
**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 1-10738

ANNTAYLOR STORES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3499319

(I.R.S. Employer Identification Number)

142 West 57th Street, New York, NY

(Address of principal executive offices)

10019

(Zip Code)

(212) 541-3300

(Registrant's telephone number, including area code)

Indicate by check mark whether 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 August 29, 2003</u>
Common Stock, \$.0068 par value	45,092,384

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ANNTAYLOR STORES CORPORATION
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, except per share amounts)			
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>
Basic earnings per share of common stock	<u>\$ 0.48</u>	<u>\$ 0.41</u>	<u>\$ 0.89</u>	<u>\$ 0.89</u>
Diluted earnings per share of common stock	<u>\$ 0.45</u>	<u>\$ 0.39</u>	<u>\$ 0.84</u>	<u>\$ 0.84</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR STORES CORPORATION
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	<u>494,601</u>	<u>455,271</u>
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	<u>\$ 1,054,291</u>	<u>\$ 1,010,826</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 68,842	\$ 57,058
Accrued expenses	88,217	94,137
Total current liabilities	<u>157,059</u>	<u>151,195</u>
Long-term debt, net	123,386	121,652
Deferred lease costs and other liabilities	27,066	23,561
Stockholders' equity		
Common stock, \$.0068 par value; 120,000,000 shares authorized; 49,106,344 and 48,932,860 shares issued, respectively	334	332
Additional paid-in capital	503,683	500,061
Retained earnings	334,013	296,113
Deferred compensation on restricted stock	<u>(4,834)</u>	<u>(3,968)</u>
Treasury stock, at cost	833,196	792,538
4,568,506 and 4,050,972 shares, respectively	<u>(86,416)</u>	<u>(78,120)</u>
Total stockholders' equity	<u>746,780</u>	<u>714,418</u>
Total liabilities and stockholders' equity	<u>\$ 1,054,291</u>	<u>\$ 1,010,826</u>

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR STORES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the 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
Tax benefit from exercise of stock options	666	3,524
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>88,863</u>	<u>99,012</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)
Common stock activity related to stock based compensation programs, net...	3,832	12,439
Repurchase of common stock	<u>(12,781)</u>	<u>---</u>
Net cash provided (used) by financing activities	<u>(8,949)</u>	<u>11,175</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 STORES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

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

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

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

Detailed footnote information is not included for the quarters ended 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 the AnnTaylor Stores Corporation 2002 Annual Report to Stockholders.

2. Earnings Per Share

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

In April 2002, the Company's Board of Directors approved a 3-for-2 split of the Company's common stock, in the form of a stock dividend. One additional share of common stock for every two shares owned was distributed on May 20, 2002 to stockholders of record at the close of business on May 2, 2002.

[Tables on next page]

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

2. Earnings Per Share (continued)

	Quarters Ended					
	August 2, 2003			August 3, 2002		
	(in thousands, except per share amounts)					
	<u>Income</u>	<u>Shares</u>	<u>Per Share Amount</u>	<u>Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
<u>Basic Earnings per Share</u>						
Income available to common stockholders	\$21,177	44,024	\$ <u>0.48</u>	\$18,202	44,311	\$ <u>0.41</u>
<u>Effect of Dilutive Securities</u>						
Stock options and restricted stock	---	665		---	583	
Convertible Debentures	<u>722</u>	<u>3,606</u>		<u>709</u>	<u>3,606</u>	
<u>Diluted Earnings per Share</u>						
Income available to common stockholders	\$ <u>21,899</u>	<u>48,295</u>	\$ <u>0.45</u>	\$ <u>18,911</u>	<u>48,500</u>	\$ <u>0.39</u>

	Six Months Ended					
	August 2, 2003			August 3, 2002		
	(in thousands, except per share amounts)					
	<u>Income</u>	<u>Shares</u>	<u>Per Share Amount</u>	<u>Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
<u>Basic Earnings per Share</u>						
Income available to common stockholders	\$39,105	44,034	\$ <u>0.89</u>	\$39,124	44,145	\$ <u>0.89</u>
<u>Effect of Dilutive Securities</u>						
Stock options and restricted stock	---	439		---	634	
Convertible Debentures	<u>1,446</u>	<u>3,606</u>		<u>1,444</u>	<u>3,606</u>	
<u>Diluted Earnings per Share</u>						
Income available to common stockholders	\$ <u>40,551</u>	<u>48,079</u>	\$ <u>0.84</u>	\$ <u>40,568</u>	<u>48,385</u>	\$ <u>0.84</u>

Options to purchase 980,999 and 2,538,801 shares of common stock during the quarter and six months ended August 2, 2003, respectively, and 989,749 and 975,749 shares of common stock during the quarter and six months ended August 3, 2002, respectively, were excluded from the above computations of weighted average shares for diluted earnings per share, due to the antidilutive effect of the options' exercise prices as compared to the average market price of the common shares during those periods.

