

ANNTAYLOR

ANNUAL REPORT 2000

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DEAR SHAREHOLDER

2000 was a year of substantial progress at Ann Taylor. Although we made a misstep in the fall and offered a holiday collection that did not clearly focus on the needs of our core client, the underlying strength of our business enabled us to continue to make headway toward many of our long-term goals. In my letter to you this year, I'll bring you up to speed on the product and assortment issues we experienced, the steps we are taking to resolve them, and our ongoing strategy for growth.

In the first half of the year, our collections were on target, and sales were in line with our expectations. We provided the feminine, updated classic styling that our client wants from Ann Taylor.

Sales in the second half of the year were unquestionably disappointing, particularly the fourth quarter. We over-emphasized contemporary, fashion-forward styling. Most significantly, we interpreted the fashion look of the season with slimmer silhouettes in many of our designs, which our client found less flattering. And, we devoted too high a percentage of our assortment to occasion dressing for holiday. If we had maintained typical assortment levels of our more classic wear-to-work styles throughout the Fall season, our results clearly would have benefited.

These issues were compounded by a challenging retail environment, which became more pronounced in the fourth quarter.

“My goal is to ensure consistent execution of the Ann Taylor brand image...and to further develop the complementary, yet clearly differentiated, identity of Ann Taylor Loft.”

We anticipate ongoing styling and assortment issues in the spring due to the lead times in our industry. We are working to rectify them for the Fall season, going forward.

OUR FOCUS

The solution to rectify these issues is clear-cut: We are heightening our focus on our core client. Most importantly, we are returning to an emphasis on the updated classic styling that she prefers, and we have corrected our product specifications to ensure that minor variations in our seasonal fashion silhouettes do not affect the traditional, flattering Ann Taylor fit. We are also balancing our assortment to reflect her lifestyle needs. This includes renewing our orientation toward wear-to-work apparel, steadfastly delivering an appropriate merchandise mix of wardrobe essentials and seasonal fashion “must-haves,” and returning to our historically successful levels of occasion wear for holiday 2001.

To further heighten our focus on the specific needs of the core clients for each of our divisions, we have created new President positions for both Ann Taylor and Ann Taylor Loft. The Presidents will report to me. My goal is to ensure consistent execution of the Ann Taylor brand image, with which our client identifies, and to further develop the complementary, yet clearly differentiated, identity of Ann Taylor Loft for our new client base. As I work together with the new Presidents, we will focus the impressive strength of the Ann Taylor and Ann Taylor Loft design and merchandising teams toward this end.

As this letter goes to press, an executive search is well underway to fill both President positions.

At a senior corporate level, in connection with the two new President positions for the Ann Taylor and Ann Taylor Loft divisions, Barry Erdos has been promoted to Senior Executive Vice President and Chief Operating Officer. In this role, he will assume greater responsibility for the daily operating and administrative areas of the business. This will allow me to work more closely with the new Presidents, and to increase my personal focus on the product side of the business, particularly merchandising and marketing.

Since he joined Ann Taylor as Chief Financial Officer in March of 1999, Barry has been an excellent partner to me in enhancing our internal processes and bringing greater financial discipline to our organization. Barry's promotion allows us to further leverage his broad operating experience in the specialty retail industry. Along with the new President positions, our Stores organization and Human Resources, Sourcing, Marketing and our Internet division now report to me. Barry is now responsible for the Company's Real Estate and Legal activities, and he will continue to supervise Logistics and Information Services, along with his responsibilities for our financial functions.

In addition, we are very pleased to have promoted James Smith to the position of Senior Vice President and Chief Financial Officer. Jim joined the Company in 1993 as Director of Financial Reporting. Most recently he served as Vice President and Controller. Sallie DeMarsilis, who has been with Ann Taylor for over six years, has been promoted to Vice President and Controller. Jim and Sallie are excellent examples of the bench strength we have throughout the Company.



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OUR FINANCIAL RESULTS

In 2000, Ann Taylor earned net income of \$58.8 million or \$1.97* per share on a diluted basis, before taking a charge to earnings for certain nonrecurring expenses during the first and fourth quarters. Sales in 2000 were up 13.7% over the previous year. This was primarily as a result of the Company's strategic expansion program, which added 18 Ann Taylor and 63 Ann Taylor Loft stores (including two locations that were converted from Ann Taylor stores) in 2000. At the end of fiscal 2000 we had 332 Ann Taylor stores, 133 Ann Taylor Loft stores and 13 Ann Taylor Factory Stores.

The product misstep we made in the Fall of 2000 did not affect the underlying strength of the business.

Despite disappointing results this year, we have made many improvements between Fiscal 1996, the year before we launched our strategic plan for growth, and the end of Fiscal 2000. These included increasing our gross margin rate from 44.4% to 49.5%, decreasing our net interest expense from 3.1% to 0.4% of sales, and increasing our diluted earnings per share from \$0.36 to \$1.97.*

Ann Taylor also continues to have a strong balance sheet and cash flow. Despite lower-than-expected earnings in the second half of 2000, we completely funded our 2000 capital expenditure program with our operating cash flow. The Company's cash position at the end of the year was \$32 million. This was also the third consecutive year with no borrowings under our \$125 million credit facility. We expect to fund our 2001 capital expenditure program with our operating cash flow.

*Before taking a charge for certain nonrecurring expenses.



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THE STRENGTH OF THE BRAND

Ann Taylor's growth potential is based on the outstanding equity of our brand. Along with our highly operational infrastructure, we have a powerful brand image, an exceptionally loyal client base, a strong brand concept, bench strength throughout the organization, and strategic plans for growth that are based on many competitive advantages, including our excellent real estate locations.

Our Heritage

Over the Company's forty-seven-year history, Ann Taylor has refined an easily recognizable, clean, polished, feminine aesthetic that our client not only appreciates, but identifies with. And we have created an exceptional bond with our core client. She spends approximately 46% of her apparel dollars in our stores.

Our Wardrobing Concept

Our wardrobing concept, the foundation of our merchandising strategy, has a perennial appeal for our client. We create an environment where she can easily put together versatile, head-to-toe looks all in one location, and build her wardrobe from season to season. She can also fulfill the full range of her apparel needs—from her most relaxed to most refined occasion. Our wardrobing concept becomes increasingly important as modern women's lifestyles become busier. Our client needs an easy-to-shop brand that she can consistently count on to help her look her best and feel secure in her personal style.

Our Company Culture

To build on the strength of our brand, we are determined to attract and retain the highest caliber of associates in our industry. In order to achieve this objective, we continue to concentrate on creating an aspirational, values-driven culture at Ann Taylor.

