
**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 1, 2003

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 28, 2003</u>
Common Stock, \$.0068 par value	45,257,594

INDEX TO FORM 10-Q

	<u>Page No.</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Statements of Income for the Quarters and Nine Months Ended November 1, 2003 and November 2, 2002	3
Condensed Consolidated Balance Sheets at November 1, 2003 and February 1, 2003.....	4
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended November 1, 2003 and November 2, 2002.....	5
Notes to Condensed Consolidated Financial Statements.....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Item 4. Controls and Procedures	17
 PART II. OTHER INFORMATION	
Item 2. Changes in Securities and Use of Proceeds	18
Item 6. Exhibits and Reports on Form 8-K.....	18
SIGNATURES	20
EXHIBIT INDEX	21

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ANNTAYLOR STORES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Quarters and Nine Months Ended November 1, 2003 and November 2, 2002
(unaudited)

	<u>Quarters Ended</u>		<u>Nine Months Ended</u>	
	<u>Nov. 1, 2003</u>	<u>Nov. 2, 2002</u>	<u>Nov. 1, 2003</u>	<u>Nov. 2, 2002</u>
(in thousands, except per share amounts)				
Net sales	\$ 396,807	\$ 340,218	\$1,139,031	\$1,028,753
Cost of sales	<u>168,031</u>	<u>143,760</u>	<u>518,679</u>	<u>464,554</u>
Gross margin	228,776	196,458	620,352	564,199
Selling, general and administrative expenses	<u>177,356</u>	<u>154,906</u>	<u>502,634</u>	<u>456,412</u>
Operating income	51,420	41,552	117,718	107,787
Interest income	803	923	2,268	2,352
Interest expense	<u>1,716</u>	<u>1,638</u>	<u>5,084</u>	<u>5,163</u>
Income before income taxes	50,507	40,837	114,902	104,976
Income tax provision	<u>20,202</u>	<u>15,926</u>	<u>45,492</u>	<u>40,941</u>
Net income	<u>\$ 30,305</u>	<u>\$ 24,911</u>	<u>\$ 69,410</u>	<u>\$ 64,035</u>
Basic earnings per share of common stock	<u>\$ 0.68</u>	<u>\$ 0.56</u>	<u>\$ 1.57</u>	<u>\$ 1.45</u>
Diluted earnings per share of common stock	<u>\$ 0.63</u>	<u>\$ 0.53</u>	<u>\$ 1.48</u>	<u>\$ 1.37</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR STORES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
November 1, 2003 and February 1, 2003
(unaudited)

	<u>November 1, 2003</u>	<u>February 1, 2003</u>
ASSETS	(in thousands)	
Current assets		
Cash and cash equivalents	\$ 270,413	\$ 212,821
Accounts receivable, net	17,576	10,367
Merchandise inventories	227,234	185,484
Prepaid expenses and other current assets	57,994	46,599
Total current assets	573,217	455,271
Property and equipment, net	261,424	247,115
Goodwill, net	286,579	286,579
Deferred financing costs, net	3,506	4,170
Other assets	14,812	17,691
Total assets	<u>\$ 1,139,538</u>	<u>\$ 1,010,826</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 79,544	\$ 57,058
Accrued expenses	112,859	94,137
Total current liabilities	192,403	151,195
Long-term debt, net	124,265	121,652
Deferred lease costs and other liabilities	30,128	23,561
Stockholders' equity		
Common stock, \$.0068 par value; 120,000,000 shares authorized; 49,347,471 and 48,932,860 shares issued, respectively	336	332
Additional paid-in capital	511,767	500,061
Retained earnings	362,804	296,113
Deferred compensation on restricted stock	(4,249)	(3,968)
870,658	792,538	792,538
Treasury stock, at cost		
4,235,176 and 4,050,972 shares, respectively	(77,916)	(78,120)
Total stockholders' equity	792,742	714,418
Total liabilities and stockholders' equity	<u>\$ 1,139,538</u>	<u>\$ 1,010,826</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR STORES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended November 1, 2003 and November 2, 2002
(unaudited)

