

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-29**
SEC Accession No. **0000874214-95-000005**

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FILER

ANNTAYLOR STORES CORP

CIK: **874214** | IRS No.: **133499319** | State of Incorporation: **DE** | Fiscal Year End: **0202**
Type: **10-Q** | Act: **34** | File No.: **001-10738** | Film No.: **95546743**
SIC: **5621** Women's clothing stores

Business Address
142 WEST 57TH ST
NEW YORK NY 10019
2125413300

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 29, 1995

OR

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

Commission file number 1-10738

ANNTAYLOR STORES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

13-3499319

(State of other jurisdiction of (I.R.S. Employer Identification Number)
incorporation or organization)

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 X 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 May 26, 1995
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Common Stock, \$.0068 par value

23,050,121

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ANNTAYLOR STORES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Quarters Ended April 29, 1995 and April 30, 1994
(unaudited)

Quarters Ended

April 29, 1995 April 30, 1994

(in thousands, except per share amounts)

Net sales	\$168,306	\$145,283
Cost of sales	91,355	76,403
	-----	-----
Gross profit	76,951	68,880
Selling, general and administrative expenses	62,451	46,973
Amortization of goodwill	2,377	2,377
	-----	-----
Operating income	12,123	19,530
Interest expense	4,498	3,456
Other expense, net	57	140
Income before income taxes	7,568	15,934
Income tax provision	4,077	7,874
	-----	-----
Net income	\$ 3,491	\$ 8,060
	=====	=====
Net income per share of common stock	\$.15	\$.36
	=====	=====
Weighted average number of shares and share equivalents outstanding	23,499	22,384
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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ANNTAYLOR STORES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
April 29, 1995 and January 28, 1995

April 29, 1995, January 28,
1995

1995

(unaudited)
(in thousands)

ASSETS

Current assets		
Cash	\$ 1,132	\$ 1,551
Accounts receivable, net of allowances of \$750,000 and \$931,000, respectively	69,021	61,211
Merchandise inventories	110,313	93,705
Prepaid expenses and other current assets	8,668	7,956

Deferred income taxes	3,650	3,650
	-----	-----
Total current assets	192,784	168,073
Property and equipment		
Land	499	499
Leasehold improvements	46,392	43,370
Furniture and fixtures	62,782	59,105
Construction in progress	32,922	24,867
	-----	-----
	142,595	127,841
Less accumulated depreciation and amortization	34,001	31,503
	-----	-----
Net property and equipment	108,594	96,338
Goodwill, net of accumulated amortization of \$59,596,000 and \$57,219,000, respectively	320,654	323,031
Investment in CAT	4,039	3,792
Deferred income taxes	1,600	1,600
Deferred financing costs, net of accumulated amortization of \$1,149,000 and \$956,000, respectively	2,636	2,829
Other assets	2,423	2,591
	-----	-----
Total assets	\$632,730	\$598,254
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$39,403	\$36,625
Accrued rent	5,326	5,243
Accrued expenses	26,600	24,024
	-----	-----
Total current liabilities	71,329	65,892
Long-term debt	225,300	200,000
Other liabilities	6,392	6,250
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.0068 par value; 40,000,000 shares authorized; 23,110,631 and 23,106,572 shares issued, respectively	157	157
Additional paid-in capital	310,879	310,714
Warrants to acquire 52,214 and 58,412 shares of common stock, respectively	851	951
Retained earnings	18,487	14,996
Deferred compensation on restricted stock	(123)	(149)
	-----	-----
	330,251	326,669
Less treasury stock, 60,510 and 65,843 shares, respectively, at cost	(542)	(557)
	-----	-----

Total stockholders' equity	329,709	326,112
	-----	-----
Total liabilities and stockholders' equity	\$632,730	\$598,254
	=====	=====

See accompanying notes to condensed consolidated financial statements.

ANNTAYLOR STORES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Quarters Ended April 29, 1995 and April 30, 1994

(unaudited)

	Quarters Ended	
	April 29,	April 30,
	1995	1994
	-----	-----
	(in thousands)	
Operating activities:		
Net income	\$3,491	\$8,060
Adjustments to reconcile net income to net cash (used by) provided by operating activities:		
Equity earnings in CAT	(247)	(150)
Provision for loss on accounts receivable	122	298
Depreciation and amortization	3,566	2,583
Amortization of goodwill	2,377	2,377
Amortization of deferred financing costs	193	348
Amortization of deferred compensation	26	45
Loss on disposal of property and equipment	277	46
(Increase) decrease in:		
Receivables	(7,932)	(8,986)
Merchandise inventories	(16,608)	(11,713)
Prepaid expenses and other current assets	(401)	2,270
Increase in:		
Accounts payable	2,778	601
Accrued expenses	1,274	7,489
Other non-current assets and liabilities, net	312	244
	-----	-----
Net cash (used by) provided by operating activities	(10,772)	3,512
Investing activities:		
Purchases of property and equipment	(16,412)	(4,883)
	-----	-----
Net cash used by investing activities	(16,412)	(4,883)
Financing activities:		
Increase in bank overdrafts	1,385	1,598

Borrowing under line of credit agreement	27,000	1,000
Exercise of stock options	80	1,677
Net repayments of receivables facility	(1,700)	(2,434)
Payment of financing costs	---	(122)
	-----	-----
Net cash provided by financing activities	26,765	1,719
	-----	-----
Net (decrease) increase in cash	(419)	348
Cash, beginning of period	1,551	292
	-----	-----
Cash, end of period	\$1,132	\$ 640
	=====	=====
Supplemental Disclosures of Cash Flow		
Information:		
Cash paid during the period for interest	\$1,489	\$ 973
	=====	=====
Cash paid during the period for income taxes	\$1,587	\$ 631
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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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 1995 interim period shown in this report are not necessarily indicative of results to be expected for the fiscal year.

