## BLAIR CORP

Form 10-Q
November 14, 2002

United States<br>Securities and Exchange Commission<br>Washington, D.C. 20549<br>FORM 10-Q<br>QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d)<br>OF THE SECURITIES EXCHANGE ACT OF 1934

For the period Ended September 30, 2002 Commission File Number $1-878$

BLAIR CORPORATION

(814) 723-3600
(Registrant's telephone number, including area code)

Not applicable (Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or $15(\mathrm{~d})$ of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES X NO
$\qquad$

As of November 12, 2002 the registrant had outstanding $8,037,467$ shares of its common stock without nominal or par value.

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PART I. FINANCIAL INFORMATION -2-
ITEM I. FINANCIAL STATEMENTS (UNAUDITED)
BLAIR CORPORATION AND SUBSIDIARIES
September 30, 2002
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CONSOLIDATED BALANCE SHEETS
BLAIR CORPORATION AND SUBSIDIARIES

|  | $\begin{array}{r} \text { September } 30 \\ 2002 \end{array}$ | $\begin{gathered} \text { December } 31 \\ 2001 \end{gathered}$ |
| :---: | :---: | :---: |
| ASSETS |  |  |
| Current assets: |  |  |
| Cash and cash equivalents | \$55,280,726 | \$5,712,495 |
| Customer accounts receivable, less allowances for doubtful accounts and returns of $\$ 44,765,764$ in 2002 and |  |  |
| \$45,967,160 in 2001 | 138,851,119 | 158,302,205 |
| Inventories - Note G |  |  |
| Merchandise | 56,129,319 | 73,249,927 |
| Advertising and shipping supplies | 15,599,875 | 22,162,217 |
|  | 71,729,194 | 95,412,144 |
| Deferred income taxes - Note F | 13,132,000 | 10,675,000 |
| Prepaid expenses | 1,587,614 | 878,870 |
| Total current assets | 280,580,653 | 270,980,714 |
| Property, plant and equipment: |  |  |
| Land | 1,142,144 | 1,142,144 |
| Buildings | 66,198,873 | 64,443,439 |
| Equipment | 58,592,445 | 56,396,816 |
| Construction in progress | 7,302,139 | 3,611,748 |
|  | 133,235,601 | 125,594,147 |
| Less allowances for depreciation | 78,615,994 | 73,553,885 |
|  | 54,619,607 | 52,040,262 |
| Trademarks | 578,468 | 632,651 |
| Other long-term assets | 649,067 | 459,702 |
| TOTAL ASSETS | \$336,427,795 | \$324,113,329 |

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    Accrued expenses - Note D
    16,747,870 11,818,546
    Accrued federal and state taxes
    Current portion of capital lease
    obligations - Note E
Total current liabilities
Capital lease obligations, less current
    Portion - Note E
        565,400 824,966
Deferred income taxes - Note F 1,446,000 2,009,000
Stockholders' equity:
    Common Stock without par value:
        Authorized 12,000,000 shares; issued
        10,075,440 shares (including shares held
        in treasury) - stated value
    Additional paid-in capital
    Retained earnings
    Accumulated other comprehensive income
        Less 2,037,793 shares in 2002 and
        2,105,571 shares in 2001 of common stock
        in treasury - at cost 41,405,453 43,187,542
    Less receivable and deferred compensation
        from stock plans
Total stockholders' equity
    TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY $336,427,795 $324,113,329
        251,587,884
        241,789,071
        ------------
```

See accompanying notes.
CONSOLIDATED STATEMENTS OF INCOME
BLAIR CORPORATION AND SUBSIDIARIES
Net sales
Other income - Note H
Interest from tax settlement
Costs and expenses:
Cost of goods sold
Three Months Ended
September 30
2002

| $\$ 117,830,052$ | $\$ 123,019,132$ |
| ---: | ---: |
| $10,094,534$ | $10,438,565$ |
| $-0-$ | $-0-$ |
| ---------- | ---------- |
| $127,924,586$ | $133,457,697$ |

$58,053,703 \quad 66,517,608$

Nine Months Ende September 30 2002


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Advertising
General and administrative
Provision for doubtful accounts
Interest

INCOME (LOSS) BEFORE INCOME TAXES
Income tax expense (benefit) - Note F

NET INCOME (LOSS)

Basic and diluted earnings (loss) per share based on weighted average shares outstanding - Note C

| 31,608,249 | 35,924,555 | 102,647,505 | 123, |
| :---: | :---: | :---: | :---: |
| 30,990,706 | 29,599,505 | 94,798,015 | 94,9 |
| 6,738,419 | 6,264,191 | 21,247,530 | 24,0 |
| 118,123 | 453,151 | 365,000 | 1,9 |
| 127,509,200 | 138,759,010 | 410,591,328 | 454,0 |
| 415,386 | $(5,301,313)$ | 20,058,195 | 3,0 |
| 136,000 | (1,987,000) | 7,145,000 | 1,0 |
| \$ 279,386 | \$ (3, 314, 313) | \$ 12,913,195 | \$1,9 |

\$. 03 \$ $(.42) \$ 1.61$
$=====\quad======$

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BLAIR CORPORATION AND SUBSIDIARIES

Common Stock

Additional paid-in capital:
Balance at beginning of period
Issuance of Common Stock to non-employee directors
Issuance of Common Stock under Omnibus Stock Plan
Forfeitures of Common Stock under Employee Stock Purchase and Omnibus Stock Plans
Exercise of non-qualified stock options under Omnibus Stock Plan

Balance at end of period
Retained earnings:
Balance at beginning of period
Net income (loss)
Dividends - Note B

Balance at end of period

Three Months Ended September 30
2002

$\$ \quad 419,810 \quad \$ \quad 419,810$
$14,559,818$
-0-
$(89,530)$
$(14,030)$
$(21,687)$
------------
$14,434,571$
$14,590,839$


Nine Months September 2002
$\$ 419,810$

14,589,838
$(2,619)$
$(66,273)$
$(17,279)$
$(69,096)$
$14,434,571$

271,954,815
12, 913, 195
$(3,432,664)$
$281,435,346$

| Accumulated other comprehensive income: |  |  |  |
| :---: | :---: | :---: | :---: |
| Balance at beginning of period | 7,448 | -0- | -0- |
| Foreign currency translation | $(1,570)$ | -0- | 5,878 |
| Balance at end of period | 5,878 | -0- | 5,878 |
| Treasury Stock: |  |  |  |
| Balance at beginning of period | $(42,726,506)$ | $(43,189,579)$ | $(43,187,542)$ |
| Issuance of Common Stock to non-employee directors | -0- | -0- | 63,279 |
| Issuance of Common Stock under Omnibus Stock Plan | 1,389,905 | -0- | $1,636,023$ |
| Forfeitures of Common Stock under Employee St Purchase and Omnibus Stock Plans | $(130,451)$ | $(4,847)$ | $(134,515)$ |
| Exercise of non-qualified stock options under Omnibus Stock Plan | 61,599 | -0- | 217,302 |
| Balance at end of period | $(41,405,453)$ | $(43,194,426)$ | $(41,405,453)$ |
| Receivable and deferred compensation from stock plans: |  |  |  |
| Balance at beginning of period | $(1,966,544)$ | $(2,117,320)$ | $(1,987,850)$ |
| Issuance of Common Stock under Omnibus Stock Plan | $(1,482,667)$ | -0- | $(1,569,750)$ |
| Forfeitures of Common Stock under Employee St Purchase and Omnibus Stock Plans | $47,000$ | 4,375 | 50,750 |
| Amortization of deferred compensation | 31,068 | -0- | 31,068 |
| Applications of dividends and cash repayments | 68,875 | 72,996 | 173,514 |
| Balance at end of period | $(3,302,268)$ | $(2,039,949)$ | $(3,302,268)$ |
| TOTAL STOCKHOLDERS' EQUITY | \$251,587,884 | 35,567,430 | \$251,587,884 |

See accompanying notes.

