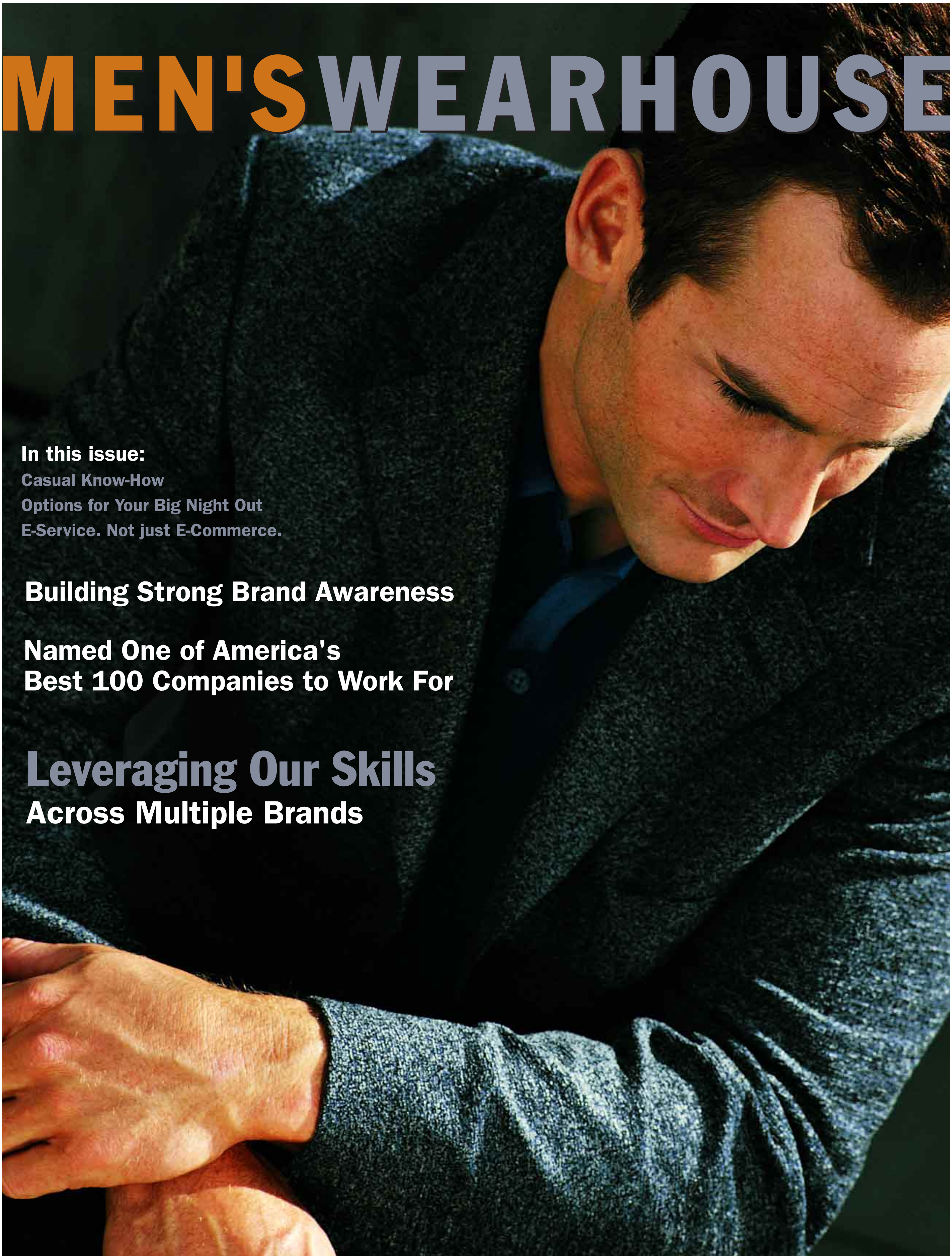
MEN'S WEARHOUSE



In this issue:

Casual Know-How

Options for Your Big Night Out

E-Service. Not just E-Commerce.

Building Strong Brand Awareness

Named One of America's Best 100 Companies to Work For

Leveraging Our Skills Across Multiple Brands

MEN'S WEARHOUSE®

YOU'RE GOING TO LIKE THE WAY YOU LOOK.

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a letter from george

The MW group of brands (the Company) had a great year. A strong foundation of core principles and values that are consistent over time and across different geographies and market sectors enabled us to successfully leverage the Company's core competencies in merchandising, marketing and human resources to grow our three brands and increase our industry presence.

Our track record of meeting or exceeding expectations since going public continued unabated in 2000.

Despite a slowing economy, we grew revenues at the Company by more than 12 percent and earnings per share by 26 percent versus a year ago. A key component of our financial performance was the ability to generate solid increases in gross margins.

Our core strategies served us well in creating strong consumer appreciation of our three brands. We captured a greater share of the non-tailored clothing market, experiencing the greatest growth in sales of slacks, sport shirts, sweaters, outerwear and shoes, while continuing to grow our already strong presence in tailored clothing.

We believe that the industry consolidation and de-emphasis on men's apparel by department stores that began in the early 1990's will continue and that we are well positioned to capitalize on new opportunities.

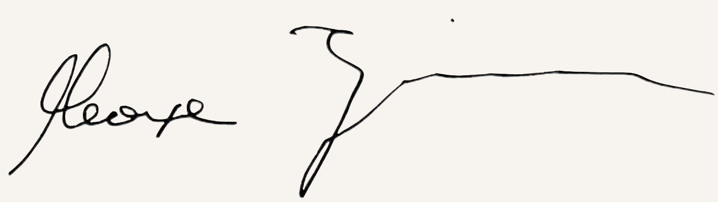
In 2001, we plan to add up to 40 stores to the MW group which, when combined with the expansion of existing Men's Wearhouse and K&G stores, will add incremental growth to our total square footage. We continue to invest in our brands and for future growth with new advertising, enhanced training, expanded distribution facilities and improved technologies, including a state-of-the-art point of sale system.

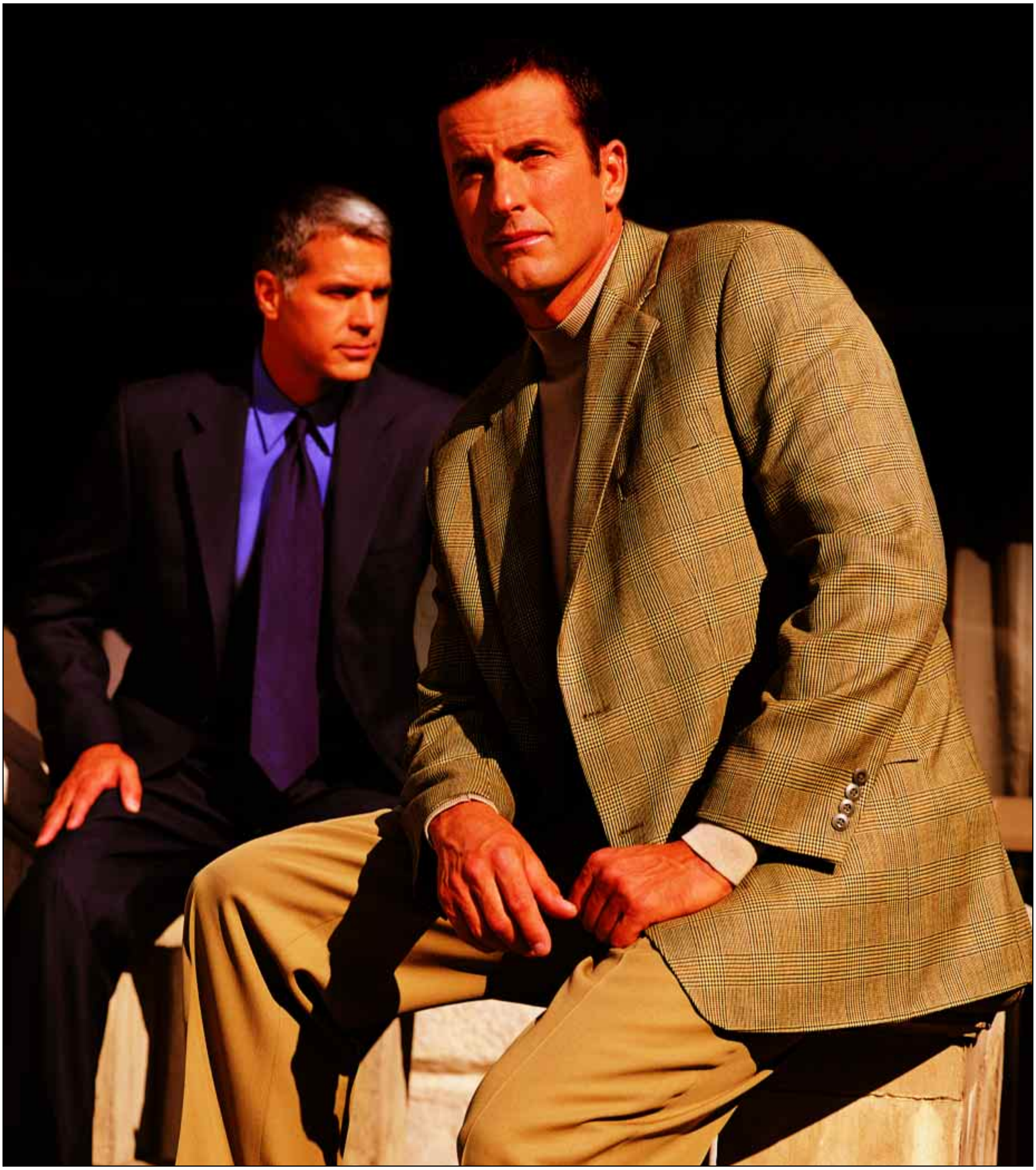
We are using our core skills to pursue new growth opportunities, both in North America and abroad. For example, we have entered the women's apparel market through our K&G brand. At the end of 2000, four K&G stores were offering first run, national and designer brands of women's career apparel at prices 30–50 percent below regular department store prices. Our plan is to roll out this concept to most of the new and remodeled K&G stores by the end of 2001.

In a development that speaks both to our growing prominence and strategy to increase our visibility in the world's financial markets, we listed on the New York Stock Exchange during the year, changing our trading symbol to "MW".

We remain steadfast in our belief that the core precepts and proven strategies of the MW group of brands will continue to enhance our future growth opportunities, and we look forward to sharing our ongoing success with you.

