
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended November 2, 2002

Commission file number 1-10738

ANNTAYLOR STORES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3499319
(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 the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐.

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

<u>Class</u>	<u>Outstanding as of November 29, 2002</u>
Common Stock, \$.0068 par value	44,833,815

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ANNTAYLOR STORES CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Quarters and Nine Months Ended November 2, 2002 and November 3, 2001
(unaudited)

	<u>Quarters Ended</u>		<u>Nine Months Ended</u>	
	<u>Nov. 2,</u>	<u>Nov. 3,</u>	<u>Nov. 2,</u>	<u>Nov. 3,</u>
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(in thousands except per share amounts)			
Net sales	\$ 340,218	\$ 310,804	\$1,028,753	\$ 928,187
Cost of sales	<u>143,760</u>	<u>142,929</u>	<u>464,554</u>	<u>448,657</u>
Gross margin	196,458	167,875	564,199	479,530
Selling, general and administrative expenses	154,906	142,212	456,412	413,763
Amortization of goodwill	<u>---</u>	<u>2,760</u>	<u>---</u>	<u>8,280</u>
Operating income	41,552	22,903	107,787	57,487
Interest income	923	242	2,352	1,100
Interest expense	<u>1,638</u>	<u>1,516</u>	<u>5,163</u>	<u>5,015</u>
Income before income taxes	40,837	21,629	104,976	53,572
Income tax provision	<u>15,926</u>	<u>9,535</u>	<u>40,941</u>	<u>24,135</u>
Net income	<u>\$ 24,911</u>	<u>\$ 12,094</u>	<u>\$ 64,035</u>	<u>\$ 29,437</u>
Basic earnings per share of common stock	\$ 0.56	\$ 0.28	\$ 1.45	\$ 0.68
Diluted earnings per share of common stock	\$ 0.53	\$ 0.27	\$ 1.37	\$ 0.67

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR STORES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
November 2, 2002 and February 2, 2002
(unaudited)

	<u>November 2, 2002</u>	<u>February 2, 2002</u>
ASSETS	(in thousands)	
Current assets		
Cash and cash equivalents	\$ 165,853	\$ 30,037
Accounts receivable, net	14,407	65,598
Merchandise inventories	208,086	180,117
Prepaid expenses and other current assets	49,845	50,314
Total current assets	438,191	326,066
Property and equipment, net	251,116	250,735
Goodwill, net	286,579	286,579
Deferred financing costs, net	4,392	5,044
Other assets	16,392	14,742
Total assets	<u>\$ 996,670</u>	<u>\$ 883,166</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 60,216	\$ 52,011
Accrued expenses	101,428	83,364
Current portion of long-term debt	---	1,250
Total current liabilities	161,644	136,625
Long-term debt, net	120,797	118,280
Deferred lease costs and other liabilities	18,494	16,132
Stockholders' equity		
Common stock, \$.0068 par value; 120,000,000 shares authorized; 48,883,932 and 48,275,957 shares issued, respectively	332	219
Additional paid-in capital	499,226	484,582
Retained earnings	279,988	218,709
Deferred compensation on restricted stock	(5,717)	(9,296)
Treasury stock, at cost		
4,050,117 and 4,210,232 shares, respectively	(78,094)	(82,085)
Total stockholders' equity	695,735	612,129
Total liabilities and stockholders' equity	<u>\$ 996,670</u>	<u>\$ 883,166</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR STORES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended November 2, 2002 and November 3, 2001
(unaudited)

