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LANDS END INC
Form 10-Q
August 29, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the Quarter Ended July 27, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to

Commission file number 1-9769

LANDS' END, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

36-2512786
(I.R.S. Employer
Identification No.)

Lands' End Lane, Dodgeville, WI
(Address of principal executive
offices)

53595
(Zip code)

Registrant's telephone number,
including area code

608-935-9341

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 period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes
of common stock as of August 29, 2001:

Common stock, \$.01 par value 29,486,706 shares outstanding

LANDS' END, INC. & SUBSIDIARIES
INDEX TO FORM 10-Q

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| | Page Number |
|---|----------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Consolidated Statements of Operations for the Three Months Ended July 27, 2001, and July 28, 2000..... | 3 |
| Consolidated Statements of Operations for the Six Months Ended July 27, 2001 and and July 28, 2000..... | 4 |
| Consolidated Balance Sheets at July 27, 2001, and January 26, 2001..... | 5 |
| Consolidated Statements of Cash Flows for the Six Months Ended July 27, 2001, and July 28, 2000..... | 6 |
| Notes to Consolidated Financial Statements..... | 7-10 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 11-17 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk..... | 17 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings..... | 18 |
| Item 4. Submission of Matters to a Vote of Security Holders..... | 18 |
| Item 6. Exhibits and Reports on Form 8-K..... | 18 |
| Signature..... | 19 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDS' END, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

Three months ended

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| | July 27, 2001 | July 28, 2000 |
|---|------------------|------------------|
| | (Unaudited) | |
| Revenue | | |
| Net merchandise sales | \$262,874 | \$255,545 |
| Shipping and handling revenue | 22,947 | 20,080 |
| Total revenue | 285,821 | 275,625 |
| Cost of sales | | |
| Cost of merchandise sales | 137,389 | 132,674 |
| Shipping and handling costs | 23,575 | 21,683 |
| Total cost of sales | 160,964 | 154,357 |
| Gross profit | 124,857 | 121,268 |
| Selling, general and administrative expenses | 119,654 | 123,995 |
| Income (loss) from operations | 5,203 | (2,727) |
| Other income (expense): | | |
| Interest expense | (250) | (217) |
| Interest income | 289 | 500 |
| Other | (378) | (542) |
| Total other expense, net | (339) | (259) |
| Income (loss) before income taxes | 4,864 | (2,986) |
| Income tax provision (benefit) | 1,824 | (1,105) |
| Net income (loss) | \$ 3,040 | \$ (1,881) |
| Basic earnings (loss) per share | \$ 0.10 | \$ (0.06) |
| Diluted earnings (loss) per share | \$ 0.10 | \$ (0.06) |
| Basic weighted average shares outstanding | 29,415 | 30,295 |
| Diluted weighted average shares outstanding | 29,992 | 30,722 |

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

3

LANDS' END, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

Six months ended
July 27, July 28,
2001 2000
(unaudited)

Revenue

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| | | |
|--|-----------|------------|
| Net merchandise sales | \$549,991 | \$521,590 |
| Shipping and handling revenue | 46,950 | 39,875 |
| Total revenue | 596,941 | 561,465 |
| Cost of sales | | |
| Cost of merchandise sales | 292,302 | 277,820 |
| Shipping and handling costs | 47,838 | 42,609 |
| Total cost of sales | 340,140 | 320,429 |
| Gross profit | 256,801 | 241,036 |
| Selling, general and administrative expenses | 241,092 | 242,443 |
| Income (loss) from operations | 15,709 | (1,407) |
| Other income (expense): | | |
| Interest expense | (483) | (347) |
| Interest income | 925 | 1,219 |
| Other | (1,914) | (1,987) |
| Total other expense | (1,472) | (1,115) |
| Income (loss) before income taxes | 14,237 | (2,522) |
| Income tax provision (benefit) | 5,339 | (933) |
| Net income (loss) | \$ 8,898 | \$ (1,589) |
| Basic earnings (loss) per share | \$ 0.30 | \$ (0.05) |
| Diluted earnings (loss) per share | \$ 0.30 | \$ (0.05) |
| Basic weighted average shares outstanding | 29,398 | 30,246 |
| Diluted weighted average shares outstanding | 29,804 | 30,791 |

