
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 3, 2001

OR

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

Commission File No. 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)

Securities registered pursuant to Section 12(b) of the Act:

None.

Securities registered pursuant to Section 12(g) of the Act:

None.

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 .

As of March 2, 2001, 1 share of common stock was outstanding.

Documents Incorporated by Reference:

None

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

PART I

ITEM 1. Business

General

AnnTaylor, Inc. (the "Company" or "Ann Taylor"), through its wholly owned subsidiaries, is a leading national specialty retailer of better quality women's apparel, shoes and accessories sold primarily under the Ann Taylor brand name. The Company believes that "Ann Taylor" is a highly recognized national brand that defines a distinct fashion point of view. Ann Taylor merchandise represents classic styles, updated to reflect current fashion trends. The Company's stores offer a full range of career and casual separates, dresses, tops, weekend wear, shoes and accessories, coordinated as part of a total wardrobing strategy. This total wardrobing strategy is reinforced by an emphasis on customer service. Ann Taylor sales associates are trained to assist customers in merchandise selection and wardrobe coordination, helping them achieve the "Ann Taylor look" while reflecting the customers' personal styles.

As of February 3, 2001, the Company operated 478 retail stores in 42 states, the District of Columbia and Puerto Rico under the names Ann Taylor, Ann Taylor Loft and Ann Taylor Factory Store. The Company's 332 Ann Taylor stores compete in the "better"-priced market. These stores represent the Company's core merchandise line. Approximately three-quarters of these stores are located in regional malls and upscale specialty retail centers, with the balance located in downtown and village locations. The Company believes that the customer base for its Ann Taylor 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, who are attracted to Ann Taylor by its focused merchandising and total wardrobing strategies, personalized customer service, efficient store layouts and continual flow of new merchandise.

As of February 3, 2001, the Company operated 133 Ann Taylor Loft stores. Ann Taylor Loft stores compete in the "upper-moderate"-priced market. Ann Taylor Loft is designed for women with a more relaxed lifestyle, who appreciate the Ann Taylor style but are more price sensitive. Merchandise is created uniquely for these stores and is sold under the Ann Taylor Loft label. The first Ann Taylor Loft stores opened by the Company were located in factory outlet centers, including some Ann Taylor Factory Stores that, in 1996, were converted to Loft stores after the introduction of the Loft concept. In 1998, the Company began opening Ann Taylor Loft stores outside the factory outlet environment, in regional malls, strip shopping centers and urban and village street locations. At February 3, 2001, 105 Ann Taylor Loft stores were located in these venues. Management believes that Ann Taylor Loft represents a significant opportunity for the Company to compete in the upper-moderate-priced women's apparel market. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Statement Regarding Forward Looking Disclosures" below.

At February 3, 2001, the Company also operated 13 Ann Taylor Factory stores in factory outlet centers. These stores serve primarily as a clearance vehicle for merchandise from Ann Taylor stores. In Fall 2000, the Company also introduced a limited assortment of current season styles created uniquely for these stores and sold under the Ann Taylor Factory store label.

From time to time, the Company introduces new product categories to its merchandise assortment. The Company believes that product extensions support the Company's total wardrobing strategy and provide existing and new customers with additional reasons to shop at the Company's stores. Product extensions introduced over the last several years include petite sizes in the Company's apparel offerings, and fragrance and personal care products in both Ann Taylor and Ann Taylor Loft stores. In Fall of 2000, the Company began test marketing its own line of color cosmetics in a select group of 57 Ann Taylor stores.

In November 2000, the Company launched anntaylor.com, an Online Store making Ann Taylor merchandise available for direct retail sale to customers over the Internet. The Online Store was designed as an extension of the in-store experience and offers a wide selection of each season's Ann Taylor stores' collection. The Company believes that the online store further builds the Ann Taylor brand and enhances the Company's relationships with customers, as well as creates the opportunity for sales to new and existing customers.

The Company was incorporated under the laws of the state of Delaware in 1986. All of the outstanding capital stock of the Company, consisting of one share of common stock, is owned by AnnTaylor Stores Corporation ("ATSC"). Ann Taylor was acquired by ATSC in a leveraged buyout transaction in 1989.

Statement Regarding Forward-Looking Disclosures

Sections of this Annual Report on Form 10-K contain various forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations and business of the Company. These forward-looking statements involve certain risks and uncertainties, and no assurance can be given that any of such matters will be realized. Actual results may differ materially from those contemplated by such forward-looking statements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Statement Regarding Forward-Looking Disclosures".

ITEM 2. Properties

As of February 3, 2001, the Company operated 478 stores, all of which were leased. The store leases typically provide for initial terms of ten years, although some leases have shorter or longer initial periods, and grant the Company the right to extend the term for one or two additional five-year periods. Most of the store leases require Ann Taylor to pay a specified minimum rent, plus a contingent rent based on a percentage of the store's net sales in excess of a specified threshold. Most of the leases also require Ann Taylor to pay real estate taxes, insurance and certain common area and maintenance costs.

Ann Taylor leases corporate offices at 142 West 57th Street in New York City and office space at 1372 Broadway in New York City. The Company also leases office space in New Haven, Connecticut.

Ann Taylor's wholly owned subsidiary, AnnTaylor Distribution Services, Inc., owns its 256,000 square foot distribution center located in Louisville, Kentucky. Nearly all Ann Taylor merchandise is distributed to the Company's stores through this facility. The parcel on which the Louisville distribution center is located comprises approximately 20 acres and could accommodate possible future expansion of the facility.

ITEM 3. Legal Proceedings

On April 26, 1996, certain alleged stockholders of ATSC filed a purported class action lawsuit in the United States District Court Southern District of New York, against ATSC, the Company, certain officers and directors of ATSC and the Company, Merrill Lynch & Co. ("ML&Co.") and certain affiliates of ML&Co. (Novak v. Kasaks, et. al., No. 96 CIV 3073 (S.D.N.Y. 1996)). The complaint alleged causes of action under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended, by alleging that ATSC and the other defendants engaged in a fraudulent scheme and course of business that operated a fraud or deceit on purchasers of ATSC's common stock during the period commencing February 3, 1994 through May 4, 1995, due to alleged false and misleading statements about the Company and ATSC. The complaint sought, among other things, certification as a class action on behalf of all purchasers of common stock during the period commencing February 3, 1994 through May 4, 1995, the awarding of compensatory damages to the plaintiffs and purported members of the class, the awarding of costs, including pre-judgment and post-judgment interest, reasonable attorneys' fees and expert witness fees to the plaintiffs and purported members of the class and equitable and/or injunctive relief. On March 10, 1998, the District Court issued an order granting the defendants' motion to dismiss the complaint. The Court's order granted the plaintiffs leave to amend and re-file the complaint, and the plaintiffs filed an amended complaint on April 9, 1998.

On November 9, 1998, the District Court issued an order granting the defendants' motion to dismiss the amended complaint with prejudice, for its failure to plead fraud with particularity. On or about December 15, 1998, the plaintiffs filed a notice of appeal to the United States Court of Appeals for the Second Circuit, seeking review of the District Court's order. While this appeal was pending, ML&Co., its affiliates and the two directors who previously served on the Company's Board of Directors as

representatives of certain affiliates of ML&Co. (the “settling defendants”), reached a settlement with the plaintiffs, which provides, among other things, for the establishment by the settling defendants of a settlement fund in the amount of \$3,000,000 plus interest. On or about December 14, 1999, the District Court entered an Order and Final Judgment approving this partial settlement, dismissing the amended complaint with prejudice as to the settling defendants, and barring and enjoining any future claims by, among others, the remaining defendants against the settling defendants for contribution.

On June 21, 2000, the United States Court of Appeals for the Second Circuit vacated the dismissal of the amended complaint. The Court of Appeals held that the allegations of the amended complaint are sufficient to satisfy the standard for pleading intent under the federal securities laws, but expressed no view as to whether the allegations are sufficiently particularized. The Court of Appeals remanded the case to the District Court with instructions to allow plaintiffs to replead their complaint, and to reconsider whether plaintiffs' allegations are pled with sufficient particularity to satisfy the pleading standards of the Private Securities Litigation Reform Act of 1995. The decision of the Court of Appeals applies only to plaintiffs' claims against ATSC, the Company and their former directors and officers.

Following the decision of the Court of Appeals, plaintiffs elected not to replead their amended complaint. On or about September 29, 2000, ATSC, the Company and their former directors and officers again moved to dismiss the amended complaint, arguing that it fails to plead fraud with sufficient particularity under the standards set forth by the Court of Appeals in its June 21, 2000 decision. The motion has been fully briefed and is pending before the District Court.

The Company continues to believe that the allegations in the amended complaint are without merit, and intends to continue to defend this action vigorously. Any liability that may arise from this action cannot be predicted at this time.

The Company is also a party to routine litigation incident to its business. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in the opinion of the Company, any such liability will not have a material adverse effect on the financial position, results of operations or liquidity of the Company.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

There is no public market for the common stock of the Company. All of the outstanding stock of the Company, consisting of one share of common stock is owned by ATSC.

