

The Wet Seal, Inc.

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Annual Report

BUSINESS REVIEW

Staying In Tune

Contents

Page > br.2 Shareholder Letter

Page > br.8 Division Review

Page > br.26 Technology Review

Page > br.32 Officers and Directors

Page > fr.37 Financial Highlights

Page > fr.38 Five Year Summary

Page > fr.42 Management's Discussion

Page > fr.51 Quarterly Market Information

Page > fr.52 Consolidated Balance Sheets

Page > fr.54 Consolidated Statements of Income

Page > fr.55 Consolidated Statements of Comprehensive Income

Page > fr.56 Consolidated Statements of Stockholders' Equity

Page > fr.58 Consolidated Statements of Cash Flows

Page > fr.60 Notes to Consolidated Financial Statements

Page > fr.79 Independent Auditor's Report

Page > fr.80 Corporate Information

Focusing on the industry basics – fashion, retail, technology and people – is key to strengthening our corporate infrastructure. Following a period of record expansion, we're skipping to a steady new beat. From our dressier, more colorful fashion climate to our new web site, we're leading the way and drawing raves as we go.

Letter

Staying In Tune With **Shareholders**



To Our Shareholders

1999 was a very disappointing and difficult year for Wet Seal, Inc. Our earnings fell sharply compared to 1998 and sales grew by only 8% to \$524.4 million.

But in spite of all the difficulties and struggles throughout the year, we learned some very valuable lessons and gained important experience to help us better manage all of our divisions as we step forward into a new century.

We challenged our existing infrastructure and management team by opening 109 new stores in fiscal 1999, fueled by the acquisition of 78 locations from Britches of Georgetowne, as well as our own internal expansion. We ended our year with 80 Arden B. stores,

barely a year since launching the concept, along with 23 Limbo Lounge stores and 445 Wet Seal and Contempo Casuals locations. We launched our first online e-commerce store under our Blue Asphalt brand in August 1999 and mailed two magalogs under the Blue Asphalt banner during the year.

Although we barely missed a beat when we nearly tripled our size in our acquisition of Contempo Casuals in 1995, we learned the hard way that growth and change in four very different businesses was much more challenging to absorb than we had anticipated, particularly with an infrastructure that previously only supported one concept. Ultimately our core business was bound to suffer.

While it was a very difficult lesson to learn, we gained invaluable experience that will make 1999 a turning point for Wet Seal, Inc., and ultimately a milestone in our continued evolution and growth.

We are well on the road to recovery, moving forward into a new decade with a strong balance sheet, no long-term debt, and a renewed commitment to our core philosophy to be a fashion leader in all of our divisions. We are confident in our ability to succeed.

We gratefully acknowledge the dedication of all of our employees, particularly our management team, who continue to look enthusiastically to our future. We also thank our shareholders for their support in a difficult and disappointing year.

Sincerely,



Kathy Bronstein
Vice Chairman and CEO



Edmond Thomas
President and COO

Fashion

Staying In Tune With **Fashion**

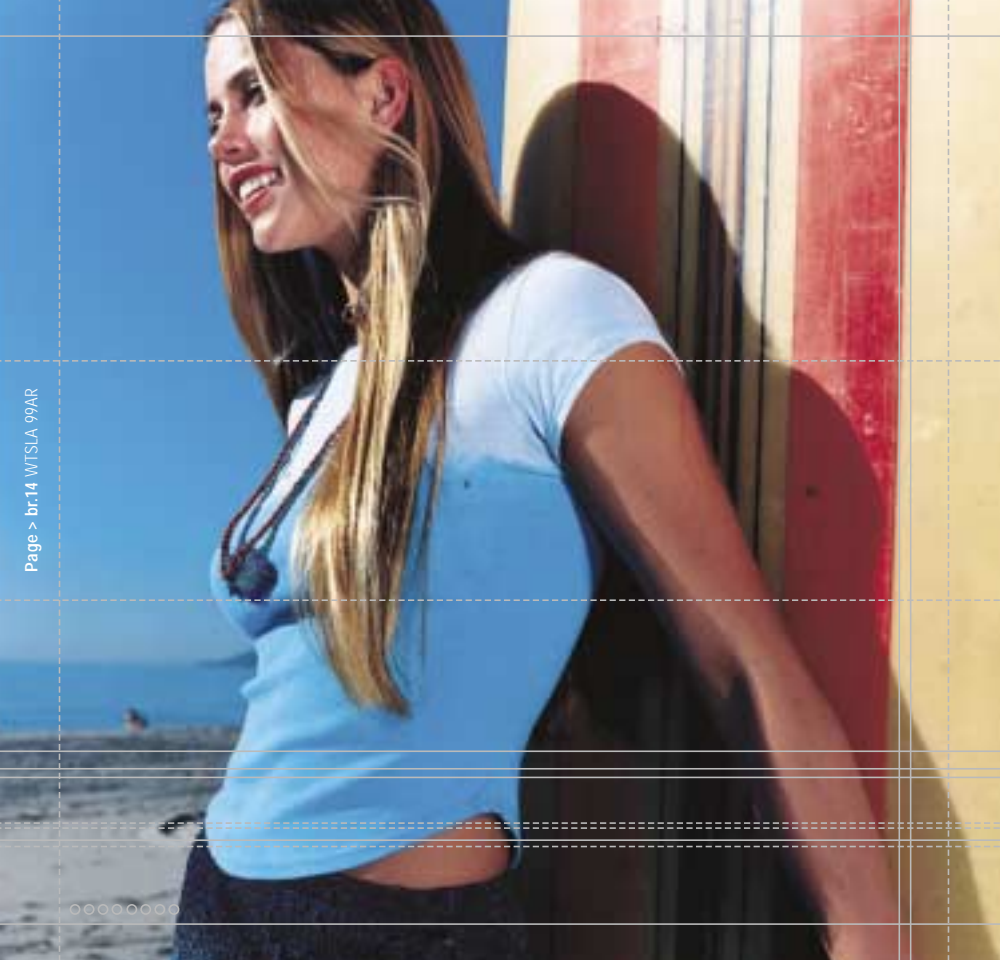
Hey, hey what's that sound? Listen and you're apt to hear, figuratively speaking, the heavy metal jingling 'round the pockets of fashion-loving teens! The typical Wet Seal girl's got a pretty penny in discretionary buying power – averaging \$80 per week claim the financial analysts. And she's game to plunk it down on what she deems to be the next big thing on the junior fashion scene. The retailer with the savvy to take her fickle fashion pulse, then deliver before the next scene change, wins the game.

This is just the music Wet Seal dances to. We know she'll change her clothes as fast as she'll change her mind, but we step a little faster. This past year, Wet Seal knew there was more than a scene change looming in 1999, but rather a sea of change in fashion merchandising. A new cycle emerged in the fashion industry, and it is having a profound effect on the look in our nationwide stores and in the way teens are dressing in the Year 2000. Color has resurfaced in a major way, fabrics are newly exciting and styles have trended away from the very basic of basics and boyishly charming into girly in every sense.

Wet Seal geared up for this new volatile fashion climate in its famously rapid turnaround time. If allowed to toot our own horn for a couple of bars, we'd brag that our ability to adjust at lightning speed is second to none, and has historically been our corporate strength. Now, too, Wet Seal is positioned to be first on the racks with such trends as the bubblegum pinks and the silvery shine. When the girls come looking for

Wet Seal





leathery looks, new coated fabrications or tees with but a single shoulder, Wet Seal's out front with the latest. We've not foregone the basics, long our core business, but we've dressed them up.

By continually fine-tuning our infrastructure and building strategic alliances, we get there first with the right styles at the right price. Our ability to negotiate the exclusive deals and provide the labels she asks for by name is second to none. Our influential position within the industry also allows us to lock in the key marketing tie-ins and promote our name alongside the other big names dear to a teen's heart.

It all starts with forecasting. We're right out there with our customer, on the club scene, the dance floor, the sports games. One of our favorite forums for scoping out trends in our market is the music industry. For if a girl's not shopping on her down time, we know there's a good chance she's indulging in her second favorite passion – her tunes. From girl groups and boy bands to personal rock idols, she connects with their looks and their attitudes. How her stars look and play from LA to New York gives Wet Seal its best fashion clues.

Once in development, domestic sourcing is encouraged to speed a look to the stores. When the styles hit the stores nationwide, her peers are all on staff ready to outfit her for the concert tonight or Homecoming tomorrow. They'll even help her do up her room, her dorm or her first car. Wet Seal's home accessories for 12-to-20 year olds is one of our hottest merchandise categories. It fits right in with the Wet Seal mission to meet all her needs for the important events and times of her life, and to do it first and do it right.

Chances are, teens shopping Contempo Casuals do not remember a time when their music format was not a CD. But ask them about disco balls and disco fashion and you'd think they'd been there and done that. Music and teen fashion have traditionally been linked, and when her tunes morph into a new phase, so will she. She's fickle like that. Retro's in this minute, the next, it's passé. That much we know for sure. Everyone involved at Contempo Casuals was 11, or 14, or 17 once, too, and took a fashion cue from pop princesses, TV shows and defining films.

Now Contempo Casuals is doing the morphing. After winding up the century with a year of record expansion, the largest growth in the history of The Wet Seal, Inc. we're catching our breath, taking our pulse and switching fashion gears to keep ahead of the expanding junior market – the fastest growing population group under age 50. Now a full tilt change is underway in millennial fashion. Girls are getting dolled up just like their idols on stage. While she'll still hop into her jeans and tees for the day, they now have to have something special going for them if they're going to be worth an allowance. New coated fabrics, especially synthetics, with lively color, decorative trim and lots of prettiness are a dramatic switch from the khakis and cotton tees that were her uniforms just a blink ago.

Remastered to lead this trend, we hold to our mission to be first with the best at the right price. We are adding and deleting categories and addressing each as it gains or

Contempo Casuals





loses importance. Shifts in our proprietary in-house national brands are happening quickly as we seek to cover all the junior lifestyles. Formula X, our brand with club wear emphasis, is enjoying a new wave of popularity. Others, Blue Asphalt, A. Aubrey and Evolution not Revolution among them, share the glory in Contempo Casuals stores across the country with other nationally known names – ‘cause this girl, and all her girlfriends, anxious to be part of the in crowd, know their labels and tout them.