| CONSOLIDATED STATEMENTS OF CASH FLOWS |  | -6- |
| :---: | :---: | :---: |
| BLAIR CORPORATION AND SUBSIDIARIES | Nine Months Ended September 30 |  |
|  |  |  |
|  | 2002 | 2001 |
| OPERATING ACTIVITIES |  |  |
| Net income | \$12,913,195 | \$ 1,933,007 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |
| Depreciation and amortization | 6,479,351 | 5,899,978 |
| Provision for doubtful accounts (Benefit from) provision for deferred | 21,247,530 | 24,025,598 |
| income taxes | $(3,020,000)$ | 1,039,000 |
| Compensation expense from stock awards (net of forfeitures) | 173,244 | 10,387 |



See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

## NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Blair Corporation and its wholly-owned subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation $S-X$. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

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Operating results for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information refer to the financial statements and footnotes included in the Company's annual report on Form $10-\mathrm{K}$ for the year ended December 31, 2001.

The consolidated financial statements include the accounts of Blair Corporation and its wholly-owned subsidiaries. All significant intercompany accounts are eliminated upon consolidation.

NOTE B - DIVIDENDS DECLARED

| $2-09-01$ | $\$ .15$ | per share | $2-13-02$ |
| ---: | ---: | ---: | ---: |
| $4-17-01$ | .15 | $\$ .15$ | per share |
| $8-20-01$ | .15 | $4-16-02$ | .15 |
| $11-16-01$ | .15 | $7-16-02$ | .15 |

NOTE C - EARNINGS (LOSS) PER SHARE AND WEIGHTED AVERAGE SHARES OUTSTANDING
Earnings (loss) per share are computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share." Basic earnings (loss) per share are computed using the weighted average number of shares of common stock outstanding during the period. For diluted earnings (loss) per share, the weighted average number of shares includes common stock equivalents related to stock options.

The following table sets forth the computations of basic and diluted earnings (loss) per share as required by Statement No. 128:

Three Months Ended September 30
20022001

Numerator:
Net income (loss)

Denominator:
Denominator for basic earnings (loss) per share weighted average shares outstanding 8,027,272 7,969,794
Effect of dilutive securities: Employee stock options 28,075 -0-

Denominator for diluted Earnings (loss) per share weighted average shares outstanding and assumed conversions 8,055,347 7,969,794 8,020,930 7,969,572
Basic earnings (loss) per share \$.03 \$(.42) \$1.61 \$.24

Diluted earnings (loss) per share
\$. 03 \$(.42)
\$1. 61
$\$ .24$

September 30, 2002

NOTE D - ACCRUED EXPENSES
Accrued expenses consist of:

|  | $\begin{array}{r} \text { September } 30 \\ 2002 \end{array}$ | $\begin{array}{r} \text { December } 31 \\ 2001 \end{array}$ |
| :---: | :---: | :---: |
| Employee compensation | \$ 9,669,971 | \$ 7,274,766 |
| Contribution to profit sharing and retirement plan feature | 1,568,510 | 880,397 |
| Taxes, other than taxes on income | 758,386 | 456,421 |
| Voluntary separation program | 1,168,002 | 1,379,243 |
| Health insurance | 1,823,162 | 838,898 |
| Other accrued items | 1,759,839 | 988,821 |
|  | \$16,747, 870 | \$11, 818, 546 |

NOTE E - Leases
Capital Leases
The company leases certain data processing and telephone equipment under agreements that expire in various years through 2005. The following is a schedule by year of future minimum capital lease payments required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2002:
2002 \$ 104,248
2003 411,150
2004 405,615
2005 101,404

| Less amount representing interest | $\begin{array}{r} 1,022,417 \\ (113,672) \end{array}$ |
| :---: | :---: |
| Present value of minimum lease payments | 908,745 |
| Less current portion | $(343,345)$ |
| Long-term portion of capital lease obligations | \$565,400 |

Operating Leases
The Company leases certain data processing, office and telephone equipment under agreements that expire in various years through 2006 . The Company has also entered into several lease agreements for buildings, expiring in various years through 2012. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2002:
2002 \$ 734,094
$2003 \quad 2,682,968$
2004
2005
2006
2,088,317
1,634,460

Thereafter

$$
1,382,748
$$

$$
4,971,416
$$

$$
01010100
$$

$$
\$ 13,494,003
$$

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NOTE F - INCOME TAXES
The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued -9-

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002
NOTE F - INCOME TAXES - Continued
The differences between total tax expense (benefit) and the amount computed by applying the statutory federal income tax rate of $35 \%$ to income (loss) before income taxes are as follows:

|  | ```Three Months Ended September 30 2002 2001``` |  |  | Nine Mont Septemb 2002 | $\begin{aligned} & \text { Ended } \\ & 30 \\ & 2001 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Statutory rate applied to pre-tax income (loss) | \$ | 145,385 | \$ $(1,855,460)$ | \$7,020,368 | \$1,055,602 |
| State income taxes, net of federal tax benefit |  | $(74,100)$ | 16,900 | 45,500 | $35,100$ |
| Other items |  | 64,715 | $(148,440)$ | 79,132 | $(7,702)$ |
|  |  | 136,000 | \$ (1,987, 000 ) | \$7,145,000 | \$1,083,000 |


| Components of deferred | e tax expe Three Mon Septem 2002 | ```se (benefit) hs Ended er 30 2001``` | as follow Nine Mon Septemb 2002 | $\begin{aligned} & \text { is Ended } \\ & \text { ᄃ } 30 \\ & 2001 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: |
| Provision for estimated returns | \$ (81,000) | \$ (112,000) | \$ (556,000) | \$ (1, 003,000 ) |
| Provision for doubtful accounts | 6,000 | $(1,129,000)$ | 192,000 | $(1,274,000)$ |
| Advertising costs | 2,299,000 | 3,459,000 | (2,141,000) | 3,519,000 |
| Severance | 33,000 | 73,000 | 81,000 | (572,000) |
| Inventory obsolescence | (283,000) | 14,000 | $(349,000)$ | 714,000 |
| Depreciation | (118, 000 ) | 17,000 | (563,000) | (165,000) |
| Restricted Stock | 391,000 | -0- | 391,000 | -0- |
| Other items - net | $(6,000)$ | $(133,000)$ | (75,000) | $(180,000)$ |
|  | \$2,241,000 | \$ 2,189,000 | \$ (3, 020,000) | \$ 1,039,000 |

Components of the deferred tax asset and liability under the liability method as of September 30, 2002 and December 31, 2001 are as follows:

| $\begin{array}{r} \text { September } 30 \\ 2002 \end{array}$ | $\begin{gathered} \text { December } 31 \\ 2001 \end{gathered}$ |
| :---: | :---: |
| \$13,489,000 | \$13,681,000 |
| 2,377,000 | 1,821,000 |
| 1,933,000 | 1,584,000 |
| (924,000) | (924,000) |
| 1,469,000 | 1,469,000 |
| $(5,813,000)$ | $(7,954,000)$ |
| $(391,000)$ | -0- |
| 540,000 | 600,000 |
| 992,000 | 998,000 |
| $\begin{aligned} & 13,672,000 \\ & (540,000) \end{aligned}$ | $\begin{array}{r} 11,275,000 \\ (600,000) \end{array}$ |
| \$13,132,000 | \$10,675,000 |
| \$ 1,446,000 | \$ 2,009,000 |

NOTE G - INVENTORIES
Inventories are valued at the lower of cost or market. Cost of merchandise inventories is determined principally on the last-in, first-out (LIFO) method. Cost of advertising and shipping supplies is determined on the first-in, first-out (FIFO) method. Advertising and shipping supplies include printed advertising material and related mailing supplies for promotional mailings which are generally

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued -10-
BLAIR CORPORATION AND SUBSIDIARIES
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September 30, 2002

Note G - Inventories - continued
scheduled to occur within two months. These costs are expensed when mailed. If the FIFO method had been used for all inventories, the total amount would have increased by approximately $\$ 5,366,000$ at both September 30, 2002 and December 31, 2001.