	<u>Nine Months Ended</u>	
	<u>November 1, 2003</u>	<u>November 2, 2002</u>
	(in thousands)	
Operating activities:		
Net income	\$ 69,410	\$ 64,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred compensation	2,419	4,234
Deferred income taxes.....	1,073	3,685
Depreciation and amortization	39,208	36,076
Gain on sale of proprietary credit card accounts receivable.....	---	(2,095)
Loss on disposal or write down of property and equipment.....	724	631
Non-cash interest.....	3,277	3,184
Tax benefit from exercise of stock options	3,100	3,490
Changes in assets and liabilities:		
Receivables	(7,209)	(4,515)
Merchandise inventories	(41,750)	(27,969)
Prepaid expenses and other current assets	(9,810)	(1,149)
Accounts payable and accrued expenses	41,208	26,265
Other non-current assets and liabilities, net.....	6,788	(1,354)
Net cash provided by operating activities.....	<u>108,438</u>	<u>104,518</u>
Investing activities:		
Purchases of property and equipment	(54,241)	(37,084)
Net proceeds from sale of proprietary credit card accounts receivable	---	57,800
Net cash provided (used) by investing activities.....	<u>(54,241)</u>	<u>20,716</u>
Financing activities		
Payment of deferred financing costs	---	(15)
Payments on mortgage	---	(1,250)
Common stock activity related to stock based compensation programs, net ...	16,176	11,847
Repurchase of common stock	(12,781)	---
Net cash provided by financing activities	<u>3,395</u>	<u>10,582</u>
Net increase in cash	57,592	135,816
Cash and cash equivalents, beginning of period	<u>212,821</u>	<u>30,037</u>
Cash and cash equivalents, end of period	<u>\$270,413</u>	<u>\$165,853</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest	\$ <u>1,442</u>	\$ <u>1,564</u>
Cash paid during the period for income taxes.....	\$ <u>22,940</u>	\$ <u>27,640</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 2003 interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year.

The February 1, 2003 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of AnnTaylor Stores Corporation (the "Company").

Detailed footnote information is not included for the quarters ended November 1, 2003 and November 2, 2002. 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 2002 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 by the Company upon exercise of all outstanding stock options, conversion of all outstanding convertible securities and vesting of unvested 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.

[Tables on next page]

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

2. Earnings Per Share (continued)

	Quarters Ended					
	November 1, 2003			November 2, 2002		
	(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	\$30,305	44,697	<u>\$0.68</u>	\$24,911	44,328	<u>\$0.56</u>
<u>Effect of Dilutive Securities</u>						
Stock options and restricted stock	---	1,040		---	430	
Convertible Debentures	<u>722</u>	<u>3,606</u>		<u>714</u>	<u>3,606</u>	
<u>Diluted Earnings per Share</u>						
Income available to common stockholders	<u>\$31,027</u>	<u>49,343</u>	<u>\$0.63</u>	<u>\$25,625</u>	<u>48,364</u>	<u>\$0.53</u>

	Nine Months Ended					
	November 1, 2003			November 2, 2002		
	(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	\$69,410	44,255	<u>\$1.57</u>	\$64,035	44,206	<u>\$1.45</u>
<u>Effect of Dilutive Securities</u>						
Stock options and restricted stock	---	588		---	561	
Convertible Debentures	<u>2,168</u>	<u>3,606</u>		<u>2,129</u>	<u>3,606</u>	
<u>Diluted Earnings per Share</u>						
Income available to common stockholders	<u>\$71,578</u>	<u>48,449</u>	<u>\$1.48</u>	<u>\$66,164</u>	<u>48,373</u>	<u>\$1.37</u>

Options to purchase 15,000 and 908,061 shares of common stock during the quarter and nine months ended November 1, 2003, respectively, and 2,660,136 and 1,016,936 shares of common stock during the quarter and nine months ended November 2, 2002, 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.

