EXHIBIT B TO THE
GYMBOREE PLAY PROGRAMS, INC.
OFFERING CIRCULAR

FINANCIAL STATEMENTS

GUARANTY OF PERFORMANCE

For value received, The Gymboree Corporation, located at 700 Airport Boulevard, Suite 200, Burlingame, California 94010, absolutely and unconditionally guarantees the performance of its subsidiary, Gymboree Play Programs, Inc., located at 700 Airport Boulevard, Suite 200, Burlingame, California 94010, of all of the obligations of Gymboree Play Programs, Inc. in accordance with the terms and conditions of its franchise registration in the States of California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, Rhode Island, South Dakota, Virginia, Washington and Wisconsin and of its Franchise Agreements entered into after the date of this Guaranty. This guaranty shall continue in force until all obligations of Gymboree Play Programs, Inc. under the said franchise registration and Franchise Agreement shall have been satisfied or until Gymboree Play Programs, Inc.'s liability to the franchisee under the franchise registration and Franchise Agreement has been completely discharged, whichever first occurs. The Gymboree Corporation shall not be discharged from liability hereunder as long as any claim by the franchisee against Gymboree Play Programs, Inc. remains outstanding. Notice of acceptance is waived. Notice of default on the part of Gymboree Play Programs, Inc. is not waived. This guaranty shall be binding on The Gymboree Corporation and its successors and assigns. The Gymboree Corporation executes this Guaranty at Burlingame, California as of the 2 day of May, 2003.

The Gymboree Corporation

By: ______________________

Title: CFO

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

THE GYMBOREE CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	February 1, 2003	February 2, 2002
	(In thousands, except share data)	
Current Assets:		
Cash and cash equivalents	$ 60,628	$ 8,429
Accounts receivable, net of allowance of $66 and $30	7,506	7,693
Merchandise inventories	62,561	63,584
Prepaid expenses	9,181	8,302
Deferred taxes	1,583	5,938
Total current assets	141,459	93,946
Property and Equipment:		
Land and buildings	10,371	9,943
Leasehold improvements	92,126	87,983
Furniture, fixtures, and equipment	128,212	117,373
	230,709	215,299
Less accumulated depreciation and amortization	(124,245)	(107,170)
	106,464	108,129
Deferred Taxes	5,285	13,070
Lease Rights and Other Assets	1,928	4,484
Total Assets	$ 255,136	$ 219,629

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 1, 2003	February 2, 2002
Current Liabilities:		
Accounts payable	$ 27,150	$ 20,261
Accrued liabilities	37,570	23,732
Current portion of long-term debt	-	685
Total current liabilities	64,720	44,678
Long-Term Liabilities:		
Long-term debt, net of current portion	-	8,830
Deferred rent and other liabilities	20,998	23,692
Total Liabilities	85,718	77,200
Commitments and Contingencies	-	-
Stockholders' Equity:		
Common stock, including excess paid-in capital ($.001 par value: 100,000,000 shares authorized; 29,223,741 and 28,691,746 shares outstanding at February 1, 2003 and February 2, 2002, respectively)	50,086	44,484
Retained earnings	120,099	[redacted]
Accumulated other comprehensive loss	(767)	[redacted]
Total stockholders' equity	169,418	142,429
Total Liabilities and Stockholders' Equity	$ 255,136	$ 219,629

See notes to the consolidated financial statements

THE GYMBOREE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
	(In thousands, except per share data)		
Net sales:			
Retail	$ 531,859	$ 505,969	$ 448,843
Play & Music	14,940	13,977	13,140
	546,799	519,946	461,983
Cost of goods sold, including buying and occupancy expenses	(316,903)	(328,101)	(329,049)
Gross profit	229,896	191,845	132,934
Selling, general and administrative expenses	(194,071)	(180,792)	(191,141)
Operating income (loss)	35,825	11,053	(58,207)
Foreign exchange gains (losses), net	204	(432)	130
Interest income	712	301	115
Interest expense	(1,245)	(3,475)	(1,986)
Income (loss) before income taxes	35,496	7,447	(59,948)
Income tax benefit (expense)	(13,666)	(2,867)	23,080
Net income (loss)	$ 21,830	$ 4,580	$ (36,868)
Income (loss) per share:			
Basic	$ 0.75	$ 0.16	$ (1.38)
Diluted	$ 0.71	$ 0.16	$ (1.38)
Weighted average shares outstanding:			
Basic	28,992	28,326	26,686
Diluted	30,633	29,377	26,686