George Zimmer
Chairman and Chief Executive Officer

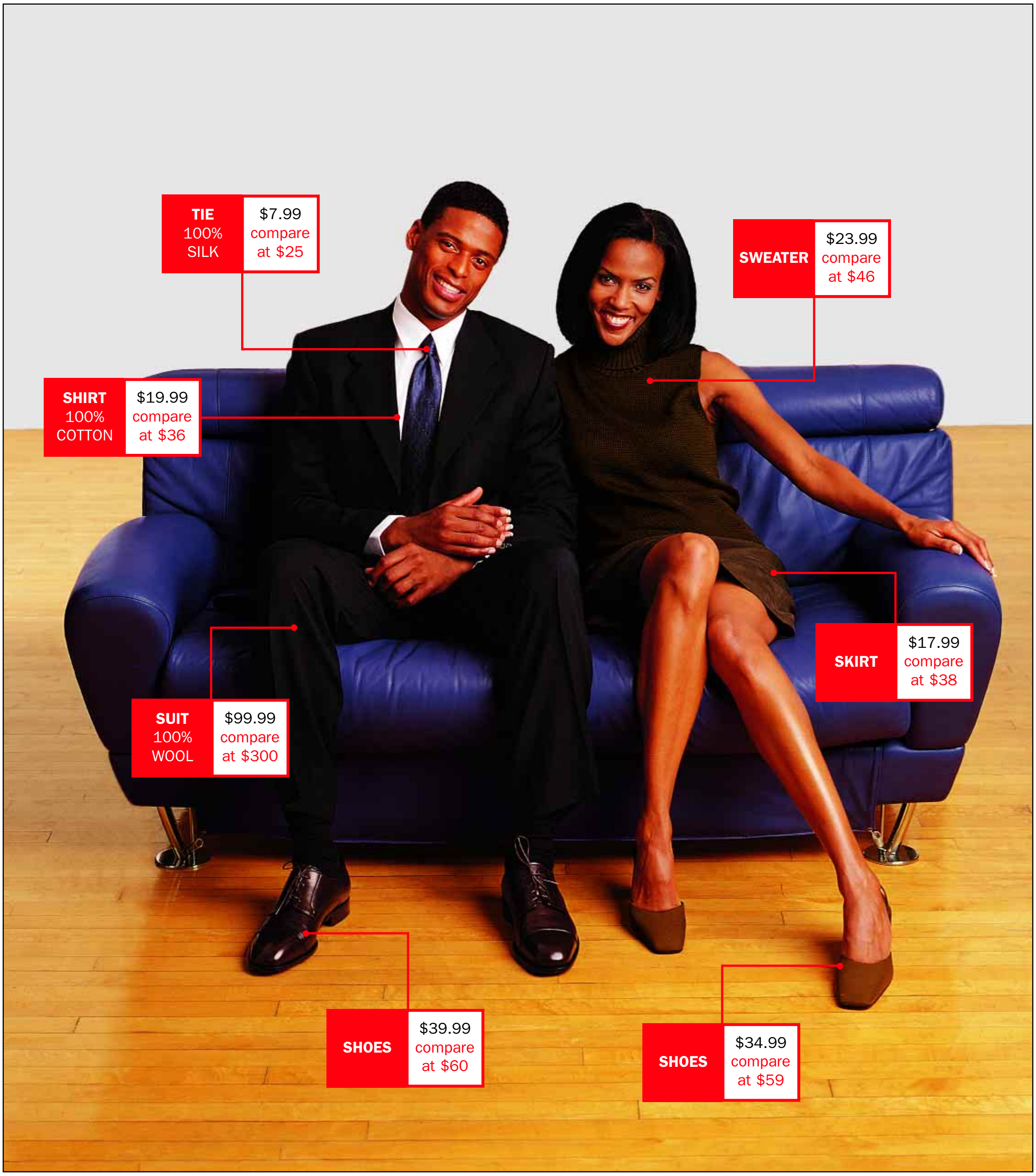




Moores

CLOTHING FOR MEN

WELL MADE. WELL PRICED. WELL DRESSED.



K&G

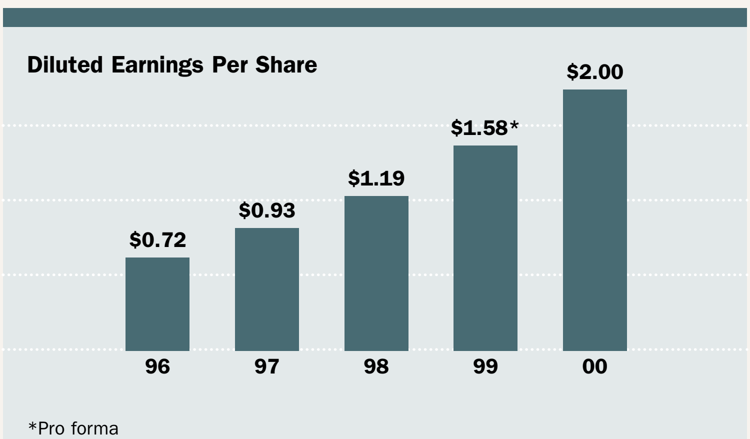
SO MUCH MORE FOR SO MUCH LESS.

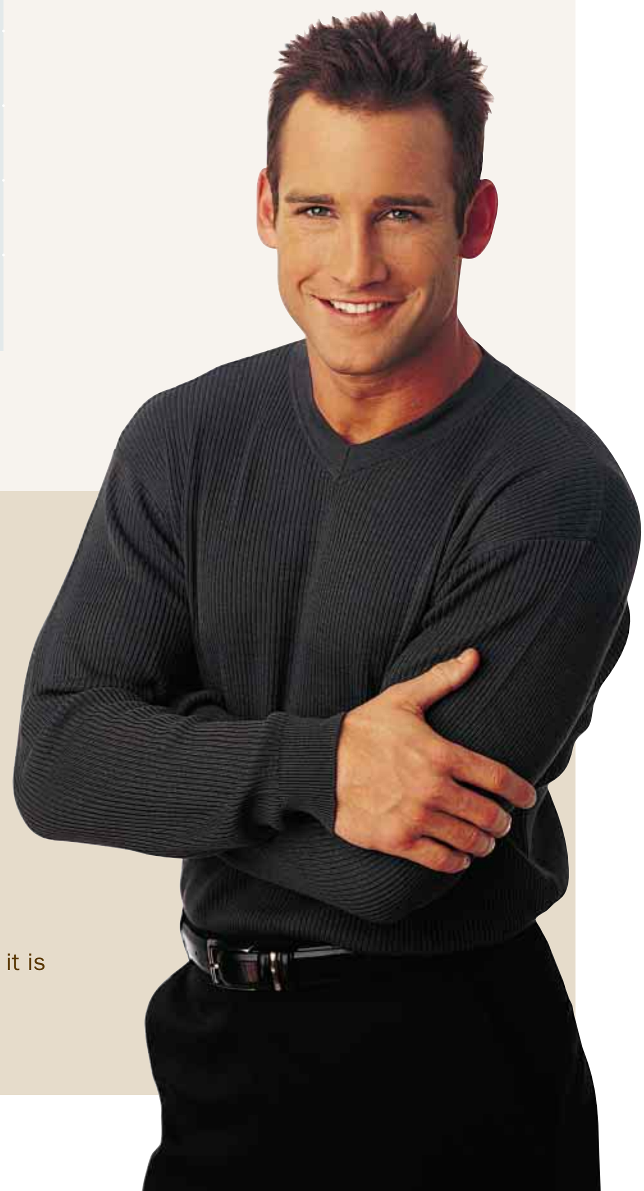
business focus

The MW group of brands has been one of North America's fastest growing retailers over the past five years as the Company has added approximately 360 stores during this time.

The Company operates three brands: Men's Wearhouse and K&G stores in the U.S., and Moores Clothing for Men in Canada. The Company also operates the second largest manufacturing facility of men's suits and sport coats in Canada. The majority of merchandise produced at the plant is used to supply the Moores stores.

Men's Wearhouse is based in Fremont, California, and operates a corporate office and two distribution centers in Houston totaling approximately 390,000 square feet. A third distribution facility with approximately 385,000 square feet is scheduled to open in mid-2001.





industry trends

The 1990's were marked by significant consolidation among men's retailers both in the U.S. and Canada. **A number of national and regional chains either closed or significantly consolidated their operations.** In addition, department stores de-emphasized their focus on, and offerings of, men's tailored clothing.

At the same time, sales of men's clothing have increased at a faster pace than those of women's apparel in the past several years. This occurred despite a flat suit market as the business/casual trend in the workplace evolved. **In fact, the emergence of this "third wardrobe" (neither suits nor jeans) has driven this growth of men's apparel sales.**

With its multi-brand, value and customer service strategies, the Company feels it is uniquely positioned to capture growing market share of men's apparel sales.

Leveraging our buying power

ACROSS MULTIPLE BRANDS

THE GROWTH OF THE MEN'S WEARHOUSE GROUP OF BRANDS RESULTS FROM PROVIDING CUSTOMERS A SHOPPING EXPERIENCE IN WHICH VALUE IS DELIVERED ON A CONSISTENT BASIS THROUGHOUT OUR THREE CONCEPTS.

The success of our Company has been predicated on a simple premise: Take what most men consider a daunting and confusing task–shopping for clothing–and turn it into a comfortable and rewarding experience. Our ability to replicate this feeling in more than 650 stores throughout North America is based on a value proposition that reflects our ability to leverage the Company's core competencies in merchandising, marketing and training across multiple brands and geographic locations.

We continue to reach more men with more choices by offering broad selections of quality merchandise to fit the needs of our customers' varied lifestyles. We have broadened our merchandise offerings, increasing square footage at Men's Wearhouse stores by opening larger stores and expanding existing locations as their leases are renewed. As a result, since 1992, the average square footage for Men's Wearhouse stores has increased from approximately 4,100 square feet to 5,200 square feet and will grow to 6,500 square feet in the near term.

This initiative has enabled us to increase our offerings of casual wear without sacrificing our strong position in tailored clothing. **During 2000, we continued to expand our dress casual offerings with trousers, sport coats, knit and woven shirts and shoes.** In addition, the larger store formats have allowed us to accommodate increased selections of big and tall merchandise, shoes and outerwear, as well as our tuxedo rental program.

Our merchandising efforts are facilitated by strategic buying programs, including direct sourcing through which we contract directly with the manufacturer for goods. **Direct sourcing now accounts for approximately one-third of the merchandise carried in Men's Wearhouse stores and helps us control costs and maintain product integrity while contributing to improved gross margins.**

We have also been able to generate increased leverage from Golden Brand, the second largest producer of suits and sport coats in Canada, which we acquired in the Moores transaction. During 2000, we significantly increased the amount of Golden Brand merchandise exported for sale at Men's Wearhouse stores, helping to enhance margins at that brand.

