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

FORM 10-Q

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

For the quarterly period ended August 2, 2003

Commission file number 1-11980

ANNTAYLOR, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0297083

(I.R.S. Employer Identification Number)

142 West 57th Street, New York, NY

(Address of principal executive offices)

10019

(Zip Code)

(212) 541-3300

(Registrant's telephone number, including area code)

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

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

<u>Class</u>	<u>Outstanding as of</u> <u>August 29, 2003</u>
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 2, 2003 and August 3, 2002
(unaudited)

	Quarters Ended		Six Months Ended	
	August 2, 2003	August 3, 2002	August 2, 2003	August 3, 2002
	(in thousands)			
Net sales	\$ 390,207	\$ 343,143	\$ 742,224	\$ 688,535
Cost of sales	<u>187,646</u>	<u>161,965</u>	<u>350,648</u>	<u>320,794</u>
Gross margin	202,561	181,178	391,576	367,741
Selling, general and administrative expenses	<u>166,660</u>	<u>150,425</u>	<u>325,278</u>	<u>301,506</u>
Operating income	35,901	30,753	66,298	66,235
Interest income	777	913	1,465	1,429
Interest expense	<u>1,674</u>	<u>1,826</u>	<u>3,368</u>	<u>3,525</u>
Income before income taxes	35,004	29,840	64,395	64,139
Income tax provision	<u>13,827</u>	<u>11,638</u>	<u>25,290</u>	<u>25,015</u>
Net income	<u>\$ 21,177</u>	<u>\$ 18,202</u>	<u>\$ 39,105</u>	<u>\$ 39,124</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
August 2, 2003 and February 1, 2003
(unaudited)

	<u>August 2, 2003</u>	<u>February 1, 2003</u>
ASSETS		(in thousands)
Current assets		
Cash and cash equivalents	\$ 259,594	\$ 212,821
Accounts receivable, net	14,830	10,367
Merchandise inventories	168,683	185,484
Prepaid expenses and other current assets	51,494	46,599
Total current assets	494,601	455,271
Property and equipment, net	253,892	247,115
Goodwill, net	286,579	286,579
Deferred financing costs, net	3,727	4,170
Other assets	15,492	17,691
Total assets	\$ 1,054,291	\$ 1,010,826
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable	\$ 68,842	\$ 57,058
Accrued expenses	88,217	94,137
Total current liabilities	157,059	151,195
Note payable to AnnTaylor Stores Corporation	123,386	121,652
Deferred lease costs and other liabilities	27,066	23,561
Stockholder's equity		
Common stock, \$1.00 par value; 1,000 shares authorized; 1 share issued and outstanding	1	1
Additional paid-in capital	412,031	417,568
Retained earnings	334,748	296,849
Total stockholder's equity	746,780	714,418
Total liabilities and stockholder's equity	\$ 1,054,291	\$ 1,010,826

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended August 2, 2003 and August 3, 2002
(unaudited)

	Six Months Ended	
	August 2, 2003	August 3, 2002
	(in thousands)	
Operating activities:		
Net income	\$ 39,105	\$ 39,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred compensation	1,540	2,167
Deferred income taxes.....	(471)	1,340
Depreciation and amortization	25,640	23,736
Gain on sale of proprietary credit card accounts receivable.....	---	(2,095)
Loss on disposal of property and equipment	725	347
Non-cash interest.....	2,177	2,117
Changes in assets and liabilities:		
Receivables	(4,463)	(1,809)
Merchandise inventories	16,801	10,662
Prepaid expenses and other current assets	(3,791)	115
Accounts payable and accrued expenses	5,864	18,155
Other non-current assets and liabilities, net.....	<u>5,070</u>	<u>1,629</u>
Net cash provided by operating activities	<u>88,197</u>	<u>95,488</u>
Investing activities:		
Purchases of property and equipment	(33,141)	(17,572)
Net proceeds from sale of proprietary credit card accounts receivable	<u>---</u>	<u>57,800</u>
Net cash provided (used) by investing activities.....	<u>(33,141)</u>	<u>40,228</u>
Financing activities:		
Payments on mortgage	---	(1,250)
Payment of financing costs	---	(14)
Parent company activity	<u>(8,283)</u>	<u>15,963</u>
Net cash provided (used) by financing activities	<u>(8,283)</u>	<u>14,699</u>
Net increase in cash	46,773	150,415
Cash and cash equivalents, beginning of period.....	<u>212,821</u>	<u>30,037</u>
Cash and cash equivalents, end of period	<u>\$259,594</u>	<u>\$180,452</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest	\$ <u>1,133</u>	\$ <u>1,260</u>
Cash paid during the period for income taxes.....	\$ <u>19,239</u>	\$ <u>8,234</u>

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

The results of operations for the fiscal 2003 interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year.

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

Detailed footnote information is not included for the quarters ended August 2, 2003 and August 3, 2002. The financial information set forth herein should be read in conjunction with the Notes to the Company's Consolidated Financial Statements contained in its fiscal 2002 Annual Report on Form 10-K.

2. Long-Term Debt

The Company had \$123,386,000 in long term debt outstanding at August 2, 2003 in the form of a Note Payable to AnnTaylor Stores Corporation.

3. Recent Accounting Pronouncements

On May 15, 2003 the Financial Accounting Standards Board (the "FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 requires that an issuer classify financial instruments that are within its scope as a liability. Many of those instruments were classified as equity under previous guidance. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 has had no impact on the Company's consolidated financial statements for the periods presented. The Company will record financial instruments entered into or modified in future periods in accordance with the provisions of SFAS No. 150.