	<u>Nine Months Ended</u>	
	<u>November 2, 2002</u>	<u>November 3, 2001</u>
	(in thousands)	
Operating activities:		
Net income	\$ 64,035	\$ 29,437
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred compensation	4,234	998
Amortization of goodwill	---	8,280
Deferred income taxes.....	3,685	2,025
Depreciation and amortization	36,076	31,330
Gain on sale of proprietary credit card accounts receivable.....	(2,095)	---
Loss on disposal or write down of property and equipment.....	631	1,502
Non-cash interest.....	3,184	3,021
Provision for loss on accounts receivable.....	---	1,087
Tax benefit from exercise of stock options	3,490	793
Changes in assets and liabilities:		
Receivables	(4,515)	(13,850)
Merchandise inventories	(27,969)	(54,179)
Prepaid expenses and other current assets	(1,149)	(2,192)
Accounts payable and accrued expenses	26,265	18,974
Other non-current assets and liabilities, net.....	(1,354)	(7,350)
Net cash provided by operating activities	<u>104,518</u>	<u>19,876</u>
Investing activities:		
Purchases of property and equipment	(37,084)	(65,586)
Net proceeds from sale of proprietary credit card accounts receivable	<u>57,800</u>	<u>---</u>
Net cash provided by (used by) investing activities	<u>20,716</u>	<u>(65,586)</u>
Financing activities:		
Net borrowings under revolving credit facility	---	14,250
Payment of deferred financing costs	(15)	(1,033)
Payments on mortgage	(1,250)	(1,040)
Issuance of common stock, net	<u>11,847</u>	<u>5,220</u>
Net cash provided by financing activities	<u>10,582</u>	<u>17,397</u>
Net increase (decrease) in cash.....	135,816	(28,313)
Cash and cash equivalents, beginning of period	<u>30,037</u>	<u>31,962</u>
Cash and cash equivalents, end of period	<u>\$165,853</u>	<u>\$ 3,649</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest	\$ <u>1,564</u>	\$ <u>1,522</u>
Cash paid during the period for income taxes.....	\$ <u>27,640</u>	\$ <u>11,984</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR STORES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The condensed consolidated financial statements 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 fiscal 2002 interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year.

The February 2, 2002 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of AnnTaylor Stores Corporation (the "Company").

Certain fiscal 2001 amounts have been reclassified to conform to the fiscal 2002 presentation.

Detailed footnote information is not included for the quarters ended November 2, 2002 and November 3, 2001. The financial information set forth herein should be read in conjunction with the Notes to the Company's Consolidated Financial Statements contained in the AnnTaylor Stores Corporation 2001 Annual Report to Stockholders.

2. Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of additional shares of common stock that are issuable by the Company upon the conversion of all outstanding stock options and convertible securities and vesting of restricted stock, if the effect is dilutive.

In April 2002, the Company's Board of Directors approved a 3-for-2 split of the Company's Common Stock, in the form of a stock dividend. One additional share of Common Stock for every two shares owned was distributed on May 20, 2002 to stockholders of record at the close of business on May 2, 2002. Shares outstanding, as well as basic and diluted earnings per share (restated for the effect of the stock split) follow:

[Tables on next page]

ANNTAYLOR STORES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

2. Earnings Per Share (continued)

	Quarters Ended					
	November 2, 2002			November 3, 2001		
	(in thousands, except per share amounts)					
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<u>Basic Earnings per Share</u>						
Income available to common stockholders	\$24,911	44,328	<u>\$0.56</u>	\$12,094	43,419	<u>\$0.28</u>
<u>Effect of Dilutive Securities</u>						
Stock options and restricted stock	---	430		---	273	
Convertible Debentures	<u>714</u>	<u>3,606</u>		<u>648</u>	<u>3,606</u>	
<u>Diluted Earnings per Share</u>						
Income available to common stockholders	\$25,625	48,364	\$0.53	\$12,742	47,298	\$0.27

	Nine Months Ended					
	November 2, 2002			November 3, 2001		
	(in thousands, except per share amounts)					
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<u>Basic Earnings per Share</u>						
Income available to common stockholders	\$64,035	44,206	<u>\$1.45</u>	\$29,437	43,298	<u>\$0.68</u>
<u>Effect of Dilutive Securities</u>						
Stock options and restricted stock	---	561		---	358	
Convertible Debentures	<u>2,129</u>	<u>3,606</u>		<u>2,044</u>	<u>3,606</u>	
<u>Diluted Earnings per Share</u>						
Income available to common stockholders	\$66,164	48,373	\$1.37	\$31,481	47,262	\$0.67

Options to purchase 2,660,136 and 1,016,936 shares of common stock during the quarter and nine months ended November 2, 2002, respectively, and 1,683,510 and 1,650,510 shares of common stock during the quarter and nine months ended November 3, 2001, respectively, were excluded from the above computations of weighted average shares for diluted earnings per share, due to the antidilutive effect of the options' exercise price as compared to the average market price of the common shares during those periods.

3. Long-Term Debt

Long-term debt outstanding at November 2, 2002 was \$120,797,000, which represents the net carrying value of the Company's convertible debentures on that date.

ANNTAYLOR STORES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

4. Recent Accounting Pronouncements

Effective February 3, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 requires that ratable amortization of goodwill be replaced by periodic tests for impairment within six months of the date of adoption, and then on a periodic basis thereafter. Based on the impairment testing performed in February 2002, Management determined that there was no impairment loss related to the net carrying value of the Company's recorded goodwill. Management intends to reevaluate this on an annual basis, or when events or circumstances indicate an impairment test is necessary, in accordance with the provisions of SFAS No. 142.