The January 28, 1995 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of AnnTaylor Stores Corporation.

Certain fiscal 1994 amounts have been reclassified to conform to the 1995 presentation.

It is not considered necessary to include detailed footnote

information as of April 29, 1995 and April 30, 1994. 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 1994 Annual Report to Stockholders.

2. Income Per Share

Net income per share is calculated by dividing net income by the total of the weighted average number of common shares and common share equivalents outstanding, assuming the exercise of outstanding warrants and the dilutive effect of outstanding stock options, computed in accordance with the treasury stock method. The number of shares used in the calculation was as follows:

	April 29, 1995	April 30, 1994
	-----	-----
	(in thousands)	
Common shares	23,045	21,776
Warrants	57	180
Stock options	397	428
	-----	-----
	23,499	22,384
	=====	=====

3. Long-term Debt

The following summarizes long-term debt outstanding at April 29, 1995:

	(in thousands)
Revolving Credit Agreement	\$ 91,000
8-3/4% Notes	100,000
Revolving Receivables Facility	34,300

Total long-term debt	\$225,300
	=====

At April 29, 1995, AnnTaylor, Inc. and AnnTaylor Funding, Inc. were not in compliance with one financial covenant under the revolving credit agreement and the receivables financing agreement relating to AnnTaylor, Inc.'s fixed charge coverage ratio, which event of noncompliance was waived by Bank of America, NT & SA, as agent for the lenders under the revolving credit agreement, and by the parties to the receivables financing agreement.

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Item 2. Management's Discussion and Analysis of Operations

Results of Operations

	Quarters Ended	
	April 29, 1995	April 30, 1994
	-----	-----
Number of Stores:		
Open at beginning of period	262	231
Opened during period	15	5
Expanded during period*	12	2
Closed during period	(2)	(2)
Open at end of period	275	234
Type of Stores Open at End of Period:		
AnnTaylor Stores	240	223
AnnTaylor Factory Stores	23	11
Ann Taylor Loft stores	6	---
AnnTaylor Studio stores	6	---

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

Quarter Ended April 29, 1995 Compared to Quarter Ended April 30, 1994

The Company's net sales in the first quarter of 1995 increased to \$168,306,000 from \$145,283,000 in the first quarter of 1994, an increase of \$23,023,000 or 15.8%. The increase in net sales was attributable to the opening of new stores and the expansion of existing stores, offset by the closing of two stores and a 0.7% decrease in comparable store sales in the first quarter of 1995. The decrease in comparable store sales was due primarily to negative comparable sales in the dress department.

Gross profit as a percentage of net sales decreased to 45.7% in the first quarter of 1995 from 47.4% in the first quarter of 1994. This decrease was attributable to increased cost of goods sold as a percentage of net sales resulting from markdowns associated with increased promotional activities.

Selling, general and administrative expenses represented 37.1% of net sales in the first quarter of 1995 compared to 32.3% of net sales in the first quarter of 1994. The 4.8% increase is

primarily attributable to higher tenancy, store maintenance and store selling costs as a percentage of sales (approximately 70% of the increase), additional catalog expense relating to the Company's test of its catalog as a mail order vehicle (approximately 15% of the increase) and higher merchandising and design expense (approximately 15% of the increase). The Company has decided to return its catalog format to principally an advertising vehicle, rather than a mail order business, commencing Fall 1995.

As a result of the foregoing, operating income decreased to \$12,123,000, or 7.2% of net sales, in the first quarter of 1995 from \$19,530,000, or 13.4% of net sales, in the first quarter of 1994. Amortization of goodwill was \$2,377,000 in the first quarter of 1995 and 1994. Operating income, without giving effect to such amortization in either year, was \$14,500,000, or 8.6% of net sales, in the 1995 period and \$21,907,000, or 15.1% of net sales, in the 1994 period.

Interest expense was \$4,498,000, including \$193,000 of non-cash interest expense, in the first quarter of 1995, and \$3,456,000, including \$348,000 of non-cash interest expense, in the first quarter of 1994. The increase in interest expense is primarily attributable to higher interest rates and higher outstanding indebtedness in 1995.

The income tax provision was \$4,077,000, or 53.9% of income before income taxes, in the first quarter of 1995 compared to \$7,874,000, or 49.4% of income before income taxes, in the first quarter of 1994. The effective income tax rate for both periods was higher than the statutory rate primarily because of non-deductible goodwill amortization.