While in-house designers are preparing 10 to 12 collections a year, exceeding department store turns, Contempo Casuals buyers are in the market using the company's clout and excellent reputation to negotiate exclusivity for their deals. For these two reasons Contempo Casuals stock has never presented a cookie-cutter fashion image with its department store or specialty store competitors. Nor do frequent shoppers ever find the store the same. With each visit – and teen girls pay 40% more visits to the mall than their moms – she is all but guaranteed fresh temptations. No one but no one adjusts to junior market trends more quickly than each of The Wet Seal, Inc. divisions, even in volatile market periods.

At Contempo Casuals she'll find her entire got-a-life wardrobe for school, weekends, partying. And all the accessories, including the shoes, jewelry, cute undies and pajamas. If she shops the competition – and it is human nature – well, Contempo Casuals provides that, too. Sister Wet Seal stores are there for her, sometimes right in the same mall. After closing, she can still access Contempo Casuals, just by typing the contempocasuals.com web address into her computer. We work around the clock to make Contempo Casuals music to her ears.

Think of a favorite song, one with lyrics that float through the mind again and again. Arden B. is that kind of lyrical store, stocked with vivid color, airy fabrics and all the prettiness the year 2000 has come to represent in the fashion world. Just past its first anniversary, this spin-off division of Wet Seal is a little older and wiser now, and has grown more beautiful in maturity. Rolling out 80 stores nationally in less than six months, The Wet Seal, Inc. is committed to building its loveliest of divisions into the belle of the ball.

Striking the right chord with the young-contemporary woman who's outgrown her Wet Seal days, Arden B. appeals with just one label – its own – and with an entire wardrobe offering. Here, in a single location, she'll find an entire repertoire for work, weekend or special event, plus everything to accessorize. Newly adept at mixing up her own pieces, then dressing them up and down, she has all the elements to play with. Once the upper echelon label of the Wet Seal store, Arden B. was graduated into its own store identity targeting this customer who has a newly developed sense of her personal style. Now comfortable with her individual fashion look, we find her foregoing label consciousness for clothing that makes her feel sexy, sophisticated and successful. Arden B. shoppers were essentially without their own store that exclusively served their niche in the marketplace until The Wet Seal, Inc. stepped in to create it.

Arden B.



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Since its inception, Arden B. has picked up its tempo. Now operating with an amazingly fast turnaround time, collections are introduced continually. Stores appear fresh every time a shopper pays a return visit. Arden B.'s staff of forecasters and designers interpret the hot off-the-runway styles almost instantaneously following travels to local and European market shows. Trends are adapted and attuned to the likes and needs of this highly researched young contemporary customer base. As all of this is happening behind the scenes, in-store staff is busy contacting customers by phone. Good news travels fast, too.

Arden B.'s current strategy, based on its first year's experiences, involves remastering the timing of its collections. Lesson number one from the marketplace: Arden B. shoppers buy now to wear now. Be it impulse or instant gratification, she still wants her summery styles in July. A dress that's right for tonight. Winter warmth even after Christmas. By keeping fluid, Arden B. can be sure what's introduced to its stores today, will play today.

The Wet Seal, Inc. is committed to building and strengthening its Arden B. brand. Current fashion industry trends toward feminine fashion, lavish color and unique design work in its favor. Shopping is in. Propelled by all the brightness, lightness and freshness we're seeing now, it's no wonder. Shopping is exciting again. Arden B. is in tune with it all, first out with perfectly harmonious looks in sheers, florals, denims, silks and whatever elements tomorrow may bring.

No question about it, Limbo Lounge rocks. Here at The Wet Seal, Inc.'s edgy in-spot for both girls and guys, shopping is up there with clubbing as a cool way to spend down time. With this retail environment so totally contemporary, Limbo Lounge has struck a winning chord with its twenty-something customers who opt for style and atmosphere a little to the edge of mainstream. Boutique in flavor, the inventory is an ever-changing mix of stellar name brand fashion and unique, quasi-domestic Livin' in Limbo surprises. Some soft furnishings, some awesome photo frames, some fuzzy dice to dangle from the rear view mirror – a few examples of what you might find interspersed with the casual and date night clothing mix. Limbo Lounges are as much entertainment as they are stores, appealing to a multi-media savvy MTV-raised generation born to sing to the music and dance to the beat as they shop.

It's a little like jazz. The beat at the Limbo Lounge is always open for new interpretations. Who knew, just two years ago, Limbo Lounge would become such a successful niche market for The Wet Seal, Inc.? First introduced regionally in 1996 with a mere two stores, the chain has gone national and the concept is quickly gaining recognition amongst guys and girls coast-to-coast. Strategically located where Gen Xers and Gen Yers play and shop – in entertainment centers, popular streetfront venues and malls with the right demographics and store/entertainment mix, the clubby mood works. With the

Limbo Lounge





vibrant color, dramatic, splashy graphics and visual displays, it's never business as usual in a Limbo Lounge. Some might say, "It's showtime!"

The current trend of fashion in ready-to-wear upstaging the basic categories has given the Limbo Lounge concept its big boost. Stocked with the important nationally known and special labels as well as hip new styles for both sexes, the selection is fresh daily and offers ample opportunity for self expression in fashion. Save the drumroll, though, for the furnishings and fluff stuff classification. This concept of lounge furniture for a first apartment or even a dorm room has gone through the roof. Cleverly designed, priced for the fledgling budget and totally comfy and cool, the habitat items are the rising stars of Limbo Lounges.

Such a store where the twenty-something customers can shop solo, or duo on date night, try on new party duds along with every conceivable accessory, then sit back and bliss out over the tunes is worth an encore. The concept has now proven itself viable and created a following of loyal fans. Any would-be competitor is sure to find the bright little star of The Wet Seal, Inc., Limbo Lounge, a very hard act to follow.

eCommerce

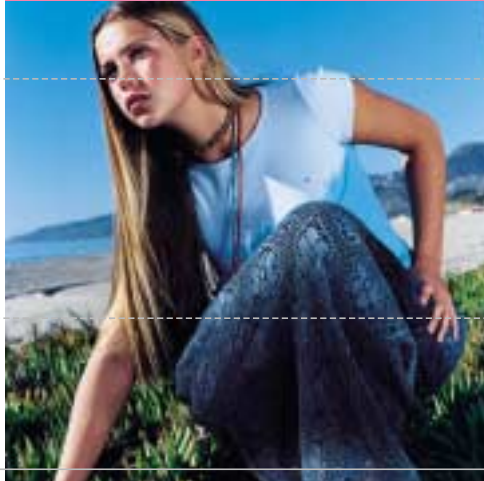
Staying In Tune With **Technology**



Page > br:30 WTSIA 99AR

- shop
- deals
- phoebe
- e-zine
- contests
- chat
- mail
- gift card
- postcards
- returns
- closeouts
- subscribe to Phoebe's news
- phoebe's news

wet seal



shop
 store locator
www.blueasphalt.com
www.contempocasuals.com
 corporate information
 career opportunities
 hassle free returns to
 any of our stores



click here to see
 everything that is
 phoebulous

TIE DYE AND WIN

Win a \$1000 shopping spree!

E-tail it to Phoebe's room. You're promised a Phoebulus time. Phoebe's the iconic-graphic hostess with a 'tude starring on The Wet Seal, Inc.'s exclusive new websites. Phoebe rocks, and Phoebe shops.

There are three ways in. You can go through the www.wetseal.com, www.contempocasuals.com or www.blueasphalt.com addresses. A single click from the homepage and Phoebe will be there to introduce herself. She'll treat you like one of her peer groupies – even if you're old enough to be one of her 'rents. And, of course she'll take you shopping. It's the virtual "going to the mall with a best friend-cum-personal shopper" excursion, but it can take place anytime, even at 9 p.m. after a teen's home-work is done!

On our sites, you'll enjoy a multi-media experience so wired it even impresses the Nintendo generation. The interactive Phoebe talks to you, in teen speak. Click and she'll take a seat while you peek in her closet, check out her tunes and make her fish flip right out of its tank. But the surfer is the one who gets hooked. Therein lies the cleverness, for the fish provides the lure to the shopping "pages" on the site. The stylized fish icon is a teaser and an incentive, for it can pop up anywhere at any time to call attention to something special .

The Wet Seal, Inc. Online

Page > br:31 WTSIA 99AR

The Wet Seal, Inc.'s 1999 plunge into e-commerce has been a huge, cutting edge splash. Relevant, entertaining, and technologically memorable, the sites have been designed to first and foremost support The Wet Seal, Inc.'s brick-and-mortar stores as the hippest theater for teen fashion. The web presence keeps all company divisions in a customer's life 24/7. This dot-com business has allowed The Wet Seal, Inc. to blanket the country and the world to connect with new customers in remote areas where virtual stores effectively substitute for brick and mortar. Whether promoting store locations or the fashion trends, the sites never lose sight of their mission to provide a vast, exciting and innovative shopping destination and build The Wet Seal, Inc.'s image as the fashion leader in the junior market.

In a volatile marketplace where time and timing is everything, the web is one more excellent vehicle allowing The Wet Seal, Inc. to be first. Coming in first being The Wet Seal, Inc.'s forte, the latest and greatest new fashions can be uploaded effortlessly and seamlessly on a moment's notice. The web, in effect, has created the fastest distribution channel ever invented. For debuting a new hit single or launching a fabulous new group of winning styles or accessories, any savvy young shopper with a yen for fashion and a connection to the internet can be first on her block to check out the chart-busters.

Company Info.

Staying In Tune With **Management**

Board of Directors

George H. Benter Jr. President, Chief Operating Officer and Director, City National Bank

Kathy Bronstein Vice Chairman and Chief Executive Officer, The Wet Seal, Inc.

Stephen Gross President, Suzy Shier Limited

Walter F. Loeb President, Loeb Associates, Inc.

Wilfred Posluns Managing Director, Cedarpoint Investments, Inc.

Gerald Randolph Chief Financial Officer and Director, Suzy Shier Limited

Alan Siegel Partner, Akin, Gump, Strauss, Hauer and Feld, L.L.P

Irving Teitelbaum Chairman and Chief Executive Officer, Suzy Shier Limited

Edmond Thomas President and Chief Operating Officer, The Wet Seal, Inc.

Executive Committee

Irving Teitelbaum Chairman

Kathy Bronstein

Edmond Thomas

Compensation Committee

Irving Teitelbaum Chairman

Stephen Gross

Wilfred Posluns

Option Committee

George H. Benter, Jr.

