the men's wearhouse, inc.

annual report 1999

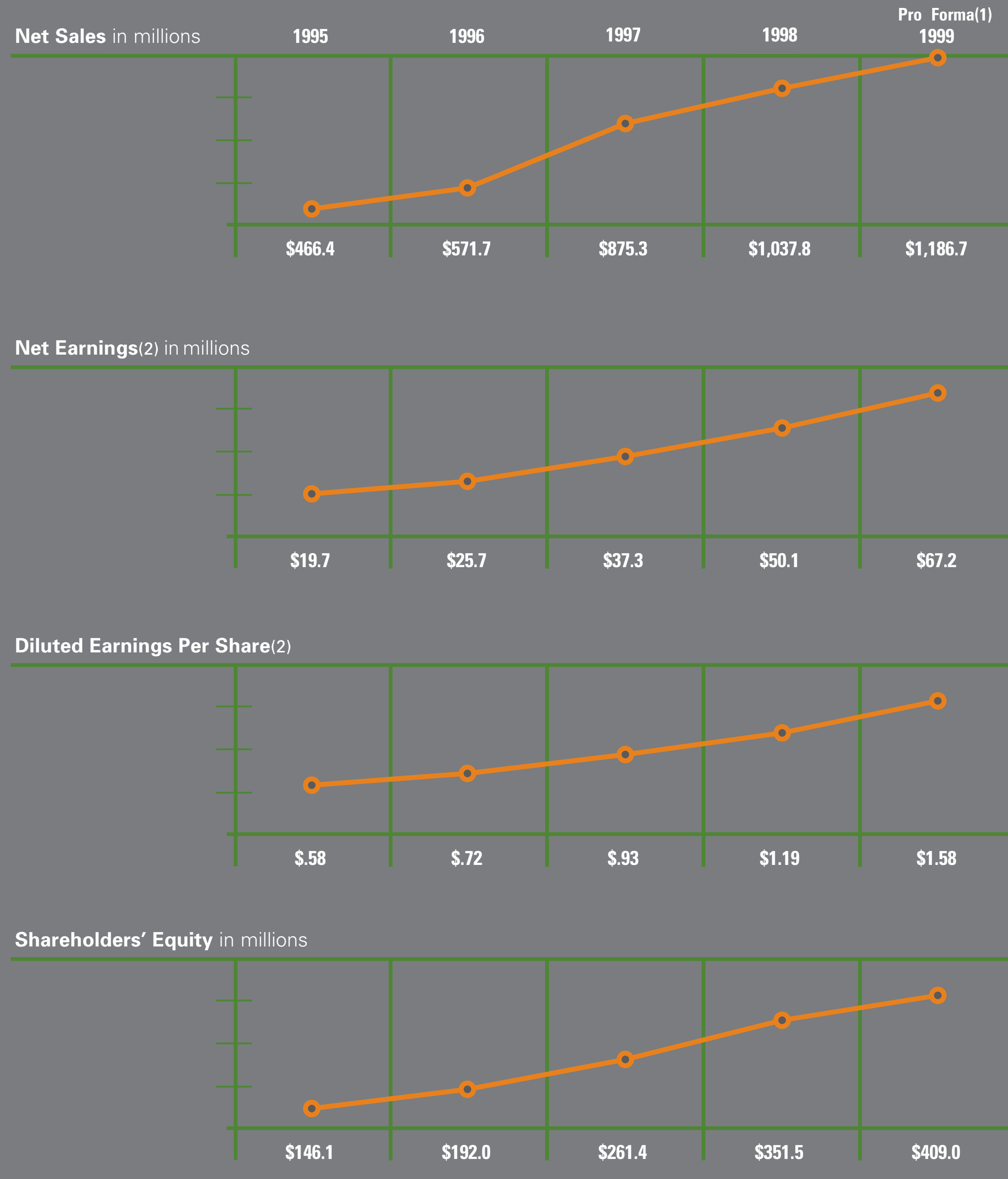
the more we grow...

the more we stay the same.

The retail environment is constantly changing, and so are men's clothing choices. As we grow, Men's Wearhouse, Moores, and K&G offer you quality selections at a value price, we guarantee it.

Named one of America's 100 best companies to work for.

financial highlights



(1) Excludes non-recurring charges related to combinations with Moores Retail Group Inc. and K&G Men's Center, Inc.

(2) Before extraordinary item.

to our shareholders

During 1999, your Company surpassed new milestones in its quest to become North America's leading specialty men's retailer.

We continued to demonstrate the value of our strategies for growing market share as sales of men's apparel in the U.S. exceeded $56 billion in 1999 and growth in the category exceeded that of women's and children's apparel.

We surpassed the billion dollar revenue threshold, reporting revenues of $1.2 billion, which qualified us as a *Fortune* 1000 company. We also completed the Moores and K&G transactions which, when combined with Men's Wearhouse stores opened in 1999, increased the Company's total store count to 614, an increase of nearly 200 stores from the end of 1998. I want to welcome the Moores and K&G employees to the Company.

However, our greatest accomplishment in 1999 was being named one of the country's best 100 companies to work for by *Fortune* magazine. This honor recognized our corporate culture, which places a priority on developing quality relationships with our employees, as well as our training, human development, internal promotion and employee recognition programs.

Despite the dynamic growth of the past year, we did not lose sight of our core values which drive our consistency of performance and create quality growth.

The Company generated a 33 percent increase in pro forma earnings per share, marking the 32nd consecutive quarter that we have met or exceeded investor expectations. Operating margins, before one-time

charges, increased to 9.7 percent versus 9.2 percent in 1998 as we further leveraged our occupancy and advertising expenses. We also benefited from savings achieved with our manufacturing facility in Canada acquired through the Moores transaction and other direct sourcing programs.

New merchandising initiatives and strong electronic advertising, combined with more and larger stores, drove our growth at Men's Wearhouse. Larger Men's Wearhouse stores enable us to carry a broader mix of merchandise, including larger selections of business/casual wear. In fact, comparable sales of non-tailored merchandise at Men's Wearhouse stores are growing at a rate greater than comparable sales of tailored clothing.

We initiated a tuxedo rental program in selected stores during the year. The tuxedo rental market is an estimated $750 million business annually, and is a highly fragmented market served by more than 4,000 local and regional retailers.

At year end, we had implemented tuxedo rentals at 43 stores in Seattle and Northern California. This business generates incremental sales without adding significant new personnel and real estate costs and broadens our customer base by drawing first-time and younger customers into our stores. We believe our formula of quality, value and service, combined with our operational infrastructure, will enable us to consolidate this market.

We are particularly pleased with the progress of our Moores operation which faced many challenges during the year, not the least of which was significant pricing pressure from troubled competitors running going-out-of-business sales as they closed and consolidated operations.

Our strategy—as it was in the U.S. under similar circumstances several years ago—was not to promote and Moores performance in the latter half of the year demonstrated the wisdom of that approach. Comparable store increases at Moores in the fourth quarter were 10.8 percent versus 4.4 percent a year ago. The Moores team merits particular recognition for their efforts.

During 1999, we implemented training programs to provide Moores employees enhanced customer service and product knowledge skills and introduced new merchandising programs. We also began initiatives to strengthen the brand image of Moores, including a name change from Moores the Suit People to Moores Clothing for Men to reflect their broader merchandise offerings. We also conducted a test television advertising campaign in Western Canada.

Since completing the K&G transaction, our focus has been on implementing strategies which will improve gross margins while we expand into new markets. In addition to integrating our management teams, we have been enhancing K&G's merchandise offerings.

We begin 2000 with three strong and growing brands and proven strategies to increase market share. While the Company has undergone dramatic change and growth in recent years, our results demonstrate the importance of a strong corporate culture where management and employees remain focused on those core strategies which can lead to enhanced shareholder value.

George Zimmer
Chairman of the Board & Chief Executive Officer
May 1, 2000

reaching more customers

with more choices.

with more choices that

meet the clothing needs

of men's varied lifestyles.

Men's Wearhouse is the Company's brand that has been operating since 1973. At year-end, we operated 450 Men's Wearhouse stores.

These stores feature a broad range of national brand name and designer label tailored clothing, augmented by business/casual wear, shoes, accessories, big and tall merchandise, formal wear and outerwear.