As a result of the foregoing factors, the Company had net income of \$3,491,000, or 2.1% of net sales, for the first quarter of 1995 compared to \$8,060,000, or 5.5% of net sales, for the first quarter of 1994.

AnnTaylor Stores Corporation conducts no business other than the management of AnnTaylor, Inc.

Financial Condition

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For the first quarter of 1995, net cash used by operating activities totaled \$10,772,000, primarily as a result of increases in working capital, partially offset by income from operations and non-cash operating expenses. Cash used for investing activities during the first quarter of 1995 amounted to

\$16,412,000, for the purchase of property and equipment including \$2,453,000 for the purchase of equipment for the Company's new distribution center in Louisville, Kentucky. Cash provided by financing activities during the first quarter of 1995 amounted to \$26,765,000.

Accounts receivable increased to \$69,021,000 at April 29, 1995 from \$61,211,000 at January 29, 1995, an increase of \$7,810,000 or 12.8%. This increase was partially attributable to Ann Taylor credit card receivables, which increased approximately \$1,088,000, and to third-party credit card receivables (American Express, MasterCard and VISA), which increased \$2,395,000 due to the timing of payments by third-party credit card issuers. Construction allowance receivables increased \$3,829,000 due to the timing of receipts for stores opened in fiscal year 1994, stores opened in the first quarter of 1995 and stores planned to be opened in the second quarter of 1995.

Merchandise inventories increased to \$110,313,000 at April 29, 1995 from \$93,705,000 at January 28, 1995, an increase of \$16,608,000. The higher inventory level at April 29, 1995 was attributable to the purchase of inventory for new and expanded stores opened in the first quarter of 1995, anticipation of store square footage increases in the second quarter of 1995, planned comparable store sales growth, and the timing of receipt of goods.

At April 29, 1995, \$91,000,000 was outstanding under the Revolving Credit Agreement and \$34,300,000 was outstanding under AnnTaylor Funding, Inc's receivables facility. Ann Taylor can borrow up to \$125,000,000 under the Revolving Credit Agreement and AnnTaylor Funding, Inc. can borrow up to \$40,000,000 under the receivables facility, depending upon its accounts receivable balance.

At April 29, 1995, Ann Taylor and AnnTaylor Funding, Inc. were not in compliance with one financial covenant under the revolving credit agreement and the receivables financing agreement relating to AnnTaylor's fixed charge coverage ratio, which event of noncompliance was waived by Bank of America, NT & SA, as agent for the lenders under the revolving credit agreement, and by the parties to the receivables financing agreement. Satisfaction of this covenant in future periods will be dependent upon the Company's sales and earnings for those periods.

The Company's capital expenditures, which are primarily attributable to the Company's store expansion, renovation and refurbishment programs, totaled \$61,341,000, \$25,062,000 and \$4,303,000 in 1994, 1993 and 1992, respectively. Capital expenditures totaled \$16,412,000 in the first quarter of 1995. The Company expects its capital expenditure requirements for the

remainder of 1995 to be approximately \$55,900,000, including \$1,400,000 for the new distribution center and material handling equipment.

Dividends and distributions from AnnTaylor, Inc. to the Company are restricted by both the Revolving Credit Agreement and the indenture relating to AnnTaylor, Inc.'s 8-3/4% Subordinated Notes due 2000.

In order to finance its operations and the majority of its capital requirements, the Company expects to use internally generated funds and funds available to it under the Revolving Credit Agreement. The Company believes that cash flow from operations and funds available under the Revolving Credit Agreement will be sufficient to enable it to meet its ongoing cash needs for the foreseeable future.

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PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

AnnTaylor Stores Corporation's 1995 Annual Meeting of Stockholders was held on June 7, 1995. The following matters were voted upon and approved by the Company's stockholders at the meeting:

1. Ms. Rochelle B. Lazarus and Mr. Robert C. Grayson were reelected as Class I Directors of the Company, for terms expiring in 1998. 18,485,908 and 18,401,674 shares were voted in favor of, and 83,358 and 167,592 shares were voted against or abstained from voting on the proposal for Ms. Lazarus and Mr. Grayson, respectively. Mr. James J. Burke, Jr. and Ms. Sally Frame Kasaks continued as Class II Directors, with terms expiring in 1996, and Mr. Gerald S. Armstrong, Mr. Paul E. Francis and Ms. Hanne M. Merriman continued as Class III Directors with terms expiring in 1997.
2. The appointment of Deloitte & Touche llp as the Company's independent accountants for the 1995 fiscal year was ratified. 18,556,964 shares were voted in favor of, and 12,302 shares were voted against or abstained from voting on, this proposal.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:
None

(b) Reports on Form 8-K:
None

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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: June 13, 1995

By: /s/ Paul E. Francis

Paul E. Francis
Executive Vice President -
Finance and Administration
(Chief Financial Officer)

Date: June 13, 1995

By: /s/ Walter J. Parks

Walter J. Parks
Senior Vice President-
Finance
(Principal Accounting
Officer)

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THIS SCHEDULE CONTAINS SUMMARY OF FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CONDENSED CONSOLIDATED BALANCE SHEETS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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