See notes to the consolidated financial statements

THE GYMBOREE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
		(In thousands)	
Cash Flows from Operating Activities:			
Net income (loss)	$ 21,830	$ 4,580	$ (36,868)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	26,281	24,106	24,104
Impairment reserve	-	115	535
Provision for deferred income taxes	12,552	3,716	(17,757)
Non-cash compensation expense	303	-	130
Loss on disposal of property and equipment	1,225	983	6,946
Tax benefit from exercise of stock options	1,592	848	957
Change in assets and liabilities:			
Accounts receivable	237	41	(2,814)
Merchandise inventories	169	14,196	(31,100)
Prepaid expenses and other assets	2,149	154	(6,731)
Accounts payable	6,714	(10,891)	12,556
Accrued liabilities	13,780	4,078	(3,736)
Deferred liabilities and other liabilities	(1,983)	(2,641)	(2,792)
Net cash provided by (used in) operating activities	84,849	39,285	(56,570)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(25,926)	[redacted]	[redacted]
Proceeds from sale of assets	99	3,195	-
Net cash used in investing activities	(25,827)	(15,869)	(12,941)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of stock	3,707	3,161	11,581
Proceeds from (payments on) borrowings	-	(16,225)	16,225
Proceeds from (payments on) long term debt	(9,515)	(7,562)	5,617
Net cash used in financing activities	(5,808)	(20,626)	33,423
Net Increase (Decrease) in Cash and Cash Equivalents	53,214	2,790	(36,088)
Effect of exchange rate fluctuations on cash	(1,015)	[redacted]	[redacted]
CASH AND CASH EQUIVALENTS:			
Beginning of Year	8,429	5,306	40,274
End of Year	$ 60,628	$ 8,429	$ 5,306
OTHER CASH FLOW INFORMATION:			
Cash paid during the year for income taxes	$ 6,584	$ 461	$ 275
Refunds received during the year for income taxes	$ 16,528	$ 2,666	$ 7,213
Cash paid during the year for interest	$ 1,077	$ 3,441	$ 2,344

See notes to the consolidated financial statements

THE GYMBOREE CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Total	Total Comprehensive Income / (Loss)
	Shares	Amount					
			(Dollars in thousands)				
BALANCE AT JANUARY 29, 2000	24,402,334	$ [redacted]	$ [redacted]	$ 130,557	$ 98	$ 158,462	
Issuance of common stock under stock option and purchase plans	439,279	-	2,117			2,117	
Net proceeds from issuance of common stock pursuant to private placement	3,198,670	3	9,461			9,464	
Stock options exchanged for services			130			130	
Tax benefit from exercise of stock options			957			957	
Net adjustments for foreign currency translation ($239) and unrealized net gains on cash flow hedges of $93					(146)	(146)	$ (146)
Net loss				(36,868)		(36,868)	(36,868)
Comprehensive loss							$ (37,014)
BALANCE AT FEBRUARY 3, 2001	28,040,283	$ 28	$ 40,447	$ 93,689	$ (48)	$ 134,116	
Issuance of common stock under stock option and purchase plans	346,286	-	2,254			2,254	
Issuance of common stock under exercise of stock warrants	305,177	1	906			907	
Tax benefit from exercise of stock options			848			848	
Net adjustments for foreign currency translation ($251) and unrealized net loss on cash flow hedges of ($24)					(276)	(276)	$ (276)
Net income				4,580		4,580	4,580
Comprehensive income							$ 4,304
BALANCE AT FEBRUARY 2, 2002	28,691,746	$ 29	$ 44,455	$ 98,269	$ (324)	$ 142,429	
Issuance of common stock under stock option and purchase plans	499,166	-	3,609			3,609	
Stock based compensation under purchase plan			303			303	
Issuance of common stock under exercise of stock warrants	32,829	-	98			98	
Tax benefit from exercise of stock options			1,592			1,592	
Net adjustments for foreign currency translation of $221 and unrealized net loss on cash flow hedges of $1,079 ($664, net of tax of $415)					(443)	(443)	$ (443)
Net income				21,830		21,830	21,830
Comprehensive income							$ 21,387
BALANCE AT FEBRUARY 1, 2003	29,223,741	$ 29	$ 50,057	$ 120,099	$ (767)	$ 169,418	

See notes to the consolidated financial statements

THE GYMBOREE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of the Business

Gymboree is a leading specialty retailer of high quality apparel and accessories for children. Gymboree operates two reportable segments, retail stores and Play & Music (See Note 10 for information on these two segments). As of February 1, 2003, Gymboree's retail segment operated 584 stores, including 524 Gymboree and 11 Janie and Jack stores in the United States, 24 Gymboree stores in Canada and 25 Gymboree stores in Europe, as well as on-line stores at www.gymboree.com and www.janieandjack.com.

Gymboree Play & Music offers directed parent-child developmental play programs designed to enhance early childhood development through fun-filled sensory and motor activities that engage children ages newborn to four years old through sight, touch, sound and movement. As of February 1, 2003, Gymboree's Play & Music programs included 23 company-operated play centers in California and 516 franchisee-operated play centers, of which approximately 65% are located in the United States and the remaining 35% are located in other countries.

Fiscal Year

Gymboree's year-end is on the Saturday closest to January 31. Fiscal years 2002 and 2001, which included 52 weeks each, ended on February 1, 2003 and February 2, 2002, respectively. Fiscal year 2000, which included 53 weeks, ended on February 3, 2001.

Basis of Presentation

The consolidated financial statements include The Gymboree Corporation and its subsidiaries, all of which are wholly owned ("Gymboree"). All significant inter-company balances and transactions have been eliminated.