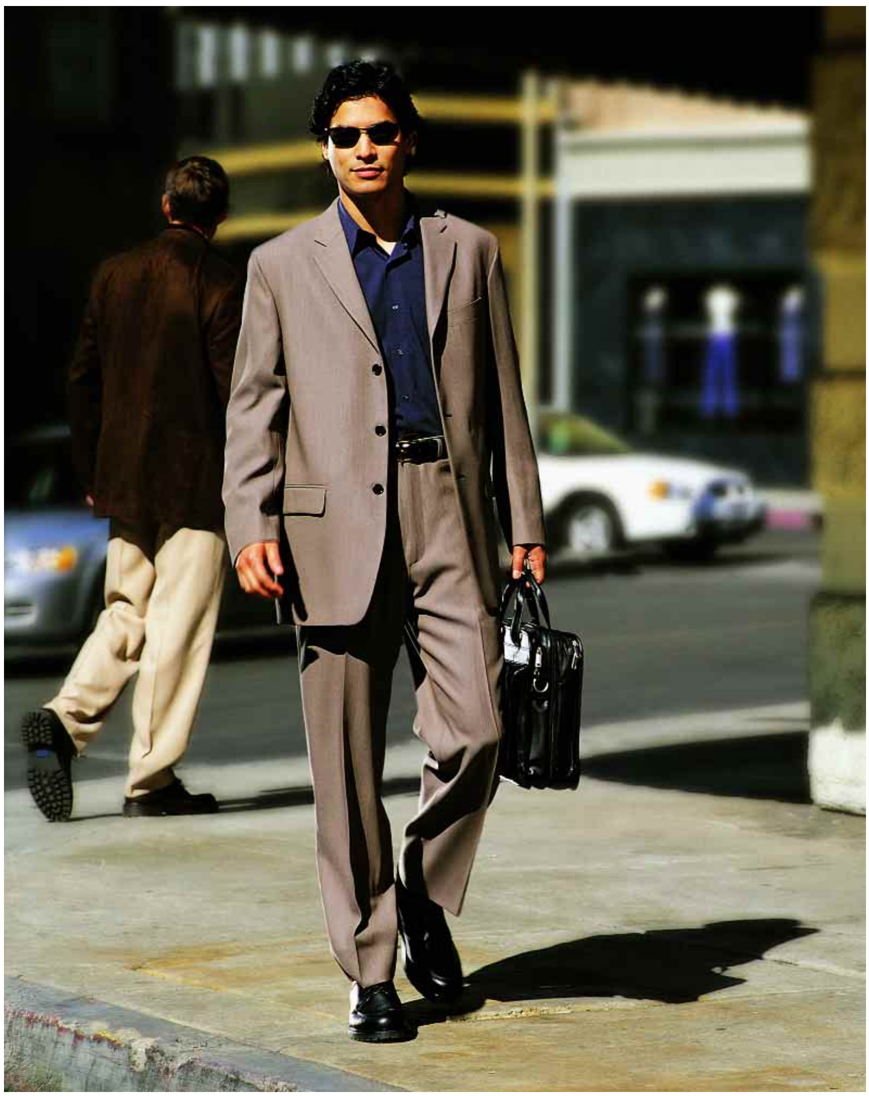
At the same time, we augmented Moores' existing selections of merchandise manufactured in Canada with broader offerings of clothing from sourcing relationships initially developed for Men's Wearhouse stores. We also introduced shoes and big and tall clothing at Moores stores.

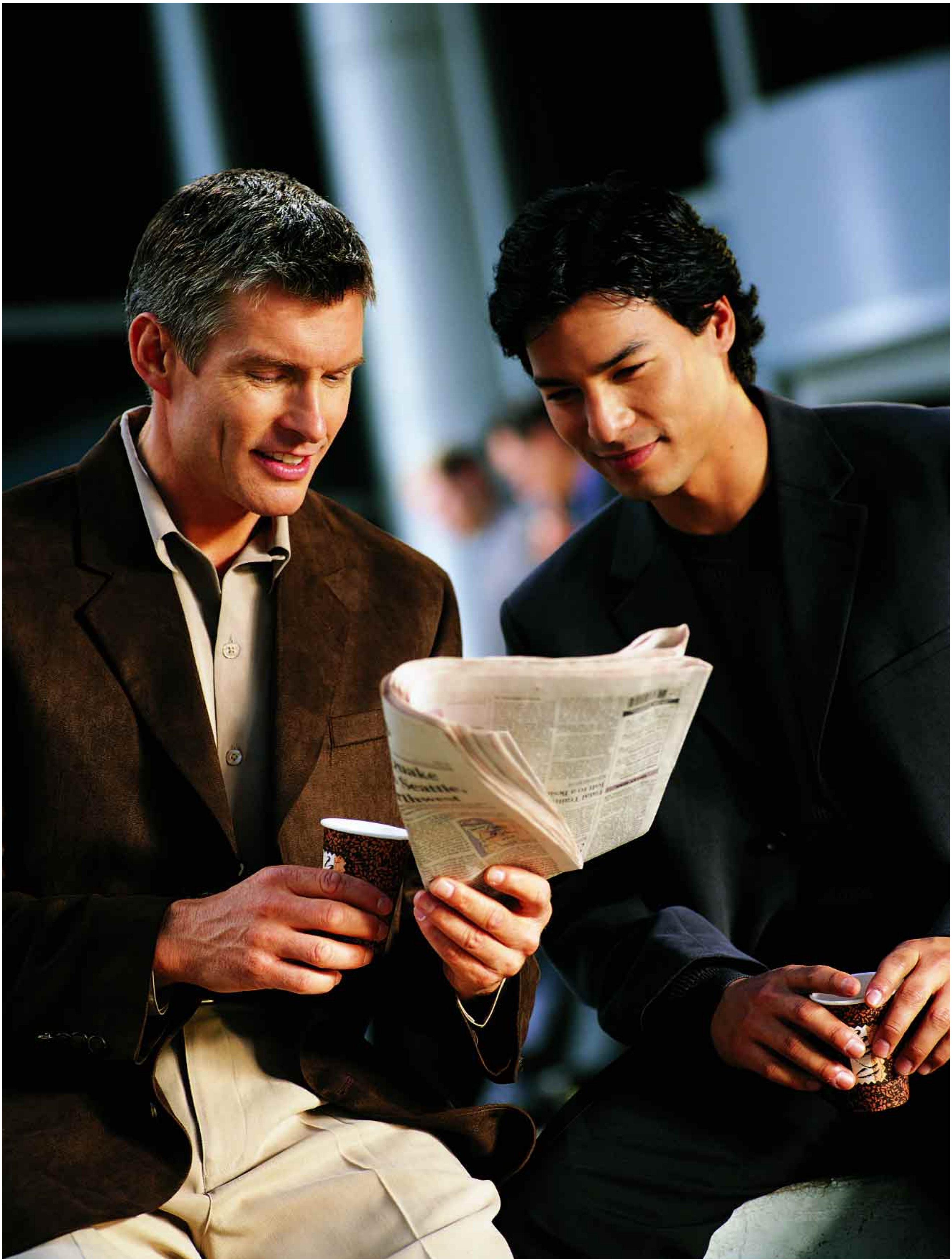
In the past year, we have begun to leverage our merchandising skills at K&G. **We have utilized the buying power of our organization, as well as direct sourcing relationships, to enhance margins at this brand.** In addition, we have introduced big and tall offerings at K&G stores.

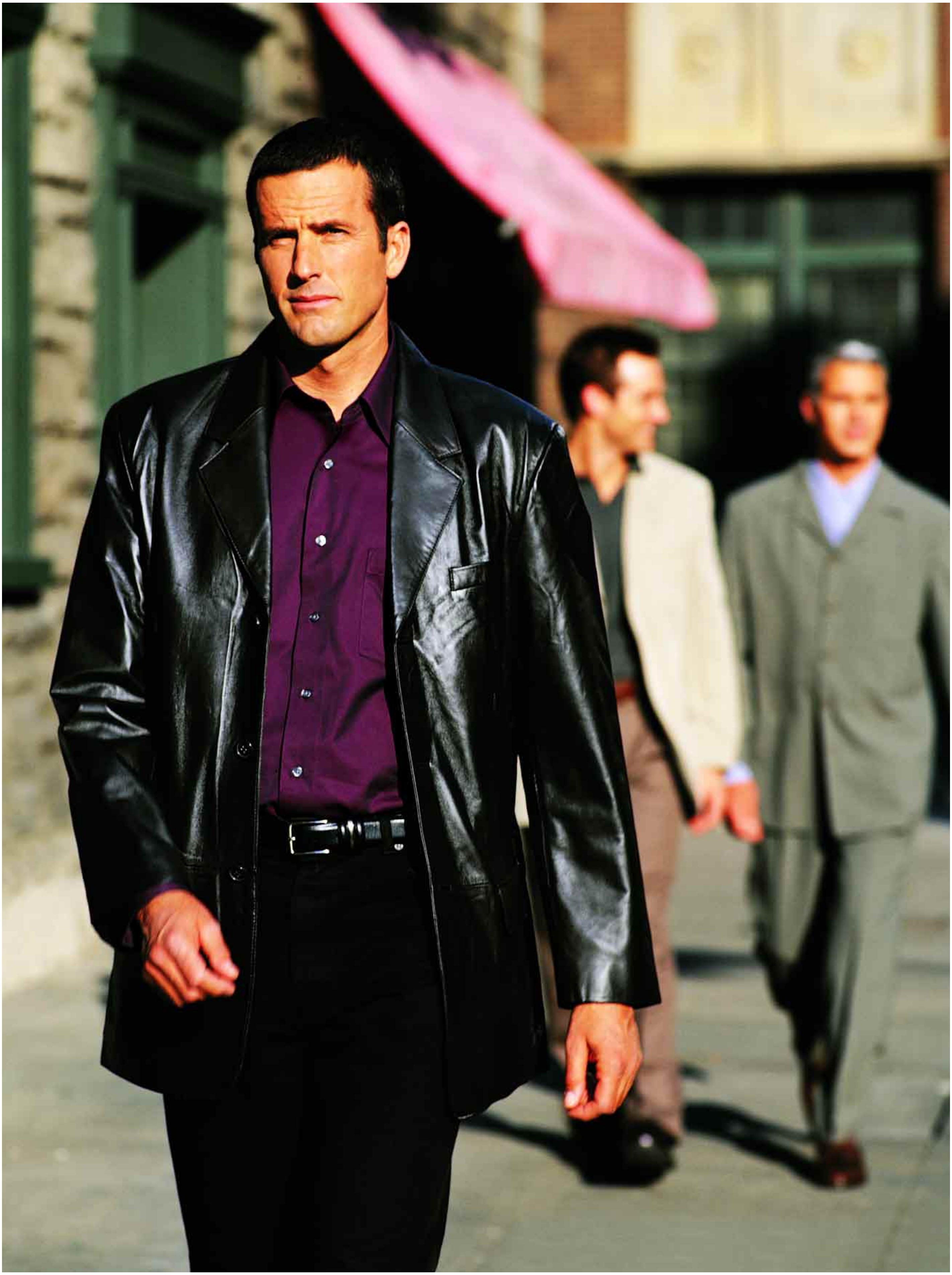
A LITTLE CASUAL KNOW-HOW

goes a long way

TODAY, MEN HAVE MORE CLOTHING OPTIONS THAN EVER. AS ALWAYS, MEN'S WEARHOUSE IS THERE TO HELP THEM CHOOSE THE RIGHT ONES.