It is gratifying to experience the resulting transformation in our culture. Ann Taylor has become an exceptionally collaborative, supportive environment in which to work. We find many of our associates taking on new responsibilities and exceeding performance expectations with help from their colleagues.

Professional growth is personally important to all of us, whether in the context of our current responsibilities, or new opportunities. We strive to support our associates in their individual goals.

“To build on the strength of our brand, we are determined to attract and retain the highest caliber of associates in our industry.”

At our home offices, we have expanded the curriculum of our Learning Center, which offers classes in technical, interpersonal and managerial skills. And, in 2000, we also introduced a Delighting Client Experience learning curriculum to our stores.

Our Company’s growth and its increasingly cross-functional structure enable associates to learn about areas of the business well beyond the limits of traditional corporate roles. This includes opportunities to participate in strategy teams, which evaluate and develop opportunities for greater efficiencies and growth in many areas of the business, and cross-functional daily work teams, which foster in-depth learning about Company operations. As a result, Ann Taylor provides an exceptional level of opportunity for personal growth.



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GROWTH INITIATIVES

Ann Taylor's strategic growth initiatives are designed to further fulfill our client's lifestyle needs, extend the reach and accessibility of our brand, and simultaneously enhance our relationships with our clients.

REAL ESTATE EXPANSION

Ann Taylor Stores

Our new-store program continues to increase client accessibility for our Ann Taylor division. Going forward, we are planning approximately 20 store openings and five renovations or remodels per year. We are also testing smaller markets, and developing an in-fill strategy for smaller-format stores in existing markets. And, we have determined the potential for more flagship stores in our top markets.

Ann Taylor Loft Stores

We began the rollout of our new Ann Taylor Loft concept in 1998. As we have been reporting to you over the past few years, this rollout is making Ann Taylor accessible to a whole new client base.

At the end of last year, we completed an in-depth segmentation study of the client we are attracting to our new Loft concept stores. The study confirmed many of our preliminary

findings, and is providing us with clear direction as we continue to grow our Ann Taylor Loft division. Most significantly, our Ann Taylor Loft client frequently works in a more relaxed professional environment than that of our Ann Taylor client, she appreciates Ann Taylor Loft's unique identity, and she is unwilling to pay Ann Taylor prices.

The Ann Taylor Loft client represents a demographic of American women that is even larger than the target demographic profile for our Ann Taylor division.

We have also established a solid Ann Taylor Loft store prototype. Ann Taylor Loft store growth will continue to exceed that of Ann Taylor stores in the upcoming year, and going forward. Long-term, we think we have the potential for between 600 and 800 Loft stores.

ANNTAYLOR.COM

Ann Taylor introduced an exciting new channel of distribution with the launch of our Online Store for Holiday 2000. We are now accessible to our clients 24 hours a day, seven days a week.

Our Online Store mirrors the clean, crisp sensibility of our stores, and the modern, feminine style that appeals to our client. It features an edited assortment of approximately 65% of the items from our Ann Taylor collection, including the leading styles featured in our fashion mailers and advertising, and the products our clients consider their "basics," the mainstays of their wardrobes. Longer-term, we plan to offer an even broader range of our Ann Taylor merchandise online.

We integrated the announcement of anntaylor.com with our holiday marketing efforts and were very pleased with our online visitor traffic and preliminary conversion rates. We are also pleased to report that our client is showing no resistance to purchasing higher-ticket items, such as suits, online.

“Our Online Store mirrors the clean, crisp sensibility of our stores, and the modern, feminine style that appeals to our client.”

We are developing an excellent synergy between our “bricks and mortar” stores and our Online Store. Clients are previewing our collections at anntaylor.com and visiting stores to try on the looks that have enticed them online, and store associates are referring clients to our site to continue to fill in their wardrobes at their convenience.



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ENHANCING OUR CLIENT SERVICES

1 800 DIAL ANN

To support our Online Store, advance our multi-channel distribution strategy, and increase the accessibility of Ann Taylor, we expanded our 1 800 DIAL ANN service, launching a client call center in the fall of 2000. Clients can now talk with a knowledgeable, skilled client service representative whenever they want, 24 hours a day, seven days a week. They can get information about everything from products to store locations, and even order merchandise featured in our fashion mailers. (They can also contact the call center through e-mail at clientservices@anntaylor.com.) We are getting excellent initial client feedback about the service, and are driving incremental sales both online and in our stores.

THE DELIGHTING CLIENT EXPERIENCE INITIATIVE

The ultimate objective of our Delighting Client Experience initiative is to further strengthen our bond with our client. We are building on our brand equity by working to deliver a seamlessly delighting experience for her, in each interaction she has with us, every day, in every location.

In the current phase of rolling out this initiative, we are teaching client relationship skills to every associate, in every store across the country, and setting measurable professional retail standards.

The Delighting Client Experience initiative should begin to drive comparable store sales through improved conversion rates in 2001. Long-term, the DCE, as we call it, should also help drive competitive advantage through improved client retention and proactive client development.

BUILDING PENETRATION IN KEY CLASSIFICATIONS

We are also concentrating on an opportunity to increase our category penetration in petites and accessories.

Petites

Nearly one-third of our target clients are in the petites size range. To build our petites business, we enhanced our in-store petites presentation by creating separate petites areas with signage. And we are developing a more consistent petites offering. We began to increase our penetration in this category in the Fall 2000 season.

Accessories

Our research also indicates that our most committed clients spend in excess of 25% of their apparel dollars on shoes and accessories. Beginning with the fall season, we increased our inventory investment in accessories, with a focus on wraps, handbags and shoes. We plan to drive our accessories penetration from 12% to 18% over the next few years.



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LOOKING AHEAD

As we enter our fifth year of the five-year strategic plan we introduced in Fiscal 1997, we are pleased with the substantial progress our Company has made toward strengthening our operational infrastructure and financial position.

We are heightening our client focus and further developing a work environment that leverages the talent of associates at every level of the business. In 2001, we are also broadening our strategic plan to address our growth initiatives for the next five years.

We look forward to the year ahead, as we continue to take strong strides toward fulfilling the potential of the Ann Taylor brand.

J. Patrick Spainhour
Chairman and Chief Executive Officer

“In 2001, we are broadening
our strategic plan to
address our growth initiatives
for the next five years.”