The payment of dividends by Ann Taylor to ATSC is subject to certain restrictions under the Company's Credit Facility described below under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources". From time to time, the Company pays dividends to ATSC in amounts sufficient to fund ATSC's operating expenses.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Sales

The following table sets forth certain sales and store data for the periods indicated:

	Fiscal Year		
	2000 (53 weeks)	1999 (52 weeks)	1998 (52 weeks)
Net sales (\$000)	\$1,232,776	\$1,084,519	\$ 911,939
Total net sales increase percentage (52 week basis)	12.2%	18.9%	16.8%
Comparable store sales increase (decrease) percentage (52 week basis)	(0.5)%	8.4%	7.9%
Net sales per average square foot	\$ 496	\$ 502	\$ 474
Total store square footage at end of period.....	2,695,000	2,280,000	2,038,000
Number of:			
New stores.....	81	47	45
Expanded stores.....	4	8	8
Closed stores.....	8	7	4
Total stores open at end of period.....	478	405	365

The Company's net sales do not show significant seasonal variation, although net sales in the fourth quarter have historically been moderately higher than in the other quarters. As a result, the Company has not had significant overhead and other costs generally associated with large seasonal variations.

Results of Operations

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

	Fiscal Year		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net sales.....	100.0%	100.0%	100.0%
Cost of sales	<u>50.5</u>	<u>49.4</u>	<u>50.0</u>
Gross profit	49.5	50.6	50.0
Selling, general and administrative expenses	40.7	38.2	38.4
Retirement of assets.....	---	---	0.4
Amortization of goodwill.....	<u>0.9</u>	<u>1.0</u>	<u>1.2</u>
Operating income	7.9	11.4	10.0
Interest income	0.2	0.4	0.2
Interest expense	<u>0.6</u>	<u>1.1</u>	<u>2.2</u>
Income before income taxes and extraordinary loss	7.5	10.7	8.0
Income tax provision.....	<u>3.3</u>	<u>4.6</u>	<u>3.7</u>
Income before extraordinary loss	4.2	6.1	4.3
Extraordinary loss	---	0.1	---
Net income	<u>4.2%</u>	<u>6.0%</u>	<u>4.3%</u>

Fiscal 2000 Compared to Fiscal 1999

The Company's net sales increased to \$1,232,776,000 over \$1,084,519,000 in Fiscal 1999, an increase of \$148,257,000, or 13.7%. Comparable store sales for Fiscal 2000 decreased 0.5%, compared to an increase of 8.4% in Fiscal 1999. Total sales for the fifty-two-week period ended January 27, 2001 were up 12.2% to \$1,216,808,000, compared to the same period for the fiscal year ended 1999. The sales increase was primarily attributable to the opening of new stores and the expansion of existing stores, partially offset by a net decrease in comparable store sales in 2000. Management believes that the decrease in comparable store sales was the result of customer dissatisfaction with certain of the Company's product offerings and merchandise assortment in the Fall 2000 season.

Gross profit as a percentage of net sales decreased to 49.5% in 2000 from 50.6% in 1999. This decrease in gross margin reflects a higher markdown rate on goods sold below full price and the sale of a greater amount of goods below full price as a percentage of sales, most significantly in the fourth quarter of 2000, compared to the prior year, offset, in part, by higher gross margins achieved on merchandise that was sold at full price, attained through ongoing efficiencies achieved through continued improvements in the Company's sourcing, merchandising and inventory processes.

Selling, general and administrative expenses, excluding certain nonrecurring expenses described below, were \$490,760,000, or 39.8% of net sales, in 2000, compared to \$414,315,000, or 38.2% of net sales, in 1999. Selling, general and administrative expenses for 2000 included approximately \$10,300,000 of expenses related to the development of the Company's Online Store which commenced during Fiscal 2000. 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 offset by a decrease in the provision for management performance bonus expense. During the first quarter of Fiscal 2000, the Company incurred a pre-tax nonrecurring charge of approximately \$8,500,000 in connection with an extensive review conducted with the Company's financial and legal advisors of various strategic approaches to enhance shareholder value. In the fourth quarter of Fiscal 2000, the Company recorded a one-time pre-tax charge of \$2,200,000 relating to the estimated costs of the Company's obligations under a former executive's employment contract with the Company, in connection with the executive's resignation in January 2001. After taking these one-time charges into account, selling, general and administrative expenses, as a percentage of sales, were 40.7%.

Operating income decreased to \$98,240,000, or 7.9% of net sales, in 2000, from \$123,150,000, or 11.4% of net sales, in 1999. Amortization of goodwill was \$11,040,000, or 0.9% of net sales, in 2000, compared to \$11,040,000, or 1.0% of net sales, in 1999. Operating income without giving effect to such

amortization was \$109,280,000, or 8.8% of net sales, in 2000 and \$134,190,000, or 12.4% of net sales, in 1999.

Interest income was \$2,473,000 in 2000, compared to \$4,378,000 in 1999. The decrease was primarily attributable to decreased cash on hand in 2000 as a result of a dividend to ATSC, described below under "Liquidity and Capital Resources", to facilitate the repurchase by ATSC of shares of its common stock during the third and fourth quarters of Fiscal 1999.

Interest expense was \$7,315,000 in 2000, compared to \$11,814,000 in 1999. The decrease in interest expense was 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, a note (the "intercompany note") payable by the Company to ATSC in August 1998 was forgiven, and the Company's 8¾% Subordinated Notes due 2000 ("8¾% Notes") referred to below were redeemed. These transactions were completed using, in part, the proceeds from the issuance in June 1999 of a promissory note to ATSC ("Note Payable to ATSC"), which bears interest at a rate of 3.75% per annum. The weighted average interest rate on the Company's outstanding indebtedness at February 3, 2001 was 3.79%.

The income tax provision was \$41,035,000, or 43.9% of income before income taxes in the 2000 period, compared to \$50,221,000, or 43.4% of income before income taxes and extraordinary loss in 1999. The effective tax rates for both periods were higher than the statutory rates, primarily as a result of non-deductible goodwill expense.

As a result of the foregoing factors, the Company had net income of \$52,363,000, or 4.2% of net sales, for 2000, compared to net income of \$64,531,000, or 6.0% of net sales, for 1999.

Fiscal 1999 Compared to Fiscal 1998

The Company's net sales increased to \$1,084,519,000 over \$911,939,000 in Fiscal 1998, an increase of \$172,580,000, or 18.9%. Comparable store sales for Fiscal 1999 increased 8.4%, compared to an increase of 7.9% in Fiscal 1998. The sales increase was primarily attributable to the opening of new stores, the expansion of existing stores and the net increase in comparable store sales in 1999. Management believes that the increase in comparable store sales was the result of improved customer acceptance of the Company's product offerings and merchandise assortment.

Gross profit as a percentage of net sales increased to 50.6% in 1999 from 50.0% in 1998. This increase in gross margin reflects a higher initial markup rate, reflecting ongoing improvements achieved by the Company's sourcing division, offset in part by a higher markdown rate on goods that were sold below full price.

Selling, general and administrative expenses were \$414,315,000, or 38.2% of net sales, in 1999, compared to \$350,522,000, or 38.4% of net sales, in 1998. The decrease in selling, general and administrative expenses as a percentage of net sales was primarily attributable to increased leverage on fixed expenses resulting from increased comparable store sales and improved operating efficiencies. The benefits of this leverage were partially offset by an increase in marketing expenditures in support of the Company's strategic initiatives to enhance the Ann Taylor brand and increased investment in infrastructure, including in the Company's stores organization, to support the planned expansion of the Company's Ann Taylor Loft business.

Operating income increased to \$123,150,000, or 11.4% of net sales, in 1999 from \$91,020,000, or 10.0% of net sales, in 1998. Amortization of goodwill was \$11,040,000, or 1.0% of net sales, in 1999, compared to \$11,040,000, or 1.2% of net sales, in 1998. Operating income without giving effect to such amortization was \$134,190,000, or 12.4% of net sales, in 1999 and \$102,060,000, or 11.2% of net sales, in 1998.

Interest income was \$4,378,000 in 1999, compared to \$2,241,000 in 1998. The increase was primarily attributable to interest income earned on increased cash on hand for the portion of the fiscal year prior to the distribution of a dividend, described below under "Liquidity and Capital Resources", to ATSC, in the second half of 1999, to facilitate ATSC's securities repurchase program.

Interest expense was \$11,814,000 in 1999, compared to \$20,358,000 in 1998. The decrease in interest expense is attributable to the forgiveness during the second quarter of 1999 of the intercompany note and the redemption during the second quarter of 1999 of the 8¾% Notes referred to below, offset in part by interest expense on the Note Payable to ATSC that was issued in the second quarter of 1999. The weighted average interest rate on the Company's outstanding indebtedness at January 29, 2000 was 3.88%, compared to 8.60% at January 30, 1999.

The income tax provision was \$50,221,000, or 43.4% of income before income taxes and extraordinary loss, in the 1999 period, compared to \$33,579,000, or 46.1% of income before income taxes, in 1998. The effective tax rates for both periods were higher than the statutory rates, primarily as a result of non-deductible goodwill expense.

On July 22, 1999, the Company redeemed its outstanding 8¾% Notes. This resulted in an extraordinary charge to earnings in Fiscal 1999 of \$962,000, net of income tax benefit.

As a result of the foregoing factors, the Company had net income of \$64,531,000, or 6.0% of net sales, for 1999, compared to net income of \$39,324,000, or 4.3% of net sales, for 1998.

Changes in Financial Position

Prepaid expenses and other current assets increased to \$53,227,000 at the end of 2000 from \$37,796,000 at the end of 1999, an increase of \$15,431,000, or 40.8%. This increase was primarily attributable to an increase in construction allowance receivables and deferred income taxes.