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

3. Stock-based Awards

The Company accounts for stock-based awards and employees' purchase rights under the Associate Discount Stock Purchase Plan using the intrinsic value-based method of accounting in accordance with Accounting Principles Board Opinion No. 25, under which no compensation cost is recognized for stock option awards granted at fair market value and employees' purchase rights under the Associate Discount Stock Purchase Plan. The Company has considered the optional fair value accounting allowed under Statement of Financial Accounting Standard ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of Financial Accounting Standards Board ("FASB") Statement No. 123", and has elected to continue using the intrinsic value method. Had compensation costs of option awards and employees' purchase rights been determined under a fair value alternative method as stated in SFAS No. 148, the Company would have been required to prepare a fair value model for such options and employees' purchase rights, and record such amount in the consolidated financial statements as compensation expense. Restricted stock awards result in the recognition of deferred compensation. Deferred compensation is shown as a reduction of stockholders' equity and is amortized to operating expense over the vesting period of the stock award. Pro forma stock based employee compensation costs, net income and earnings per share, as they would have been recognized if the fair value method had been applied to all awards, are presented in the table below:

	<u>Quarters Ended</u>		<u>Nine Months Ended</u>	
	<u>November 1, 2003</u>	<u>November 2, 2002</u>	<u>November 1, 2003</u>	<u>November 2, 2002</u>
(dollars in thousands, except per share data)				
Net income:				
As reported	\$ 30,305	\$ 24,911	\$ 69,410	\$ 64,035
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(567)</u>	<u>(798)</u>	<u>(2,412)</u>	<u>(2,702)</u>
Pro forma	<u>\$ 29,738</u>	<u>\$ 24,113</u>	<u>\$ 66,998</u>	<u>\$ 61,333</u>
Basic earnings per share:				
As reported	<u>\$ 0.68</u>	<u>\$ 0.56</u>	<u>\$ 1.57</u>	<u>\$ 1.45</u>
Pro forma	<u>\$ 0.67</u>	<u>\$ 0.54</u>	<u>\$ 1.51</u>	<u>\$ 1.39</u>
Diluted earnings per share:				
As reported	<u>\$ 0.63</u>	<u>\$ 0.53</u>	<u>\$ 1.48</u>	<u>\$ 1.37</u>
Pro forma	<u>\$ 0.62</u>	<u>\$ 0.51</u>	<u>\$ 1.43</u>	<u>\$ 1.31</u>

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

4. Long-Term Debt

Long-term debt outstanding at November 1, 2003 was \$124,265,000, which represents the net carrying value of the Company's convertible debentures on that date.

The Company's obligations with respect to the convertible debentures are unconditionally guaranteed on a subordinated basis by the Company's wholly owned operating subsidiary AnnTaylor, Inc. ("Ann Taylor"). The Company's quarterly report need not include financial statements for the subsidiary guarantor, Ann Taylor, based on the criteria listed in the Securities and Exchange Commission's Regulation S-X, Rule 3-10(e). The Company has no independently owned assets and conducts no business other than the management of Ann Taylor.

On November 14, 2003, Ann Taylor and certain of its subsidiaries entered into a Second Amended and Restated \$175,000,000 senior secured revolving credit facility (the "Credit Facility") with Bank of America N.A. and a syndicate of lenders. The Credit Facility, which provides for an increase in the total facility and the aggregate commitments thereunder up to \$250,000,000, amended Ann Taylor's then existing \$175,000,000 bank credit agreement scheduled to expire in April 2004. The Credit Facility matures on November 13, 2008 and will be used by Ann Taylor and certain of its subsidiaries for working capital, letters of credit and other general corporate purposes.

Loans outstanding under the Credit Facility at any time may not exceed \$75,000,000. 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. There were no loans outstanding under the Credit Facility as of the date of this filing.

Amounts outstanding under the Credit Facility bear interest at a rate equal to, at Ann Taylor's option, the Bank of America Base Rate, or Eurodollar Rate, plus a margin of up to 0.25%, and 1.25% to 2.00%, respectively. In addition, Ann Taylor is required to pay the lenders a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.325% to 0.40% per annum. Fees for outstanding commercial and standby letters of credit range from 0.50% to 0.75% and from 1.25% to 2.00%, respectively. The Credit Facility contains financial and other covenants, including limitations on indebtedness and liens.