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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investment instruments with a maturity of three months or less, at date of purchase.

Accounts Receivable

The majority of Gymboree's accounts receivable are due from major credit card companies and are collected within 5 days. Also included in accounts receivable are amounts due from Play & Music franchisees for royalties. Royalties are due within 30 days of each quarter-end. Gymboree estimates its allowance by considering a number of factors, including the length of time accounts receivable are past due and the Company's previous loss history.

Concentrations

Financial instruments that potentially subject Gymboree to concentrations of credit risk consist of cash and cash equivalents. At times, cash balances held at financial institutions are in excess of federally insured limits.

Estimated Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and current portion of debt approximates their estimated fair values due to the short maturities of these instruments. The carrying value of long-term debt approximates its fair value based on current rates available to Gymboree for similar debt.

Merchandise Inventories

Merchandise inventories are recorded under the retail method of accounting and are stated at the lower of cost or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from approximately 3 to 10 years, except for the distribution center in Dixon, California, which has a useful life of 39 years. Leasehold improvements include internal payroll costs for employees fully dedicated to real estate construction projects and are amortized over the lesser of the applicable lease term, which range from 10 to 25 years, or the estimated useful lives of the improvements. Software costs are capitalized in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and are amortized using the straight-line method based on an estimated useful life of 3 to 5 years. Construction in progress was $3.6 million and $7.8 million as of February 1, 2003 and February 2, 2002, respectively.

Asset Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the undiscounted future cash flows from the long-lived assets are less than the carrying value, a loss is recognized equal to the difference between the carrying value and the fair value of the assets. Decisions to close a store or facility can also result in accelerated depreciation over the revised useful life. For locations to be closed which are under long-term leases, a charge is recorded for lease buyout expenses or the difference between the rent and the rate at which we expect to be able to sublease the properties and related costs, as appropriate. Most closures occur upon the lease expiration. The estimate of future cash flows is based on our experience, knowledge and typically third-party advice or market data. However, these estimates can be affected by factors such as future store profitability, real estate demand and economic conditions that can be difficult to predict.

Capitalized Interest

Gymboree capitalizes interest as a component of the cost of property and equipment constructed for its own use. In 2002, 2001, and 2000, capitalized interest totaled $264,000, $362,000, and $279,000, respectively.

Income Taxes

Gymboree computes income taxes using the asset and liability method. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. A valuation allowance is recorded when it is deemed more likely than not that a deferred tax asset will not be realized.

Lease Rights

Lease rights are included in other assets and are recorded at cost and amortized over the lesser of 10 years or the life of the lease.

Deferred Rent

Many of Gymboree's operating leases contain free rent periods and predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases, Gymboree recognizes the related rental expense on a straight-line basis and records the difference between the amounts charged to expense and the rent paid as deferred rent.

Construction Allowance

As part of many of our lease agreements, we receive construction allowances from landlords. The construction allowances are deferred and amortized on a straight-line basis over the life of the lease as a reduction of rent expense. Construction allowances of $840,000 and $1.1 million were granted in 2002 and 2001, respectively, and are included in deferred rent and other liabilities.

Self-Insured Liabilities

The Company records a liability for the self-insured portion of its workers' compensation insurance. The Company records its self-insurance liability based on claims filed and an estimate of claims incurred but not yet reported.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated to U.S. dollars at the exchange rates effective on the balance sheet date. Revenues, costs of sales, expenses and other income are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are recorded as other comprehensive income within stockholders' equity.

Store Pre-opening Costs

Store pre-opening costs are expensed as incurred.

Revenue Recognition

Revenue is recognized at the point of sale in Gymboree's retail stores. Prior to 2002, web store revenue was recorded upon shipment. Beginning in 2002, web store revenue is recorded when the merchandise is delivered to the customer. The effect of this change was insignificant. Sales are presented net of a sales return reserve. Shipping fees received from customers are included in net sales and the associated shipping costs are included in cost of goods sold. Gymboree also sells gift certificates in its retail store locations and through its websites. Revenue is recognized in the period that the gift certificate or store credit is redeemed.

Gymboree liquidates obsolete inventory through sales to off-price retailers and donations to charity. Proceeds from sales to off-price retailers generally approximate the cost of inventory and are recognized at the time of shipment. Such proceeds are recorded as a reduction of cost of goods sold in the accompanying consolidated statements of operations and approximated $2.4 million and $3.4 million in 2002 and 2001, respectively.

For the Play & Music operations, initial franchise and transfer fees for all sites sold in a territory are recognized as revenue when the franchisee has paid the initial franchise or transfer fee, in the form of cash and/or note payable, and has fully executed a franchise agreement. Gymboree receives a royalty of 6% of each domestic franchisee's gross receipts from operations and up to 20% of the fees paid by international sub-franchisees to the Master Franchisee. Such royalty fees are recorded when earned and are due from the franchisees 30 days following the close of each quarter. Gymboree also recognizes revenues from consumer products sold to franchisees for resale at the time the products are shipped to the franchisees.

