



The Men's Wearhouse Annual Report







The Men's Wearhouse Annual Report

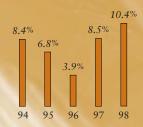
MEN'S WEARHOUSE

1998 HIGHLIGHTS



SHAREHOLDERS' EQUITY

in millions



COMPARABLE STORE SALES GROWTH The Company continues to increase its presence as one of North America's premier specialty retailers of men's tailored apparel by offering customers a shopping experience that combines quality merchandise, value pricing and a high level of customer service. At the end of 1998, the Company operated 431 stores in 40 states. Through a merger completed in early 1999, the Company also operates Moores Retail Group Inc. under the name Moores the Suit People, which has 107 stores throughout Canada.





DILUTED EARNINGS PER SHARE



in millions



NUMBER OF STORES



<sup>\*</sup> Before extraordinary item.







#### TO OUR SHAREHOLDERS

# THE MEN'S WEARHOUSE HAD A TRULY OUTSTANDING YEAR

Our employees' dedication and efforts in 1998 resulted in our Company acheiving a record financial performance as we increased market share by fostering quality relationships with customers throughout the country and maintaining our core values. The Company grew sales in fiscal 1998 to \$767.9 million, a 21.7 percent increase over 1997, while diluted earnings per share before extraordinary item grew 34.5 percent over the prior year.

While staying focused on our business was the key to our success this past year, we have continued to enhance our strategies to support our goal of creating a strong brand for our Company and its store concepts. These efforts are reflected in elements such as our new commercials, improved merchandise selections, an exciting new store look for Men's Wearhouse stores and our new Men's Wearhouse private label credit card.

On the heels of an extraordinary 1998, we completed one major merger and announced an agreement for another, both of which will support our goal of becoming North America's leading specialty retailer of men's apparel.

We believe the advertising, merchandising and customer service programs designed

### to build brand

will result in continued comparable

momen

Two weeks into fiscal 1999, we completed the merger with Moores Retail Group Inc., a leading retailer of men's tailored apparel in Canada which operates 107 stores throughout the country. Moores also operates Golden Brand Clothing, one of Canada's largest manufacturing facilities of men's tailored apparel. With the addition of 2,000 Moores employees our Company's work force approximates 8,000 employees.

A month later, we announced a definitive agreement with K&G Men's Center, Inc., under which we propose to merge our Value Priced Clothing (VPC) stores with the K&G superstores. Upon completion, this transaction—which is subject to the approval of K&G shareholders—will launch us to the forefront of the opening price segment in men's tailored apparel with more than 40 stores in 20 major markets throughout the country.

These two transactions will enable our Company to further penetrate and expand its men's apparel offerings to a broader consumer base in both the U.S. and Canada.





# awareness

store growth for our Company.

Our programs to create a leading market position in men's apparel come at a time when the industry trends of the past decade continue to prevail. Other stores continue to consolidate, with little, if any, expansion by existing or new competitors.

Our ongoing success reflects the continued execution of our strategic goals—convenient store locations, quality merchandise, everyday low prices, high-impact advertising and excellent customer service—that brings our strong results to the bottom line. Our merchandising strategies, including our direct sourcing programs, enable us to better control both the cost and quality of the products carried in our stores. The value of these disciplines is reflected in our operating margins, which improved to 9.3 percent in 1998 versus 8.1 percent in 1997.

Adding stores in existing and new markets, increasing the square footage of our stores and enhancing our merchandise offerings will enable us to even further leverage our Company's infrastructure. At the same time, we believe our advertising, merchandising and customer service programs are designed to build brand awareness for our stores and will result in continued comparable store growth for our Company.

Along with larger stores, we are an exciting new look in Men's Wearhouse

creates a more upscale; COnt



### MEN'S WEARHOUSE STORES

We ended 1998 with 411 Men's Wearhouse stores in 40 states—up from 371 stores a year ago—and plan to add approximately 40 Men's Wearhouse stores during 1999, in both existing and new markets. To augment the growth from new stores and new markets, we continue to increase the average square footage of existing stores as they are remodeled. This enables us to offer a broader price range of suits, increased offerings of business/casual wear, and expanded departments for shoes, big and tall merchandise and formalwear.

Along with larger stores, we are incorporating an exciting new look in Men's Wearhouse stores. We believe this design creates a more upscale, contemporary shopping experience for our customers. We also introduced a Men's Wearhouse private label credit card in mid-1998 that is proving popular with our customers. We believe that over the long-term this program will not only provide us a better understanding of our customers' buying habits, but also encourage their loyalty to our stores.

### MOORES STORES

Moores already has a very strong position in tailored apparel sales in Canada. We estimate their share of market in the suit, sport coat and dress pant categories is 17.4, 15.8 and 14.1 percent, respectively. We believe that some of the strategies utilized to grow sales at Men's Wearhouse stores can be capitalized upon at Moores. These programs include expanding and diversifying merchandise offerings





incorporating

stores. We believe this design

# emporary

shopping experience for our customers.

with some of the designer and internationally known labels carried in Men's Wearhouse stores, and adding business/casual wear, accessories and shoes. During the next year, we also plan to remodel selective stores, integrate our training programs and explore the use of electronic advertising.

The Golden Brand Clothing factory acquired in the Moores transaction provides us even further opportunity to increase leverage in the industry. Currently, this 200,000 square foot facility in Montreal can produce approximately 500,000 suit jackets and sport coats and one million pair of pants annually.

We plan to increase the factory's capacity in the near future to support product needs in both the U.S. and Canada. Vertical integration will enable us to deliver further value and quality to our customers and improved profitability for our shareholders by leveraging our purchases of piece goods.

### VPC STORES

Stores which focus on opening price points account for a majority of the suits sold in the U.S. These stores operate in a larger format than Men's Wearhouse or Moores stores and are typically open limited hours except during holiday periods. In the past year, we have opened four new SuitMax stores and acquired four The Suit Warehouse stores in Detroit.

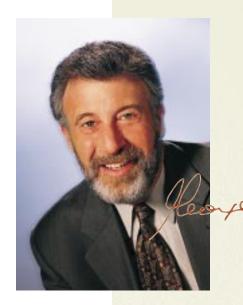
While our current plan calls for opening 5–10 SuitMax stores during 1999, these plans may be altered pending the completion of the K&G transaction. With the anticipated addition of the K&G operations, we will be positioned to capitalize on another significant opportunity to create shareholder value.

# Our Company's SUCCESS

the challenges of the coming year will

the inherent value of a corporate culture

# phil



**GEORGE ZIMMER**Chairman and Chief Executive Officer

### in meeting

demonstrate

and management

OSOPHY that puts our employees first.

### INVESTING IN THE FUTURE

To support our expansion programs, we have continued to invest in the Company's infrastructure. We have added to our management team—principally by promoting from within, but also through our acquisitions. To support future growth, we completed a major expansion of our Houston distribution center to approximately 325,000 square feet.

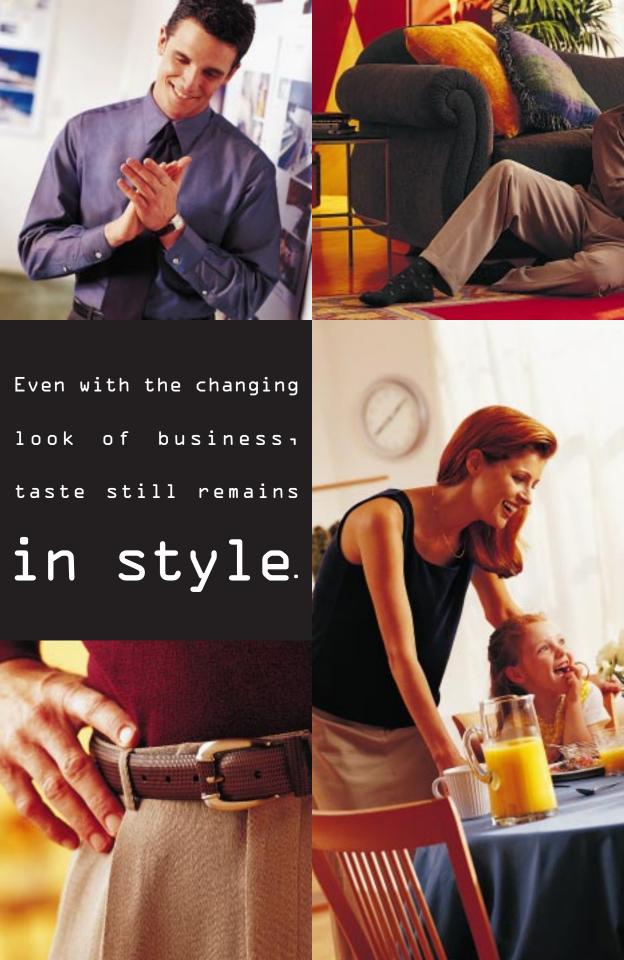
We have also enhanced our information systems with new technology. Our goal is to have the capacity to manage our business on a global basis. This new technology is being designed to facilitate clienteling—the proactive outreach by wardrobe consultants to their customers—and the implementation of our e-commerce strategy, which we plan to have in place within the next 12 months.

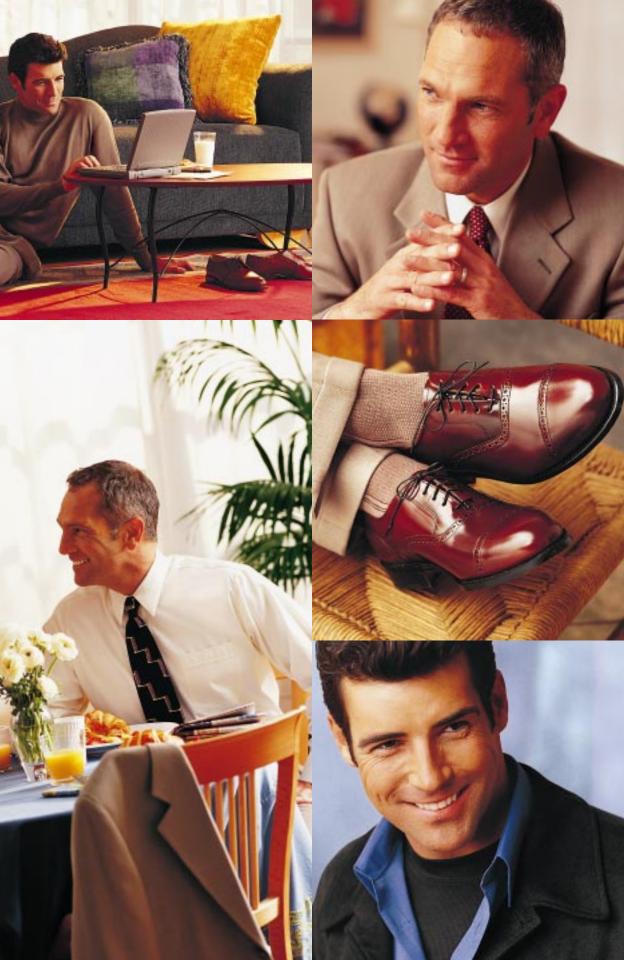
While there are tremendous market opportunities ahead of us, the Company's success in meeting the challenges of the coming year will demonstrate the inherent value of a corporate culture and management philosophy that puts our employees first. I am confident that we will continue to perform as promised and look forward to reporting on our accomplishments in the year ahead.

