

Edgar Filing: BLAIR CORP - Form 10-Q

BLAIR CORP  
Form 10-Q  
August 14, 2002

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Period Ended June 30, 2002 Commission File Number 1-878  
-----

BLAIR CORPORATION  
-----

(Exact name of registrant as specified in its charter)

DELAWARE  
-----

25-0691670  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

220 HICKORY STREET, WARREN, PENNSYLVANIA  
-----

16366-0001  
-----

(Address of principal executive offices)

(Zip Code)

(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(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

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As of August 12, 2002 the registrant had outstanding 8,043,480 shares of its

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common stock without nominal or par value.

## PART I FINANCIAL INFORMATION

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### ITEM I. FINANCIAL STATEMENTS (UNAUDITED)

#### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

## CONSOLIDATED BALANCE SHEETS

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#### BLAIR CORPORATION AND SUBSIDIARIES

	June 30 2002	December 31 2001
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,165,577	\$ 5,712,49
Customer accounts receivable, less allowances for doubtful accounts and returns of \$44,568,852 in 2002 and \$45,967,160 in 2001	146,270,128	158,302,205
Inventories - Note G		
Merchandise	48,076,063	73,249,927
Advertising and shipping supplies	9,281,506	22,162,217
	-----	-----
	57,357,569	95,412,144
Deferred income taxes - Note F	15,491,000	10,675,000
Prepaid expenses	1,399,538	878,870
	-----	-----
Total current assets	274,683,812	270,980,714
Property, plant and equipment:		
Land	1,142,144	1,142,144
Buildings	65,098,446	64,443,439
Equipment	58,594,992	56,396,816
Construction in progress	5,634,937	3,611,748
	-----	-----
	130,470,519	125,594,147
Less allowances for depreciation	76,828,409	73,553,885
	-----	-----
	53,642,110	52,040,262
Trademarks	596,529	632,651
Other long-term assets	711,484	459,702
	-----	-----
TOTAL ASSETS	\$329,633,935	\$324,113,329
	=====	=====

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## LIABILITIES AND STOCKHOLDERS' EQUITY

### Current liabilities:

Notes payable - Note I	\$ 15,000,000	\$ 15,000,000
Trade accounts payable	27,986,475	47,632,277
Advance payments from customers	2,826,132	1,925,619
Accrued expenses - Note D	17,020,500	11,818,546
Accrued federal and state taxes	11,754,517	2,776,985
Current portion of capital lease obligations - Note E	339,804	336,865

Total current liabilities	74,927,428	79,490,292
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Capital lease obligations, less current portion - Note E

652,934 824,966

Deferred income taxes - Note F

1,564,000 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

419,810 419,810

Additional paid-in capital

14,559,818 14,589,838

Retained earnings

282,195,547 271,954,815

Accumulated other comprehensive income

7,448 -0-

297,182,623 286,964,463

Less 2,085,127 shares in 2002 and

2,105,571 shares in 2001 of common stock

in treasury - at cost

42,726,506 43,187,542

Less receivable from stock plans

1,966,544 1,987,850

Total stockholders' equity

252,489,573 241,789,071

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY

\$329,633,935 \$324,113,329

See accompanying notes.

## CONSOLIDATED STATEMENTS OF INCOME

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## BLAIR CORPORATION AND SUBSIDIARIES

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Net sales	\$147,513,331	\$164,093,069	\$282,774,786	\$297,113,331
Other income - Note H	9,877,074	11,122,746	19,950,151	22,411,331
Interest from tax settlement	-0-	4,061,253	-0-	4,061,253
	157,390,405	179,277,068	302,724,937	323,585,915

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Costs and expenses:				
Cost of goods sold	68,944,579	78,838,780	133,479,575	143,711,111
Advertising	36,854,894	48,822,315	71,039,256	87,103,256
General and administrative	33,243,599	32,721,729	63,807,309	65,807,309
Provision for doubtful accounts	7,238,809	9,467,386	14,509,111	17,509,111
Interest	125,846	736,592	246,877	1,736,592
	-----	-----	-----	-----
	146,407,727	170,586,802	283,082,128	315,082,128
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	10,982,678	8,690,266	19,642,809	8,690,266
Income tax expense - Note F	3,950,000	3,211,000	7,009,000	3,211,000
	-----	-----	-----	-----
NET INCOME	\$7,032,678	\$5,479,266	\$ 12,633,809	\$5,479,266
	=====	=====	=====	=====
Basic and diluted earnings per share based on	\$ .88	\$ .69	\$1.58	
	=====	=====	=====	
weighted average shares outstanding - Note C				