<u>Related Party Transactions</u>

During 2002 and 2001, Gymboree had sales of obsolete inventory of $1.4 million and $2.7 million to Ross Stores, Inc., an off-price retailer for which the Company's Chairman Emeritus of the Board serves on the board of directors.

The Company has two unsecured notes receivable from its Chief Executive Officer totaling $200,000 as of February 1, 2003 and February 2, 2002. Interest receivable on these notes was approximately $17,000 and $13,000 as of February 1, 2003 and February 2, 2002, respectively. Principal of $115,000 is payable by July, 2005 and $85,000 by March, 2006. The notes bear annually compounded interest of 5.5% and simple interest of 6.15%, respectively.

<u>Stock-Based Compensation</u>

Gymboree 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." Had the Company recorded compensation expense or income for its stock option plans and the Purchase Plan, which are described more fully in Note 9, based on the fair value method consistent with the method of SFAS No.123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, net income (loss) and income (loss) per share would have been as follows:

	Year Ended		
	February 1, 2003	**February 2, 2002**	**February 3, 2001**
	(In thousands, except per share data)		
Net income (loss), as reported	$ 21,830	$ 4,580	$ (36,868)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	186	-	80
Deduct: Total stock-based employee compensation expense determined under fair value based method, for awards granted or settled, net of related tax effects	(2,889)	(2,543)	(1,383)
Pro forma net income (loss)	$ 19,127	$ 2,037	$ (38,171)
Basic income (loss) per share			
As reported	$ 0.75	$ 0.16	$ (1.38)
Pro forma	0.66	[redacted]	[redacted]
Diluted income (loss) per share			
As reported	$ 0.71	$ 0.16	$ (1.38)
Pro forma	0.62	[redacted]	[redacted]

<u>Comprehensive Income (Loss)</u>

Comprehensive income (loss) consists of net income (loss), foreign currency translation adjustments and fluctuations in the fair market value of certain derivative financial instruments.

<u>Income (Loss) Per Share</u>

Basic income (loss) per share is calculated by dividing net income (loss) for the year by the number of weighted average common shares outstanding for the year. Diluted income (loss) per share includes the effects of dilutive instruments, such as stock options, and uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted average number of shares outstanding.

The following table summarizes the incremental shares from potentially dilutive securities, calculated using the treasury stock method:

	Fiscal Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
		(In thousands)	
Shares used to compute basic EPS	28,992	28,326	26,686
Add: effect of dilutive securities	1,641	1,051	-
Shares used to compute diluted EPS	30,633	29,377	26,686

Anti-dilutive options and warrants to purchase weighted average shares totaling approximately 881,165 and 976,858 in 2002 and 2001, respectively, were not included in the computation of diluted income per share as the effect would be anti-dilutive.

Reclassifications

Certain amounts for prior years have been reclassified to conform to the 2002 presentation (see Note 10).

Recently Issued Accounting Standards

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and establishes standards for the recognition and measurement of asset impairment and disposal cost. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. Gymboree adopted this Statement on February 3, 2002. The adoption of this Statement did not have a material impact on our financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements 4, 44, and 64, Amendment of FASB Statement 13, and Technical Corrections. Among other provisions, SFAS No. 145 rescinds FASB Statement 4, Reporting Gains and Losses from Extinguishment of Debt. Accordingly, gains or losses from extinguishment of debt should not be reported as extraordinary items unless the extinguishment qualifies as an extraordinary item under the criteria of Accounting Principles Board Opinion 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ("APB 30"). Gains or losses from extinguishment of debt, which do not meet the criteria of APB 30, should be reclassified to income from continuing operations in all prior periods presented. Gymboree adopted this Statement on May 16, 2002, and accordingly, recognized $432,000 in prepayment penalties and unamortized loan fees related to the early extinguishment of debt as interest expense in the accompanying statements of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for the fair value of the costs associated with an exit or disposal activity be recognized when the liability is incurred. Gymboree will adopt SFAS No.146 on February 2, 2003. The adoption of this Statement will impact the timing and amount of charges recorded related to future restructurings, if any.

In November 2002, FASB Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), was issued. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company previously did not record a liability when guaranteeing obligations unless it became probable that the Company would have to perform under the guarantee. FIN 45 applies prospectively to guarantees the Company issues or modifies subsequent to December 31, 2002, but has certain disclosure requirements effective for interim and annual periods ending after December 15, 2002. The Company has historically issued guarantees only on a limited basis and does not anticipate FIN 45 will have a material effect on its 2003 financial statements. Disclosures required by FIN 45 are included in Note 4 of the accompanying financial statements.