NOTE H - OTHER INCOME Other income consists of:
Three Months Ended Nine Months Ended September 30 September 30 20022001

2002
2001

Finance charges on time payment accounts $\$ 8,443,430 \$ 9,325,889$ $\$ 26,335,200 \$ 28,650,546$

## Commissions earned Other items

| 554,575 | 705,235 |
| :---: | :---: |
| 1,096,529 | 407,441 |
| \$10,094,534 | \$10,438,565 |


| $1,532,745$ | $2,615,083$ |
| ---: | ---: |
| $2,176,740$ | $1,598,621$ |
| ---------- | -------- |
| $\$ 30,044,685$ | $\$ 32,864,250$ |
| $============$ | $===========$ |

Finance charges on time payment accounts are recognized on an accrual basis of accounting.

## NOTE I - FINANCING ARRANGEMENTS

On December 20, 2001, the Company entered into a Credit Agreement with PNC Bank, National Association, as agent, and certain other banks. The Agreement puts in place a syndicated revolving credit facility of up to $\$ 30$ million, secured by inventory and certain other assets of the Company and its subsidiaries. At the present time, $\$ 28$ million of the $\$ 30$ million is available to the Company, with the balance obtainable upon meeting certain provisions. The interest rate is, at the Company's option, based on a base rate option (greater of Prime or Fed Funds Rate plus . 5\%), swing loan rate option (as quoted by PNC Bank), or Euro-rate option (Euro-rate plus 1.5\%) as defined in the Credit Agreement. The Company is required to meet certain covenants that specifically relate to tangible net worth, maintaining a defined leverage ratio and fixed charge coverage ratio, and complying with certain indebtedness restrictions. As of September 30, 2002 , the Company was in compliance with all the Credit Agreement's covenants. At September 30, 2002, the Company had no borrowings (loans) outstanding and had letters of credit totaling $\$ 9.7$ million outstanding, which reduces the amount of borrowings available, under the Credit Agreement. At December 31, 2001, nothing was outstanding under the Credit Agreement.

Also, on December 20, 2001, the Company completed a securitization of up to $\$ 100$ million in accounts receivable with PNC Bank, National Association, as administrator, and certain conduit purchasers. The Company sold all right, title and interest in and to certain of its accounts receivables to Blair Factoring Company, a wholly-owned subsidiary. Blair Factoring Company is a separate bankruptcy remote special purpose entity that entered into a Receivable Purchase Agreement with PNC Bank, National Association, as administrator, and certain conduit purchasers. The Company's consolidated financial statements reflect all the accounts of Blair Factoring Company, including the receivables and secured borrowings. Transactions entered into under the Receivable Purchase Agreement are considered secured borrowings and collateral transactions under the provisions of Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Services of Financial Assets and Extinguishment of Liabilities. At the present time, $\$ 50$ million of the $\$ 100$ million is available to the Company, with the balance obtainable upon meeting certain provisions. The interest rate approximates 1 -month LIBOR plus the appropriate spread (55 basis points at September 30,2002 ) as defined in the Receivables Purchase Agreement. The securitization requires certain performance standards for the Company's accounts receivable portfolio in addition to complying with the covenants in the Credit Agreement. As of September 30, 2002, the Company was in compliance with all the

NOTE I - FINANCING ARRANGEMENTS - Continued requirements of the Receivables Purchase Agreement. At both September 30, 2002 and December 31, 2001, the Company had $\$ 15$ million outstanding, the minimum amount required to be outstanding, under the Receivables Purchase Agreement, all of which was classified as short-term. Both the revolving credit facility and the securitization have three-year terms expiring December 20, 2004. The two new agreements replaced a $\$ 55,000,000$ Revolving Credit Facility that was to expire on December 31, 2001. The $\$ 55,000,000$ Revolving Credit Facility was an extension, and reduction, of the $\$ 95,000,000$ Revolving Credit Facility that expired on November 13, 2001. At September 30, 2001, the Company had $\$ 35$ million outstanding under the $\$ 95,000,000$ Revolving Credit Facility, all of which was classified as short-term.

Additionally, the Company had available a $\$ 25$ million line for letters of credit. As of December 20, 2001, no new letters of credit could be issued under the $\$ 25$ million line and the line expired in the third quarter of 2002.
Outstanding letters of credit amounted to approximately $\$ 10,000,000$ at December 31, 2001 and related primarily to inventory purchases. Letters of credit issued after December 20, 2001 are being issued under the Credit Agreement dated December 20, 2001. As previously stated, no letters of credit were issued under the Credit Agreement as of December 31, 2001 and $\$ 9.7$ million of letters of credit were outstanding under the Credit Agreement as of September 30, 2002.

## NOTE J - NEW ACCOUNTING PRONOUNCEMENTS

Accounting for Derivative Instruments and Hedging Activities The Financial Accounting Standards Board issued Statement No.133, "Accounting for Derivative Instruments and Hedging Activities." The Company adopted the new statement effective January 1, 2001. The Company has historically not invested in derivative instruments, and as a result, the adoption of this statement has had no impact on the financial statements of the Company.

Business Combinations and Goodwill and Other Intangible Assets The Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." The Company adopted the new rules on accounting for goodwill and other intangible assets effective January 1, 2002. The adoption of these statements did not have an impact on the Company.

## NOTE K - VOLUNTARY SEPARATION PROGRAM

In the first quarter of 2001 , the Company accrued and charged to expense $\$ 2.5$ million in separation costs. The costs were charged to General and Administrative Expense in the income statement. The one-time $\$ 2.5$ million charge represents severance pay, related payroll taxes and medical benefits due the 56 eligible employees who accepted the voluntary separation program rather than relocate or accept other positions in the Company. The program was offered to eligible employees of the Blair Mailing Center from which the merchandise returns operations have been relocated and the mailing operations have been outsourced. As of September 30, 2002, approximately $\$ 1.33$ million of the $\$ 2.5$ million has been paid.

## NOTE L - OMNIBUS STOCK PLAN

The Company has an Omnibus Stock Plan that gives the Company the ability to offer a variety of equity based awards to persons who are key to the Company's growth, development and financial success. Awards are valued in accordance with the terms and conditions of the Omnibus Stock Plan as determined by the Omnibus Stock Plan Committee. Non-qualified stock options totaling 167,229 options were awarded to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
-12-

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

NOTE L - OMNIBUS STOCK PLAN - Continued
certain employees on April 15, 2002. Non-qualified stock options totaling 90,519
options were awarded to the executive officers on April 16, 2001. Restricted stocks awards totaling 11,611 shares of treasury stock and 51,500 shares of treasury stock were issued to certain employees on May 1, 2002 and July 26, 2002, respectively. In 2002 , compensation resulting from the restricted stock awards is being deferred and will be amortized, starting in this third quarter, over the vesting periods which approximate seven years. All dividends associated with the shares of stock held by the Company according to the provisions of the restricted stock awards, are being charged to compensation in the financial statements.