The following tables provide a reconciliation of reported net income and earnings per share (restated for the effect of the stock split) for the quarter and nine months ended November 3, 2001 to adjusted net income and earnings per share had SFAS No. 142 been applied as of the beginning of fiscal 2001:

<u>Quarter Ended November 3, 2001</u>			
	<u>Income</u>	<u>Basic Earnings Per Share</u>	<u>Diluted Earnings Per Share</u>
Income available to common stockholders	\$ 12,094	\$ 0.28	\$ 0.27
Impact of adopting SFAS No. 142 in fiscal 2001	<u>2,662</u>	<u>0.06</u>	<u>0.06</u>
Adjusted income available to common stockholders	<u>\$ 14,756</u>	<u>\$ 0.34</u>	<u>\$ 0.33</u>

<u>Nine Months Ended November 3, 2001</u>			
	<u>Income</u>	<u>Basic Earnings Per Share</u>	<u>Diluted Earnings Per Share</u>
Income available to common stockholders	\$ 29,437	\$ 0.68	\$ 0.67
Impact of adopting SFAS No. 142 in fiscal 2001	<u>7,984</u>	<u>0.18</u>	<u>0.17</u>
Adjusted income available to common stockholders	<u>\$37,421</u>	<u>\$ 0.86</u>	<u>\$ 0.84</u>

ANNTAYLOR STORES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

4. Recent Accounting Pronouncements (continued)

In June 2002, the Financial Accounting Standards Board (the "FASB"), issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 replaces EITF No. 94-3, and is required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company will adopt SFAS No. 146 in the fourth quarter of fiscal 2002, and does not expect it will have a material impact on its consolidated financial statements.

In October 2002, the FASB issued SFAS No. 147 "Acquisitions of Certain Financial Institutions – an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9". SFAS No. 147 removes acquisitions of financial institutions, except for transactions between two or more mutual enterprises, from the scope of both Statement No. 72 and Interpretation No. 9, and requires that those transactions be accounted for in accordance with FASB Statements No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets". In addition, SFAS No. 147 amends FASB Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" to include in its scope long-term customer-relationship intangible assets of financial institutions. Management has determined that SFAS No. 147 has no applicability to the Company's operations.

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

Results of Operations

	<u>Quarters Ended</u>		<u>Nine Months Ended</u>	
	<u>November 2, 2002</u>	<u>November 3, 2001</u>	<u>November 2, 2002</u>	<u>November 3, 2001</u>
Number of Stores:				
Open at beginning of period.....	555	500	538	478
Opened during period	26	33	43	58
Expanded during period*	---	1	---	6
Closed during period.....	1	1	1	4
Open at end of period	580	532	580	532
Type of Stores Open at End of Period:				
Ann Taylor stores.....			350	341
Ann Taylor Loft stores.....			202	178
Ann Taylor Factory Stores			28	13

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

Quarter Ended November 2, 2002 Compared to Quarter Ended November 3, 2001

The Company's net sales for the third quarter of fiscal 2002 increased \$29,414,000, or 9.5 percent, to \$340,218,000, up from \$310,804,000 in the third quarter of fiscal 2001. Comparable store sales for period decreased 1.1 percent, compared to a comparable store sales decrease of 10.6 percent for the same period last year. Comparable store sales by division were down 2.9 percent for Ann Taylor, and up 1.7 percent for Ann Taylor Loft. The increase in net sales is primarily due to an increase in the number of stores open during the third quarter of fiscal 2002 as compared to the same period last year.

Gross margin as a percentage of net sales increased to 57.7 percent in the third quarter of fiscal 2002 from 54.0 percent in the third quarter of fiscal 2001. The increase in gross margin as a percentage of net sales is the combined result of higher full price sales and higher margin rates achieved on both full price and non-full price sales at both divisions.

Selling, general and administrative expenses during the third quarter of fiscal 2002 were \$154,906,000, or 45.5 percent of net sales, compared to \$142,212,000, or 45.8 percent of net sales in the third quarter of fiscal 2001. The decrease in selling, general and administrative expenses as a percentage of net sales is the result of efficiencies in store operations, lower internet costs, and reduced marketing spending, partially offset by an increase in the provision for management performance bonus.

