BLAIR CORP
Form 10-Q
November 14, 2001

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 September 30, 2001 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

As of November 12, 2001 the registrant had outstanding 7,969,544 shares of its common stock without nominal or par value.

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS (UNAUDITED)

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2001

CONSOLIDATED BALANCE SHEETS

BLAIR CORPORATION AND SUBSIDIARIES

	September 30 2001	December 31 2000
ASSETS		
Current assets:		
Cash	$ 9,568,945	$ 7,497,907
Customer accounts receivable, less allowances for doubtful accounts and returns of $47,136,481 in 2001 and $46,764,673 in 2000	151,547,275	172,393,572
Inventories - Note F		
Merchandise	91,738,895	94,912,349
Advertising and shipping supplies	22,551,232	14,660,290
	114,290,127	109,572,639
Deferred income taxes - Note E	10,524,000	11,728,000
Prepaid and refundable federal and state taxes	402,136	-0-
Prepaid expenses	1,476,416	958,849
Total current assets	287,808,899	302,150,967
Property, plant and equipment:		
Land	1,142,144	1,142,144

Buildings	64,421,580	64,235,385
Equipment	59,621,463	54,664,689
	125,185,187	120,042,218
Less allowances for depreciation	71,706,182	66,391,927
	53,479,005	53,650,291
Trademarks	647,229	704,894
TOTAL ASSETS	$341,935,133	$356,506,152
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable - Note H	$ 35,000,000	$ 25,000,000
Trade accounts payable	55,901,339	76,038,528
Advance payments from customers	3,804,201	2,077,053
Accrued expenses - Note D	10,681,163	14,289,318
Accrued federal and state taxes	-0-	929,101
Total current liabilities	105,386,703	118,334,000
Deferred income taxes	981,000	1,146,000
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	14,590,839	14,612,333
Retained earnings	265,791,156	267,444,414
	280,801,805	282,476,557
Less 2,105,896 shares in 2001 and 2,106,596 shares in 2000 of common stock in treasury - at cost	43,194,426	43,218,782
Less receivable from stock plans	2,039,949	2,231,623
	235,567,430	237,026,152
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$341,935,133	$356,506,152

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

BLAIR CORPORATION AND SUBSIDIARIES

	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Nine Mo Septe 2001
Net sales	$123,019,132	$115,183,322	$420,167,346
Other income - Note G	10,438,565	11,077,735	32,864,250
Interest from tax settlement	-0-	-0-	4,061,253
	133,457,697	126,261,057	457,092,849
Costs and expenses:			
Cost of goods sold	66,517,608	57,529,507	209,767,233
Advertising	35,924,555	30,660,837	123,437,157
General and administrative	29,599,505	30,974,991	94,929,622
Provision for doubtful accounts	6,264,191	8,132,343	24,025,598
Interest	453,151	385,856	1,917,232
	138,759,010	127,683,534	454,076,842
INCOME (LOSS) BEFORE INCOME TAXES	(5,301,313)	(1,422,477)	3,016,007
Income tax expense (benefit) - Note E	(1,987,000)	(649,000)	1,083,000
NET INCOME (LOSS)	$ (3,314,313)	$ (773,477)	$ 1,933,007
Basic and diluted earnings (loss) per share based on weighted average shares outstanding - Note C	$(.42)	$(.09)	$ .24

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BLAIR CORPORATION AND SUBSIDIARIES