NOTE M - CONTINGENCIES
The Company is involved in certain items of litigation, arising in the normal course of business. While it cannot be predicted with certainty, management believes that the outcome will not have a material effect on the Company's financial condition or results of operations.

NOTE N - USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE O - RECLASSIFICATIONS
Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL -13CONDITION AND RESULTS OF OPERATIONS

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

Results of Operations
Comparison of Third Quarter 2002 and Third Quarter 2001
Net income for the third quarter ended September 30, 2002 increased to $\$ 279,386$, or $\$ .03$ per share, compared to a net loss of $\$ 3,314,313$, or $\$ .42$ per share, for the third quarter ended September 30, 2001. Results for the third quarter of 2002 reflect decreases in operating costs and cost of goods sold. Operating costs, which include advertising, general and administrative and interest expenses, decreased $4.9 \%$ in the third quarter of 2002 as compared to the third quarter of 2001. Cost of goods sold as a percentage of net sales decreased to $49.3 \%$ for the third quarter of 2002 from $54.1 \%$ for the third quarter of 2001 .

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Net sales for the third quarter of 2002 were $4.2 \%$ lower than net sales for the third quarter of 2001. Actual response rates in the third quarter of 2002 were higher than in the third quarter of 2001 and were higher than expected levels for the third quarter of 2002 . Gross sales revenue generated per advertising dollar increased approximately 9\% in the third quarter of 2002 as compared to the third quarter of 2001. The provision for returned merchandise as a percentage of gross sales increased slightly in the third quarter of 2002 as compared to the third quarter of 2001. The decrease in sales was attributable to several reasons. Weaker economic conditions and a softer retail market negatively impacted the Company's sales. Additionally, the Company intentionally reduced advertising expenditures and did not mail to less productive and less profitable customers, who are greater credit risks.

Other income decreased $3.3 \%$ in the third quarter of 2002 as compared to the third quarter of 2001. Decreased finance charges and commissions were primarily responsible for the lower other income. The lower finance charges resulted from decreased customer accounts receivable and the lower commissions resulted from decreased continuity program activity.

Cost of goods sold as a percentage of net sales decreased to 49.3\% in the third quarter of 2002 from $54.1 \%$ in the third quarter of 2001 . The improvement in cost of goods sold is attributable to lower inventory liquidation costs, the Company's efforts to improve gross margins and stable or declining product costs.

Advertising expense in the third quarter of 2002 decreased $12 \%$ from the third quarter of 2001. Reductions in advertising volume and paper costs were primarily responsible for the lower advertising cost in the second quarter of 2002. The Company's cost of paper has fallen more than $20 \%$ from the beginning of 2001 up to the current time.

The total number of catalog mailings released in the third quarter of 2002 was $4.5 \%$ less than in the third quarter of 2001 ( 40 million vs. 41.9 million). The total number of prospect catalogs mailed in the third quarter of 2002 increased by $32.1 \%$ over the third quarter 2001 ( 8.5 million vs. 6.4 million). Print advertising for Crossing Pointe is all via catalog and is included in the catalog mailings numbers.

The total number of letter mailings released in the third quarter of 2002 was 54.7\% less than in the third quarter of 2001 (10.4 million vs. 23 million). Letter mailings are most productive when targeting the Company's female customers and are currently used only to promote our women's apparel lines.

Total volume of the co-op and media advertising programs increased $11.6 \%$ in the third quarter of 2002 as compared to the third quarter of 2001 ( 98.1 million vs. 87.9 million).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002
Results of Operations - Continued

Comparison of Third Quarter 2002 and Third Quarter 2001 Continued

The Company launched e-commerce sites for Crossing Pointe www.crossingpointe.com, and the Blair Online Outlet early in the third quarter of 2000. The Blair website, www.blair.com, incorporating the Online Outlet, was launched late third quarter/early fourth quarter of 2000. A redesigned Blair website was introduced in the first quarter of 2001 featuring improved navigation and quicker access to the Company's expanded product offerings. In the third quarter of 2002, the Company has generated $\$ 12.2$ million in e-commerce sales demand as compared to $\$ 8.4$ million in the third quarter of 2001.

General and administrative expense increased 4.7\% in the third quarter of 2002 as compared to the third quarter of 2001. Increased employee costs, primarily benefits determined by corporate income and insurance related benefits, were responsible for the higher general and administrative expense in the third quarter of 2002.

The provision for doubtful accounts as a percentage of credit sales increased $13.6 \%$ in the third quarter of 2002 as compared to the third quarter of 2001. The provision for doubtful accounts is based on current expectations (consumer credit and economic trends, etc.), sales mix (prospect/customer) and current and prior years' experience, especially delinquencies (accounts over 30 days past due) and actual charge-offs (accounts removed from accounts receivable for non-payment). The estimated bad debt rate, excluding Crossing Pointe credit sales, used in the third quarter of 2002 was 44 basis points higher than in the third quarter of 2001. The third quarter of 2001 included prior period adjustments, which lowered its estimated bad debt rate by 132 basis points. There were no adjustments in the third quarter of 2002. The estimated bad debt rate applied to Crossing Pointe credit sales was approximately the same in the third quarters of 2002 and 2001. At September 30, 2002 the delinquency rate of open accounts receivable, excluding Crossing Pointe, was approximately 2\% higher than at September 30, 2001. The delinquency rate for Crossing Pointe was approximately $30 \%$ higher. Crossing Pointe is more weighted to prospects and sales nearly doubled in the third quarter comparison. The charge-off rate for the first nine months of 2002 was approximately the same as the charge-off rate for the first nine months of 2001. Recoveries of bad debts previously charged off have been credited back against the allowance for doubtful accounts. The allowance for doubtful accounts as a percentage of delinquent accounts was approximately 7\% lower at September 30, 2002 as compared to September 30, 2001. However, the 2001 allowance as a percentage of delinquent accounts decreased by approximately $13 \%$ in the fourth quarter of 2001 . At this time, the Company feels that the allowance for doubtful accounts is sufficient to cover the charge-offs from the current customer accounts receivable portfolio. Also, credit granting, collection and behavior models continue to be updated and improved, and, along with expanding database capabilities, provide valuable credit-marketing opportunities.

Interest expense decreased $74 \%$ in the third quarter of 2002 as compared to the third quarter of 2001. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable, inventories and growth initiatives. At September 30, 2002, inventories were $37.2 \%$ lower and gross customer accounts receivable were 7.6\% lower as compared to September 30, 2001. As a result, average borrowings have been much lower in the third quarter of 2002 than in the third quarter of 2001. Also, interest rates have been substantially lower throughout 2002.

Income taxes as a percentage of income before income taxes were $32.7 \%$ in the third quarter of 2002 and $37.5 \%$ in the third quarter of 2001 . The federal income tax rate was $35 \%$ in both years. The difference in the total income tax rate was caused by a change in the company's effective state income tax rate.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

Continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

Results of Operations - Continued

Comparison of Nine Month Periods Ended September 30, 2002 and September 30,2001

Net income for the nine months ended September 30, 2002 increased to $\$ 12,913,195$, or $\$ 1.61$ per share, as compared to $\$ 1,933,007$, or $\$ .24$ per share, for the nine months ended September 30, 2001. Results for the first nine months of 2002 reflect decreases in operating costs, cost of goods sold and the provision for doubtful accounts. Operating costs, which include advertising, general and administrative and interest expenses, decreased $10.2 \%$ in the first nine months of 2002 as compared to the first nine months of 2001 . Cost of goods sold as a percentage of net sales decreased to $47.8 \%$ for the first nine months of 2002 from $49.9 \%$ for the first nine months of 2001 . The provision for the doubtful accounts decreased 11.6\% in the first nine months of 2002 as compared to the first nine months of 2001. The first nine months of 2001 included $\$ 4$ million of interest income resulting from a favorable Internal Revenue tax settlement. The one-time gain in interest income increased net income for the first nine months of 2001 by $\$ 2.6$ million, $\$ .32$ per share. In addition, the first nine months of 2001 also included a $\$ 2.5$ million charge attributable to the Company's voluntary separation program. The one-time charge decreased net income for the first nine months of 2001 by $\$ 1.5$ million, $\$ .18$ per share.