Merchandise inventories increased to \$170,631,000 at February 3, 2001 from \$140,026,000 at January 29, 2000, an increase of \$30,605,000, or 21.9%. Merchandise inventories at February 3, 2001 and January 29, 2000 included approximately \$33,469,000 and \$22,959,000, respectively, of inventory associated with the Company's sourcing division, which is principally finished goods in transit from factories. The increase in merchandise inventories is primarily due to inventory purchased to support 81 new stores opened since the beginning of the year. Total store square footage increased to approximately 2,695,000 at February 3, 2001 from approximately 2,280,000 square feet at January 29, 2000. Merchandise inventory on a per-square-foot basis, excluding inventory associated with the Company's sourcing division, was approximately \$51 at the end of 2000, compared to \$51 at the end of 1999. Inventory turned 4.9 times in 2000, compared to 4.8 times in 1999, excluding inventory associated with the Company's sourcing division. Inventory turnover is determined by dividing cost of sales by the average of the cost of inventory at the beginning and end of the period (excluding inventory associated with the sourcing division).

Liquidity and Capital Resources

The Company's primary source of working capital is cash flow from operations. The following table sets forth material measures of the Company's liquidity:

	<u>Fiscal Year</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(dollars in thousands)		
Cash provided by operating activities	\$ 76,625	\$ 98,299	\$ 75,535
Working capital	\$172,767	\$151,368	\$168,708
Current ratio	2.22:1	2.26:1	2.30:1
Debt to equity ratio20:1	.22:1	.48:1

Cash provided by operating activities in 2000, as presented on the consolidated statements of cash flows, primarily resulted from earnings, noncash charges and increases in accounts payable and accrued liabilities, partially offset by increases in merchandise inventories and receivables.

The Company's principal credit facility is a bank credit facility that it entered into in June 1998 with a syndicate of lenders (the "Credit Facility"). The Company uses the Credit Facility for the issuance of commercial and standby letters of credit and to provide funds for other general corporate purposes. The lenders' commitment under the Credit Facility was originally \$150,000,000. The Credit Facility had an original maturity date of June 30, 2000, subject to extension upon the satisfaction of certain conditions. Effective September 3, 1999, the Company elected to reduce the commitment of the lenders under the Credit Facility by \$25,000,000 to \$125,000,000 and extended the term of the Credit Facility to June 30, 2001.

Loans outstanding under the Credit Facility at any time may not exceed \$50,000,000. The Company did not make any borrowings under the loan provisions of the Credit Facility during Fiscal 2000, and there were no loans outstanding at fiscal year end. The outstanding loan balance is required to be reduced to zero for the thirty-day period commencing January 1 each year. This cleardown period was achieved for January 2001. Maximum availability for loans and letters of credit under the Credit Facility is governed by a monthly borrowing base, determined by the application of specified advance rates against certain eligible assets. Based on this calculation, the maximum amount available for loans and letters of credit under the Credit Facility at February 3, 2001 was \$125,000,000. Commercial and standby letters of credit outstanding under the Credit Facility as of February 3, 2001 were approximately \$89,894,000.

Amounts outstanding under the Credit Facility bear interest at a rate equal to, at the Company's option, the lead lender's Base Rate or Eurodollar Rate, plus a margin ranging from 0.25% to 1.00%, and from 1.25% to 2.00%, respectively. In addition, the Company is required to pay the lenders a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.375% to 0.5% per annum. Fees for outstanding commercial and standby letters of credit range from 0.625% to 1.0% and from 1.25% to 2.0%, respectively.

The Credit Facility contains financial and other covenants, including limitations on indebtedness, liens and investments, restrictions on dividends or other distributions to stockholders and maintenance of certain financial ratios including a specified fixed charge ratio and specified levels of net worth.

The lenders have been granted a pledge of the common stock of ATSC and certain of its subsidiaries, and a security interest in substantially all other tangible and intangible assets, including accounts receivable, trademarks, inventory, store furniture and fixtures, of the Company and its subsidiaries, as collateral for the Company's obligations under the Credit Facility.

As noted above, the Credit Facility matures in June 2001. The Company is currently negotiating to obtain new financing to succeed the Credit Facility, and anticipates new arrangements will be in place in the Spring of 2001.

The Company had outstanding an intercompany note payable of \$100,625,000 to ATSC. During the second quarter of Fiscal 1999, the Company made a prepayment on the intercompany note in the amount of \$100,000, and the balance was forgiven by ATSC. This forgiveness of debt constitutes a contribution of capital by ATSC to the Company.

In the second quarter of Fiscal 1999, the Company issued a promissory note, as amended, to ATSC of an aggregate of \$199,072,000 principal amount at maturity. The Note Payable to ATSC was issued, as amended, by the Company during the second quarter of 1999 for value received and has interest and payment terms substantially similar to the terms of the Convertible Debentures Due 2019 ("Convertible Debentures") that were issued in 1999 by ATSC. ATSC has pledged the Note Payable to ATSC to the lenders under the Company's bank Credit Facility as collateral for ATSC's guarantee of the Company's performance of its obligations under the Credit Facility.

On July 22, 1999, the Company redeemed all of its outstanding 8¾% Notes, at a redemption price of 101.375% of principal amount, plus accrued unpaid interest to the redemption date. The redemption of the 8¾% Notes resulted in an extraordinary charge to earnings in the second quarter of Fiscal 1999 and fiscal year 1999 of \$962,000, net of income tax benefit.

The Company and its wholly owned subsidiary, AnnTaylor Distribution Services, Inc., are parties to a \$7,000,000 seven-year mortgage loan maturing in Fiscal 2002. The loan is secured by the Company's distribution center land and building in Louisville, Kentucky. The mortgage loan bears interest at 7.5% and is payable in monthly installments of approximately \$130,000. The mortgage loan balance at February 3, 2001 was \$2,650,000.

The Company's capital expenditures totaled \$83,310,000, \$53,409,000, and \$45,131,000 in Fiscal 2000, 1999 and 1998, respectively. Capital expenditures were primarily attributable to the Company's store expansion, renovation and refurbishment programs, as well as the investment the Company made in certain information systems and the Company's corporate offices. These expenditures also include, in Fiscal 2000, increased capital expenditures related to the Company's Internet e-commerce Web site and related enhancements to the material handling system at the Company's distribution center. The Company expects its total capital expenditure requirements in Fiscal 2001 will be approximately \$98,000,000, including capital for new store construction for a planned square footage increase of approximately 500,000 square feet, or 20%, as well as capital to support continued investments in information systems. The actual amount of the Company's capital expenditures will depend in part on the number of stores opened, expanded and refurbished and on the amount of construction allowances the Company receives from the landlords of its new or expanded stores.

On January 26, 2000, the Company declared a cash dividend, authorized by its Board of Directors, to ATSC in the amount of \$89,944,612 to facilitate the repurchase, by ATSC, of up to \$90,000,000 of its common stock and/or Convertible Debentures through open market purchases and privately negotiated transactions. As of January 29, 2000, 3,012,500 shares of ATSC's common stock had been repurchased for an aggregate purchase price of \$89,900,900 (exclusive of brokerage commissions), completing ATSC's repurchase program. All of the repurchased shares became treasury shares of ATSC and may be used for general corporate and other purposes. No Convertible Debentures were purchased.

In order to finance its operations and capital requirements, the Company expects to use internally generated funds, trade credit and funds available to it under the Credit Facility and replacements thereof that are expected to be obtained. The Company believes that cash flow from operations and funds available under the Credit Facility and replacements thereof that are expected to be obtained are sufficient to enable it to meet its ongoing cash needs for its business, as presently conducted, for the foreseeable future.

In 1998, the Financial Accounting Standards Board (the "FASB"), issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of Effective Date of FASB Statement No. 133", which establishes accounting and reporting standards for derivatives, derivative instruments embedded in other contracts and for hedging activities. In 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for certain derivatives, derivative instruments embedded in other contracts and for certain hedging activities. These statements are effective for the Company's Fiscal 2001 financial statements. Management has determined that the adoption of these standards will have no impact on the Company's financial statements.

Statement Regarding Forward-Looking Disclosures

Sections of this Annual Report on Form 10-K, including the preceding Management's Discussion and Analysis of Financial Condition and Results of Operations, contain various forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations and business of the Company. Examples of forward-looking statements are statements that use the words "expect", "anticipate", "plan", "intend", "project", "believe" and similar expressions. These forward-looking statements involve certain risks and uncertainties, and no

assurance can be given that any of such matters will be realized. Actual results may differ materially from those contemplated by such forward-looking statements as a result of, among other things, failure by the Company to predict accurately customer fashion preferences; a decline in the demand for merchandise offered by the Company; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of the Company's brand awareness and marketing programs; lack of sufficient customer acceptance of the Ann Taylor Loft concept in the upper-moderate-priced women's apparel market; general economic conditions that are less favorable than expected or a downturn in the retail industry; the inability of the Company to locate new store sites or negotiate favorable lease terms for additional stores or for the expansion of existing stores; lack of sufficient consumer interest in our Online Store; a significant change in the regulatory environment applicable to the Company's business; an increase in the rate of import duties or export quotas with respect to the Company's merchandise; financial or political instability in any of the countries in which the Company's goods are manufactured; or an adverse outcome of the litigation referred to in Note 5 to the Consolidated Financial Statements of the Company as of February 3, 2001, that materially and adversely affects the Company's financial condition. The Company assumes no obligation to update or revise any such forward-looking statements, which speak only as of their date, even if experience or future events or changes make it clear that any projected financial or operating results implied by such forward-looking statements will not be realized.

ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company maintains the majority of its cash and cash equivalents in financial instruments with original maturities of three months or less. These financial instruments are subject to interest rate risk and will decline in value if interest rates increase. Due to the short duration of these financial instruments, a change of 100 basis points in interest rates would not have a material effect on the Company's financial condition.

The Company's outstanding long-term debt as of February 3, 2001 bears interest at fixed rates; therefore, the Company's results of operations would only be affected by interest rate changes to the extent that fluctuating rate loans are outstanding under the Credit Facility. As of February 3, 2001, the Company has no such amounts outstanding. Future borrowings would be affected by interest rate changes; however, the Company does not believe that a change of 100 basis points in interest rates would have a material effect on the Company's financial condition.