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

4

LANDS' END, INC. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

| | July 27, 2001 | January 26, 2001 |
|------------------------------|------------------|---------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,211 | \$ 75,351 |
| Receivables, net | 13,531 | 19,808 |
| Inventory | 232,041 | 188,211 |
| Prepaid advertising | 15,710 | 17,627 |
| Other prepaid expenses | 10,636 | 9,715 |
| Income taxes receivable | 1,655 | - |
| Deferred income tax benefits | 10,973 | 10,973 |

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| | | |
|---|-----------|-----------|
| Total current assets | 294,757 | 321,685 |
| Property, plant and equipment, at cost: | | |
| Land and buildings | 105,004 | 104,815 |
| Fixtures and equipment | 104,242 | 103,866 |
| Computer hardware and software | 109,063 | 99,979 |
| Leasehold improvements | 4,646 | 4,630 |
| Construction in progress | 10,346 | 4,289 |
| Total property, plant and equipment | 333,301 | 317,579 |
| Less-accumulated depreciation and amortization | 143,775 | 132,286 |
| Property, plant and equipment, net | 189,526 | 185,293 |
| Intangibles, net | 645 | 651 |
| Total assets | \$484,928 | \$507,629 |
| Liabilities and shareholders' investment | | |
| Current liabilities: | | |
| Lines of credit | \$ 20,354 | \$ 16,940 |
| Accounts payable | 76,437 | 96,168 |
| Reserve for returns | 5,512 | 9,061 |
| Accrued liabilities | 39,209 | 41,135 |
| Accrued profit sharing | 1,507 | 2,357 |
| Income taxes payable | - | 13,213 |
| Total current liabilities | 143,019 | 178,874 |
| Deferred income taxes | 16,790 | 14,567 |
| Shareholders' investment: | | |
| Common stock, 40,221 shares issued | 402 | 402 |
| Donated capital | 8,400 | 8,400 |
| Additional paid-in capital | 32,506 | 31,908 |
| Deferred compensation | (82) | (121) |
| Accumulated other comprehensive income | 3,710 | 5,974 |
| Retained earnings | 497,985 | 489,087 |
| Treasury stock, 10,782 and 10,945 shares at cost, respectively | (217,802) | (221,462) |
| Total shareholders' investment | 325,119 | 314,188 |
| Total liabilities and shareholders' investment | \$484,928 | \$507,629 |

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

5

LANDS' END, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Six Months Ended | |
|--|------------------|------------------|
| | July 27, 2001 | July 28, 2000 |
| | (unaudited) | |
| Cash flows from (used for) operating activities: | | |
| Net income (loss) | \$ 8,898 | \$ (1,589) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: | | |
| Depreciation and amortization | 12,469 | 11,629 |
| Deferred compensation expense | 39 | 58 |
| Loss on disposal of fixed assets | 24 | - |
| Deferred income taxes | 2,223 | - |
| Tax benefit of stock options | 598 | 1,832 |

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| | | |
|--|-----------|-----------|
| Changes in current assets and liabilities: | | |
| Receivables, net | 6,277 | 1,767 |
| Inventory | (43,830) | (44,661) |
| Prepaid advertising | 1,917 | (1,146) |
| Other prepaid expenses | (921) | (2,398) |
| Accounts payable | (19,731) | 5,312 |
| Reserve for returns | (3,549) | (2,481) |
| Accrued liabilities | (626) | (6,896) |
| Accrued profit sharing | (850) | (2,580) |
| Income taxes payable | (14,868) | (11,499) |
| Other | (2,264) | 1,149 |
| Net cash flows used for operating activities | (54,194) | (51,503) |
| Cash flows used for investing activities: | | |
| Cash paid for capital additions | (18,020) | (15,546) |
| Net cash flows used for investing activities | (18,020) | (15,546) |
| Cash flows from (used for) financing activities: | | |
| Proceeds from short-term debt | 3,414 | 7,476 |
| Purchases of treasury stock | (14) | (1,019) |
| Issuance of treasury stock | 3,674 | 4,229 |
| Net cash flows from financing activities | 7,074 | 10,686 |
| Net decrease in cash and cash equivalents | (65,140) | (56,363) |
| Beginning cash and cash equivalents | 75,351 | 76,413 |
| Ending cash and cash equivalents | \$ 10,211 | \$ 20,050 |
| Supplemental cash flow disclosures: | | |
| Interest paid | \$ 483 | \$ 347 |
| Income taxes paid | 19,800 | 8,841 |

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

6

LANDS' END, INC. & SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Interim financial statements

The condensed consolidated financial statements included herein have been prepared by Lands' End, Inc. (the company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and in the opinion of management contain all adjustments (consisting primarily of normal recurring adjustments) necessary to present fairly the financial position. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the company believes that the disclosures are adequate to make the information presented not misleading. The results of operations for the interim periods disclosed within this report are not necessarily indicative of future financial results. These consolidated financial statements are condensed and should be read in conjunction with the financial statements and the notes thereto included in the company's latest Annual Report on Form 10-K, which includes financial statements for the year ended January 26, 2001.