Net sales for the first nine months of 2002 were $4.7 \%$ lower than net sales for the first nine months of 2001 . Actual response rates in the first nine months of 2002 were higher than in the first nine months of 2001 and were higher than expected levels for the first nine months of 2002 . Gross sales revenue generated per advertising dollar increased approximately $14 \%$ in the first nine months of 2002 as compared to the first nine months of 2001 . The provision for returned merchandise as a percentage of gross sales decreased slightly in the first nine months of 2002 as compared to the first nine months of 2001 . The decrease in sales was attributable to several reasons. Weaker economic conditions and a softer retail market negatively impacted the Company's sales. Additionally, the Company intentionally reduced advertising expenditures and did not mail to less productive and less profitable customers, who are greater credit risks.

Other income decreased 8.6\% in the first nine months of 2002 as compared to the first nine months of 2001. Decreased finance charges and commissions were primarily responsible for the lower other income. The lower finance charges resulted from decreased customer accounts receivable and the lower commissions resulted from decreased continuity program activity.

In June 2001, the Company received a one-time $\$ 4$ million interest payment resulting from a favorable Internal Revenue tax settlement. The Company also recovered approximately $\$ 9$ million in federal tax refunds from the settlement.

Cost of goods sold as a percentage of net sales decreased to $47.8 \%$ for the first nine months of 2002 from $49.9 \%$ for the first nine months of 2001 . The

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improvement in cost of goods sold is attributable to stable or declining product costs, the Company's efforts to improve gross margins, the lower rate of merchandise returned and more effective inventory management resulting in lower inventory liquidation costs.

Advertising expense in the first nine months of 2002 decreased 16.8\%. Reductions in advertising volume and paper costs were primarily responsible for the lower advertising cost in the first nine months of 2002 . The Company's cost of paper has fallen more than $20 \%$ from the beginning of 2001 up to the current time.

The total number of catalog mailings released in the first nine months of 2002 was 7.6\% less than in the first nine months of 2001 (125.4 million vs. 135.8 million).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

Results of Operations - Continued
Comparison of Nine Month Periods Ended September 30, 2002 and
September 30,2001 - continued

The total number of letter mailings released in the first nine months of 2002 was $40 \%$ less than in the first nine months of 2001 ( 43 million vs. 71.5 million).

Total volume of the co-op and media advertising programs decreased $33.5 \%$ in the first nine months of 2002 as compared to the first nine months of 2001 (555 million vs. 835 million).

The Company launched e-commerce sites for Crossing Pointe, www. crossingpointe.com, and the Blair Online Outlet early in the third quarter of 2000. The Blair website, www.blair.com, incorporating the Online Outlet, was launched late third quarter/early fourth quarter of 2000 . A redesigned Blair website was introduced in the first quarter of 2001 featuring improved navigation and quicker access to the Company's expanded product offerings. In the first nine months of 2002, the Company has generated $\$ 39.6$ million in e-commerce sales demand as compared to $\$ 22$ million in the first nine months of 2001. In all of 2001, the Company generated $\$ 35$ million in e-commerce orders.

General and administrative expense decreased slightly by $0.1 \%$ in the first nine months of 2002 as compared to the first nine months of 2001 . General and administrative expense in the first nine months of 2001 was affected by the one-time $\$ 2.5$ million charge for the Company's voluntary separation program in the first quarter of 2001 . The $\$ 2.5$ million charge represents the cost of the severance pay, related payroll taxes and medical benefits due the 56 eligible employees who accepted the voluntary separation program rather than relocate or accept other positions in the Company. The program was offered to eligible employees of the former Blair Mailing Center from which the merchandise returns operations have been relocated and the mailing operations have been outsourced. As of September $30,2002, \$ 1.33$ million of the $\$ 2.5$ million charge has been paid.

The provision for doubtful accounts as a percentage of credit sales decreased $6.4 \%$ in the first nine months of 2002 as compared to the first nine months of 2001. The provision for doubtful accounts is based on current expectations (consumer credit and economic trends, etc.), sales mix (prospect/customer) and current and prior years' experience, especially delinquencies (accounts over 30 days past due) and actual charge-offs (accounts removed from accounts receivable for non-payment). The estimated bad debt rate, excluding Crossing Pointe credit sales, used in the first nine months of 2002 was 80 basis points lower than in the first nine months of 2001 . The estimated bad debt rate applied to Crossing Pointe credit sales was approximately 600 basis points lower in the first nine months of 2002 as compared to the first nine months of 2001 . At September 30 , 2002, the delinquency rate of open accounts receivable, excluding Crossing Pointe, was approximately $2 \%$ higher than at September 30, 2001. The delinquency rate for Crossing Pointe was approximately $30 \%$ higher. Crossing Pointe is more weighted to prospects and sales increased more than $150 \%$ in the first nine months of 2002 as compared to the first nine months of 2001 . The charge-off rate for the first nine months of 2002 was approximately the same as the charge-off rate for the first nine months of 2001 . Recoveries of bad debts previously charged off have been credited back against the allowance for doubtful accounts. The allowance for doubtful accounts as a percentage of delinquent accounts was approximately $7 \%$ lower at September 30,2002 as compared to September 30, 2001. However, the 2001 allowance as a percentage of delinquent accounts decreased by approximately $13 \%$ in the fourth quarter of 2001 . At this time, the Company feels that the allowance for doubtful accounts is sufficient to cover the charge-offs from the current customer accounts receivable portfolio. Also, credit granting, collection and

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL -17CONDITION AND RESULTS OF OPERATIONS - Continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

Results of Operations - Continued

Comparison of Nine Month Periods Ended September 30, 2002 and September 30,2001 - continued
behavior models continue to be updated and improved, and, along with expanding database capabilities, provide valuable credit-marketing opportunities.

Interest expense decreased $81 \%$ in the first nine months of 2002 as compared to the first nine months of 2001 . Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable, inventories and growth initiatives. At September 30, 2002, inventories were $37.2 \%$ lower and gross customer accounts receivable were $7.6 \%$ lower as compared to September 30,2001 . As a result, average borrowings have been much lower in the first nine months of 2002 than in the first nine months of 2001 . Also, interest rates have been substantially lower throughout 2002 .

Income taxes as a percentage of income before income taxes were $35.6 \%$ in the first nine months of 2002 and $35.9 \%$ in the first nine months of 2001 . The federal income tax rate was $35 \%$ in both years. The difference in the total income tax rate was caused by a change in the company's effective state income
tax rate.

Liquidity and Sources of Capital

All working capital and cash requirements for the first nine months of 2002 were met. Short-term funding was provided by operating activities, a revolving line of credit and a securitization of receivables.