Foreign Exchange Exposure Management

The Company has international subsidiaries selling product in local currencies, which were purchased in US dollars. To protect product margins as well as foreign currency payables and receivables, Gymboree has a policy of hedging forecasted and existing foreign currency risk with forward contracts that expire within 12 months. These forward contracts are employed to eliminate, reduce, or transfer selected foreign currency risks that can be confidently identified and quantified. Hedges of anticipated transactions are designated and documented at inception as cash flow hedges and evaluated for effectiveness at least quarterly. The critical terms of the forward contract and the underlying transaction are matched at inception, and ongoing effectiveness is calculated by comparing the cumulative change in the forward contract's fair value to the cumulative change in fair value of the defined exposure, with the effective portion of the highly effective hedges accumulated in Other Comprehensive Income (OCI). Any residual changes in the fair value of the instruments are recognized immediately in Other Income and Expense. An immaterial amount of ineffectiveness was recognized in 2002, 2001 and 2000.

Amounts in Accumulated OCI related to hedged inventory purchases are reclassified to Cost of Goods Sold ("COGS") based on inventory turns. The net unrealized loss on cash flow hedges in accumulated OCI as of February 1, 2003, before tax effect, was approximately $1.0 million, and is expected to be reclassified into COGS within the next 12 months.

The following table summarizes activity in OCI related to Gymboree's hedging activities during the period from April 30, 2000 (date of adoption) through February 1, 2003 (in thousands).

Cumulative effect of accounting change (SFAS 133)	$	(22)
Unrealized net gains on cash flow hedges		443
Reclassification of net gains on cash flow hedges to COGS		(328)
Accumulated net gains on cash flow hedges at February 3, 2001		93
Unrealized net losses on cash flow hedges		(99)
Reclassification of net losses on cash flow hedges to COGS		75
Accumulated net gains on cash flow hedges at February 2, 2002		69
Unrealized net losses on cash flow hedges		(1,662)
Reclassification of net losses on cash flow hedges to COGS		583
Accumulated net losses on cash flow hedges at February 1, 2003	$	(1,010)

2. Sale of Zutopia Chain

During 2000, Gymboree sold 19 Zutopia stores to The Wet Seal, Inc. for proceeds of $3.5 million. Under the terms of the agreement, Gymboree transferred substantially all the assets of the Zutopia stores, along with the trademark, to The Wet Seal, Inc. and assigned 18 of the 19 store leases (see Note 4 for lease guarantees). The remaining store was closed. As a result of the agreement, Gymboree recognized a loss of $5.0 million in 2000, which included the loss related to property and equipment of $3.7 million ($7.2 million of property and equipment less proceeds of $3.5 million), loss on inventory of $1.1 million, legal fees of $0.1 million and severance of $0.1 million. The $5.0 million loss is included in selling, general and administrative expenses.

3. Special Charges

During 2000, Gymboree recorded special charges of $6.3 million which resulted from the loss associated with the sale of Zutopia to The Wet Seal, Inc. (discussed in Note 2), the impairment of store assets (approximately $532,000) and software costs related to website development (approximately $800,000). Such charges are included in selling, general and administrative expenses in the accompanying statements of operations.

4. Commitments and Contingencies

Gymboree leases its store locations, corporate Play & Music sites, corporate headquarters, the Shannon, Ireland foreign distribution center and certain fixtures and equipment under operating leases. The leases expire at various dates through 2024. Store leases typically provide for payment by Gymboree of operating expenses, real estate taxes and additional rent based on a percentage of sales if a specified sales target is exceeded. Furthermore, a majority of the store leases allow Gymboree to vacate after a stipulated period.

Future minimum lease payments under operating leases at February 1, 2003 are as follows:

	(In thousands)
2003	$ 44,667
2004	42,761
2005	40,241
2006	34,749
2007	24,842
Later years	69,361
Total	$ 256,621

Rent expense for all operating leases totaled $63.2 million, [redacted] and [redacted] in 2002, 2001, and 2000, respectively, which includes common area maintenance expenses, real estate taxes, utilities, percentage rent expense and other lease required expenses of $21.2 million, [redacted] and $[redacted] for 2002, 2001,and 2000, respectively.

Gymboree is the guarantor on lease agreements for 14 of the 19 Zutopia stores sold to The Wet Seal in 2000 (see Note 2) and a Play & Music site sold to a franchisee in 2002. The guarantees on the Zutopia store leases are effective until the leases expire, which occurs through 2009. The guarantee on the Play & Music site is effective until November 30, 2003. The lease guarantees require that Gymboree make all required lease payments upon default by the current tenants. Gymboree's maximum potential amount of future payments under the guarantees approximates $15.8 million, excluding amounts that would be payable based on a percentage of sales, as such amounts cannot be estimated. Gymboree does not have recourse against The Wet Seal, Inc. or the Play & Music franchisee in case of non-performance. The following table reflects a summary of our lease guarantees as of February 1, 2003.