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2. Reclassifications

Certain financial statement amounts have been reclassified to be consistent with the current presentation.

3. Foreign currency translations and transactions

Financial statements of the foreign subsidiaries and foreign-denominated assets are translated into U.S. dollars in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 52. Translation adjustments of the financial statements of the foreign subsidiaries are recorded in accumulated other comprehensive income, which is a component of stockholders' equity. Gains and losses resulting from the translation of foreign-denominated assets and foreign currency transactions are recorded as other income and expense on the consolidated statements of operations. For the quarter ended July 27, 2001 and July 28, 2000, losses of \$0.6 million and \$1.0 million were recorded, respectively. For the six months ended July 27, 2001, and July 28, 2000, there was a loss of 1.1 million and \$2.0 million, respectively.

4. Derivative instruments and hedging activities

The company has adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which establish accounting and reporting standards for forward contracts, options, other derivative instruments and related hedging activities. Statements No. 133 and No. 138 require, in part, that the company report all derivative instruments on the consolidated balance sheets as assets or liabilities at their fair value. The treatment of subsequent changes in fair value depends on whether hedge accounting is available. For the second quarter of fiscal 2002, a gain of \$0.1 million was recorded in other income, compared with a loss of \$0.1 million in the second quarter of fiscal 2001. A loss of \$0.2 million was realized in the six months ended July 27, 2001, compared to a loss of \$0.6 million for the same time period last year.

7

LANDS' END, INC. & SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The company currently has foreign exchange forward contracts and options that mitigate the company's exposure to the variability in future cash flows on forecasted transactions with the company's foreign subsidiaries. To reduce risk, the company enters into foreign currency forward contracts and put options with a maximum hedging period of 24 months. The company estimates that net hedging gains of approximately \$3.0 million will be reclassified from accumulated other comprehensive income into earnings through lower cost of sales and other income and expense within the 12 months between July 28, 2001 and August 2, 2002.

5. Earnings per share

The following table discloses the computation of diluted earnings (loss) per share and basic earnings (loss) per share.

| (In thousands, except per share data) | Three months ended | | Six months ended | |
|---------------------------------------|--------------------|---------------|------------------|---------------|
| | July 27, 2001 | July 28, 2000 | July 27, 2001 | July 28, 2000 |
| Net income (loss) | \$ 3,040 | \$ (1,881) | \$ 8,898 | \$ (1,589) |

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| | | | | |
|---|---------|-----------|---------|-----------|
| Average shares of common stock outstanding | 29,415 | 30,295 | 29,398 | 30,246 |
| Incremental shares from assumed exercise of stock options | 577 | 427 | 406 | 545 |
| Diluted weighted average shares of common stock outstanding | 29,992 | 30,722 | 29,804 | 30,791 |
| Basic earnings (loss) per share | \$ 0.10 | \$ (0.06) | \$ 0.30 | \$ (0.05) |
| Diluted earnings (loss) per share | \$ 0.10 | \$ (0.06) | \$ 0.30 | \$ (0.05) |

6. Comprehensive income

In accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", the following table presents the company's comprehensive income (loss) (in thousands):

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | July 27, 2001 | July 28, 2000 | July 27, 2001 | July 28, 2000 |
| Net income (loss) | \$ 3,040 | \$(1,881) | \$ 8,898 | \$(1,589) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (67) | (236) | (686) | (907) |
| Net unrealized gain (loss) on forward contracts and options | (700) | 647 | (1,578) | 2,056 |
| Comprehensive income (loss) | \$ 2,273 | \$(1,470) | \$ 6,634 | \$ (440) |

8

LANDS' END, INC. & SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Segment disclosure

Segment net merchandise sales represent sales to external parties. Sales from the Internet, export sales shipped from the United States and liquidation sales are included in the respective business segments. Segment income before income taxes is net merchandise sales less direct and allocated operating expenses, which includes interest expense and interest income. Segment identifiable assets are those that are directly used in or identified with segment operations. "Other" includes currency gains and losses, corporate expenses, intercompany eliminations, and other income and expense items that are not allocated to segments.