On December 20, 2001, the Company entered into a Credit Agreement with PNC Bank, National Association, as agent, and certain other banks. The Agreement puts in place a syndicated revolving credit facility of up to $\$ 30$ million, secured by inventory and certain other assets of the Company and its subsidiaries. At the present time, $\$ 28$ million of the $\$ 30$ million is available to the Company, with the balance obtainable upon meeting certain provisions. The interest rate is, at the Company's option, based on a base rate option (greater of Prime or Fed Funds Rate plus . 5\%), swing loan rate option (as quoted by PNC Bank), or Euro-rate option (Euro-rate plus 1.5\%) as defined in the Credit Agreement. The Company is required to meet certain covenants that specifically relate to tangible net worth, maintaining a defined leverage ratio and fixed charge coverage ratio, and complying with certain indebtedness restrictions. As of September 30, 2002, the Company was in compliance with all the Credit Agreement's covenants. At September 30, 2002, the Company had no borrowings (loans) outstanding and had letters of credit totaling $\$ 9.7$ million outstanding, which reduces the amount of borrowings available, under the Credit Agreement. At December 31, 2001, nothing was outstanding under the Credit Agreement.

Also, on December 20, 2001, the Company completed a securitization of up to $\$ 100$ million in accounts receivable with PNC Bank, National Association, as administrator, and certain conduit purchasers. The Company sold all right, title and interest in and to certain of its accounts receivables to Blair Factoring Company, a wholly-owned subsidiary. Blair Factoring Company is a separate bankruptcy remote special purpose entity that entered into a Receivable Purchase Agreement with PNC Bank, National Association, as administrator, and certain conduit purchasers. The Company's consolidated financial statements reflect all the accounts of Blair Factoring Company, including the receivables and secured borrowings. Transactions entered into under the Receivable Purchase Agreement are considered secured borrowings and collateral transactions under the provisions of Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Services of Financial Assets and Extinguishment of Liabilities. At the present

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
-18CONDITION AND RESULTS OF OPERATIONS - Continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

Liquidity and Sources of Capital - Continued
time, $\$ 50$ million of the $\$ 100$ million is available to the Company, with the balance obtainable upon meeting certain provisions. The interest rate approximates 1 -month LIBOR plus the appropriate spread (55 basis points at September 30, 2002) as defined in the Receivables Purchase Agreement. The securitization requires certain performance standards for the Company's accounts receivable portfolio in addition to complying with the covenants in the Credit

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Agreement. As of September 30, 2002, the Company was in compliance with all the requirements of the Receivables Purchase Agreement. At both September 30, 2002 and December 31, 2001, the Company had $\$ 15$ million outstanding, the minimum amount required to be outstanding, under the Receivables Purchase Agreement, all of which was classified as short-term.

Both the revolving credit facility and the securitization have three-year terms expiring December 20, 2004. The two new agreements replaced a $\$ 55,000,000$ Revolving Credit Facility that was to expire on December 31, 2001. The $\$ 55,000,000$ Revolving Credit Facility was an extension, and reduction, of the $\$ 95,000,000$ Revolving Credit Facility that expired on November 13, 2001. At September 30, 2001 the Company had $\$ 35$ million outstanding under the $\$ 95,000,000$ Revolving Credit Facility, all of which was classified as short-term.

Additionally, the Company had available a $\$ 25$ million line for letters of credit. As of December 20, 2001, no new letters of credit could be issued under the $\$ 25$ million line and the line expired in the third quarter of 2002. Outstanding letters of credit amounted to $\$ 10,000,000$ at December 31, 2001 and related primarily to inventory purchases. Letters of credit issued after December 20, 2001 are being issued under the Credit Agreement dated December 20, 2001. As previously stated, no letters of credit were issued under the Credit Agreement as of December 31, 2001 and $\$ 9.7$ million of letters of credit were outstanding under the Credit Agreement as of September 30, 2002.

The ratio of current assets to current liabilities was 3.39 at September 30, 2002, 3.41 at December 31, 2001 and 2.73 at September 30, 2001. Working capital increased $\$ 6,261,720$ in the first nine months of 2002 primarily due to the net income. The 2002 increase was primarily reflected in increased cash and cash equivalents more than offsetting decreased inventories and customer accounts receivable.

Merchandise inventory turnover was 3.1 at September 30, 2002, 2.4 at December 31, 2001 and 2.4 at September 30, 2001. Merchandise inventory as of September 30,2002 was $23.3 \%$ lower than at December 31,2001 and $38.8 \%$ lower than at September 30, 2001. Merchandise inventory levels have been generally higher from September 30, 2000 through September 30, 2001 due to lower than expected response rates since mid-2000 and the introduction of new catalogs in late 2000 and early 2001. Inventory liquidation efforts, including sales mailings, were increased in the second, third and forth quarters of 2001 and resulted in lower merchandise inventory levels at December 31, 2001 and in 2002. The merchandise inventory levels are net of the Company's reserve for inventory obsolescence. The reserve totaled $\$ 5.1$ million at September 30,2002 , $\$ 4.2$ million at December 31, 2001 and $\$ 4.4$ million at September 30, 2001. Inventory write-offs and write-downs (reductions to below cost) charged against the reserve for obsolescence were $\$ 4.5$ million in the first nine months of 2002 and $\$ 9.3$ million in the first nine months of 2001. A monthly provision for obsolete inventory is added to the reserve and expensed to cost of goods sold, based on the levels of merchandise inventory and merchandise purchases.

An operating segment is identified as a component of an enterprise for which separate financial information is available for evaluation by the chief decision- maker, or decision-making group, in deciding on how to allocate resources and

## BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002
Liquidity and Sources of Capital - Continued
assess performance. The Company operates as one business segment consisting of four product lines. The fourth product line, Crossing Pointe, was added in the third quarter of 2000 and is expected to become a significant revenue source over the next few years. Home net sales as a percentage of total net sales were $10.6 \%$ ( $\$ 42.5$ million) in the first nine months of 2002 as compared to $12.8 \%$ (\$53.6 million) in the first nine months of 2001. Menswear net sales as a percentage of total net sales were $17.5 \%$ ( $\$ 70.1$ million) in the first nine months of 2002 as compared to $18.3 \% ~(\$ 77.0$ million) in the first nine months of 2001. Womenswear net sales as a percentage of total net sales were 66.0\% (\$264.3 million) in the first nine months of 2002 as compared to $66.2 \%$ ( $\$ 278.2$ million) in the first nine months of 2001. Crossing Pointe net sales as a percentage of total net sales were $5.9 \%(\$ 23.7$ million) in the first nine months of 2002 as compared to $2.7 \%$ ( $\$ 11.3$ million) in the first nine months of 2001 . Home merchandise inventory totaled $\$ 4.8$ million at September 30, 2002, $\$ 4.0$ million at December 31, 2001 and $\$ 7.9$ million at September 30, 2001. Menswear merchandise inventory was $\$ 10.8$ million at September 30, 2002, $\$ 13.1$ million at December 31, 2001 and $\$ 21.6$ million at September 30, 2001. Womenswear merchandise inventory was $\$ 33.2$ million at September 30, 2002, $\$ 51.9$ million at December 31, 2001 and $\$ 57.9$ million at September 30, 2001. Crossing Pointe merchandise inventory was $\$ 7.4$ million at September $30,2002, \$ 4.2$ million at December 31, 2001 and $\$ 4.4$ million at September 30, 2001.