	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Nine Mo Septe 2001

Common Stock	$ 419,810	$ 419,810	$ 419,810
Additional paid-in capital:			
Balance at beginning of period	14,599,554	14,552,382	14,612,333
Issuance (net of forfeitures) of Common Stock under stock plans	(8,715)	55,002	(15,623
Issuance of Common Stock to non-employee directors	-0-	-0-	(5,871
Balance at end of period	14,590,839	14,607,384	14,590,839
Retained earnings:			
Balance at beginning of period	270,300,901	263,968,830	267,444,414
Net income (loss)	(3,314,313)	(773,477)	1,933,007
Cash dividends declared - Note B	(1,195,432)	(1,203,648)	(3,586,265
Balance at end of period	265,791,156	261,991,705	265,791,156
Treasury Stock:			
Balance at beginning of period	(43,189,579)	(43,332,138)	(43,218,782
Purchase of treasury stock	-0-	-0-	-0-
Issuance (net of forfeitures) of Common Stock under stock plans	(4,847)	1,281,675	(7,390
Issuance of Common Stock to non-employee directors	-0-	-0-	31,746
Balance at end of period	(43,194,426)	(42,050,463)	(43,194,426
Receivable from stock plans:			
Balance at beginning of period	(2,117,320)	(2,271,556)	(2,231,623
Issuance (net of forfeitures) of Common Stock under stock plans	4,375	(433,418)	7,525
Repayments	72,996	64,448	184,149
Balance at end of period	(2,039,949)	(2,640,526)	(2,039,949
TOTAL STOCKHOLDERS' EQUITY	$235,567,430	$232,327,910	$235,567,430

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

BLAIR CORPORATION AND SUBSIDIARIES

	Nine Months Ended September 30	
	2001	2000
OPERATING ACTIVITIES		

Net income	$ 1,933,007	$ 14,451,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,899,978	4,453,557
Provision for doubtful accounts	24,025,598	24,453,411
Provision for (benefit from) deferred income taxes	1,039,000	(1,692,000)
Compensation expense from stock awards (net of forfeitures)	10,387	850,454
Changes in operating assets and liabilities providing (using) cash:		
Customer accounts receivable	(3,179,301)	(19,388,220)
Inventories	(4,717,488)	(23,355,867)
Federal and state taxes	(1,331,237)	4,757,311
Prepaid expenses	(517,567)	194,026
Trade accounts payable	(20,137,189)	4,971,000
Advance payments from customers	1,727,148	1,483,721
Accrued expenses	(3,608,155)	2,195,150
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,144,181	13,373,592
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(5,671,027)	(9,692,392)
NET CASH USED IN INVESTING ACTIVITIES	(5,671,027)	(9,692,392)
FINANCING ACTIVITIES		
Net proceeds from bank borrowings	10,000,000	5,500,000
Dividends paid	(3,586,265)	(3,623,249)
Purchase of Common Stock for treasury	-0-	(3,501,222)
Collections on receivable from stock plans	184,149	173,453
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	6,597,884	(1,451,018)
NET INCREASE IN CASH	2,071,038	2,230,182
Cash at beginning of year	7,497,907	1,625,236
CASH AT END OF PERIOD	$ 9,568,945	$ 3,855,418

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2001

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 nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. 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, 2000.

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

2-08-00	$.15 per share	2-09-01	$.15 per share
4-18-00	.15	4-17-01	.15
7-18-00	.15	8-20-01	.15
10-17-00	.15		

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

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per share computations required by Statement No. 128:

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Numerator:				
Net income (loss)	$(3,314,313)	$ (773,477)	$ 1,933,007	$14,451,049
Numerator for basic earnings (loss) per share	(3,314,313)	(773,477)	1,933,007	14,451,049
Numerator for diluted earnings (loss) per share	(3,314,313)	(773,477)	1,933,007	14,451,049
Denominator:				
Denominator for basic earnings (loss) per share:				
- Weighted average shares	7,969,794	8,007,704	7,969,494	8,047,726
Effect of diluted securities:				
- Stock options	-0-	-0-	78	-0-

Denominator for diluted

earnings (loss) per share: - Adjusted weighted average shares	7,969,794	8,007,704	7,969,572	8,047,726
Basic earnings (loss) per share	$(.42)	$(.09)	$.24	$1.80
Diluted earnings (loss) per share	$(.42)	$(.09)	$.24	$1.80

NOTE D - ACCRUED EXPENSES Accrued expenses consist of:

	September 30 2001	December 31 2000
Employee compensation	$ 6,277,241	$ 9,476,660
Contribution to profit sharing and retirement plan	258,720	2,288,916
Taxes, other than taxes on income	823,809	745,312
Voluntary separation program	1,497,782	-0-
Other accrued items	1,823,611	1,778,430
	$10,681,163	$14,289,318