The Men's Wearhouse, Inc.

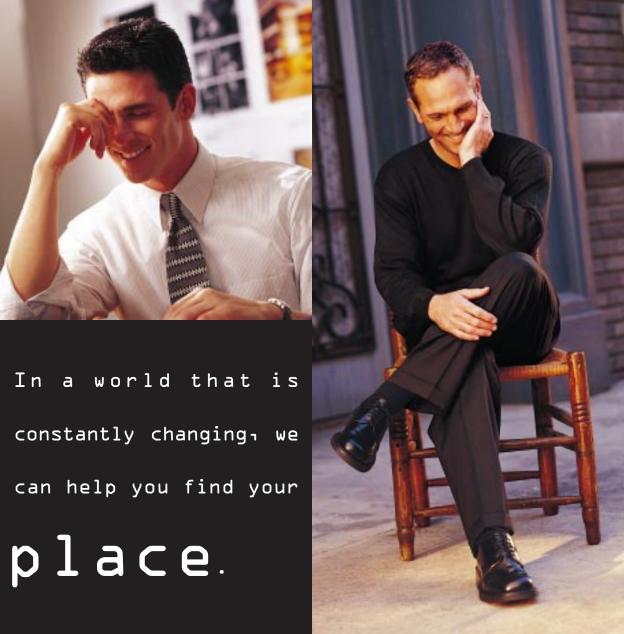
40650 ENCYCLOPEDIA CIRCLE FREMONT, CALIFORNIA 94538
WWW.MENSWEARHOUSE.COM













The Men's Wearhouse Financial Review



# Financial Contents

```
Management's Discussion and Analysis 2

Consolidated Balance Sheets 12

Consolidated Statements of Earnings 13

Consolidated Statements of Shareholders' Equity 14

Consolidated Statements of Cash Flows 15

Notes to Consolidated Financial Statements 16

Independent Auditors' Report 30

Store List 31

Corporate Directory 32
```

The following selected statement of earnings and balance sheet information for the fiscal years indicated has been derived from The Men's Wearhouse, Inc. (the "Company") audited consolidated financial statements. The Company's consolidated financial statements as of January 31, 1998 and January 30, 1999 and for each of the three years in the period ended January 30, 1999 were audited by Deloitte & Touche LLP, independent auditors, whose report thereon appears elsewhere herein. The Selected Financial Data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and notes thereto. References herein to years are to the Company's 52-week or 53-week fiscal year, which ends on the Saturday nearest January 31 in the following calendar year. For example, references to "1998" mean the fiscal year ended January 30, 1999. All fiscal years for which financial information is included herein had 52 weeks, except 1995 which had 53 weeks.

### Selected Financial Data

(Dollars and shares in thousands,					
except per share and per square foot data)	1994	1995	1996	1997	1998
Statement of Earnings Data:					
Net sales	\$317,127	\$406,343	\$483,547	\$631,110	\$767,922
Gross margin	121,878	157,615	188,366	242,593	299,735
Operating income	22,375	30,606	38,134	51,530	71,682
Earnings before extraordinary item Earnings per share of common	12,108	16,508	21,143	28,883	40,920
stock before extraordinary item <sup>(1)</sup> :	d 0.42	d 0.55	d 0.7	¢ 0.00	6 121
Basic Diluted	\$ 0.43 \$ 0.42	\$ 0.55 \$ 0.54	\$ 0.67 \$ 0.67	\$ 0.89 \$ 0.87	\$ 1.21 \$ 1.17
Weighted average shares	\$ 0.42	\$ 0.34	\$ 0.67	\$ 0.87	3 1.1/
outstanding <sup>(1)</sup>	28,216	29,821	31,354	32,343	33,849
Weighted average shares outstanding plus dilutive potential common shares <sup>(1)</sup>	28,744	30,339	34,101	35,384	36,075
Operating Information:					
Percentage increase in comparable store sales <sup>(2)</sup>	8.4%	6.8%	3.9%	8.5%	10.4%
Average square footage — all stores <sup>(3)</sup> Average sales per square foot of	4,553	4,687	4,863	5,097	5,297
selling space <sup>(4)</sup> Number of stores:	\$ 406	\$ 416	\$ 413	\$ 420	\$ 437
Open at beginning of the period	183	231	278	345	396
Opened	48	48	50	50	47
Acquired	_		17	6	4
Closed	_	(1)	_	(5)	(16)
Open at end of the period	231	278	345	396	431
Capital Expenditures:	\$ 23,736	\$ 22,538	\$ 26,222	\$ 27,380	\$ 46,247
	Jan. 28, 1995	Feb. 3, 1996	Feb. 1, 1997	Jan. 31, 1998	Jan. 30, 1999
Balance Sheet Information:					
Working capital	\$ 68,078	\$ 88,798	\$136,837	\$182,561	\$174,055
Total assets	160,494	204,105	295,478	379,415	403,732
Long-term debt(5)	24,575	4,250	57,500	57,500	_
Shareholders' equity	84,944	136,961	159,129	220,048	298,218

<sup>(1)</sup> Adjusted to give effect to a 50% stock dividend effected on November 15, 1995 and a 50% stock dividend effected June 19, 1998.

<sup>(2)</sup> Comparable store sales data is calculated by excluding the net sales of a store for any month of one period if the store was not open throughout the same month of the prior period.

<sup>(3)</sup> Average square footage — all stores is calculated by dividing the total square footage for all stores open at the end of the period by the number of stores open at the end of such period.

<sup>(4)</sup> Average sales per square foot of selling space is calculated by dividing total selling square footage for all stores open the entire year into total sales for those stores.

<sup>(5)</sup> February 1, 1997 and January 31, 1998 balances represent the 5½% Convertible Subordinated Notes Due 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" for a discussion of the redemption of the Notes.



#### General

The Company opened its first store in Houston, Texas in August 1973, growing to 431 stores by January 30, 1999. The Company opened 50 stores in 1996, 50 stores in 1997 and 47 stores in 1998; in addition, the Company acquired 17 stores in January 1997 (C&R), six stores in May 1997 (NAL) and four stores in February 1998 (Suit Warehouse) as part of its VPC operations. This growth has resulted in significant increases in net sales and has also contributed to increased net earnings for the Company.

Generally, new Men's Wearhouse traditional stores contribute toward covering corporate overhead and other indirect costs within three months of opening, depending primarily upon the month within which the store is opened. In determining store contribution, the Company considers net sales, cost of sales and other direct store costs, but excludes buying costs, corporate overhead, depreciation and amortization, financing costs and advertising. Expansion is generally continued within a market as long as management believes it will provide profitable incremental sales volume.

Like most retailers, the Company's business is subject to seasonal fluctuations. Historically, over 30% of our net sales and approximately 50% of our net earnings have been generated during the fourth quarter of each year. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full year.

The Company currently intends to continue its expansion in new and existing markets and plans to open approximately 40 to 45 new traditional stores and five to ten new VPC stores in 1999. The average cost (excluding telecommunications and point-of-sale equipment and inventory) of opening a new store is expected to be approximately \$300,000 to \$325,000 in 1999.

In addition to increases in net sales resulting from new stores and acquisitions, the Company has experienced comparable store sales increases in each of the past five years, including a 10.4% increase for 1998.

The Company has closed 21 stores in the three years ended January 30, 1999. Generally, in determining whether to close a store, the Company considers the store's historical and projected performance and the continued desirability of the store's location. Store performance is continually monitored and, occasionally, as neighborhoods and shopping areas change, management may

determine that it is in the best interest of the Company to close or relocate a store. In 1997, the Company closed two traditional stores in California and two traditional stores in Texas due to substandard performance and/or the proximity of a newly opened store. Also in 1997, after the acquisition of NAL, the Company closed one of its outlet centers due to the proximity of an acquired store. In 1998, the Company closed two traditional stores in California and one traditional store in Tennessee due to substandard performance or the proximity of another store. The remaining 13 stores closed in 1998 were C&R stores that were closed as part of the Company's efforts to integrate and develop the VPC operations that target the more price sensitive clothing customer. It is anticipated that the four remaining C&R stores will be closed by the end of the first quarter of 1999, with one being converted to a SuitMax store.

The following table sets forth the Company's results of operations expressed as a percentage of net sales for the periods indicated:

	Fiscal Year		
	1996	1997	1998
Net sales	100.0%	100.0%	100.0%
Cost of goods sold, including buying and occupancy costs	61.0	61.6	61.0
Gross margin	39.0	38.4	39.0
Selling, general and administrative expenses	31.1	30.3	29.7
Operating income	7.9	8.1	9.3
Interest expense	0.4	0.3	0.2
Earnings before income taxes	7.5	7.8	9.1
Income taxes	3.1	3.2	3.8
Earnings before extraordinary item	4.4%	4.6%	5.3%

#### Results of Operations

1998 Compared with 1997. The following table presents a breakdown of 1997 and 1998 net sales of the Company by stores open in each of these periods:

	Net Sales (in millions)		
Stores	1997	1998	Increase
51 stores opened or acquired in 1998 <sup>(1)</sup> 56 stores opened or acquired in 1997 <sup>(2)</sup> Stores opened before 1997	\$ — 46.6 584.5	\$ 50.9 92.1 624.9	\$ 50.9 45.5 40.4
Total	\$631.1	\$767.9	\$136.8

<sup>1</sup> Sales include \$16.1 million attributable to the four Suit Warehouse stores acquired in February 1998, with the remaining \$34.8 million attributable to the four SuitMax and 43 Men's Wearhouse stores opened in 1998.

<sup>2</sup> Sales include \$10.6 million and \$15.4 million for 1997 and 1998, respectively, attributable to the six NAL stores acquired in May 1997, with the remaining \$36.0 million and \$76.7 million attributable to the 50 Men's Wearhouse stores opened in 1997.

The Company's net sales increased \$136.8 million, or 21.7%, to \$767.9 million for 1998 due primarily to sales resulting from the increased number of stores and increased sales at existing stores. Comparable store sales (which are calculated by excluding the net sales of a store for any month of one period if the store was not open throughout the same month of the prior period) increased 10.4% from 1997.