The Company looks upon its credit granting (Blair Credit) as a marketing advantage. In the early 1990 's, the Company started extending revolving credit to first-time (prospect) buyers. Blair Credit was offered only to established customers prior to that time. Prospects responded. This led to a broad offering of pre-approved lines of credit to prospects in 1995 and 1996 . Sales, accounts receivable and bad debts expectedly increased. However, as the receivables aged, bad debts greatly exceeded expected levels. The company recognized that it didn't have all the necessary credit controls in place and put a hold (second quarter 1996) on pre-approved credit offers and reviewed and strengthened (mid-1996 and on) credit controls. Blair Credit customers, on average, buy more, buy more often and are more loyal than cash and credit card customers. The benefit from the increased sales volume achieved by offering Blair Credit is significant and more than outweighs the cost of the credit program. The cost and/or contribution of the credit program itself can be quickly assessed by comparing finance charges (included in other income) to the provision for doubtful accounts. For the first nine months of 2002 , finance charges were $\$ 26.3$ million and the provision for doubtful accounts was $\$ 21.2$ million (net of $\$ 5.1$ million). For the first nine months of 2001, finance charges were $\$ 28.7$ million and the provision for doubtful accounts was $\$ 24.0 \mathrm{million}(n e t$ of $\$ 4.6 \mathrm{million}$ ). The assessments do not take into consideration the administrative cost of the credit program (included in general and administrative expense), the cost of money and the impact on sales. The Company's gross credit sales decreased 5.5\% in the first nine months of 2002 as compared to the first nine months of 2001.

The Company has added new facilities, modernized its existing facilities and acquired new cost-saving equipment during the last several years. Capital expenditures for property, plant and equipment totaled $\$ 9.0$ million during the first nine months of 2002 and $\$ 5.7$ million during the first nine months of 2001 . Capital expenditures had been projected to be $\$ 15$ million plus for each of the years 2001 and 2002 and nearly $\$ 10$ million for 2003 . However, capital expenditures for 2001 were delayed due to economic conditions. This included slowing the implementation of the previously announced modernization and enhancement of the Company's fulfillment operations. Capital expenditures are
projected to be approximately $\$ 41$ million in total for the years 2002 , 2003 , and 2004. Approximately $\$ 21$ million of the $\$ 41$ million is attributable to the

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL -20-
CONDITION AND RESULTS OF OPERATIONS - Continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

Liquidity and Sources of Capital - Continued
fulfillment project. Most of the $\$ 9.0$ million in capital
expenditures in 2002 is attributable to the fulfillment project.
The Company has contractual obligations consisting of capital leases for data processing and telephone equipment, and operating leases for buildings and data processing, office and telephone equipment.

Payments Due by Period

| Contractual |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Obligations |  | Total | 2002 | 2003-2004 | 2005-2006 | Thereafter |
| Capital lease |  |  |  |  |  |  |
| Obligations | \$ | 908,745 | \$83,599 | \$725,315 | \$ 99,831 | \$ -0- |
| Operating |  |  |  |  |  |  |
| leases |  | 494,004 | 734,094 | 4,771,285 | 3,017,209 | 4,971,416 |
| Total |  | 402,749 | \$817, 693 | \$5,496, 600 | \$3,117,040 | \$4,971,416 |

The Company has other commercial commitments consisting of a revolving credit facility of up to $\$ 30$ million and a securitization of up to $\$ 100$ million in accounts receivable.

> Amount of Commitment
> Expiration Per Period

| Other | Total |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Commercial | Amounts | Less than | $1-3$ | $4-5$ | After 5 |
| Commitments | Committed | 1 year | years | years | Years |
| Line of Credit- |  |  |  |  |  |
| Revolving | \$28,000,000 | -0- | \$28,000,000 | -0- | -0- |
| Line of Credit- |  |  |  |  |  |
| Securitization | 50,000,000 | -0- | 50,000,000 | -0- | -0- |
| Total | \$78,000,000 | -0- | \$78,000,000 | -0- | -0- |
|  | =========== | == | =========== | == | == |

If an event of default should occur, payments and/or maturity of the lines of credit could be accelerated. The Company is not in default and doesn't expect to be in default of any of the provisions of the credit facilities.

The Company continues to have significant deferred tax assets primarily resulting from reserves against accounts receivable. The Company believes these assets are realizable based upon past earnings and availability in the carry-back period.

The Company recently declared a quarterly dividend of $\$ .15$ per share payable on December 15, 2002. It is the Company's intent to continue paying dividends; however, the Company will evaluate its dividend practice on an ongoing basis. See "Future Considerations".

The Company has, from the fourth quarter of 1996 through the year 2000, repurchased a total of $1,620,940$ shares of its Common Stock - 864,720 shares purchased on the open market and 756,220 shares from the Estate of John L. Blair. In 2000, the Company purchased 268,704 shares on the open market. No shares were repurchased in 2001 or in the first nine months of 2002 .

Future cash needs will be financed by cash flow from operations, the existing borrowing arrangements and, if needed, other financing arrangements that may be available to the Company. The Company's current projection of future cash requirements, however, may be affected in the future by numerous factors, including changes in customer payments on accounts receivable, consumer credit industry trends, sales volume, operating cost fluctuations, revised capital spending plans and unplanned capital spending.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS - Continued
BLAIR CORPORATION AND SUBSIDIARIES
September 30, 2002
Critical Accounting Policies
Preparation of the Company's financial statements requires the application of a number of accounting policies which are described in "Note 1, Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" in the Company's 2001 Annual Report. The critical accounting policies, which if interpreted differently under different conditions or circumstances could result in material changes to the reported results, deal with properly valuing accounts receivable and inventory. Properly valuing accounts receivable and inventory requires establishing proper reserve and allowance levels, specifically the allowances for doubtful accounts and returns and the reserve for inventory obsolescence.

The allowance for doubtful accounts and related items, provision for doubtful accounts and Blair Credit, are discussed in "Results of Operations", "Liquidity and Sources of Capital" and "Future Considerations".

The allowance for returns is a deduction from customer accounts receivable. A monthly provision for anticipated returns is recorded as a percentage of gross sales, based upon historical experience. The provision is charged against gross sales to arrive at net sales, and actual returns are charged against the allowance for returns. Returns are generally more predictable as they settle within two-to- three months but are impacted by season, new products and/or product lines, type of sale (cash, credit card, Blair Credit) and sales mix (prospect/customer). The Company feels that the allowance for returns is sufficient to cover the returns that will occur after September 30, 2002 from sales prior to October 1, 2002.

The reserve for inventory obsolescence and related items, inventory levels and write-downs, are discussed in "Liquidity and Sources of Capital" and "Future

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Considerations". The Company feels that the reserve for inventory obsolescence is sufficient to cover the write-offs and write-downs that will occur after September 30,2002 on merchandise in inventory as of September 30, 2002.

Impact of Inflation and Changing Prices

Although inflation has moderated in our economy, the Company is continually seeking ways to cope with its impact. To the extent permitted by competition, increased costs are passed on to customers by selectively increasing selling prices over a period of time. Profit margins have been pressured by postal rate increases. Postal rates increased on January 10, 1999, on January 7, 2001, on July 1, 2001 and again on June 30, 2002. It is anticipated that postal rates will increase at a greater percentage and more frequently, starting with the last increase on June 30, 2002. The Company spent approximately $\$ 90$ million on postage in 2001.

The Company principally uses the LIFO method of accounting for its merchandise inventories. Under this method, the cost of products sold reported in the financial statements approximates current costs and thus reduces distortion in reported income due to increasing costs. However, the Company has been experiencing decreasing merchandise costs and the LIFO reserve has fallen to $\$ 5,366,000$ at September 30, 2002 from $\$ 6,717,000$ at December 31, 2000 .

Property, plant and equipment are continuously being expanded and updated. Major projects are discussed under "Liquidity and Sources of Capital". Assets acquired in prior years will be replaced at higher costs but this will take place over many years. New assets, when acquired, will result in higher depreciation charges, but in many cases, due to technological improvements, savings in

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL -22CONDITION AND RESULTS OF OPERATIONS - Continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2002

Impact of Inflation and Changing Prices - continued
operating costs should result. The charges to operations for depreciation represent the allocation of historical costs incurred over past years and are significantly less than if they were based on the current cost of productive capacity being used.