ITEM 8. Financial Statements and Supplementary Data

The following consolidated financial statements of the Company for the years ended February 3, 2001, January 29, 2000 and January 30, 1999 are included as a part of this Report (See Item 14):

Consolidated Statements of Income for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999.

Consolidated Balance Sheets as of February 3, 2001 and January 29, 2000.

Consolidated Statements of Cash Flows for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999.

Notes to Consolidated Financial Statements.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a) List of documents filed as part of this Annual Report:
The following consolidated financial statements of the Company are included on pages 17 through 33 and are filed as part of this Annual Report:
Independent Auditors' Report; Consolidated Statements of Income for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999; Consolidated Balance Sheets as of February 3, 2001 and January 29, 2000; Consolidated Statements of Cash Flows for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999; Notes to Consolidated Financial Statements.
- (b) Reports on Form 8-K
The Company filed a report dated January 23, 2001 with the Commission on Form 8-K with respect to the resignation of a former executive of the Company.
- (c) Exhibits
The exhibits listed below are filed as a part of this Annual Report.
- Schedules other than the above have been omitted because they are either not applicable or the required information has been disclosed in the consolidated financial statements or notes thereto.

Exhibit Number

- 3.1 Certificate of Incorporation of the Company, as amended. Incorporated by reference to Exhibit 3.3 to the Registration Statement of ATSC and Ann Taylor filed on May 3, 1989 (Registration No. 33-28522).
- 3.2 By-Laws of the Company. Incorporated by reference to Exhibit 3.4 to the Registration Statement of ATSC and Ann Taylor filed on May 3, 1989 (Registration No. 33-28522).
- 4.1 Indenture, dated as of June 18, 1999, between the Company, ATSC, and the Bank of New York, as Trustee. Incorporated by reference to Exhibit 4.01 to the Registration Statement of ATSC filed on September 13, 1999.
- 10.1 1989 Stock Option Plan. Incorporated by reference to Exhibit 10.18 to the Registration Statement of ATSC and Ann Taylor filed on May 3, 1989 (Registration No. 33-28522).
- 10.1.1 Amendment to 1989 Stock Option Plan. Incorporated by reference to Exhibit 10.15.1 to the Annual Report on Form 10-K of the Company filed on April 30, 1993.
- 10.2 Lease, dated as of March 17, 1989, between Carven Associates and Ann Taylor concerning the West 57th Street headquarters. Incorporated by reference to Exhibit 10.21 to the Registration Statement of ATSC and Ann Taylor filed on May 3, 1989 (Registration No. 33-28522).
- 10.2.1 First Amendment to Lease, dated as of November 14, 1990, between Carven Associates and Ann Taylor. Incorporated by reference to Exhibit 10.17.1 to the Registration Statement of ATSC filed on April 11, 1991 (Registration No. 33-39905).
- 10.2.2 Second Amendment to Lease, dated as of February 28, 1993, between Carven Associates and Ann Taylor. Incorporated by reference to Exhibit 10.17.2 to the Annual Report on Form 10-K of ATSC filed on April 29, 1993.
- 10.2.3 Extension and Amendment to Lease dated as of October 1, 1993, between Carven Associates and Ann Taylor. Incorporated by reference to Exhibit 10.11 to the Form 10-Q of the Company for the Quarter ended October 30, 1993 filed on November 26, 1993.

Exhibit Number

- 10.2.4 Modification of Amendment and Extension to Lease, dated as of April 14, 1994 between Carven Associates and Ann Taylor. Incorporated by reference to Exhibit 10.15.4 to the Annual Report on Form 10-K of ATSC filed on April 28, 1995.
- 10.2.5 Fifth Amendment to Lease, dated as of March 14, 1995, between Carven Associates and Ann Taylor. Incorporated by reference to Exhibit 10.15.5 to the Annual Report on Form 10-K of ATSC filed on April 28, 1995.
- 10.2.6 Sixth Amendment to Lease, dated as of January 5, 1996, between Pacific Metropolitan Corporation and Ann Taylor. Incorporated by reference to Exhibit 10.8.6 to the Annual Report on Form 10-K of ATSC filed on April 30, 1998.
- 10.2.7 Seventh Amendment to Lease, dated as of June 5, 1996, between Pacific Metropolitan Corporation and Ann Taylor. Incorporated by reference to Exhibit 10.8.7 to the Annual Report on Form 10-K of ATSC filed on April 30, 1998.
- 10.2.8 Eighth Amendment to Lease, undated, between Pacific Metropolitan Corporation and Ann Taylor. Incorporated by reference to Exhibit 10.8.8 to the Annual Report on Form 10-K of ATSC filed on April 30, 1998.
- 10.2.9 Ninth Amendment to Lease, dated as of May 13, 1997, between Pacific Metropolitan Corporation and Ann Taylor. Incorporated by reference to Exhibit 10.8.9 to the Annual Report on Form 10-K of ATSC filed on April 30, 1998.
- 10.2.10 Tenth Amendment to Lease, dated as of May 21, 1997, between Pacific Metropolitan Corporation and Ann Taylor. Incorporated by reference to Exhibit 10.8.10 to the Annual Report on Form 10-K of ATSC filed on April 30, 1998.
- 10.2.11 Eleventh Amendment to Lease, dated as of May 15, 1998, between Pacific Metropolitan Corporation and ATSC. Incorporated by reference to Exhibit 10.3.11 to the Annual Report on Form 10-K of ATSC filed on March 29, 1999.
- 10.2.12 Sublease Agreement, dated as of February 23, 1999, between Societe Air France (formerly known as Compagnie Nationale Air France) and the Company. Incorporated by reference to Exhibit 10.2.12 to the Annual Report on Form 10-K of ATSC filed on April 18, 2000.
- 10.3 Tax Sharing Agreement, dated as of July 13, 1989, between ATSC and Ann Taylor. Incorporated by reference to Exhibit 10.24 to Amendment No. 2 to the Registration Statement of ATSC and Ann Taylor filed on July 13, 1989 (Registration No. 33-28522).
- 10.4 Employment Agreement dated as of February 1, 1994 between ATSC and Sally Frame Kasaks. Incorporated by reference to Exhibit 10.8 to the Form 10-Q of ATSC for the Quarter ended October 29, 1994 filed on December 9, 1994.
- 10.5 Employment Agreement dated February 16, 1996 between ATSC and J. Patrick Spainhour. Incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K of ATSC filed on April 8, 1996.
- 10.5.1 Amendment to the Employment Agreement, dated August 23, 1996, between ATSC and J. Patrick Spainhour. Incorporated by reference to Exhibit 10.11.1 to the Annual Report on Form 10-K of ATSC filed on May 1, 1997.
- 10.5.2 Amendment #2 to the Employment Agreement, dated August 12, 1999, between ATSC and J. Patrick Spainhour. Incorporated by reference to Exhibit 10.6.2 to the Form 10-Q of ATSC for the Quarter ended July 31, 1999 filed on September 14, 1999. Confidential treatment has been granted with respect to certain portions of this exhibit.
- 10.5.3 Amendment #3 to the Employment Agreement, dated March 10, 2000, between ATSC and J. Patrick Spainhour. Incorporated by reference to Exhibit 10.5.3 to the Annual Report on Form 10-K of ATSC filed on April 18, 2000.

Exhibit Number

- 10.6 Employment Agreement dated November 25, 1996 between ATSC and Patricia DeRosa. Incorporated by reference to Exhibit 10.3 to Form 10-Q of ATSC for the Quarter ended November 2, 1996 filed on December 17, 1996.
- 10.6.1 Amendment #1 to the Employment Agreement, dated as of February 16, 2000, between ATSC and Patricia DeRosa. Incorporated by reference to Exhibit 10.6.1 to the Annual Report on Form 10-K of ATSC filed on April 18, 2000. Confidential treatment has been granted with respect to certain portions of this exhibit.
- 10.6.2 Separation Agreement, dated as of January 15, 2001, between ATSC and Patricia DeRosa. Incorporated by reference to the Exhibit 10.6.2 to the Annual Report on Form 10-K of ATSC filed on April 5, 2001.
- 10.7 The AnnTaylor Stores Corporation 1992 Stock Option and Restricted Stock and Unit Award Plan, Amended and Restated as of February 23, 1994. Incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K of ATSC filed on May 1, 1997.
- 10.7.1 Amendment to the AnnTaylor Stores Corporation Amended and Restated 1992 Stock Option and Restricted Stock and Unit Award Plan, as approved by stockholders on June 18, 1997. Incorporated by reference to Exhibit 10.15.1 to the Form 10-Q of ATSC for the Quarter Ended August 2, 1997 filed on September 12, 1997.
- 10.7.2 Amendment to the AnnTaylor Stores Corporation Amended and Restated 1992 Stock Option and Restricted Stock and Unit Award Plan dated as of January 16, 1998. Incorporated by reference to Exhibit 10 of Form 8-K of ATSC filed on March 12, 1998.
- 10.7.3 Amendment to the AnnTaylor Stores Corporation Amended and Restated 1992 Stock Option and Restricted Stock and Unit Award Plan dated as of May 2, 1998. Incorporated by reference to Exhibit 10.16.3 to the Form 10-Q of ATSC for the Quarter ended April 2, 1998 filed on June 16, 1998.
- 10.7.4 Amendment to the AnnTaylor Stores Corporation Amended and Restated 1992 Stock Option and Restricted Stock and Unit Award Plan dated as of March 10, 2000. Incorporated by reference to Exhibit 10.8.4 to the Annual Report on Form 10-K of ATSC filed on April 18, 2000.
- 10.8 AnnTaylor Stores Corporation Amended and Restated Management Performance Compensation Plan, as approved by stockholders on June 18, 1997. Incorporated by reference to Exhibit 10.16 to the Form 10-Q of ATSC for the Quarter Ended August 2, 1997 filed on September 12, 1997.
- 10.8.1 Amendment to the AnnTaylor Stores Corporation Amended and Restated Management Performance Compensation Plan dated as of March 12, 1998. Incorporated by reference to Exhibit 10.17.1 to the Annual Report on Form 10-K of ATSC filed on April 30, 1998.
- 10.8.2 Amendment to the AnnTaylor Stores Corporation Amended and Restated Management Performance Compensation Plan, dated as of March 10, 2000. Incorporated by reference to Exhibit 10.9.2 to the Annual Report on Form 10-K of ATSC filed on April 18, 2000.
- 10.9 Associate Stock Purchase Plan. Incorporated by reference to Exhibit 10.31 to the form 10-Q of ATSC for the Quarter Ended October 31, 1992 filed on December 15, 1992.
- 10.10 AnnTaylor Stores Corporation Deferred Compensation Plan. Incorporated by reference to Exhibit 10.33 to the Annual Report on Form 10-K of ATSC filed on April 28, 1995.
- 10.10.1 Amendment to the AnnTaylor Stores Corporation Deferred Compensation Plan as approved by the Board of Directors on August 11, 1995. Incorporated by reference to Exhibit 10.33.1 to the Form 10-Q of ATSC for the Quarter Ended July 29, 1995 filed on September 11, 1995.