Gross margin increased \$57.1 million, or 23.6%, to \$299.7 million in 1998. As a percentage of sales, gross margin increased from 38.4% in 1997 to 39.0% in 1998. This increase in gross margin predominantly related to a decrease in product and occupancy costs as a percentage of sales for the traditional Men's Wearhouse stores. This increase was partially offset by the lower product margins realized in the VPC stores as compared to the traditional Men's Wearhouse stores.

Selling, general and administrative ("SG&A") expenses decreased, as a percentage of sales, from 30.3% in 1997 to 29.7% in 1998, while SG&A expenditures increased by \$37.0 million to \$228.1 million. On an absolute dollar basis, the principal components of SG&A expenses increased primarily due to the Company's growth. The decrease in SG&A expenses as a percentage of sales was related primarily to the impact of traditional store comparable sales increases. Advertising expense decreased from 6.0% to 5.6% of net sales and store salaries decreased from 12.1% to 12.0% of net sales, while other SG&A expenses decreased from 12.2% to 12.1% of net sales.

Interest expense, net of interest income, decreased from \$2.4 million in 1997 to \$2.0 million in 1998. Weighted average borrowings outstanding decreased \$12.2 million from the prior year to \$45.5 million in 1998, while the weighted average interest rates on outstanding indebtedness increased from 6.3% to 6.5%. The change in weighted average borrowings resulted from the early retirement of the \$57.5 million in 5½% Convertible Subordinated Notes in the third quarter of 1998, of which \$36.8 million was converted to common stock. The impact of the decrease in weighted average borrowings was partially offset by higher interest rate borrowings under the Company's revolving credit facility during the last half of 1998. Interest expense was offset by interest income of \$1.3 million in 1997 and \$0.9 million in 1998, which resulted from the investment of excess cash.

The Company's effective income tax rate for the year ended January 30, 1999 was 41.3% and remained unchanged from the prior year. The effective tax rate was higher than the statutory federal rate of 35% primarily due to the effect of state income taxes and the nondeductibility of a portion of meal and entertainment expenses. This, combined with the factors discussed above, resulted in 1998 earnings before extraordinary item of \$40.9 million, or 5.3%, of net sales, compared with 1997 earnings before extraordinary item of \$28.9 million, or 4.6% of net sales. The extraordinary item of \$0.7 million, net of a \$0.5 million tax benefit, related to the early retirement of the Company's 51/4% Subordinated Notes.

1997 Compared with 1996. The following table presents a breakdown of 1996 and 1997 net sales of the Company by stores open in each of these periods:

	Net Sales (in millions)		
Stores	1996	1997	Increase
56 stores opened or acquired in 1997 <sup>(1)</sup> 67 stores opened or acquired in 1996 <sup>(2)</sup> Stores opened before 1996	\$ — 36.8 446.7	\$ 46.6 103.2 481.3	\$ 46.6 66.4 34.6
Total	\$483.5	\$631.1	\$147.6

- 1 Sales include \$10.6 million attributable to the six NAL stores acquired in May 1997, with the remaining \$36.0 million attributable to the 50 Men's Wearhouse stores opened in 1997.
- 2 Sales include \$0.9 million and \$23.4 million for 1996 and 1997, respectively, attributable to the 17 C&R stores acquired in 1996, with the remaining \$35.9 million and \$79.8 million for 1996 and 1997, respectively, attributable to the 50 Men's Wearhouse stores opened in 1996.

The Company's net sales increased \$147.6 million, or 30.5%, to \$631.1 million for 1997 due primarily to sales resulting from the increased number of stores and increased sales at existing stores. Comparable store sales increased 8.5% from 1996. The comparable store sales increase for 1997 does not include sales from the VPC stores. Acquired VPC stores accounted for \$33.1 million of the sales increase for 1997.

Gross margin increased \$54.2 million, or 28.8%, to \$242.6 million in 1997. As a percentage of sales, gross margin decreased from 39.0% in 1996 to 38.4% in 1997. This decline in gross margin predominantly resulted from the lower gross margin realized in the VPC stores, as compared to the traditional Men's Wearhouse stores; however, this decline was partially offset by an increase in the gross margin percentage for the traditional Men's Wearhouse stores, primarily due to a decrease in occupancy costs and product costs as a percentage of sales.

Selling, general and administrative expenses decreased, as a percentage of sales, from 31.1% in 1996 to 30.3% in 1997, while SG&A expenditures increased by \$40.8 million to \$191.1 million. On an absolute dollar basis, the principal components of SG&A expenses increased primarily due to the Company's growth. The decrease in SG&A expenses as a percentage of sales was related primarily to the lower operating costs associated with the VPC stores as compared to the traditional Men's Wearhouse stores, and the impact of traditional store comparable sales increases. Advertising expense decreased from 6.4% to 6.0% of net sales and store salaries decreased from 12.4% to 12.1% of net sales, while other SG&A expenses decreased from 12.3% to 12.2% of net sales.

Interest expense, net of interest income, increased from \$2.1 million in 1996 to \$2.4 million in 1997. Weighted average borrowings outstanding increased \$3.1 million from the prior year to \$57.7 million in 1997, while the weighted average interest rates on outstanding indebtedness increased from 6.2% to 6.3%. Interest expense associated with the 5½% Convertible Subordinated Notes was offset by interest income of \$1.3 million in 1997 and \$1.2 million in 1996 resulting from the investment of excess cash.

The Company's effective income tax rate for the year ended January 31, 1998 was 41.3% and remained unchanged from the prior year. The effective tax rate was higher than the statutory federal

rate of 35% primarily due to the effect of state income taxes and the nondeductibility of a portion of meal and entertainment expenses. This, combined with the factors discussed above, resulted in 1997 net earnings of \$28.9 million, or 4.6%, of net sales, compared with 1996 net earnings of \$21.1 million, or 4.4% of net sales.

#### Liquidity and Capital Resources

In July 1997, the Company issued 1,500,000 shares of common stock for net proceeds of \$30.0 million. The Company used the proceeds from such offering to fund its continued expansion and upgrade its information technology infrastructure. The remaining cash was invested in short-term securities.

In August 1998, the Company gave notice to the holders of its outstanding 5½% Convertible Subordinated Notes (the "Notes") that the Company would redeem the Notes on September 14, 1998. As a result, \$36.8 million principal amount of the Notes was converted into 1.6 million shares of the Company's common stock and \$20.7 million principal amount was redeemed for an aggregate of \$21.5 million. An extraordinary charge of \$0.7 million, net of tax benefit of \$0.5 million, related to the retirement of the debt was recognized in the third quarter of 1998.

In February 1999, the Company amended and restated its revolving credit agreement with a group of banks (the "Credit Agreement"). This agreement provides for borrowing of up to \$125 million through February 5, 2004. Advances under the Credit Agreement bear interest at a rate per annum equal to, at the Company's option, the agent's prime rate or the reserve adjusted LIBOR rate plus an interest rate margin varying between .75% to 1.25%. The Credit Agreement provides for fees applicable to unused commitments of .125% to .225%. As of January 30, 1999, there was no indebtedness outstanding under the Credit Agreement.

The Credit Agreement contains certain restrictive and financial covenants, including the requirement to maintain a minimum amount of Consolidated Net Worth (as defined). The Company is also required to maintain certain debt to cash flow, cash flow coverage and current ratio. In addition, the Credit Agreement limits additional indebtedness, creation of liens, Restrictive Payments (as defined) and Investments (as defined). The Credit Agreement also prohibits payment of cash dividends on the common stock of the Company. The Credit Agreement permits, with certain limitations, the Company to merge or consolidate with another company, sell or dispose of its property, make acquisitions, issue options or enter into transactions with affiliates. The Company is in compliance with the covenants in the Credit Agreement.

In February 1999, the Company also entered into two new Canadian credit facilities in conjunction with the combination with Moores. These facilities include a revolving credit agreement which provides for borrowings up to Can\$30 million (U.S. \$20 million) through February 5, 2004 and a term credit agreement which provides for borrowings of Can\$75 million (U.S. \$50 million) to be repaid in quarterly installments of Can\$0.9 million (US\$0.6 million) beginning May 1, 1999; remaining unpaid principal is payable on February 5, 2004. Covenants and interest rates are substantially similar to those contained in the Company's Credit Agreement. Borrowings under these agreements were used to repay approximately U.S. \$59 million in outstanding indebtedness of Moores with the remaining availability to be used to fund operating and other requirements of Moores.

The Company's primary sources of working capital are cash flow from operations and borrowings under the Credit Agreement. The Company had working capital of \$136.8 million, \$182.6 million and \$174.1 million at the end of 1996, 1997 and 1998, respectively. Historically, the Company's

working capital has been at its lowest level in January and February, and has increased through November as inventory buildup is financed with both short-term and long-term borrowings in preparation for the fourth quarter selling season.

Net cash provided by operating activities amounted to \$19.8 million, \$28.9 million and \$33.0 million in 1996, 1997, and 1998, respectively. These amounts primarily represent net earnings plus depreciation and amortization and increases in current liabilities, offset by increases in inventories and other current assets and, in 1996 and 1997, a decrease in income taxes payable. The increase in inventories of \$27.3 million in 1996, \$39.3 million in 1997 and \$32.7 million in 1998 resulted from the addition of inventory for new and acquired stores and stores expected to be opened shortly after the year-end, backstocking and the purchase of fabric used in the direct sourcing of inventory.

Capital expenditures totaled \$26.2 million, \$27.4 million and \$46.2 million in 1996, 1997 and 1998, respectively. The following table details capital expenditures (in millions):

	1996	1997	1998
New store construction Information technology Distribution facilities Relocation and remodeling of existing stores Other	\$13.6 5.5 0.7 3.9 2.5	\$ 9.1 5.9 4.2 5.0 3.2	\$19.6 12.8 2.9 6.1 4.8
Total	\$26.2	\$27.4	\$46.2

Property additions relating to new stores include stores in various stages of completion at the end of the fiscal year (eight stores at the end of 1996, three stores at the end of 1997 and two stores at the end of 1998). New store construction cost is net of \$1.2 million and \$2.8 million in 1996 and 1997, respectively, related to proceeds from sale and lease back transactions and includes \$2.2 million in 1998 for land costs that the Company expects to recover from a sale and leaseback transaction in 1999. New store construction costs were higher in 1998 due in part to the Company's entering higher cost markets in the northeastern U.S.

The Company acquired certain other assets in connection with various transactions including, but not limited to, trademarks, tradenames, customer lists, non-compete agreements and license agreements, for \$12.0 million in 1996, \$4.6 million in 1997 and \$6.2 million in 1998.

Net cash provided by financing activities was \$50.0 million in 1996 and \$28.8 million in 1997. Net cash used in financing activities was \$20.8 million in 1998. Cash provided by financing activities includes the proceeds from the sale of Notes of \$55.5 million in 1996 (net of \$2.0 million in related costs), and the net proceeds of the public offering of common stock of \$30.0 million in 1997, as well as borrowings under the Company's revolving credit facilities in 1996. Cash used in financing activities is principally comprised of repayments of amounts outstanding under the Company's revolving credit facilities in 1996 and, as described above, redemption of a portion of the Notes in 1998.

