
RETAIL STORES, INC.

By: /s/ Ezra Dabah

Ezra Dabah
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: December 11, 1998

By: /s/ Seth L. Udasin

Seth L. Udasin
Vice President &
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 10.5

AMENDMENT TO A LEASE FOR A DISTRIBUTION CENTER AND CORPORATE
HEADQUARTERS FACILITY BETWEEN THE COMPANY AND HARTZ MOUNTAIN ASSOCIATES,

DATED NOVEMBER 20, 1998.

LEASE MODIFICATION AGREEMENT

THIS LEASE MODIFICATION AGREEMENT, made this 20th day of November, 1998 by and between HARTZ MOUNTAIN ASSOCIATES, a New Jersey partnership, having an office at 400 Plaza Drive, Secaucus, New Jersey 07094 (hereinafter referred to as "Landlord") and THE CHILDREN'S PLACE RETAIL STORES, INC., a Delaware corporation having an office at One Dodge Drive, West Caldwell, New Jersey 07006 (hereinafter referred to as "Tenant").

WITNESSETH:

WHEREAS, by Agreement of Lease dated June 30, 1998 (the "Lease") Landlord leased to Tenant and Tenant hired from Landlord the building and premises known as 915 Secaucus Road, Secaucus, New Jersey (hereinafter the "Demised Premises"); and

WHEREAS, Landlord and Tenant wish to modify the Lease to extend the term thereof and amend the Lease accordingly;

NOW, THEREFORE, for and in consideration of the Lease, the mutual covenants herein contained and the consideration set forth herein, the parties agree as follows:

1. This shall confirm that the "Commencement Date" as defined in Section 1.01J of the Lease occurred on October 1, 1998.

2. The Term of the Lease is hereby extended from January 31, 2004 through and including January 31, 2007. Accordingly, the date "January 31, 2004" appearing in the definition of "Expiration Date" under Section 1.01N is hereby deleted and "January 31, 2007" substituted therefor.

3. Section 1.010 Fixed Rent is hereby amended and restated as follows:

0. Fixed Rent: Commencing on the Commencement Date through the date which is the day before the second anniversary of the Commencement Date, an amount at the annual rate of Five and 25/100 Dollars (\$5.25) multiplied by the number of square feet of Floor Space; from the second anniversary of the Commencement Date through January 31, 2004, an amount at the annual rate of Five and 50/100 Dollars (\$5.50) multiplied by the number of square feet of Floor Space of the Demised Premises; and from and including February 1, 2004 through the January 31, 2007, an amount at the annual rate of Six and 25/100 Dollars (\$6.25) multiplied by the number of square feet of Floor Space of the Demised Premises

4. Section R2 of the Lease is hereby amended and restated as follows:

R2. Provided Tenant is in not in default under this Lease beyond any applicable notice and/or cure periods, if any, and provided Tenant has not assigned (other than to a permitted assignee under Section R6) this Lease or sublet all or any portion of the Demised Premises and is itself (or its permitted assignee as contemplated in Section R6) in occupation and conducting business in the whole of the Demised Premises in accordance with the terms of this Lease, Tenant expressly acknowledging and agreeing that the option right contained herein is personal to the original named Tenant (or its permitted assignee as contemplated in Section R6), Tenant shall have one (1) option to extend the Term of its lease of the Demised Premises, from the date upon which this Lease would otherwise expire for one extended period of three (3) years (herein referred to as an "Extended Period"), upon the following terms and conditions:

1. If Tenant elects to exercise said option, it shall do so by giving notice of such election to Landlord on or before the date which is nine (9) months before the beginning of the Extended Period. Tenant agrees that it shall have forever waived its right to exercise any such option if it shall fail for any reason whatsoever to give such notice to Landlord by the time provided herein for the giving of such notice, whether such failure is inadvertent or intentional, time being of the essence as to the exercise of such option.

2. If Tenant elects to exercise said option, the Term shall be automatically extended for the Extended Period without execution of an extension or renewal lease. Within ten (10) days after request of either party following the effective exercise of such option, however, Landlord and Tenant shall execute, acknowledge and deliver to each other duplicate originals of an instrument in recordable form confirming that such option was effectively exercised.