J. Patrick Spainhour
chairman and chief executive officer

management's discussion and analysis of financial condition and results of operations

AnnTaylor Stores Corporation (the "Company"), through its subsidiaries, is a leading national specialty retailer of better quality women's apparel, shoes and accessories sold primarily under the Ann Taylor brand name. Unless the context indicates otherwise, all references to the Company include the Company and its subsidiaries.

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		
	2000	1999	1998
Net sales.....	100.0%	100.0%	100.0%
Cost of sales	50.5	49.4	50.0
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	0.9	1.0	1.2
Operating income	7.9	11.4	10.0
Interest income	0.2	0.4	0.2
Interest expense	0.6	1.1	2.2
Income before income taxes and extraordinary loss	7.5	10.7	8.0
Income tax provision	3.3	4.6	3.7
Income before extraordinary loss	4.2	6.1	4.3
Extraordinary loss	—	0.1	—
Net income	4.2%	6.0%	4.3%

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 resulting from the execution by the Company, in the second half of 1999, of the securities repurchase program described below under “Liquidity and Capital Resources.”

Interest expense was \$7,315,000 in 2000, compared to \$11,814,000 in 1999. The decrease in interest expense was primarily attributable to the net reduction in the Company’s outstanding long-term debt and other obligations and a decrease in the interest rate borne by the Company’s remaining outstanding long-term debt. During the second quarter of 1999, AnnTaylor Finance Trust, the Company’s special purpose finance trust, redeemed its 8½% Company Obligated Mandatorily Redeemable Convertible Preferred Securities (“preferred securities”), and AnnTaylor, Inc., a wholly owned subsidiary of the Company (“Ann Taylor”), redeemed its 8¾% Subordinated Notes Due 2000 (“8¾% Notes”). These redemptions were completed using, in part, the proceeds from the issuance by the Company, also during the second quarter of 1999, of its deep discount Convertible Subordinated Debentures due 2019 (“Convertible Debentures”), which bear 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 execution by the Company, in the second half of 1999, of the securities repurchase program described below under "Liquidity and Capital Resources."

Interest expense was \$11,814,000 in 1999, compared to \$20,358,000 in 1998. The decrease in interest expense was primarily attributable to the redemption during the second quarter of 1999 of the preferred securities and the 8¾% Notes described below under "Liquidity and Capital Resources." This reduction in interest expense was offset in part by interest expense on the Convertible Debentures issued by the Company during the second quarter of 1999, also described below under "Liquidity and Capital Resources." 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 applied the proceeds received from the issuance of the Convertible Debentures to the redemption of Ann Taylor's outstanding 8¾% Notes. This resulted in an extraordinary charge to earnings in Fiscal 1999 of \$962,000, net of income tax benefit, or \$0.03 per share on a diluted basis.

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:

(dollars in thousands)	Fiscal Year		
	2000	1999	1998
Cash provided by operating activities	\$ 77,422	\$101,782	\$ 77,478
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	.24:1

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.

Ann Taylor's principal credit facility is a bank credit facility that it entered into in June 1998 with a syndicate of lenders (the "Credit Facility"). Ann Taylor 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, Ann Taylor 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 as of 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 Ann Taylor'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, Ann Taylor is required to pay the lenders a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.375% 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 Ann Taylor 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 Ann Taylor and its subsidiaries, as collateral for Ann Taylor'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.

During the second quarter of Fiscal 1999, the Company completed the issuance of an aggregate of \$199,072,000 principal amount at maturity of its Convertible Debentures. The Convertible Debentures were sold at an original issue price of \$552.56 per \$1,000 principal amount at maturity of Debenture. The net proceeds of the sale were applied to the redemption, described below, of the 8¾% Notes issued by Ann Taylor. Cash interest is payable on the principal amount at maturity of the Convertible Debentures at the rate of 0.55% per annum. This interest rate and the accrual of original issue discount represent a yield to maturity on the Convertible Debentures of 3.75%. The Convertible Debentures are convertible at the option of the holders thereof initially into 12.078 shares of the Company's common stock per \$1,000 principal amount at maturity of Debenture. The Convertible Debentures may be redeemed at the Company's option on or after June 18, 2004. The Company's obligations with respect to the Convertible Debentures are guaranteed on a subordinated basis by Ann Taylor.

On July 22, 1999, Ann Taylor 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, or \$0.03 per share on a diluted basis, net of income tax benefit.

On June 29, 1999, the Company's special purpose financing vehicle, AnnTaylor Finance Trust, redeemed all of the preferred securities. All but \$100,000 liquidation amount of the preferred securities was tendered for conversion into an aggregate of 5,116,717 shares of Company common stock prior to the redemption date, at a conversion price of \$19.65 per share of common stock, or 2.545 shares of common stock per \$50 liquidation amount of the security. The 5,116,717 shares of Company common stock issued represented approximately 16% of the Company's outstanding common stock as of the date of issuance. Holders of preferred securities that were not tendered for conversion received a cash payment equal to 105.95% of the liquidation amount of the preferred securities redeemed, plus accrued distributions.

Ann Taylor 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 September 9, 1999, the Company announced a securities repurchase program authorized by its Board of Directors, pursuant to which the Company was authorized to purchase up to \$40,000,000 of the Company's common stock and/or Convertible Debentures, through open market purchases and privately negotiated transactions. In January 2000, the Board of Directors authorized a \$50,000,000 increase in the securities repurchase program, bringing the total amount of securities that could have been repurchased under the program to \$90,000,000. In the third and fourth quarters of 1999, the Company repurchased an aggregate of 3,012,500 shares of its common stock, for an aggregate repurchase price of \$89,900,000 (exclusive of brokerage commissions), pursuant to this program. All of the repurchased shares became treasury shares and may be used for general corporate and other purposes. No Convertible Debentures were purchased.

Dividends and distributions from Ann Taylor to the Company are restricted by the Credit Facility.

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.

On May 18, 2000, the Board of Directors of the Company adopted a Stockholder Rights Plan, pursuant to which Rights were distributed as a dividend at the rate of one Right for each share of common stock of the Company held by stockholders of record as of the close of business on May 30, 2000. Each Right entitles stockholders to buy one unit of a share of a new series of preferred stock for \$125. The Rights generally are exercisable only if a person or group acquires beneficial ownership of 15% or more of the Voting Power of the Company

as represented by the Company's common stock, or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 15% or more of the Voting Power of the Company as represented by the Company's common stock. The Rights will expire on May 18, 2010.

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 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.