WITH A LITTLE HELP FROM MEN'S WEARHOUSE, MEN EVERYWHERE ARE MASTERING DRESS CASUAL. AND LIKING THE WAY THEY LOOK.

Men are moving beyond khakis and t-shirts to a more refined dress casual style. Men's Wearhouse stores are addressing the question of what this means with new merchandise, the same personalized service and something we call "casual know-how." As a result, men are gaining the confidence necessary to navigate the often confusing landscape of the dress casual revolution.

Trust is at the core of this relationship. The same men who have always come to us with questions about selecting a suit, tie or tuxedo are now seeking our advice on the latest fashions and emerging trends. Our Wardrobe Consultants teach men how to incorporate dress casual looks into both their business and weekend wardrobes.

Reaching more potential customers

MORE EFFECTIVELY

THE COMPANY'S ABILITY TO BROADEN OUR CUSTOMER BASE AND BUILD MARKET SHARE CAN BE ATTRIBUTED TO MANY FACTORS; HOWEVER, CRITICAL TO THESE ACCOMPLISHMENTS IS OUR SUCCESS IN BUILDING STRONG BRAND AWARENESS THROUGH OUR UNIQUE ELECTRONIC ADVERTISING STRATEGIES.

Not only have we captured mind share, but we have also created the expectation that customers will have a satisfactory shopping experience at each of our stores. At the same time, we utilize our marketing programs to create an unchallenged position for the Company as a preeminent men's apparel retailer with brands that meet men's clothing needs across all demographics.

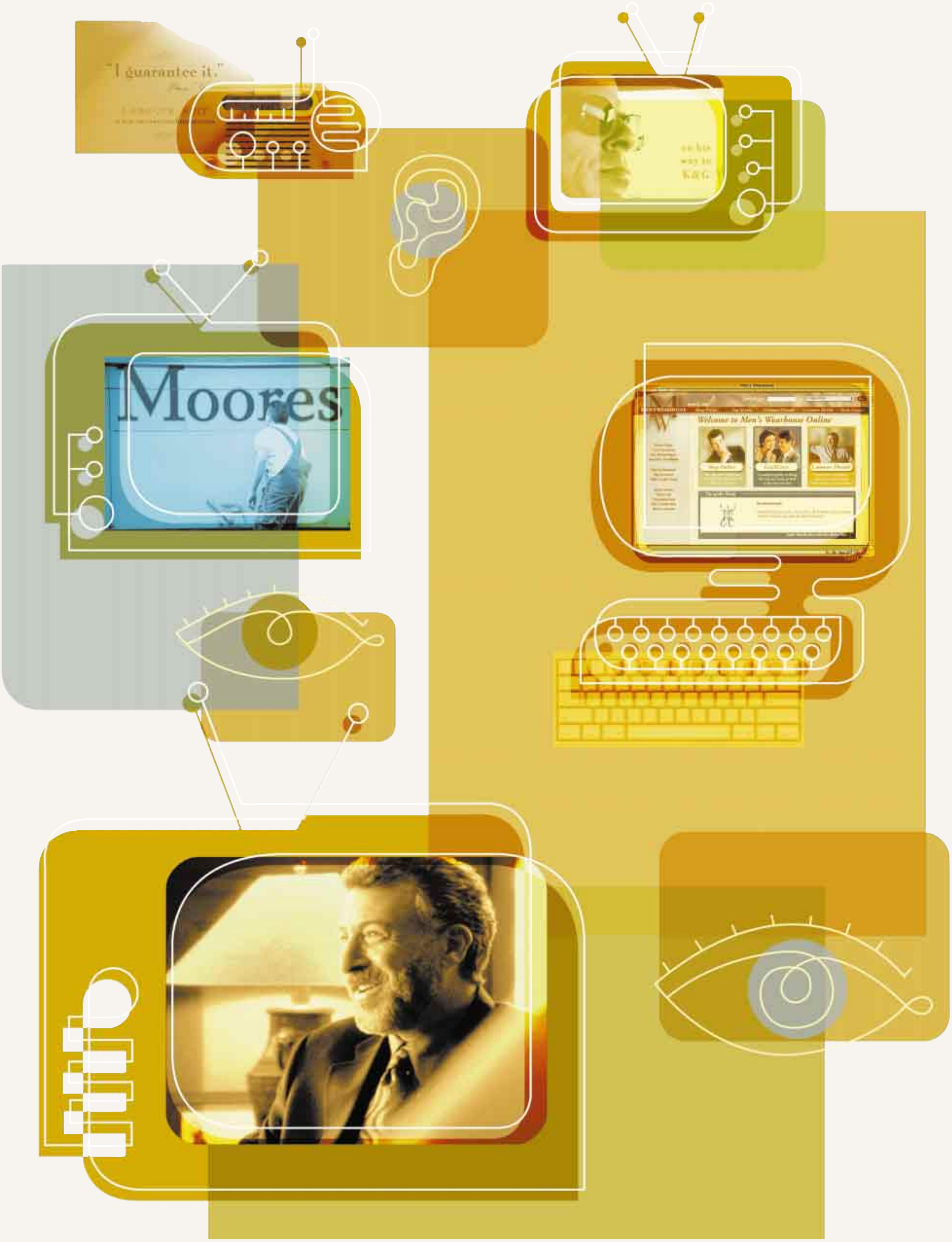
At Men's Wearhouse stores, we have refined our creative platform to appeal to a wider audience by portraying a more upscale image for the brand and promoting our expertise in areas such as dress casual, big and tall and formalwear. This branding strategy is being complemented with new store designs, graphics and merchandising techniques that create a more contemporary feel and draw consumer attention to the fact that we are much more than a suit store.

Additionally, we launched an enhanced web site in the latter part of 2000. The site has a variety of features, including e-commerce capabilities, tips on dressing and caring for clothes, store information and community features to build stronger relationships between the Company and our customers.

At Moores, the electronic advertising program we initiated in Western Canada a year ago has now been implemented throughout the country. **This campaign has been effective in positioning Moores as a value-oriented, customer service retailer and helped fuel significant growth in comparable store sales during 2000.**

Nearly all K&G markets will receive television or radio advertising support beginning in late spring of 2001. **In the opening price point sector–where our competition consists of both well-known national chains and local retailers–the ability to create strong positioning for K&G will be key to its success as a national leader in this category.**

We also continue to realize increased leverage from our advertising expenditures, which drives bottom line growth. Despite increasing overall company advertising expenditures over the past five years, these costs as a percentage of sales have declined. Further supporting these goals, we recently created an in-house media buying team to enhance the value of our advertising dollars and enable us to react more quickly to opportunities in the market.


"I guarantee it."
Moores
on his
way to
K&G
Welcome to Men's Wearhouse Online

RENT? OWN?

THE BIG *Night*

DOESN'T HAVE TO PRESENT A BIG DILEMMA.

Life is full of special occasions, whether weddings, proms or other memorable moments.

Men turn to formalwear when they want a distinguished yet stylish wardrobe option. And now, whether buying or renting, men can turn to one place.

Men's Wearhouse.

Men's Wearhouse has long been a leader in formalwear sales. Over the last two years, we have begun a foray into the competitive tuxedo rental marketplace. Until now, the $1.4 billion tuxedo rental market was comprised primarily of local and regional chains and independent retailers. As a national company with a stellar reputation for service and reliability, Men's Wearhouse is ideally situated to meet the needs of rental customers, particularly those seeking to outfit wedding parties.

Men's Wearhouse's tuxedo rental program began as a test in 12 stores in 1999. The program was expanded to 127 locations in 2000. An aggressive plan calls for formalwear rental to be available in nearly every location within two years. If the initial results are any indication, we can expect big returns from the expansion of this program. Revenue has increased without incurring significant personnel or real estate expenses. Our tuxedo rental program is expanding our customer base by attracting new and younger customers into our stores who, when treated well, will likely return for their additional clothing needs.

Men who are uncertain whether to rent or buy can now come to a familiar men's wear retailer for honest, no-nonsense advice. Young men wearing a tux for the first time and wedding parties needing matching tuxedos and accessories will appreciate the new rental program. Men who anticipate a regular need for a tuxedo can still purchase handsome, all wool selections with the superior service and tailoring they've come to expect.

Fortune's

100 BEST COMPANIES TO WORK FOR

FOR THE SECOND CONSECUTIVE YEAR, THE COMPANY HAS BEEN RECOGNIZED AS ONE OF THE 100 BEST COMPANIES TO WORK FOR IN AMERICA BY *FORTUNE* MAGAZINE.

Throughout our nearly three decades of growth, the overriding constant has been our dedication to building quality relationships with employees.

This precept is based on the recognition that we are in both the people and apparel business. We believe that there is a strong correlation between our ability to develop strong, trusting relationships with each other and our success in achieving this same kind of affinity with our customers.

Over the years, we have created a corporate culture where people can capitalize on opportunities to be creative and realize achievements as individuals.

While we seek commitment to our common goals, we also foster a trusting environment that empowers employees to explore creative methods for achieving them.

Creating an environment where our people take pride in their ability to deliver outstanding customer service and develop loyal customers has driven the Company's continued strong bottom line performance. **As a result, we believe our strongest asset cannot be found on the Company's balance sheet. Rather, it is our people in the stores and those that support them that ensure the consistency and viability of our brand from store to store, state to state and province to province.**

WE CONTINUE TO RECEIVE RECOGNITION FOR OUR EMPLOYEE TRAINING AND DEVELOPMENT PROGRAMS AND THE ROLE THEY PLAY IN OUR SUCCESS.