See accompanying notes.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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### BLAIR CORPORATION AND SUBSIDIARIES

	Three Months Ended June 30		Six Months Ended June 30
	2002	2001	2002
	-----	-----	-----
Common Stock	\$ 419,810	\$ 419,810	\$ 419,810
Additional paid-in capital:			
Balance at beginning of period	14,589,838	14,612,333	14,589,838
Issuance of Common Stock to non-employee directors	(2,619)	(5,871)	(2,619)
Issuance of Common Stock under Omnibus Stock Plan	23,257	-0-	23,257
Forfeitures of Common Stock under Employee Stock Purchase Plan	(3,249)	(6,908)	(3,249)
Exercise of non-qualified stock options under Omnibus Stock Plan	(47,409)	-0-	(47,409)
	-----	-----	-----
Balance at end of period	14,559,818	14,599,554	14,559,818
Retained earnings:			
Balance at beginning of period	276,360,466	266,017,142	271,954,815
Net income	7,032,678	5,479,266	12,633,809
Cash dividends declared - Note B	(1,197,597)	(1,195,507)	(2,393,077)

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	-----	-----	-----
Balance at end of period	282,195,547	270,300,901	282,195,547
Accumulated other comprehensive income:			
Balance at beginning of period	4,465	-0-	-0-
Foreign currency translation	2,983	-0-	7,448
	-----	-----	-----
Balance at end of period	7,448	-0-	7,448
Treasury Stock:			
Balance at beginning of period	(43,187,542)	(43,218,782)	(43,187,542)
Issuance of Common Stock to non-employee directors	63,279	31,746	63,279
Issuance of Common Stock under Omnibus Stock Plan	246,118	-0-	246,118
Forfeitures of Common Stock under			
Employee Stock Purchase Plan	(4,064)	(2,543)	(4,064)
Exercise of non-qualified stock options under			
Omnibus Stock Plan	155,703	-0-	155,703
	-----	-----	-----
Balance at end of period	(42,726,506)	(43,189,579)	(42,726,506)
Receivable from stock plans:			
Balance at beginning of period	(1,935,763)	(2,178,287)	(1,987,850)
Issuance of Common Stock under Omnibus Stock Plan	(87,083)	-0-	(87,083)
Forfeitures of Common Stock under Employee Stock			
Purchase Plan	3,750	3,150	3,750
Repayments	52,552	57,817	104,639
	-----	-----	-----
Balance at end of period	(1,966,544)	(2,117,320)	(1,966,544)
	-----	-----	-----
TOTAL STOCKHOLDERS' EQUITY	\$252,489,573	\$240,013,366	\$252,489,573
	=====	=====	=====

See accompanying notes

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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## BLAIR CORPORATION AND SUBSIDIARIES

	Six Months Ended	
	June 30	
	2002	2001
	-----	-----
OPERATING ACTIVITIES		
Net income	\$12,633,809	\$5,247,320
Adjustments to reconcile net income		
to net cash provided by (used in)		
operating activities:		
Depreciation and amortization	4,269,900	3,870,502
Provision for doubtful accounts	14,509,111	17,761,407
Provision for deferred income taxes	(5,261,000)	(1,150,000)
Compensation expense from stock		
awards (net of forfeitures)	239,389	19,574
Changes in operating assets and		