The following tables include pertinent financial data by operating segment for the periods ended July 27, 2001 and July 28, 2000 (1).

| (In thousands) | Three months ended July 27, 2001 | | | | |
|-----------------------|----------------------------------|-----------|--------------------|-------|-------------------|
| | Core | Specialty | Inter- national | Other | Consoli- dated |
| Net merchandise sales | \$159,851 | \$ 72,453 | \$ 30,570 | \$ - | \$262,874 |
| Income before | | | | | |

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| | | | | | |
|-------------------------------|---------|---------|--------|---------|---------|
| income taxes | 5,107 | 983 | 450 | (1,676) | 4,864 |
| Identifiable assets | 289,616 | 138,294 | 57,018 | - | 484,928 |
| Depreciation and amortization | 3,871 | 1,792 | 571 | - | 6,234 |
| Capital expenditures | 5,882 | 2,715 | 62 | - | 8,659 |
| Interest expense | 39 | 19 | 192 | - | 250 |
| Interest income | 153 | 67 | 69 | - | 289 |

Three months ended July 28, 2000

| | Core | Specialty | Inter-national | Other | Consolidated |
|-----------------------------------|-----------|-----------|----------------|-------|--------------|
| Net merchandise sales | \$150,722 | \$ 72,019 | \$ 32,804 | \$ - | \$255,545 |
| Income (loss) before income taxes | (2,889) | 852 | (219) | (730) | (2,986) |
| Identifiable assets | 265,046 | 128,251 | 57,018 | - | 450,315 |
| Depreciation and amortization | 3,420 | 1,628 | 591 | - | 5,639 |
| Capital expenditures | 6,584 | 3,161 | 759 | - | 10,504 |
| Interest expense | 25 | 11 | 181 | - | 217 |
| Interest income | 313 | 149 | 38 | - | 500 |

9

LANDS' END, INC. & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended July 27, 2001

| | Core | Specialty | Inter-national | Other | Consolidated |
|-------------------------------|-----------|-----------|----------------|---------|--------------|
| Net merchandise sales | \$332,518 | \$158,773 | \$ 58,700 | \$ - | \$549,991 |
| Income before income taxes | 13,675 | 4,654 | (753) | (3,339) | 14,237 |
| Identifiable assets | 289,616 | 138,294 | 57,018 | - | 484,928 |
| Depreciation and amortization | 7,658 | 3,657 | 1,154 | - | 12,469 |
| Capital expenditures | 12,083 | 5,769 | 168 | - | 18,020 |
| Interest expense | 60 | 29 | 394 | - | 483 |
| Interest income | \$ 428 | \$ 204 | \$ 293 | \$ - | \$ 925 |

Six months ended July 28, 2000

| | Core | Specialty | Inter-national | Other | Consolidated |
|-----------------------------------|-----------|-----------|----------------|---------|--------------|
| Net merchandise sales | \$311,320 | \$151,046 | \$ 59,224 | \$ - | \$521,590 |
| Income (loss) before Income taxes | (689) | 2,830 | (2,077) | (2,586) | (2,522) |

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| | | | | | |
|----------------------------------|---------|---------|--------|------|----------|
| Identifiable assets | 265,046 | 128,251 | 57,018 | - | 450,315 |
| Depreciation and amortization | 7,038 | 3,406 | 1,185 | - | 11,629 |
| Capital expenditures | 9,884 | 4,783 | 879 | - | 15,546 |
| Interest expense | 51 | 24 | 272 | - | 347 |
| Interest income | \$ 788 | \$ 382 | \$ 49 | \$ - | \$ 1,219 |

(1) Fiscal 2001 has been restated to conform to fiscal 2002 presentation.

10

Item 2.