The human development and employee training programs, which tap the potential of our employees, are complemented by targeted compensation incentive programs. For example, we link Men's Wearhouse and Moores store personnel bonuses to team as well as individual goals, helping to forge an effective blend of competition and cooperation as manifested through sustained growth in comparable store sales and increased average transactions.

We have operated our business according to a set of philosophies, principles and values that have been consistent over time. Our focus on developing our people and using their skills, self-esteem and accomplishments has enabled our Company to grow and adapt to constantly changing market conditions and new opportunities, such as dress casual and tuxedo rentals, to expand into new markets, such as Canada through Moores, or to enter new sectors, such as opening price and women's categories with our K&G stores.

We recognize the value of achieving continuous improvement with our training efforts. **Recently, we have incorporated new interactive product and customer service training to help our wardrobe consultants address our customers' comfort with dress casual.** Our growing success at Moores is being driven in great part by the implementation of training programs for employees who attend regional Suits Universities in Canada.

e-service. not just e-commerce.

We are very excited about our newly designed and expanded web site which was launched in the latter part of 2000. It's more than an e-commerce site, much more, as we look to the Internet as a vehicle to enhance the lives of our customers and strengthen our bond with them. It also has general corporate and financial information of interest to investors. We invite you to visit the site at **menswearhouse.com** and hope you'll share our enthusiasm.

Key features of the site include:

Shop Online

The e-commerce portion of our site offers consumers more than just a shopping cart. **We begin with "By Occasion" listings, such as a job interview or a wedding, and provide recommendations on the clothing most suitable for them.** In addition, we offer a broad range of merchandise—from suits to sportswear—in a variety of styles, designers and price ranges.

Guy'dLines

In this section, we talk "man to man" with our customers. Guy'd Lines provides them tips on dressing and clothing care—even on how to iron a dress shirt or tie a tie. We also include lifestyle tips in areas such as careers and clothing care. **Our "Ask the Guru" has become a very popular feature, receiving up to 100 questions per week on clothing and etiquette.** For those who are too bashful to ask a question, we maintain a backlog of prior questions that a person can search to see if his topic has been covered.

Common Threads

This section enables us to connect with our customers and create a sense of community among them. It includes a number of ideas from George Zimmer on work and family issues. **In Open Circle, we have guest commentaries from noted authorities on professional and personal lifestyle subjects, as well as reviews of current books that we feel can help our customers achieve a balance in their lives.** We also offer a series of online community discussions and take periodic polls of our customers to get their views on work and lifestyle issues.

ask the guru

worried about your wardrobe? stumped by style? embarrassed about etiquette?

The Guy'dLines Guru and online store at **menswearhouse.com** offer simple solutions for a man's complex world.

Q: What is the best way to care for my dress shoes?

Start by giving them the day off. Most men wear the same pair of shoes day after day. Shoes, like people, need a chance to recover. Having more than one pair of dress shoes and employing a regular rotation will go a long way toward extending the life of your shoes. **Always use cedar shoetrees.** These inserts absorb moisture and odor, reduce buckling across the instep, and help retain the overall shape of the leather. **Shine your shoes regularly.** It helps keep them looking new while protecting the leather. Never dry your shoes near a heater or radiator. And if you live in a snowy climate, be sure to wipe off any salt or moisture as soon as you get out of the wet stuff.

Q: How can I extend the life of my suits?

Proper suit care, like charity, begins at home. **Don't use wire hangers; cedar or wood hangers are best.** Also, don't over iron or dry clean your suits. While you should have your suits professionally dry cleaned a couple of times a year, use a steamer, or iron your suits under a dishtowel, to maintain the fabric and overall condition of your suits.

Q: This dress casual trend has me confused. What do I do?

Your confusion is understandable. For some men, dress casual means taking off a tie for the first time in years. For others, it means putting on a sport coat for the first time, ever! Take a cue from men who have the dress casual look mastered. **Start with the basics.** Some versatile wool or microfiber slacks. Casual dress shoes, such as square toes or modern lug soles. A comfortably tailored sport coat or even a hip shirt jacket. Then add merino wool polos, silk/cotton mock turtleneck, or even a golf or camp collar shirt. **Start with neutral colors.** You'll get more adventurous as you become comfortable with the dress casual trend.

For a more comprehensive lesson in casual know-how, visit the Men's Wearhouse near you.

Men's Wearhouse

FASHIONABLE FIGURES

Selected Financial Data

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

	1996	1997	1998	1999	Pro Forma 1999	**2000**
Statement of Earnings Data:						
Net sales	$571,651	$875,319	$1,037,831	$1,186,748	$1,186,748	**$1,333,501**
Gross margin	207,209	315,169	377,834	438,966	438,966	**514,666**
Operating income	45,015	74,333	95,045	100,931	115,638	**141,158**
Earnings before extraordinary item	25,727	37,334	50,142	55,957	67,188	**84,661**
Earnings per share of common stock before extraordinary item(1):						
Basic	$ 0.72	$ 0.95	$ 1.23	$ 1.34	$ 1.61	**$ 2.03**
Diluted	$ 0.72	$ 0.93	$ 1.19	$ 1.32	$ 1.58	**$ 2.00**
Weighted average shares outstanding(1)	35,517	39,194	40,738	41,848	41,848	**41,769**
Weighted average shares outstanding plus dilutive potential common shares(1)	38,309	42,275	42,964	42,452	42,452	**42,401**
Operating Information:						
Percentage increase in comparable U.S. store sales(2)	4.8%	9.2%	9.6%	7.7%		**3.3%**
Percentage increase in comparable Canadian store sales(2)	—	4.5%	2.1%	0.3%		**8.3%**
Average square footage—all stores(3)	5,422	5,868	6,146	6,193		**6,520**
Average sales per square foot of selling space(4)	$ 416	$ 378	$ 384	$ 400		**$ 406**
Number of stores:						
Open at beginning of the period	289	460	526	579		**614**
Opened	56	65	65	54		**39**
Acquired(5)	115	6	4	—		**1**
Closed	—	(5)	(16)	(19)		**(3)**
Open at end of the period	460	526	579	614		**651**
Capital expenditures	$ 27,350	$ 31,825	$ 53,474	$ 47,506		**$ 79,411**

	February 1, 1997	January 31, 1998	January 30, 1999	January 29, 2000	**February 3, 2001**
Balance Sheet Information:					
Working capital	$181,133	$ 234,376	$ 230,624	$ 280,251	**$ 318,584**
Total assets	414,979	500,371	535,076	611,195	**707,734**
Long-term debt(6)	112,250	107,800	44,870	46,697	**42,645**
Shareholders' equity	192,045	261,357	351,455	408,973	**494,987**

(1) Adjusted to give effect to 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. Fiscal year 2000 is calculated on a 52-week basis.
(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 Note 4 of Notes to Consolidated Financial Statements 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 February 3, 2001, the Company operated 538 stores in the United States and 113 stores in Canada. The Company opened 65 stores in 1998, 54 stores in 1999 and 39 stores in 2000; in addition, the Company acquired four stores in 1998 and one in 2000. 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 25 new Men's Wearhouse stores and 15 new K&G stores in 2001 and to expand and relocate approximately 23 existing Men's Wearhouse stores and 13 existing K&G stores. 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 $585,000 for a K&G store in 2001.

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 3.3% increase for U.S. stores and an 8.3% increase for Canadian stores for fiscal year 2000 calculated on a 52 week basis.

The Company has closed 38 stores in the three years ended February 3, 2001. 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 1998, the Company closed three stores due to substandard performance or the proximity to 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. In 2000, 3 stores were closed due to substandard performance.

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

Fiscal Year	1998	1999	**2000**
Net sales	100.0%	100.0%	**100.0%**
Cost of goods sold, including buying and occupancy costs	63.6	63.0	**61.4**
Gross margin	36.4	37.0	**38.6**
Selling, general and administrative expenses	27.2	27.2	**28.0**
Combination expenses	—	1.3	**—**
Operating income	9.2	8.5	**10.6**
Interest expense, net	0.8	0.2	**0.1**
Earnings before income taxes	8.4	8.3	**10.5**
Income taxes	3.6	3.6	**4.2**
Earnings before extraordinary item	4.8%	4.7%	**6.3%**

Results of Operations

2000 Compared with 1999. The following table presents a breakdown of 1999 and 2000 net sales of the Company by stores open in each of these periods (in millions):

	Net Sales		
Stores	1999	**2000**	Increase
40 stores opened or acquired in 2000	$ —	**$ 37.6**	$ 37.6
54 stores opened in 1999	49.5	**126.3**	76.8
Stores opened before 1999	1,137.2	**1,169.6**	32.4
Total	$1,186.7	**$1,333.5**	$146.8

The Company's net sales increased $146.8 million, or 12.4%, to $1,333.5 million for 2000 due primarily to sales resulting from the increased number of stores and increased sales at existing stores. Sales also increased as a result of the additional week in 2000, a 53-week year. 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) for 2000, calculated on a 52-week to 52-week basis, increased 3.3% in the US and 8.3% in Canada from 1999.

Gross margin increased $75.7 million, or 17.2%, to $514.7 million in 2000. As a percentage of sales, gross margin increased from 37.0% in 1999 to 38.6% in 2000. This increase in gross margin resulted mainly from a decrease in product costs as a percentage of sales, offset partially by an increase in occupancy costs.

Selling, general and administrative ("SG&A") expenses, as a percentage of sales, were 28.0% in 2000, a 0.8% increase from the prior year, while SG&A expenditures increased by $50.2 million to $373.5 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 5.4% to 5.2% of net sales, while store salaries increased from 10.6% to 11.1% of net sales and other SG&A expenses increased from 11.2% to 11.7% of net sales.

Interest expense, net of interest income, decreased from $2.6 million in 1999 to $0.8 million in 2000. Weighted average borrowings outstanding decreased $11.1 million from the prior year to $49.9 million in 2000, and the weighted average interest rate on outstanding indebtedness increased from 6.8% to 7.1%. The decrease in the weighted average borrowings resulted primarily from payments on long-term debt and reduced short-term borrowings under the Company's credit facilities. The increase in the weighted average interest rate was due primarily to increases during 2000 in the LIBOR rate. Interest expense was offset by interest income of $1.6 million in 1999 and $2.8 million in 2000, which resulted from the investment of excess cash.

The Company's effective income tax rate for the year ended February 3, 2001 was 39.7% and 43.1% 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 2000 earnings before extraordinary item of $84.7 million or 6.3% of net sales, compared with 1999 earnings before extraordinary item of $56.0 million or 4.7% 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 in 1999, were as follows (in thousands, except per share amounts):

Fiscal Year	1999	**2000**
Earnings before extraordinary item, as reported	$55,957	**$84,661**
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	$67,188	**$84,661**
Diluted earnings per share before extraordinary item, as reported	$ 1.32	**$ 2.00**
Diluted earnings per share before extraordinary item and non-recurring charges	$ 1.58	**$ 2.00**

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 (in millions):

	Net Sales		
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 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 remained flat at 10.6% of net sales and other SG&A expenses increased from 10.7% to 11.2% 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 in 1999. 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 in 1999. 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.