Walter F. Loeb

Incentive Compensation Committee

George H. Benter, Jr.

George H. Benter, Jr.

Audit Committee

Wilfred Posluns Chairman

George H. Benter, Jr.

Gerald Randolph

Corporate Officers

Irving Teitelbaum Chairman of the Board

Kathy Bronstein Vice Chairman and Chief Executive Officer

Edmond Thomas President and Chief Operating Officer

Stephen Gross Secretary

Barbara Bachman Senior Vice President of Store Operations

Kimberly Bajrech Vice President of Merchandising

Lee Breitenbach Vice President of Physical Distribution

Adrienne Ernst Senior Vice President of Product Development and Design

Cecilia Gasgonia Vice President of Merchandise, Planning and Allocation

Heather Hollister Vice President of Real Estate

Sharon Hughes Vice President of Merchandising

Ann Cadier Kim Senior Vice President of Finance and Chief Financial Officer

Tina McAuley Vice President of Product Development and Sourcing

Shelley Moeller Vice President of Human Resources

Cheryl Rudich Vice President of Marketing

Norman Shaw Vice President of Managment Information Systems

Vic Spina Vice President of Store Planning and Construction

THE *wet seal* INC.
WET SEAL / CONTEMPO CASUALS / ARDEN B. / LIMBO LOUNGE

26972 Burbank
Foothill Ranch
California 92610
949.583.9029

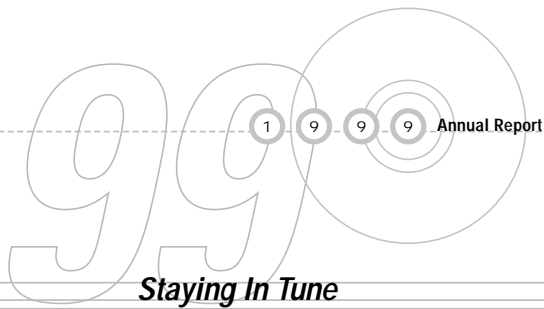


Stay Tuned

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The Wet Seal, Inc.

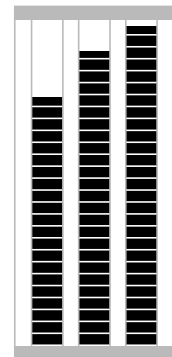
FINANCIAL REVIEW



Contents

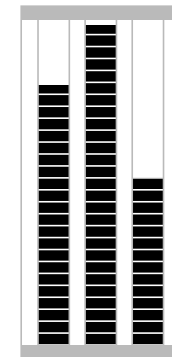
- Page > fr.37 Financial Highlights
- Page > fr.38 Five Year Summary
- Page > fr.42 Management's Discussion
- Page > fr.51 Quarterly Market Information
- Page > fr.52 Consolidated Balance Sheets
- Page > fr.54 Consolidated Statements of Income
- Page > fr.55 Consolidated Statements of Comprehensive Income
- Page > fr.56 Consolidated Statements of Stockholders' Equity
- Page > fr.58 Consolidated Statements of Cash Flows
- Page > fr.60 Notes to Consolidated Financial Statements
- Page > fr.79 Independent Auditor's Report
- Page > fr.80 Corporate Information

Net Sales
(in millions)



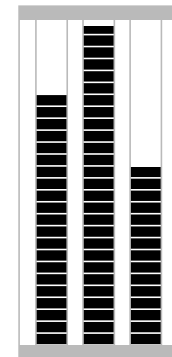
1997 1998 1999
\$412 \$485 \$524

Net Income
(in millions)



1997 1998 1999
\$21.3 \$26.0 \$14.2

Net Income Per Share
(diluted)



1997 1998 1999
\$1.53 \$1.91 \$1.11

The Wet Seal, Inc. goes on record for 1999 with the big picture and a strong balance sheet. Now a larger, four division corporation with a number of in-house national "labels" to our credit, there's strength in our numbers and music in our soul.

Five Year Summary

(in thousands except per share and per square foot amounts, ratios, share data and square footage data)

The following table of certain selected data regarding the Company should be read in conjunction with the financial statements and notes thereto and with the "Management's Discussion and Analysis of Financial

Condition and Results of Operations. The data for the fiscal years ended February 1, 1997 and February 3, 1996 are derived from the Company's consolidated financial statements for such years which are not included herein.

Fiscal Year	1999	1998	1997	1996	1995
Fiscal Year Ended	January 29, 2000	January 30, 1999	January 31, 1998	February 1, 1997	February 3, 1996 ⁽¹⁾
Operating Results					
Sales	\$ 524,407	\$ 485,389	\$ 412,463	\$ 374,942	\$ 266,695
Income before provision for income taxes	\$ 23,842	\$ 42,202	\$ 36,325	\$ 26,217	\$ 9,948
Net income	\$ 14,183	\$ 25,954	\$ 21,250	\$ 15,252	\$ 5,815
Per Share Data					
Net income, basic	\$ 1.14	\$ 1.98	\$ 1.57	\$ 1.15	\$ 0.47
Net income, diluted	\$ 1.11	\$ 1.91	\$ 1.53	\$ 1.13	\$ 0.47
Weighted average shares outstanding, basic	12,425,704	13,085,587	13,552,502	13,219,284	12,387,140
Weighted average shares outstanding, diluted	12,813,338	13,581,233	13,899,877	13,459,810	12,500,564

Five Year Summary (continued from page 39)

(in thousands except per share and per square foot amounts, ratios, share data and square footage data)

Fiscal Year	1999	1998	1997	1996	1995
Fiscal Year Ended	January 29, 2000	January 30, 1999	January 31, 1998	February 1, 1997	February 3, 1996(1)
Other Financial Information					
Net income as a percentage of sales	2.7%	5.3%	5.2%	4.1%	2.2%
Return on average stockholders' equity	10.97%	22.3%	20.8%	20.5%	10.7%
Cash and marketable securities	\$ 78,603	\$ 91,506	\$ 95,873	\$ 89,183	\$ 57,153
Working capital ⁽²⁾	\$ 47,707	\$ 21,856	\$ 66,452	\$ 59,791	\$ 26,051
Ratio of current assets to current liabilities	1.8	1.3	2.1	2.1	1.5
Total assets	\$ 213,009	\$ 197,490	\$ 184,223	\$ 154,752	\$ 117,564
Long-term debt	\$ -	\$ 1,264	\$ 1,264	\$ 3,264	\$ 5,264
Total stockholders' equity	\$ 138,233	\$ 120,278	\$ 112,994	\$ 91,120	\$ 57,735
Number of stores open at year end	548	454	389	364	364
Number of stores acquired during the year	78	19	-	-	237
Number of stores opened during the year	31	67	34	10	3
Number of stores closed during the year	15	21	9	10	9
Square footage of leased store space at year end	2,182,606	1,848,513	1,637,347	1,539,777	1,530,891
Percentage of increase in leased square footage	18.1%	12.9%	6.3%	0.6%	156.6%
Average sales per square foot of leased space ⁽³⁾	\$ 247	\$ 271	\$ 263	\$ 244	\$ 229
Average sales per store ⁽³⁾	\$ 988	\$ 1,132	\$ 1,112	\$ 1,030	\$ 976
Comparable store sales (decrease) increase ⁽⁴⁾	(9.8)%	2.1%	5.8%	8.8%	(4.1)%

(1) The Company's fiscal 1995 data includes the results of operations of Contempo Casuals since July 1, 1995. Fiscal 1995 consisted of 53 weeks.

(2) The decrease in working capital in fiscal 1998 is due to the classification of \$37,973,000 of cash investments as long-term in fiscal 1998.

(3) In fiscal 1995, the 53rd week of sales was excluded from "Sales" for purposes of calculating "Average sales per square foot" and "Average sales per store" in order to make fiscal 1995 comparable to prior years.

(4) In fiscal 1996, "Comparable store sales" were calculated by excluding sales during the first week of fiscal 1995 in order to make fiscal 1995 comparable to fiscal 1996. In fiscal 1995, "Comparable store sales" were calculated by adding the first week of fiscal 1995 to fiscal 1994 sales in order to make fiscal 1994 comparable to fiscal 1995. "Comparable store sales" are defined as sales in stores that were open throughout the full fiscal year and throughout the full prior fiscal year.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The Company is one of the largest national mall-based specialty retailers focusing primarily on young women's apparel, and currently operates 542 retail stores in 42 states, Washington D.C. and Puerto Rico. The Company operates the stores under the names "Wet Seal," "Contempo Casuals," "Arden B." and "Limbo Lounge." The Company initiated a catalog in fiscal 1998 and an e-commerce web-site in August 1999. In fiscal 2000, the Company does not plan to mail any catalogs, but will continue its e-commerce initiatives.

On July 1, 1995, the Company acquired Contempo Casuals. The purchase price consisted of a \$100,000 cash payment and the issuance of 254,676 shares of Class A Common Stock which had a market value of \$1,178,000 as of the acquisition date. In addition, the Company assumed approximately \$27,700,000 of current liabilities of Contempo Casuals. The transaction was accounted for under the purchase method and resulted in negative goodwill. The acquisition substantially increased the number of stores the Company operates. Effective February 2, 1997, Contempo Casuals, Inc. was merged with and into The Wet Seal, Inc.

On December 1, 1998, the Company acquired the leases and furniture and fixtures for 19 store locations from Mothers Work, Inc. The purchase price of \$1,911,000 was allocated to leasehold improvements and furniture, fixtures and equipment. The majority of the locations acquired were converted to Arden B. stores.

On February 1, 1999, the Company acquired the leases and furniture and fixtures for 78 store locations from Britches of Georgetowne, Inc. for \$15,704,000. Based upon a third-party appraisal, the purchase price was allocated to leasehold improvements, lease rights, and furniture, fixtures and equipment. Excess of cost over net assets acquired (goodwill) totaling \$6,972,000 is being amortized on the straight-line method over 20 years. The majority of the locations acquired were converted to Arden B. stores.

As of January 29, 2000, the Company operated 548 stores compared to 454 stores as of January 30, 1999, the end of fiscal 1998. The Company opened 109 stores during fiscal 1999 and closed 15 stores.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's consolidated financial statements and the notes thereto.