Management's Discussion and Analysis

Results of Operations

Three Months Ended July 27, 2001, compared with
Three Months Ended July 28, 2000

Total revenue for the second quarter just ended was \$285.8 million, up 3.7 percent from \$275.6 million in the prior year's quarter. Merchandise sales in the core business segment, represented by the primary monthly, prospecting and tailored clothing catalogs, were up 6 percent, led by strength in our coed and women's divisions. In the specialty business segment, Kids and Coming Home showed sales growth in the mid single digits, while Corporate Sales showed a single digit decline, primarily due to the continued slowdown in national business spending. In their local currencies, the U.K. and Germany had increased sales compared to last year's second quarter, while Japan's sales were down, primarily due to their lower level of liquidation sales this year compared with last year. However, when measured in U.S. dollars, the international business segment was down about 7 percent, primarily due to the effect of the strong dollar against weaker foreign currencies.

During the first four weeks of the current quarter, total revenue is up 1 percent, compared with the similar period a year ago. Full-price sales increased 8 percent, and lower margin liquidation sales declined 22 percent. As stated in our Business Outlook, in the current third quarter we anticipate \$15 million fewer liquidation sales as a result of the improved quality of our inventory position. This lower level of liquidation sales will have a positive effect on gross profit margin during this time period.

Gross profit for the quarter just ended was \$124.9 million, or 43.7 percent of total revenue, compared with \$121.3 million, or 44.0 percent of total revenue, in the same quarter last year. During the quarter, we had higher initial merchandise margins, primarily associated with sourcing improvements. However, this improvement was more than offset by a 90 basis point reduction in gross margin due to the current second quarter's LIFO charge of \$750,000, versus last year's second quarter LIFO credit of \$1.5 million.

Liquidation of excess inventory was about 8 percent of net merchandise sales during this year's second quarter, about flat with last year. Inventory at the end of the quarter was \$232 million, up 12 percent from \$207 million in the prior year. This reflects the planned earlier receipt of fall merchandise this year relative to last year. Inventory is currently in line with planned levels, and the quality of inventory is improved from the prior year. Our first-time fulfillment rate for the

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quarter just ended was about 88 percent, the same as last year's second quarter and consistent with our annual goal.

11

For the second quarter just ended, selling, general and administrative expenses were \$119.7 million, or 41.9 percent of total revenue, compared with \$124.0 million, or 45.0 percent, in the similar period last year. The improvement in the SG&A ratio was due to a significant reduction in national TV advertising expenses, partially offset by an increase in magazine advertising, bringing our overall advertising spending more in line with recent historical levels. Additionally, stronger customer response resulted in increased productivity per catalog page, resulting in relatively lower catalog costs. These improvements were partially offset by higher bonus and profit-sharing expense, due to improved profitability.

Net income for the quarter just ended was \$3.0 million, and diluted earnings per share were \$0.10, compared with a net loss of \$1.9 million, or a diluted loss per share of \$0.06, in the prior year.

Segment results

The company has three business segments consisting of Core (regular monthly and prospecting catalogs, First Person and Lands' End for Men), Specialty (Kids, Corporate Sales, and Coming Home catalogs) and International (foreign-based operations in Japan, United Kingdom and Germany). "Other" includes currency gains and losses, corporate expenses, intercompany eliminations, and other income and deduction items that are not allocated to segments. (See Note 7.)

The core segment's net merchandise sales were \$159.9 million, representing 60.8 percent of the company's net merchandise sales and an increase of \$9.1 million from the prior year. The coed and women's divisions accounted for the strong growth in the core segment. The core segment's pretax income increased \$8.0 million from the prior year.

The specialty segment's net merchandise sales were \$72.5 million, which was 27.6 percent of the company's net merchandise sales and \$0.4 million above the prior year. This sales increase was from our Kids' and Coming Home divisions, offset by Corporate Sales decline. The specialty segment's pretax income increased \$0.1 million from the prior year.

The international segment's net merchandise sales were \$30.6 million, which was 11.6 percent of total net merchandise sales and \$2.2 million below the prior year. The decrease was primarily due to the effect of the strong dollar against the weaker foreign currencies. In their local currencies, the U.K. and Germany had increased sales compared to the prior year. The international segment's pretax income increased \$0.7 million from the prior year.

Segment net merchandise sales (1)
(Amounts in thousands)

Net Merchandise Sales

| Three months ended July 27, 2001 | | Three months ended July 28, 2000 | |
|-------------------------------------|----------------|-------------------------------------|----------------|
| Amount | % of Net Sales | Amount | % of Net Sales |

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| | | | | |
|-----------------|-----------|--------|-----------|--------|
| Core | \$159,851 | 60.8% | \$150,722 | 59.0% |
| Specialty | 72,453 | 27.6% | 72,019 | 28.2% |
| International | 30,570 | 11.6% | 32,804 | 12.8% |
| Total net sales | \$262,874 | 100.0% | \$255,545 | 100.0% |

(1) Shipping and handling revenue is excluded.

