
**UNITED STATES
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 July 29, 2000

OR

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

Commission file number 1-11980

ANNTAYLOR, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0297083

(I.R.S. Employer Identification Number)

142 West 57th Street, New York, NY

(Address of principal executive offices)

10019

(Zip Code)

(212) 541-3300

(Registrant's telephone number, including area code)

Indicate by check mark whether 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.

Class
Common Stock, \$1.00 par value

Outstanding as of
August 25, 2000
1

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ANNTAYLOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Quarters and Six Months Ended July 29, 2000 and July 31, 1999
(unaudited)

	<u>Quarters Ended</u>		<u>Six Months Ended</u>	
	<u>July 29, 2000</u>	<u>July 31, 1999</u>	<u>July 29, 2000</u>	<u>July 31, 1999</u>
	(in thousands)			
Net sales	\$ 306,252	\$ 265,747	\$ 583,320	\$ 515,147
Cost of sales	<u>162,444</u>	<u>139,842</u>	<u>290,916</u>	<u>257,905</u>
Gross profit	143,808	125,905	292,404	257,242
Selling, general and administrative expenses	116,049	97,761	240,146	195,584
Amortization of goodwill	<u>2,760</u>	<u>2,760</u>	<u>5,520</u>	<u>5,520</u>
Operating income	24,999	25,384	46,738	56,138
Interest income	806	1,397	1,270	2,118
Interest expense	1,830	2,660	3,626	7,702
Other expense/(income), net	<u>13</u>	<u>(7)</u>	<u>19</u>	<u>(6)</u>
Income before income taxes and extraordinary loss	23,962	24,128	44,363	50,560
Income tax provision	<u>10,536</u>	<u>10,755</u>	<u>19,655</u>	<u>22,432</u>
Income before extraordinary loss	13,426	13,373	24,708	28,128
Extraordinary loss (net of income tax benefit of \$641,000)	<u>---</u>	<u>962</u>	<u>---</u>	<u>962</u>
Net income	\$ <u>13,426</u>	\$ <u>12,411</u>	\$ <u>24,708</u>	\$ <u>27,166</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
July 29, 2000 and January 29, 2000
(unaudited)

	<u>July 29, 2000</u>	<u>January 29, 2000</u>
ASSETS		
	(in thousands)	
Current assets		
Cash and cash equivalents	\$ 34,602	\$ 35,081
Accounts receivable, net	67,092	67,092
Merchandise inventories	154,691	140,026
Prepaid expenses and other current assets	<u>34,210</u>	<u>29,390</u>
Total current assets	290,595	271,589
Property and equipment, net	195,584	173,639
Goodwill, net	303,139	308,659
Deferred financing costs, net	4,833	5,358
Other assets	<u>7,284</u>	<u>5,872</u>
Total assets	<u>\$ 801,435</u>	<u>\$ 765,117</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable	\$ 62,863	\$ 56,175
Accrued salaries & bonus	15,947	23,297
Accrued tenancy	9,066	7,800
Gift certificates and merchandise credits redeemable	12,586	15,618
Accrued expenses	26,019	16,031
Current portion of long-term debt	<u>1,349</u>	<u>1,300</u>
Total current liabilities	127,830	120,221
Long-term debt, net	115,346	114,485
Deferred lease costs and other liabilities	15,427	14,789
Commitments and contingencies		
Stockholder's equity		
Common stock, \$1.00 par value; 1,000 shares authorized; 1 share issued and outstanding	1	1
Additional paid-in capital	379,657	377,155
Retained earnings	<u>163,174</u>	<u>138,466</u>
Total stockholder's equity	<u>542,832</u>	<u>515,622</u>
Total liabilities and stockholder's equity	<u>\$ 801,435</u>	<u>\$ 765,117</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended July 29, 2000 and July 31, 1999
(unaudited)