Results of Operations

Fiscal 1999 consists of the 52 week period ended January 29, 2000, fiscal 1998 consists of the 52 week period ended January 30, 1999 and fiscal 1997 consists of the 52 week period ended January 31, 1998. Comparable store sales for fiscal 1999 are defined as sales in stores that were open at least 14 months. Comparable store sales for fiscal 1998 and prior are defined as sales in stores that were open throughout the full fiscal year and throughout the full prior fiscal year. The change in the method of calculating comparable store sales in fiscal 1999 would not have resulted in any material change to the results of fiscal 1998 and fiscal 1997 if applied retroactively to these fiscal years.

The following table sets forth selected income statement data of the Company expressed as a percentage of sales for the years indicated:

As a Percentage of Sales

Fiscal Year Ended	January 29, 2000	January 30, 1999	January 31, 1998
Sales (including frequent buyer sales income, catalog and web-site sales)	100.0%	100.0%	100.0%
Cost of sales (including buying, distribution and occupancy costs)	72.5	69.3	71.0
Gross margin	27.5	30.7	29.0
Selling, general and administrative expenses	23.8	22.8	21.1
Operating income	3.7	7.9	7.9
Other income	0.2	-	-
Interest income, net	0.6	0.8	0.9
Income before provision for income taxes	4.5	8.7	8.8
Provision for income taxes	1.8	3.4	3.6
Net income	2.7%	5.3%	5.2%

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Fiscal 1999 Compared to Fiscal 1998

Sales in fiscal 1999 were \$524,407,000 compared to sales in fiscal 1998 of \$485,389,000, an increase of \$39,018,000, or 8.0%. The dollar increase in sales in fiscal 1999 compared to fiscal 1998 was due to the impact of the 109 new store openings in fiscal 1999 and the full year impact in 1999 of the net 65 new store openings in fiscal 1998. These increases were somewhat offset by the closing of 15 stores in fiscal 1999 and by the decrease in comparable store sales of 9.8%.

Cost of sales, including buying, distribution and occupancy costs, was \$380,012,000 in fiscal 1999 compared to \$336,527,000 in fiscal 1998, an increase of \$43,485,000 or 12.9%. As a percentage of sales, cost of sales increased to 72.5% in fiscal 1999, from 69.3% in fiscal 1998, an increase of 3.2%. The dollar increase in cost of sales in fiscal 1999 compared to fiscal 1998 was due primarily to the increase in the number of stores. The increase in cost of sales as a percentage of sales related primarily to an increase in occupancy costs as a percentage of sales due to the decrease in comparable store sales. To a lesser extent, the increase was due to an increase in buying costs as a percentage of sales due to additional headcount added in fiscal 1999 to support the increase in the number of stores. Offsetting these increases was a decrease in distribution costs related primarily to the decrease in the unit cost of processing in the current year and to leveraging of fixed costs such as rent and depreciation due to the increase in total sales. The cost of merchandise as a percentage of sales was the same as the prior year. There was an improvement in the initial mark up and the shrink rate in fiscal 1999 compared to fiscal 1998, which was offset by an increase in markdowns. The increase in markdowns was related primarily with the need to clear merchandise due to the decrease in comparable store sales, particularly in the fourth quarter.

Selling, general and administrative expenses were \$124,712,000 in fiscal 1999 compared to \$110,554,000 in fiscal 1998, an increase of \$14,158,000, or 12.8%. As a percentage of sales, selling, general and administrative expenses was 23.8% in fiscal 1999 compared to 22.8% in fiscal 1998, an increase of 1%. The dollar increase in selling, general and administrative expenses in fiscal 1999 compared to fiscal 1998 was primarily due to the increase in total sales. The increase as a percentage of sales was primarily related to the increases in selling wages and advertising expenses in the current year as a percentage of sales offset somewhat by a decrease in the fixed costs associated with catalog production as a percentage of sales. Without the impact of the catalog operation, selling, general and administrative expenses increased 1.8%. This increase related primarily to the increase in selling ex-

pense as a percentage of sales due to the impact of the decrease in the comparable store sales on the fixed portion of store wages. Also contributing to the increase as a percentage of sales was an increase in advertising expense related to a national advertising campaign in fiscal 1999 for both the Blue Asphalt and Arden B. brands.

Other income, net, was \$1,154,000 or 0.2% of sales in fiscal 1999. Other income, net, was related to the sale of one store lease.

Interest income, net, was \$3,005,000 in fiscal 1999 compared to \$3,894,000 in fiscal 1998, a decrease of \$889,000. This decrease was due primarily to a decrease in the average cash balance invested during the year.

Income tax provision was \$9,659,000 in fiscal 1999 compared to \$16,248,000 in fiscal 1998. The effective income tax rate in fiscal 1999 was 40.5% compared to 38.5% in fiscal 1998. The increase in the effective tax rate in fiscal 1999 compared to fiscal 1998 was due to the impact of the lower pretax income in fiscal 1999 and the permanent timing differences between book and tax, as well as to the decrease in tax exempt securities.

Based on the factors noted above, net income was \$14,183,000 in fiscal 1999 compared to \$25,954,000 in fiscal 1998, a decrease of \$11,771,000 or 45.4%. As a percentage of sales, net income was 2.7% in fiscal 1999 compared to 5.3% in fiscal 1998.

Fiscal 1998 Compared to Fiscal 1997

Sales in fiscal 1998 were \$485,389,000 compared to sales in fiscal 1997 of \$412,463,000, an increase of \$72,926,000 or 17.7%. The dollar increase in sales in fiscal 1998 compared to fiscal 1997 was primarily due to the impact of the 86 new store openings in fiscal 1998 and the full year impact in 1998 of the net 25 new store openings in fiscal 1997. These increases were somewhat offset by the closing of 21 stores in fiscal 1998. To a lesser extent, the increase in sales was due to an increase in comparable store sales of 2.1%.

Cost of sales, including buying, distribution and occupancy costs, was \$336,527,000 in fiscal 1998 compared to \$292,644,000 in fiscal 1997, an increase of \$43,883,000 or 15.0%. As a percentage of sales, cost of sales decreased to 69.3% in fiscal 1998, from 71.0% in fiscal 1997, a decrease of 1.7%. The dollar increase in cost of sales in fiscal 1998 compared to fiscal 1997 was due primarily to the increase in total sales. Of the 1.7% decrease in cost of sales as a percentage of sales, 1.2% related to a decrease in occupancy costs, 0.6% related to a decrease in the cost of merchandise and 0.1% related to a decrease in buying costs, offset by a 0.2% increase in distribution costs. The decrease in occupancy

costs was associated primarily to the leverage of the catalog operation sales on store occupancy costs. To a lesser extent, the decrease in occupancy was due to a decrease in store rental expenses, as a percentage of sales, as a result of the expense leverage related to the increase in comparable store sales. The decrease of 0.6% in merchandise cost was due to an increase in the initial markup rates related to a decrease in the cost of merchandise. The 0.1% decrease in buying costs as a percentage of sales was due to the leverage associated with the increase in total sales. The 0.2% increase in distribution costs was related primarily to the catalog operation.

Selling, general and administrative expenses were \$110,554,000 in fiscal 1998 compared to \$86,999,000 in fiscal 1997, an increase of \$23,555,000 or 27.1%. As a percentage of sales, selling, general and administrative expenses was 22.8% in fiscal 1998 compared to 21.1% in fiscal 1997. The dollar increase in selling, general and administrative expenses in fiscal 1998 compared to fiscal 1997 was primarily due to the increase in total sales and, to a lesser extent, the expenses related to the catalog operation. The increase as a percentage of sales was primarily due to the impact of the fixed costs associated with catalog production. Without the impact of the catalog operation, selling, general and administrative expenses increased 0.5%. This increase related primarily to the increase in selling expense as a percentage of sales due to the increases in minimum wage and to the start-up costs associated with new store openings. Also contributing to the increase as a percentage of sales was an increase in administrative wages to support the expanded operations in fiscal 1998.

Interest income, net, was \$3,894,000 in fiscal 1998 compared to \$3,505,000 in fiscal 1997, an increase of \$389,000. This increase was due primarily to an increase in the average cash balance invested during the year.

Income tax provision was \$16,248,000 in fiscal 1998 compared to \$15,075,000 in fiscal 1997. The effective income tax rate in fiscal 1998 was 38.5% compared to 41.5% in fiscal 1997. The decrease in the effective tax rate in fiscal 1998 compared to fiscal 1997 was due to the increase in income generated from states with lower effective tax rates, as well as the impact of changes in the corporate cash investment strategy, which resulted in higher balances invested in tax exempt securities.

Based on the factors noted above, net income was \$25,954,000 in fiscal 1998 compared to \$21,250,000 in fiscal 1997, an increase of \$4,704,000 or 22.1%. As a percentage of sales, net income was 5.3% in fiscal 1998 compared to 5.2% in fiscal 1997.

Liquidity and Capital Resources

Working capital at the end of fiscal 1999, 1998 and 1997 was \$47,707,000, \$21,856,000 and \$66,452,000, respectively. The increase in working capital in fiscal 1999 compared to fiscal 1998 was due to a net decrease in long-term investments of \$30,686,000, as current year cash was invested to a larger extent in investments with maturities less than one year. Net cash provided by operating activities in fiscal 1999, 1998 and 1997 was \$28,795,000, \$43,950,000 and \$31,948,000, respectively. The decrease in net cash provided by operating activities in fiscal 1999 compared to fiscal 1998 was due primarily to the decrease in net earnings. Further contributing to the decrease was the decrease in income taxes payable and the increase in inventory. This was offset to some extent by the increase in accounts payable. The decrease in income taxes payable was due to the decrease in taxable income, particularly in the fourth quarter. The increase in inventory over the prior year was related to the increase in the number of stores. The increase in accounts payable over the prior year related to the increase in inventory.

The increase in net cash provided by operating activities in fiscal 1998 compared to fiscal 1997 was due primarily to the increase in net earnings. Further contributing to the increase was the increase in income taxes payable and accounts payable offset, to some extent, by the increase in inventory and deferred tax, net. The increase in income taxes payable was due to the timing of tax payments. The increase in accounts payable was attributable to the increase in payables associated with capital expenditures. The increase in inventory over the prior year was related to the increase in the number of stores offset to some extent by the decrease in catalog inventory as compared to the prior year.

