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

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 4, 2001

OR

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

Commission file number 1-11980

ANNTAYLOR, INC.
(Exact name of registrant as specified in its charter)

Delaware	**51-0297083**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
142 West 57th Street, New York, NY	**10019**
(Address of principal executive offices)	(Zip Code)

(212) 541-3300
(Registrant's telephone number, including area code)

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

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

Class	Outstanding as of August 31, 2001
Common Stock, $1.00 par value	**1**

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ANNTAYLOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Quarters and Six Months Ended August 4, 2001 and July 29, 2000
(unaudited)

	Quarters Ended		Six Months Ended	
	August 4, 2001	July 29, 2000	August 4, 2001	July 29, 2000
	(in thousands)			
Net sales	$ 310,292	$ 306,252	$ 617,382	$ 583,320
Cost of sales	158,289	162,444	305,727	290,916
Gross profit	152,003	143,808	311,655	292,404
Selling, general and administrative expenses	135,833	116,062	271,551	240,165
Amortization of goodwill	2,760	2,760	5,520	5,520
Operating income	13,410	24,986	34,584	46,719
Interest income	523	806	858	1,270
Interest expense	1,719	1,830	3,499	3,626
Income before income taxes	12,214	23,962	31,943	44,363
Income tax provision	5,815	10,536	14,600	19,655
Net income	$ 6,399	$ 13,426	$ 17,343	$ 24,708

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
August 4, 2001 and February 3, 2001
(unaudited)

	August 4, 2001	February 3, 2001
ASSETS	(in thousands)	
Current assets		
Cash and cash equivalents	$ 29,656	$ 31,962
Accounts receivable, net	59,581	57,989
Merchandise inventories	173,913	170,631
Prepaid expenses and other current assets	57,576	53,227
Total current assets	320,726	313,809
Property and equipment, net	245,112	220,032
Goodwill, net	292,099	297,619
Deferred financing costs, net	4,827	4,281
Other assets	14,718	12,374
Total assets	$877,482	$848,115
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable	$ 71,548	$ 65,903
Accrued salaries and bonus	10,052	12,960
Accrued tenancy	10,674	9,800
Gift certificates and merchandise credits redeemable	16,115	20,375
Accrued expenses	37,397	30,604
Current portion of long-term debt	1,454	1,400
Total current liabilities	147,240	141,042
Note Payable to ATSC	116,572	114,960
Other long-term debt	509	1,250
Deferred lease costs and other liabilities	16,298	16,834
Commitments and contingencies		
Stockholder's equity		
Common stock, $1.00 par value; 1,000 shares authorized; 1 share issued and outstanding	1	1
Additional paid-in capital	388,690	383,199
Retained earnings	208,172	190,829
Total stockholder's equity	596,863	574,029
Total liabilities and stockholder's equity	$877,482	$848,115

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended August 4, 2001 and July 29, 2000
(unaudited)

	Six Months Ended	
	August 4, 2001	July 29, 2000
	(in thousands)	
Operating activities:		
Net income	$ 17,343	$ 24,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loss on accounts receivable	697	595
Depreciation and amortization	19,974	16,521
Amortization of goodwill	5,520	5,520
Non-cash interest	2,082	2,114
Amortization of deferred compensation	1,163	1,159
Loss on disposal of property and equipment	922	859
Changes in assets and liabilities:		
Receivables	(2,289)	(595)
Merchandise inventories	(3,282)	(14,665)
Prepaid expenses and other current assets	(4,349)	(4,820)
Accounts payable	5,645	6,688
Accrued liabilities	500	873
Other non-current assets and liabilities, net	(2,880)	(744)
Net cash provided by operating activities	41,046	38,213
Investing activities:		
Purchases of property and equipment	(45,976)	(39,357)
Net cash used by investing activities	(45,976)	(39,357)
Financing activities:		
Payments on mortgage	(688)	(638)
Payment of financing costs	(1,016)	(41)
Parent company activity	4,328	1,344
Net cash provided by financing activities	2,624	665
Net decrease in cash	(2,306)	(479)
Cash and cash equivalents, beginning of period	31,962	35,081
Cash and cash equivalents, end of period	$ 29,656	$ 34,602
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest	$ 1,265	$ 1,216
Cash paid during the period for income taxes	$ 2,646	$ 22,411

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

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

The results of operations for the 2001 interim period shown in this report are not necessarily indicative of results to be expected for the fiscal year.