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

3. Stock-based Awards

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

	<u>Quarters Ended</u>		<u>Six Months Ended</u>	
	<u>August 2, 2003</u>	<u>August 3, 2002</u>	<u>August 2, 2003</u>	<u>August 3, 2002</u>
	(dollars in thousands, except per share data)			
Net income:				
As reported	\$ 21,177	\$ 18,202	\$ 39,105	\$ 39,124
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.....	<u>(955)</u>	<u>(1,031)</u>	<u>(1,928)</u>	<u>(1,929)</u>
Pro forma	<u>\$ 20,222</u>	<u>\$ 17,171</u>	<u>\$ 37,177</u>	<u>\$ 37,195</u>
Basic earnings per share:				
As reported	<u>\$ 0.48</u>	<u>\$ 0.41</u>	<u>\$ 0.89</u>	<u>\$ 0.89</u>
Pro forma	<u>\$ 0.45</u>	<u>\$ 0.39</u>	<u>\$ 0.84</u>	<u>\$ 0.84</u>
Diluted earnings per share:				
As reported	<u>\$ 0.45</u>	<u>\$ 0.39</u>	<u>\$ 0.84</u>	<u>\$ 0.84</u>
Pro forma	<u>\$ 0.43</u>	<u>\$ 0.37</u>	<u>\$ 0.80</u>	<u>\$ 0.80</u>

4. Long-Term Debt

Long-term debt outstanding at August 2, 2003 was \$123,386,000, which represents the net carrying value of the Company's convertible debentures on that date.

5. 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.

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 Financial Condition and Results of Operations

Results of Operations

	<u>Quarters Ended</u>		<u>Six Months Ended</u>	
	<u>August 2, 2003</u>	<u>August 3, 2002</u>	<u>August 2, 2003</u>	<u>August 3, 2002</u>
Number of Stores:				
Open at beginning of period	602	551	584	538
Opened during period.....	3	4	21	17
Expanded or remodeled during period*	3	---	4	---
Closed during period	2	---	2	---
Open at end of period.....	603	555	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.

Quarter Ended August 2, 2003 Compared to the Quarter Ended August 3, 2002

The Company's net sales in the second quarter of fiscal 2003 increased to \$390,207,000 from \$343,143,000 in the second quarter of fiscal 2002, an increase of \$47,064,000 or 13.7 percent. By division, net sales for the second quarter of fiscal 2003, were \$216,038,000 for Ann Taylor and \$140,008,000 for Ann Taylor Loft. Comparable store sales for the second quarter of fiscal 2003 increased 5.3 percent, compared to a 0.2 percent decrease in the second quarter of fiscal 2002. Comparable store sales by division were up 4.9 percent for Ann Taylor and up 5.7 percent for Ann Taylor Loft. The increase in sales was primarily attributable to the opening of new stores and the increase in comparable store sales. Management believes the comparable store sales increase was due to strategically managed promotions that helped optimize selling of product that continued to border on being too safe, lacking color and sophistication at AnnTaylor and continued product successes at Ann Taylor Loft.

Gross margin as a percentage of net sales decreased to 51.9 percent in the second quarter of fiscal 2003 from 52.8 percent in the second quarter of fiscal 2002. The decrease is primarily due to the combined effect of lower full price sales at Ann Taylor and lower margin rates achieved on non-full price sales at both divisions.

Selling, general and administrative expenses were \$166,660,000 or 42.7 percent of net sales, in the second quarter of fiscal 2003, compared to \$150,425,000, or 43.8 percent of net sales, in the second quarter of fiscal 2002. The decrease in selling, general and administrative expenses as a percentage of net sales was primarily due to increased leverage on fixed expenses resulting from higher comparable store sales.

As a result of the foregoing, the Company had operating income of \$35,901,000, or 9.2 percent of net sales, in the second quarter of fiscal 2003, compared to \$30,753,000, or 9.0 percent of net sales, in the second quarter of fiscal 2002.

Interest income was \$777,000 in the second quarter of fiscal 2003, compared to \$913,000 in the second quarter of fiscal 2002. The decrease is due to lower interest rates partially offset by a higher cash on hand balance.

Interest expense was \$1,674,000 in the second quarter of fiscal 2003, compared to \$1,826,000 in the second quarter of fiscal 2002. The decrease is due to lower rates on commitment fees related to the Company's credit facility.

The income tax provision was \$13,827,000, or 39.5 percent of income before taxes, in the second quarter of fiscal 2003, compared to \$11,638,000, or 39.0 percent of income before taxes, in the second quarter of fiscal 2002. During the second quarter of fiscal 2003, the Company increased its effective income tax rate from 39 percent to 40 percent to reflect higher state taxes.