Accounting Pronouncements

In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued. The Company adopted Statement No. 133 effective January 1, 2001. The adoption of Statement No. 133 did not have an impact on the financial statements of the Company, as the Company has historically not utilized derivative instruments.

In June 2001, Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", were issued.

The Company adopted the Statements effective January 1,2002 and adoption of these Statements did not have an impact on the Company.

## Future Considerations

The Company is faced with the ever-present challenge of maintaining and expanding its customer file. This involves the acquisition of new customers (prospects), the conversion of new customers to established customers (active repeat buyers) and the retention and/or reactivation of established customers. These actions are vital in growing the business but are being negatively impacted by increased operating costs, a declining labor pool, increased competition in the retail sector, high levels of consumer debt, varying consumer response rates and an uncertain economy. The preceding factors can also negatively impact the Company's ability to properly value accounts receivable and inventories by making it more difficult to establish proper reserve and allowance levels, specifically, the allowances for doubtful accounts and returns and the reserve for inventory obsolescence.

The Company's marketing strategy includes targeting customers in the " 40 to 60, low-to-moderate income" market and in the "60+, low-to-moderate income" market. The " 40 to 60 " market is the fastest growing segment of the population. Also, customers in the "low-to-moderate income" market tend to be more credit-needy and utilize Blair credit to a greater degree. Success of the Company's marketing strategy requires investment in database management, financial and operating systems, prospecting programs, catalog marketing, new product lines, telephone call centers, e-commerce, fulfillment operations and credit management. Management believes that these investments should improve Blair Corporation's position in new and existing markets and provide opportunities for future earnings growth.

The Company has a working arrangement with accomplished actress, artist, author and mother, Jane Seymour, to launch the "Jane Seymour Signature Collection" of women's apparel. The Jane Seymour inspired fashions will be sold exclusively through the Company's Crossing Pointe catalog and website www.crossingpointe.com. The first "Jane Seymour Signature Collection" fashions previewed in early January 2002 on the Crossing Pointe website and debuted in the Crossing Pointe Spring 2002 Catalog mailed at the end of January 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL -23-
CONDITION AND RESULTS OF OPERATIONS - Continued

BLAIR CORPORATION AND SUBSIDIARIES
September 30, 2002
Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Forward-looking statements in this report, including without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believes", "anticipates", "plans", "expects", and similar expressions are intended to identify forward-looking statements. Any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Such forward-looking statements are

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included in, but not limited to, the following sections of the report:

- The paragraph on the provision for doubtful accounts in the Results of Operations, Comparison of Third Quarter 2002 and Third Quarter 2001.
- The paragraph on the provision for doubtful accounts in the Results of Operations, Comparison of Nine Month Periods Ended September 30, 2002 and September 30, 2001.
- Liquidity and Sources of Capital.
- Critical Accounting Policies.
- The Impact of Inflation and Changing Prices.
- Future Considerations.

Investors are cautioned that such forward-looking statements involve risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth, accounts receivable and inventory; (iii) external factors such as, but not limited to, changes in consumer response rates, changes in consumer credit trends, success of new business lines and increases in postal, paper and printing costs; and (iv) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The carrying amounts of cash, customer accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The interest rates on the company's securitized and revolving credit facilities are adjusted regularly to reflect current market rates. Accordingly, the carrying amounts of the Company's borrowings also approximate fair value.

## ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation of the Company's disclosure controls and procedures as of a date within 90 days of the filing date of this quarterly report, the Chief Executive Officer and the Chief Financial Officer of the Company have concluded that the Company's disclosure controls and procedures are effective in connection with the Company's filing of this quarterly report on Form 10-Q for the period ended September 30, 2002.

There were no significant changes in the Company's internal controls or in any other factors which could significantly affect those controls subsequent to the date of the most recent evaluation of the Company's internal controls by the Company, including any corrective actions with regard to any significant deficiencies or material weaknesses.

PART II. OTHER INFORMATION
BLAIR CORPORATION AND SUBSIDIARIES
September 30, 2002

## Item 1. Legal Proceedings

The Company is from time to time a party to ordinary routine litigation incidental to various aspects of its operations. Management is not currently aware of any litigation that will have a material adverse impact on the Company's financial condition or results of operations.

Item 2. Changes in Securities and Use of Proceeds
Not Applicable.

Item 3. Defaults Upon Senior Securities
Not Applicable.
Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.
Item 5. Other Information
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Not Applicable.
Item 6. Exhibits and Reports on Form 8-K
------------------------------------1
(a) Exhibits
3.1 Restated Certificate of Incorporation(1)
3.2 Amended Bylaws of Blair Corporation(2)

4 Specimen Common Stock Certificate(3)
10.1 Stock Accumulation and Deferred Compensation Plan for Directors(4)
10.2 Blair Corporation 2000 Omnibus Stock Plan(5)
10.3 Blair CreditAgreement (6)

11 Statement regarding computation of per share earnings(7)
99.1 CEO Certification - attached
99.2 CFO Certification - attached
(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 2002

[^1](6) Incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K filed with the SEC on January 9, 2002 (SEC File No. 1-878).
(7) Incorporated by reference to Note C of the financial statements included herein.


#### Abstract

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.


BLAIR CORPORATION<br>(Registrant)

Date November 12, 2002
By
KENT R. SIVILLO
KENT R. SIVILLO
Vice President-Finance
(Chief Accounting Officer)

By BRYAN J.FLANAGAN
BRYAN J. FLANAGAN
Senior Vice President and
Chief Financial Officer

CERTIFICATIONS

I, John E. Zawacki, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blair Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and $I$ have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

John E. Zawacki
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John E. Zawacki
Chief Executive Officer

I, Bryan J. Flanagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blair Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue
statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and $I$ have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

Bryan J. Flanagan
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Bryan J. Flanagan
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Blair Corporation (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John E. Zawacki, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 , that:
(1) The Report fully complies with the requirements of Section $13(\mathrm{a})$ or 15 (d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

November 12, 2002
John E. Zawacki
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John E. Zawacki
President and
Chief Executive Officer

CERTIFICATION PURSUANT TO<br>18 U.S.C. SECTION 1350,<br>AS ADOPTED PURSUANT TO<br>SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Blair Corporation (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan J. Flanagan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 , that:
(1) The Report fully complies with the requirements of Section $13(a)$ or 15 (d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all

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material respects, the financial condition and result of operations of
the Company.

November 12, 2002
Bryan J. Flanagan

Bryan J. Flanagan
Senior Vice President and Chief Financial Officer


[^0]:    LIABILITIES AND STOCKHOLDERS' EQUITY
    Current liabilities:
    Notes payable - Note I
    Trade accounts payable

    | $\$ 15,000,000$ | $\$ 15,000,000$ |
    | ---: | ---: |
    | $39,702,410$ | $47,632,277$ |
    | $3,635,716$ | $1,925,619$ |

[^1]:    (1) Incorporated by reference to Exhibit A to the Quarterly Report on Form 10-Q of the Company filed with the SEC on August 10, 1995 (SEC File No. 1-878).
    (2) Incorporated by reference to Exhibit 4.3 to the Form S-8 Registration Statement filed with the SEC on July 19, 2000 (SEC File No. 333-41770).
    (3) Incorporated by reference to Exhibit 4.1 to the Form S-8 Registration Statement filed with the SEC on July 19, 2000 (SEC File No. 333-41770).
    (4) Incorporated herein by reference to Exhibit A to the Company's Proxy Statement filed with the SEC on March 20, 1998 (SEC File No. 1-878).
    (5) Incorporated herein by reference to Exhibit A to the Company's Proxy Statement filed with the SEC on March 17, 2000 (SEC File No. 1-878).