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liabilities providing (using) cash:		
Customer accounts receivable	(2,477,034)	(6,672,202)
Inventories	38,054,575	1,644,135
Prepaid expenses	(782,083)	(456,342)
Trade accounts payable	(19,645,802)	(34,007,049)
Advance payments from customers	900,513	282,297
Accrued expenses	5,201,954	(2,739,576)
Accrued federal and state taxes	8,977,532	2,771,823
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	56,620,864	(13,428,111)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(5,835,626)	(4,477,450)
NET CASH USED IN INVESTING ACTIVITIES	(5,835,626)	(4,477,450)
FINANCING ACTIVITIES		
Net proceeds from bank borrowings	-0-	25,000,000
Repayments of principal on capital leases	(169,093)	-0-
Dividends paid	(2,393,077)	(2,390,833)
Exercise of non-qualified stock options	108,294	-0-
Repayments of notes receivable from stock plans	104,639	111,153
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,349,237)	22,720,320
EFFECT OF EXCHANGE RATE CHANGES ON CASH	17,081	-0-
NET INCREASE IN CASH AND CASH EQUIVALENTS	48,453,082	4,814,759
Cash and cash equivalents at beginning of year	5,712,495	7,497,907
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$54,165,577	\$12,312,666

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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BLAIR CORPORATION AND SUBSIDIARIES

June 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. Operating results for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31,

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2002. For further information refer to the financial statements and footnotes included in the Company's annual report on Form 10-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	\$ .15 per share
4-17-01	.15	4-16-02	.15
8-20-01	.15	7-16-02	.15
11-16-01	.15		

NOTE C - EARNINGS PER SHARE AND WEIGHTED AVERAGE SHARES OUTSTANDING Earnings per share are computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share." Basic earnings per share are computed using the weighted average number of shares of common stock outstanding during the period. For diluted earnings 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 per share as required by Statement No. 128:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Numerator:				
Net income	\$7,032,678	\$5,479,266	\$12,633,809	\$5,247,320
Denominator:				
Denominator for basic earnings per share-weighted average shares outstanding	7,979,883	7,969,819	7,975,591	7,969,401
Effect of dilutive securities:				
Employee stock options	26,157	235	14,716	117
Denominator for diluted earnings per share-weighted average shares outstanding and assumed conversions	8,006,040	7,970,054	7,990,307	7,969,518
Basic earnings per share	\$.88	\$.69	\$1.58	\$.66
Diluted earnings per share	\$.88	\$.69	\$1.58	\$.66

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -  
Continued

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BLAIR CORPORATION AND SUBSIDIARY

June 30, 2002

NOTE D - ACCRUED EXPENSES

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Accrued expenses consist of:

	June 30 2002	December 31 2001
	-----	-----
Employee compensation	\$10,698,049	\$ 7,274,766
Contribution to profit sharing and retirement plan feature	1,535,841	880,397
Taxes, other than taxes on income	769,948	456,421
Voluntary separation program	1,254,583	1,379,243
Other accrued items	2,762,079	1,827,719
	-----	-----
	\$17,020,500	\$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 June 30, 2002:

2002	\$210,784
2003	411,334
2004	405,615
2005	101,404
	-----
	1,129,137
Less amount representing interest	(136,399)
	-----
Present value of minimum lease payments	992,738
Less current portion	(339,804)
	-----
Long-term portion of capital lease obligations	\$652,934
	=====

#### 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 June 30, 2002:

2002	\$ 1,451,321
2003	2,617,907
2004	2,044,298
2005	1,608,621
2006	1,382,748
Thereafter	4,971,416
	-----
	\$14,076,311
	=====

### 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.

The components of income tax expense are as follows:

Three Months Ended June 30	Six Months Ended June 30
-------------------------------	-----------------------------



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	2002	2001	2002	2001
	-----	-----	-----	-----
Currently payable:				
Federal	\$6,471,000	\$4,379,000	\$11,322,000	\$4,045,000
Foreign	26,000	-0-	66,000	-0-
State	600,000	375,000	882,000	175,000
	-----	-----	-----	-----
	7,097,000	4,754,000	12,270,000	4,220,000
Deferred credit	(3,147,000)	(1,543,000)	(5,261,000)	(1,150,000)
	-----	-----	-----	-----
	\$3,950,000	\$3,211,000	\$ 7,009,000	\$3,070,000
	=====	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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BLAIR CORPORATION AND SUBSIDIARY