The Company's primary cash requirements are to finance working capital increases and to fund capital expenditure requirements anticipated to be between approximately \$35.0 million and \$40.0 million for 1999. This amount includes the anticipated costs of opening approximately 40 to 45 new traditional stores and five to ten new VPC stores in 1999 at an expected average cost per store of approximately \$300,000 to \$325,000 (excluding telecommunications and point-of-sale

equipment and inventory). The balance of the capital expenditures for 1999, which includes capital expenditure requirements for Moores, will be used for telecommunications, point-of-sale and other computer equipment and store remodeling and expansion. The Company anticipates that each of the approximately 40 to 45 new traditional stores will require, on average, an initial inventory costing approximately \$500,000 (subject to the same seasonal patterns affecting inventory at all stores), which will be funded by the Company's revolving credit facility, trade credit and cash from operations. The actual amount of future capital expenditures and inventory purchases will depend in part on the number of new stores opened and the terms on which new stores are leased. If the proposed merger with K&G is consummated, there may be additional cash requirements. Additionally, the continuing consolidation of the men's tailored clothing industry and recent financial difficulties of significant menswear retailers may present the Company with opportunities to acquire retail chains significantly larger than the Company's past acquisitions. Any such acquisitions may be undertaken as an alternative to opening new stores. The Company may use cash on hand, together with its cash flow from operations, borrowings under the Credit Agreement and issues of equity securities, to take advantage of significant acquisition opportunities.

The Company anticipates that its existing cash and cash flow from operations, supplemented by borrowings under its various credit agreements, will be sufficient to fund planned store openings, other capital expenditures and operating cash requirements for at least the next 12 months.

In connection with the Company's direct sourcing program, the Company may enter into purchase commitments that are denominated in a foreign currency (primarily the Italian lira). The Company generally enters into forward exchange contracts to reduce the risk of currency fluctuations related to such commitments. The majority of the forward exchange contracts are with one financial institution. Therefore, the Company is exposed to credit risk in the event of nonperformance by this party. However, due to the creditworthiness of this major financial institution, full performance is anticipated. The Company may also be exposed to market risk as a result of changes in foreign exchange rates. This market risk should be substantially offset by changes in the valuation of the underlying transactions being hedged.

#### Market Risk

The Company is subject to exposure from fluctuations in U.S. dollar/Italian lira exchange rates. As further described in Note 7 of the Company's consolidated financial statements, the Company utilizes foreign currency forward exchange contracts to limit exposure to changes in currency exchange rates. At January 30, 1999, the Company had 15 contracts maturing in monthly increments to purchase an aggregate notional amount of \$9.6 million in foreign currency. These forward contracts do not extend beyond September 15, 1999. Unrealized pretax losses on these forward contracts totaled approximately \$0.1 million at January 30, 1999. A hypothetical 10% change in applicable January 30, 1999 forward rates would increase or decrease this pretax loss by approximately \$0.9 million related to these positions. However, it should be noted that any change in the value of these contracts, whether real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged item.

Moores conducts its business in Canadian dollars. The exchange rate between Canadian dollars and U.S. dollars has fluctuated over the last ten years. If the value of the Canadian dollar against the U.S. dollar weakens, then the revenues and earnings of the Company's Canadian operations will be reduced when they are translated to U.S. dollars. Also, the value of the Company's Canadian net assets in U.S. dollars may decline.

### Impact of New Accounting Pronouncements

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." For the three years ended January 30, 1999, comprehensive income equaled net income.

The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," and reports its operations in one business segment — retail sales of men's tailored business attire.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which requires that an entity recognize all derivative instruments as either assets or liabilities on its balance sheet at their fair value. Gains and losses resulting from changes in the fair value of derivatives are recorded each period in current earnings or comprehensive earnings, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in comprehensive earnings will be reclassified as earnings in the period in which earnings are affected by the hedged item. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The Company is currently evaluating the impact, if any, of SFAS 133 on its financial position and results of operations.

#### Year 2000 Risks

The statements included in this section are intended to be and are designated "Year 2000 Readiness Disclosure" statements within the meaning of the Year 2000 Information and Readiness Disclosure Act.

The Company. Due to the dramatic changes in the state of the art of information technology, both in general and with regard to the retail industry, in mid-1997 the Company commenced an enterprisewide project to upgrade its information technology by acquiring products that are generally available and field tested and are designed to increase the efficiency and the future productivity of its operations. The Company has benefited significantly from investments in technology in the past, and it is anticipated that these modifications will further increase the benefit that it derives from technology, both in the near term and in the future. In completing these modifications, the Company expects to achieve Year 2000 date conversion compliance. Capital expenditures related to the project are anticipated to be between \$20.0 million and \$25.0 million including past and future expenditures. The amounts of expenditures related specifically to Year 2000 date conversion compliance are not separable from this amount. The Company expects that all of its business systems will be Year 2000 compliant by mid-1999, and does not anticipate that the cost will have a material effect on its consolidated financial position or results of operations in any given year. However, no assurances can be given that the Company will be able to completely identify or address all Year 2000 compliance issues, or that third parties with whom it does business will not experience system failures as a result of the Year 2000 issue, nor can the Company fully predict the consequences of noncompliance.

As part of its assessment of the Year 2000 issue, the Company has completed an inventory of its hardware and software systems, including the embedded systems in its buildings, property and equipment. The Company is presently in the process of implementing converted and replacement systems for all of its non-compliant hardware and software systems to ensure that the operations of such systems will not be materially adversely affected by the Year 2000 date change. The Company estimates that its efforts to make all internal systems Year 2000 compliant are approximately 85% complete.

To date, the Company has made expenditures of approximately \$500,000 related to its telephone and security systems specifically to address the Year 2000 issue. The Company does not anticipate that it will incur significant additional expenditures to address the Year 2000 issue beyond those associated with the updating and upgrading of the information systems discussed above.

The Company has requested and has received written responses from all of our significant vendors and suppliers confirming that they will be Year 2000 compliant. Of the 52 current vendors and suppliers with whom the Company exchanges information by some form of electronic transfer, 33 have indicated that they have tested their systems and found them to be Year 2000 compliant and 19 have indicated that they are in the process of completing their conversion and/or testing. The Company will continue to monitor these vendors and suppliers, as well as any new vendors or suppliers.

Assuming no general failure of utilities to provide basic services over large geographic areas or of the banking systems generally to conduct business substantially as usual, or of the credit card systems to confirm credit generally, the Company believes that, at the store level, the worst case scenario would require the processing of credit approvals by telephone and the ordering and allocation of inventory by telephone. While each of these scenarios would increase the cost of doing business and may result in the loss of some sales, the Company does not believe that either of these situations would have a material adverse effect on its results of operations.

If the Company is unable to purchase or receive inventory, or is unable to arrange for the manufacture of acquired piece goods into tailored clothing, such failure, depending on how extensive, could have a material adverse effect on its operations. However, no vendor or supplier accounts for more than 10% of the inventory the Company purchases and in most cases alternative suppliers are available.

The Company anticipates that it will increase inventory for approximately one month prior to the Year 2000 to insure that it has adequate inventory to cover possible disruptions associated with the Year 2000 date change.

The Company has not developed a contingency plan at present. However, it will adopt such a plan, if necessary, in mid-1999 to address any unresolved issues or risks that may exist at that time.

Moores. Moores has been in the process of updating and upgrading its information systems to be Year 2000 compliant. Moores has converted or reprogrammed its payroll, accounting and merchandising systems to ensure that the operation of such systems will not be materially adversely affected by the Year 2000 date change. With respect to its point of sale system, Moores is in the process of installing new equipment and software that is Year 2000 compliant in its stores and has completed approximately 80% of the installations. The remaining installations are expected to be completed by June 30, 1999. Moores has also completed the process of evaluating the machinery and embedded technology involved in its manufacturing operations and has determined that the manufacturing technology is Year 2000 compliant. Moores total costs related to Year 2000 compliance are not expected to exceed Can\$500,000.

Moores has requested and is in the process of receiving written responses from its vendors and suppliers confirming that the vendor or supplier is Year 2000 compliant. Moores will continue to monitor those vendors and suppliers, as well as those that have not provided written assurance. Moores expects to use alternate sources to replace those vendors and suppliers who do not provide written assurance of their Year 2000 readiness.

Assuming no general failure of utilities to provide basic services over large geographic areas or of the banking systems generally to conduct business substantially as usual, or of the credit card systems to confirm credit generally, Moores believes that at the store level, the worst case scenario would require the processing of credit approvals by telephone and the ordering and allocation of inventory by telephone. While each of these scenarios would increase the cost of doing business and may result in the loss of some sales, Moores does not believe that either of these situations would have a material adverse effect on Moores' results of operations.

At the manufacturing level, if all suppliers were unable to supply the fabric needs of the manufacturing operations, then, given this worst case scenario, one to two months of production could be lost. However, no one supplier accounts for more than 14% of the fabric used and this supplier has provided a written response that it is Year 2000 compliant. Moores anticipates that if any one supplier is unable to provide fabric, an alternate source could be found to meet production needs. If there is a significant disruption in the supply chain due to the Year 2000 issue and the amount of fabric available from suppliers is limited, it may be difficult to obtain the fabric necessary to meet the demands of the manufacturing operations and available fabric may experience a significant increase in cost.

Moores has not developed a contingency plan at present. However, Moores intends to adopt such a plan, if necessary, in mid-1999 to address any unresolved issues or risks that may exist at that time.

#### Inflation

The impact of inflation on the Company has been minimal.

### Forward-Looking Statements

Certain statements made herein and in other public filings and releases by the Company contain "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1995) that involve risk and uncertainty. These forward-looking statements may include, but are not limited to, future capital expenditures, acquisitions (including the amount and nature thereof), future sales, earnings, margins, costs, number and costs of store openings, demand for men's clothing, market trends in the retail men's clothing business, currency fluctuations, inflation and various economic and business trends. Forward-looking statements may be made by management orally or in writing, including but not limited to, this Management's Discussion and Analysis of Financial Condition and Results of Operations section and other sections of the Company's filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934 and the Securities Act of 1933.

Actual results and trends in the future may differ materially depending on a variety of factors including, but not limited to, domestic and international economic activity and inflation, the Company's successful execution of internal operating plans and new store and new market expansion plans, performance issues with key suppliers, foreign currency fluctuations, government export and import policies and legal proceedings. Future results will also be dependent upon the ability of the Company to continue to identify and complete successful expansions and penetrations into existing and new markets, and its ability to integrate such expansions with the Company's existing operations.