	<u>Six Months Ended</u>	
	<u>July 29, 2000</u>	<u>July 31, 1999</u>
	(in thousands)	
Operating activities:		
Net income	\$ 24,708	\$ 27,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Extraordinary loss	---	1,603
Provision for loss on accounts receivable.....	595	481
Depreciation and amortization	16,521	15,205
Amortization of goodwill	5,520	5,520
Non-cash interest.....	2,114	985
Amortization of deferred compensation	1,159	382
Loss on disposal of property and equipment	859	885
(Increase) decrease in:		
Receivables	(595)	4,832
Merchandise inventories	(14,665)	2,360
Prepaid expenses and other current assets	(4,820)	(3,122)
Increase (decrease) in:		
Accounts payable	6,688	(3,117)
Accrued expenses	873	(15,939)
Other non-current assets and liabilities, net.....	(744)	1,082
Net cash provided by operating activities	38,213	38,323
Investing activities:		
Purchases of property and equipment	(39,357)	(27,486)
Net cash used by investing activities	(39,357)	(27,486)
Financing activities:		
Payments on mortgage	(638)	(593)
Parent company activity	1,344	118,753
Redemption of 8¾% Notes	---	(101,375)
Payment of financing costs	(41)	(4,050)
Net cash provided by financing activities	665	12,735
Net increase (decrease) in cash.....	(479)	23,572
Cash and cash equivalents, beginning of period	35,081	67,031
Cash and cash equivalents, end of period	<u>\$ 34,602</u>	<u>\$ 90,603</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest	<u>\$ 1,216</u>	<u>\$ 6,423</u>
Cash paid during the period for income taxes.....	<u>\$ 22,411</u>	<u>\$ 19,956</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The condensed consolidated financial statements of AnnTaylor, Inc. (the "Company") are unaudited but, in the opinion of management, contain all adjustments (which are of a normal recurring nature) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the 2000 interim period shown in this report are not necessarily indicative of results to be expected for the fiscal year.

The January 29, 2000 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of the Company.

Certain Fiscal 1999 amounts have been reclassified to conform to the Fiscal 2000 presentation.

Detailed footnote information is not included for the quarters ended July 29, 2000 and July 31, 1999. The financial information set forth herein should be read in conjunction with the Notes to the Company's Consolidated Financial Statements contained in the Company's 1999 Annual Report on Form 10-K.

2. Long-Term Debt

The following summarizes long-term debt outstanding at July 29, 2000:

	(in thousands)
Mortgage	\$ 3,312
Note Payable to ATSC, net.....	<u>113,383</u>
Total debt	116,695
Less current portion	<u>1,349</u>
Total long-term debt.....	<u>\$ 115,346</u>

3. Enterprise-wide Operating Information

The Company is a specialty retailer of women's apparel, shoes, and accessories. Given the economic characteristics of the store formats, the similar nature of the products sold, the type of customer and method of distribution, the operations of the Company are aggregated into one reportable segment. The Company believes that the customer base for its stores consists primarily of relatively affluent, fashion-conscious women from the ages of 25 to 55, and that the majority of its customers are working women with limited time to shop.

Item 2. Management's Discussion and Analysis of Results of Operations

Results of Operations

	<u>Six Months Ended</u>	
	<u>July 29,</u> <u>2000</u>	<u>July 31,</u> <u>1999</u>
Number of Stores:		
Open at beginning of period	405	365
Opened during period.....	30	27
Expanded during period*	2	2
Closed during period	5	5
Open at end of period.....	430	387
Type of Stores Open at End of Period:		
Ann Taylor stores	319	313
Ann Taylor Loft stores	98	62
Ann Taylor Factory Stores.....	13	12

* Expanded stores are excluded from comparable store sales for the first year following expansion.

Six Months ended July 29, 2000 Compared to Six Months ended July 31, 1999

The Company's net sales in the first six months of Fiscal 2000 increased to \$583,320,000 from \$515,147,000 in the first six months of Fiscal 1999, an increase of \$68,173,000 or 13.2%. The increase is attributable to the opening of new stores and the expansion of existing stores and an increase in comparable store sales of 1.4%.

Gross profit as a percentage of net sales increased to 50.1% in the first six months of 2000 from 49.9% in the first six months of 1999. This increase in gross margin primarily reflects improvements made in the Company's sourcing, merchandising and inventory management processes, which resulted in higher initial mark-ups and higher gross margins achieved on full price sales compared to the first six months of 1999 partially offset by aggressive end-of-season markdowns during the second quarter of 2000.