June 30, 2002

NOTE F - INCOME TAXES - Continued

The differences between total tax expense and the amount computed by applying the statutory federal income tax rate of 35% to income before income taxes are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	-----	-----	-----	-----
Statutory rate applied to pre-tax income	\$3,843,937	\$3,041,593	\$6,874,983	\$2,911,062
State income taxes, net of federal tax benefit	97,500	115,700	119,600	18,200
Other items	8,563	53,707	14,417	140,738
	-----	-----	-----	-----
	\$3,950,000	\$3,211,000	\$7,009,000	\$3,070,000
	=====	=====	=====	=====

Components of the provision for deferred income tax credit are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	-----	-----	-----	-----
Provision for estimated returns	\$ (198,000)	\$ 22,000	\$ 475,000	\$ 891,000
Provision for doubtful accounts	(372,000)	(345,000)	(186,000)	145,000
Advertising costs	3,556,000	2,938,000	4,440,000	(60,000)
Severance	(19,000)	(310,000)	(48,000)	645,000
Inventory obsolescence	(54,000)	(901,000)	66,000	(700,000)
Depreciation	203,000	125,000	445,000	182,000
Other items - net	31,000	14,000	69,000	47,000
	-----	-----	-----	-----
	\$3,147,000	\$1,543,000	\$5,261,000	\$1,150,000
	=====	=====	=====	=====

Components of the deferred tax assets and liability under the liability method

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as of June 30, 2002 and December 31, 2001 are as follows:

	June 30 2002	December 31 2001
Current net deferred tax asset:		
Doubtful accounts	\$13,495,000	\$13,681,000
Returns allowances	2,296,000	1,821,000
Inventory obsolescence	1,650,000	1,584,000
Inventory costs	(924,000)	(924,000)
Vacation pay	1,469,000	1,469,000
Advertising costs	(3,514,000)	(7,954,000)
State net operating loss	540,000	600,000
Other items	1,019,000	998,000
Total deferred tax asset	\$16,031,000	\$11,275,000
State valuation allowance	(540,000)	(600,000)
Deferred tax asset, net of valuation allowance	\$15,491,000	\$10,675,000
Long-term deferred tax liability:		
Property, plant and equipment	\$ 1,564,000	\$ 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 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 June 30, 2002 and December 31, 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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## BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

## NOTE H - OTHER INCOME

Other income consists of:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Finance charges on time payment accounts	\$8,757,726	\$ 9,536,325	\$17,891,770	\$19,324,657
Commissions earned	579,539	1,020,645	978,170	1,909,848
Other items	539,809	565,776	1,080,211	1,191,180
	\$9,877,074	\$11,122,746	\$19,950,151	\$22,425,685

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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 1.75%) 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 June 30, 2002, the Company was in compliance with all the Credit Agreement's covenants. At June 30, 2002, the Company had no borrowings (loans) outstanding and had letters of credit totaling \$13.6 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 June 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 June 30, 2002, the Company was in compliance with all the requirements of the Receivables Purchase Agreement. At both June 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

NOTE I - FINANCING ARRANGEMENTS - Continued Both the revolving credit facility and the securitization have three-year terms expiring December 20, 2004. The two

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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 June 30, 2001, the Company had \$50 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 can be issued under the \$25 million line and the line will expire around mid-year 2002 when the last letter of credit is scheduled to expire. Outstanding letters of credit amounted to approximately \$18,000 at June 30, 2002 and \$10,000,000 at December 31, 2001 and related primarily to inventory purchases. New letters of credit issued after December 20, 2001 will be 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 \$13.6 million of letters of credit were outstanding under the Credit Agreement as of June 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 June 30, 2002, approximately \$1.25 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 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 stock awards totaling 11,611 shares of treasury stock were issued to certain employees on May 1, 2002.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### 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 CONDITION AND RESULTS OF OPERATIONS

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#### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### Results of Operations

##### Comparison of Second Quarter 2002 and Second Quarter 2001

Net income for the second quarter ended June 30, 2002 increased 28% to \$7,032,678, or \$.88 per share, compared to net income of \$5,479,266, or \$.69 per share, for the second quarter ended June 30, 2001. Results for the second quarter 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 14.7% in the second quarter of 2002 as compared to the second quarter of 2001. Cost of goods sold as a percentage of net sales decreased to 46.7% for the second quarter of 2002 from 48.1% for the second quarter of 2001. The provision for doubtful accounts decreased 23.5% in the second quarter of 2002 as compared to the second quarter of 2001. Net income for the second quarter ended June 30, 2001 includes \$4 million of pre-tax interest income resulting from a favorable Internal Revenue tax settlement. Without the one-time gain in interest income, net income for the 2001 second quarter would have been \$2,920,444, or \$.37 per share.