Exhibit Number

- 10.11 Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Financing Statement dated November 20, 1995, between AnnTaylor Distribution Services, Inc., as Mortgagor, and General Electric Capital Assurance Company, as Mortgagee. Incorporated by reference to Exhibit 10.34 to the Form 10-Q of Ann Taylor for the Quarter ended October 28, 1995 filed on December 8, 1995.
- 10.12 Promissory Note dated November 20, 1995 from Ann Taylor and AnnTaylor Distribution Services, Inc., collectively as Borrower, to General Electric Capital Assurance Company, as Lender. Incorporated by reference to Exhibit 10.35 to the Form 10-Q of Ann Taylor for the Quarter ended October 28, 1995 filed on December 8, 1995.
- 10.13 Commitment Letter dated as of May 7, 1998 among the Company, Bank of America National Trust and Savings Association, BancAmerica Robertson Stephens, Citicorp USA and CoreStates Bank, N.A. Incorporated by reference to Exhibit 10.27 to the Form 10-Q of ATSC for the Quarter Ended May 2, 1998 filed on June 16, 1998.
- 10.14 Credit Agreement, dated as of June 30, 1998 among the Company, Bank of America, Citicorp USA and First Union National Bank, as Co-Agents, the financial institutions from time to time party thereto, BancAmerica Robertson Stephens, as Arranger, and Bank of America, as Administrative Agent. Incorporated by reference to Exhibit 10.28 to the Form 10-Q of ATSC for the Quarter Ended August 1, 1998 filed on September 14, 1998.
- 10.14.1 Trademark Security Agreement, dated as of June 30, 1998, made by Ann Taylor in favor of Bank of America, as Administrative Agent. Incorporated by reference to Exhibit 10.28.1 to the Form 10-Q of ATSC for the Quarter Ended August 1, 1998 filed on September 14, 1998.
- 10.14.2 Guaranty, dated as of June 30, 1998, made by the Company in favor of Bank of America, as Administrative Agent. Incorporated by reference to Exhibit 10.28.2 to the Form 10-Q of ATSC for the Quarter Ended August 1, 1998 filed on September 14, 1998.
- 10.14.3 Security and Pledge Agreement, dated as of June 30, 1998, made by ATSC in favor of Bank of America, as Administrative Agent. Incorporated by reference to Exhibit 10.28.3 to the Form 10-Q of ATSC for the Quarter Ended August 1, 1998 filed on September 14, 1998.
- 10.14.4 Security and Pledge Agreement, dated as of June 30, 1998 made by Ann Taylor in favor of Bank of America, as Administrative Agent. Incorporated by reference to Exhibit 10.28.4 to the Form 10-Q of ATSC for the Quarter Ended August 1, 1998 filed on September 14, 1998.
- 10.14.5 Subsidiary Guaranty, dated as of June 30, 1998 made by AnnTaylor Distribution Services in favor of Bank of America, as Administrative Agent. Incorporated by reference to Exhibit 10.28.5 to the Form 10-Q of ATSC for the Quarter Ended August 1, 1998 filed on September 14, 1998.
- 10.14.6 First Amendment to the Credit Agreement, dated as of September 7, 1999, among the Company, Bank of America, N.A., Citibank, N.A., First Union National Bank and each of the other lenders party to the Credit Agreement, NationsBanc Montgomery Securities LLC, as Arranger and Bank of America, as Administrative Agent. Incorporated by reference to Exhibit 10.19.6 to the Form 10-Q of ATSC for the Quarter Ended July 31, 1999 filed on September 14, 1999.
- 10.14.7 Second Amendment to the Credit Agreement, dated December 1999, among the Company, Bank of America, N.A., Citibank, N.A., First Union National Bank, and each of the other lenders party to the Credit Agreement, NationsBanc Montgomery Securities LLC, as Arranger and Bank of America, as Administrative Agent. Incorporated by reference to Exhibit 10.15.7 to the Annual Report on Form 10-K of ATSC filed on April 18, 2000.

Exhibit Number

- 10.15 AnnTaylor Stores Corporation Long-Term Cash Incentive Compensation Plan, as approved by stockholders on June 17, 1998. Incorporated by reference to Exhibit A to the Proxy Statement of ATSC dated May 1, 1998 filed on May 6, 1998.
- 10.15.1 Amendment to the AnnTaylor Stores Corporation Long-Term Cash Incentive Compensation Plan, dated as of March 10, 2000. Incorporated by reference to Exhibit 10.16.1 to the Annual Report on Form 10-K of ATSC filed on April 18, 2000.
- 10.16 AnnTaylor Stores Corporation Special Severance Plan, dated as of March 10, 2000. Incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K of ATSC filed on April 18, 2000.
- 10.17 The AnnTaylor Stores Corporation 2000 Stock Option and Restricted Stock Award Plan. Incorporated by reference to the Registration Statement on Form S-8 of ATSC filed on May 31, 2000.
- 10.18 Employment Agreement, dated as of March 7, 2001, between ATSC and Barry Erdos. Incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K of ATSC filed on April 5, 2001.
- 23 Consent of Deloitte & Touche LLP.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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

Date: April 5, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ J. Patrick Spainhour</u> J. Patrick Spainhour	Chairman and Chief Executive Officer and Director	April 5, 2001
<u>/s/ Barry Erdos</u> Barry Erdos	Senior Executive Vice President and Chief Operating Officer	April 5, 2001
<u>/s/ James M. Smith</u> James M. Smith	Senior Vice President and Chief Financial Officer and Treasurer	April 5, 2001
<u>/s/ Gerald S. Armstrong</u> Gerald S. Armstrong	Director	April 5, 2001
<u>/s/ James J. Burke, Jr.</u> James J. Burke, Jr.	Director	April 5, 2001
<u>/s/ Wesley E. Cantrell</u> Wesley E. Cantrell	Director	April 5, 2001
<u>/s/ Robert C. Grayson</u> Robert C. Grayson	Director	April 5, 2001
<u>/s/ Ronald W. Hovsepian</u> Ronald W. Hovsepian	Director	April 5, 2001
<u>/s/ Rochelle B. Lazarus</u> Rochelle B. Lazarus	Director	April 5, 2001
<u>/s/ Hanne M. Merriman</u> Hanne M. Merriman	Director	April 5, 2001

ANNTAYLOR, INC.
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INDEPENDENT AUDITORS' REPORT

To the Stockholder of
ANNTAYLOR, INC.:

We have audited the accompanying consolidated financial statements of AnnTaylor, Inc. and its subsidiaries, listed in the accompanying index. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at February 3, 2001 and January 29, 2000 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 2001 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

New York, New York
March 1, 2001

ANNTAYLOR, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Fiscal Years Ended February 3, 2001, January 29, 2000 and January 30, 1999

	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
	(in thousands)		
Net sales.....	\$ 1,232,776	\$1,084,519	\$ 911,939
Cost of sales.....	<u>622,036</u>	<u>536,014</u>	<u>455,724</u>
Gross profit.....	610,740	548,505	456,215
Selling, general and administrative expenses.....	501,460	414,315	350,522
Retirement of assets.....	---	---	3,633
Amortization of goodwill.....	<u>11,040</u>	<u>11,040</u>	<u>11,040</u>
Operating income.....	98,240	123,150	91,020
Interest income.....	2,473	4,378	2,241
Interest expense.....	<u>7,315</u>	<u>11,814</u>	<u>20,358</u>
Income before income taxes and extraordinary loss..	93,398	115,714	72,903
Income tax provision.....	<u>41,035</u>	<u>50,221</u>	<u>33,579</u>
Income before extraordinary loss.....	52,363	65,493	39,324
Extraordinary loss (net of income tax benefit of \$0, \$641,000 and \$0, respectively).....	<u>---</u>	<u>962</u>	<u>---</u>
Net income.....	<u>\$ 52,363</u>	<u>\$ 64,531</u>	<u>\$ 39,324</u>

See accompanying notes to consolidated financial statements.