Men's Wearhouse stores provide a high level of customer service and are typically located in neighborhood strip shopping centers and downtown retail areas.

Moores Clothing for Men is Canada's leading men's specialty retailer with 113 stores. Moores has more than a 17 percent share of the Canadian suit market and a significant share of the sport coats and slacks markets. Moores stores are similar in size to Men's Wearhouse stores. Recently, we have begun expanding merchandise offerings at Moores to include shoes and business/casual wear.

As a result of our merger with Moores completed in February 1999, we also own Golden Brand, Canada's second largest manufacturer of men's tailored apparel. Merchandise from this plant is carried primarily in Moores stores, although we are integrating selected offerings at Men's Wearhouse stores as well.

Following the merger with K&G, we combined our SuitMax operations with those of K&G and at year-end operated 47 of these superstores in 22 markets.

These stores are larger than our Men's Wearhouse or Moores stores and address the opening price point portion of the market, which accounts for the majority of suits sold in the U.S. K&G stores carry a larger selection of tailored and non-tailored clothing and casual wear than is found at our other brands.

plotting our growth.

We are implementing growth strategies at all three of our brands.

During 2000, we plan to open approximately 35 new Men's Wearhouse stores, primarily in existing markets. Our growth strategy for this brand includes increasing average store size. Men's Wearhouse stores opened in 1999 averaged 5,594 square feet and those we will open in 2000 will average 6,000 square feet. In addition, we plan to relocate approximately three dozen existing Men's Wearhouse stores to larger sites.

Our focus at Moores is to increase the productivity of existing stores. We will expand employee training programs, implement an electronic advertising campaign and enhance our merchandise mix.

At K&G, we will open approximately ten new stores this year, in both new and existing markets. As part of this growth strategy, we are seeking more advantageous, higher-traffic store locations.

creating an image.

Men's Wearhouse
You're going to like the way you look.

Moores
Well made. Well priced. Well dressed.

K&G
Finally, a superstore for men.

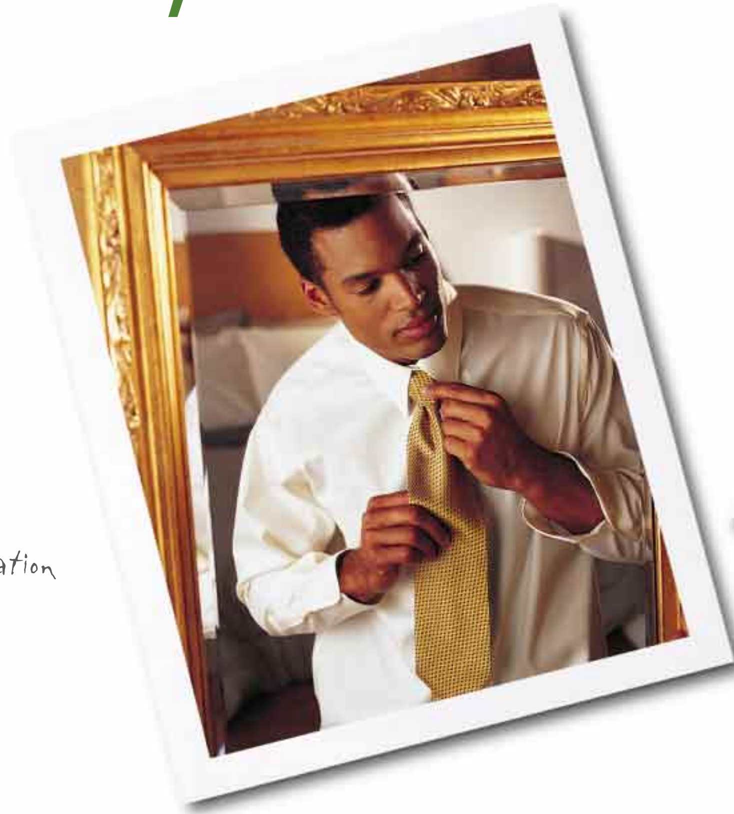
Creating a strong brand image is a driving force behind the growth of our three store concepts.

We support the Men's Wearhouse store brand with dynamic electronic advertising which emphasizes the high quality shopping experience we provide. Our new commercials will continue to portray a more upscale image for the brand and incorporate customer service stories.

To support Moores, we have implemented a nationwide television advertising campaign. This advertising is designed to reposition Moores from purely a value chain to a complete men's clothing retailer.

We launched a new radio advertising program for K&G during 1999 and will be initiating a new television campaign in three test markets this year. The ads focus on K&G's broad merchandise selection, low prices and ease of shopping experience.

clothing for any occasion.



Monday, 7:30am
morning of major presentation
with a new client

Thursday, 6:00pm
on the way to dinner
with friends

Friday, 7:00pm
1st date with Jessica

Saturday, 1:00pm
afternoon at the park
with my niece, Nicole

Through our brands, we are becoming the broad line men's retailer of choice in North America with clothes for a man's varied lifestyle.

We have expanded offerings of fashion and big and tall tailored merchandise at Men's Wearhouse stores, while at Moores we have introduced brand name and designer labels, Italian merchandise, accessories and new shoe departments.

Extending our offerings of high quality casual wear is a key strategic initiative at Men's Wearhouse stores. A new licensing agreement with the Gary Player Group, Inc. provides us exclusive use of a Gary Player label for a variety of tailored and casual merchandise and makes the Company the only broad-based retail source for Gary Player merchandise.

At K&G, we are enhancing the merchandise mix to include more casual wear and offerings produced through our direct sourcing programs.

a promising future.

Expanding proven programs and implementing new initiatives will drive our success in realizing growth during the years ahead.

The tuxedo rental program at Men's Wearhouse stores will be expanded to approximately 130 more stores in the West and Southwest during the year, and we will continue to expand our merchandise offerings at all three of our brands.

In fiscal 2000, we plan to launch an enhanced and expanded Internet presence through www.menswearhouse.com. While e-commerce—including online wardrobe consultant features—is an important element of this site, it is also designed to solidify our quality relationships with our customers.

We plan to construct a new 380,000 square foot distribution center in Houston to complement our existing 390,000 square foot facilities. The new center is on a 46-acre site that offers room for expansion to support our future growth. The new facility will also support our tuxedo rental program—including an environment-friendly dry cleaning facility—and will handle fulfillment for our e-commerce programs.

Finally, we continue to explore opportunities for expanding our successful retail formulas, both in North America and international markets.

fashionable figures.

contents

18. selected financial data
19. management's discussion and analysis
28. consolidated financial statements
34. notes to consolidated financial statements
48. independent auditors' report
50. the men's wearhouse, inc. store list
51. corporate directory
52. corporate information

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 Selected Financial Data should be read in conjunction with "Management's Discussion and Analysis" 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 "1999" mean the fiscal year ended January 29, 2000. All fiscal years for which financial information is included herein had 52 weeks, except 1995 which had 53 weeks.

Financial and operating data for all periods presented reflect the retroactive effect of the February 1999 combination with Moores Retail Group Inc. ("Moores") and the June 1999 combination with K&G Men's Center, Inc., both accounted for as a pooling of interests (see Note 2 of Notes to Consolidated Financial Statements). The pro forma 1999 statement of earnings data excludes the non-recurring charges related to these combinations. The combination with Moores did not affect the statement of earnings data for fiscal 1995 or 1996 as Moores commenced operations on December 23, 1996 and operating results for the 40-day period in fiscal 1996 were not significant.

selected financial data

(Dollars and shares in thousands, except per share and per square foot data)