Quantitative and Qualitative Disclosures 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.

anntaylor stores corporation

consolidated statements of income

For the Fiscal Years Ended February 3, 2001, January 29, 2000 and January 30, 1999

(in thousands, except per share amounts)	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Net sales	\$1,232,776	\$1,084,519	\$911,939
Cost of sales	622,036	536,014	455,724
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	11,040	11,040	11,040
Operating income	98,240	123,150	91,020
Interest income	2,473	4,378	2,241
Interest expense	7,315	11,814	20,358
Income before income taxes and extraordinary loss	93,398	115,714	72,903
Income tax provision	41,035	50,221	33,579
Income before extraordinary loss	52,363	65,493	39,324
Extraordinary loss (net of income tax benefit of \$0, \$641 and \$0, respectively)	—	962	—
Net income	\$ 52,363	\$ 64,531	\$ 39,324
Basic earnings per share:			
Basic earnings per share before			
extraordinary loss	\$ 1.83	\$ 2.25	\$ 1.53
Extraordinary loss per share	—	0.03	—
Basic earnings per share	\$ 1.83	\$ 2.22	\$ 1.53
Diluted earnings per share:			
Diluted earnings per share before			
extraordinary loss	\$ 1.76	\$ 2.08	\$ 1.44
Extraordinary loss per share	—	0.03	—
Diluted earnings per share	\$ 1.76	\$ 2.05	\$ 1.44

See accompanying notes to consolidated financial statements.

anntaylor stores corporation consolidated balance sheets

February 3, 2001 and January 29, 2000

(in thousands, except per share amounts)	February 3, 2001	January 29, 2000
Assets		
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	53,227	37,796
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	12,374	5,872
Total assets	\$848,115	\$765,117
Liabilities and Stockholders' 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	1,400	1,300
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		
Stockholders' equity		
Common stock, \$.0068 par value; 120,000 shares authorized; 31,834 and 31,598 shares issued, respectively	216	215
Additional paid-in capital.....	475,393	470,307
Retained earnings.....	190,093	137,730
Deferred compensation on restricted stock	(1,723)	(2,246)
Total stockholders' equity	663,979	606,006
Treasury stock, 3,012 and 3,028 shares, respectively, at cost	(89,950)	(90,384)
Total stockholders' equity	574,029	515,622
Total liabilities and stockholders' equity	\$848,115	\$765,117

See accompanying notes to consolidated financial statements.

anntaylor stores corporation

consolidated statements of stockholders' equity

For the Fiscal Years Ended February 3, 2001, January 29, 2000 and January 30, 1999

(in thousands)	Common Stock		Additional Paid-in Capital	Warrants		Retained Earnings	Restricted Stock Awards	Treasury Stock	
	Shares	Amount		Shares	Amount			Shares	Amount
Balance at January 31, 1998....	25,658	\$174	\$350,647	3	\$46	\$ 34,204	\$ (737)	13	\$ (227)
Net income.....	—	—	—	—	—	39,324	—	—	—
Exercise of stock options and related tax benefit	373	3	9,061	—	—	—	—	3	(106)
Amortization of discount on preferred securities	—	—	—	—	—	(233)	—	—	—
Activity related to common stock issued as employee incentives.....	4	—	97	—	—	—	465	1	(19)
Balance at January 30, 1999....	26,035	177	359,805	3	46	73,295	(272)	17	(352)
Net income.....	—	—	—	—	—	64,531	—	—	—
Exercise of stock options and related tax benefit	352	2	10,039	—	—	—	—	1	(55)
Amortization of discount on preferred securities	—	—	—	—	—	(96)	—	—	—
Activity related to common stock issued as employee incentives.....	94	1	3,850	—	—	—	(1,974)	—	—
Exercise and expiration of warrants	—	—	28	(3)	(46)	—	—	(3)	18
Repurchase of common stock ..	—	—	—	—	—	—	—	3,013	(89,995)
Conversion of preferred securities	5,117	35	96,585	—	—	—	—	—	—
Balance at January 29, 2000....	31,598	215	470,307	—	—	137,730	(2,246)	3,028	(90,384)
Net income.....	—	—	—	—	—	52,363	—	—	—
Exercise of stock options and related tax benefit.....	110	1	2,912	—	—	—	—	—	—
Activity related to common stock issued as employee incentives	18	—	144	—	—	—	523	(16)	434
Issuance of common stock pursuant to Associate Discount Stock Purchase Plan	108	—	2,030	—	—	—	—	—	—
Balance at February 3, 2001 ..	31,834	\$216	\$475,393	—	\$—	\$190,093	\$(1,723)	3,012	\$(89,950)

See accompanying notes to consolidated financial statements.

anntaylor stores corporation

consolidated statements of cash flows

For the Fiscal Years Ended February 3, 2001, January 29, 2000 and January 30, 1999

(in thousands)	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
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
Tax benefit from exercise of stock options ..	797	3,483	1,943
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	20,721	(9,631)	41,746
Net cash provided by operating activities	77,422	101,782	77,478
Investing activities:			
Purchases of property and equipment	(83,310)	(53,409)	(45,131)
Net cash used by investing activities	(83,310)	(53,409)	(45,131)
Financing activities:			
Payment of financing costs	(45)	(4,150)	(2,659)
Payments of mortgage	(1,300)	(1,206)	(1,119)
Proceeds from issuance of Convertible Debentures	—	110,000	—
Redemption of 8¾% Notes	—	(101,375)	—
Redemption of Company Obligated Mandatorily Redeemable Convertible Preferred Securities	—	(100)	—
Issuance of common stock pursuant to Associate Discount Stock Purchase Plan..	2,030	—	—
Repurchase of common stock	—	(89,995)	—
Proceeds from exercise of stock options.....	2,084	6,503	7,093
Net cash provided by (used by) financing activities.....	2,769	(80,323)	3,315
Net increase (decrease) in cash.....	(3,119)	(31,950)	35,662
Cash, beginning of year	35,081	67,031	31,369
Cash, end of year	\$31,962	\$35,081	\$67,031
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest.....	\$ 2,418	\$ 9,405	\$18,582
Cash paid during the year for income taxes ..	\$43,393	\$51,222	\$33,934

See accompanying notes to consolidated financial statements.

anntaylor stores corporation

notes to consolidated financial statements

1. Summary of Significant Accounting Policies

The Company 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.

Basis of Presentation The consolidated financial statements include the accounts of AnnTaylor Stores Corporation (the "Company") and its subsidiaries, including AnnTaylor, Inc. ("Ann Taylor"). The Company has no material assets other than the common stock of Ann Taylor and conducts no business other than the management of Ann Taylor. 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.

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 the Company 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.