ANNTAYLOR, INC.
CONSOLIDATED BALANCE SHEETS
February 3, 2001 and January 29, 2000

ASSETS	February 3, <u>2001</u>	January 29, <u>2000</u>
	(in thousands)	
Current assets		
Cash and cash equivalents	\$ 31,962	\$ 35,081
Accounts receivable, net	57,989	58,686
Merchandise inventories	170,631	140,026
Prepaid expenses and other current assets	<u>53,227</u>	<u>37,796</u>
Total current assets	313,809	271,589
Property and equipment, net	220,032	173,639
Goodwill, net	297,619	308,659
Deferred financing costs, net	4,281	5,358
Other assets	<u>12,374</u>	<u>5,872</u>
Total assets	<u>\$848,115</u>	<u>\$765,117</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable	\$ 65,903	\$ 56,175
Accrued salaries and bonus	12,960	23,297
Accrued tenancy	9,800	7,800
Gift certificates and merchandise credits redeemable	20,375	15,618
Accrued expenses	30,604	16,031
Current portion of long-term debt	<u>1,400</u>	<u>1,300</u>
Total current liabilities	141,042	120,221
Long-term debt, net	116,210	114,485
Deferred lease costs and other liabilities	16,834	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	383,199	377,155
Retained earnings	<u>190,829</u>	<u>138,466</u>
Total stockholder's equity	<u>574,029</u>	<u>515,622</u>
Total liabilities and stockholder's equity	<u>\$848,115</u>	<u>\$765,117</u>

See accompanying notes to consolidated financial statements.

ANNTAYLOR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended February 3, 2001, January 29, 2000 and January 30, 1999

	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
	(in thousands)		
Operating activities:			
Net income	\$ 52,363	\$ 64,531	\$ 39,324
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary loss	---	1,603	---
Provision for loss on accounts receivable	1,154	1,032	1,476
Depreciation and amortization	35,033	30,347	28,783
Amortization of goodwill	11,040	11,040	11,040
Amortization of deferred compensation	1,133	1,877	465
Non-cash interest	4,247	3,026	1,290
Deferred income taxes	(3,864)	(3,843)	3,966
Loss on disposal of property and equipment	1,884	1,219	4,175
Changes in assets and liabilities:			
Increase in receivables	(457)	(1,154)	(5,813)
Increase in merchandise inventories	(30,605)	(3,278)	(39,514)
Increase in prepaid expenses and other current assets	(12,106)	(1,601)	(12,082)
Decrease (increase) in other non-current assets and liabilities, net	(3,918)	3,131	679
Increase (decrease) in accounts payable and accrued liabilities	<u>20,721</u>	<u>(9,631)</u>	<u>41,746</u>
Net cash provided by operating activities	<u>76,625</u>	<u>98,299</u>	<u>75,535</u>
Investing activities:			
Purchases of property and equipment	<u>(83,310)</u>	<u>(53,409)</u>	<u>(45,131)</u>
Net cash used by investing activities	<u>(83,310)</u>	<u>(53,409)</u>	<u>(45,131)</u>
Financing activities:			
Parent company activity	4,911	(80,109)	9,036
Payment of financing costs	(45)	(4,150)	(2,659)
Payments of mortgage	(1,300)	(1,206)	(1,119)
Proceeds from Issuance of Note Payable to ATSC	---	110,000	---
Redemption of 8¾% Notes	---	<u>(101,375)</u>	---
Net cash provided by (used by) financing activities	<u>3,566</u>	<u>(76,840)</u>	<u>5,258</u>
Net increase (decrease) in cash	(3,119)	(31,950)	35,662
Cash, beginning of year	<u>35,081</u>	<u>67,031</u>	<u>31,369</u>
Cash, end of year	<u>\$ 31,962</u>	<u>\$ 35,081</u>	<u>\$ 67,031</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	<u>\$ 2,418</u>	<u>\$ 9,405</u>	<u>\$ 18,582</u>
Cash paid during the year for income taxes	<u>\$ 43,393</u>	<u>\$ 51,222</u>	<u>\$ 33,934</u>

See accompanying notes to consolidated financial statements.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

AnnTaylor, Inc. (the "Company" or "Ann Taylor") is a leading national specialty retailer of better quality women's apparel, shoes and accessories sold principally under the Ann Taylor brand name. Its principal market consists of the United States. The Company sells its products through traditional retail stores and over the Internet, through its Online Store.

All of the outstanding capital stock of the Company, consisting of one share of common stock, is owned by AnnTaylor Stores Corporation ("ATSC").

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts have been eliminated in consolidation.

Certain Fiscal 1999 and 1998 amounts have been reclassified to conform to the Fiscal 2000 presentation.

Fiscal Year

The Company follows the standard fiscal year of the retail industry, which is a 52- or 53-week period ending on the Saturday closest to January 31 of the following calendar year. All fiscal years presented include 52 weeks, except the fiscal year ended February 3, 2001 which included 53 weeks.

Revenue Recognition

The Company records revenue as merchandise is sold. The Company's policy with respect to gift certificates is to record revenue as the certificates are redeemed for merchandise. Prior to their redemption, the certificates are recorded as a liability.

Cash and Cash Equivalents

Cash and short-term highly liquid investments with original maturities of three months or less are considered cash or cash equivalents.

Merchandise Inventories

Merchandise inventories are stated at the lower of average cost or market. Effective February 1, 1998, the Company elected to change its method of inventory valuation from the retail method to the average cost method. The majority of the Company's inventory represents finished goods available for sale.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets (3 to 40 years) or, in the case of leasehold improvements, over the lives of the respective leases, if shorter.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

1. Summary of Significant Accounting Policies (Continued)

Deferred Financing Costs

Deferred financing costs are being amortized using the interest method over the term of the related debt. Accumulated amortization at February 3, 2001 and January 29, 2000 was \$2,750,000 and \$1,628,000, respectively.

Finance Service Charge Income

Income from finance service charges relating to customer receivables, which is deducted from selling, general and administrative expenses, amounted to \$8,614,000 for Fiscal 2000, \$8,650,000 for Fiscal 1999 and \$8,422,000 for Fiscal 1998.

Goodwill and Other Long-Lived Assets

Goodwill relating to the 1989 acquisition of Ann Taylor by ATSC is being amortized on a straight-line basis over 40 years. Goodwill relating to the acquisition, in 1996, of the operations comprising the Company's sourcing division, is being amortized on a straight-line basis over 25 years. Accumulated amortization at February 3, 2001 and January 29, 2000 was \$120,971,000 and \$109,931,000, respectively.

The Company evaluates its long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company compares the carrying value of its long-lived assets to an estimate of their expected future cash flows (undiscounted and without interest charges) to evaluate the reasonableness of the carrying value and remaining depreciation or amortization period. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

Advertising

Costs associated with the production of advertising, such as printing and other costs, are expensed as incurred. Costs associated with communicating advertising that has been produced, such as magazine ads, are expensed when the advertising first takes place. Costs of direct mail catalogs and postcards are expensed when the advertising arrives in customers' homes. Advertising costs were \$30,900,000, \$25,700,000 and \$17,800,000 in Fiscal 2000, 1999 and 1998, respectively.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", which requires an asset and liability method of accounting for deferred income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized, and income or expense is recorded, for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company and its domestic subsidiaries file a consolidated Federal income tax return, while the Company's foreign subsidiaries file in their respective local jurisdictions.

Pursuant to a Tax Sharing Agreement, ATSC and the Company have agreed to elect to file consolidated income tax returns for federal income tax purposes and may elect to file such returns in states and other relevant jurisdictions that permit such an election, for income tax purposes. With respect to such consolidated income tax returns, the Tax Sharing Agreement generally requires the Company to pay to ATSC the entire tax shown to be due on such consolidated returns, provided that the amount paid by the Company shall not exceed the amount of taxes that would have been owed by the Company on a stand-alone basis.

Segments

The Company has one reportable segment given the economic characteristics of the store formats, the similar nature of the products sold, the type of customer and method of distribution.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates.

Recent Accounting Pronouncements

In 1998, the Financial Accounting Standards Board (the "FASB"), issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of Effective Date of FASB Statement No. 133", which establishes accounting and reporting standards for derivatives, derivative instruments embedded in other contracts and for hedging activities. In 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for certain derivatives, derivative instruments embedded in other contracts and for certain hedging activities. These statements are effective for the Company's Fiscal 2001 financial statements. Management has determined that the adoption of these standards have no impact on the Company's financial statements.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

2. Long-Term Debt

The following table summarizes long-term debt outstanding at February 3, 2001 and January 29, 2000:

	<u>February 3, 2001</u>		<u>January 29, 2000</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Mortgage.....	\$ 2,650	\$ 2,650	\$ 3,950	\$ 3,950
Note Payable to ATSC, net.....	<u>114,960</u>	<u>114,960</u>	<u>111,835</u>	<u>111,835</u>
Total debt.....	117,610	117,610	115,785	115,785
Less current portion.....	<u>1,400</u>	<u>1,400</u>	<u>1,300</u>	<u>1,300</u>
Total long-term debt	<u>\$116,210</u>	<u>\$116,210</u>	<u>\$114,485</u>	<u>\$114,485</u>

In accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", the Company determined the estimated fair value of its financial instruments using quoted market information, as available. As judgment is involved, the estimates are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The Company's principal credit facility is a bank credit facility that it entered into in June 1998 with a syndicate of lenders (the "Credit Facility"). The Company uses the Credit Facility for the issuance of commercial and standby letters of credit and to provide funds for other general corporate purposes. The lenders' commitment under the Credit Facility was originally \$150,000,000. The Credit Facility had an original maturity date of June 30, 2000, subject to extension upon the satisfaction of certain conditions. Effective September 3, 1999, the Company elected to reduce the commitment of the lenders under the Credit Facility by \$25,000,000 to \$125,000,000 and extended the term of the credit agreement to June 30, 2001.