	1995	1996	1997	1998	1999	Pro Forma 1999
Statement of Earnings Data:						
Net sales	$ 466,370	$ 571,651	$ 875,319	$1,037,831	$1,186,748	$1,186,748
Gross margin	170,786	207,209	315,169	377,834	438,966	438,966
Operating income	35,706	45,015	74,333	95,045	100,931	115,638
Earnings before extraordinary item	19,694	25,727	37,334	50,142	55,957	67,188
Earnings per share of common stock before extraordinary item(1):						
Basic	$ 0.59	$ 0.72	$ 0.95	$ 1.23	$ 1.34	$ 1.61
Diluted	$ 0.58	$ 0.72	$ 0.93	$ 1.19	$ 1.32	$ 1.58
Weighted average shares outstanding(1)	33,207	35,517	39,194	40,738	41,848	41,848
Weighted average shares outstanding plus dilutive potential common shares(1)	33,725	38,309	42,275	42,964	42,452	42,452
Operating Information:						
Percentage increase in comparable U.S. store sales(2)	7.5%	4.8%	9.2%	9.6%	7.7%	
Percentage increase in comparable Canadian store sales(2)	—	—	4.5%	2.1%	0.3%	
Average square footage — all stores(3)	5,156	5,422	5,868	6,146	6,193	
Average sales per square foot of selling space(4)	$ 427	$ 416	$ 378	$ 384	$ 400	
Number of stores:						
Open at beginning of the period	239	289	460	526	579	
Opened	51	56	65	65	54	
Acquired(5)	—	115	6	4	—	
Closed	(1)	—	(5)	(16)	(19)	
Open at end of the period	289	460	526	579	614	
Capital expenditures	$ 23,423	$ 27,350	$ 31,825	$ 53,474	$ 47,506	

	February 3, 1996	February 1, 1997	January 31, 1998	January 30, 1999	January 29, 2000
Balance Sheet Information:					
Working capital	$ 96,611	$ 181,133	$ 234,376	$ 230,624	$ 280,251
Total assets	221,308	414,979	500,371	535,076	611,195
Long-term debt(6)	4,455	112,250	107,800	44,870	46,697
Shareholders' equity	146,080	192,045	261,357	351,455	408,973

(1) Adjusted to give effect to a 50% stock dividend effected on November 15, 1995 and a 50% stock dividend effected on June 19, 1998.
(2) 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.
(3) 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.
(4) 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.
(5) Stores acquired in fiscal 1996 include 98 Canadian stores acquired by Moores upon the commencement of its operations on December 23, 1996.
(6) February 1, 1997 and January 31, 1998 balances include the 5¼% 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.

management's discussion and analysis

General

The Company opened its first store in Houston, Texas in August 1973. The Company combined with Moores Retail Group Inc. ("Moores") in February 1999 and with K&G Men's Center, Inc. ("K&G") in June 1999, with both combinations accounted for as a pooling of interests (see Note 2 of Notes to Consolidated Financial Statements). At January 29, 2000, the Company operated 501 stores in the United States and 113 stores in Canada. The Company opened 65 stores in 1997, 65 stores in 1998 and 54 stores in 1999; in addition, the Company acquired six stores in May 1997 and four stores in February 1998. This growth has resulted in significant increases in net sales and has also contributed to increased net earnings for the Company. Expansion is generally continued within a market as long as management believes it will provide profitable incremental sales volume.

Like most retailers, our business is subject to seasonal fluctuations. Historically, over 30% of our net sales and over 45% 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 35 new Men's Wearhouse stores and 10 new K&G stores in 2000. The average cost (excluding telecommunications and point-of-sale equipment and inventory) of opening a new store is expected to be approximately $350,000 for a Men's Wearhouse store and approximately $325,000 for a K&G store in 2000.

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 7.7% increase for U.S. stores and a 0.3% increase for Canadian stores for 1999.

The Company has closed 40 stores in the three years ended January 29, 2000. 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. 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. 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 five stores due to substandard performance and/or the proximity of a newly opened or acquired store. In 1998, the Company closed three stores due to substandard performance or the proximity of another store. The remaining 13 stores closed in 1998 and four of the stores closed in 1999 were stores acquired in January 1997 that were closed as part of the Company's efforts to integrate and develop its operations that target the more price sensitive clothing customer. Of the remaining 15 stores

closed in 1999, two were closed due to substandard performance or lease expiration and 13 were closed to eliminate duplicate store sites following the combinations with Moores and K&G.

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

Fiscal Year	1997	1998	1999
Net sales	100.0%	100.0%	100.0%
Cost of goods sold, including buying and occupancy costs	64.0	63.6	63.0
Gross margin	36.0	36.4	37.0
Selling, general and administrative expenses	27.3	27.2	27.2
Combination expenses	0.2	—	1.3
Operating income	8.5	9.2	8.5
Interest expense	1.0	0.8	0.2
Earnings before income taxes	7.5	8.4	8.3
Income taxes	3.2	3.6	3.6
Earnings before extraordinary item	4.3%	4.8%	4.7%

Results of Operations

1999 Compared with 1998. The following table presents a breakdown of 1998 and 1999 net sales of the Company by stores open in each of these periods:

	Net Sales (in millions)		
Stores	1998	1999	Increase
54 stores opened in 1999	$ —	$ 49.5	$ 49.5
69 stores opened or acquired in 1998[(1)]	66.8	124.5	57.7
Stores opened before 1998	971.0	1,012.7	41.7
Total	$1,037.8	$1,186.7	$ 148.9

(1) Sales include $16.1 million and $18.2 million for 1998 and 1999, respectively, attributable to the four stores acquired in February 1998.

The Company's net sales increased $148.9 million, or 14.3%, to $1,186.7 million for 1999 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 7.7% in the US and 0.3% in Canada from 1998.

Gross margin increased $61.1 million, or 16.2%, to $439.0 million in 1999. As a percentage of sales, gross margin increased from 36.4% in 1998 to 37.0% in 1999. This increase in gross margin resulted mainly from decreases in product and occupancy costs as a percentage of sales, offset by the lower product margins realized in the K&G stores as compared to the traditional Men's Wearhouse stores.

Selling, general and administrative ("SG&A") expenses, as a percentage of sales, were 27.2% in 1999, remaining unchanged from the prior year, while SG&A expenditures increased by $40.5 million to $323.3 million. On an absolute dollar basis, the principal components of SG&A expenses increased primarily due to the Company's growth. Advertising expense decreased from 5.9% to 5.4% of net sales, while store salaries increased from 10.6% to 10.8% of net sales and other SG&A expenses increased from 10.7% to 11.0% of net sales.

As a result of the Moores and K&G combinations, the Company recorded transaction costs of $7.7 million, duplicative stores closing costs of $6.1 million and litigation costs of $0.9 million. The transaction costs were composed primarily of investment banking fees, professional fees and contract termination payments, while the duplicative store closing costs consisted primarily of lease termination payments and the write-off of fixed assets associated with the closing of duplicate store sites in existing markets. The litigation charge resulted from the settlement of a lawsuit filed by a former K&G employee related to his employment relationship with K&G.

Interest expense, net of interest income, decreased from $8.0 million in 1998 to $2.6 million in 1999. Weighted average borrowings outstanding decreased $42.8 million from the prior year to $61.0 million in 1999, and the weighted average interest rate on outstanding indebtedness decreased from 9.7% to 6.8%. The decrease in weighted average borrowings resulted primarily from the redemption of the 5¼% Convertible Subordinated Notes in the third quarter of 1998. The decrease in the weighted average interest rate was due primarily to the refinancing of debt concurrent with the Moores combination. Interest expense was offset by interest income of $2.1 million in 1998 and $1.6 million in 1999, which resulted from the investment of excess cash.

The Company's effective income tax rate for the year ended January 29, 2000 was 43.1% and 42.4% for 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, the nondeductibility of a portion of meal and entertainment expenses and, in 1999, nondeductible transaction costs.

These factors resulted in 1999 earnings before extraordinary item of $56.0 million or 4.7% of net sales, compared with 1998 earnings before extraordinary item of $50.1 million or 4.8% of net sales.

The Company's earnings before extraordinary item, as reported and after the effect of non-recurring charges related to the combinations with Moores and K&G, were as follows (in thousands, except per share amounts):

Fiscal Year	1998	1999
Earnings before extraordinary item, as reported	$50,142	$55,957
Combination expenses:		
Transaction costs, net of tax benefit of $633	—	7,074
Duplicative store closing costs, net of tax benefit of $2,471	—	3,599
Litigation costs, net of tax benefit of $372	—	558
Earnings before extraordinary item and non-recurring charges	$50,142	$67,188
Diluted earnings per share before extraordinary item, as reported	$ 1.19	$ 1.32
Diluted earnings per share before extraordinary item and non-recurring charges	$ 1.19	$ 1.58

The Company recorded an extraordinary charge of $2.9 million, net of a $1.4 million tax benefit, related to the write-off of deferred financing costs and prepayment penalties for the refinancing of approximately US$57 million of Moores indebtedness. The extraordinary charge of $0.7 million, net of a $0.5 million tax benefit, in the third quarter of 1998 resulted from the early retirement of the Company's $57.5 million of 5¼% Convertible Subordinated Notes.