12

Income (loss) before income taxes (2)
(Amounts in thousands)

| | Three months ended July 27, 2001 | | Three months ended July 28, 2000 | |
|--------------------------------------|-------------------------------------|--------------|-------------------------------------|--------------|
| | Amount | % of Revenue | Amount | % of Revenue |
| Core | \$ 5,107 | 1.8% | \$(2,889) | (1.0%) |
| Specialty | 983 | 0.3% | 852 | 0.3% |
| International | 450 | 0.2% | (219) | (0.1%) |
| Other | (1,676) | (0.6%) | (730) | (0.3%) |
| Income (loss) before income taxes | \$ 4,864 | 1.7% | \$(2,986) | (1.1%) |

(2) Percentages are based on total revenue.

Consolidated results for the six months ended July 27, 2001,
compared with six months ended July 28, 2000

Total revenue for the six months ended was \$596.9 million, up 6.3 percent from \$561.5 million during the first half of last year. Growth of merchandise sales in the core business segment was led by strength in the coed and women's divisions. In the specialty segment, the Kids division showed the strongest growth; Coming Home was relatively flat and Corporate Sales had a decline in the low-single digits, reflecting a slowdown in national business spending. The U.K. and Germany had double-digit sales increases when measured in their local currencies, while Japan showed a single digit decrease. When measured in U.S. dollars, the international business segment was down slightly compared to the first half of last year, mainly due to the effect of the strong dollar against the weaker foreign currencies.

Gross profit for the first six months of fiscal 2002 was \$256.8 million, or 43.0 percent of total revenue, compared with \$241.0 million, or 42.9 percent of total revenue in the prior year. Merchandise gross profit margin rose due to higher initial margins from improved sourcing. Liquidation of excess inventory was about 10 percent of net merchandise sales for the first six months of both years.

For the first six months of fiscal 2002, selling, general and administrative expenses were \$241.1 million, down 0.6 percent from \$242.4 million in the prior year. As a percentage of total revenue, SG&A was 40.4 percent, compared with 43.2 percent in the prior year. The improvement in the SG&A ratio was due to a significant reduction in national advertising expenses, bringing overall advertising expenses more in line with historical levels of spending. In addition, higher sales productivity per page resulted in relatively lower catalog costs. These improvements were partially offset by higher bonus and profit sharing expense, due to improved profitability.

Net income for the six months just ended was \$8.9 million, and diluted earnings per share were \$0.30, compared with a net loss of \$1.6 million, or a loss of \$0.05 per share, for the same period last year.

13

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Segment results

The core segment's net merchandise sales were \$332.5 million, representing 60.5 percent of the company's net merchandise sales and an increase of \$21.2 million from the prior year. Although all divisions in the core segment had increased sales, the coed and women's divisions accounted for the strongest growth. The core segment's pretax income increased \$14.4 million from the prior year.

The specialty segment's net merchandise sales were \$158.8 million, which was 28.9 percent of the company's net merchandise sales and \$7.7 million above the prior year. This sales increase was principally from our Kids' division. The specialty segment's pretax income increased \$1.8 million from the prior year.

The international segment's net merchandise sales were \$58.7 million, which was 10.6 percent of total net merchandise sales and \$0.5 million below the prior year. The decrease was primarily in Japan, due to their lower level of liquidation sales this year compared with last year. The international segment's pretax income improved by \$1.3 million from the prior year.

Segment net merchandise sales (1)
(Amounts in thousands)

Net Merchandise Sales

| | Six months ended July 27, 2001 | | Six months ended July 28, 2000 | |
|-----------------|-----------------------------------|----------------|-----------------------------------|----------------|
| | Amount | % of Net Sales | Amount | % of Net Sales |
| Core | \$332,518 | 60.5% | \$311,320 | 59.7% |
| Specialty | 158,773 | 28.9% | 151,046 | 28.9% |
| International | 58,700 | 10.6% | 59,224 | 11.4% |
| Total net sales | \$549,991 | 100.0% | \$521,590 | 100.0% |

(1) Shipping and handling revenue is excluded.