Net sales for the second quarter of 2002 were 10% lower than net sales for the second quarter of 2001. Actual response rates in the second quarter of 2002 were higher than in the second quarter of 2001 and were higher than expected levels for the first quarter of 2002. Gross sales revenue generated per advertising dollar increased approximately 17% in the second quarter of 2002 as compared to the second quarter of 2001. The provision for returned merchandise as a percentage of gross sales decreased in the second quarter of 2002 as compared to

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the second 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 11.2% in the second quarter of 2002 as compared to the second 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.

In the second quarter of 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 income tax refunds from the settlement.

Cost of goods sold as a percentage of net sales decreased to 46.7% in the second quarter of 2002 from 48.1% in the second quarter of 2001. The improvement in cost of goods sold is attributable to stable or declining product costs, the Company's efforts to improve gross margins and the lower rate of merchandise returned.

Advertising expense in the second quarter of 2002 decreased 24.5% from the second quarter of 2001. Reductions in advertising volume and paper costs were primarily responsible for the lower advertising cost in the second quarter of 2002. Paper costs have fallen more than 20% from the beginning of 2001 up to the current time

The total number of catalog mailings released in the second quarter of 2002 was 13% less than in the second quarter of 2001 (48.5 million vs. 55.9 million). The total number of prospect catalogs was approximately the same in the second quarters of both years. Print advertising for Crossing Pointe is all via catalog and is included in the catalog mailings numbers.

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

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#### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### Results of Operations - Continued

#### Comparison of Second Quarter 2002 and Second Quarter 2001 - Continued

The total number of letter mailings released in the second quarter of 2002 was 35% less than in the second quarter of 2001 (18.6 million vs. 28.6 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 decreased 44% in the second quarter of 2002 as compared to the second quarter of 2001 (172 million vs. 305 million).

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The Company launched e-commerce sites for Crossing Pointe [www.crossingpointe.com](http://www.crossingpointe.com), and the Blair Online Outlet early in the third quarter of 2000. The Blair website, [www.blair.com](http://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 second quarter of 2002, the Company has generated \$14.1 million in e-commerce sales demand as compared to \$8.0 million in the second quarter of 2001.

General and administrative expense increased 1.6% in the second quarter of 2002 as compared to the second quarter of 2001. Increased employee costs, primarily benefits determined by corporate income, were responsible for the higher general and administrative expense in the second quarter of 2002.

The provision for doubtful accounts as a percentage of credit sales decreased 15.9% in the second quarter of 2002 as compared to the second 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 used in the second quarter of 2002 was 112 basis points lower than the bad debt rate used in the second quarter of 2001. The estimated bad debt rate has declined due to a tightening of credit granting and improving or stable delinquency and charge-off rates. At June 30, 2002, the delinquency rate of open accounts receivable was approximately 3% lower than at June 30, 2001. The charge-off rate for the first six months of 2002 was approximately 3% less than the charge-off rate for the first six 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 remained unchanged at June 30, 2002 as compared to June 30, 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 83% in the second quarter of 2002 as compared to the second quarter of 2001. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable, inventories and growth initiatives. At June 30, 2002, inventories were 47% lower and gross customer accounts receivable were 8.5% lower as compared to June 30, 2001. As a result, average borrowings have been much lower in the second quarter of 2002 than in the second quarter of 2001. Also, interest rates have been substantially lower in 2002.

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

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BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

Results of Operations - Continued

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Comparison of Second Quarter 2002 and Second Quarter 2001 -  
Continued

Income taxes as a percentage of income before income taxes were 36.0% in the second quarter of 2002 and 36.9% in the second 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.