Loans outstanding under the Credit Facility at any time may not exceed \$50,000,000. The Company did not make any borrowings under the loan provisions of the Credit Facility during Fiscal 2000, and there were no loans outstanding at fiscal year end. The outstanding loan balance is required to be reduced to zero for the thirty-day period commencing January 1 each year. This cleanup period was achieved for January 2001. Maximum availability for loans and letters of credit under the Credit Facility is governed by a monthly borrowing base, determined by the application of specified advance rates against certain eligible assets. Based on this calculation, the maximum amount available for loans and letters of credit under the Credit Facility at February 3, 2001 was \$125,000,000. Commercial and standby letters of credit outstanding under the Credit Facility at February 3, 2001 were approximately \$89,894,000.

Amounts outstanding under the Credit Facility bear interest at a rate equal to, at the Company's option, the lead lender's Base Rate or Eurodollar Rate, plus a margin ranging from 0.25% to 1.00% and from 1.25% to 2.00%, respectively. In addition, the Company is required to pay the lenders a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.375% to 0.5% per annum. Fees for outstanding commercial and standby letters of credit range from 0.625% to 1.0% and from 1.25% to 2.0%, respectively.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

2. Long-Term Debt (Continued)

The Credit Facility contains financial and other covenants, including limitations on indebtedness, liens and investments, restrictions on dividends or other distributions to stockholders and maintenance of certain financial ratios including a specified fixed charge coverage ratio and specified levels of net worth.

The lenders have been granted a pledge of the common stock of ATSC and certain of its subsidiaries, and a security interest in substantially all other tangible and intangible assets, including accounts receivable, trademarks, inventory, store furniture and fixtures, of the Company and its subsidiaries, as collateral for the Company's obligations under the Credit Facility.

As noted above, the Credit Facility matures in June 2001. The Company is currently negotiating to obtain new financing and anticipates new arrangements will be in place in the Spring of 2001.

In the second quarter of Fiscal 1999, the Company issued a promissory note, as amended, to ATSC of an aggregate of \$199,072,000 principal amount at maturity (the "Note Payable to ATSC"). The Note Payable to ATSC was issued, as amended, by the Company during the second quarter of 1999 for value received and has interest and payment terms substantially similar to the terms of the Convertible Debentures Due 2019 ("Convertible Debentures") that were issued in 1999 by ATSC. ATSC has pledged the Note Payable to ATSC to the lenders under the Company's bank Credit Facility as collateral for ATSC's guarantee of the Company's performance of its obligations under the Credit Facility.

On July 22, 1999, the Company redeemed all of its outstanding 8¾% Subordinated Notes due 2000 (the "8¾% Notes"), at a redemption price of 101.375% of principal amount, plus accrued unpaid interest to the redemption date. The redemption of the 8¾% Notes resulted in an extraordinary charge to earnings in the second quarter of 1999 and fiscal year 1999 of \$962,000, net of income tax benefit.

The Company had outstanding a note (the "intercompany note") payable of \$100,625,000 to ATSC. The intercompany note was issued by the Company on August 28, 1998 and had interest and payment terms substantially similar to the terms of the 8½% Convertible Subordinated Debentures Due 2016 that were issued in 1996 by ATSC to AnnTaylor Finance Trust. ATSC had pledged the intercompany note to the lenders as collateral for ATSC's guarantee of the Company's performance of its obligations under the Credit Facility. During the second quarter of Fiscal 1999, the Company made a prepayment on the intercompany note in the amount of \$100,000 and the balance was forgiven by ATSC. The forgiveness of debt constituted a contribution of capital by ATSC to the Company.

The Company and its wholly owned subsidiary AnnTaylor Distribution Services, Inc. are parties to a \$7,000,000 seven-year mortgage loan maturing in Fiscal 2002. The loan is secured by the Company's distribution center land and building in Louisville, Kentucky. The mortgage loan bears interest at 7.5% and is payable in monthly installments of approximately \$130,000. The mortgage loan balance at February 3, 2001 was \$2,650,000.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

2. Long-Term Debt (Continued)

The aggregate principal payments for the next five years of all long-term obligations at February 3, 2001 are as follows:

<u>Fiscal Year</u>	(in thousands)
2001	\$ 1,400
2002	1,250
2003	---
2004	---
2005	---
Total	<u>\$ 2,650</u>

3. Preferred Securities

In April and May of Fiscal 1996, ATSC completed the sale of an aggregate of \$100,625,000 of 8½% Company-Obligated Mandatorily Redeemable Convertible Preferred Securities (the "preferred securities") issued by its financing vehicle, AnnTaylor Finance Trust, a Delaware business trust (the "Trust"). On June 29, 1999, AnnTaylor Finance Trust redeemed all of the outstanding preferred securities. All but \$100,000 of the liquidation amount of the preferred securities was tendered for conversion into an aggregate of 5,116,717 shares of ATSC common stock prior to the redemption date, at a conversion price of \$19.65 per share of ATSC common stock, or 2.545 shares of ATSC common stock per \$50 liquidation amount of the security. Holders of preferred securities that were not tendered for conversion received 105.95% of the liquidation amount of the preferred securities redeemed, plus accrued distributions.

4. Allowance for Doubtful Accounts

A summary of activity in the allowance for doubtful accounts for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999 is as follows:

	<u>Fiscal Years Ended</u>		
	<u>February 3, 2001</u>	<u>January 29, 2000</u>	<u>January 30, 1999</u>
	(in thousands)		
Balance at beginning of year	\$ 666	\$ 820	\$ 812
Provision for loss on accounts receivable	1,154	1,032	1,476
Accounts written off	<u>(1,199)</u>	<u>(1,186)</u>	<u>(1,468)</u>
Balance at end of year	<u>\$ 621</u>	<u>\$ 666</u>	<u>\$ 820</u>

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

5. Commitments and Contingencies

Rental Commitments

The Company occupies its retail stores and administrative facilities under operating leases, most of which are non-cancelable. Some leases contain renewal options for periods ranging from one to ten years under substantially the same terms and conditions as the original leases. Most of the store leases require payment of a specified minimum rent, plus a contingent rent based on a percentage of the store's net sales in excess of a specified threshold. In addition, most of the leases require payment of real estate taxes, insurance and certain common area and maintenance costs in addition to the future minimum lease payments shown below.

Future minimum lease payments under non-cancelable operating leases at February 3, 2001 are as follows:

<u>Fiscal Year</u>	<u>(in thousands)</u>
2001	\$ 117,419
2002	118,108
2003	113,145
2004	108,743
2005	100,034
2006 and thereafter.....	<u>353,493</u>
Total	<u>\$ 910,942</u>

Rent expense for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999 was as follows:

	<u>Fiscal Years Ended</u>		
	<u>February 3, 2001</u>	<u>January 29, 2000</u>	<u>January 30, 1999</u>
	<u>(in thousands)</u>		
Minimum rent.....	\$91,482	\$73,363	\$66,916
Percentage rent.....	<u>3,534</u>	<u>3,131</u>	<u>2,414</u>
Total.....	<u>\$95,016</u>	<u>\$76,494</u>	<u>\$69,330</u>

Litigation

The Company has been named as a defendant in several legal actions arising from its normal business activities. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in the opinion of the Company, any such liability will not have a material adverse effect on the financial position, results of operations or liquidity of the Company.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

5. Commitments and Contingencies (continued)

In addition, ATSC, Ann Taylor, certain directors and former officers and directors of ATSC and Ann Taylor, Merrill Lynch & Co. ("ML&Co.") and certain affiliates of ML&Co. are defendants in a purported class action lawsuit originally filed in April 1996 by certain alleged stockholders, alleging that ATSC and the other defendants engaged in a fraudulent scheme and course of business that operated a fraud or deceit on purchasers of ATSC's common stock during the period from February 3, 1994 through May 4, 1995. On November 9, 1998, the District Court issued an order granting the defendants' motion to dismiss the amended complaint with prejudice for its failure to plead fraud with particularity. On or about December 15, 1998, the plaintiffs filed a notice of appeal to the United States Court of Appeals for the Second Circuit, seeking review of the District Court's order. The Court heard oral argument on this appeal on September 15, 1999. ML&Co., its affiliates and the two directors who previously served on the Company's Board of Directors as representatives of certain affiliates of ML&Co. (the "settling defendants") reached a settlement with the plaintiffs, which provides, among other things, for the establishment of a settlement fund in the amount of \$3,000,000, plus interest. On or about December 14, 1999, the District Court entered an Order and Final Judgment approving this partial settlement, dismissing the amended complaint with prejudice as to the settling defendants, and barring and enjoining any future claims by, among others, the remaining defendants against the settling defendants for contribution.

On June 21, 2000, the United States Court of Appeals for the Second Circuit vacated the dismissal of the amended complaint. The Court of Appeals held that the allegations of the amended complaint are sufficient to satisfy the standard for pleading intent under the federal securities laws, but expressed no view as to whether the allegations are sufficiently particularized. Accordingly, the Court of Appeals remanded the case to the District Court with instructions to allow plaintiffs to replead their complaint, and to reconsider whether plaintiffs' allegations are pled with sufficient particularity to satisfy the pleading standards of the Private Securities Litigation Reform Act of 1995. The decision of the Court of Appeals applies only to plaintiffs' claims against ATSC and Ann Taylor and their former directors and officers. As a result, any liability that may arise from this action cannot be predicted at this time. ML&Co. and its affiliates entered into a settlement with the plaintiffs, and plaintiffs withdrew their appeal of the dismissal of the amended complaint with respect to those defendants.