As a result of the foregoing, the Company had operating income of \$41,552,000, or 12.2 percent of net sales, in the third quarter of fiscal 2002, compared to operating income of \$22,903,000, or 7.4 percent of net sales, in the third quarter of fiscal 2001. There was no goodwill amortization recorded in the third quarter of fiscal 2002 in accordance with SFAS No. 142, which the Company adopted in February 2002. Amortization of goodwill was \$2,760,000 in the third quarter of fiscal 2001. Operating income in the third quarter of fiscal 2001, without giving effect to goodwill amortization, was \$25,663,000, or 8.3 percent of net sales.

Interest income was \$923,000 in the third quarter of fiscal 2002 compared to \$242,000 in the third quarter of fiscal 2001. The increase is primarily attributable to higher cash on hand, offset somewhat by lower interest rates.

Interest expense was \$1,638,000 in the third quarter of fiscal 2002 compared to \$1,516,000 in the third quarter of fiscal 2001.

The income tax provision was \$15,926,000, or 39.0 percent of income before income taxes, in the third quarter of fiscal 2002, compared to \$9,535,000, or 44.1 percent of income before income taxes, in the third quarter of fiscal 2001. The decrease in the effective income tax rate is primarily the result of non-deductible goodwill expense, which as previously discussed, was not recorded in fiscal 2002.

As a result of the foregoing factors, the Company had net income of \$24,911,000, or 7.3 percent of net sales, for the third quarter of fiscal 2002, compared to net income of \$12,094,000, or 3.9 percent of net sales, in the third quarter of fiscal 2001. As previously discussed, third quarter fiscal 2001 net income was reduced by \$2,662,000 in goodwill amortization (net of related taxes), which was not recorded in the third quarter of fiscal 2002. Excluding the deduction of goodwill, net income in the third quarter of fiscal 2001 would have been \$14,756,000, or 4.7 percent of net sales.

AnnTaylor Stores Corporation conducts no business other than the management of Ann Taylor.

Nine Months ended November 2, 2002 Compared to Nine Months ended November 3, 2001

The Company's net sales for the nine month period ended November 2, 2002 increased \$100,566,000, or 10.8 percent, to \$1,028,753,000, up from \$928,187,000 for the same period last year. Comparable store sales for the period decreased 0.4 percent, compared to a 9.1 percent decrease for the same period last year. Comparable store sales by division were down 1.6 percent for Ann Taylor, and up 1.7 percent for Ann Taylor Loft. The increase in net sales is primarily due to an increase in the number of stores open during the period as compared to the same period last year.

Gross margin as a percentage of net sales for the nine month period ended November 2, 2002 increased to 54.8 percent, up from 51.7 percent for the same period last year. The increase in gross margin as a percentage of net sales is the combined result of higher full price sales and higher margin rates achieved on both full price and non-full price sales at both divisions.

Selling, general and administrative expenses for the nine month period ended November 2, 2002 were \$456,412,000, or 44.4 percent of net sales, compared to \$413,763,000, or 44.6 percent of net sales, for the same period last year. The decrease in selling, general and administrative expenses as a percentage of net sales is primarily the result of efficiencies gained in store operations and lower internet costs, partially offset by an increase in the provision for management performance bonus.

As a result of the foregoing, the Company had operating income of \$107,787,000, or 10.5 percent of net sales, for the nine month period ended November 2, 2002, compared to operating income of \$57,487,000, or 6.2 percent of net sales, for the same period last year. There was no goodwill amortization recorded in fiscal 2002, in accordance with SFAS No. 142, which the Company adopted in February 2002. The Company recorded \$8,280,000 in goodwill amortization during the nine month period ended November 3, 2001. Operating income for the fiscal 2001 year-to-date period, without giving effect to goodwill amortization, was \$65,767,000, or 7.1 percent of net sales.

Interest income for the nine month period ended November 2, 2002 was \$2,352,000, compared to \$1,100,000 for the same period last year. The increase is primarily attributable to higher cash on hand, offset somewhat by lower interest rates.

Interest expense for the nine month period ended November 2, 2002 was \$5,163,000, compared to \$5,015,000 for the same period last year.

The income tax provision was \$40,941,000, or 39.0 percent of income before income taxes, for the nine month period ended November 2, 2002, compared to \$24,135,000, or 45.1 percent of income before income taxes, for the same period last

year. The decrease in the effective income tax rate is primarily the result of non-deductible goodwill expense, which, as previously discussed, was not recorded in fiscal 2002.