Comparison of Six Month Periods Ended June 30, 2002 and June 30, 2001

Net income for the six months ended June 30, 2002 increased to \$12,623,809, or \$1.58 per share, as compared to \$5,247,320, or \$.66 per Share, for the six months ended June 30, 2001. Results for the first six 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 12.5% in the first six months of 2002 as compared to the first six months of 2001. Cost of goods sold as a percentage of net sales decreased to 47.2% for the first six months of 2002 from 48.2% for the first six months of 2001. The provision for the doubtful accounts decreased 18.3% in the first six months of 2002 as compared to the first six months of 2001. The first six 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 six months of 2001 by 2.6 million, \$.32 per share. The first six 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 six months by 2001 by \$1.5 million, \$.18 per share.

Net sales for the first six months of 2002 were 5% lower than net sales for the first six months of 2001. Actual response rates in the first six months of 2002 were higher than in the first six months of 2001 and were higher than expected levels for the first six months of 2002. Gross sales revenue generated per advertising dollar increased approximately 16% in the first six months of 2002 as compared to the first six months of 2001. The provision for returned merchandise as a percentage of gross sales decreased in the first six months of 2002 as compared to the first six 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 11.0% in the first six months of 2002 as compared to the first six 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 47.2% for the first six months of 2002 from 48.2% for the first six months of 2001. The 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.



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

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BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

Results of Operations - Continued

Comparison of Six Month Periods Ended June 30, 2002 and June 30, 2001 - continued

Advertising expense in the first six months of 2002 decreased 18.8%. Reductions in advertising volume and paper costs were primarily responsible for the lower advertising cost in the first six months of 2002. Paper costs have fallen more than 20% from the beginning of 2001 up to the current time.

The total number of catalog mailings released in the first six months of 2002 was 9% less than in the first six months of 2001 (85.4 million vs. 93.9 million).

The total number of letter mailings released in the first six months of 2002 was 33% less than in the first six months of 2001 (32.6 million vs. 48.5 million).

Total volume of the co-op and media advertising programs decreased 39% in the first six months of 2002 as compared to the first six months of 2001 (457 million vs. 747 million).

The Company launched e-commerce sites for Crossing Pointe, [www.crossingpointe.com](http://www.crossingpointe.com), and the Blair Online Outlet early in the third quarter of 2000. The Blair website, [www.blair.com](http://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 six months of 2002, the Company has generated \$25.3 million in e-commerce sales demand as compared to \$13.6 million in the first six months of 2001. In all of 2001, the Company generated \$35 million in e-commerce orders.

General and administrative expense decreased 2.3% in the first six months of 2002 as compared to the first six months of 2001. The lower general and administrative expense in the first six months of 2002 was primarily attributable to 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 June 30, 2002, \$1.25 million of the \$2.5 million charge has been paid.

The provision for doubtful accounts as a percentage of credit sales decreased 13.5% in the first six months of 2002 as compared to the first six 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 used in the first six months of 2002 was 87 basis points lower than the bad debt rate used in the first six

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months of 2001. The estimated bad debt rate has declined due to a tightening of credit granting and improving delinquency and charge-off rates. At June 30, 2002, the delinquency rate of open accounts receivable was approximately 3% lower than at June 30, 2001. The charge-off rate for the first six months of 2002 was approximately 3% less than the charge-off rate for the first six 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 remained unchanged at June 30, 2002 as compared

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

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#### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### Results of Operations - Continued

#### Comparison of Six Month Periods Ended June 30, 2002 and June 30, 2001 - continued

to June 30, 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 83% in the first six months of 2002 as compared to the first six months of 2001. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable, inventories and growth initiatives. At June 30, 2002, inventories were 47% lower and gross customer accounts receivable were 8.5% lower as compared to June 30, 2001. As a result, average borrowings have been much lower in the first six months of 2002 than in the first six months of 2001. Also, interest rates have been substantially lower in 2002.