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
69 stores opened or acquired in 1998(1)	$ —	$ 66.8	$ 66.8
71 stores opened or acquired in 1997(2)	60.5	117.6	57.1
Stores opened before 1997	814.8	853.4	38.6
Total	$ 875.3	$1,037.8	$ 162.5

(1) Sales include $16.1 million attributable to the four stores acquired in February 1998.
(2) Sales include $10.6 million and $15.4 million for 1997 and 1998, respectively, attributable to the six stores acquired in May 1997.

The Company's net sales increased $162.5 million, or 18.6%, to $1,037.8 million for 1998 due primarily to sales resulting from the increased number of stores and increased sales at existing stores. Comparable store sales increased 9.6% in the US and 2.1% in Canada from 1997.

Gross margin increased $62.7 million, or 19.9%, to $377.8 million in 1998. As a percentage of sales, gross margin increased from 36.0% in 1997 to 36.4% 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 K&G stores as compared to the traditional Men's Wearhouse stores.

SG&A expenses decreased, as a percentage of sales, from 27.3% in 1997 to 27.2% in 1998, while SG&A expenditures increased by $43.5 million to $282.8 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 comparable sales increases. Advertising expense decreased from 6.1% to 5.9% of net sales and store salaries increased from 10.5% to 10.6% of net sales, while other SG&A expenses decreased from 10.8% to 10.7% of net sales.

Interest expense, net of interest income, decreased from $8.5 million in 1997 to $8.0 million in 1998. Weighted average borrowings outstanding decreased $16.5 million from the prior year to $103.8 million in 1998, while the weighted average interest rates on outstanding indebtedness increased from 9.1% to 9.7%. The change in weighted average borrowings resulted from the early retirement of the $57.5 million of 5¼% 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 $2.5 million in 1997 and $2.1 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 42.4% and 43.3% for 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, the nondeductibility of a portion of meal and entertainment expenses and, in 1997, nondeductible transaction costs. This, combined with the factors discussed above, resulted in 1998 earnings before extraordinary item of $50.1 million, or 4.8% of net sales, compared with 1997 earnings before extraordinary item of $37.3 million, or 4.3% 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 5¼% Subordinated Notes.

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 5¼% 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.

In February 1999, the Company amended and restated its revolving credit agreement with a group of banks (the "Credit Agreement"). This agreement provides for borrowings 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 29, 2000, there was no indebtedness outstanding under the Credit Agreement.

The Credit Agreement contains various restrictive and financial covenants, including the requirement to maintain a minimum level of net worth and certain financial ratios. The Credit Agreement also prohibits payment of cash dividends on the common stock of the Company. The Company is in compliance with the covenants in the Credit Agreement.

In February 1999, the Company also entered into two 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 (US$20 million) through February 5, 2004 and a term credit agreement which provides for borrowings of Can$75 million (US$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 US$57 million in outstanding indebtedness of Moores with the remaining availability 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 $234.4 million, $230.6 million and $280.3 million at the end of 1997, 1998 and 1999, 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 $33.8 million, $35.6 million and $101.3 million in 1997, 1998 and 1999, respectively. These amounts primarily represent net earnings plus depreciation and amortization and increases in current liabilities, offset by increases in inventories. The increase in inventories of $48.4 million in 1997, $46.4 million in 1998 and $15.7 million in 1999 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 $31.8 million, $53.5 million and $47.5 million in 1997, 1998 and 1999, respectively. The following table details capital expenditures (in millions):

	1997	1998	1999
New store construction	$11.0	$22.7	$17.2
Relocation and remodeling of existing stores	6.7	7.7	13.5
Information technology	6.0	13.6	9.3
Distribution facilities	4.8	3.6	4.0
Other	3.3	5.9	3.5
Total	$31.8	$53.5	$47.5

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

The Company had net purchases of short-term investments of $1.9 million in 1997 and net maturities of $11.7 million in 1998 and $6.0 million in 1999. 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 $3.9 million in 1997, $6.7 million in 1998 and $0.3 million in 1999. In addition, in 1999 the Company purchased the minority interests in certain K&G stores for $2.1 million.

Net cash provided by financing activities was $28.1 million in 1997 and includes the net proceeds of the public offering of common stock of $31.5 million in 1997. Net cash used in financing activities was $19.7 million in 1998 and $10.5 million in 1999 due mainly to the net payments of long-term debt.

The Company's primary cash requirements are to finance working capital increases as well as to fund capital expenditure requirements which are anticipated to be approximately $72 million for 2000. This amount includes the anticipated costs of opening approximately 35 new Men's Wearhouse stores and 10 new K&G stores in 2000 at an expected average cost per store of approximately $350,000 for Men's Wearhouse stores and approximately $325,000 for the K&G stores (excluding telecommunications and point-of-sale equipment and inventory). It also includes approximately $14 million for the first phase of construction of a new distribution center. The balance of the capital expenditures for 2000 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 35 new Men's Wearhouse stores and each of the approximately 10 new K&G stores will require, on average, an initial inventory costing approximately $550,000 and $880,000, respectively (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. 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 issuances 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 two financial institutions. Therefore, the Company is exposed to credit risk in the event of nonperformance by these parties. However, due to the creditworthiness of these major financial institutions, 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.

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 29, 2000, the accompanying consolidated financial statements are presented in accordance with this statement.

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 menswear.

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. In June 1999, the Financial Accounting Standards Board issued Statement No. 137, "Accounting for Derivatives Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133", which defers the effective date of SFAS 133 until the Company's year ending February 2, 2002. The Company is currently evaluating the impact, if any, of SFAS 133 on its financial position and results of operations.

Year 2000 Risks

To date, the Company has incurred approximately $2.3 million in expenditures to address the Year 2000 issue. No significant additional expenditures are expected. The conversion to the Year 2000 occurred without any significant impact on the Company's operations and none is anticipated in the future.

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, severe weather, 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.

Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to exposure from fluctuations in U.S. dollar/Italian lira exchange rates. As further described in Note 8 of Notes to Consolidated Financial Statements, the Company utilizes foreign currency forward exchange contracts to limit exposure to changes in currency exchange rates. At January 29, 2000, the Company had 25 contracts maturing in monthly increments to purchase an aggregate notional amount of $24.3 million in foreign currency. These forward contracts do not extend beyond June 29, 2001. 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. Unrealized pretax losses on these forward contracts totaled approximately $1.8 million at January 29, 2000 and approximately $0.1 million at January 30, 1999. A hypothetical 10% change in applicable January 29, 2000 forward rates would increase or decrease this pretax loss by approximately $2.2 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.

The Company is also subject to market risk due to its long-term floating rate term loan of $49.3 million at January 29, 2000 (see Note 4 of Notes to Consolidated Financial Statements). An increase in market interest rates would increase the Company's interest expense and its cash requirements for interest payments. For example, an average increase of 0.5% in the variable interest rate would increase the Company's interest expense and payments by approximately $0.2 million.

consolidated balance sheets

(In thousands, except shares) (Note 1)

	January 30, 1999	January 29, 2000
Assets		
Current assets:		
Cash	$ 31,012	$ 77,798
Inventories	302,717	319,940
Other current assets	25,903	25,727
Total current assets	359,632	423,465
Property and equipment, at cost:		
Land	4,598	5,253
Buildings	12,069	12,854
Leasehold improvements	84,911	99,843
Furniture, fixtures and equipment	110,492	131,973
	212,070	249,923
Less accumulated depreciation and amortization	(88,299)	(111,497)
Net property and equipment	123,771	138,426
Other assets, net	51,673	49,304
Total	$535,076	$611,195
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 64,878	$ 76,420
Accrued expenses	43,748	53,301
Short-term borrowings	7,568	—
Current portion of long-term debt	3,644	2,594
Income taxes payable	9,170	10,899
Total current liabilities	129,008	143,214
Long-term debt	44,870	46,697
Other liabilities	9,743	12,311
Total liabilities	183,621	202,222
Commitments and contingencies (note 8)		
Shareholders' equity:		
Preferred stock, $.01 par value, 2,000,000 shares authorized, 1 share issued	—	—
Common stock, $.01 par value, 100,000,000 shares authorized, 41,839,829 and 41,943,143 shares issued or issuable	393	409
Capital in excess of par	178,144	182,662
Retained earnings	174,146	227,191
Accumulated comprehensive (loss) income	(233)	59
Total	352,450	410,321
Treasury stock, 71,384 and 55,373 shares at cost	(995)	(1,348)
Total shareholders' equity	351,455	408,973
Total	$535,076	$611,195