Stock-Based Awards The Company accounts for stock-based awards using the intrinsic value-based method of accounting, 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 (see Note 8). Restricted stock awards result in the recognition of deferred compensation. Deferred compensation is shown as a reduction of shareholders' equity and is amortized to operating expenses over the vesting period of the stock award.

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.

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 will have no impact on the Company's financial statements.

2. Long-Term Debt

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

(in thousands)	February 3, 2001		January 29, 2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Mortgage	\$ 2,650	\$ 2,650	\$ 3,950	\$ 3,950
Convertible Debentures, net	114,960	97,048	111,835	84,606
Total debt.....	117,610	99,698	115,785	88,556
Less current portion.....	1,400	1,400	1,300	1,300
Total long-term debt.....	\$116,210	\$98,298	\$114,485	\$87,256

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.

Ann Taylor's principal credit facility is a bank credit facility that it entered into in June 1998 with a syndicate of lenders (the "Credit Facility"). Ann Taylor 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, Ann Taylor 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 cleandown 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 as of 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 Ann Taylor'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, Ann Taylor is required to pay the lenders a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.375% 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 coverage ratio and specified levels of net worth.

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 other tangible and intangible assets,

including accounts receivable, trademarks, inventory, store furniture and fixtures, of Ann Taylor and its subsidiaries, as collateral for Ann Taylor'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.

During the second quarter of Fiscal 1999, the Company completed the issuance of an aggregate of \$199,072,000 principal amount at maturity of its Convertible Subordinated Debentures due 2019 ("Convertible Debentures"). The Convertible Debentures were sold at an original issue price of \$552.56 per \$1,000 principal amount at maturity of Debenture. The net proceeds of the sale were applied to the redemption, described below, of the \$100,000,000 outstanding 8¾% Subordinated Notes due 2000 (the "8¾% Notes") issued by Ann Taylor. Cash interest is payable on the principal amount at maturity of the Convertible Debentures at the rate of 0.55% per annum. This interest rate and the accrual of original issue discount represent a yield to maturity on the Convertible Debentures of 3.75%. The Convertible Debentures are convertible at the option of the holders thereof initially into 12.078 shares of the Company's common stock per \$1,000 principal amount at maturity of Debenture. The Convertible Debentures may be redeemed at the Company's option on or after June 18, 2004. The Company's obligations with respect to the Convertible Debentures are guaranteed on a subordinated basis by Ann Taylor.

On July 22, 1999, Ann Taylor 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 1999 and fiscal year 1999 of \$962,000, or \$0.03 per share on a diluted basis, net of income tax benefit.

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

Fiscal Year	(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, the Company 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 Company common stock prior to the redemption date, at a conversion price of \$19.65 per share of common stock, or 2.545 shares of 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:

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

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:

Fiscal Year	(in thousands)
2001	\$117,419
2002	118,108
2003	113,145
2004	108,743
2005	100,034
2006 and thereafter	353,493
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:

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

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.

In addition, the Company, Ann Taylor, certain directors and former officers and directors of the Company 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 the Company and the other defendants engaged in a fraudulent scheme and course of business that operated a fraud or deceit on purchasers of the Company'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 the Company, 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, the Company, 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, the Company, 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.

6. Net Income 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 warrants, stock options, restricted stock and convertible securities if the effect is dilutive. Basic and diluted earnings per share calculations follow:

	Fiscal Years Ended								
	February 3, 2001			January 29, 2000			January 30, 1999		
(In thousands, except per share amounts)	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic Earnings per Share									
Income available to common stockholders before extraordinary loss ..	\$52,363	28,608	\$1.83	\$65,493	29,021	\$2.25	\$39,324	25,715	\$1.53
Effect of Dilutive Securities									
Warrants	—	—		—	1		—	3	
Stock options and restricted stock	—	209		—	269		—	166	
Preferred securities	—	—		1,123	2,083		5,189	5,122	
Convertible Debentures	2,644	2,404		1,570	1,475		—	—	
Diluted Earnings per Share									
Income available to common stockholders before extraordinary loss ..	\$55,007	31,221	\$1.76	\$68,186	32,849	\$2.08	\$44,513	31,006	\$1.44

7. Property and Equipment

Property and equipment consists of the following:

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

8. Other Equity and Stock Option Plans

Common Stock During Fiscal 1999, the number of authorized shares of common stock was increased from 40,000,000 to 120,000,000.

Preferred Stock At February 3, 2001, January 29, 2000 and January 30, 1999, there were 2,000,000 shares of preferred stock, par value \$0.01, authorized and unissued.

Repurchase Program During the third quarter of Fiscal 1999, the Company's Board of Directors authorized a program under which the Company was authorized to purchase up to \$40,000,000 of the Company's common stock and/or Convertible Debentures through open

market purchases and/or in privately negotiated transactions. On January 10, 2000, the Board of Directors increased the amount of securities that could be purchased under the program to \$90,000,000. As of January 29, 2000, 3,012,500 shares of the Company's common stock had been repurchased for an aggregate purchase price of \$89,900,000 (exclusive of brokerage commissions), completing the securities repurchase program. All of the repurchased shares became treasury shares and may be used for general corporate or other purposes. No Convertible Debentures were purchased.

Associate Discount Stock Purchase Plan In Fiscal 1999, the Company established an Associate Discount Stock Purchase Plan (the "Stock Purchase Plan"), through which participating eligible employees may purchase shares of the Company's common stock semiannually, at a price equal to the lower of 85% of the closing price of the Company's common stock on the grant date or the purchase date of each semiannual stock purchase period. Participating employees pay for their stock purchases under the Stock Purchase Plan by authorizing limited payroll deductions of up to a maximum of 15% of their compensation. During Fiscal 2000, 107,938 shares were issued pursuant to the Stock Purchase Plan at an average price per share of \$18.80. No shares of common stock were previously issued pursuant to the Stock Purchase Plan. At February 3, 2001, there were 142,062 shares available for future issuance under this Stock Purchase Plan.

Stock Option Plans In 1989 and 1992, the Company established stock option plans. In 2000, the Company established a stock option and restricted award plan (the "Plan"). Under the Plan, the number of shares of common stock as to which options and restricted stock may be granted from time to time may not exceed 1,000,000, of which no more than 250,000 may be granted as restricted stock. The Plan also includes an acceleration clause by which all options not exercisable by their terms will, upon the occurrence of certain events, become exercisable. At February 3, 2001, 22,547 shares of common stock were reserved for issuance under the 1989 plan, 2,189,246 shares of common stock were reserved for issuance under the 1992 plan and 1,000,000 shares were reserved under the 2000 plan. Under the terms of all plans, the exercise price of any option may not be less than 100% of the fair market value of the common stock on the date of grant.