The February 3, 2001 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of the Company.

Certain Fiscal 2000 amounts have been reclassified to conform to the Fiscal 2001 presentation.

Detailed footnote information is not included for the quarters ended August 4, 2001 and July 29, 2000. The financial information set forth herein should be read in conjunction with the Notes to the Company's Consolidated Financial Statements contained in the Company's 2000 Annual Report on Form 10-K.

2. Long-Term Debt

The following summarizes long-term debt outstanding at August 4, 2001:

	(in thousands)
Note Payable to ATSC	$ 116,572
Mortgage	1,963
Less current portion	1,454
Mortgage, long-term	509
Total long-term debt	$ 117,081

3. Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001 and clarifies the criteria for recognition of intangible assets separately from goodwill. Management does not believe that the adoption of SFAS 141 will have an impact on the Company's consolidated financial position or consolidated results of operations. SFAS 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets, other than goodwill, which have determinable useful lives be amortized over that period. SFAS 142 is effective for fiscal years beginning after December 15, 2001. Management intends to adopt SFAS 142 in Fiscal 2002, subject to independent valuation which supports the carrying value of such long-lived assets, and estimates that it will add approximately $11,000,000 annually to net income.

In July 2001, the FASB unananimously voted to issue SFAS 143, "Accounting for Asset Retirement Obligations" which provides accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Management does not believe that the adoption of SFAS 143 will have a significant impact on the Company's consolidated financial position or consolidated results of operations.

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

Results of Operations

	Six Months Ended	
	August 4, 2001	July 29, 2000
Number of Stores:		
Open at beginning of period	478	405
Opened during period	25	30
Expanded during period*	5	2
Closed during period	3	5
Open at end of period	500	430
Type of Stores Open at End of Period:		
Ann Taylor stores	335	319
Ann Taylor Loft stores	153	98
Ann Taylor Factory Stores	12	13

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

Six Months Ended August 4, 2001 Compared to the Six Months Ended July 29, 2000

The Company's net sales in the first six months of Fiscal 2001 increased to $617,382,000 from $583,320,000, an increase of $34,062,000 or 5.8%. Comparable store sales for the first six months of 2001 decreased 8.4% compared to an increase of 1.4% during the same period in Fiscal 2000. Comparable store sales by division were down 11.1% for Ann Taylor stores and up 2.8% for Ann Taylor Loft stores. The sales increase was primarily attributable to the opening of new stores offset, in part, by the net decrease in comparable store sales. Management believes that the net decrease in comparable store sales was the result of customer dissatisfaction with certain of the Company’s product offerings and merchandise assortment available in Ann Taylor stores in the Spring season of 2001.

Gross profit as a percentage of net sales increased to 50.5% in the first six months of 2001 from 50.1% in the first six months of 2000.

Selling, general and administrative expenses were 44.0% of net sales in the first six months of 2001, compared to 39.7% of net sales in the first six months of 2000, excluding a pre-tax nonrecurring charge of approximately $8,500,000, or 1.5% of net sales, in connection with an extensive review conducted with the Company’s financial and legal advisors of various strategic approaches to enhance shareholder value. The increase in selling, general and administrative expenses as a percentage of net sales was primarily attributable to decreased leverage on fixed expenses resulting from lower overall comparable store sales and also increases in tenancy and Ann Taylor Loft store operations expenses as a percentage of net sales due to expansion.