Selling, general and administrative expenses, excluding certain nonrecurring expenses described below, were 39.7% of net sales in the first six months of 2000, compared to 38.0% of net sales in the first six months of 1999. Selling, general, and administrative expenses for the first six months of 2000 included approximately \$3,300,000 of expenses relating to the development of the Company's proposed Internet e-commerce web site. Selling, general and administrative expenses as a percentage of net sales also reflected increases in tenancy expenses, and increases in Ann Taylor Loft store operations expenses and marketing expenses, in support of the Company's strategic initiatives to enhance the Ann Taylor brand, offset in part by leverage achieved on certain other expenses as a result of increased sales. The Company incurred a pre-tax nonrecurring charge of approximately \$8,500,000 during the first quarter of fiscal 2000 in connection with an extensive review conducted with the Company's financial and legal advisors of various strategic approaches to enhance shareholder value.

As a result of the foregoing, the Company had operating income, after taking into account the nonrecurring charge, of \$46,738,000, or 8.0% of net sales, in the first six months of 2000, compared to operating income of \$56,138,000, or 10.9% of net sales, in the first six months of 1999. Amortization of goodwill was \$5,520,000 in each of the first six months of Fiscal 2000 and Fiscal 1999. Operating income, without giving effect to goodwill amortization, was \$52,258,000, or 9.0% of net sales, in the 2000 period and \$61,658,000, or 12.0% of net sales, in the 1999 period.

Interest income was \$1,270,000 in the first six months of Fiscal 2000 compared to \$2,118,000 in the first six months of Fiscal 1999. The decrease was primarily attributable to lower cash on hand, [as a result of a dividend to the Company's parent AnnTaylor Stores Corporation \("ATSC"\) to facilitate the repurchase by ATSC of shares of its common stock during the third and fourth quarters of Fiscal 1999.](#)

Interest expense was \$3,626,000 in the first six months of Fiscal 2000 and \$7,702,000 in the first six months of Fiscal 1999. The decrease in interest expense was primarily attributable to the net reduction in the Company's outstanding long term debt and other obligations and a decrease in the interest rate borne by the Company's remaining outstanding long term debt. During the second quarter of 1999, the intercompany note issued by the Company to ATSC in August 1998 was forgiven, and the Company's 8¾% Notes were redeemed. These transactions were completed using, in part, the proceeds from the issuance in June 1999 of the Note Payable to ATSC, which bears interest at a rate of 3.75% per annum.

The income tax provision was \$19,655,000, or 44.3% of income before income taxes, in the 2000 period, compared to \$22,432,000, or 44.4% of income before income taxes and extraordinary loss, in the 1999 period. The effective income tax rate for both periods differed from the statutory rate primarily because of non-deductible goodwill amortization.

The redemption of the outstanding 8¾% Notes on July 22, 1999 resulted in an extraordinary charge to earnings in the first six months of Fiscal 1999 of \$962,000.

As a result of the foregoing factors, the Company had net income of \$24,708,000, or 4.2% of net sales, for the first six months of 2000, compared to net income of \$27,166,000 or 5.3% of net sales, for the first six months of 1999.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

27 Financial Data Schedule

(b) Reports on Form 8-K:

The Company filed a report dated June 21, 2000 with the Commission on Form 8-K on June 26, 2000, reporting that the United States Court of Appeals for the Second Circuit vacated the dismissal of the amended complaint in the purported class action lawsuit against the Company, ATSC, certain present and former directors and officers of the Company and ATSC and Merrill Lynch & Co. and certain of its affiliates (*Novak v. Kasaks, et al.*, No. 96 CIV 3073 (S.D.N.Y. 1996)).

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.

AnnTaylor, Inc.

Date: September 8, 2000

By: /s/ J. Patrick Spainhour
J. Patrick Spainhour
Chairman and Chief Executive
Officer

Date: September 8, 2000

By: /s/ Barry Erdos
Barry Erdos
Executive Vice President -
Chief Financial Officer and
Treasurer