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

4. Long-Term Debt (continued)

The Credit Facility permits the payment of cash dividends by the Company (and dividends by certain of its subsidiaries to fund such cash dividends) if Liquidity (as defined in the Credit Facility) is at least \$35,000,000. Certain subsidiaries of the Company are also permitted to pay dividends to the Company to fund certain taxes owed by the Company; fund ordinary operating expenses of the Company not in excess of \$500,000 per annum; for repurchases of Common Stock held by employees not in excess of \$100,000 per annum; and for certain other stated purposes.

The lenders have been granted a pledge of the common stock of Ann Taylor and certain of its subsidiaries, and a security interest in substantially all real and personal property (other than leasehold interests) and all other assets of Ann Taylor and certain of its subsidiaries, as collateral for Ann Taylor's obligations under the Credit Facility.

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

Results of Operations

	Quarters Ended		Nine Months Ended	
	November 1, <u>2003</u>	November 2, <u>2002</u>	November 1, <u>2003</u>	November 2, <u>2002</u>
Number of Stores:				
Open at beginning of period.....	603	555	584	538
Opened during period	36	26	57	43
Expanded during period*	1	---	5	---
Closed during period.....	---	1	2	1
Open at end of period	639	580	639	580
Type of Stores Open at End of Period:				
Ann Taylor stores.....			355	350
Ann Taylor Loft stores.....			257	202
Ann Taylor Factory stores.....			27	28

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

Quarter Ended November 1, 2003 Compared to Quarter Ended November 2, 2002

The Company's net sales for the third quarter of fiscal 2003 increased to \$396,807,000 from \$340,218,000 in the third quarter of fiscal 2002, an increase of \$56,589,000 or 16.6 percent. By division, net sales for the third quarter of fiscal 2003, were \$207,077,000 for Ann Taylor and \$157,023,000 for Ann Taylor Loft. Comparable store sales for the third quarter of 2003 increased 6.2 percent, compared to a comparable store sales decrease of 1.1 percent for the same period last year. Comparable store sales by division, for the quarter, were up 1.9 percent for Ann Taylor, and up 13.4 percent for Ann Taylor Loft. The increase in net sales is primarily due to the opening of new stores and an increase in comparable store sales. Management believes that third quarter performance was driven by positive client acceptance across all product categories at Ann Taylor Loft, combined with positive comparable store sales results at Ann Taylor.

Gross margin as a percentage of net sales for the third quarter of fiscal 2003 was unchanged from last year at 57.7 percent.

Selling, general and administrative expenses during the third quarter of fiscal 2003 were \$177,356,000, or 44.7 percent of net sales, compared to \$154,906,000, or 45.5 percent of net sales in the third quarter of fiscal 2002. The decrease in selling, general and administrative expenses as a percentage of net sales was due to increased leverage on tenancy and other fixed expenses resulting from positive comparable store sales.

As a result of the foregoing, the Company had operating income of \$51,420,000, or 13.0 percent of net sales, in the third quarter of fiscal 2003, compared to operating income of \$41,552,000, or 12.2 percent of net sales, in the third quarter of fiscal 2002.

Interest income was \$803,000 in the third quarter of fiscal 2003, compared to \$923,000 in the third quarter of fiscal 2002. The decrease is primarily attributable to lower interest rates partially offset by a higher cash on hand balance.

Interest expense was \$1,716,000 in the third quarter of fiscal 2003, compared to \$1,638,000 in the third quarter of fiscal 2002.

The income tax provision was \$20,202,000, or 40.0 percent of income before income taxes, in the third quarter of fiscal 2003, compared to \$15,926,000, or 39.0 percent of income before income taxes, in the third quarter of fiscal 2002. During the second quarter of fiscal 2003, the Company increased its effective income tax rate from 39 percent to 40 percent to reflect higher state taxes.

As a result of the foregoing factors, the Company had net income of \$30,305,000, or 7.6 percent of net sales, for the third quarter of fiscal 2003, compared to net income of \$24,911,000, or 7.3 percent of net sales, for the third quarter of fiscal 2002.