As a result of the foregoing factors, the Company had net income of \$21,177,000, or 5.4 percent of net sales, for the second quarter of fiscal 2003, compared to \$18,202,000, or 5.3 percent of net sales, for the second quarter of fiscal 2002.

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

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.

Financial Condition

For the first six months of fiscal 2003, net cash provided by operating activities totaled \$88,863,000, primarily as a result of earnings, adjusted for non-cash items and a decrease in merchandise inventories. Cash used by investing activities during the first six months of fiscal 2003 amounted to \$33,141,000, for the purchase of property and equipment. Cash used by financing activities during the first six months of fiscal 2003 amounted to \$8,949,000, due primarily to the Company's repurchase of common stock partially offset by cash received from the exercise of stock options.

Merchandise inventories were \$168,683,000 at August 2, 2003, compared to \$185,484,000 at February 1, 2003. On a per square foot basis, inventories at August 2, 2003 were down approximately 12 percent compared to the inventories at the end of fiscal 2002. The decrease is primarily due to lower in-transit inventory levels and the timing of merchandise receipts.

Total fiscal 2003 capital expenditures, which are primarily attributable to the Company's store expansion, renovation and refurbishment programs, and the investment in information systems, are expected to be approximately \$80,000,000. For the six months ended August 2, 2003, capital expenditures totaled \$33,141,000 net of landlord construction allowances. During the first six months of fiscal 2003, the Company opened one new Ann Taylor store, 19 new Ann Taylor Loft stores and one Ann Taylor Factory store and closed one Ann Taylor store and one Ann Taylor Factory store. For the remainder of fiscal 2003, the Company expects to open 8 additional Ann Taylor stores and 44 additional Ann Taylor Loft stores.

In order to finance its operations and capital requirements, the Company expects to use internally generated funds, trade credit and funds available to it under its credit facility. The Company believes that cash flow from operations and funds available under the credit facility are sufficient to enable it to meet its on-going cash needs for its business, as presently conducted, for the foreseeable future.

In April 2002, the Company's Board of Directors approved a 3-for-2 stock split of the Company's common stock in the form of a stock dividend. One additional share of common stock for every two shares owned was distributed on May 20, 2002 to stockholders of record at the close of business on May 2, 2002.

In August 2002, the Company's Board of Directors authorized a \$50 million securities repurchase program. The repurchase program is subject to compliance with the Company's credit facility. Pursuant to this program, purchases of shares of the Company's common stock and/or its convertible debentures due 2019 may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases or in privately negotiated transactions. Repurchased shares of common stock will become treasury shares and may be used for general corporate and other purposes. Repurchased convertible debentures will be cancelled. The Company repurchased 680,000 shares of its common stock during the first six months of 2003 in connection with this securities repurchase program, at a total cost of approximately \$12,800,000. A portion of the shares repurchased have subsequently been reissued under the Company's stock based compensation programs.

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.

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.

Critical Accounting Policies

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

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

The Company follows SFAS No. 142, "Goodwill and Other Intangible Assets". This accounting standard requires that goodwill and indefinite life intangible assets are no longer amortized but are subject to annual impairment tests. Other intangible assets with finite lives will continue to be amortized over their useful lives. The Company performs impairment testing annually using net discounted future cash flows to determine whether an impairment charge related to the carrying value of the

Company's recorded goodwill is necessary. The most recent impairment tests did not result in an impairment charge. In the case of long-lived tangible assets, if the undiscounted future cash flows related to the long-lived assets are less than the assets' carrying value, a similar impairment charge would be considered. Management's estimate of future cash flows is based on historical experience, knowledge, and market data. These estimates can be affected by factors such as those outlined in the Statement Regarding Forward-Looking Disclosures.

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

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

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

Statement Regarding Forward-Looking Disclosures

Sections of this Quarterly Report on Form 10-Q, including the preceding Management's Discussion and Analysis of Financial Condition and Results of Operations, contain various forward-looking statements, made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements may use the words "expect", "anticipate", "plan", "intend", "project", "believe" and similar expressions. These forward-looking statements reflect the Company's current expectations concerning future events, and actual results may differ materially from current expectations or historical results. Any such forward-looking statements are subject to various risks and uncertainties, including failure by the Company to predict accurately client fashion preferences; decline in the demand for merchandise offered by the Company; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of the Company's brand awareness and marketing programs; general economic conditions or a downturn in the retail industry; the inability of the Company to locate new store sites or negotiate favorable lease terms for additional stores or for the expansion of existing stores; lack of sufficient consumer interest in the Company's Online Store; a significant change in the regulatory environment applicable to the Company's business; an increase in the rate of import duties or export quotas with respect to the Company's merchandise; financial or political instability in any of the countries in which the Company's goods are manufactured; the potential impact of health concerns relating to severe 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 Company's 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.

SIGNATURES

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

AnnTaylor Stores Corporation

Date: 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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