Lease Guarantees

($ in thousands)	1-3 years	4-5 years	After 5 years	Total
Lease guarantees	$ 7,348	$ 5,018	$ 3,461	$ 15,827

5. Borrowing Arrangements

During 2000, Gymboree entered into a three-year secured revolving line of credit with Fleet Retail Finance, Inc. and a syndicate of other lenders. This facility, as amended, provides for an overall credit line of $60 million that may be used for working capital and capital expenditure needs and the issuance of documentary and standby letters of credit. A blanket lien on merchandise inventories and other assets secures the credit facility. Gymboree's maximum borrowing under the credit facility may not exceed the lesser of (a) $60 million or (b) the total of (i) the adjusted value of independently appraised acceptable inventory, including eligible letter of credit inventory (subject to advance rates), plus (ii) 85% of Gymboree's eligible credit card accounts receivable; plus (iii) 100% of eligible investments, minus (iv) applicable reserves. Gymboree's annual capital expenditures are limited. This credit facility expires in September 2003. The Company expects to either renew or replace this credit facility on substantially similar terms.

As of February 1, 2003, approximately $16.3 million was available pursuant to such facility and $38.8 million of documentary and stand-by letters of credit were outstanding. The interest rate during the term of the facility will be based on the bank's Reference Rate or Eurodollar rate plus an applicable margin of up to 2.50%. As of February 1, 2003, the interest rate was 4.25%. In 2002, the Company exceeded its annual capital expenditures covenant. On April 24, 2003, the Company obtained a consent from Fleet Retail Finance, Inc. to cure this covenant violation.

In August 2000, Gymboree obtained a three-year term loan for $7 million with Back Bay Capital Funding LLC with an annual interest rate of 16%. This loan was repaid in January 2002.

During 1998, Gymboree issued two promissory notes totaling $12 million both secured by our distribution center in Dixon, California. On April 16, 2001, Gymboree entered into an amendment that increased the interest rates and removed certain financial covenants in the two promissory notes. These notes, which were due October 2005 and January 2009, were repaid in the third quarter of year 2002. Included in interest expense for year 2002 was $432,000 in prepayment penalties and unamortized loan fees related to the early extinguishment of these notes.

Total interest expense charged to operations during 2002, 2001, and 2000 was approximately $1.2 million, $3.5 million, and $2.0 million, respectively.

6. Accrued Liabilities

Accrued liabilities consist of the following:

	February 1, 2003	February 2, 2002
	(In thousands)	
Income tax payable	$ 12,745	$ 4,347
Store operating expenses and other	9,796	7,644
Employee compensation	9,760	6,425
Store credits and gift certificates	3,955	4,137
Sales taxes	1,314	1,179
Total	$ 37,570	$ 23,732

7. Income Taxes

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

	2002	2001	2000
		(In thousands)	
Current:			
Federal	$ (3,473)	$ (518)	$ (6,434)
State taxes	4,526	(585)	938
Foreign	61	255	173
Total current	1,114	(848)	(5,323)
Deferred:			
Federal	14,748	2,611	(16,812)
State	(2,196)	1,104	(945)
Total deferred	12,552	3,715	(17,757)
Total provision (benefit)	$ 13,666	$ 2,867	$ (23,080)

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

	2002	2001	2000
Statutory federal rate	35.0 %	35.0 %	35.0 %
State income taxes, net of income tax benefit	4.3	4.5	3.3
Other	(0.8)	(1.0)	0.2
Effective tax rate	38.5 %	38.5 %	38.5 %

The amount of pre-tax income (loss) attributable to foreign operations for 2002, 2001, and 2000 was $1.8 million, $(2.3) million, and $(7.5) million, respectively.

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Temporary differences and carry-forwards, which give rise to deferred tax assets and liabilities, are as follows:

	February 1, 2003	February 2, 2002
	(In thousands)	
Deferred tax assets:		
Uniform capitalization costs	$ 1,121	$ 1,064
Accrued reserves	765	1,599
Deferred rent	3,302	2,218
Net operating loss carryovers	5,567	22,076
Fixed asset basis differences	55	-
Cash flow hedges	415	-
Other	314	368
	11,539	27,325
Deferred tax liability:		
Prepaid expenses	(900)	(938)
State taxes	(771)	(257)
Fixed asset basis differences	-	(4,122)
	(1,671)	(5,317)
Total	$ 9,868	$ 22,008
Valuation allowance	(3,000)	(3,000)
Net deferred tax assets	$ 6,868	$ 19,008

As of February 1, 2003, Gymboree has state net operating loss carryovers of approximately $103 million. These net operating loss carryovers will expire between 2006 and 2007. Using its best estimates, Gymboree has recorded a valuation allowance of $3 million at February 1, 2003 and February 2, 2002 on certain of its state deferred tax assets as it is more likely than not that they will not be realized. The extent to which the loss carryovers can be used to offset future taxable income may be further limited, depending on the extent of ownership changes.

8. Stockholder's Equity

Private Placement

During 2000, Gymboree issued 3,198,670 shares of common stock at $2.97 per share, resulting in proceeds of approximately $9.5 million~~, net of~~ issuance costs. In connection with this issuance, the purchasers received warrants to purchase 479,803 shares of Gymboree stock at $2.97 per share. These warrants are exercisable over three years. As of February 1, 2003 and February 2, 2002, warrants to purchase 141,797 and 174,626 of these shares were outstanding. Shares issued to related parties under this offering were 2,222,222, with warrants to purchase 333,334 shares.