Nine Months ended November 1, 2003 Compared to Nine Months ended November 2, 2002

The Company's net sales for the nine month period ended November 1, 2003 increased \$110,278,000, or 10.7 percent, to \$1,139,031,000, up from \$1,028,753,000 for the same period last year. By division, net sales for the first nine months of fiscal 2003 were \$624,441,000 for Ann Taylor and \$416,954,000 for Ann Taylor Loft. Comparable store sales for the period increased 1.7 percent, compared to a 0.4 percent decrease for the same period last year. Comparable store sales by division were down 0.6 percent for Ann Taylor, and up 5.7 percent for Ann Taylor Loft. The increase in net sales is due to the combined effect of positive comparable store sales, driven primarily by positive acceptance of Ann Taylor Loft product, and 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 1, 2003 was 54.5 percent, compared to 54.8 percent for the same period last year.

Selling, general and administrative expenses for the nine month period ended November 1, 2003 were \$502,634,000, or 44.1 percent of net sales, compared to \$456,412,000, or 44.4 percent of net sales, for the same period last year.

As a result of the foregoing, the Company had operating income of \$117,718,000, or 10.3 percent of net sales, for the nine month period ended November 1, 2003, compared to operating income of \$107,787,000, or 10.5 percent of net sales, in the first nine months of fiscal 2002.

Interest income was \$2,268,000 for the first nine months of fiscal 2003, compared to \$2,352,000 for the same period last year.

Interest expense was \$5,084,000 for the first nine months of fiscal 2003, compared to \$5,163,000 for the same period last year.

The income tax provision was \$45,492,000, or 39.6 percent of income before income taxes, for the nine month period ended November 1, 2003, compared to \$40,941,000, or 39.0 percent of income before income taxes, for the same period last year. During the second quarter of fiscal 2003, the Company increased its effective income tax rate from 39 percent to 40 percent to reflect higher state taxes.

As a result of the foregoing factors, the Company had net income of \$69,410,000, or 6.1 percent of net sales, for the nine month period ended November 1, 2003, compared to net income of \$64,035,000, or 6.2 percent of net sales, for the same period last year.

Financial Condition

For the first nine months of fiscal 2003, net cash provided by operating activities totaled \$108,438,000, primarily as a result of earnings adjusted for non-cash items. Cash used by investing activities during the first nine months of fiscal 2003 amounted to \$54,241,000, for the purchase of property and equipment. Cash provided by financing activities during the first nine months of fiscal 2003 amounted to \$3,395,000, due primarily to the cash received from the exercise of stock options, partially offset by cash paid for the Company's repurchase of common stock.

Merchandise inventories were \$227,234,000 at November 1, 2003, compared to \$185,484,000 at February 1, 2003. On a per square foot basis, inventories at November 1, 2003 were up approximately 12 percent compared to the inventories at the end of fiscal 2002. The increase in inventory is primarily due to higher inventory levels in anticipation of fourth quarter selling.

Total fiscal 2003 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 \$72,000,000. For the nine months ended November 1, 2003, capital expenditures totaled \$54,241,000,

net of landlord construction allowances. During the first nine months of fiscal 2003, the Company opened six new Ann Taylor stores, 50 new Ann Taylor Loft stores and one new Ann Taylor Factory store. During the first nine months of fiscal 2003 the Company closed one Ann Taylor store and one Ann Taylor Factory store. For the remainder of fiscal 2003, the Company expects to open two additional Ann Taylor stores and 11 additional Ann Taylor Loft stores.

On November 14, 2003, Ann Taylor and certain of its subsidiaries entered into a Second Amended and Restated \$175,000,000 senior secured revolving Credit Facility with Bank of America N.A. and a syndicate of lenders. The Credit Facility, which provides for an increase in the total facility and the aggregate commitments thereunder up to \$250,000,000, amended Ann Taylor's then existing \$175,000,000 bank credit agreement scheduled to expire in April 2004. The Credit Facility matures on November 13, 2008 and will be used by Ann Taylor and certain of its subsidiaries for working capital, letters of credit and other general corporate purposes. The terms of the Credit Facility are described more fully in Note 4 to the Condensed Consolidated Financial Statements.