Additions to equipment and leasehold improvements are the Company's most significant investment activities. In fiscal 1999, 1998 and 1997 the Company invested \$26,819,000, \$26,503,000 and \$22,973,000, respectively, in property and equipment and leasehold improvements. These expenditures relate primarily to new store openings and remodels. On February 1, 1999, the Company acquired the leases and equipment and leasehold improvements for 78 store locations from Britches of Georgetowne, Inc. for \$15,704,000, of which \$6,972,000 was classified as goodwill. On December 1, 1998, the Company acquired the leases and equipment and leasehold improvements for 19 store locations from Mothers Work, Inc. for \$1,911,000. The majority of the locations acquired were converted to Arden B. stores.

In September 1998, the Company's Board of Directors authorized the repurchase of up to 20% of the outstanding shares of the Company's Class A Common Stock. As of January 29, 2000, 1,347,600 shares had been repurchased at a cost of \$20,059,000. Such repurchased shares are reflected as treasury stock in the accompanying consolidated financial statements.

The Company has a secured revolving line of credit arrangement with Bank of America National Trust and Savings Association ("Bank of America") in an aggregate principal amount of \$50,000,000, maturing on July 1, 2001 and a five year amortizing unsecured term loan with Bank of America in an amount up to \$10,000,000. As of January 29, 2000, the term loan had an outstanding balance of \$1,764,000. On October 29, 1999, the line of credit was extended to a maturity date of July 1, 2001. At January 29, 2000, there were no outstanding borrowings under the credit arrangement and there were \$4,836,000 open letters of credit related to imported inventory order. The Company was in compliance with all terms and covenants of the credit arrangement and the term loan. The Company invests its excess funds primarily in a short-term investment grade money market fund, investment grade commercial paper and U.S. Treasury and Agency obligations. Management believes the Company's working capital and cash flows from operating activities will be sufficient to meet the Company's operating and capital requirements in the foreseeable future.

Seasonality and Inflation

The Company's business is seasonal by nature with the Christmas season (beginning the week of Thanksgiving and ending the first Saturday after Christmas) and the back-to-school season (beginning the last week of July and ending the first week of September), historically accounting for the largest percentage of sales volume. In the Company's three fiscal years ended January 30, 1999, the Christmas and back-to-school seasons together accounted for an average of approximately 32% of the Company's annual sales, after adjusting for sales increases related to new stores. The Company does not believe that inflation has had a material effect on the results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

Statement Regarding Forward Looking Disclosure

The preceding "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections may contain various forward looking statements within the meaning of

Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, without limitation, the retention by the Company of suppliers for both brand name and Company-developed merchandise, the ability of the Company to expand and to continue to increase comparable store sales, and the sufficiency of the Company's working capital and cash flows from operating activities. In addition, these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, without limitation, a decline in demand for the merchandise offered by the Company, the ability of the Company to locate and obtain acceptable store sites and lease terms or renew existing leases, the ability of the Company to obtain adequate merchandise supply, the ability of the Company to hire and train employees, the ability of the Company to gauge the fashion tastes of its customers and provide merchandise that satisfies customer demand, management's ability to manage the Company's expansion, the effect of economic conditions, the effect of severe weather or natural disasters and the effect of competitive pressures from other retailers. The Company disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statement contained herein or to reflect any change in the expectations of the Company after the date hereof or any change in events, conditions or circumstances on which any statement is based.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 was initially effective for fiscal years beginning after June 15, 1999. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," which delays the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company does not believe the adoption of SFAS No. 133 will have a material effect on the Company's consolidated results of operations or financial condition.

Year 2000 Compliance

On January 1, 2000, many companies faced a potentially serious information systems (computer) problem because many software applications and operational programs written in the past did not properly recognize calendar dates beginning in the Year 2000. This problem could have forced computers or machines which utilize date dependent software to either shut down or provide incorrect data or information. We examined our computer and information systems and were assured by our software and hardware providers that our computer systems were fully compliant with the Year 2000. We also performed our own internal tests of our software and hardware to confirm that they were Year 2000 compliant.

At this time, we have not experienced any material Year 2000 related problems with our information systems and computer software, and we have not experienced any material problems with our key suppliers or customers related to Year 2000.

It is not possible to quantify the aggregate cost of upgrading our computer operating system and software since they were part of the software and hardware providers' normal upgrades to our systems. The costs for upgrading our information systems were funded through our operating cash flows, and we have spent approximately \$170,000 since 1998 for upgrades of our information systems and services associated with such upgrades.

We intend to continue to review our information systems as well as monitor our key suppliers and customers for any undetected Year 2000 problems which may not be apparent yet. However, we do not currently believe that there are any undetected Year 2000 problems that could have a material impact on our business, financial condition or results of operations.

Quarterly Market Information

The Company's Class A common Stock ("Common Stock") is listed on The NASDAQ Stock Market ("NASDAQ") under the symbol "WTSLA". As of March 20, 2000, there were 312 shareholders of record of the Company's Class A Common Stock. Additionally, the number of beneficial owners of the Company's Common Stock was estimated to be in excess of 4,500. The closing price of the Common Stock on March 20, 2000 was \$14¹/₄.

The following table reflects the high and low sale prices of the Company's Common Stock as reported by Nasdaq for the last two fiscal years.

Quarter	Fiscal 1999		Fiscal 1998	
	High	Low	High	Low
First Quarter	\$ 44 ⁵ / ₈	\$ 32 ¹ / ₂	\$ 38 ¹ / ₄	\$ 26 ⁷ / ₈
Second Quarter	46 ³ / ₈	24	37 ⁹ / ₁₆	25 ³ / ₄
Third Quarter	23 ³ / ₈	13 ³ / ₁₆	31	13 ⁵ / ₈
Fourth Quarter	14 ³ / ₄	11	38	16 ⁷ / ₈

The Company has reinvested earnings in the business and has never paid any cash dividends to holders of the Company's Common Stock. The declaration and payment of future dividends, which are subject to the terms and covenants contained in the Company's bank line of credit, are at the sole discretion of the Board of Directors and will depend upon the Company's profitability, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors.

Consolidated Balance Sheets (in thousands)

	January 29, 2000	January 30, 1999
Assets		
<i>Current assets:</i>		
Cash and cash equivalents (Note 1)	\$ 44,921	\$ 31,590
Short-term investments (Note 3)	26,395	21,943
Other receivables	3,909	3,665
Merchandise inventories (Note 1)	33,288	28,002
Deferred tax charges (Note 4)	1,560	1,791
Total current assets	110,073	86,991
<i>Equipment and leasehold improvements (Note 1):</i>		
Leasehold improvements	99,679	75,659
Furniture, fixtures and equipment	47,488	37,758
Leasehold rights	2,944	3,577
Construction in progress	—	489
	150,111	117,483
Less accumulated depreciation	(73,167)	(57,110)
Net equipment and leasehold improvements	76,944	60,373
<i>Long-term investments (Note 3)</i>	7,287	37,973
<i>Other assets:</i>		
Deferred tax charges and other assets (Notes 4 and 13)	11,594	11,677
Goodwill, net of accumulated amortization of \$992,000 and \$656,000 as of January 29, 2000 and January 30, 1999, respectively (Note 1)	7,111	476
Total other assets	18,705	12,153
	\$ 213,009	\$ 197,490

Consolidated Balance Sheets (in thousands)

(continued from page 52)

	January 29, 2000	January 30, 1999
Liabilities and stockholders' equity		
<i>Current liabilities:</i>		
Accounts payable	\$ 39,448	\$ 37,515
Accrued liabilities (Note 12)	20,611	20,430
Income taxes payable (Note 4)	543	6,190
Current portion of long-term debt (Note 9)	1,764	1,000
Total current liabilities	62,366	65,135
<i>Long-term liabilities:</i>		
Long-term debt (Note 9)	—	1,264
Deferred rent (Note 1)	8,501	7,458
Other long-term liabilities (Note 13)	3,909	3,355
Total long-term liabilities	12,410	12,077
Total liabilities	74,776	77,212
<i>Commitments and contingencies (Note 7)</i>		
<i>Stockholders' equity (Notes 5 and 6):</i>		
Preferred Stock, \$.01 par value, authorized, 2,000,000 shares; none issued and outstanding	—	—
Common Stock, Class A, \$.10 par value, authorized 20,000,000 shares; 10,900,023 and 10,704,886 shares issued and outstanding at January 29, 2000 and January 30, 1999, respectively	1,090	1,071
Common Stock, Class B convertible, \$.10 par value, authorized 10,000,000 shares; 2,912,665 shares issued and outstanding at January 29, 2000 and January 30, 1999	291	291
Paid-in capital	62,493	58,356
Retained earnings	94,557	80,374
Other comprehensive loss (Note 13)	(139)	(139)
Treasury stock, 1,347,600 and 1,327,000 shares, at cost, at January 29, 2000 and January 30, 1999, respectively	(20,059)	(19,675)
Total stockholders' equity	138,233	120,278
	\$ 213,009	\$ 197,490

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income (in thousands except per share data)

	January 29, 2000	January 30, 1999	January 31, 1998
Sales	\$ 524,407	\$ 485,389	\$ 412,463
Cost of sales (including buying, distribution and occupancy costs)	380,012	336,527	292,644
Gross margin	144,395	148,862	119,819
Selling, general and administrative expenses	124,712	110,554	86,999
Operating income	19,683	38,308	32,820
Other income	1,154	—	—
Interest income, net	3,005	3,894	3,505
Income before provision for income taxes	23,842	42,202	36,325
Provision for income taxes (Note 4)	9,659	16,248	15,075
Net income	\$ 14,183	\$ 25,954	\$ 21,250
Net income per share, basic (Note 14)	\$ 1.14	\$ 1.98	\$ 1.57
Net income per share, diluted (Note 14)	\$ 1.11	\$ 1.91	\$ 1.53
Weighted average shares outstanding, basic (Note 1)	12,425,704	13,085,587	13,552,502
Weighted average shares outstanding, diluted (Note 1)	12,813,338	13,581,233	13,899,877

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (in thousands except per share data)

	January 29, 2000	January 30, 1999	January 31, 1998
Net income	\$ 14,183	\$ 25,954	\$ 21,250
Other comprehensive loss:			
Supplemental employee retirement plan adjustment (Note 13)	—	(139)	—
Comprehensive income	\$ 14,183	\$ 25,815	\$ 21,250

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity (in thousands except per share data)