As a result of the foregoing factors, the Company had net income of \$64,035,000, or 6.2 percent of net sales, for the nine month period ended November 2, 2002, compared to net income of \$29,437,000, or 3.2 percent of net sales, for the same period last year. Excluding the amortization of goodwill, net income during the nine month period ended November 3, 2001 would have been \$37,421,000, or 4.0 percent of net sales.

Financial Condition

For the first nine months of fiscal 2002, net cash provided by operating activities totaled \$104,518,000, primarily as a result of earnings, non-cash charges, and increases in accounts payable and accrued expenses, partially offset by an increase in merchandise inventories. Cash provided by investing activities during the first nine months of fiscal 2002 amounted to \$20,716,000, which represents the proceeds received in connection with the sale of the Company's proprietary credit card, offset by funds used to purchase property and equipment. Cash provided by financing activities during the first nine months of fiscal 2002 amounted to \$10,582,000, primarily as a result of proceeds received from the exercise of stock options and the issuance of common stock in connection with the Associate Discount Stock Purchase Plan offset, in part, by payment of the remaining outstanding balance of the mortgage on the Company's Louisville Distribution Center.

Merchandise inventories were \$208,086,000 at November 2, 2002, compared to \$180,117,000 at February 2, 2002. Merchandise inventories at November 2, 2002 and February 2, 2002 included approximately \$36,765,000 and \$37,558,000, respectively, of inventory associated with the Company's sourcing division, which is primarily finished goods in transit from factories.

Total fiscal 2002 capital expenditures, which are primarily attributable to the Company's store expansion, renovation and refurbishment programs, and the investment in information systems, are expected to be approximately \$45,500,000. For the nine months ended November 2, 2002, capital expenditures totaled \$37,084,000, net of landlord construction allowances. During the first nine months of fiscal 2002, the

Company opened 9 new Ann Taylor stores and 34 new Ann Taylor Loft stores and closed 1 existing AnnTaylor store. For the remainder of fiscal 2002, the Company expects to open 1 additional Ann Taylor store, 5 additional Ann Taylor Loft stores, and close 1 existing Ann Taylor store.

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 its credit facility. The Company believes that cash flow from operations and funds available under that credit facility are sufficient to enable it to meet its on-going cash needs for its business, as presently conducted, for the foreseeable future.

On February 4, 2002, the Company sold the net assets associated with its Ann Taylor credit card accounts to World Financial Network National Bank. The associated pre-tax gain of \$2,095,000 is reported in selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

In April 2002, the Company's Board of Directors approved a 3-for-2 stock split of the Company's Common Stock in the form of a stock dividend. One additional share of Common Stock for every two shares owned was distributed on May 20, 2002 to stockholders of record at the close of business on May 2, 2002. See Note 2 of the Condensed Consolidated Financial Statements for adjusted shares and per share data reflecting the issuance of additional shares in connection with the stock split.

In August 2002, the Company's Board of Directors authorized a \$50 million securities repurchase program. The repurchase program is subject to compliance with the Company's revolving credit agreement, which was amended on August 29, 2002 to adjust certain ratio provisions in the event securities are repurchased in connection with the program. Pursuant to the securities repurchase program, purchases of shares of the Company's Common Stock and/or its Convertible Debentures due 2019 may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases or in privately negotiated transactions. Repurchased shares of Common Stock will become treasury shares and may be used for general corporate and other purposes. Repurchased Convertible Debentures will be cancelled.

Effective February 3, 2002, the Company adopted SFAS No. 142, as described more fully in Note 4 of the Condensed Consolidated Financial Statements. SFAS No. 142 requires that goodwill and other intangible assets be tested for impairment within six months of the date of adoption, and then on a periodic basis thereafter. Pursuant to SFAS No. 142, the Company's recorded goodwill will no longer be amortized. Based on the impairment testing performed in February 2002, Management determined that there was no impairment loss related to the net carrying value of the Company's recorded goodwill.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 replaces EITF No. 94-3, and is required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company will adopt SFAS No. 146 in the fourth quarter of fiscal 2002, and does not expect it will have a material impact on its consolidated financial statements.

In October 2002, the FASB issued SFAS No. 147 "Acquisitions of Certain Financial Institutions – an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9". SFAS No. 147 removes acquisitions of financial institutions, except for transactions between two or more mutual enterprises, from the scope of both Statement No. 72 and Interpretation No. 9, and requires that those transactions be accounted for in accordance with FASB Statements No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets". In addition, SFAS No. 147 amends FASB Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" to include in its scope long-term customer-relationship intangible assets of financial institutions. Management has determined that SFAS No. 147 has no applicability to the Company's operations.