Stock options granted prior to 1994 generally vest over a five-year period, with 20% becoming exercisable immediately upon grant of the option and 20% per year for the next four years. Stock options granted since 1994 generally vest either (i) over a four-year period, with 25% becoming exercisable on each of the first four anniversaries of the grant, or (ii) in seven or nine years with accelerated vesting upon the achievement of specified earnings or stock price targets within a five-year period. All stock options granted under the 1989 plan,

the 1992 plan and the 2000 plan expire ten years from the date of grant. At February 3, 2001, there were no shares under the 1989 plan, 452,187 shares under the 1992 plan and 462,700 shares under the 2000 plan available for future grant.

The following table summarizes stock option transactions for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999:

	Option Prices	Weighted Average Price	Number of Shares
Outstanding Options January 31, 1998	\$ 6.80 - \$44.13	\$21.20	1,621,092
Granted	\$14.00 - \$36.25	17.52	306,574
Exercised	\$ 6.80 - \$36.25	19.09	(373,544)
Canceled.....	\$ 6.80 - \$42.50	23.68	<u>(162,224)</u>
Outstanding Options January 30, 1999	\$ 6.80 - \$44.13	\$20.67	1,391,898
Granted	\$22.81 - \$47.69	43.56	882,500
Exercised	\$ 6.80 - \$42.50	18.65	(351,737)
Canceled.....	\$11.00 - \$44.25	25.41	<u>(123,980)</u>
Outstanding Options January 29, 2000	\$11.50 - \$47.69	\$31.98	1,798,681
Granted	\$16.88 - \$38.63	23.72	870,900
Exercised	\$14.19 - \$36.25	19.22	(110,059)
Canceled	\$14.19 - \$44.81	26.11	(303,193)
Outstanding Options February 3, 2001 ..	\$11.50 - \$47.69	\$30.21	<u>2,256,329</u>

Options for 631,787, 558,321 and 696,596 shares were exercisable as of February 3, 2001, January 29, 2000 and January 30, 1999, respectively, and had a weighted average exercise price of \$24.54, \$20.74 and \$19.76 for those respective periods.

The following table summarizes information concerning options outstanding and exercisable at February 3, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$11.50 - \$19.08	330,254	6.2	\$16.04	240,053	\$16.29	
\$19.09 - \$23.84	393,767	7.2	\$21.49	219,574	\$21.15	
\$23.85 - \$28.61	571,968	8.6	\$24.24	10,207	\$25.28	
\$28.62 - \$42.92	227,840	6.9	\$35.32	54,786	\$34.87	
\$42.93 - \$47.69	732,500	8.1	\$44.32	107,167	\$44.53	
\$11.50 - \$47.69	<u>2,256,329</u>	<u>7.7</u>	<u>\$30.21</u>	<u>631,787</u>	<u>\$24.54</u>	

The Company accounts for the stock options and the employees' purchase rights under the Stock Purchase Plan using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, under which no compensation costs have been recognized for stock option awards and shares purchased under the Stock Purchase Plan. Had compensation

costs of option awards and employees' purchase rights been determined under a fair value alternative method as stated in SFAS No. 123, "Accounting for Stock-Based Compensation," 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 financial statements as compensation expense. Pro forma net income before extraordinary loss and net income per share before extraordinary loss, on a diluted basis, after taking into account such expense, would have been as follows:

(in thousands, except per share amounts)	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Net income:			
As reported	\$52,363	\$64,531	\$39,324
Pro forma	\$49,964	\$63,917	\$38,394
Basic earnings per share:			
As reported	\$ 1.83	\$ 2.25	\$ 1.53
Pro forma	\$ 1.75	\$ 2.20	\$ 1.49
Diluted earnings per share:			
As reported	\$ 1.76	\$ 2.08	\$ 1.44
Pro forma	\$ 1.69	\$ 2.03	\$ 1.41

The fair value of each option grant is estimated at the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Expected volatility	69.7%	49.1%	59.4%
Risk-free interest rate	5.9%	4.9%	5.4%
Expected life (years).....	4.0	4.0	4.0
Dividend yield	—	—	—

In 1994, the Company's 1992 stock option plan was amended and restated to include restricted stock and unit awards. A unit represents the right to receive the cash value of a share of common stock on the date the restrictions on the unit lapse. The restrictions on grants generally lapse over a four-year period from the date of the grant. In the event a grantee terminates employment with the Company, any restricted stock or restricted units remaining subject to restrictions are forfeited. During 1998, 1999 and 2000, certain executives were awarded restricted common stock and, in some cases, restricted units. The resulting unearned compensation expense, based upon the market value on the date of grants, was charged to stockholders' equity and is being amortized over the restricted period.

Stockholder Rights Plan On May 18, 2000, the Board of Directors of the Company adopted a Stockholder Rights Plan, pursuant to which Rights were distributed as a dividend at the rate of one Right for each share of common stock of the Company held by stockholders of record as of the close of business on May 30, 2000. Each Right entitles stockholders to buy one unit of a share of a new series of preferred stock for \$125. The Rights generally will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the Voting Power of the Company as represented by the Company's common stock, or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 15% or more of the Voting Power of the Company, as represented by the Company's common stock. The Rights will expire on May 18, 2010.

9. Executive Compensation

In 1996, J. Patrick Spainhour, the Chairman and Chief Executive Officer of Ann Taylor, was granted 75,000 shares of restricted common stock. The resulting unearned compensation expense of \$1,171,875, based upon the market value on the date of the grant, was charged to stockholders' equity and was amortized over the restricted period applicable to these shares. In 1999, Mr. Spainhour was granted an additional 25,000 shares of restricted stock which vested on March 8, 2000, and in 2000, an additional 50,000 shares of restricted stock were awarded. Of these restricted shares, which are performance-vesting, 25,000 restricted shares would have vested on March 8, 2001 but were cancelled on that date because the Company failed to achieve specified earnings goals. The remaining 25,000 restricted shares will vest on March 8, 2002, provided the Company achieves specified earnings goals for Fiscal 2001. Mr. Spainhour's restricted stock awards resulted in unearned compensation expense of \$500,000 and \$829,688, in Fiscal 2000 and Fiscal 1999, respectively, based on the market value of the common stock on the date of the grants. The unearned compensation expense was charged to stockholders' equity and is being amortized over the restricted period applicable to these shares. In addition to the restricted stock, Mr. Spainhour was awarded a non-qualified stock option award to purchase 250,000 shares of common stock at the current market price, which will be exercisable in March 2002, as well as "super-incentive" non-qualified performance-vesting stock options to purchase 100,000 shares of common stock. The "super-incentive" non-qualified performance-vesting stock options will become exercisable upon achievement of various earnings-per-share targets between March 2000 and March 2002. An additional "super-incentive" nonqualified performance-vesting stock option, which is exercisable in March 2002, to purchase 100,000 shares was granted in Fiscal 2000. Any "super-incentive" options that do not vest by March 2002 will be cancelled on that date.