3. The Extended Period shall be upon the same terms and conditions as are in effect immediately preceding the commencement of such Extended Period; provided, however, that Tenant shall have no right or option to extend the Term for any period of time beyond the expiration of the Extended Period and, provided further, that in the Extended Period the Fixed Rent during the Extended Period shall be at ninety-five percent (95%) of Fair Market Value ("FMV"). FMV shall be determined by mutual agreement of the parties. If the parties are unable to agree on the FMV within thirty (30) days of Tenant's exercise of its option, the parties shall choose a licensed Real Estate Appraiser who shall determine the FMV. The cost of said Real Estate Appraiser shall be borne equally by the parties. If the parties are unable to agree on a licensed Real Estate Appraiser within forty-five (45) days of Tenant's exercise of its option, each party shall select one Appraiser to appraise the FMV. All appraisals shall be rendered within thirty (30) days of appointment of the respective Appraiser appointed under this paragraph. If the difference between the two appraisals is 20% or less of the lower appraisal, then the FMV shall be the average of the two appraisals. If the difference between the two appraisals is greater than 20% of the lower appraisal, the two Appraisers shall select a third licensed Real Estate Appraiser to appraise the FMV. The FMV shall in such case be the average of the three appraisals. The cost of the third appraisal shall be borne equally by the parties.

Anything to the contrary contained herein notwithstanding, the Fixed Rent for the Extended Period shall not be less than the Fixed Rent for the period immediately preceding the Extended Period for which the Fixed Rent is being calculated.

4. Any termination, expiration, cancellation or surrender of this Lease shall terminate any right or option for the Extended Period not yet exercised.

5. Landlord shall have the right, for thirty (30) days after receipt of notice of Tenant's election to exercise the option to extend the Term, to reject Tenant's election if Tenant gave such notice while Tenant was in default beyond any applicable notice and/or cure periods, if any, in the performance of any of its obligations under the Lease, and such rejection shall automatically render Tenant's election to exercise such option null and void and of no effect.

6. The option provided herein to extend the Term of the Lease may not be severed from the Lease or separately sold, assigned or otherwise transferred.

5. Provided Tenant is in not in default under the Lease beyond any applicable notice and/or cure periods, if any, and provided Tenant has not assigned (other than to a permitted assignee under Section R6) the Lease or sublet all or any portion of the Demised Premises and is itself (or its permitted assignee as contemplated in Section R6) in occupation and conducting business in the whole of the Demised Premises in accordance with the terms of this Lease, Tenant expressly acknowledging and

agreeing that the termination right contained herein is personal to the original named Tenant (or its permitted assignee as contemplated in Section R6), Tenant shall have the right to terminate the Lease effective as of January 31, 2004, by giving written notice to Landlord to such effect not later than May 1, 2003. Tenant's right to terminate as aforesaid and the effectiveness of Tenant's termination notice, at Landlord's sole option, shall be conditioned upon (i) there occurring on and after the exercise of the termination right herein contained through and including January 31, 2004 no default by Tenant beyond any applicable notice and/or cure period in the payment to Landlord of Fixed Rent and/or Additional Charges accruing and due and payable during such period; and (ii) payment by Tenant to Landlord of all Rent due to the date of termination. Subject to the terms of the immediately preceding sentence, upon termination, (i.e. January 31, 2004) the Lease shall be deemed terminated with the same effect as if the effective date of such termination were the expiration date of the Term. Tenant agrees that it shall have forever waived its right to exercise the termination right herein contained if it shall fail for any reason whatsoever to give such notice to Landlord by May 1, 2003, whether such failure is inadvertent or intentional, time being of the essence as to the exercise of such termination right.

6. Except as provided herein, all of the terms and conditions of the Lease as amended above are in full force and effect and are confirmed as if fully set forth herein.

IN WITNESS WHEREOF, the parties hereto have caused this Lease Modification Agreement to be duly executed as of the day and year first above written.

BY: HARTZ MOUNTAIN INDUSTRIES, INC.
(Landlord)

HARTZ MOUNTAIN ASSOCIATES

By: /s/ Irwin A. Horowitz

Irwin A. Horowitz
Executive Vice President

THE CHILDREN'S PLACE RETAIL STORES,
INC.,
(Tenant)

By: /s/ Stanley Silver

Stanley Silver
President/Chief Operating
Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF THE CHILDREN'S PLACE RETAIL STORES, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS	JAN-30-1999	FEB-01-1998	OCT-31-1998
			1,209
		0	
	3,203		
	0		
	40,884		
	61,397		59,561
	17,676		
	106,012		
33,169			0
0		0	
		2,484	
		67,332	
106,012			82,496
	82,496		
			46,370
	19,501		
	15		
	0		
	222		
	14,382		
		5,897	
8,485		0	
		0	
			0
	8,485		
	0.34		
	0.33		