	Common Stock		Common Stock		Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Class A		Class B						
	Shares	Par Value	Shares	Par Value					
Balance at February 1, 1997	10,628,874	\$ 1,063	2,912,665	\$ 291	\$ 56,596	\$ 33,170	\$ –	\$ –	\$ 91,120
Stock issued pursuant to long-term incentive plan (Note 6)	8,704	1	–	–	265	–	–	–	266
Exercise of stock options (Note 6)	19,000	2	–	–	212	–	–	–	214
Tax benefit related to exercise of stock options (Note 6)	–	–	–	–	144	–	–	–	144
Net income	–	–	–	–	–	21,250	–	–	21,250
Balance at January 31, 1998	10,656,578	1,066	2,912,665	291	57,217	54,420	–	–	112,994
Stock issued pursuant to long-term incentive plan (Note 6)	12,308	1	–	–	462	–	–	–	463
Exercise of stock options (Note 6)	36,000	4	–	–	269	–	–	–	273
Tax benefit related to exercise of stock options (Note 6)	–	–	–	–	408	–	–	–	408
Repurchase of common stock (Note 5)	–	–	–	–	–	–	–	(19,675)	(19,675)
Supplemental Employee Retirement Plan adjustment (Note 13)	–	–	–	–	–	–	(139)	–	(139)
Net income	–	–	–	–	–	25,954	–	–	25,954
Balance at January 30, 1999	10,704,886	1,071	2,912,665	291	58,356	80,374	(139)	(19,675)	120,278
Stock issued pursuant to long-term incentive plan (Note 6)	10,137	1	–	–	110	–	–	–	111
Exercise of stock options (Note 6)	185,000	18	–	–	1,691	–	–	–	1,709
Tax benefit related to exercise of stock options (Note 6)	–	–	–	–	2,336	–	–	–	2,336
Repurchase of common stock (Note 5)	–	–	–	–	–	–	–	(384)	(384)
Net income	–	–	–	–	–	14,183	–	–	14,183
Balance at January 29, 2000	10,900,023	\$ 1,090	2,912,665	\$ 291	\$ 62,493	\$ 94,557	\$ (139)	\$ (20,059)	\$ 138,233

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (in thousands)

	January 29, 2000	January 30, 1999	January 31, 1998
Cash flows from operating activities:			
Net income	\$ 14,183	\$ 25,954	\$ 21,250
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,771	13,039	11,295
Loss on disposal of equipment and leasehold improvements	546	—	—
Stock issued pursuant to long-term incentive plan	111	463	266
Deferred tax, net	271	(1,124)	(2,189)
Changes in operating assets and liabilities:			
Other receivables	(244)	(456)	(1,632)
Merchandise inventories	(5,286)	(1,118)	(4,295)
Prepaid expenses	—	330	(330)
Other assets	43	(594)	(118)
Accounts payable and accrued liabilities	2,114	1,517	6,329
Income taxes payable	(3,311)	4,045	545
Deferred rent	1,043	1,204	137
Other long-term liabilities	554	690	690
Net cash provided by operating activities	28,795	43,950	31,948

Consolidated Statements of Cash Flows (in thousands)

(continued from page 58)

	January 29, 2000	January 30, 1999	January 31, 1998
Cash flows from investing activities:			
Investment in equipment and leasehold improvements	(26,819)	(26,503)	(22,973)
Acquisition of store leases and store assets	(15,704)	(1,911)	—
Investment in marketable securities	(4,452)	(83,018)	(42,320)
Proceeds from sale of marketable securities	30,686	43,418	39,704
Net cash used in investing activities	(16,289)	(68,014)	(25,589)
Cash flows from financing activities:			
Principal payments on long-term debt	(500)	(1,000)	(2,000)
Purchase of treasury stock	(384)	(19,675)	—
Proceeds from issuance of common stock	1,709	273	214
Net cash provided by (used in) financing activities	825	(20,402)	(1,786)
Net increase (decrease) in cash and cash equivalents	13,331	(44,466)	4,573
Cash and cash equivalents, beginning of year	31,590	76,056	71,483
Cash and cash equivalents, end of year	\$ 44,921	\$ 31,590	\$ 76,056

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Interest	\$ 146	\$ 194	\$ 337
Income taxes, net	\$ 12,902	\$ 13,326	\$ 16,720

Schedule of noncash transactions:

During the fifty-two weeks ended January 29, 2000, January 30, 1999 and January 31, 1998, the Company recorded an increase to paid-in capital and a decrease to income taxes payable of \$2,336,000, \$408,000 and \$144,000, respectively, related to tax benefits associated with the exercise of non-qualified stock options.

During the fifty-two weeks ended January 30, 1999, the Company recorded a decrease to other comprehensive income of \$139,000 and a corresponding decrease to other long-term liabilities and other assets of \$65,000 and \$204,000, respectively, related to the Supplemental Employee Retirement Plan (see note 13).

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

for the years ended January 29, 2000, January 30, 1999 and January 31, 1998

Note 1. Summary of Significant Accounting Policies

Nature of the Business The Wet Seal, Inc. (the "Company") is a nationwide specialty retailer of fashionable and contemporary apparel and accessory items designed for consumers with a young, active lifestyle. The Company's success is largely dependent upon its ability to gauge the fashion tastes of its customers and to provide merchandise that satisfies customer demand. The Company's failure to anticipate, identify or react to changes in fashion trends could adversely affect its results of operations.

Approximately 34% of the voting stock of the Company is held by a group of companies directly or indirectly controlled by two directors of the Company, one of which is the Chairman of the Board. On July 1, 1995, the Company acquired Contempo Casuals, Inc., a 237-store junior women's retail chain. Effective February 2, 1997, Contempo Casuals, Inc. was merged with and into The Wet Seal, Inc.

The Company's fiscal year ends on the Saturday closest to the end of January. The reporting period includes 52 weeks in each of the fiscal years 1999, 1998 and 1997.

Principles of Consolidation The consolidated financial statements include the accounts of The Wet Seal, Inc. and its wholly owned subsidiary, The Wet Seal Retail, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Merchandise Inventories Merchandise inventories are stated at the lower of cost (first-in, first-out) or market. Cost is determined using the retail inventory method.

Equipment and Leasehold Improvements Equipment and leasehold improvements are stated at cost. Expenditures for betterment or improvement are capitalized, while expenditures for repairs that do not significantly increase the life of the asset are expensed as incurred.

Depreciation is provided using primarily the straight-line method over the estimated useful lives of the assets. Furniture, fixtures and equipment are typically depreciated over three to five years. Leasehold improvements and the cost of acquiring leasehold rights are depreciated over the lesser of the term of the lease or 10 years.

Long-Lived Assets The Company accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121"). In accordance with SFAS No. 121, long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. At January 29, 2000, the Company believes there has been no impairment of the value of such assets.

Intangible Assets Excess of cost over net assets acquired (goodwill) which resulted from the acquisition of certain store assets in 1990 and 1999 is being amortized on the straight-line method over 20 years for the 1999 acquisition and over 25 years for the 1990 acquisition. The Company assesses the recoverability of goodwill at each balance sheet date by determining whether the amortization of the balance over its remaining useful life can be recovered through projected undiscounted future operating cash flows from the acquired assets.

Rental Expense Any defined rental escalation is averaged over the term of the related lease in order to provide level recognition of rental expense.

Store Pre-Opening Costs Store opening and pre-opening costs are charged to expense as they are incurred.

Advertising Costs Costs for advertising related to retail operations consisting of magazine ads, in-store signage and promotions are expensed as incurred. Direct response advertising costs consisting primarily of catalog book production and printing costs are capitalized and amortized over the expected life of the catalog, not to exceed six months. In fiscal 1999, the Company embarked on a national magazine advertising campaign which included print ads promoting the Blue Asphalt name and the Arden B. concept which were placed in magazines such as Seventeen, Cosmopolitan, Glamour, In-Style, Jane, Teen People, Spin and Entertainment Weekly. Total advertising expenses related primarily to retail operations in fiscal 1999, 1998 and 1997 were \$5,567,000, \$1,993,000, and \$1,676,000, of which approximately \$2,872,000 was related to the print media advertising campaign in fiscal 1999.

Income Tax The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Deferred tax charges are provided on items, principally depreciation and rent, for which there are temporary differences in recording such items for financial reporting purposes and for income tax purposes.

Net Income per Share In accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"), net income per share, basic, is computed based on the weighted average number of common shares outstanding for the period. Net income per share, diluted, is computed based on the weighted average number of common and potentially dilutive common equivalent shares outstanding for the period (see note 14).

Statements of Cash Flows For purposes of the statements of cash flows, the Company considers all highly liquid interest earning deposits purchased with an initial maturity of three months or less to be cash equivalents. At January 29, 2000 and January 30, 1999, cash equivalents totaled \$40,230,000 and \$29,298,000, respectively, bearing interest at rates ranging from approximately 3.6% to 5.7% at January 29, 2000 and from approximately 4.7% to 5.3% at January 30, 1999.

New Accounting Pronouncements In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 was initially effective for fiscal years beginning after June 15, 1999. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - of the Effective Date of FASB Statement No. 133," which delays the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company does not believe the adoption of SFAS No. 133 will have a material effect on the Company's consolidated results of operations or financial condition.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Fair Value of Financial Instruments Management believes the carrying amounts of cash and cash equivalents, other receivables and accounts payable approximate fair value due to the short maturity of these financial instruments. Long-term investments consist of highly liquid interest bearing securities that are carried at amortized cost plus accrued income, which management believes approximates market. Long-term debt bears a variable rate of interest which management believes the carrying amount for the outstanding borrowings at January 29, 2000 and January 30, 1999 approximate fair value.

Stock-based Compensation The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (see note 6).

Segment Information In June 1997, the Financial Accounting Standards Board issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). This statement establishes standards for the way companies report information about operating segments in financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. In accordance with the provisions of SFAS No. 131, the Company has determined that it does not currently have any separately reportable operating segments.

Note 2. Acquisition

On July 1, 1995, the Company acquired the business, assets and properties of Contempo Casuals, Inc., a 237-store junior women's retail chain with stores in 34 states and Puerto Rico. The purchase price consisted of: (a) the issuance of 254,676 shares of the Company's Class A Common Stock which had a value of \$1,178,000 on the date of the acquisition, and (b) \$100,000 in cash. The transaction was accounted for under the purchase method. In connection with the acquisition, the Company assumed certain liabilities which were estimated by the seller. The total amount of these assumed liabilities may not, in fact, be paid as the actual payments will be based on the future claims and losses which are actually submitted and which are related to pre-acquisition events (see note 12).