In December 2001, the United States Securities and Exchange Commission (the "SEC") issued Financial Reporting Release ("FRR") No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies", which encourages the identification and disclosure of the most critical accounting policies applied in the preparation of a company's financial statements. In response to FRR No. 60, Management has determined that the Company's most critical accounting policies include those related to merchandise inventory valuation, intangible asset impairment, and income taxes.

Inventory is valued at the lower of average cost or market, at the individual item level. Cost is determined on a first-in, first-out (FIFO) method. Market is determined based on the estimated net realizable value, which is generally the merchandise selling price. Inventory levels are monitored to identify slow-moving merchandise and broken assortments (items no longer in stock in a sufficient range of sizes) and markdowns are used to clear such merchandise. Inventory value is reduced immediately when the selling price is marked below cost. Physical inventory counts are performed annually each January, and estimates are made for shortage during the period between the last physical inventory count and the balance sheet date.

Pursuant to the adoption of SFAS No. 142 in February 2002, management performed impairment testing which considered the Company's net discounted future cash flows in determining whether an impairment charge related to the carrying value of the Company's recorded goodwill was necessary, and concluded that there was no such impairment loss. This will be reevaluated annually, using similar testing. In the case of long-lived tangible assets, if the discounted future cash flows related to the long-lived assets are less than the assets' carrying value, a similar impairment charge would be considered. Management's estimate of future cash flows is based on historical experience, knowledge, and market data. These estimates can be affected by factors such as those outlined in the Statement Regarding Forward-Looking Disclosures.

The Company follows SFAS No. 109 "Accounting for Income Taxes," which requires the use of the liability method. Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Inherent in the measurement of these deferred balances are certain judgements and interpretations of existing tax law and other published guidance as applied to the Company's operations. No valuation allowance has been provided for deferred tax assets, since management anticipates that the full amount of these assets should be realized in the future. The Company's effective tax rate considers management's judgement of expected tax liabilities within the various taxing jurisdictions it is subject to tax. The Company has also in the past been involved in both foreign and domestic tax audits. At any given time, many tax years are subject to audit by various taxing authorities.

Management believes these critical accounting policies represent the more significant judgements and estimates used in the preparation of the Company's consolidated financial statements.

Statement Regarding Forward-Looking Disclosures

Sections of this Quarterly Report on Form 10-Q, including the preceding Management's Discussion and Analysis of Financial Condition and Results of Operations, contain various forward-looking statements, made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements may use the words "expect", "anticipate", "plan", "intend", "project", "believe" and similar expressions. These forward-looking statements reflect the Company's current expectations concerning future events, and actual results may differ materially from current expectations or historical results. Any such forward-looking statements are subject to various risks and uncertainties, including failure by the Company to predict accurately customer fashion preferences; 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; general economic conditions 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 the Company's 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; acts of war or terrorism in the United States or worldwide; work stoppages, slowdowns or strikes; and other factors set forth in the Company's filings with the SEC. The Company does not assume any obligation to update or revise any forward-looking statements at any time for any reason.

Item 4. Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days of the filing of this quarterly report (the "Evaluation Date"). Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's reports filed or submitted under the Exchange Act. There were no significant changes in the Company's internal controls or in other factors that could significantly affect such controls subsequent to the Evaluation Date, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

<u>Exhibit Number</u>	<u>Description</u>
99.1	Certification of chief executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

The following reports on Form 8-K were filed during the quarter covered by this report:

<u>Date of Report</u>	<u>Item(s) Reported</u>
8/14/2002	Item 5 and Item 7
8/14/2002	Item 7 and Item 9
8/29/2002	Item 7

The report on Form 8-K dated August 14, 2002 included the Company's Condensed Consolidated Statements of Operations for the quarters and six months ended August 3, 2002 and August 4, 2001 and Condensed Consolidated Balance Sheets at August 3, 2002 and February 2, 2002.

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 Stores Corporation

Date: December 13, 2002

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

Date: December 13, 2002

By: /s/James M. Smith
James M. Smith
Senior Vice President,
Chief Financial Officer and
Treasurer

CERTIFICATION

I, J. Patrick Spainhour, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AnnTaylor Stores Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 13, 2002

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

CERTIFICATION

I, James M. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AnnTaylor Stores Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 13, 2002

/s/James M. Smith
James M. Smith
Senior Vice President,
Chief Financial Officer and
Treasurer

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
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