### Consolidated Balance Sheets

(In thousands, except shares)	January 31, 1998	January 30, 1999
Assets		
Current Assets:		
Cash	\$ 59,883	\$ 19,651
Inventories	203,390	236,105
Other current assets	14,297	14,740
Total current assets	277,570	270,496
Property and Equipment, at Cost:		
Land	2,447	4,598
Buildings	11,631	14,663
Leasehold improvements	52,386	69,588
Furniture, fixtures and equipment	67,036	89,000
	133,500	177,849
Less accumulated depreciation and amortization	(52,234)	(69,960)
Net property and equipment	81,266	107,889
Other Assets, Net	20,579	25,347
Total	\$379,415	\$403,732
Liabilities and Shareholders' Equity		
Current Liabilities:	# 54 02 c	# <b>55.20</b> 0
Accounts payable	\$ 51,836	\$ 55,209
Accrued expenses Income taxes payable	33,408 9,765	34,107 7,125
income taxes payable	9,763	7,123
Total current liabilities	95,009	96,441
Long-Term Debt	57,500	_
Other Liabilities	6,858	9,073
Total liabilities	159,367	105,514
Commitments and Contingencies (Note 7)		
Shareholders' Equity:		
Preferred stock, \$.01 par value, 2,000,000 shares authorized,		
none issued	_	_
Common stock, \$.01 par value, 50,000,000 shares authorized,		
33,198,361 and 34,931,124 shares issued	221	349
Capital in excess of par	109,969	148,446
Retained earnings	110,199	150,418
Total	220,389	299,213
Treasury stock, 80,603 and 71,384 shares at cost	(341)	(995)
Total shareholders' equity	220,048	298,218
Total	\$379,415	\$403,732

The accompanying notes are an integral part of these consolidated financial statements.

### Consolidated Statements of Earnings

For the Years Ended February 1, 1997, January 31, 1998 and January 30, 1999		Fiscal Year	
(In thousands, except per share amounts)	1996	1997	1998
Net sales Cost of goods sold, including buying and occupancy costs	\$483,547 295,181	\$631,110 388,517	\$767,922 468,187
Gross margin Selling, general and administrative expenses	188,366 150,232	242,593 191,063	299,735 228,053
Operating income Interest expense (net of interest income of \$1,237, \$1,275 and \$940, respectively)	38,134 2,146	51,530 2,366	71,682 2,032
Earnings before income taxes Provision for income taxes	35,988 14,845	49,164 20,281	69,650 28,730
Earnings before extraordinary item Extraordinary item, net of tax	21,143	28,883	40,920 701
Net earnings	\$ 21,143	\$ 28,883	\$ 40,219
Net earnings per basic share: Earnings before extraordinary item Extraordinary item, net of tax	\$ 0.67 —	\$ 0.89 —	\$ 1.21 (0.02)
	\$ 0.67	\$ 0.89	\$ 1.19
Net earnings per diluted share: Earnings before extraordinary item Extraordinary item, net of tax	\$ 0.67 —	\$ 0.87 —	\$ 1.17 (0.02)
	\$ 0.67	\$ 0.87	\$ 1.15
Weighted average shares outstanding: Basic	31,354	32,343	33,849
Diluted	34,101	35,384	36,075

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

	T	T			1
For the Years Ended February 1, 1997, January 31, 1998 and January 30, 1999 (In thousands, except shares)	Common Stock	Capital in Excess of Par	Retained Earnings	Treasury Stock	Total
Balance — February 3, 1996 Net earnings	\$209 —	\$ 77,299 —	\$ 60,173 21,143	\$(720) —	\$136,961 21,143
Common stock issued upon exercise of stock options — 184,596 shares Common stock withheld to satisfy tax	1	713	_	_	714
withholding liabilities of optionees — 65,316 shares Tax benefit recognized upon exercise of	_	(1,415)	_	_	(1,415)
stock options Treasury stock issued to profit sharing	_	1,101	_	_	1,101
plan — 33,186 shares	_	484	_	141	625
Balance — February 1, 1997  Net earnings  Common stock issued in public	210	78,182 —	81,316 28,883	(579) —	159,129 28,883
offering — 1,500,000 shares Common stock issued upon exercise of	10	29,951	_	_	29,961
stock options — 264,185 shares Common stock withheld to satisfy tax withholding liabilities of	1	1,409	_	_	1,410
optionees — 84,921 shares Tax benefit recognized upon exercise of	_	(1,949)	_	_	(1,949)
stock options Treasury stock issued to profit sharing	_	1,614	_	_	1,614
plan — 56,339 shares	_	762	_	238	1,000
Balance — January 31, 1998 Net earnings	221	109,969	110,199 40,219	(341)	220,048 40,219
Stock dividend —50%  Common stock issued upon conversion of subordinated notes —	111	(111)	_	_	_
1,615,501 shares Common stock issued to stock	16	35,909	_	_	35,925
discount plan —21,588 shares Common stock issued upon exercise of	_	428	_	_	428
stock options — 121,724 shares Common stock withheld to satisfy tax withholding liabilities of	1	1,394	_	_	1,395
optionees — 26,050 shares Tax benefit recognized upon exercise of	_	(905)	_	_	(905)
stock options Treasury stock issued to profit sharing	_	534	_	_	534
plan — 64,218 shares Treasury stock purchased —	_	1,228	_	272	1,500
55,000 shares	_	_	_	(926)	(926)
Balance — January 30, 1999	\$349	\$148,446	\$150,418	\$(995)	\$298,218

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Cash Flows

For the Years Ended February 1, 1997, January 31, 1998 and January 30, 1999 (In thousands)	1996	1997	1998
Cash Flows from Operating Activities: Net earnings Adjustments to reconcile net earnings to net cash	\$ 21,143	\$ 28,883	\$ 40,219
provided by operating activities:  Depreciation and amortization Deferred tax provision (benefit) Increase in inventories Increase in other current assets Increase in accounts payable and accrued expenses Increase (decrease) in income taxes payable Increase (decrease) in other liabilities	12,563 (1,093) (27,343) (3,083) 13,138 4,019 455	16,802 (3,562) (39,250) (1,207) 24,089 3,185 (2)	21,587 2,665 (32,715) (1,375) 4,274 (2,106) 482
Net cash provided by operating activities	19,799	28,938	33,031
Cash Flows from Investing Activities: Capital expenditures Investment in trademarks, tradenames and other	(26,222)	(27,380)	(46,247)
intangibles	(11,972)	(4,557)	(6,240)
Net cash used in investing activities	(38,194)	(31,937)	(52,487)
Cash Flows from Financing Activities: Proceeds from issuance of common stock Bank borrowings Principal payments on bank debt Net proceeds from (repayment of) convertible notes Principal payments under capital lease obligations Payment of deferred loan costs Tax payments related to options exercised Purchase of treasury stock	714 18,750 (23,000) 55,500 (588) — (1,415)	31,371 ————————————————————————————————————	1,823 42,500 (42,500) (20,747) (21) — (905) (926)
Net cash provided by (used in) financing activities	49,961	28,769	(20,776)
Increase (Decrease) In Cash Cash: Beginning of period	31,566 2,547	25,770 34,113	(40,232) 59,883
End of period	\$ 34,113	\$ 59,883	\$ 19,651
Supplemental Disclosures of Cash Flow Information: Cash paid during the year for: Interest	\$ 2,145	\$ 2,877	\$ 3,932
Income taxes	\$ 11,919	\$ 20,657	\$ 27,910
Supplemental Schedule of Noncash Investing and Financing Activities: Additional paid in capital, net of unamortized deferred financing costs, resulting from conversion of long-term debt into common stock	\$ —	\$ —	\$ 35,909
Additional paid in capital resulting from tax benefit recognized upon exercise of stock options	\$ 1,101	\$ 1,614	\$ 534
Treasury stock contributed to employee stock ownership plan	\$ 625	\$ 1,000	\$ 1,500

The accompanying notes are an integral part of these consolidated financial statements.

## otes to Consolidated Financial Statements

### Note 1. Summary of Significant Accounting Policies

Organization and Business. The Men's Wearhouse, Inc. is an off-price specialty retailer of men's tailored business attire with operations throughout the United States. The Men's Wearhouse, Inc. follows the standard fiscal year of the retail industry, which is a 52-week or 53-week period ending on the Saturday closest to January 31. Fiscal year 1996 ended on February 1, 1997, fiscal year 1997 ended on January 31, 1998 and fiscal year 1998 ended on January 30, 1999. Each of these fiscal years included 52 weeks.

Principles of Consolidation. The consolidated financial statements include the accounts of the Men's Wearhouse, Inc. and its wholly owned subsidiaries (the "Company"). Intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Inventories. Inventories are valued at the lower of cost or market, with cost determined on the retail first-in, first-out method.

Property and Equipment. Property and equipment are stated at cost. Normal repairs and maintenance costs are charged to earnings as incurred and additions and major improvements are capitalized. The cost of assets retired or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts in the year of disposal and the resulting gain or loss is credited or charged to earnings. The Company computes depreciation using the straight-line method. The estimated useful

lives used in computing depreciation generally range from 20 to 25 years for buildings, three to eight years for furniture, fixtures and equipment and eight years for leasehold improvements.

Other Assets. Other assets include the cost of trademarks, tradenames and other intangibles acquired. Such cost is amortized over 15 years using the straight-line method.

Impairment of Long-Lived Assets. The Company evaluates the carrying value of long-lived assets, such as property and equipment and trademarks, tradenames and other intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined, based on estimated undiscounted future cash flows, that an impairment has occurred, a loss is recognized currently for the impairment.

Fair Value of Financial Instruments. As of January 31, 1998 and January 30, 1999, management estimates that the fair value of cash and cash equivalents, receivables, accounts payable, accrued expenses and other liabilities payable are carried at amounts that reasonably approximate their fair value.

New Store Costs. Promotion and other costs associated with the opening of new stores are expensed as incurred.

Revenue Recognition. The Company records revenue at the point-of-sale.

Stock Based Compensation. As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the Company's employee stock option plans. The disclosures required by SFAS No. 123 are included in Note 6.

Stock Dividend. In June 1998, the Company effected a three-for-two common stock split by paying a 50% stock dividend to stockholders of record as of June 12, 1998. All share and per share information included in the accompanying consolidated financial statements and related notes have been restated to reflect the stock dividend.

Derivative Financial Instruments. The Company enters into foreign currency forward exchange contracts to hedge against foreign exchange risks associated with certain firmly committed, and certain other probable, but not firmly committed, inventory purchase transactions that are denominated in a foreign currency (primarily the Italian lira). Gains and losses associated with these contracts are accounted for as part of the underlying inventory purchase transactions.

Comprehensive Income. The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." For the three years ended January 30, 1999, comprehensive income equaled net income.

Segment Information. The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," and reports its operations in one business segment — retail sales of men's tailored business attire.