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 credit facility. Pursuant to this 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. The Company repurchased 680,000 shares of its common stock during the first nine months of 2003 in connection with this securities repurchase program, at a total cost of approximately \$12,800,000.

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.

Critical Accounting Policies

Management has determined that the Company's most critical accounting policies include those related to merchandise inventory valuation, intangible asset impairment, income taxes and pension accounting.

Inventory is valued at the lower of average cost or market, at the individual item level. 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.

The Company follows SFAS No. 142, "Goodwill and Other Intangible Assets". This accounting standard requires that goodwill and indefinite life intangible assets are no longer amortized but are subject to annual impairment tests. Other intangible assets with finite lives will continue to be amortized over their useful lives. The Company performs impairment testing annually to determine whether an impairment charge related to the carrying value of the Company's recorded goodwill is necessary. The most recent impairment tests did not result in an impairment charge. In the case of long-lived tangible assets, if the undiscounted 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 judgments 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 judgment of expected tax liabilities in the various taxing jurisdictions within which it is subject to tax. The Company is involved in both foreign and domestic tax audits. At any given time, many tax years are subject to audit by various taxing authorities.

All full-time employees of the Company who have been employed by the Company for at least one year are covered under a noncontributory defined benefit

pension plan. The Company's funding obligations and liability under the terms of the plan are determined using certain actuarial assumptions, including a discount rate and an expected long-term rate of return on plan assets. The assumptions used are based on current market conditions and historical analysis, and can be affected by a variety of factors. Management believes that it has taken reasonable steps to ensure that the plan is adequately funded and the Company is adequately accrued for costs related to the pension plan.

Management believes these critical accounting policies represent the more significant judgments 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 client 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; the potential impact of health concerns relating to severe infectious diseases, particularly on manufacturing operations of the Company's vendors in Asia and elsewhere; 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-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report (the "Evaluation Date"). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. 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 was no change in the Company's internal control over financial reporting during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

See discussion of the Credit Facility in Note 4 of the Condensed Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition”.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

<u>Exhibit Number</u>	<u>Description</u>
10.1	Second Amended and Restated Credit Agreement, dated as of November 14, 2003, by and among AnnTaylor, Inc., Annco, Inc., AnnTaylor Distribution Services, Inc., AnnTaylor Retail, Inc., the financial institutions from time to time parties thereto, and Bank of America, N.A., as Administrative Agent and as Collateral Agent. Incorporated by reference to Exhibit 10.1 on Form 8-K of the Company filed on November 14, 2003.
10.2	Second Amended and Restated Pledge and Security Agreement, dated as of November 14, 2003, by AnnTaylor, Inc., AnnTaylor Stores Corporation, Annco, Inc., AnnTaylor Distribution Services, Inc. and AnnTaylor Retail, Inc. in favor of Bank of America, N.A., in its capacity as administrative agent for each of the Lenders party to the Credit Agreement. Incorporated by reference to Exhibit 10.2 on Form 8-K of the Company filed on November 14, 2003.
10.3	Second Amended and Restated Parent Guaranty, dated as of November 14, 2003, made by AnnTaylor Stores Corporation in favor of Bank of America, N.A., in its capacity as administrative agent for each of the Lenders party to the Credit Agreement. Incorporated by reference to Exhibit 10.3 on Form 8-K of the Company filed on November 14, 2003.
31.1*	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Certification of chief executive officer and chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed electronically herewith.

(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>
8/7/03	Item 7 and Item 12
8/13/03	Item 7 and Item 12
9/4/03	Item 7 and Item 9
9/17/03	Item 5 and Item 7
10/9/03	Item 7 and Item 9

The report on Form 8-K dated August 13, 2003 included the Company's Condensed Consolidated Statements of Operations for the quarters and six months ended August 2, 2003 and August 3, 2002 and Condensed Consolidated Balance Sheets at August 2, 2003 and February 1, 2003.

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 12, 2003

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

Date: December 12, 2003

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

Exhibit Index

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