Liquidity and Capital Resources

The Company has a revolving credit agreement with a group of banks (the "Credit Agreement") that 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 from 0.75% to 1.25%. The Credit Agreement provides for fees applicable to unused commitments of 0.125% to 0.225%. As of February 3, 2001, 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 addition, the Company has two Canadian credit facilities which 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 under which the Company borrowed Can$75 million (US$50 million) in February 1999. The term credit borrowing is payable 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. 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 and to fund operating and other requirements of Moores. As of February 3, 2001, there was US$45.2 million outstanding under the term credit agreement and no indebtedness outstanding under the revolving credit agreement.

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 $230.6 million, $280.3 million and $318.6 million at the end of 1998, 1999 and 2000, 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 $35.6 million, $101.3 million and $94.7 million in 1998, 1999 and 2000, 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 $46.4 million in 1998, $15.7 million in 1999 and $36.6 million in 2000 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 $53.5 million, $47.5 million and $79.4 million in 1998, 1999 and 2000, respectively. The following table details capital expenditures (in millions):

	1998	1999	**2000**
New store construction	$22.7	$17.2	**$15.9**
Relocation and remodeling of existing stores	7.7	13.5	**28.9**
Information technology	13.6	9.3	**18.2**
Distribution facilities	3.6	4.0	**10.0**
Other	5.9	3.5	**6.4**
Total	$53.5	$47.5	**$79.4**

Property additions relating to new stores include stores in various stages of completion at the end of the fiscal year (two stores at the end of 1998, one store at the end of 1999 and two stores at the end of 2000). New store construction cost 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 acquired certain other assets in connection with various transactions including, but not limited to, trademarks, tradenames and license agreements, for $6.7 million in 1998, $0.3 million in 1999 and $4.0 million in 2000. In addition, in 1999 the Company purchased the minority interests in certain K&G stores for $2.1 million. Net maturities of short-term investments provided cash of $11.7 million in 1998 and $6.0 million in 1999.

Net cash used in financing activities was $19.7 million and $10.5 million in 1998 and 1999, respectively, due mainly to the net payments of long-term debt. In 2000, net cash used in financing activities was $4.7 million due mainly to the payments of long-term debt and purchases of treasury stock. In January 2000, the Board of Directors authorized a stock repurchase program for up to 1 million shares of the Company's common stock. Under this authorization, the Company may purchase shares from time to time in the open market or in private transactions, depending on market price and other considerations. On January 31, 2001, the Board of Directors authorized an expansion of the stock repurchase program for up to an additional 2 million shares of the Company's common stock. Through February 23, 2001, the Company had repurchased 1,235,000 shares of its common stock under this program at a cost of $31.8 million.

During 2000, in connection with the share repurchase program, the Company issued three separate option contracts under which the contract counterparties have the option to require the Company to purchase an agreed-upon number of shares of its common stock at a specific strike price per share. The first option contract was issued in July 2000 and required the Company to purchase 250,000 shares of its common stock on October 25, 2000. The Company received a premium of $0.4 million for issuing this contract which expired unexercised on October 25, 2000. The remaining two contracts, both issued in December 2000, require the Company to purchase 200,000 shares of its common stock on March 15, 2001 and 200,000 shares of its common stock on June 12, 2001 at an aggregate cost of approximately $8.6 million. The Company received premiums, in aggregate, of $0.5 million for issuing these contracts. As of February 23, 2001, the market value of the Company's common stock exceeded the strike prices under the two open contracts.

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 $60 million for 2001. This amount includes the anticipated costs of opening approximately 25 new Men's Wearhouse stores and 15 new K&G stores in 2001 at an expected average cost per store of approximately $350,000 for the Men's Wearhouse stores and approximately $585,000 for the K&G stores (excluding telecommunications and point-of-sale equipment and inventory). It also includes approximately $8.0 million for the first phase of construction of a new distribution center. The balance of the capital expenditures for 2001 will be used for telecommunications, point-of-sale and other computer equipment and systems and store relocations, remodeling and expansion. The Company anticipates that each of the approximately 25 new Men's Wearhouse stores and each of the approximately 15 new K&G stores will require, on average, an initial inventory costing approximately $550,000 and $1,500,000, 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 Euro). 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 five 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

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. Upon adoption of SFAS 133 in the first quarter of 2001, the Company will recognize a cumulative loss adjustment of $0.6 million ($0.4 million, net of tax) in accumulated other comprehensive income related primarily to unrealized losses on foreign currency forward exchange contracts.

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 clothing, market trends in the retail 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/Euro 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 February 3, 2001, the Company had 30 contracts maturing in monthly increments to purchase an aggregate notional amount of $26.5 million in foreign currency. These forward contracts do not extend beyond July 31, 2002. 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. Unrealized pretax losses on these forward contracts totaled approximately $0.6 million at February 3, 2001 and approximately $1.8 million at January 29, 2000. A hypothetical 10% change in applicable February 3, 2001 forward rates would increase or decrease this pretax loss by approximately $2.6 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. Upon adoption of SFAS 133 in the first quarter of 2001, the Company will recognize a cumulative loss adjustment of $0.6 million ($0.4 million, net of tax) in accumulated other comprehensive income related primarily to unrealized losses on foreign currency forward exchange contracts.

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 $45.2 million at February 3, 2001 (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)

	January 29, 2000	**February 3, 2001**
Assets		
Current Assets:		
Cash	$ 77,798	**$ 84,426**
Inventories	319,940	**355,284**
Other current assets	25,727	**29,371**
Total current assets	423,465	**469,081**
Property and Equipment, At Cost:		
Land	5,253	**5,778**
Buildings	12,854	**20,665**
Leasehold improvements	99,843	**130,117**
Furniture, fixtures and equipment	131,973	**168,700**
	249,923	**325,260**
Less accumulated depreciation and amortization	(111,497)	**(139,343)**
Net property and equipment	138,426	**185,917**
Other Assets, Net	49,304	**52,736**
Total	$ 611,195	**$ 707,734**
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 76,420	**$ 77,502**
Accrued expenses	53,301	**49,894**
Current portion of long-term debt	2,594	**2,508**
Income taxes payable	10,899	**20,593**
Total current liabilities	143,214	**150,497**
Long-Term Debt	46,697	**42,645**
Other Liabilities	12,311	**19,605**
Total liabilities	202,222	**212,747**
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, 41,943,143 and 42,231,869 shares issued or issuable	409	**422**
Capital in excess of par	182,662	**189,656**
Retained earnings	227,191	**311,852**
Accumulated other comprehensive (loss) income	59	**(316)**
Total	410,321	**501,614**
Treasury stock, 55,373 and 286,746 shares at cost	(1,348)	**(6,627)**
Total shareholders' equity	408,973	**494,987**
Total	$ 611,195	**$ 707,734**

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

Consolidated Statements of Earnings

For the Years Ended January 30, 1999, January 29, 2000 and February 3, 2001

(In thousands, except per share amounts)

Fiscal Year	1998	1999	**2000**
Net sales	$1,037,831	$1,186,748	**$1,333,501**
Cost of goods sold, including buying and occupancy costs	659,997	747,782	**818,835**
Gross margin	377,834	438,966	**514,666**
Selling, general and administrative expenses	282,789	323,328	**373,508**
Combination expenses:			
Transaction costs	—	7,707	**—**
Duplicate facility costs	—	6,070	**—**
Litigation costs	—	930	**—**
Operating income	95,045	100,931	**141,158**
Interest expense (net of interest income of $2,060, $1,568 and $2,845, respectively)	7,993	2,580	**839**
Earnings before income taxes	87,052	98,351	**140,319**
Provision for income taxes	36,910	42,394	**55,658**
Earnings before extraordinary item	50,142	55,957	**84,661**
Extraordinary item, net of tax	701	2,912	**—**
Net earnings	$ 49,441	$ 53,045	**$ 84,661**
Net earnings per basic share:			
Earnings before extraordinary item	$ 1.23	$ 1.34	**$ 2.03**
Extraordinary item, net of tax	(0.02)	(0.07)	**—**
	$ 1.21	$ 1.27	**$ 2.03**
Net earnings per diluted share:			
Earnings before extraordinary item	$ 1.19	$ 1.32	**$ 2.00**
Extraordinary item, net of tax	(0.02)	(0.07)	**—**
	$ 1.17	$ 1.25	**$ 2.00**
Weighted average shares outstanding:			
Basic	40,738	41,848	**41,769**
Diluted	42,964	42,452	**42,401**

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

Consolidated Statements of Shareholders' Equity

For the Years Ended January 30, 1999, January 29, 2000 and February 3, 2001

(In thousands, except shares)

	Common Stock	Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
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						49,396
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
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						53,337
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

	Common Stock	Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance—January 29, 2000	409	182,662	227,191	59	(1,348)	408,973
Comprehensive income:						
Net earnings	—	—	84,661	—	—	84,661
Translation adjustment	—	—	—	(375)	—	(375)
Total comprehensive income						84,286
Common stock issued to stock discount plan—44,713 shares	—	1,020	—	—	—	1,020
Common stock issued upon exercise of stock options—248,653 shares	3	3,874	—	—	—	3,877
Common stock withheld to satisfy tax withholding liabilities of optionees—3,890 shares	—	(109)	—	—	—	(109)
Conversion of exchangable shares to common stock—984,353 shares	10	(10)	—	—	—	—
Tax benefit recognized upon exercise of stock options	—	1,382	—	—	—	1,382
Proceeds from sale of option contracts	—	929	—	—	—	929
Treasury stock purchased—335,000 shares	—	—	—	—	(7,871)	(7,871)
Treasury stock issued to profit sharing plan—103,627 shares	—	(92)	—	—	2,592	2,500
Balance—February 3, 2001	**$422**	**$189,656**	**$311,852**	**$(316)**	**$(6,627)**	**$494,987**

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

Consolidated Statements of Cash Flows

For the Years Ended January 30, 1999, January 29, 2000 and February 3, 2001
(In thousands)