New Accounting Pronouncements. In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"),

which requires that an entity recognize all derivative instruments as either assets or liabilities on its balance sheet at their fair value. Gains and losses resulting from changes in the fair value of derivatives are recorded each period in current earnings or comprehensive earnings, depending on whether a derivative is designated as part of a hedge transaction, and if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in comprehensive earnings will be reclassified as earnings in the period in which earnings are affected by the hedged item. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The Company is currently evaluating the impact, if any, of SFAS 133 on its financial position and results of operations.

### Note 2. Earnings Per Share

Basic EPS is computed using the weighted average number of common shares outstanding during the period and net earnings. Diluted EPS gives effect to the potential dilution which would have occurred if additional shares were issued for (i) stock options exercised under the treasury stock method and (ii) conversion of the convertible debt, with net earnings adjusted for interest expense associated with the convertible debt. The following table reconciles the earnings and shares used in the basic and diluted EPS computations (in thousands, except per share amounts):

		Fiscal Year	
	1996	1997	1998
Earnings before extraordinary item Extraordinary item, net of tax	\$21,143 —	\$28,883 —	\$40,920 701
Net earnings	\$21,143	\$28,883	\$40,219
Weighted average number of common shares outstanding	31,354	32,343	33,849
Basic EPS Earnings before extraordinary item Extraordinary item, net of tax	\$ 0.67 —	\$ 0.89 —	\$ 1.21 (0.02)
Net earnings	\$ 0.67	\$ 0.89	\$ 1.19
Earnings before extraordinary item	\$21,143	\$28,883	\$40,920
Interest on notes, net of taxes As adjusted Extraordinary item, net of tax	1,777 22,920 —	1,943 30,826 —	1,144 42,064 701
As adjusted	\$22,920	\$30,826	\$41,363
Weighted average number of common shares outstanding Assumed exercise of stock options Assumed conversion of notes	31,354 435 2,312	32,343 513 2,528	33,849 684 1,542
As adjusted	34,101	35,384	36,075
Diluted EPS Earnings before extraordinary item Extraordinary item, net of tax	\$ 0.67 —	\$ 0.87 —	\$ 1.17 (0.02)
Net earnings	\$ 0.67	\$ 0.87	\$ 1.15

Note 3. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	January 31, 1998	January 30, 1999
Sales, payroll and property taxes payable Accrued salary, bonus and vacation Other	\$ 6,567 9,773 17,068	\$ 9,924 8,484 15,699
Total	\$33,408	\$34,107

### Note 4. Long-Term Debt

In February 1999, the Company amended and restated its revolving credit agreement with a group of banks ("the Credit Agreement"). This agreement provides for borrowing of up to \$125 million through February 5, 2004. Advances under the Credit Agreement bear interest at a rate per annum equal to, at the Company's option, the agent's prime rate or the reserve adjusted LIBOR rate plus an interest rate margin varying between .75% to 1.25%. The Credit Agreement provides for fees applicable to unused commitments of .125% to .225%. As of January 30, 1999, there was no indebtedness outstanding under the Credit Agreement.

The Credit Agreement contains certain restrictive and financial covenants, including the requirement to maintain a minimum amount of Consolidated Net Worth (as defined). The Company is also required to maintain certain debt to cash flow, cash flow coverage and current ratio. In addition, the Credit Agreement limits additional indebtedness, creation of liens, Restrictive Payments (as defined) and Investments (as defined). The Credit Agreement also prohibits payment of cash dividends on the common stock of the Company. The Credit Agreement permits, with certain limitations, the Company to merge or consolidate with another company, sell or dispose of its property, make acquisitions, issue options or enter into transactions with affiliates. The Company is in compliance with the covenants in the Credit Agreement.

In February 1999, the Company also entered into two new Canadian credit facilities in conjunction with the combination with Moores Retail Group Inc. ("Moores") (see Note 10). These facilities include a revolving credit agreement which provides for borrowings up to Can\$30 million (U.S. \$20 million) through February 5, 2004 and a term credit agreement which provides for borrowings of Can\$75 million (U.S. \$50 million) to be repaid in quarterly installments of Can\$0.9 million (US\$0.6 million) beginning May 1, 1999; remaining unpaid principal is payable on February 5, 2004. Covenants and interest rates are substantially similar to those contained in the Company's Credit Agreement. Borrowings under these agreements were used to repay approximately U.S. \$59 million in outstanding indebtedness of Moores with the remaining availability to be used to fund cash operating and other requirements of Moores.

In August 1998, the Company gave notice to the holders of its outstanding 5½% Convertible Subordinated Notes (the "Notes") that the Company would redeem the Notes on September 14, 1998. As a result, \$36.8 million principal amount of the Notes was converted into 1.6 million shares of the Company's common stock and \$20.7 million principal amount was redeemed for an aggregate of \$21.5 million. An extraordinary charge of \$0.7 million, net of tax benefit of \$0.5 million, related to the early retirement of the Notes was recognized.

Note 5. Income Taxes

The provision for income taxes consists of the following (in thousands):

		Fiscal Year	
	1996	1997	1998
Current tax expense: Federal State Deferred tax expense (benefit): Current Noncurrent	\$13,410 2,528 (1,750) 657	\$19,881 3,962 (3,039) (523)	\$22,065 4,000 931 1,734
Total	\$14,845	\$20,281	\$28,730

The table above does not include the current tax expense effect of the extraordinary item in 1998 of \$0.5 million.

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

		Fiscal Year	
	1996	1997	1998
Federal statutory rate State income taxes, net of federal benefit Other	35% 5 1	35% 5 1	35% 5 1
	41%	41%	41%

At January 31, 1998, the Company had net deferred tax assets of \$4.8 million with \$6.5 million classified as other current assets and \$1.7 million classified as other liabilities (noncurrent). At January 30, 1999, the Company had net deferred tax assets of \$2.1 million with \$5.6 million classified as other current assets and \$3.5 million classified as other liabilities (noncurrent). No valuation allowance was required for the deferred tax assets. Total deferred tax assets and liabilities

and the related temporary differences as of January 31, 1998 and January 30, 1999 were as follows (in thousands):

	January 31, 1998	January 30, 1999
Deferred tax assets: Accrued rent and other expenses Accrued compensation Accrued markdowns Other	\$ 4,775 1,148 2,511 502	\$ 4,242 1,164 1,731 85
	8,936	7,222
Deferred tax liabilities:  Capitalized inventory costs  Property and equipment capitalization  Other	(1,193) (2,461) (501)	(2,444) (2,409) (253)
	(4,155)	(5,106)
Net deferred tax assets	\$ 4,781	\$ 2,116

### Note L. Capital Stock options and Benefit Plans

In July 1997, the Company sold 1,500,000 shares of common stock with net proceeds to the Company of \$30.0 million. In addition, the Company effected a 50% stock dividend on June 19, 1998. All share and per share amounts reflected in the financial statements give retroactive effect to the stock dividend.

The Company has adopted the 1992 Stock Option Plan ("1992 Plan") which, as amended, provides for the grant of options to purchase up to 1,071,507 shares of the Company's common stock to full-time key employees (excluding certain officers), the 1996 Stock Option Plan ("1996 Plan") which provides for the grant of options to purchase up to 1,125,000 shares of the Company's common stock to full-time key employees (excluding certain officers), and the 1998 Key Employee Stock Option Plan ("1998 Plan") which provides for the grant of options to purchase up to 750,000 shares of the Company's common stock to full-time key employees (excluding certain officers). Each of the plans will expire at the end of ten years and no option may be granted pursuant to the plans after the expiration date. In fiscal 1992, the Company also adopted a Non-Employee Director Stock Option Plan ("Director Plan") which, as amended, provides for the grant of options to purchase up to 67,500 shares of the Company's common stock to non-employee directors of the Company. Options granted under these plans must be exercised within ten years of the date of grant.

Generally, options granted under the 1992 Plan, 1996 Plan and 1998 Plan vest at the rate of 1/3 of the shares covered by the grant on each of the first three anniversaries of the date of grant and may not be issued at a price less than 50% of the fair market value of the Company's stock on the date of grant. However, a significant portion of options granted under these Plans vest annually in varying increments over a period from one to ten years. Options granted under the Director Plan vest one year after the date of grant and are issued at a price equal to the fair market value of the Company's stock on the date of grant.

In connection with an employment agreement entered into in January 1991 with an officer of the Company, that officer was granted options to acquire 796,705 shares of common stock of the Company at a price of \$1.57 per share. Among other things, the employment agreement provides that upon the exercise of any of these options, the Company will pay the officer an amount which, after the payment of income taxes by the officer on such amount, will equal the \$1.57 per share purchase price for the shares purchased upon exercise of the options. The Company recognized compensation expense as the options vested. The officer exercised 110,652 options in 1996 and 110,654 options in 1997. As of January 31, 1998, all stock options granted in connection with this employment agreement have been exercised.

The following table is a summary of the Company's stock option activity:

	Shares Under Option	Weighted Average Exercise Price	Options Exercisable
Options outstanding, February 3, 1996 Granted Exercised Forfeited	1,041,797 543,000 (184,596) (4,463)	\$ 7.76 15.78 3.49 11.86	479,358
Options outstanding, February 1, 1997	1,395,738	\$11.43	519,468
Granted Exercised Forfeited	640,875 (264,185) (8,155)	21.12 4.99 14.27	
Options outstanding, January 31, 1998	1,764,273	\$15.90	520,520
Granted Exercised Forfeited	261,350 (121,724) (24,977)	26.59 10.88 20.15	
Options outstanding, January 30, 1999	1,878,922	\$17.66	703,494

Grants of stock options outstanding as of January 30, 1999 are summarized as follows:

	Options Outstanding			Options	Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price		
\$ 3.85 to 9.90 9.91 to 17.76 17.77 to 29.63	324,300 735,572 819,050	5.0 years 7.7 years 9.2 years	\$ 8.39 15.62 23.16	256,800 336,809 109,885	\$ 8.59 15.55 22.03		
\$ 3.85 to 29.63	1,878,922		17.66	703,494	14.02		

As of January 30, 1999, 761,873 options were available for grant under existing plans and 2,640,795 shares of common stock were reserved for future issuance under these plans.

The difference between the option price and the fair market value of the Company's common stock on the dates that options for 184,596, 264,185 and 121,724 shares of common stock were exercised during 1996, 1997 and 1998, respectively, resulted in a tax benefit to the Company of \$1.1 million in 1996, \$1.6 million in 1997 and \$0.5 million in 1998, which has been recognized as capital in excess of par. In addition, the Company withheld 65,316 shares, 84,921 shares and 26,050 shares, respectively, of such common stock for withholding payments made to satisfy the optionees' income tax liabilities resulting from the exercises.