Income taxes as a percentage of income before income taxes were 35.7% in the first six months of 2002 and 36.9% in the first six 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 six 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 1.75%) as defined in the Credit Agreement. The Company is

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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 June 30, 2002, the Company was in compliance with all the Credit Agreement's covenants. At June 30, 2002, the Company had no borrowings (loans) outstanding and had letters of credit totaling \$13.6 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

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

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#### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### Liquidity and Sources of Capital - Continued

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 June 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 June 30, 2002, the Company was in compliance with all the requirements of the Receivables Purchase Agreement. At both June 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 June 30, 2001 the Company had \$50 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 can be issued under the \$25 million line and the line will expire around mid-year 2002 when the last

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letter of credit is scheduled to expire. Outstanding letters of credit amounted to approximately \$18,000 at June 30, 2002 and \$10,000,000 at December 31, 2001 and related primarily to inventory purchases. New letters of credit issued after December 20, 2001 will be 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 \$13.6 million of letters of credit were outstanding under the Credit Agreement as of June 30, 2002.

The ratio of current assets to current liabilities was 3.67 at June 30, 2002, 3.41 at December 31, 2001 and 2.70 at June 30, 2001. Working capital increased \$8,265,962 in the first six months of 2002 primarily due to the net income. The 2002 increase was primarily reflected in increased cash and cash equivalents and decreased trade accounts payable more than offsetting decreased inventories and customer accounts receivable.

Merchandise inventory turnover was 2.9 at June 30, 2002, 2.4 at December 31, 2001 and 2.4 at June 30, 2001. Merchandise inventory as of June 30, 2002 was 34% lower than at December 31, 2001 and 49% lower than at June 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 fourth 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 \$4.3 million at June 30, 2002, \$4.2 million at December 31, 2001 and \$4.4 million at June 30, 2001. Inventory write-offs and write-downs (reductions to below cost) charged against the reserve for obsolescence were \$3.4 million in the first six months of 2002 and \$5.5 million in the first six 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.

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

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#### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### Liquidity and Sources of Capital - Continued

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 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 10.2% (\$28.7 million) in the first six months of 2002 as compared to 13.4% (\$39.9 million) in the first six months of 2001. Menswear net sales as a percentage of total net sales were 18.7% (\$52.9 million) in the first six months of 2002 as compared to 18.9% (\$56.1 million) in the first six months of 2001. Womenswear net sales as a percentage of total net sales were 65.5% (\$185.3 million) in the first six months of 2002 as compared to 65.5% (\$194.6 million) in the first six months of 2001. Crossing Pointe net sales as a percentage of

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total net sales were 5.6% (\$15.9 million) in the first six months of 2002 as compared to 2.2% (\$6.5 million) in the first six months of 2001. Home merchandise inventory totaled \$3.3 million at June 30, 2002, \$4.0 million at December 31, 2001 and \$11.5 million at June 30, 2001. Menswear merchandise inventory was \$8.3 million at June 30, 2002, \$13.1 million at December 31, 2001 and \$20.6 million at June 30, 2001. Womenswear merchandise inventory was \$33.5 million at June 30, 2002, \$51.9 million at December 31, 2001 and \$58.7 million at June 30, 2001. Crossing Pointe merchandise inventory was \$3.0 million at June 30, 2002, \$4.2 million at December 31, 2001 and \$3.6 million at June 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 six months of 2002, finance charges were \$17.9 million and the provision for doubtful accounts was \$14.5 million (net of \$3.4 million). For the first six months of 2001, finance charges were \$19.3 million and the provision for doubtful accounts was \$17.8 million (net of \$1.6 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 5.6% in the first six months of 2002 as compared to the first six 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 \$5.8 million during the first six months of 2002 and \$4.5 million during the first six 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

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

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BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

Liquidity and Sources of Capital - Continued

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 fulfillment project. Most of the \$5.8 million in capital expenditures in 2002

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are 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.

Contractual Obligations	Payments Due by Period				
	Total	2002	2003-2004	2005-2006	Thereafter
Capital lease Obligations	\$ 992,738	\$ 167,453	\$ 725,454	\$ 99,831	---
Operating leases	14,076,311	1,451,321	4,662,205	2,991,369	4,971,416
Total	\$15,069,049	\$1,618,774	\$5,387,659	\$3,091,200	\$4,971,416

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

Other Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	After 5 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-
Line of Credit- Letters of Credit	18,500	18,500	-0-	-0-	-0-
Total	\$78,018,500	\$18,500	\$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 September 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 six 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

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

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BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

Liquidity and Sources of Capital - Continued

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.