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

consolidated statements of earnings

For the Years Ended January 31, 1998, January 30, 1999 and January 29, 2000
(In thousands, except per share amounts) (Note 1)

Fiscal Year	1997	1998	1999
Net sales	$ 875,319	$1,037,831	$1,186,748
Cost of goods sold, including buying and occupancy costs	560,150	659,997	747,782
Gross margin	315,169	377,834	438,966
Selling, general and administrative expenses	239,315	282,789	323,328
Combination expenses:			
Transaction costs	1,521	—	7,707
Duplicate facility costs	—	—	6,070
Litigation costs	—	—	930
Operating income	74,333	95,045	100,931
Interest expense (net of interest income of $2,517, $2,060 and $1,568, respectively)	8,464	7,993	2,580
Earnings before income taxes	65,869	87,052	98,351
Provision for income taxes	28,535	36,910	42,394
Earnings before extraordinary item	37,334	50,142	55,957
Extraordinary item, net of tax	—	701	2,912
Net earnings	$ 37,334	$ 49,441	$ 53,045
Net earnings per basic share:			
Earnings before extraordinary item	$ 0.95	$ 1.23	$ 1.34
Extraordinary item, net of tax	—	(0.02)	(0.07)
	$ 0.95	$ 1.21	$ 1.27
Net earnings per diluted share:			
Earnings before extraordinary item	$ 0.93	$ 1.19	$ 1.32
Extraordinary item, net of tax	—	(0.02)	(0.07)
	$ 0.93	$ 1.17	$ 1.25
Weighted average shares outstanding:			
Basic	39,194	40,738	41,848
Diluted	42,275	42,964	42,452

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

consolidated statements of shareholders' equity

For the Years Ended January 31, 1998, January 30, 1999 and January 29, 2000
(In thousands, except shares) (Note 1)

	Common Stock	Capital in Excess of Par	Retained Earnings	Accumulated Comprehensive (Loss) Income	Treasury Stock	Total
Balance — February 1, 1997	$239	$104,990	$ 87,371	$ 24	$ (579)	$192,045
Comprehensive income:						
Net earnings	—	—	37,334	—	—	37,334
Translation adjustment	—	—	—	(212)	—	(212)
Total comprehensive income						229,167
Common stock issued in public offering — 1,500,000 shares	10	29,951	—	—	—	29,961
Common stock issued upon exercise of stock options — 268,268 shares	1	1,563	—	—	—	1,564
Common stock withheld to satisfy tax withholding liabilities of optionees — 84,921 shares	—	(1,949)	—	—	—	(1,949)
Tax benefit recognized upon exercise of stock options	—	1,614	—	—	—	1,614
Treasury stock issued to profit sharing plan — 56,339 shares	—	762	—	—	238	1,000
Balance — January 31, 1998	250	136,931	124,705	(188)	(341)	261,357
Comprehensive income:						
Net earnings	—	—	49,441	—	—	49,441
Translation adjustment	—	—	—	(45)	—	(45)
Total comprehensive income						310,753
Stock dividend —50%	126	(126)	—	—	—	—
Common stock issued upon conversion of subordinated notes —1,615,501 shares	16	35,909	—	—	—	35,925
Common stock issued to stock discount plan — 21,588 shares	—	428	—	—	—	428
Common stock issued in public offering — 37,953 shares	—	1,564	—	—	—	1,564
Common stock issued upon exercise of stock options — 135,590 shares	1	1,657	—	—	—	1,658
Common stock withheld to satisfy tax withholding liabilities of optionees — 26,050 shares	—	(905)	—	—	—	(905)
Tax benefit recognized upon exercise of stock options	—	1,458	—	—	—	1,458
Treasury stock purchased — 55,000 shares	—	—	—	—	(926)	(926)
Treasury stock issued to profit sharing plan — 64,218 shares	—	1,228	—	—	272	1,500

	Common Stock	Capital in Excess of Par	Retained Earnings	Accumulated Comprehensive (Loss) Income	Treasury Stock	Total
Balance — January 30, 1999	393	178,144	174,146	(233)	(995)	351,455
Comprehensive income:						
Net earnings	—	—	53,045	—	—	53,045
Translation adjustment	—	—	—	292	—	292
Total comprehensive income						404,792
Common stock issued to stock discount plan — 47,481 shares	—	1,301	—	—	—	1,301
Common stock issued upon exercise of stock options — 67,201 shares	1	910	—	—	—	911
Common stock withheld to satisfy tax withholding liabilities of optionees — 11,368 shares	—	(413)	—	—	—	(413)
Conversion of stock options upon combination with Moores	—	1,237	—	—	—	1,237
Conversion of exchangable shares to common stock — 1,515,629 shares	15	(15)	—	—	—	—
Tax benefit recognized upon exercise of stock options	—	418	—	—	—	418
Treasury stock purchased — 50,000 shares	—	—	—	—	(1,273)	(1,273)
Treasury stock issued to profit sharing plan — 66,011 shares	—	1,080	—	—	920	2,000
Balance — January 29, 2000	$409	$182,662	$227,191	$ 59	$(1,348)	$408,973

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

consolidated statements of cash flows

For the Years Ended January 31, 1998, January 30, 1999 and January 29, 2000
(In thousands) (Note 1)

	1997	1998	1999
Cash Flows From Operating Activities:			
Net earnings	$ 37,334	$ 49,441	$ 53,045
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary item, net of tax	—	701	2,912
Depreciation and amortization	21,884	26,761	30,082
Deferred tax provision (benefit)	(3,810)	2,194	(256)
Stock option compensation expense	211	137	889
Duplicate facility costs	—	—	4,004
Increase in inventories	(48,431)	(46,428)	(15,737)
Increase in other current assets	(1,982)	(1,285)	(1,227)
Increase in accounts payable and accrued expenses	23,377	4,705	23,858
Increase (decrease) in income taxes payable	5,041	(1,343)	3,271
Increase in other liabilities	170	684	444
Net cash provided by operating activities	33,794	35,567	101,285
Cash Flows From Investing Activities:			
Capital expenditures, net	(31,825)	(53,474)	(47,506)
Investment in trademarks, tradenames and other intangibles	(3,931)	(6,718)	(321)
Maturities of short-term investments	15,774	29,698	8,525
Purchases of short-term investments	(17,658)	(18,045)	(2,500)
Purchases of minority interest	—	—	(2,135)
Net cash used in investing activities	(37,640)	(48,539)	(43,937)
Cash Flows From Financing Activities:			
Proceeds from issuance of common stock	31,525	3,649	2,212
Proceeds from (repayment of) revolving credit facility	(4,421)	4,443	—
Long-term borrowings	3,773	42,500	49,688
Principal payments on long-term debt	(423)	(45,809)	(60,113)
Repayment of convertible debt	—	(21,473)	—
Deferred financing and merger costs	(270)	(1,010)	(625)
Distributions to minority interest	(114)	(176)	—
Tax payments related to options exercised	(1,949)	(905)	(413)
Purchase of treasury stock	—	(926)	(1,273)
Net cash provided by (used in) financing activities	28,121	(19,707)	(10,524)
Effect of exchange rate changes on cash	(2,109)	123	(38)
Increase (decrease) in cash	22,166	(32,556)	46,786
Cash:			
Beginning of period	41,402	63,568	31,012
End of period	$ 63,568	$ 31,012	$ 77,798

	1997	1998	1999
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 8,644	$ 10,367	$ 1,445
Income taxes	$ 27,526	$ 36,428	$ 39,417
Supplemental Schedule of Noncash Investing and Financing Activities:			
Additional capital in excess of par, net of unamortized deferred financing costs, resulting from conversion of long-term debt into common stock	$ —	$ 35,909	$ —
Additional capital in excess of par resulting from tax benefit recognized upon exercise of stock options	$ 1,614	$ 1,458	$ 418
Additional capital in excess of par resulting from conversion of stock options upon combination with Moores	$ —	$ —	$ 1,237
Treasury stock contributed to employee stock ownership plan	$ 1,000	$ 1,500	$ 2,000

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

notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Organization and Business. The Men's Wearhouse, Inc. and its subsidiaries (the "Company") is a specialty retailer of menswear. The Company operates throughout the United States primarily under the brand names of Men's Wearhouse and K&G and in Canada under the brand name of Moores. The Company 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 1997 ended on January 31, 1998, fiscal year 1998 ended on January 30, 1999 and fiscal year 1999 ended on January 29, 2000. 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. Intercompany accounts and transactions have been eliminated in the Company's consolidated financial statements. Financial data for all periods presented reflect the retroactive effect of the February 1999 combination with Moores Retail Group Inc. ("Moores") and the June 1999 combination with K&G Men's Center, Inc. ("K&G"), both accounted for as a pooling of interests (see Note 2).