NOTE E - 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 (benefit) are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Currently payable:				
Federal	$(3,921,000)	$(2,281,000)	$ 124,000	$ 9,536,000
State	(255,000)	(523,000)	(80,000)	797,000
	(4,176,000)	(2,804,000)	44,000	10,333,000
Deferred	2,189,000	2,155,000	1,039,000	(1,692,000)
	$(1,987,000)	$ (649,000)	$ 1,083,000	$ 8,641,000

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

	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Nine Months Ended September 30 2001	Nine Months Ended September 30 2000
Statutory rate applied to pre-tax income (loss)	$(1,855,460)	$ (497,867)	$ 1,055,602	$ 8,082,217
State income taxes, net of federal tax benefit	16,900	(159,900)	35,100	532,350
Other items	(148,440)	8,767	(7,702)	26,433
	$(1,987,000)	$ (649,000)	$ 1,083,000	$ 8,641,000

Components of deferred income tax expense (benefit) are as follows:

	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Nine Months Ended September 30 2001	Nine Months Ended September 30 2000
Advertising costs	$ 3,459,000	$ 3,664,000	$ 3,519,000	$ 2,776,000
Provision for doubtful accounts	(1,129,000)	(956,000)	(1,274,000)	(2,697,000)
Provision for estimated returns	(112,000)	(89,000)	(1,003,000)	(954,000)
Severance	73,000	-0-	(572,000)	-0-
Inventory obsolescence	14,000	(501,000)	714,000	(898,000)
Other items - net	(116,000)	37,000	(345,000)	81,000
	$ 2,189,000	$ 2,155,000	$ 1,039,000	$(1,692,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued -9-

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2001

NOTE E - INCOME TAXES - Continued

Components of the deferred tax asset and liability under the liability method as of September 30, 2001 and December 31, 2000 are as follows:

	September 30 2001	December 31 2000
Current net deferred tax asset:		
Doubtful accounts	$14,725,000	$13,048,000
Returns allowances	2,501,000	1,498,000
Inventory obsolescence	1,672,000	2,386,000
Inventory costs	(2,085,000)	(2,085,000)
Vacation pay	1,494,000	1,408,000
Advertising costs	(8,530,000)	(5,011,000)
Severance costs	572,000	-0-
Other items	175,000	484,000
	$10,524,000	$11,728,000

Long-term deferred tax liability:		
Property, plant and equipment	$ 981,000	$ 1,146,000

NOTE F - 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 $6,717,000 at both September 30, 2001 and December 31, 2000.

NOTE G - OTHER INCOME Other income consists of:

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Finance charges on time payment accounts	$ 9,325,888	$ 9,109,142	$28,650,546	$27,662,428
Commissions earned	705,235	919,566	2,615,083	2,664,966
Other items	407,442	1,049,027	1,598,621	3,134,341
	$10,438,565	$11,077,735	$32,864,250	$33,461,735

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued -10-

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2001

NOTE H - FINANCING ARRANGEMENTS

On November 13, 1998, the Company entered into an amended and restated $95,000,000 Revolving Credit Facility, which expires on November 13, 2001. The Facility has been reduced to $55,000,000 and extended to December 31, 2001. The Company intends to replace the extended Facility by December 31, 2001. The interest rate is, at the Company's option, based on a base rate option, swing loan rate option or Euro-rate option as defined in the agreement. The Revolving Credit Facility is unsecured and requires the Company to meet certain covenants as outlined in the agreement. These covenants specifically relate to tangible net worth, maintaining a defined leverage ratio, interest coverage ratio and fixed charge coverage ratio and complying with certain indebtedness restrictions. As of September 30, 2001 and December 31, 2000, the Company was in compliance with all the agreement's covenants. At September 30, 2001, the Company had borrowed $35,000,000 all of which was classified as short term and at December 31, 2000, $25,000,000 all of which was classified as short term. As of November 12, 2001, the Company's borrowings outstanding totaled $18,275,000.

NOTE I - 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.

Revenue Recognition in Financial Statements
In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." This SAB formalizes the SEC's position on application of revenue recognition rules. SAB No. 101 was adopted by the Company in the fourth quarter of 2000 and did not have a substantial effect on the Company.

Business Combinations and Goodwill and Other Intangible Assets In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. It is anticipated that the adoption of this statement will not have a significant impact on the Company.