On December 1, 1998, the Company acquired the leases and furniture and fixtures for 19 store locations from Mothers Work, Inc. The purchase price of \$1,911,000 was allocated to leasehold improvements and furniture, fixtures and equipment in the accompanying consolidated financial statements. The majority of the locations acquired were converted to Arden B. stores.

On February 1, 1999, the Company acquired the leases and furniture and fixtures for 78 store locations from Britches of Georgetowne, Inc. for \$15,704,000. Based upon a third-party appraisal, the purchase price was allocated to leasehold improvements, lease rights, and furniture, fixtures and equipment in the accompanying consolidated financial statements. Excess of cost over net assets acquired (goodwill) totaling \$6,972,000 is being amortized on the straight-line method over 20 years. The majority of the locations acquired were converted to Arden B. stores.

Note 3. Investments

Short-term investments consist of highly liquid interest bearing deposits purchased with an initial maturity exceeding three months with a remaining maturity at January 29, 2000 less than 12 months. Long-term investments consist of highly liquid interest bearing securities that mature beyond 12 months from the balance sheet date. It is management's intent to hold short-term and long-term investments to maturity. Short-term and long-term investments are carried at amortized cost plus accrued income, which approximates market at January 29, 2000.

Investments are comprised of the following (in thousands):

Description	Maturity Dates	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
January 29, 2000					
Corporate bonds	Within one year	\$ 3,588	\$ -	\$ 90	\$ 3,498
Municipal bonds	Within one year	10,507	-	236	10,271
Government obligations	Within one year	10,800	-	103	10,697
Floating rate/Adj. Notes	Within one year	1,500	-	-	1,500
Municipal bonds	One to two years	7,287	-	108	7,179
		\$ 33,682	\$ -	\$ 537	\$ 33,145

Description	Maturity Dates	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
January 30, 1999					
Commercial paper	Within one year	\$ 1,000	\$ -	\$ -	\$ 1,000
Corporate bonds	Within one year	1,514	-	4	1,510
Municipal bonds	Within one year	7,679	3	-	7,682
Government obligations	Within one year	11,750	-	11	11,739
Corporate bonds	One to two years	3,087	-	27	3,060
Municipal bonds	One to two years	34,886	31	-	34,917
		\$ 59,916	\$ 34	\$ 42	\$ 59,908

Note 4. Provision for Income Taxes

SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the future consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. The measurement of deferred items is based on enacted tax laws. In the event that the future consequences of differences between financial reporting bases and the tax bases of the Company's assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The components of the income tax provision are as follows (in thousands):

	January 29, 2000	January 30, 1999	January 31, 1998
Current:			
Federal	\$ 7,067	\$ 13,442	\$ 12,886
State	2,321	3,930	4,378
	9,388	17,372	17,264
Deferred:			
Federal	(47)	(1,126)	(1,535)
State	318	2	(654)
	271	(1,124)	(2,189)
	\$ 9,659	\$ 16,248	\$ 15,075

A reconciliation of the income tax provision to the amount of the provision that would result from applying the federal statutory rate (35%) to income before taxes is as follows:

	January 29, 2000	January 30, 1999	January 31, 1998
Provision for income taxes at federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	7.2	5.6	7.2
Tax exempt interest	(1.7)	(1.5)	(2.0)
Inventory contributions	(2.0)	—	—
Other	2.0	(0.6)	1.3
Effective tax rate	40.5%	38.5%	41.5%

As of January 29, 2000 and January 30, 1999, the Company's net deferred tax asset was \$10,438,000 and \$10,709,000 respectively. The major components of the Company's net deferred taxes at January 29, 2000 and January 30, 1999 are as follows (in thousands):

	January 29, 2000	January 30, 1999
Deferred rent	\$ 3,316	\$ 2,987
Acquisition related reserves	608	630
Inventory cost capitalization	919	1,080
Difference between book and tax basis of fixed assets	4,022	4,632
State income taxes	(279)	(179)
Supplemental Employee Retirement Plan	860	594
Other	992	965
	\$ 10,438	\$ 10,709

Note 5. Stockholders' Equity

The 2,912,665 shares of the Company's Class B Common Stock outstanding as of January 29, 2000 are convertible on a share-for-share basis into shares of the Company's Class A Common Stock at the option of the holder. The Class B Common Stock has two votes per share while the Class A Common Stock has one vote per share.

During the year ended January 30, 1999, the Company's Board of Directors authorized the repurchase of up to 20% of the outstanding shares of the Company's Class A Common Stock. As of January 29, 2000, 1,347,600 shares had been repurchased at a cost of \$20,059,000. Such repurchased shares are reflected as treasury stock in the accompanying consolidated financial statements.

Note 6. Long-Term Incentive Plan

Under the Company's long-term incentive plans (the "Plans"), the Company may grant stock options which are either incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or non-qualified stock options. The Plans provide that the per share exercise price of an incentive stock option may not be less than the fair market value of the Company's

Class A Common Stock on the date the option is granted. Options become exercisable over periods of up to five years and generally expire 10 years from the date of grant or 90 days after employment or services are terminated. The Plans also provide that the Company may grant restricted stock and other stock-based awards. An aggregate of 2,425,000 shares of the Company's Class A Common Stock may be issued pursuant to the Plans. As of January 29, 2000, 296,007 shares were available for future grants.

Stock option activity for each of the three years in the period ended January 29, 2000 was as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at February 1, 1997	412,500	\$ 6.64
Granted	595,000	20.00
Canceled	(21,000)	17.70
Exercised	(19,000)	11.24
Outstanding at January 31, 1998	967,500	14.53
Granted	130,000	16.93
Canceled	(12,000)	13.57
Exercised	(36,000)	7.58
Outstanding at January 30, 1999	1,049,500	14.42
Granted	705,500	15.13
Canceled	(58,000)	16.17
Exercised	(185,000)	9.24
Outstanding at January 29, 2000	1,512,000	\$ 15.32

At January 29, 2000, January 30, 1999 and January 31, 1998 there were 380,500, 283,500 and 119,500 outstanding options exercisable at a weighted average exercise price of \$11.71, \$8.42 and \$4.65, respectively.

The following table summarizes information on outstanding and exercisable stock options as of January 29, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of Jan. 29, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of Jan. 29, 2000	Weighted Average Exercise Price
\$ 3.00 - \$ 3.63	17,000	4.36	\$ 3.52	17,000	\$ 3.52
4.13 - 5.13	163,500	4.22	4.18	161,500	4.17
8.00 - 16.50	911,500	9.17	15.39	78,000	15.96
19.31 - 20.00	420,000	7.62	19.97	124,000	19.98
\$ 3.00 - \$20.00	1,512,000	8.15	\$ 15.32	380,500	\$ 11.71

During the years ended January 29, 2000, January 30, 1999 and January 31, 1998, the Company recognized tax benefits of \$2,336,000, \$408,000 and \$144,000, respectively, resulting from the exercise of certain non-qualified stock options.

Additional Long-Term Incentive Plan Information As discussed in Note 1, the Company continues to account for its stock-based awards using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, no compensation expense has been recognized in the consolidated financial statements for employee incentive stock options or non-qualified stock options.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method as of the beginning of fiscal 1995. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

The Company's calculations were made using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Dividend Yield	0.00%	0.00%	0.00%
Expected Volatility	62.74%	49.93%	72.23%
Risk-Free Interest Rate	5.81%	4.74%	6.10%
Expected Life of Option following Vesting (in Months)	48	48	48

The Company's calculations are based on a valuation approach and forfeitures are recognized as they occur. If the computed fair values of the fiscal 1999, fiscal 1998 and fiscal 1997 awards had been amortized to expense over the vesting period of the awards, net income (in thousands) and earnings per share would have been reduced to the pro forma amounts indicated below:

		Fiscal 1999	Fiscal 1998	Fiscal 1997
Net Income	As reported	\$ 14,183	\$ 25,954	\$ 21,250
	Pro forma	\$ 12,759	\$ 24,804	\$ 20,745
Net Income Per Share, Basic	As reported	\$ 1.14	\$ 1.98	\$ 1.57
	Pro forma	\$ 1.03	\$ 1.90	\$ 1.53
Net Income Per Share, Diluted	As reported	\$ 1.11	\$ 1.91	\$ 1.53
	Pro forma	\$ 1.00	\$ 1.83	\$ 1.49

The impact of outstanding non-vested stock options granted prior to 1995 has been excluded from the pro forma calculation; accordingly, the above pro forma adjustments are not indicative of future period pro forma adjustments, when the calculation will apply to all applicable stock options.

As of January 29, 2000, the Company has granted an aggregate of 96,493 shares of Class A Common Stock, net of forfeitures, to a group of its key employees under the performance grant award plan which was instituted pursuant to the Company's Plans. Under the performance grant award plan, key employees

of the Company receive Class A Common Stock in proportion to their salary. These bonus shares vest at the rate of 33.33% per year and non-vested shares are subject to forfeiture if the participant terminates employment. Compensation expense, equal to the market value of the shares as of the issue date, is being charged to earnings over the period that the employees provide service. In each of the years ended January 29, 2000, January 30, 1999, and January 31, 1998, 10,137, 12,308, and 8,704 shares, respectively, were fully vested and issued. In connection with the issuance of these shares, the Company recorded compensation expense of \$111,000, \$463,000, and \$267,000 for the years ended January 29, 2000, January 30, 1999, and January 31, 1998, respectively.

Note 7. Commitments and Contingencies

Leases The Company leases retail stores, automobiles, computers and corporate office and warehouse facilities under operating lease agreements expiring at various times through 2010. Substantially all of the leases require the Company to pay maintenance, insurance, property taxes and percentage rent based on sales volume over certain minimum sales levels. Effective February 1998, the Company entered into a sublease agreement for its former warehouse facility which expires in August 2002.