	1998	1999	**2000**
Cash Flows From Operating Activities:			
Net earnings	$ 49,441	$ 53,045	**$ 84,661**
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary item, net of tax	701	2,912	**—**
Depreciation and amortization	26,761	30,082	**34,689**
Deferred tax provision (benefit)	2,194	(256)	**7,225**
Stock option compensation expense	137	889	**—**
Duplicate facility costs	—	4,004	**—**
Increase in inventories	(46,428)	(15,737)	**(36,632)**
Increase in other assets	(1,285)	(1,227)	**(7,636)**
Increase in accounts payable and accrued expenses	4,705	23,858	**829**
Increase (decrease) in income taxes payable	(1,343)	3,271	**11,065**
Increase in other liabilities	684	444	**500**
Net cash provided by operating activities	35,567	101,285	**94,701**
Cash Flows From Investing Activities:			
Capital expenditures, net	(53,474)	(47,506)	**(79,411)**
Investment in trademarks, tradenames and other assets	(6,718)	(321)	**(3,989)**
Maturities of short-term investments	29,698	8,525	**—**
Purchases of short-term investments	(18,045)	(2,500)	**—**
Purchases of minority interest	—	(2,135)	**—**
Net cash used in investing activities	(48,539)	(43,937)	**(83,400)**
Cash Flows From Financing Activities:			
Proceeds from issuance of common stock	3,649	2,212	**4,897**
Proceeds from revolving credit facility	4,443	—	**—**
Long-term borrowings	42,500	49,688	**—**
Principal payments on long-term debt	(45,809)	(60,113)	**(2,518)**
Repayment of convertible debt	(21,473)	—	**—**
Deferred financing and merger costs	(1,010)	(625)	**—**
Distributions to minority interest	(176)	—	**—**
Proceeds from sale of put options	—	—	**929**
Tax payments related to options exercised	(905)	(413)	**(109)**
Purchase of treasury stock	(926)	(1,273)	**(7,871)**
Net cash used in financing activities	(19,707)	(10,524)	**(4,672)**
Effect of exchange rate changes on cash	123	(38)	**(1)**
Increase (Decrease) In Cash	(32,556)	46,786	**6,628**
Cash:			
Beginning of period	63,568	31,012	**77,798**
End of period	$ 31,012	$ 77,798	**$ 84,426**

	1998	1999	**2000**
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 10,367	$ 4,339	**$ 3,353**
Income taxes	$ 36,428	$ 39,417	**$ 38,341**
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	$ 1,458	$ 418	**$ 1,382**
Additional capital in excess of par resulting from conversion of stock options upon combination with Moores	$ —	$ 1,237	**$ —**
Treasury stock contributed to employee stock plan	$ 1,500	$ 2,000	**$ 2,500**

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

Notes to Consolidated Financial Statements

For the Years Ended January 30, 1999, January 29, 2000 and February 3, 2001

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 1998 ended on January 30, 1999, fiscal year 1999 ended on January 29, 2000 and fiscal year 2000 ended on February 3, 2001. Both fiscal years 1998 and 1999 included 52 weeks. Fiscal year 2000 included 53 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 original 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 29, 2000 and February 3, 2001, 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 $60.8 million, $64.5 million and $69.7 million in fiscal 1998, 1999 and 2000, 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 Euro). 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. 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 considers its business as one operating segment based on the similar economic characteristics of its three brands. Revenues of Canadian retail operations were $130.7 million, $133.2 million and $145.7 million for fiscal 1998, 1999 and 2000, respectively. Long-lived assets of the Company's Canadian operations were $32.7 million and $33.9 million as of the end of fiscal 1999 and 2000, 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. Upon adoption of SFAS 133 in the first quarter of 2001, the Company will recognize a cumulative loss adjustment of $0.6 million ($0.4 million, net of tax) in accumulated other comprehensive income related primarily to the unrealized losses on foreign currency forward exchange contracts.

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. As of February 3, 2001, all Exchangeable Shares, which had substantially identical economic and legal rights as shares of the Company's common stock, had been converted on a one-on-one basis to 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. As of January 29, 2000, there were 1.0 million Exchangeable Shares that had not yet been converted but were 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 store 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.

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.

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 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	1998	1999	**2000**
Earnings before extraordinary item	$50,142	$55,957	**$84,661**
Extraordinary item, net of tax	701	2,912	**—**
Net earnings	$49,441	$53,045	**$84,661**
Weighted average number of common shares outstanding	40,738	41,848	**41,769**
Basic EPS			
Earnings before extraordinary item	$ 1.23	$ 1.34	**$ 2.03**
Extraordinary item, net of tax	(0.02)	(0.07)	**—**
Net earnings	$ 1.21	$ 1.27	**$ 2.03**
Earnings before extraordinary item	$50,142	$55,957	**$84,661**
Interest on notes, net of taxes	1,144	—	**—**
As adjusted	51,286	55,957	**84,661**
Extraordinary item, net of tax	701	2,912	**—**
As adjusted	$50,585	$53,045	**$84,661**
Weighted average number of common shares outstanding	40,738	41,848	**41,769**
Assumed exercise of stock options	684	604	**632**
Assumed conversion of notes	1,542	—	**—**
As adjusted	42,964	42,452	**42,401**
Diluted EPS			
Earnings before extraordinary item	$ 1.19	$ 1.32	**$ 2.00**
Extraordinary item, net of tax	(0.02)	(0.07)	**—**
Net earnings	$ 1.17	$ 1.25	**$ 2.00**

4. Long-Term Debt

The Company has a revolving credit agreement with a group of banks (the "Credit Agreement") that 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 from 0.75% to 1.25%. The Credit Agreement provides for fees applicable to unused commitments of 0.125% to 0.225%. As of February 3, 2001, there was no indebtedness outstanding under the Credit Agreement.

In addition, the Company entered into two Canadian credit facilities in conjunction with the combination with Moores (see Note 2). 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 under which the Company borrowed Can$75 million (US$50 million) in February 1999. The term credit borrowing is payable 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 credit borrowing was 6.0% and 6.3% at January 29, 2000 and February 3, 2001, respectively. 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 and to fund operating and other requirements of Moores. As of January 29, 2000 and February 3, 2001, there was US$49.3 and US$45.2 million outstanding under these credit agreements, respectively.

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 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 four fiscal years are as follows: 2001—$2.5 million; 2002—$2.5 million; 2003—$2.5 million; 2004—$37.7 million.

The Company utilizes letters of credit primarily for inventory purchases. At February 3, 2001, letters of credit totaling approximately $8.0 million were issued and outstanding.

5. Income Taxes

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

Fiscal Year	1998	1999	**2000**
Current tax expense:			
Federal	$25,715	$32,338	**$36,038**
State	4,558	5,486	**4,753**
Foreign	4,443	4,826	**7,642**
Deferred tax expense (benefit):			
Federal and state	2,594	125	**7,277**
Foreign	(400)	(381)	**(52)**
Total	$36,910	$42,394	**$55,658**

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 $25.8 million at February 3, 2001) 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	1998	1999	**2000**
Federal statutory rate	35%	35%	**35%**
State income taxes, net of federal benefit	5	4	**3**
Nondeductible transaction costs	—	3	**—**
Other	2	1	**2**
	42%	43%	**40%**

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). At February 3, 2001, the Company had net deferred tax liabilities of $2.6 million with $10.4 million classified as other current assets and $13.0 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 29, 2000 and February 3, 2001 were as follows (in thousands):

	January 29, 2000	**February 3, 2001**
Deferred tax assets:		
Accrued rent and other expenses	$ 6,615	**$ 4,887**
Accrued compensation	1,272	**1,554**
Accrued markdowns	3,088	**3,031**
Deferred intercompany profits	1,963	**2,422**
Other	621	**1,217**
	13,559	**13,111**
Deferred tax liabilities:		
Capitalized inventory costs	(2,085)	**(2,282)**
Property and equipment	(3,981)	**(9,785)**
Intangibles	(1,044)	**(846)**
Deferred intercompany interest	(1,174)	**(2,371)**
Other	(604)	**(454)**
	(8,888)	**(15,738)**
Net deferred tax assets (liabilities)	$ 4,671	**$ (2,627)**

6. Other Assets and Accrued Expenses

Other assets consist of the following (in thousands):

	January 29, 2000	**February 3, 2001**
Goodwill and other intangibles	$51,541	**$ 53,995**
Accumulated amortization	(8,422)	**(11,301)**
	43,119	**42,694**
Deposits and other	6,185	**10,042**
Total	$49,304	**$ 52,736**

Accrued expenses consist of the following (in thousands):

	January 29, 2000	**February 3, 2001**
Sales, payroll and property taxes payable	$11,084	**$ 10,343**
Accrued salary, bonus and vacation	15,397	**14,834**
Other	26,820	**24,717**
Total	$53,301	**$ 49,894**

7. Capital Stock, Stock Options and Benefit Plans

On June 19, 1998, the Company effected a 50% stock dividend. 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 0.43. In January 2000, the Board of Directors authorized the repurchase of up to one million shares in the open market or in private transactions, dependent on the market price and other considerations. On January 31, 2001, the Board of Directors authorized an expansion of the adopted stock repurchase program for up to an additional two million shares of its common stock. As of February 3, 2001, the Company had repurchased 335,000 shares at a cost of $7.9 million and had options outstanding for the repurchase of an additional 400,000 shares under this program (see Note 8). Through February 23, 2001, the Company had purchased an additional 900,000 shares at a cost of $23.9 million.

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, as amended, provides for the grant of options to purchase up to 1,850,000 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 117,500 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 one-third 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.

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, 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
Granted	741,745	23.72	
Exercised	(248,653)	15.59	
Forfeited	(111,653)	22.74	
Options outstanding, February 3, 2001	**2,434,399**	**$20.76**	**1,262,993**

Grants of stock options outstanding as of February 3, 2001 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	374,383	3.7 Years	$10.75	318,133	$10.81
15.01 to 25.00	1,757,551	7.6 Years	21.00	816,987	19.34
25.01 to 50.00	302,465	7.7 Years	31.81	127,873	34.58
$ 3.85 to 50.00	2,434,399		$20.76	1,262,993	$18.73

As of February 3, 2001, 2,059,727 options were available for grant under existing plans and 4,494,126 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 135,590, 67,201 and 248,653 shares of common stock were exercised during 1998, 1999 and 2000, respectively, resulted in a tax benefit to the Company of $1.5 million in 1998, $0.4 million in 1999 and $1.4 million in 2000, which has been recognized as capital in excess of par. In addition, the Company withheld 26,050 shares, 11,368 shares and 3,890 shares, respectively, of such common stock for withholding payments made to satisfy the optionees' income tax liabilities resulting from the exercises.