The Company has a profit sharing plan, in the form of an employee stock plan, which covers all eligible employees, and an employee tax-deferred savings plan. Contributions to the profit sharing plan are made at the discretion of the Board of Directors. During 1996, 1997 and 1998, contributions charged to operations were \$1.0 million, \$1.5 million and \$2.1 million, respectively, for the plans.

In 1998, the Company adopted an Employee Stock Discount Plan ("ESDP"), which allows employees to authorize after-tax payroll deductions to be used for the purchase of up to 1,425,000 shares of the Company's common stock at 85% of the then fair market value. The Company makes no contributions to this plan but pays all brokerage, service and other costs incurred. A participant may not purchase more than \$2,500 in value of shares during any calendar quarter. During 1998, employees purchased 21,588 shares under the ESDP, the weighted-average fair value of which was \$19.86 per share. As of January 30, 1999, 1,403,412 shares were reserved for future issuance under the ESDP.

The Company has adopted the disclosure-only provisions of SFAS No. 123 and continues to apply APB Opinion 25 and related interpretations in accounting for the stock option plans and the employee stock purchase plan. Accordingly, no compensation cost has been recognized in the accompanying consolidated financial statements for the stock option plans or the employee stock discount plan. Had the Company elected to apply the accounting standards of SFAS No. 123, the Company's net earnings and net earnings per share would have approximated the pro forma amounts indicated below (in thousands, except per share data):

	1996	1997	1998
Earnings before extraordinary item: As reported Pro forma	\$21,143 \$20,586	\$28,883 \$27,885	\$40,920 \$39,246
Earnings per share before extraordinary item As reported: Basic Diluted	\$ 0.67 \$ 0.67	\$ 0.89 \$ 0.87	\$ 1.21 \$ 1.17
Pro forma: Basic Diluted	\$ 0.65 \$ 0.65	\$ 0.86 \$ 0.84	\$ 1.16 \$ 1.12

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, which resulted in a weighted-average fair value of \$5.14, \$6.83 and \$7.28 for grants made during fiscal 1996, 1997 and 1998, respectively. The following assumptions were used for option grants in 1996, 1997 and 1998, respectively: expected volatility of 50.91%, 52.15% and 52.07%, risk-free interest rates (U.S. Treasury five year notes) of 6.21%, 6.00% and 5.84%, and an expected life of five years.

### Note 7. Commitments and Contingencies

Lease Commitments. The Company leases retail business locations, office and warehouse facilities, computer equipment and automotive equipment under operating leases expiring in various years through 2015. Rent expense for fiscal 1996, 1997 and 1998 was \$26.9 million, \$35.2 million and \$41.5 million, respectively, and includes contingent rentals of \$0.3 million, \$0.3 million and \$0.4 million, respectively.

Minimum future rental payments under noncancelable operating leases as of January 30, 1999 for each of the next five years and in the aggregate are as follows (in thousands):

Fiscal Year	Amount
1999 2000 2001 2002 2003 Thereafter	\$ 43,495 39,820 37,164 33,211 28,616 78,749
Total	\$261,055

Leases on retail business locations specify minimum rentals plus common area maintenance charges and possible additional rentals based upon percentages of sales. Most of the retail business location leases provide for renewal options at rates specified in the leases. In the normal course of business, these leases are generally renewed or replaced by other leases.

Legal Matters. The Company is a defendant in various lawsuits and subject to various claims and proceedings encountered in the normal conduct of its business. In the opinion of management, any uninsured losses that might arise from these lawsuits and proceedings would not have a material adverse effect on the business or consolidated financial position or results of operations of the Company.

Currency Contracts. The Company routinely enters into inventory purchase commitments that are denominated in a foreign currency (primarily the Italian lira). To protect against currency exchange risks associated with certain firmly committed and certain other probable, but not firmly committed inventory transactions, the Company enters into foreign currency forward exchange contracts. At January 30, 1999, the Company held forward exchange contracts with notional amounts totaling \$9.6 million. All such contracts expire within 9 months. Gains and losses associated with these contracts are accounted for as part of the underlying inventory purchase transactions. The fair value of the forward exchange contracts is estimated by comparing the cost of the foreign currency to be purchased under the contracts using the exchange rates obtained under the contracts (adjusted for forward points) to the hypothetical cost using the spot rate at year end. At January 30, 1999, the contracts outstanding had a fair value of \$0.1 million less than their notional value.

The majority of the forward exchange contracts are with one financial institution. Therefore, the Company is exposed to credit risk in the event of nonperformance by this party. However, due to the creditworthiness of this major financial institution, full performance is anticipated. The Company

may also be exposed to market risk as a result of changes in foreign exchange rates. This market risk should be substantially offset by changes in the valuation of the underlying transactions being hedged.

### Note &. Acquisitions

In January 1997, the Company acquired 17 men's tailored clothing stores, including inventory, operating in southern California and entered into a lease for a distribution facility for those stores. In May 1997, the Company acquired six men's tailored clothing stores, including inventory, operating in Texas and Louisiana. In February 1998, the Company acquired four stores, including inventory, operating in Detroit, Michigan. Also acquired were trademarks, tradenames and other intangible assets associated with these businesses.

### Note 9. Quarterly Results of Operations (Unaudited)

The Company's quarterly results of operations reflect all adjustments, consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The consolidated results of operations by quarter for the 1997 and 1998 fiscal years are presented below (in thousands, except per share amounts):

Fiscal 1997 Quarters Ended				
	May 3,	August 2,	November 1,	January 31,
	1997	1997	1997	1998
Net sales	\$130,621	\$133,935	\$146,311	\$220,243
Gross margin	48,433	51,191	55,139	87,830
Net earnings	4,016	5,356	5,569	13,942
Basic earnings per share	\$ 0.13	\$ 0.17	\$ 0.17	\$ 0.42
Diluted earnings per share	\$ 0.13	\$ 0.17	\$ 0.17	\$ 0.40

	Fiscal 1998 Quarters Ended			
	May 2, 1998	August 1, 1998	October 31, 1998	January 30, 1999
Net sales Gross margin Earnings before extraordinary item Net earnings Earnings per share before extraordinary item: Basic Diluted	\$170,850 63,845 6,718 \$ 6,718 \$ 0.20 \$ 0.20	\$162,858 63,892 8,014 \$ 8,014 \$ 0.24 \$ 0.23	\$170,742 65,281 7,260 \$ 6,559 \$ 0.21	\$263,472 106,717 18,928 \$ 18,928 \$ 0.54 \$ 0.53

An extraordinary charge of \$0.7 million, net of tax benefit of \$0.5 million, related to the early retirement of the Notes (Note 4) was recognized in the third quarter of 1998.

Due to the method of calculating weighted average common shares outstanding, the sum of the quarterly per share amounts may not equal earnings per share for the respective years.

### Note 10. Subsequent Events

K&G Men's Center, Inc. On March 4, 1999, the Company announced the signing of an Agreement and Plan of Merger with K&G Men's Center, Inc. ("K&G"), a retailer of men's apparel and accessories with 33 stores in the United States. Under the terms of the proposed merger, the Company will issue between 0.40 and 0.43 of a share of its common stock in exchange for each share of K&G common stock. The exact exchange ratio will depend on the average trading price for the Company's common stock during a 15 trading day period ending on the third trading day before the merger. K&G has approximately 10.3 million shares outstanding. It is expected that the merger with K&G by the Company will be accounted for as a pooling of interests. Consummation of the proposed merger is dependent upon, among other things, the approval of the shareholders of K&G.

Moores Retail Group Inc. On February 10, 1999, the Company acquired Moores, a privately owned Canadian corporation, in exchange for securities ("Exchangeable Shares") exchangeable for 2.5 million shares of the Company's common stock. The Exchangeable Shares have substantially identical economic and legal rights as, and will ultimately be exchanged on a one-on-one basis for, shares of the Company's common stock. The Exchangeable Shares were issued to the shareholders and option holders of Moores in exchange for all of the outstanding shares of capital stock and options of Moores because of Canadian tax law considerations. All Exchangeable Shares must be converted into common stock of the Company within five years and will be reflected as common stock outstanding for financial reporting purposes by the Company. The merger has been accounted for as a pooling of interests.

Moores operates 107 men's tailored clothing stores in Canada and eight stores in the United States. Moores also operates a manufacturing facility in Montreal, Canada that manufactures substantially all of the tailored clothing for sale in the Moores stores. In connection with closing the Moores combination, the Company repaid approximately U.S. \$59.0 million of Moores' existing indebtedness and entered into two new Canadian credit facilities for this purpose. The credit facilities, which will also be used to provide working capital for the ongoing needs of Moores, include a Can\$30 million (U.S. \$20 million) revolving loan and a Can\$75 million (\$50 million) term loan. There have been no significant transactions between the Company and Moores prior to the combination and no adjustments will be necessary to conform accounting practices or fiscal years.

The following unaudited pro forma combined financial statements of the Company and Moores give effect to the February 10, 1999 combination on a pooling-of-interests basis. The unaudited pro forma combined financial statements should be read in conjunction with the historical consolidated financial statements and the notes thereto of the Company. The unaudited pro forma combined balance sheet as of January 30, 1999 assumes that the February 10, 1999 combination of the Company and Moores was consummated on January 30, 1999 and combines the consolidated balance sheets of the Company and Moores as of January 30, 1999. The unaudited pro forma combined balance sheet includes adjustments which give effect to events that are directly attributable to the transactions.

The unaudited pro forma combined statements of earnings assume that the combination was consummated at the beginning of fiscal 1997 and combine the historical results of the Company and

Moores for fiscal 1997 and 1998. The historical results of Moores for fiscal 1996 have not been combined with the Company's fiscal 1996 historical results as Moores commenced operations on December 23, 1996 and its reported net loss of \$0.1 million for the 40 day period from December 23, 1996 to January 31, 1997 is not significant. Nonrecurring charges totaling \$5.3 million, net of a \$0.3 million tax benefit, which resulted directly from the combination and will be included in the Company's fiscal 1999 results of operations have been excluded from the unaudited pro forma combined statements of earnings. In addition, an extraordinary charge of \$2.9 million, net of a \$1.4 million tax benefit, relating to the refinancing of the February 10, 1999 outstanding debt of Moores has not been reflected. The effects of these nonrecurring and extraordinary charges have, however, been reflected in the pro forma adjustments to retained earnings in the pro forma combined balance sheet.

The historical consolidated financial statements of Moores included in the pro forma combined balance sheet and statements of earnings are stated in United States dollars and have been prepared in accordance with generally accepted accounting principles in the United States. The exchange rates used in translating the historical Canadian currency financial statements of Moores reflect the current exchange rate as of the balance sheet date and the weighted average exchange rates for the periods presented in the statements of earnings. The cumulative translation adjustments are reported as a separate component of shareholders' equity. The historical statements of earnings for Moores included in the pro forma combined statements of earnings do not reflect earnings per share data since Moores, as a privately owned company, has not reported such data. The pro forma earnings per share in the pro forma combined statements of earnings reflect the 2.5 million shares of common stock that the Company will ultimately issue to the former shareholders and option holders of Moores as a result of the February 10, 1999 combination of the Company and Moores.