Income (loss) before income taxes (2)
(Amounts in thousands)

| | July 27, 2001 | | July 28, 2000 | |
|--------------------------------------|---------------|--------------|---------------|--------------|
| | Amount | % of Revenue | Amount | % of Revenue |
| Core | \$13,675 | 2.3% | \$ (689) | (0.1%) |
| Specialty | 4,654 | 0.8% | 2,830 | 0.5% |
| International | (753) | (0.1%) | (2,077) | (0.4%) |
| Other | (3,339) | (0.6%) | (2,586) | (0.5%) |
| Income (loss) before income taxes | \$14,237 | 2.4% | \$ (2,522) | (0.5%) |

(2) Percentages are based on total revenue.

14

Seasonality of business

The company's business is highly seasonal. Historically, a disproportionate amount of the company's revenue and a majority of its profits have been realized during the fourth quarter. If the company's

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sales were materially different from seasonal norms during the fourth quarter, the company's annual operating results could be materially affected. In addition, as the company continues to refine its marketing efforts by experimenting with the timing of its catalog mailings, quarterly results may fluctuate. Accordingly, results for the individual quarters are not necessarily indicative of the results to be expected for the entire year.

Liquidity and capital resources

To date, the bulk of the company's working capital needs have been met through funds generated from operations and from short-term bank loans. The company's principal need for working capital has been to meet peak inventory requirements associated with its seasonal sales pattern. In addition, the company's resources have been used to make asset additions and purchase treasury stock.

At July 27, 2001, the company had unsecured domestic credit facilities totaling \$200 million, of which nearly \$4.0 million had been used, along with a reduction of about \$41 million for outstanding letters of credit. The company also maintains foreign credit lines for use in foreign operations totaling the equivalent of approximately \$43 million as of July 27, 2001, of which about \$16 million was outstanding.

Since fiscal 1990, the company's board of directors has authorized the company from time to time to purchase a total of 14.7 million shares of treasury stock. As of August 29, 2001, 12.7 million shares have been purchased, and there is a balance of 2.0 million shares available to the company.

Capital investment

Capital expenditures for fiscal 2002 are currently planned to be about \$45 million, of which about \$18 million had been expended through July 27, 2001. Major projects to date are related primarily to investing in our information technology and in building our new Stevens Point, Wisconsin facility. The company believes that its cash flow from operations and borrowings under its current credit facilities will provide adequate resources to meet its capital requirements and operational needs for the foreseeable future.

Possible future changes

A 1992 Supreme Court decision confirmed that the Commerce Clause of the United States Constitution prevents a state from requiring the collection of its use tax by a mail order company unless the company has a physical presence in the state. However, there continues to be uncertainty due to inconsistent application of the Supreme Court decision by state and federal courts. The company attempts to conduct its operations in compliance with its interpretation of the applicable legal standard, but there can be no assurance that such compliance will not be challenged.

15

In recent challenges, various states have sought to require companies to begin collection of use taxes and/or pay taxes from previous sales. The company has not received assessments from any state. The amount of potential assessments, if any, can not be reasonably estimated.

The Supreme Court decision also established that Congress has the power to enact legislation that would permit states to require collection of use

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taxes by mail order companies. Congress has from time to time considered proposals for such legislation. The company anticipates that any legislative change, if adopted, would be applied only on a prospective basis.

In October 1998, The Internet Tax Freedom Act was signed into law. Among the provisions of this Act is a three-year moratorium on multiple and discriminatory taxes on electronic commerce. An Advisory Commission was appointed to study electronic commerce tax issues and submitted its final report to Congress on April 3, 2000. Among other recommendations, the majority of the Advisory Commission favored the extension of the moratorium for an additional five years, until 2006, and greater uniformity and simplification of the state sales and use tax systems. Following the Advisory Commission's final report, there have been several initiatives at the congressional and state levels to implement the recommendations of the Advisory Commission or otherwise adjust the current sales and use tax laws and policies. We continue to monitor this activity and its potential effect on the company's collection obligations.

Business Outlook

For fiscal 2002, a 53-week year that will end on February 1, 2002, the company expects that sales will increase in the single digit range, and we expect gross profit margin to show continued improvement compared to the prior year. As a result, we expect an increase in diluted earnings per share of at least 20 percent for the year as a whole.

Because of our performance improvement for the first half, we are more confident that we can achieve the overall results stated in our guidance. With respect to our internal management plans, we expect to exceed last year's second half financial performance.