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. 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 primarily 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.

Buildings are depreciated using the straight-line method over their estimated useful lives of 20 to 25 years. Depreciation of leasehold improvements is computed on the straight-line method over the term of the lease or useful life of the assets, whichever is shorter. Furniture, fixtures and equipment are depreciated using primarily the straight-line method over their estimated useful lives of three to ten years.

Other Assets. Other assets consist primarily of goodwill and the cost of trademarks, tradenames and other intangibles acquired. These assets are being amortized over estimated useful lives of 15 to 30 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 goodwill 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 30, 1999 and January 29, 2000, management estimates that the fair value of cash and cash equivalents, receivables, accounts payable, accrued expenses and long-term debt 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.

Advertising. Advertising costs are expensed as incurred. Advertising expenses were $53.3 million, $60.8 million and $64.5 million in fiscal 1997, 1998 and 1999, respectively.

Revenue Recognition. The Company records revenue at the time of sale and delivery.

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." The disclosures required by SFAS No. 123 are included in Note 7.

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.

Foreign Currency Translation. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the exchange rates in effect at each balance sheet date. Shareholders' equity is translated at applicable historical exchange rates. Income, expense and cash flow items are translated at average exchange rates during the year. Resulting translation adjustments are reported as a separate component of shareholders' equity.

Comprehensive Income. The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", which establishes standards for the reporting of comprehensive income in a company's financial statements. Comprehensive income includes all changes in equity during the period presented that result from transactions and other economic events other than transactions with shareholders.

Segment Information. The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires disclosure of certain information about operating segments. The Company considers its business as one operating segment — retail sales of menswear — based on the similar economic characteristics of its three brands. Revenues of Canadian retail operations were $131.4 million, $130.7 million and $133.2 million for fiscal 1997, 1998 and 1999, respectively. Long-lived assets of the Company's Canadian operations were $32.4 million and $32.7 million as of the end of fiscal 1998 and 1999, respectively.

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. In June 1999, the Financial Accounting Standards Board issued Statement No. 137, "Accounting for Derivatives Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133", which defers the effective date of SFAS 133 until the Company's year ending February 2, 2002. The Company is currently evaluating the impact, if any, of SFAS 133 on its financial position and results of operations.

2. Business Combinations and Acquisitions

On February 10, 1999, the Company combined with 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 of the combination. As of January 29, 2000, there were 1.0 million Exchangeable Shares that have not yet been converted but are reflected as common stock outstanding for financial reporting purposes by the Company. The combination with Moores has been accounted for as a pooling of interests.

On June 1, 1999, the Company combined with K&G, a superstore retailer of men's apparel and accessories operating 34 stores in 16 states, with K&G becoming a wholly owned subsidiary of the Company. The Company issued approximately 4.4 million shares of its common stock to K&G shareholders based on an exchange ratio of 0.43 of a share of the Company's common stock for each share of K&G common stock outstanding. In addition, the Company converted the outstanding options to purchase K&G common stock, whether vested or unvested, into options to purchase 228,000 shares of the Company's common stock based on the exchange ratio of 0.43. The combination has been accounted for as a pooling of interests.

In conjunction with the Moores and K&G combinations, the Company recorded transaction costs of $7.7 million, duplicative stores closing costs of $6.1 million and litigation costs of $0.9 million. The transaction costs were composed primarily of investment banking fees, professional fees and contract termination payments, while the duplicative store closing costs consisted primarily of lease termination payments and the write-off of fixed assets associated with the closing of duplicate store sites in existing markets. The litigation charge resulted from the settlement of a lawsuit filed by a former K&G employee related to his employment relationship with K&G. In addition, the Company recorded an extraordinary charge of $2.9 million, net of a $1.4 million tax benefit, related to the write-off of deferred financing costs and prepayment penalties for the refinancing of approximately US$57 million of Moores' indebtedness.

The following is a reconciliation of the amounts of revenues and net earnings previously reported by the Company to the combined amounts of revenues and earnings after giving effect to the combinations with Moores on February 10, 1999 and K&G on June 1, 1999 (in thousands):

Fiscal Year	1997	1998	Three Months Ended May 1, 1999
Revenues			
Men's Wearhouse (as previously reported)	$ 631,110	$ 767,922	$ 222,183
Moores	131,414	130,675	—
K&G	112,795	139,234	36,681
Combined	$ 875,319	$1,037,831	$ 258,864
Net earnings (loss)			
Men's Wearhouse (as previously reported)	$ 28,883	$ 40,219	$ (500)
Moores	2,068	2,993	—
K&G	6,383	6,229	1,338
Combined	$ 37,334	$ 49,441	$ 838

The separate results of Moores' operations during the 10 day period from February 1, 1999 through February 10, 1999 were not material to the Company's operations as a whole, and therefore, are not disclosed separately in the table above.

The separate results of operations for K&G in fiscal 1999 for the period prior to its combination with the Company are reflected in the table above for the three months ended May 1, 1999. The fiscal 1999 extraordinary item of $2,912, net of tax, reported by the Company was not affected by the combination with K&G.

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, trade names and other intangible assets associated with these businesses.

Transaction costs in fiscal 1997 consist of professional fees, regulatory fees and other costs related to a withdrawn financing initiative by Moores.

3. 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 stock options exercised under the treasury stock method and, in fiscal 1997 and 1998, conversion of 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	1997	1998	1999
Earnings before extraordinary item	$37,334	$50,142	$55,957
Extraordinary item, net of tax	—	701	2,912
Net earnings	$37,334	$49,441	$53,045
Weighted average number of common shares outstanding	39,194	40,738	41,848
Basic EPS			
Earnings before extraordinary item	$ 0.95	$ 1.23	$ 1.34
Extraordinary item, net of tax	—	(0.02)	(0.07)
Net earnings	$ 0.95	$ 1.21	$ 1.27
Earnings before extraordinary item	$37,334	$50,142	$55,957
Interest on notes, net of taxes	1,943	1,144	—
As adjusted	39,277	51,286	55,957
Extraordinary item, net of tax	—	701	2,912
As adjusted	$39,277	$50,585	$53,045
Weighted average number of common shares outstanding	39,194	40,738	41,848
Assumed exercise of stock options	553	684	604
Assumed conversion of notes	2,528	1,542	—
As adjusted	42,275	42,964	42,452
Diluted EPS			
Earnings before extraordinary item	$ 0.93	$ 1.19	$ 1.32
Extraordinary item, net of tax	—	(0.02)	(0.07)
Net earnings	$ 0.93	$ 1.17	$ 1.25

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 29, 2000, there was no indebtedness outstanding under the Credit Agreement.

The Credit Agreement contains various restrictive and financial covenants, including the requirement to maintain a minimum level of net worth and certain financial ratios. The Credit Agreement also prohibits payment of cash dividends on the common stock of the Company. The Company is in compliance with the covenants in the Credit Agreement.