Stock Plans

Stock Option Plans

Gymboree's 1993 Stock Option Plan (the "1993 Plan") and 2002 Stock Incentive Plan (the "2002 Plan") provide for grants to team members of incentive stock options within the meaning of Section 422 of the Internal Revenue Code and for grants of non-statutory stock options to team members, consultants and non-employee directors of Gymboree. There are 6,025,000 shares of common stock reserved for issuance under the 1993 Plan, which includes 2,000,000 shares approved during the year ended January 29, 2000, and 1,100,000 shares of common stock reserved for issuance under the 2002 Plan. The 2002 Plan also allows any authorized shares not issued under the 1993 Plan and any shares subject to outstanding awards under the 1993 Plan that cease to be subject to such awards (other than by reason of exercise), up to an aggregate maximum of 4,231,075 shares, to be available for issuance under the 2002 Plan. Options granted pursuant to the plans have been granted at exercise prices equal to the fair market value of common stock on the date of grant. The options have a term of either five or ten years and generally vest over a four year period. No further options may be granted under the 1993 Plan. There were 315,165 shares available for the grant of options under the 2002 Plan at February 1, 2003, including 137,730 shares previously available under the 1993 Plan.

The following summarizes all stock option transactions for the three years ended February 1, 2003:

	Shares Outstanding	Weighted Average Exercise Price
	(Shares in thousands)	
Balance, January 29, 2000	3,308	$ 15.57
Options granted	3,184	5.19
Options exercised	(320)	5.57
Options canceled	(2,312)	13.59
Balance, February 3, 2001	3,860	8.83
Options granted	1,185	7.72
Options exercised	(248)	5.51
Options canceled	(705)	8.21
Balance, February 2, 2002	4,092	8.85
Options granted	1,492	17.09
Options exercised	(432)	6.89
Options canceled	(426)	11.38
Balance, February 1, 2003	4,726	$ 11.40

The following table summarizes information about stock options outstanding at February 1, 2003:

Options Outstanding				Options Exercisable (Vested)	
Range of Exercisable Prices	**Number of Shares**	**Weighted Average Remaining Life (in years)**	**Weighted Average Exercise Price**	**Number Exercisable at February 1, 2003**	**Weighted Average Exercise Price**
$ 2.63 to $ 5.75	1,767,150	7.60	$ 4.58	1,082,760	$ 4.24
5.81 to 18.50	2,456,599	8.70	13.87	742,229	10.40
18.75 to 36.63	501,889	3.58	23.33	450,889	23.78
$ 2.63 to $ 36.63	4,725,638	7.75	$ 11.40	2,275,878	$ 10.12

1993 Employee Stock Purchase Plan

We have reserved a total of 875,278 shares of common stock for issuance under the 1993 Employee Stock Purchase Plan (the "Purchase Plan"), which includes an additional 300,000 shares approved during 2002. The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first day of the applicable offering period or the last day of the applicable purchase period, whichever is lower. Unless terminated earlier, the Purchase Plan will terminate in 2013. There were 66,966, 97,779, and 119,186 shares issued under the Purchase Plan in 2002, 2001, and 2000, respectively. In 2002, the Company recorded $303,000 of compensation expense related to the Purchase Plan.

Additional Stock Plan Information

The pro-forma disclosures required by SFAS No. 123 are included in Note 1. The per share weighted average fair values of options granted during 2002, 2001, and 2000 were $8.40, $5.35, and $3.64, respectively. The fair value of option grants and shares issued under the Purchase Plan are estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended		
	February 1, 2003	February 2, 2002	February 3, 2001
		(In thousands)	
Expected dividend rate	0.0%	0.0%	0.0%
Expected volatility	59.0%	96.7%	93.3%
Risk-free interest rate	3.0%	4.0%	6.1%
Expected lives (yrs.)	4.3	4.0	4.0

Stockholder Rights Plan

Gymboree has adopted a Stockholder Rights Plan (the "Plan") which provides a dividend of one right for each outstanding share of Gymboree's common stock. The rights are represented by and traded with Gymboree's common stock. There are no separate certificates or markets for the rights.

The rights do not become exercisable or trade separately from the common stock unless 17.5% or more of the common stock of Gymboree has been acquired, or after a tender or exchange offer is made for 17.5% or greater ownership of Gymboree's common stock. Should the rights become exercisable, each right will entitle the holder thereof to buy 1/1,000th of a share of our Series A Preferred Stock at an exercise price of $125. Each 1/1,000th of a share of the new Series A Preferred Stock will essentially be the economic equivalent of one share of common stock.

Under certain circumstances, the rights "flip-in" and become rights to buy Gymboree's common stock at a 50% discount. Under certain other circumstances, the rights "flip-over" and become rights to buy an acquirer's common stock at a 50% discount.

The rights may be redeemed by Gymboree for $0.01 per right at any time on or prior to the fifth day (or a later date as determined by the Board of Directors) following the first public announcement by Gymboree of the acquisition of beneficial ownership of 17.5% of our common stock.