Additionally, as of December 9, 1996, a former executive of the Company received a grant of 30,000 restricted shares of common stock and 20,000 restricted units. The resulting unearned compensation expense of \$592,500, based on the market value of the common stock on the date of the grant, was charged to stockholders' equity and was amortized over the restricted period applicable to these shares. In Fiscal 2000, an award for an additional 50,000 restricted shares was granted. The former executive's right to these shares was cancelled upon her resignation. In addition, the former executive was awarded "super-incentive" non-qualified performance-vesting stock options to purchase 100,000 shares of common stock at the then-current market price. These unvested options were cancelled upon the executive's resignation from the Company.

10. Extraordinary Item

On July 22, 1999, the Company applied the proceeds received from the issuance of its Convertible Debentures to redeem the outstanding 8³/₄% Notes. This resulted in an extraordinary charge to earnings in Fiscal 1999 of \$962,000, net of income tax benefit of \$641,000.

11. 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.

12. 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:

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

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:

(in thousands, except percentages)	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Income before income taxes and extraordinary loss	\$93,398	\$115,714	\$72,903
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	\$41,035	\$50,221	\$33,579

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:

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

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.

13. Retirement Plans

Savings Plan Ann Taylor maintains a defined contribution 401(k) savings plan for substantially all full-time employees of Ann Taylor and its subsidiaries. Participants may contribute to the plan an aggregate of up to 10% of their annual earnings. Ann Taylor makes a matching contribution of 50% with respect to the first 3% of each participant's annual earnings contributed to the plan. Ann Taylor'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 Ann Taylor 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 Ann Taylor. 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. Ann Taylor'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:

(in thousands)	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
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.....	(732)	(1,176)	(487)
Benefit obligation, end of year	6,782	4,954	4,642
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.....	(732)	(1,176)	(487)
Fair value of plan assets, end of year	9,644	9,489	7,486
Funded status (fair value of plan assets less benefit obligation)			
Unrecognized net actuarial gain	(763)	(1,621)	(1,675)
Unrecognized prior service cost	57	63	69
Prepaid benefit cost	\$2,156	\$2,977	\$1,238

Net pension cost includes the following components:

(in thousands)	Fiscal Years Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
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	\$ 822	\$ 677	\$425

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%

14. Quarterly Financial Data (Unaudited)

(in thousands, except per share amounts)	Quarter			
	First	Second	Third	Fourth
Fiscal 2000				
Net sales.....	\$277,068	\$306,252	\$305,876	\$343,580
Gross profit	148,596	143,808	170,438	147,898
Net income.....	\$ 11,282	\$ 13,426	\$ 23,877	\$ 3,778
Basic earnings per share.....	\$0.39	\$0.47	\$0.83	\$0.13
Diluted earnings per share	\$0.38	\$0.45	\$0.78	\$0.13
Fiscal 1999				
Net sales.....	\$249,400	\$265,747	\$272,289	\$297,083
Gross profit	131,337	125,905	149,875	141,388
Income before extraordinary loss	14,755	13,373	21,448	15,917
Extraordinary loss	—	962	—	—
Net income.....	\$ 14,755	\$ 12,411	\$ 21,448	\$ 15,917
Basic earnings per share before extraordinary loss	\$0.56	\$0.47	\$0.68	\$0.53
Extraordinary loss per share	—	0.03	—	—
Basic earnings per share.....	\$0.56	\$0.44	\$0.68	\$0.53
Diluted earnings per share before extraordinary loss	\$0.51	\$0.42	\$0.65	\$0.50
Extraordinary loss per share	—	0.03	—	—
Diluted earnings per share	\$0.51	\$0.39	\$0.65	\$0.50

The sum of the quarterly per-share data may not equal the annual amounts due to changes in the weighted average shares and share equivalents outstanding. Conversion of the Convertible Debentures into common stock is not included in the computation of diluted earnings per share for the fourth quarter of Fiscal 2000 due to the antidilutive effect of the conversion.

management's report on financial information

Management is responsible for the integrity and consistency of our financial reporting. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, using management's best estimates and informed judgments where necessary and appropriate.

In fulfilling its responsibility for the reliability of financial information, Management has established and maintains accounting systems and procedures appropriately supported by internal accounting controls. In Management's estimation, the cost of these controls does not exceed the expected benefits being derived. Such controls include, but are not limited to, the selection and training of qualified personnel, an organizational structure providing for the division of responsibility, communication of requirements for compliance with approved accounting, control and business practices, and an internal audit function. Although no system can ensure that all errors or irregularities have been eliminated, Management believes that the internal accounting controls in place provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with Management's authorization and that the financial records are reliable for preparing the consolidated financial statements and maintaining accountability for assets.

The Audit Committee of the Board of Directors, comprising four outside independent directors, is responsible for recommending to the Board of Directors the selection of the Company's independent auditors and meets periodically with Management, the independent auditors and Ann Taylor's internal auditors to ensure that they are carrying out their responsibilities. The Committee also is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of the Company. The Company's independent auditors and internal auditors have full and free access to the Audit Committee with and without Management's presence.

independent auditors' report

To the Stockholders of ANNTAYLOR STORES CORPORATION:

We have audited the accompanying consolidated balance sheets of AnnTaylor Stores Corporation and its subsidiaries, as of February 3, 2001 and January 29, 2000 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three fiscal years in the period ended February 3, 2001. 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.



New York, New York

March 1, 2001

market for registrant's common equity and related stockholder matters

The Company's common stock is listed and traded on the New York Stock Exchange under the symbol ANN. The number of holders of record of common stock at March 2, 2001 was 562. The following table sets forth the high and low sale prices for the common stock on the New York Stock Exchange during Fiscal 2000 and Fiscal 1999.