As a result of the foregoing, the Company had operating income of $34,584,000, or 5.6% of net sales, in the first six months of 2001, compared to operating income, after taking into account the nonrecurring charge, of $46,719,000, or 8.0% of net sales, in the first six months of 2000. Amortization of goodwill was $5,520,000 in each of the first six months of Fiscal 2001 and Fiscal 2000. Operating income, without giving effect to goodwill amortization, was $40,104,000, or 6.5% of net sales, in the 2001 period and $52,239,000, or 9.0% of net sales, in the 2000 period.

Interest income was $858,000 in the first six months of Fiscal 2001 compared to $1,270,000 in the first six months of Fiscal 2000. The decrease was primarily attributable to lower cash on hand and lower interest rates during the first six months of Fiscal 2001, compared to the first six months of Fiscal 2000.

Interest expense was $3,499,000 in the first six months of Fiscal 2001 compared to $3,626,000 in the first six months of Fiscal 2000. The decrease in interest expense was primarily attributable to a decrease in letter of credit fees and a reduction in amortization of deferred financing costs resulting from the Credit Facility entered into in the first quarter of Fiscal 2001.

The income tax provision was $14,600,000, or 45.7% of income before income taxes, in the 2001 period, compared to $19,655,000, or 44.3% of income before income taxes, in the 2000 period. The effective income tax rate for both periods differed from the statutory rate primarily because of non-deductible goodwill amortization.

As a result of the foregoing factors, the Company had net income of $17,343,000, or 2.8% of net sales, for the first six months of 2001, compared to net income of $24,708,000 or 4.2% of net sales, for the first six months of 2000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 26, 1996, alleged stockholders of the Company’s parent, Ann Taylor Stores Corporation (“ATSC”), filed a purported class action lawsuit in the United States District Court for the Southern District of New York (the "District Court"), against ATSC, the Company, certain former officers and directors of ATSC and the Company, Merrill Lynch & Co. ("ML&Co.") and certain affiliates of ML&Co. (*Novak v. Kasaks, et. al.*, No. 96 CIV 3073 (S.D.N.Y. 1996)). The complaint alleged causes of action under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended, asserting that ATSC and the other defendants made false and misleading statements about the Company and ATSC during the period commencing February 3, 1994 through May 4, 1995 (the "Putative Class Period"). The complaint sought, among other things, (1) certification as a class action on behalf of all purchasers of ATSC’s common stock during the Putative Class Period, (2) an award of compensatory damages to the plaintiffs and purported members of the class, pre-judgment and post-judgment interest, and reasonable attorneys' fees and (3) equitable and/or injunctive relief.

The District Court granted the defendants' motions to dismiss the complaint and a subsequently filed amended complaint. On June 21, 2000, the United States Court of Appeals for the Second Circuit (the "Court of Appeals") vacated the dismissal of the amended complaint, and 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. On or about November 27, 2000, the United States Supreme Court denied the petition for a writ of certiorari filed by ATSC, the Company and their former directors and officers seeking review and reversal of the decision of the Court of Appeals.

While this action was pending before the Court of Appeals, 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 provided, among other things, for the establishment by the settling defendants of a settlement fund in the amount of $3,000,000 plus interest. On or about December 14, 1999, the District Court entered an Order and Final Judgment approving this partial settlement, dismissing the amended complaint with prejudice as to the settling defendants, and barring and enjoining any future claims by, among others, the remaining defendants against the settling defendants for contribution.

Following the decision of the Court of Appeals, plaintiffs elected not to replead their amended complaint. Accordingly, on or about September 29, 2000, ATSC, the Company and their former directors and officers again moved to dismiss the amended complaint, arguing that it fails to plead fraud with sufficient particularity under the standard set forth by the Court of Appeals in its June 21, 2000 decision. On or about July 18, 2001, the District Court denied the motion. The parties are now conducting discovery.

Due to the fact that the litigation is still in its preliminary stages, any liability that may arise from this action cannot be predicted at this time. The Company believes that the amended complaint is without merit and intends to continue to defend the action vigorously.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AnnTaylor, Inc.

Date: September 14, 2001

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

Date: September 14, 2001

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