In February 1999, the Company also entered into two Canadian credit facilities in conjunction with the combination with Moores (see Note 2). These facilities include a revolving credit agreement (the "Canadian Credit Agreement"), which provides for borrowings up to Can$30 million (US$20 million) through February 5, 2004 and a term credit agreement (the "Term Loan"), which provides for borrowings of Can$75 million (US$50 million). The Company's total indebtedness of US$49.3 million as of January 29, 2000 consists of Term Loan borrowings. The Term Loan is to be repaid in quarterly installments of Can$0.9 million (US$0.6 million) beginning May 1, 1999, with the remaining unpaid principal payable on February 5, 2004. The effective interest rate for the Term Loan at January 29, 2000 was 6.0%. 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 US$57 million in outstanding indebtedness of Moores with the remaining availability used to fund cash operating and other requirements of Moores. The refinanced Moore's debt, which totaled US$55.9 million at January 30, 1999, consisted of a revolving credit facility and three notes payable with effective interest rates ranging from 8.7% to 15.7%.

In June 1999, the Company, in conjunction with the combination with K&G, repaid $0.2 million in outstanding notes payable of K&G. This indebtedness, which was outstanding at January 30, 1999, consisted of two notes payable with fixed interest rates ranging from 6% to 12%.

In August 1998, the Company gave notice to the holders of its outstanding 5¼% 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.

Maturities of long-term debt for the next five fiscal years are as follows: 2000 — $2.6 million; 2001— $2.6 million; 2002 — $2.6 million; 2003 — $2.6 million and 2004 — $38.9 million.

The Company utilizes letters of credit for inventory purchases. At January 29, 2000, letters of credit totaling approximately $13.2 million were issued and outstanding.

5. Income Taxes

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

Fiscal Year	1997	1998	1999
Current tax expense:			
Federal	$23,526	$25,715	$32,338
State	4,498	4,558	5,486
Foreign	4,321	4,443	4,826
Deferred tax expense (benefit):			
Federal and state	(3,554)	2,594	125
Foreign	(256)	(400)	(381)
Total	$28,535	$36,910	$42,394

The table above does not include the tax benefit of $0.5 million in fiscal 1998 and $1.4 million in fiscal 1999 related to extraordinary items. In addition, no provision for U.S. income taxes or Canadian withholding taxes has been made on the cumulative undistributed earnings of Moores (approximately $13.6 million at January 29, 2000) since such earnings are considered to be permanently invested in Canada. The determination of any unrecognized deferred tax liability for the cumulative undistributed earnings of Moores is not considered practicable since such liability, if any, will depend on a number of factors that cannot be known until such time as a decision to repatriate the earnings might be made by management.

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

Fiscal Year	1997	1998	1999
Federal statutory rate	35%	35%	35%
State income taxes, net of federal benefit	5	5	4
Nondeductible transaction costs	1	—	3
Other	2	2	1
	43%	42%	43%

At January 30, 1999 the Company had net deferred tax assets of $3.9 million with $7.5 million classified as other current assets and $3.6 million classified as other liabilities (noncurrent). At January 29, 2000, the Company had net deferred tax assets of $4.7 million with $10.9 million classified as other current assets and $6.2 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 30, 1999 and January 29, 2000 were as follows (in thousands):

	January 30, 1999	January 29, 2000
Deferred tax assets:		
Accrued rent and other expenses	$ 5,759	$ 6,615
Accrued compensation	1,034	1,272
Accrued markdowns	1,826	3,088
Deferred intercompany profits	1,486	1,963
Other	437	621
	10,542	13,559
Deferred tax liabilities:		
Capitalized inventory costs	(2,557)	(2,085)
Property and equipment	(2,555)	(3,981)
Intangibles	(1,024)	(1,044)
Deferred intercompany interest	—	(1,174)
Other	(522)	(604)
	(6,658)	(8,888)
Net deferred tax assets	$ 3,884	$ 4,671

6. Other Assets and Accrued Expenses

Other assets consist of the following (in thousands):

	January 30, 1999	January 29, 2000
Goodwill and other intangibles	$48,796	$51,541
Accumulated amortization	(5,363)	(8,422)
	43,433	43,119
Deposits and other	8,240	6,185
Total	$51,673	$49,304

Accrued expenses consist of the following (in thousands):

	January 30, 1999	January 29, 2000
Sales, payroll and property taxes payable	$11,440	$11,084
Accrued salary, bonus and vacation	11,472	15,397
Other	20,836	26,820
Total	$43,748	$53,301

7. Capital Stock, 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. In July 1998, K&G issued 88,263 shares of its common stock in a public offering with net proceeds of $1.6 million. As a result of the June 1999 merger (see Note 2), the shares of K&G common stock issued were converted into 37,953 shares of the Company's common stock based upon an Exchange Ratio of .43.

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, as amended, provides for the grant of options to purchase up to 2,100,000 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 110,654 options in fiscal 1997. As of January 31, 1998, all stock options granted in connection with this employment agreement have been exercised.

As discussed in Note 2, the Company converted options to purchase K&G common stock into options to purchase shares of the Company's common stock in connection with the combination with K&G. 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 1, 1997	1,457,668	$11.63	534,770
Granted	723,910	23.87	
Exercised	(268,268)	5.14	
Forfeited	(8,155)	14.27	
Options outstanding, January 31, 1998	1,905,155	17.18	548,685
Granted	312,390	29.94	
Exercised	(135,590)	11.46	
Forfeited	(24,977)	20.15	
Options outstanding, January 30, 1999	2,056,978	19.46	740,635
Granted	142,557	23.46	
Exercised	(67,201)	13.08	
Forfeited	(79,374)	39.19	
Options outstanding, January 29, 2000	2,052,960	$19.18	1,063,649

Grants of stock options outstanding as of January 29, 2000 are summarized as follows:

	Options Outstanding			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 15.00	454,665	4.7 Years	$10.53	363,538	$ 8.69
15.01 to 25.00	1,304,361	7.6 Years	19.31	620,218	15.56
25.01 to 50.00	293,934	8.5 Years	31.99	79,893	25.64
$ 3.85 to 50.00	2,052,960		$19.18	1,063,649	$16.76

As of January 29, 2000, 1,314,819 options were available for grant under existing plans and 3,367,779 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 268,268, 135,590 and 67,201 shares of common stock were exercised during 1997, 1998 and 1999, respectively, resulted in a tax benefit to the Company of $1.6 million in 1997, $1.5 million in 1998 and $0.4 million in 1999, which has been recognized as capital in excess of par. In addition, the Company withheld 84,921 shares, 26,050 shares and 11,368 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 plans are made at the discretion of the Board of Directors. During 1997, 1998 and 1999, contributions charged to operations were $1.5 million, $2.1 million and $2.8 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 and 1999, employees purchased

21,588 and 47,481 shares, respectively, under the ESDP, the weighted-average fair value of which was $19.86 and $21.89 per share, respectively. As of January 29, 2000, 1,355,931 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. 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):

Fiscal Year	1997	1998	1999
Earnings before extraordinary item:			
As reported	$37,334	$50,142	$55,957
Pro forma	$36,178	$48,325	$53,623
Earnings per share before extraordinary item:			
As reported:			
Basic	$ 0.95	$ 1.23	$ 1.34
Diluted	$ 0.93	$ 1.19	$ 1.32
Pro forma:			
Basic	$ 0.92	$ 1.19	$ 1.28
Diluted	$ 0.90	$ 1.15	$ 1.26

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 $10.90, $13.76 and $14.61 for grants made during fiscal 1997, 1998 and 1999, respectively. The following assumptions were used for option grants in 1997, 1998 and 1999, respectively: expected volatility of 52.15%, 52.07% and 52.92%, risk-free interest rates (U.S. Treasury five year notes) of 5.48%, 4.78% and 5.31%, and an expected life of five years.

8. 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 2019. Rent expense for fiscal 1997, 1998 and 1999 was $44.7 million, $52.9 million and $61.5 million, respectively, and includes contingent rentals of $0.3 million, $0.1 million and $0.4 million, respectively.

Minimum future rental payments under noncancelable operating leases as of January 29, 2000 for each of the next five years and in the aggregate are as follows (in thousands):

Fiscal Year	Amount
2000	$ 65,107
2001	61,581
2002	56,525
2003	50,334
2004	42,194
Thereafter	106,205
Total	$381,946

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 29, 2000, the Company held forward exchange contracts with notional amounts totaling $24.3 million. All such contracts expire within 17 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 29, 2000, the contracts outstanding had a fair value of $1.8 million less than their notional value.