Last year's third quarter saw the benefit of an early, cold fall/winter season and higher liquidation sales. In the third quarter of the current year, we anticipate about \$15 million fewer liquidation sales as a result of the quality of our inventory position. In addition, compared with the prior year, we plan to somewhat reduce page circulation in the third quarter and somewhat increase it in the fourth quarter, resulting in flat circulation for the second half overall. Our sales and profit levels for the year are dependent on customer response and buying levels during our all-important November and December holiday season. Additionally, our optimism is somewhat guarded due to the continuing uncertainty in the U.S. economy, especially in the retail environment, and we have seen the direct effects of this in our Corporate Sales business-to-business division. In light of these facts, we are tightly managing our expenses while focusing on our best sales opportunities.

Statement regarding forward-looking information

Statements in this report that are not historical, including, without limitation, statements regarding our plans, expectations,

16

assumptions, and estimations for fiscal 2002, gross profit margin, and earnings, as well as anticipated sales trends and future development of our business strategy, are considered forward-looking. As such, these statements are subject to a number of risks and uncertainties. Future results may be materially different from those expressed or implied by these statements due to a number of factors. Currently, we believe that the principal factors that create uncertainty about our future results are the following: customer response to our merchandise offerings, circulation changes and other initiatives; the mix of our sales between

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full price and liquidation merchandise; overall consumer confidence and general economic conditions, both domestic and foreign; effects of weather on customer purchasing behavior; effects of shifting patterns of e-commerce versus catalog purchases; costs associated with printing and mailing catalogs and fulfilling orders; dependence on consumer seasonal buying patterns; fluctuations in foreign currency exchange rates; and changes that may have different effects on the various sectors in which we operate (e.g., rather than individual consumers, the Corporate Sales Division, included in the specialty segment, sells to numerous corporations, and certain of these sales are for their corporate promotional activities). Our future results could, of course, be affected by other factors as well. More information about these risks and uncertainties may be found in the company's 10-K filings with the S.E.C.

The company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

Item 3: Quantitative and Qualitative Disclosure About Market Risk

The company attempts to reduce its exposure to the effects of currency fluctuations on cash flows by using derivative instruments to hedge. The company is subject to foreign currency risk related to its transactions with operations in Japan, Germany and United Kingdom and with foreign third-party vendors. The company's foreign currency risk management policy is to hedge the majority of merchandise purchases by foreign operations and from foreign third-party vendors, which includes forecasted transactions, through the use of foreign exchange forward contracts and options to minimize this risk. The company's policy is not to speculate in derivative instruments for profit on the exchange rate price fluctuation, trade in currencies for which there are no underlying exposures or enter into trades for any currency to intentionally increase the underlying exposure. Derivative instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract.

As of July 27, 2001, the company had outstanding foreign currency forward contracts totaling about \$42 million and options totaling nearly \$24 million, compared in the prior year of nearly \$43 million for foreign currency forward contracts and no option contracts outstanding.

The company is subject to the risk of fluctuating interest rates in the normal course of business, primarily as a result of its short-term borrowing and investment activities at variable interest rates. As of July 27, 2001, the company had no outstanding financial instruments related to its debt or investments.

17

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no material legal proceedings presently pending, except for routine litigation incidental to the business, to which Lands' End, Inc., is a party or of which any of its property is the subject.

Items 2 and 3 are not applicable and have been omitted.

Item 4. Submission of Matters to a Vote of Security Holders

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There were no matters submitted to a vote of security holders for the quarter ended July 27, 2001, other than those disclosed in the Form 10-Q for the quarter ended April 27, 2001, reporting the results of the company's annual meeting.

Item 5 is not applicable and has been omitted

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

There were no exhibits filed as part of this report.

(b) Reports on Form 8-K

The following reports were filed on Form 8-K during the three-month period ended July 27, 2001:

Form 8-K was filed on May 15, 2001, announcing Cheryl A. Francis was elected to the company's board of directors.

Form 8K was filed on May 16, 2001, announcing the company's first quarter results as of April 27, 2001.

Form 8-K was filed on May 17, 2001, of excerpted slides from the company's meeting with members of the financial community in New York, New York on Thursday, May 17, 2001.

18

SIGNATURE

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

LANDS' END, INC.

Date: August 29, 2001

By /s/ DONALD R. HUGHES
Donald R. Hughes
Senior Vice President,
and Chief Financial Officer