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 June 30, 2002 from sales prior to July 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 Considerations." The Company feels that the reserve for inventory obsolescence is sufficient to cover the write-offs and write-downs that will occur after June 30, 2002 on merchandise inventory as of July 1, 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

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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 June 30, 2002 from \$6,717,000 at December 31, 2000.

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

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#### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### Impact of Inflation and Changing Prices continued

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 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



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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](http://www.crossingpointe.com)). The first "Jane Seymour Signature Collection" fashions

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

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#### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### Future Considerations - continued

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. More information on the "Jane Seymour Signature Collection" and Jane Seymour can be obtained from the recently launched website [www.janeseymour.com](http://www.janeseymour.com). The new site is automatically linked to the Crossing Pointe website for purchasing.

#### 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 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 Second Quarter 2002 and Second Quarter 2001.
- The paragraph on the provision for doubtful accounts in the Results of Operations, Comparison of Six Month Periods Ended June 30, 2002 and June

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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.

## PART II. OTHER INFORMATION

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### BLAIR CORPORATION AND SUBSIDIARIES

June 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

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- (a) The Company's Annual Meeting of Stockholders was held April 16, 2002.
- (b) At the Annual Meeting of Stockholders, all of the Company's directors were elected at said meeting, as follows:
- |                    |   |
|--------------------|---|
| David A. Blair     | 7,029,142 Votes For, 68,259 Votes Withheld  |
| Robert W. Blair    | 7,029,392 Votes For, 68,009 Votes Withheld  |
| Steven M. Blair    | 7,030,042 Votes For, 67,359 Votes Withheld  |
| Robert D. Crowley  | 7,029,542 Votes For, 67,859 Votes Withheld  |
| Harriet Edelman    | 6,808,805 Votes For, 288,596 Votes Withheld |
| John O. Hanna      | 7,028,892 Votes For, 68,509 Votes Withheld  |
| Craig N. Johnson   | 7,027,742 Votes For, 69,659 Votes Withheld  |
| Murray K. McComas  | 7,029,624 Votes For, 67,777 Votes Withheld  |
| Thomas P. McKeever | 7,023,688 Votes For, 73,713 Votes Withheld  |
| Ronald L. Ramseyer | 7,026,334 Votes For, 71,067 Votes Withheld  |
| Kent R. Sivillo    | 7,030,042 Votes For, 67,359 Votes Withheld  |
| Blair T. Smoulder  | 7,030,322 Votes For, 67,079 Votes Withheld  |
| John E. Zawacki    | 7,028,868 Votes For, 68,533 Votes Withheld  |

Since all of the directors of the Company were elected at the Annual Meeting of Stockholders, there are no directors whose term of office as a director continued after the meeting.

- (c) The following other matter was voted upon at the meeting, and the following number of affirmative votes and negative votes were cast with respect to such matter:

The reappointment by the Company's Board of Directors of the firm of Ernst & Young LLP as independent certified public accountants to examine the financial statements and perform the annual audit of the Company for the year ending December 31, 2002 was ratified. This matter received 7,084,069 affirmative votes, 7,070 negative votes and 6,262 votes withheld.

## PART II. OTHER INFORMATION

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### BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2002

#### Item 5. Other Information

Not Applicable.

#### Item 6. Exhibits and Reports on Form 8-K

- (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)

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10.2 Blair Corporation 2000 Omnibus Stock Plan(5)  
10.3 Blair Credit Agreement(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 June 30, 2002

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(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).

(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.

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Exhibit 99.1

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 10Q for the period ending June 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:

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

August 12, 2002  
-----

JOHN E. ZAWACKI  
-----

JOHN E. ZAWACKI  
President and  
Chief Executive Officer

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Exhibit 99.2

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 10Q for the period ending June 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 material respects, the financial condition and result of operations of the Company.

August 12, 2002  
-----

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

SIGNATURE

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

BLAIR CORPORATION

-----  
(Registrant)

Date August 12, 2002

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By KENT R. SIVILLO

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KENT R. SIVILLO  
Vice President-Finance  
(Chief Accounting Officer)

By BRYAN J. FLANAGAN

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BRYAN J. FLANAGAN  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer  
and Duly Authorized Officer)