The Company has a profit sharing plan, in the form of an employee stock plan, which covers all eligible employees, and an employee tax-deferred savings plan. Contributions to the profit sharing plan are made at the discretion of the Board of Directors. During 1998, 1999 and 2000, contributions charged to operations were $2.1 million, $2.8 million and $2.9 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 lesser of the fair market value on the first day of the offering period or the fair market value on the last day of the offering period. 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 1999 and 2000 employees purchased 47,481 and 44,713 shares, respectively, under the ESDP, the weighted-average fair value of which was $21.89 and $22.82 per share, respectively. As of February 3, 2001, 1,311,218 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	1998	1999	**2000**
Earnings before extraordinary item:			
As reported	$50,142	$55,957	**$84,661**
Pro forma	$48,325	$53,623	**$81,505**
Earnings per share before extraordinary item:			
As reported:			
Basic	$ 1.23	$ 1.34	**$ 2.03**
Diluted	$ 1.19	$ 1.32	**$ 2.00**
Pro forma:			
Basic	$ 1.19	$ 1.28	**$ 1.95**
Diluted	$ 1.15	$ 1.26	**$ 1.92**

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 $13.76, $14.61 and $13.82 for grants made during fiscal 1998, 1999 and 2000, respectively. The following assumptions were used for option grants in 1998, 1999 and 2000, respectively: expected volatility of 52.07%, 52.92% and 54.71%, risk-free interest rates (U.S. Treasury five year notes) of 4.78%, 5.31% and 6.67%, and an expected life of six 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 2015. Rent expense for fiscal 1998, 1999 and 2000 was $52.9 million, $61.5 million and $71.8 million, respectively, and includes contingent rentals of $0.1 million, $0.4 million and $0.4 million, respectively.

Minimum future rental payments under noncancelable operating leases as of February 3, 2001 for each of the next five years and in the aggregate are as follows (in thousands):

Fiscal Year	Amount
2001	$ 71,654
2002	67,652
2003	61,837
2004	53,861
2005	43,764
Thereafter	110,657
Total	$409,425

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. 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 Euro). 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 February 3, 2001, the Company held forward exchange contracts with notional amounts totaling $26.5 million. All such contracts expire within 18 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 February 3, 2001, the contracts outstanding had a fair value of $0.6 million less than their notional value. Upon adoption of SFAS 133 in the first quarter of 2001, the Company will recognize a cumulative loss adjustment of $0.6 million ($0.4 million, net of tax) in accumulated other comprehensive income related primarily to unrealized losses on foreign currency forward exchange contracts (see Note 1).

The majority of the forward exchange contracts are with five 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.

Option contracts. During 2000, the Company issued three separate option contracts under which the contract counterparties have the option to require the Company to purchase an agreed-upon number of shares of its common stock at a specific strike price per share. The first option contract was issued in July 2000 and required the Company to purchase 250,000 shares of its common stock on October 25, 2000. The Company received a premium of $0.4 million for issuing this contract which expired unexercised on October 25, 2000. The remaining two contracts, both issued in December 2000, require the Company to purchase 200,000 shares of its common stock on March 15, 2001 and 200,000 shares of its common stock on June 12, 2001 at an aggregate cost of approximately $8.6 million. The Company received premiums, in aggregate, of $0.5 million for issuing these two contracts. As of February 23, 2001, the market value of the Company's common stock exceeded the strike prices under the two open option contracts.

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 1999 and 2000 fiscal years are presented below (in thousands, except per share amounts):

Fiscal 1999 Quarters Ended	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

Fiscal 2000 Quarters Ended	**April 29, 2000**	**July 29, 2000**	**October 28, 2000**	**February 3, 2001**
Net sales	**$287,876**	**$294,505**	**$304,198**	**$446,922**
Gross margin	**104,313**	**110,652**	**115,180**	**184,521**
Earnings before extraordinary item	**13,428**	**15,965**	**17,008**	**38,260**
Net earnings	**$ 13,428**	**$ 15,965**	**$ 17,008**	**$ 38,260**
Basic	**$ 0.32**	**$ 0.38**	**$ 0.41**	**$ 0.91**
Diluted	**$ 0.32**	**$ 0.38**	**$ 0.40**	**$ 0.90**

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 (see Note 2).

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 29, 2000 and February 3, 2001 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended February 3, 2001. 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 consolidated statements of income and comprehensive income, stockholders' equity, and cash flows of Moores for the year ended January 31, 1999, which statements reflect revenues of $130,675,000 for the year ended January 31, 1999. Those statements were audited by other auditors whose report, which was dated March 5, 1999 and was unqualified, has been furnished to us, and our opinion, insofar as it relates to the amounts included for Moores for fiscal 1998, is based solely on the report of such other auditors. We did not audit the consolidated statements of operations, stockholders' equity, and cash flows of K&G for the year ended January 31, 1999, which statements reflect total revenues of $139,234,000 for the year ended January 31, 1999. Those statements were audited by other auditors whose report, which was dated March 17, 1999 and was unqualified, has been furnished to us, and our opinion, insofar as it relates to the amounts included for K&G for fiscal 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 29, 2000 and February 3, 2001, and the results of their operations and their cash flows for each of the three years in the period ended February 3, 2001 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Houston, Texas
February 23, 2001

The Men's Wearhouse, Inc. Store List

651 total stores as of February 3, 2001

Men's Wearhouse / 473 Stores

Alabama (5)	Illinois (23)	Missouri (8)	Pennsylvania (19)
Arizona (10)	Indiana (8)	Nebraska (3)	Rhode Island (1)
Arkansas (1)	Iowa (1)	Nevada (5)	South Carolina (3)
California (86)	Kansas (2)	New Hampshire (3)	South Dakota (1)
Colorado (11)	Kentucky (3)	New Jersey (12)	Tennessee (9)
Connecticut (7)	Louisiana (4)	New Mexico (2)	Texas (46)
Delaware (2)	Maryland (11)	New York (19)	Utah (5)
District of Columbia (1)	Massachusetts (12)	North Carolina (12)	Virginia (16)
Florida (33)	Michigan (20)	Ohio (16)	Washington (13)
Georgia (13)	Minnesota (10)	Oklahoma (3)	Wisconsin (6)
Idaho (1)	Mississippi (1)	Oregon (6)	

K&G / 65 Stores

*Suit Warehouse stores
**Includes one Suit Warehouse store.

California (6)	Indiana (1)	Minnesota (2)	Pennsylvania (2)
Colorado (2)	Kansas (1)	New Jersey (5)	Tennessee (1)
Connecticut (1)	Louisiana (1)	New York (2)	Texas (12)
Florida (2)	Maryland (4)	North Carolina (1)	Virginia (1)
Georgia (7)	Massachusetts (3)	Ohio (5)**	Washington (1)
Illinois (1)	Michigan (4)*		

Moores Clothing For Men / 113 Stores

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

Corporate Directory

Directors and Executive Officers

George Zimmer
Chairman of the Board and
Chief Executive Officer

David H. Edwab
Vice Chairman of the Board
Senior Managing Director,
Bear, Stearns & Co. Inc.

Eric J. Lane
President and Chief Operating Officer

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 Company and Director

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

Kathleen Mason *
Director
President and Chief Executive Officer,
Tuesday Morning Corporation

Michael L. Ray * †
Director
Professor, Stanford University

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

Charles Bresler, Ph.D.
Executive Vice President

Doug Ewert
Executive Vice President
Chief Operating Officer,
K&G Men's Company

Bruce Hampton
Executive Vice President

Theodore T. Biele, Jr.
Senior Vice President,
Stores

Gary G. Ckodre
Senior Vice President,
Principal Accounting Officer

* Audit committee member
† Compensation committee member

Neill P. Davis
Senior Vice President,
Chief Financial Officer and
Treasurer

Jeff Marshall
Vice President,
Chief Information Officer

Corporate Officers

Thomas L. Jennings
Senior Vice President,
Real Estate

William Silveira
Senior Vice President,
Manufacturing

Dan Young
Senior Vice President,
Logistics and Distribution

Fred Alpert
Vice President,
Stores

Bill Ballard
Vice President,
Stores

Steven Cook
Vice President,
Stores

Bill Erickson
Vice President,
Store Planning and Design

Jeffrey Fript
Vice President,
Distribution

Jayme Maxwell
Vice President,
Marketing

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

Julie Panaccione
Vice President,
Travel and Events

Claudia A. Pruitt
Vice President, Assistant Treasurer
and Assistant Secretary

Carole L. Souvenir
Vice President,
Employee Relations

Dino Speranza
Vice President,
Stores

Ray Walsh
Vice President,
Information and Technology

Kirk Warren
Vice President,
Administration and Benefits

Diana M. Wilson
Vice President,
Corporate Controller

Don Botill
Associate Vice President,
Stores

Kevin Harris
Associate Vice President,
Distribution and Fulfillment

Shlomo Maor
Associate Vice President,
Training

Thomas Queret
Associate Vice President,
Accounting Services

Michael W. Conlon
Secretary

Moores Clothing for Men

David Starrett
President

Pat De Marco
Chief Financial Officer

Richard Bull
Vice President,
Merchandising

Dennis Button
Vice President,
Store Development

Brian Coen
Vice President,
Finance

Steve Nitchen
Vice President,
Store Operations

Mario Parziale
Vice President,
Production

K&G

Bradley M. Bell
Vice President,
Finance

John Damiano
Vice President,
Store Operations

R. Scott Saban
Vice President,
Operations and Information Systems

Larry Schaffer
Vice President,
General Merchandise Manager

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 7, 2001, 11 a.m.
The Westin St. Francis
335 Powell Street
San Francisco, California

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

Independent Auditors
Deloitte & Touche LLP
Houston, Texas

Transfer Agent and Registrar
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 menswearhouse.com

Market for the Company's Common Equity and Related Stockholder Matters. Our common stock is traded on the New York Stock Exchange under the symbol "MW." Prior to October 2, 2000, the Company's stock was traded on the NASDAQ National Market System under the symbol "MENS." Prior to April 3, 2000, the Company's stock was traded on the NASDAQ National Market System 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 the New York Stock Exchange and the NASDAQ National Market System.

	High	Low
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
Fiscal Year 2000		
First quarter ended April 29, 2000	**$30.00**	**$20.00**
Second quarter ended July 29, 2000	**26.50**	**17.25**
Third quarter ended October 28, 2000	**34.00**	**24.50**
Fourth quarter ended February 3, 2001	**33.07**	**21.00**

On March 30, 2001, there were approximately 962 holders of record and approximately 7,470 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 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 and other factors described herein and in the Company's annual report on Form 10–K for the year ended February 3, 2001.

DESIGN: HEINEY & CRAIG, INC., SAN FRANCISCO

The Men's Wearhouse, Inc.
40650 Encyclopedia Circle, Fremont, CA 94538
menswearhouse.com