The majority of the forward exchange contracts are with two financial institutions. Therefore, the Company is exposed to credit risk in the event of nonperformance by these parties. However, due to the creditworthiness of these major financial institutions, 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.

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 1998 and 1999 fiscal years are presented below (in thousands, except per share amounts):

Quarters Ended Fiscal 1998	May 2, 1998	August 1, 1998	October 31, 1998	January 30, 1999
Net sales	$229,830	$226,580	$234,273	$347,148
Gross margin	80,546	82,990	83,651	130,194
Earnings before extraordinary item	8,126	10,389	8,828	22,799
Net earnings	$ 8,126	$ 10,389	$ 8,127	$ 22,799
Earnings per share before extraordinary item :				
Basic	$ 0.20	$ 0.26	$ 0.22	$ 0.55
Diluted	$ 0.20	$ 0.25	$ 0.21	$ 0.54

Quarters Ended Fiscal 1999	May 1, 1999	July 31, 1999	October 30, 1999	January 29, 2000
Net sales	$258,864	$256,567	$272,836	$398,481
Gross margin	91,435	93,294	99,593	154,644
Earnings before extraordinary item	3,750	8,750	12,972	30,485
Net earnings	$ 838	$ 8,750	$ 12,972	$ 30,485
Earnings per share before extraordinary item :				
Basic	$ 0.09	$ 0.21	$ 0.31	$ 0.73
Diluted	$ 0.09	$ 0.21	$ 0.31	$ 0.72

In the first quarter of 1999, the Company recorded an extraordinary charge of $2.9 million, net of a $1.4 million tax benefit, related to the write-off of deferred financing costs and prepayment penalties for the refinancing of approximately US$57 million of Moores' indebtedness.

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.

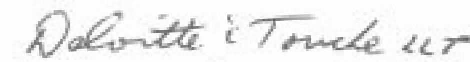
independent auditors' report

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

We have audited the consolidated balance sheets of The Men's Wearhouse, Inc. and its subsidiaries (the "Company") as of January 30, 1999 and January 29, 2000 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended January 29, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the mergers of the Company and Moores Retail Group Inc. ("Moores") and K&G Men's Center, Inc. ("K&G") in 1999, each of which has been accounted for as a pooling of interests as described in Note 2 to the consolidated financial statements. We did not audit the balance sheet of Moores as of January 31, 1999, or the related statements of earnings, stockholders' equity, and cash flows of Moores for the years ended January 31, 1998 and 1999, which statements reflect total assets of $74,263,000 as of January 31, 1999, and total revenues of $131,414,000 and $130,675,000 for the years ended January 31, 1998 and 1999, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Moores for fiscal 1997 and 1998, is based solely on the report of such other auditors. We did not audit the balance sheet of K&G as of January 30, 1999, or the related statements of earnings, stockholders' equity, and cash flows of K&G for the years ended February 1, 1998 and January 31, 1999, which statements reflect total assets of $57,230,000 as of January 31, 1999, and total revenues of $112,795,000 and $139,234,000 for the years ended February 1, 1998 and January 31, 1999, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for K&G for fiscal 1997 and 1998, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of January 30, 1999 and January 29, 2000, and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2000 in conformity with accounting principles generally accepted in the United States of America.



Houston, Texas
February 28, 2000

the men's wearhouse, inc. store list

614 total stores as of January 29, 2000

Men's Wearhouse / 450 Stores

Alabama (5)	Illinois (22)	Missouri (7)	Pennsylvania (16)
Arizona (8)	Indiana (8)	Nebraska (3)	Rhode Island (1)
Arkansas (1)	Iowa (1)	Nevada (5)	South Carolina (4)
California (84)	Kansas (2)	New Hampshire (3)	South Dakota (1)
Colorado (10)	Kentucky (3)	New Jersey (10)	Tennessee (8)
Connecticut (7)	Louisiana (4)	New Mexico (2)	Texas (44)
Delaware (1)	Maryland (9)	New York (19)	Utah (5)
District of Columbia (1)	Massachusetts (11)	North Carolina (12)	Virginia (15)
Florida (31)	Michigan (19)	Ohio (16)	Washington (13)
Georgia (12)	Minnesota (10)	Oklahoma (3)	Wisconsin (6)
Idaho (1)	Mississippi (1)	Oregon (6)	

K&G Men's Superstore / 51 Stores

*Suit Warehouse Stores

California (5)	Louisiana (1)	New Jersey (4)	Tennessee (1)
Colorado (2)	Maryland (3)	New York (1)	Texas (9)
Georgia (5)	Massachusetts (3)	North Carolina (1)	Virginia (1)
Indiana (1)	Michigan (4)*	Ohio (3)	Washington (2)
Kansas (1)	Minnesota (2)	Pennsylvania (2)	

Moores Clothing For Men / 113 Stores

Alberta (12)	New Brunswick (3)	Ontario (49)	Saskatchewan (2)
British Columbia (14)	Newfoundland (1)	Prince Edward Island (1)	
Manitoba (5)	Nova Scotia (3)	Quebec (23)	

corporate directory

Directors and Executive Officers

George Zimmer
Chairman of the Board and Chief Executive Officer

David H. Edwab
President and Director

Richard E. Goldman
Executive Vice President and Director

Harry Levy
Executive Vice President, Planning and Systems, Assistant Secretary and Director

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

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

Stephen H. Greenspan
Chief Executive Officer, K&G Men's Center, Inc., and Director

Rinaldo Brutoco
Director
President and Chief Executive Officer,
ShangriLa Consulting, Inc.

Michael L. Ray
Director
Professor, Stanford University

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

Eric J. Lane
Chief Operating Officer

Charles Bresler, Ph.D.
Executive Vice President

Bruce Hampton
Executive Vice President

Theodore T. Biele, Jr.
Senior Vice President, Store Operations

Doug Ewert
Senior Vice President, Merchandising

Thomas L. Jennings
Senior Vice President, Real Estate

Dan Young
Senior Vice President, Logistics and Distribution

Gary G. Ckodre
Vice President, Finance

Neill P. Davis
Vice President, Treasurer

Jeff Marshall
Vice President, Chief Information Officer

Corporate Officers

Fred Alpert
Vice President, Store Operations

Bill Ballard
Vice President, Store Operations

Steven Cook
Vice President, Store Operations

Bill Erickson
Vice President, Store Planning and Design

Jayme Maxwell
Vice President, Marketing

Kathleen A. Miller
Vice President, General Counsel, and Assistant Secretary

Julie Panaccione
Vice President, Travel and Events

William Silveira
Vice President, Manufacturing

Carole L. Souvenir
Vice President, Employee Relations

Ray Walsh
Vice President, Information and Technology

Kirk Warren
Vice President, Administration and Benefits

Don Botill
Associate Vice President, Store Operations

Kevin Harris
Associate Vice President, Distribution and Fulfillment

Shlomo Maor
Associate Vice President, Training

Thomas Queret
Associate Vice President, Accounting Services

Dino Speranza
Associate Vice President, Stores

Diana M. Wilson
Corporate Controller

Michael W. Conlon
Secretary

Claudia A. Pruitt
Assistant Secretary

corporate information

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
June 21, 2000, 3 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 LLP
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, Inc.
c/o Investor Relations
5803 Glenmont Drive
Houston, Texas 77081

The Men's Wearhouse, Inc. 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 "MENS." Prior to April 3, 2000 the Company's stock was 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 1998		
First quarter ended May 2, 1998	$29.67	$22.33
Second quarter ended August 1, 1998	36.88	26.67
Third quarter ended October 31, 1998	34.63	14.00
Fourth quarter ended January 30, 1999	32.50	22.00
Fiscal Year 1999		
First quarter ended May 1, 1999	$34.94	$21.63
Second quarter ended July 31, 1999	28.38	23.06
Third quarter ended October 30, 1999	25.13	19.50
Fourth quarter ended January 29, 2000	31.00	21.94

On April 24, 2000, there were approximately 1,000 holders of record and approximately 6,700 beneficial holders of our common stock.

We have not paid cash 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 29, 2000.

Design: Heiney & Craig, Inc., San Francisco, CA.

Over 55% recycled paper including 25% postconsumer fibre.