### Pro Forma Combined Balance Sheet

(Unaudited — in thousands)	January 30, 1999
Assets Current assets Property and equipment, net	\$309,229 118,185
Other assets, net	46,135
Total assets	\$473,549
Liabilities and Shareholders' Equity Current liabilities Long-term debt Other liabilities	\$111,021 56,326 8,439
Total liabilities Shareholders' equity	175,786 297,763
Total liabilities and shareholders' equity	\$473,549

### Pro Forma Combined Statement of Earnings

For the Years Ended January 31, 1998 and January 30, 1999 (Unaudited — in thousands, except per share amounts)	Fiscal 1997	Fiscal 1998
Net sales Cost of goods sold, including buying and occupancy costs	\$762,524 471,268	\$898,597 549,670
Gross margin Selling, general and administrative expenses	291,256 226,359	348,927 263,216
Operating income Interest expense, net	64,897 (9,600)	85,711 (9,025)
Earnings before income taxes Provision for income taxes	55,297 (24,346)	76,686 (32,773)
Earnings before extraordinary item	\$ 30,951	\$ 43,913
Earnings before extraordinary item per share: Basic Diluted Weighted average shares outstanding: Basic Diluted	\$ 0.89 \$ 0.87 34,843 37,884	\$ 1.21 \$ 1.17 36,349 38,575

The pro forma combined financial statements as of January 30, 1999 and for the years ended January 31, 1998 and January 30, 1999 have been adjusted for the following to reflect the February 10, 1999 combination of the Company and Moores as a pooling-of-interests and the concurrent debt refinancing:

- a. Transaction costs incurred in the combination of the Company and Moores under pooling-of-interests accounting. The costs, which primarily relate to investment banking fees, professional fees, contract termination payments and unamortized stock option compensation expenses, totaled approximately \$5.3 million, net of a tax benefit of \$0.3 million, and are reflected as a reduction in retained earnings in the accompanying balance sheet. These costs are not reflected in the pro forma combined statements of earnings.
- b. The effects of refinancing approximately U.S. \$59 million of existing Moores debt as follows (in thousands):

Revolving debt refinanced with long-term debt	\$ 7,568
Current portion of long-term debt refinanced with long-term debt	3,644
Prepayment penalty from early retirement of long-term debt	1,496
Addition to long-term debt	\$12,708
Write off of Moores historical deferred financing costs, net of tax of \$814	\$ 1,958
Prepayment penalty from early retirement of long-term debt, net of tax of \$541	955
Adjustment to retained earnings	\$ 2,913

c. The effect on common stock and capital in excess of par value for the issuance of 2.5 million shares of the Company's common stock issuable to Moores shareholders and option holders upon exchange of the Exchangeable Shares.

The pro forma combined results of operations by quarter for the 1997 and 1998 fiscal years are presented below (in thousands, except per share amounts):

Fiscal 1997 Quarters Ended				
	May 3,	August 2,	November 1,	January 31,
	1997	1997	1997	1998
Net sales	\$154,749	\$168,699	\$179,821	\$259,255
Gross margin	56,518	64,290	68,228	102,220
Net earnings	3,758	6,923	6,321	13,949
Basic earnings per share	\$ 0.11	\$ 0.20	\$ 0.18	\$ 0.39
Diluted earnings per share	\$ 0.11	\$ 0.20	\$ 0.18	\$ 0.37

	Fiscal 1998 Quarters Ended			
	May 2, 1998	August 1, 1998	October 31, 1998	January 30, 1999
Net sales Gross margin Earnings before extraordinary item Net earnings Earnings per share before	\$199,521 74,402 6,804 6,804	\$196,310 76,695 9,088 9,088	\$203,301 77,601 7,914 7,213	\$299,465 120,229 20,107 20,107
extraordinary item: Basic Diluted	\$ 0.19 \$ 0.19	\$ 0.25 \$ 0.24	\$ 0.22 \$ 0.21	\$ 0.54 \$ 0.53

Due to the method of calculating weighted average common shares outstanding, the sum of the quarterly per share amounts may not equal earnings per share for the respective years.

These pro forma results do not purport to be indicative of the results of operations which actually would have resulted had the pooling of interests been completed on the date indicated, nor are they necessarily indicative of future operations.

## Independent Auditors' Report

Board of Directors and Shareholders The Men's Wearhouse, Inc. Houston, Texas

We have audited the accompanying consolidated balance sheets of The Men's Wearhouse, Inc. and its subsidiaries (the "Company") as of January 31, 1998 and January 30, 1999 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended January 30, 1999. 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 generally accepted auditing standards. 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 as of January 31, 1998 and January 30, 1999, and the results of their operations and their cash flows for each of the three years in the period ended January 30, 1999 in conformity with generally accepted accounting principles.

Deloutte Touche ur

Houston, Texas March 9, 1999

# Store List

U.S. stores as of January 30, 1999. Canadian stores reflect merger with Moores, which was completed in February, 1999.

United States	Nebraska 2	Canada
Alabama 3	Nevada 4	Alberta 11
Arizona 8	New Hampshire 3	British Columbia 13
California 88	New Jersey 6	Manitoba 5
Colorado 10	New Mexico 1	New Brunswick 3
Connecticut 6	New York 13	Newfoundland 1
Delaware 1	North Carolina 12	Nova Scotia 3
District of Columbia 1	Ohio 15	Ontario 46
Florida 26	Oklahoma 3	Prince Edward Island 1
Georgia 13	Oregon 6	Quebec 22
Idaho 1	Pennsylvania 14	Saskatchewan 2
Illinois 20	Rhode Island 1	
Indiana 8	South Carolina 4	
Iowa 1	Tennessee 7	
Kansas 2	Texas 49	
Kentucky 3	Utah 5	
Louisiana 5	Virginia 13	
Maryland 9	Washington 13	
Massachusetts 10	Wisconsin 6	
Michigan 22		
Minnesota 9		

For the location of the Men's Wearhouse store nearest you, please call 1-800-776-SUIT.

Mississippi 1 Missouri 7

# Corporate Directory

### Executive Officers & Directors

George Zimmer
Chairman of the Board and
Chief Executive Officer

David H. Edwab
President and Director

Richard E. Goldman
Executive Vice President
and Director

Robert E. Zimmer Senior Vice President, Real Estate, and Director

James E. Zimmer Senior Vice President, Merchandising, and Director

Harry M. Levy Executive Vice President, Planning and Systems, and Director

Rinaldo Brutoco
Director
Chief Executive Officer
and Director of
Dorason Corporation

Michael L. Ray Director Professor, Stanford University

Sheldon I. Stein Director Senior Managing Director, Bear, Stearns & Co. Inc.

### Corporate Officers

Eric Lane
Chief Operating Officer

Charlie Bresler, Ph.D. Executive Vice President

Bruce Hampton
Executive Vice President

Ted Biele Senior Vice President

Bill Ballard Vice President, Store Operations

Gary Ckodre Vice President, Finance

Neill P. Davis Vice President, Treasurer

**Bill Erickson**Vice President, Store Planning

Doug Ewert Vice President, General Merchandise Manager

Thomas Jennings Vice President, Real Estate

Jeff Marshall Vice President, Chief Information Officer

Kathleen A. Miller Vice President, General Counsel

Julie Panaccione Vice President, Travel and Events

Carole L. Souvenir Vice President, Employee Relations Dan Young Vice President, Logistics and Distribution

Fred Alpert Associate Vice President, Store Operations

Don Botill Associate Vice President, Store Operations

Steven Cook Associate Vice President, Store Operations

Shlomo Maor Associate Vice President, Training

Jayme Maxwell Associate Vice President, Marketing

Kirk Warren Associate Vice President, Administration and Benefits

Thomas Queret Assistant Vice President, Accounting Services

**Diana M. Wilson**Corporate Controller

Design: Heiney & Craig Inc., San Francisco

## Corporate & Distribution Offices

5803 Glenmont Drive Houston, Texas 77081 (713) 592–7200

#### Executive Offices

40650 Encyclopedia Circle Fremont, California 94538 (510) 657–9821

#### Annual Meeting

July 1, 1999, 4 p.m. The Houstonian Hotel 111 N. Post Oak Lane Houston, Texas

### General Counsel

Fulbright & Jaworski L.L.P. Houston, Texas

### Independent Auditors

Deloitte & Touche, L.L.P. Houston, Texas

### Transfer Agent

American Stock Transfer & Trust Company 40 Wall Street New York, New York 10005 (718) 921–8200

### Form 10-K

A copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by writing:

The Men's Wearhouse c/o Investor Relations 5803 Glenmont Drive Houston, Texas 77081

### The Men's Wearhouse on the Internet

You can visit the Company's home page on the Internet at www.menswearhouse.com

### Market for the Company's Common Equity and Related Stockholder Matters

Our common stock is traded on the NASDAQ under the symbol "SUIT." The following table sets forth, on a per share basis for the periods indicated, the high and low sale prices per share for our common stock as reported by NASDAQ. The prices set forth below for periods prior to June 19, 1998 have been adjusted to give retroactive effect to the 50% stock dividend paid on that date.

	High	Low
Fiscal Year 1997 First quarter ended May 3, 1997 Second quarter ended August 2, 1997 Third quarter ended November 1, 1997 Fourth quarter ended January 31, 1998 Fiscal Year 1998	\$20.67 25.08 27.50 26.50	\$15.33 16.75 22.33 20.00
First quarter ended May 2, 1998 Second quarter ended August 1, 1998 Third quarter ended October 31, 1998 Fourth quarter ended January 30, 1999	\$29.67 36.88 34.63 32.50	\$22.33 26.67 14.00 22.00

On March 26, 1999, there were approximately 1,100 holders of record and approximately 4,187 beneficial holders of our common stock.

We have not paid dividends on our common stock and for the foreseeable future we intend to retain all of our earnings for the future operation and expansion of our business. Our credit agreement prohibits the payment of cash dividends on our common stock. See Note 4 of Notes to Consolidated Financial Statements.

The statements in this annual report that relate to future plans, events or performance are forward looking statements. The forward looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward looking statements may be significantly impacted by various factors, including unfavorable local, regional and national economic developments, severe weather conditions, aggressive advertising or marketing activities of competitors and other factors described herein and in the Company's annual report on Form 10-K for the year ended January 30, 1999.



The Men's Wearhouse, Inc.

40650 ENCYCLOPEDIA CIRCLE FREMONT, CALIFORNIA 94538
WWW.MENSWEARHOUSE.COM









As you've already discovered, dressing down is still a matter of dressing Well.