On or about September 19, 2000, ATSC and Ann Taylor and their former directors and officers filed a petition for a writ of certiorari in the United States Supreme Court seeking review and reversal of the decision of the Court of Appeals. This petition was denied on or about November 27, 2000.

Following the decision of the Court of Appeals, plaintiffs elected not to replead their amended complaint. On or about September 29, 2000, ATSC and Ann Taylor and their former directors and officers again moved to dismiss the amended complaint, arguing that it fails to plead fraud with sufficient particularity under the standards set forth by the Court of Appeals in its June 21, 2000 decision. The motion has been fully briefed and is pending before the District Court.

The Company believes that the amended complaint is without merit and intends to continue to defend the action vigorously.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

6. Property and Equipment

Property and equipment consists of the following:

	Fiscal Years Ended	
	February 3, 2001	January 29, 2000
	(in thousands)	
Land and building	\$ 8,774	\$ 8,774
Leasehold improvements	132,537	110,573
Furniture and fixtures.....	213,195	169,521
Construction in progress.....	<u>25,279</u>	<u>23,518</u>
	379,785	312,386
Less accumulated depreciation and amortization	<u>159,753</u>	<u>138,747</u>
Net property and equipment.....	<u>\$ 220,032</u>	<u>\$ 173,639</u>

7. Extraordinary Item

On July 22, 1999, the Company applied the proceeds received from the issuance of its Note Payable to ATSC to redeem the outstanding 8¾% Notes. This resulted in an extraordinary charge to earnings in Fiscal 1999 of \$962,000, net of income tax benefit of \$641,000.

8. Nonrecurring Charges

In the fourth quarter of Fiscal 1998, the Company recorded a \$3,633,000 non-cash pre-tax charge for the retirement of certain assets. This charge related to the write-off of the net book value of assets relinquished during the renovation of the Company's corporate offices.

9. Income Taxes

The provision for income taxes for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999 consists of the following:

	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
	(in thousands)		
Federal:			
Current	\$ 38,082	\$ 41,682	\$ 21,589
Deferred	<u>(3,047)</u>	<u>(3,033)</u>	<u>2,748</u>
Total federal.....	<u>35,035</u>	<u>38,649</u>	<u>24,337</u>
State and local:			
Current	6,476	11,856	7,869
Deferred	<u>(817)</u>	<u>(809)</u>	<u>1,217</u>
Total state and local.....	<u>5,659</u>	<u>11,047</u>	<u>9,086</u>
Foreign:			
Current	471	525	156
Deferred	<u>(130)</u>	---	---
Total foreign.....	<u>341</u>	<u>525</u>	<u>156</u>
Total	<u>\$ 41,035</u>	<u>\$ 50,221</u>	<u>\$ 33,579</u>

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

9. Income Taxes (continued)

The reconciliation between the provision for income taxes and the provision for income taxes at the federal statutory rate for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999 is as follows:

	<u>Fiscal Years Ended</u>		
	<u>February 3,</u> <u>2001</u>	<u>January 29,</u> <u>2000</u>	<u>January 30,</u> <u>1999</u>
	(in thousands, except percentages)		
Income before income taxes and extraordinary loss	\$ <u>93,398</u>	\$ <u>115,714</u>	\$ <u>72,903</u>
Federal statutory rate.....	35%	35%	35%
Provision for income taxes at federal statutory rate	\$ 32,689	\$ 40,500	\$ 25,516
State and local income taxes, net of federal income tax benefit	4,751	6,278	4,660
Non-deductible amortization of goodwill	3,500	3,500	3,500
Earnings of foreign subsidiaries	78	79	(188)
Other	17	(136)	91
Provision for income taxes	\$ <u>41,035</u>	\$ <u>50,221</u>	\$ <u>33,579</u>

The tax effects of significant items comprising the Company's deferred tax assets as of February 3, 2001 and January 29, 2000 are as follows:

	<u>February 3, 2001</u>	<u>January 29, 2000</u>
	(in thousands)	
Current:		
Inventory.....	\$ 4,375	\$ 2,071
Accrued expenses.....	3,364	2,306
Real estate	<u>(2,087)</u>	<u>(2,050)</u>
Total current.....	\$ <u>5,652</u>	\$ <u>2,327</u>
Noncurrent:		
Accrued expenses.....	\$ 983	\$ 763
Depreciation and amortization.....	(2,616)	(2,936)
Rent expense	5,510	5,168
Other	<u>(16)</u>	<u>327</u>
Total noncurrent.....	\$ <u>3,861</u>	\$ <u>3,322</u>

Income taxes provided reflect the current and deferred tax consequences of events that have been recognized in the Company's financial statements or tax returns. U.S. federal income taxes are provided on unremitted foreign earnings, except those that are considered permanently reinvested, which at February 3, 2001 amounted to approximately \$6,803,000. However, if these earnings were not considered permanently reinvested, under current law, the incremental tax on such undistributed earnings would be approximately \$2,137,000.

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

10. Retirement Plans

Savings Plan. The Company maintains a defined contribution 401(k) savings plan for substantially all full-time employees of the Company and its subsidiaries. Participants may contribute to the plan an aggregate of up to 10% of their annual earnings. The Company makes a matching contribution of 50% with respect to the first 3% of each participant's annual earnings contributed to the plan. The Company's contributions to the plan for Fiscal 2000, Fiscal 1999 and Fiscal 1998 were \$792,000, \$697,000, and \$592,000, respectively.

Pension Plan. Substantially all full-time employees of the Company and its subsidiaries are covered under a noncontributory defined benefit pension plan. Through December 31, 1997, the pension plan was a "cash balance pension plan", under which each participant accrued a benefit based on compensation and years of service with the Company. As of January 1, 1998, the plan was amended and the formula to calculate benefits was changed to a career average formula. The new career average formula was used to determine the funding status of the plan beginning in Fiscal 1997. The Company's funding policy for the plan is to contribute annually the amount necessary to provide for benefits based on accrued service and projected pay increases. Plan assets consist primarily of cash, equity and fixed income securities.

The following table provides information for the pension plan at February 3, 2001, January 29, 2000 and January 30, 1999:

	<u>Fiscal Years Ended</u>		
	<u>February 3,</u> <u>2001</u>	<u>January 29,</u> <u>2000</u>	<u>January 30,</u> <u>1999</u>
	(in thousands)		
Change in benefit obligation:			
Benefit obligation, beginning of year.....	\$ 4,954	\$ 4,642	\$ 3,820
Service cost	1,206	1,129	669
Interest.....	442	340	292
Actuarial loss	912	19	348
Benefits paid	<u>(732)</u>	<u>(1,176)</u>	<u>(487)</u>
Benefit obligation, end of year	<u>6,782</u>	<u>4,954</u>	<u>4,642</u>
Change in plan assets:			
Fair value of plan assets, beginning of year ..	9,489	7,486	5,128
Actual return on plan assets	887	763	1,205
Employer contribution	---	2,416	1,640
Benefits paid	<u>(732)</u>	<u>(1,176)</u>	<u>(487)</u>
Fair value of plan assets, end of year.....	<u>9,644</u>	<u>9,489</u>	<u>7,486</u>
Funded status (fair value of plan assets less benefit obligation)	2,862	4,535	2,844
Unrecognized net actuarial gain	(763)	(1,621)	(1,675)
Unrecognized prior service cost	57	63	69
Prepaid benefit cost.....	<u>\$ 2,156</u>	<u>\$ 2,977</u>	<u>\$ 1,238</u>

ANNTAYLOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

10. Retirement Plans (continued)

Net pension cost includes the following components:

	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
	(in thousands)		
Service cost	\$ 1,206	\$ 1,129	\$ 669
Interest cost	442	340	292
Expected return on assets	(831)	(776)	(481)
Amortization of prior gains	(1)	(22)	(61)
Amortization of prior service cost	6	6	6
Net periodic pension cost	<u>\$ 822</u>	<u>\$ 677</u>	<u>\$ 425</u>

For the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999, the following actuarial assumptions were used:

	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Discount rate.....	7.75%	8.25%	6.75%
Long-term rate of return on assets	9.00%	9.00%	9.00%
Rate of increase in future compensation	4.00%	4.00%	4.00%

11. Stockholder's Equity

The following summarizes the changes in stockholder's equity during Fiscal 2000, Fiscal 1999 and Fiscal 1998:

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholder's Equity
	(in thousands)			
Balance at January 31, 1998	\$ 1	\$445,886	\$ 34,611	\$ 480,498
Net income	---	---	39,324	39,324
Parent company contributions	---	9,501	---	9,501
Intercompany note	---	(100,625)	---	(100,625)
Balance at January 30, 1999	1	354,762	73,935	428,698
Net income	---	---	64,531	64,531
Parent company contributions	---	11,713	---	11,713
Forgiveness of intercompany note	---	100,625	---	100,625
Dividend to ATSC	---	(89,945)	---	(89,945)
Balance at January 29, 2000	1	377,155	138,466	515,622
Net income	---	---	52,363	52,363
Parent company contributions	---	6,044	---	6,044
Balance at February 3, 2001	<u>\$ 1</u>	<u>\$383,199</u>	<u>\$190,829</u>	<u>\$ 574,029</u>

During Fiscal 1999, ATSC's Board of Directors authorized a program under which ATSC was authorized to purchase up to \$90,000,000 of ATSC's common stock and/or Convertible Debentures. As of January 29, 2000, 3,012,500 shares of ATSC's common stock had been repurchased, using the funding provided by a dividend from the Company to ATSC. The securities repurchase program was completed in Fiscal 1999.