9. 401(k) Plan

Gymboree maintains a voluntary defined contribution 401(k) profit sharing plan (the "Plan") covering all team members who have met certain service and eligibility requirements. Employees may elect to contribute up to 20% of their compensation to the Plan, not to exceed the dollar limit set by law. Gymboree matches $0.50 to the Plan for each $1.00 contributed by a team member, up to a maximum Gymboree contribution of $500 per team member per year. The Plan permits team members to invest in Gymboree common stock with a limitation of 20% of their total investment. There are no trading restrictions for the team members. Matching contributions to the Plan totaled $266,000, $262,000, and $267,000 in 2002, 2001, and 2000, respectively.

10. Segments

During 2002, management determined that Gymboree operates two reportable segments, retail stores and Play & Music. The 2001 and 2000 information has been reclassified to conform to the 2002 presentation. Gymboree does not allocate corporate overhead or income taxes to segments. The following table provides the summary financial data of each segment:

	Year ended February 1, 2003		
	Retail Stores	Play & Music	Total
Net sales	$ 531,859	$ 14,940	$ 546,799
Depreciation and amortization	(25,675)	(606)	(26,281)
Operating income	33,428	2,397	35,825
Total assets	247,126	8,010	255,136
Capital expenditures	$ 25,823	$ 103	$ 25,926

	Year ended February 2, 2002		
	Retail Stores	Play & Music	Total
Net sales	$ 505,969	$ 13,977	$ 519,946
Depreciation and amortization	(23,605)	(501)	(24,106)
Operating income	8,288	2,765	11,053
Total assets	210,183	9,446	219,629
Capital expenditures	$ 18,594	$ 470	$ 19,064

	Year ended February 3, 2001		
	Retail Stores	Play & Music	Total
Net sales	$ 448,843	$ 13,140	$ 461,983
Depreciation and amortization	(23,575)	(529)	(24,104)
Operating income (loss)	(60,370)	2,163	(58,207)
Total assets	236,447	7,995	244,442
Capital expenditures	$ 12,073	$ 868	$ 12,941

Net retail sales from international subsidiaries amounted to $50.4 million, $45.4 million and $12.9 million in 2002, 2001 and 2000, respectively. Long-lived assets held by international subsidiaries amounted to $7.5 million, $11.3 million and $13.2 million as of February 1, 2003, February 2, 2002, and February 3, 2001, respectively.

11. Quarterly Financial Information (Unaudited)

The quarterly financial information presented below reflects all adjustments, which, in the opinion of our management, are of a normal and recurring nature necessary to present fairly the results of operations for the periods presented.

	2002 Quarter Ended				
	May 4, 2002	August 3, 2002	November 2, 2002	February 1, 2003	2002 Total
	(In thousands, except per share amounts)				
Net sales					
Retail	$ 129,334	$ 104,157	$ 144,357	$ 154,011	$ 531,859
Play & Music	3,989	3,169	3,339	4,443	14,940
	133,323	107,326	147,696	158,454	546,799
Gross profit	57,154	41,280	60,853	70,609	229,896
Operating income (loss)	9,761	(1,949)	10,863	17,150	35,825
Net income (loss)	$ 6,090	$ (1,205)	$ 6,298	10,647	21,830
Basic income (loss) per share	$ 0.21	$ (0.04)	$ 0.22	$ 0.36	$ 0.75
Diluted income (loss) per share	$ 0.20	$ (0.04)	$ 0.21	$ 0.35	$ 0.71

	2001 Quarter Ended				
	May 5, 2001	August 4, 2001	November 3, 2001	February 2, 2002	2001 Total
	(In thousands, except per share amounts)				
Net sales					
Retail	$ 124,073	$ 97,796	$ 133,378	$ 150,722	$ 505,969
Play & Music	3,423	2,960	3,096	4,498	13,977
	127,496	100,756	136,474	155,220	519,946
Gross profit	44,818	31,218	49,639	66,170	191,845
Operating income (loss)	307	(11,222)	4,276	17,692	11,053
Net income (loss)	(369)	(7,328)	1,794	10,483	4,580
Basic income (loss) per share	$ (0.01)	$ (0.26)	$ 0.06	$ 0.37	$ 0.16
Diluted income (loss) per share	$ (0.01)	$ (0.26)	$ 0.06	$ 0.35	$ 0.16

INDEPENDENT AUDITORS' REPORT
The Board of Directors and Stockholders of
The Gymboree Corporation:

We have audited the accompanying consolidated balance sheets of The Gymboree Corporation and subsidiaries ("Gymboree") as of February 1, 2003 and February 2, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended February 1, 2003. These financial statements are the responsibility of Gymboree's management. Our responsibility is to express an opinion on these 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, such consolidated financial statements present fairly, in all material respects, the financial position of The Gymboree Corporation and subsidiaries as of February 1, 2003 and February 2, 2002, and the results of their operations and their cash flows for each of the three years in the period ended February 1, 2003 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

San Francisco, California
March 14, 2003 (April 24, 2003 as to Note 5)