Minimum annual rental commitments under non-cancelable leases, including the corporate office and warehouse facility lease, are as follows (in thousands):

Fiscal year ending	Minimum Lease Commitments	Sublease Income	Net Lease Commitments
2000	\$ 66,416	\$ 647	\$ 65,769
2001	60,441	647	59,794
2002	53,390	377	53,013
2003	47,421	—	47,421
2004	41,002	—	41,002
Thereafter	127,835	—	127,835
	\$ 396,505	\$ 1,671	\$ 394,834

Rental expense, including common area maintenance, was \$90,613,000, \$72,533,000, and \$64,384,000, of which \$28,000, \$295,000, and \$377,000 was paid as percentage rent based on sales volume, for the years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

Employment Contracts The Company has employment contracts with two officers, which provide for minimum annual salaries, customary benefits and allowances, and incentive bonuses if specified Company earnings levels are achieved. The agreements provide these same officers with severance benefits which approximate three years' salary if the agreements are terminated without cause before expiration of their terms or if the individual's duties materially change following a change in control of the Company.

Litigation The Company is a defendant in various lawsuits arising in the ordinary course of its business. While the ultimate liability, if any, arising from these claims cannot be predicted with certainty, the Company is of the opinion that their resolution will not likely have a material adverse effect on the Company's financial statements.

Letters of Credit At January 29, 2000, the Company had outstanding letters of credit amounting to \$4,836,000.

Note 8. Revolving Credit Arrangement

Under a secured revolving line of credit arrangement with a bank, the Company may borrow up to a maximum of \$50,000,000 on a revolving basis through July 2001. The cash borrowings under the arrangement bear interest at the bank's prime rate or, at the Company's option, LIBOR plus 1.5%.

The credit arrangement imposes quarterly and annual financial covenants requiring the Company to maintain certain financial ratios and achieve certain levels of annual income. In addition, the credit arrangement requires that the bank approve the payment of dividends and restrict the level of capital expenditures. At January 29, 2000 and January 30, 1999, the Company was in compliance with these covenants. The Company had no borrowings outstanding under the credit arrangement at January 29, 2000 or January 30, 1999.

Note 9. Long-Term Debt

In June 1995, the Company entered into an unsecured five-year, \$10,000,000 term loan. The loan bears interest at the bank's prime rate plus .25% or, at the Company's option, LIBOR plus 1.5% (6.1% at fiscal year end) payable monthly. The outstanding debt balance as of January 29, 2000 was \$1,764,000, which will be repaid in quarterly installments of \$500,000, until paid in fiscal 2000.

The term loan imposes quarterly and annual financial covenants requiring the Company to maintain certain financial ratios and achieve certain levels of quarterly income. In addition, the term loan requires that the bank approve the payment of dividends and restricts the level of capital expenditures. At January 29, 2000 and January 30, 1999, the Company was in compliance with these covenants.

Note 10. Related Party Transactions

Certain officers of Suzy Shier, Inc., a shareholder, provide management services to the Company. For these services, the officers earned in the aggregate a management fee of \$437,500 in the year ended January 29, 2000 and \$375,000 in the year ended January 30, 1999 and \$250,000 in the year ended January 31, 1998. The Company has entered into an agreement with these officers, requiring annual payments of \$500,000 through 2004.

Note 11. Retirement Plan

Effective June 1, 1993, the Company established a qualified defined contribution retirement plan under the Internal Revenue Code, Section 401(k). The Wet Seal Retirement Plan (the "Plan") is available to all employees who meet the Plan's eligibility requirements. The Plan is funded by employee contributions, and additional contributions may be made by the Company at its discretion. As of January 29, 2000, the Company had accrued \$145,000 as its fiscal 1999 contribution to the Plan.

Note 12. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	January 29, 2000	January 30, 1999
Reserve for self insurance	\$ 2,672	\$ 2,857
Accrued wages, bonuses and benefits	5,570	7,272
Gift certificate and credit memo liability	4,261	3,464
Sales tax payable	2,376	1,651
Other	5,732	5,186
	\$ 20,611	\$ 20,430

In connection with the acquisition of Contempo Casuals, Inc., the Company assumed certain accruals, including the reserve for self-insurance, which were estimated by the seller. The total amount of this assumed accrual may not, in fact, be paid as the actual payments will be based on the future claims and losses which are actually submitted and which are related to pre-acquisition events.

Note 13. Supplemental Employee Retirement Plan

The Company maintains a defined benefit Supplemental Employee Retirement Plan (the "SERP") for certain of its key employees and a director. The SERP provides for preretirement death benefits through life insurance and for retirement benefits. The Company funded the SERP in 1998 and 1997 through contributions to a trust fund known as a "Rabbi" trust. Assets held in the Rabbi trust (\$1,292,000 and \$861,000 at January 29, 2000 and January 30, 1999, respectively) are subject to claims of the Company's creditors but otherwise must be used only for purposes of providing benefits under the SERP.

In accordance with Statement of Financial Accounting Standard No. 132, "Employers' Disclosures about Pensions and other Postretirement Benefits", the following presents a reconciliation of the SERP's funded status (in thousands):

	January 29, 2000	January 30, 1999
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 3,355	\$ 2,730
Service cost	328	293
Interest cost	226	191
Actuarial loss	—	141
Benefits paid	—	—
Benefit obligation at end of year	\$ 3,909	\$ 3,355
Change in plan assets		
Fair value of plan assets at beginning of year.	\$ —	\$ —
Actual return on assets	—	—
Employer contribution	—	—
Benefits paid	—	—
Fair value of plan assets at end of year	\$ —	\$ —
Funded status	\$ (3,909)	\$ (3,355)
Unrecognized transition (asset)/obligation	—	—
Unrecognized prior service cost	1,804	1,968
Unrecognized net loss	139	139
Net amount recognized	\$ (1,966)	\$ (1,248)

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(continued from page 75)

January 29, 2000 January 30, 1999

Weighted average assumptions:

Discount rate	6.75%	6.75%
Expected return on plan assets	0.00%	0.00%
Rate of compensation increase	n/a	n/a

Amounts recognized in balance sheet

Prepaid pension cost	\$	—	\$	—
Accrued benefit liability		(3,909)		(3,355)
Intangible asset (unrecognized prior service cost)		1,804		1,968
Accumulated other comprehensive loss		139		139
Net amount recognized	\$	(1,966)	\$	(1,248)

Components of net periodic pension cost

Service cost - benefits earned during the period	\$	328	\$	293
Interest cost on projected benefit obligation		226		191
Expected return on plan assets		—		—
Amortization of unrecognized prior service cost		164		164
Net periodic pension cost	\$	718	\$	648

Note 14. Net Income Per Share

A reconciliation of the numerators and denominators used in basic and diluted net income per share is as follows (in thousands, except for share data):

	January 29, 2000	January 30, 1999	January 31, 1998
Net income	\$ 14,183	\$ 25,954	\$ 21,250
Weighted average number of common shares:			
Basic	12,425,704	13,085,587	13,552,502
Effect of dilutive securities - stock options	387,634	495,646	347,375
Diluted	12,813,338	13,581,233	13,899,877
Net income per share:			
Basic	\$ 1.14	\$ 1.98	\$ 1.57
Effect of dilutive securities - stock options	0.03	0.07	0.04
Diluted	\$ 1.11	\$ 1.91	\$ 1.53

Note 15. Shareholder Rights Plan

On August 19, 1997, the Company's Board of Directors adopted a Shareholder Rights Plan (the "Rights Plan") designed to protect Company stockholders in the event of takeover action that would deny them the full value of their investment. Terms of the Rights Plan provide for a dividend distribution of one right for each share of common stock to holders of record at the close of business on August 29, 1997. The rights become exercisable only in the event, with certain exceptions, an acquiring party accumulates 12 percent or more of the Company's voting stock, or if a party announces an offer to acquire 20 percent or more of the Company's voting stock. Unless earlier redeemed, the rights will expire on August 29, 2007. Each right will entitle the holder to buy one one-hundredth of a share of a new series of preferred stock at a price of \$73.00, subject to adjustment upon the occurrence of certain events. The Company will be entitled to redeem the rights at \$0.01 per right at any time until the tenth day following the acquisition of a 12 percent position in its voting stock.

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Note 16. Unaudited Quarterly Financial Data

Fiscal Year Ended January 29, 2000 (in thousands, except for share data)

Quarter	Sales	Gross Margin	Net Income	Net Income Per Share, Basic	Net Income Per Share, Diluted
First Quarter	\$ 122,835	\$ 35,843	\$ 4,399	\$ 0.36	\$ 0.34
Second Quarter	126,904	35,965	3,686	0.30	0.29
Third Quarter	131,465	36,843	2,747	0.22	0.22
Fourth Quarter	143,203	35,744	3,351	0.27	0.27
For the Year	\$ 524,407	\$ 144,395	\$ 14,183	\$ 1.14	\$ 1.11

Fiscal Year Ended January 30, 1999

Quarter	Sales	Gross Margin	Net Income	Net Income Per Share, Basic	Net Income Per Share, Diluted
First Quarter	\$ 104,845	\$ 29,973	\$ 3,488	\$ 0.26	\$ 0.25
Second Quarter	113,036	32,888	4,879	0.36	0.35
Third Quarter	121,622	36,501	5,418	0.42	0.41
Fourth Quarter	145,886	49,500	12,169	0.99	0.95
For the Year	\$ 485,389	\$ 148,862	\$ 25,954	\$ 1.98	\$ 1.91

Net income per share is computed independently for each of the quarters presented and therefore may not sum to the totals for the year.

Independent Auditors' Report

To the Board of Directors and Stockholders of the The Wet Seal, Inc.:

We have audited the accompanying consolidated balance sheets of The Wet Seal, Inc. (the Company) as of January 29, 2000 and January 30, 1999 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three fiscal years in the period ended January 29, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Wet Seal, Inc. as of January 29, 2000 and January 30, 1999 and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 29, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP
Costa Mesa, California
March 15, 2000

Corporate Information

Corporate Data

The Company's common stock trades on The Nasdaq Stock Market under the symbol "WTSLA". Transfer Agent and Registrar is American Stock Transfer and Trust Company, 40 Wall Street, New York, New York. Central Office, 26972 Burbank, Foothill Ranch, California 92610. (949) 583-9029

Form 10-K

A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K is available without charge to stockholders upon written request to: Investor Relations, The Wet Seal, Inc., 26972 Burbank, Foothill Ranch, California 92610.

Annual Meeting

The Annual Stockholder's Meeting will be held at 10 a.m., Wednesday, May 31, 2000 at the Westin South Coast Plaza, 686 Anton Boulevard, Costa Mesa, California 92626. Proxy statements were mailed to stockholders with the annual report.

26972 Burbank
Foothill Ranch
California 92610
949.583.9029



THE *wet seal* INC.

Stay Tuned

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