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

3. Recent Accounting Pronouncements (continued)

On April 30, 2003 the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No 149 is effective for contracts entered into or modified after June 30, 2003. Management has evaluated the provisions of SFAS No. 149, and determined that it has had no impact on the Company's consolidated financial statements for the periods presented. The Company will evaluate contracts entered into or modified in future periods and record them in accordance with the provisions of SFAS No. 149.

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

Results of Operations

	<u>Six Months Ended</u>	
	<u>August 2,</u> <u>2003</u>	<u>August 3,</u> <u>2002</u>
Number of Stores:		
Open at beginning of period	584	538
Opened during period.....	21	17
Expanded or remodeled during period*	4	---
Closed during period	2	---
Open at end of period.....	603	555
Type of Stores Open at End of Period:		
Ann Taylor stores	350	344
Ann Taylor Loft stores	226	183
Ann Taylor Factory Stores.....	27	28

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

Six Months Ended August 2, 2003 Compared to the Six Months Ended August 3, 2002

The Company's net sales in the first six months of fiscal 2003 increased to \$742,224,000 from \$688,535,000 for the same period last year, an increase of \$53,689,000 or 7.8 percent. By division, net sales for the first six months of fiscal 2003 were \$417,364,000 for Ann Taylor and \$259,931,000 for Ann Taylor Loft. Comparable store sales for the first six months of fiscal 2003 decreased 0.5 percent compared to a decrease of 0.1 percent during the same period in fiscal 2002. Comparable store sales by division were down 1.8 percent for Ann Taylor and up 1.7 percent for Ann Taylor Loft. The overall sales increase was primarily the result of an increase in the number of stores open as compared to last year.

Gross margin as a percentage of net sales decreased to 52.8 percent for the first six months of fiscal 2003 from 53.4 percent during the same period last year. The decrease in gross margin as a percentage of net sales is primarily due to lower full price sales and lower margin on non-full price sales at Ann Taylor.

Selling, general and administrative expenses as a percent of net sales for the first six months of fiscal 2003 were flat compared to the same period last year, at 43.8 percent of net sales.

As a result of the foregoing, the Company had operating income of \$66,298,000, or 8.9 percent of net sales, in the first six months of fiscal 2003, compared to \$66,235,000, or 9.6 percent of net sales, in the first six months of fiscal 2002.

Interest income was \$1,465,000 in the first six months of fiscal 2003, compared to \$1,429,000 in the first six months of fiscal 2002.

Interest expense was \$3,368,000 in the first six months of fiscal 2003, compared to \$3,525,000 in the first six months of fiscal 2002.

The income tax provision was \$25,290,000, or 39.3 percent of income before taxes, in the first six months of fiscal 2003, compared to \$25,015,000, or 39.0 percent of income before taxes, for the same period last year. During the second quarter of fiscal 2003, the Company increased its effective income tax rate from 39 percent to 40 percent to reflect higher state taxes.

As a result of the foregoing factors, the Company had net income of \$39,105,000, or 5.3 percent of net sales, for the first six months of fiscal 2003, compared to net income of \$39,124,000, or 5.7 percent of net sales, for the first six months of fiscal 2002.

Statement Regarding Forward-Looking Disclosures

Sections of this Quarterly Report on Form 10-Q, including the preceding Management's Discussion and Analysis of Financial Condition and Results of Operations, contain various forward-looking statements, made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements may use the words "expect", "anticipate", "plan", "intend", "project", "believe" and similar expressions. These forward-looking statements reflect the Company's current expectations concerning future events, and actual results may differ materially from current expectations or historical results. Any such forward-looking statements are subject to various risks and uncertainties, including failure by the Company to predict accurately client fashion preferences; decline in the demand for merchandise offered by the Company; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of the Company's brand awareness and marketing programs; general economic conditions or a downturn in the retail industry; the inability of the Company to locate new store sites or negotiate favorable lease terms for additional stores or for the expansion of existing stores; lack of sufficient consumer interest in the Company's Online Store; a significant change in the regulatory environment applicable to the Company's business; an increase in the rate of import duties or export quotas with respect to the Company's merchandise; financial or political instability in any of the countries in which the Company's goods are manufactured; the potential impact of health concerns relating to severe acute respiratory syndrome, particularly on manufacturing operations of the Company's vendors in Asia and elsewhere; acts of war or terrorism in the United States or worldwide; work stoppages, slowdowns or strikes; and other factors set forth in the Company's filings with the SEC. The Company does not assume any obligation to update or revise any forward-looking statements at any time for any reason.

Item 4. Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report (the "Evaluation Date"). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's reports filed or submitted under the Exchange Act.

There was no change in the Company's internal control over financial reporting during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of chief executive officer and chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

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

<u>Date of Report</u>	<u>Item(s) Reported</u>
5/8/03	Item 7 and Item 12
5/14/03	Item 7 and Item 12
6/5/03	Item 7 and Item 9
7/10/03	Item 7 and Item 9

The report on Form 8-K dated May 14, 2003 included the Condensed Consolidated Statements of Operations for the quarters ended May 3, 2003 and May 4, 2002 and Condensed Consolidated Balance Sheets at May 3, 2003 and February 1, 2003 of AnnTaylor Stores Corporation.

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 12, 2003

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

Date: September 12, 2003

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

Exhibit Index

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