	Market Price	
	High	Low
Fiscal Year 2000		
Fourth quarter.....	\$39.38	\$18.25
Third quarter	44.88	24.75
Second quarter	39.38	19.13
First quarter	28.63	15.00
Fiscal Year 1999		
Fourth quarter.....	\$48.25	\$21.00
Third quarter	45.50	31.19
Second quarter	53.00	34.50
First quarter	53.06	32.63

The Company has never paid cash dividends on the common stock and does not intend to pay cash dividends in the foreseeable future. As a holding company, the Company's ability to pay dividends is dependent upon the receipt of dividends or other payments from its subsidiaries, including the Company's direct wholly owned subsidiary AnnTaylor, Inc. ("Ann Taylor"). The payment of dividends by Ann Taylor to the Company is subject to certain restrictions under Ann Taylor's Credit Facility described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." The payment of cash dividends on the common stock by the Company is also subject to certain restrictions contained in the Company's guarantee of Ann Taylor's obligations under the Credit Facility. Any determination to pay cash dividends in the future will be at the discretion of the Company's Board of Directors and will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant at that time by the Company's Board of Directors.

five-year selected financial data

All fiscal years for which financial information is set forth below had 52 weeks, except the fiscal year ended February 3, 2001, which had 53 weeks.

(in thousands, except per share information)	Fiscal Years Ended				
	Feb. 3, 2001	Jan. 29, 2000	Jan. 30, 1999	Jan. 31, 1998	Feb. 1, 1997
Consolidated Income Statement Information:					
Net sales.....	\$1,232,776	\$1,084,519	\$911,939	\$781,028	\$798,117
Studio shoe stores closing expense	—	—	—	—	3,600
Employment contract separation expense	—	—	—	—	3,500
Retirement of assets	—	—	3,633	—	—
Income before extraordinary loss	\$ 52,363	\$ 65,493	\$ 39,324	\$ 11,997	\$ 8,667
Extraordinary loss (net of income tax benefit of \$641 and \$130 respectively)	—	962	—	173	—
Net income	\$ 52,363	\$ 64,531	\$ 39,324	\$ 11,824	\$ 8,667
Basic earnings per share before					
extraordinary loss	\$ 1.83	\$ 2.25	\$ 1.53	\$ 0.47	\$ 0.36
Extraordinary loss per share.....	—	0.03	—	0.01	—
Basic earnings per share	\$ 1.83	\$ 2.22	\$ 1.53	\$ 0.46	\$ 0.36
Diluted earnings per share before					
extraordinary loss	\$ 1.76	\$ 2.08	\$ 1.44	\$ 0.47	\$ 0.36
Extraordinary loss per share.....	—	0.03	—	0.01	—
Diluted earnings per share	\$ 1.76	\$ 2.05	\$ 1.44	\$ 0.46	\$ 0.36
Weighted average shares outstanding	28,608	29,021	25,715	25,628	23,981
Weighted average shares outstanding, assuming dilution	31,221	32,849	31,006	25,693	24,060
Consolidated Balance Sheet Information					
(at end of period):					
Working capital	\$ 172,767	\$ 151,368	\$168,708	\$122,181	\$118,850
Goodwill, net	297,619	308,659	319,699	330,739	341,779
Total assets.....	848,115	765,117	775,417	683,661	688,139
Total debt.....	117,610	115,785	105,157	106,276	131,192
Preferred securities.....	—	—	96,624	96,391	96,158
Stockholders' equity	574,029	515,622	432,699	384,107	370,582

board of directors

Gerald S. Armstrong
managing director, arena capital partners, llc

James J. Burke, Jr.
managing partner, stonington partners, inc.

Wesley E. Cantrell
retired chairman and chief executive officer, lanier worldwide, inc.

Robert C. Grayson
management consultant

Ronald W. Hovsepian
managing director, internet capital group (icg)

Rochelle B. Lazarus
chairman and chief executive officer, ogilvy & mather worldwide

Hanne M. Merriman
retail consultant

J. Patrick Spainhour
ann taylor chairman and chief executive officer

ann taylor executives

J. Patrick Spainhour*
chairman and chief executive officer

Barry Erdos*
senior executive vice president - chief operating officer

Katherine Lawther Krill
executive vice president - general merchandise manager -
ann taylor loft

Melissa T. La Bau
executive vice president - retail operations

Dwight Meyer
executive vice president - sourcing

Catherine Sadler
executive vice president - marketing

Jocelyn F. L. Barandiarán*
senior vice president - general counsel and secretary

Jane Dolan Rizzo
senior vice president - general merchandise manager - ann taylor stores

Andra B. Ehrenkranz
senior vice president - anntaylor.com division

Gerri Feemster Bostick
senior vice president - human resources

Joann Fielder
senior vice president - design development - ann taylor stores

Shari Hershon
senior vice president - design development - ann taylor loft

Wollastin B. Morin
senior vice president - information services

Daniel F. Mulhern
senior vice president - director of ann taylor stores

Michele Patton
senior vice president - director of ann taylor loft

Anthony M. Romano
senior vice president - logistics

James M. Smith*
senior vice president - chief financial officer and treasurer

Lorin Thomas-Tavel
senior vice president - strategic client relationships

* AnnTaylor Stores Corporation Executive Officer

shareholder information

Corporate Offices

142 West 57th Street, New York, NY 10019

Telephone: (800) 677-6788 or (212) 541-3300

Annual Meeting The 2001 Annual Meeting of Stockholders is scheduled for 9:00 A.M. on Thursday, May 3, 2001 at The Peninsula Hotel, 700 Fifth Avenue (at 55th St.), New York, New York.

Financial and Other Company Information A copy of the Company's Annual Report on Form 10-K (exclusive of exhibits) for the fiscal year ended February 3, 2001 is available without charge through our Web site, www.investor.anntaylor.com or upon written request to Investor Relations Department, AnnTaylor Stores Corporation, 142 West 57th Street, New York, NY 10019. You may also call us at (800) 934-6668, Mailbox 9595.

In addition, recent filings with the Securities and Exchange Commission (including Form 10-K), quarterly earnings results, and monthly sales reports are available through our Web site at www.investor.anntaylor.com.

Web site Product information is available at our Online Store at www.anntaylor.com.

Stock Exchange Listing The common stock of AnnTaylor Stores Corporation is listed for trading on the New York Stock Exchange (Trading Symbol: ANN).

Registrar and Transfer Agent Questions about shares registered in your name, change of name or address, lost stock certificates and related matters should be directed to the Company's Common Stock Registrar and Transfer Agent:

Mellon Investor Services, LLC

85 Challenger Road, Ridgefield Park, NJ 07660

(800) 851-9677

www.mellon-investor.com

Counsel

Skadden, Arps, Slate, Meagher & Flom, Wilmington, DE

Independent Auditors

Deloitte & Touche LLP, New York, NY

www.deloitte.com