NOTE J - VOLUNTARY SEPARATION PROGRAM
In the first quarter of 2001, the Company accrued and charged to expense $2.5 million in separation costs. The costs were charged to General and Administrative Expense in the income statement. The one-time $2.5 million charge represents severance pay, related payroll taxes and medical benefits due the 56 eligible employees who accepted the voluntary separation program rather than relocate or accept other positions in the Company. The program was offered to eligible employees of the Blair Mailing Center from which the merchandise returns operations have been relocated and the mailing operations have been outsourced. As of September 30, 2001, $1,002,218 of the $2.5 million has been paid.

NOTE K - EMPLOYEE STOCK PURCHASE PLAN
The Company had an Employee Stock Purchase Plan wherein shares of treasury stock could be issued to certain employees at a price established at the discretion of the Employee Stock Purchase Plan Committee. In 2001, no stock has been issued under the Plan and the Plan has been terminated. On July 19, 2000, 31,852 shares were issued under the Plan.

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 90,519 options were awarded to the executive officers on April 16, 2001. Restricted stock awards totaling 35,400 shares of treasury stock were issued to certain employees on July 19, 2000.

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

BLAIR CORPORATION AND SUBSIDIARY

September 30, 2001

Results of Operations

Comparison of Third Quarter 2001 and Third Quarter 2000

The third quarter of 2001 resulted in a net loss of $3,314,313 as compared to a net loss of $773,477 for the third quarter of 2000. Results for the third quarter ended September 30, 2001 reflect increased liquidation efforts, including a higher volume of sale priced offerings, to move excess inventory. The third quarter results reflect the current downturn in economic conditions and a continual decline in response rates and consumer spending. The third quarter of 2001 was also negatively impacted by costs associated with the Company's investments in several growth initiatives including Crossing Pointe, Blair's men's and women's targeted apparel catalogs and e-commerce. It is anticipated that these investments will continue, subject to adjustment, during the remainder of the year. The third quarter of the year is historically the lowest earnings quarter of the year for the Company.

Net sales for the third quarter of 2001 were 6.8% higher than net sales for the third quarter of 2000. Actual response rates in the third quarter of 2001 were slightly lower than in the third quarter of 2000 and improved from the first six months of 2001. Actual response rates were below expected levels in the third quarter of 2001. The higher volume of sale priced offerings in the third quarter of 2001 favorably impacted response rates but reduced margins. Gross sales revenue generated per advertising dollar decreased approximately 10% in the third quarter of 2001 as compared to the third quarter of 2000. The total number of orders shipped decreased while the average order size increased in the third quarter of 2001 as compared to the third quarter of 2000. The provision for returned merchandise as a percentage of gross sales decreased slightly in the third quarter of 2001 as compared to the third quarter of 2000.

Other income decreased 5.8% in the third quarter of 2001 as compared to the third quarter of 2000. Other income decreased primarily because the Company has not realized any gain on barter in 2001.

Cost of goods sold as a percentage of net sales increased to 54.1% in the third quarter of 2001 from 49.9% in the third quarter of 2000. Increased efforts to liquidate excess inventory, including a higher volume of sale priced offerings, were primarily responsible for the increase in cost of goods sold.

Advertising expense in the third quarter of 2001 increased 17% from the third quarter of 2000. A planned larger advertising effort, a postal rate increase and new marketing growth initiatives (Crossing Pointe, e-commerce and men's and women's targeted apparel catalogs) were primarily responsible for the increased advertising cost in the third quarter of 2001.

The total number of catalog mailings released in the third quarter of 2001 was 25% more than in the third quarter of 2000 (42.4 million vs. 33.9 million). Print advertising for Crossing Pointe (started in the third quarter of 2000) is all via catalog and is included in the catalog mailings numbers.

The total number of letter mailings released in the third quarter of 2001 was 7% more than in the third quarter of 2000 (13.4 million vs. 12.5 million). Letter mailings are most productive when targeting the Company's female customers and, since mid-year 2000, have been used only to promote our women's apparel lines.

Total volume of the co-op and media advertising programs decreased 45% in the third quarter of 2001 as compared to the third quarter of 2000 (88 million vs. 160 million).

Results of Operations - Continued

Comparison of Third Quarter 2001 and Third Quarter 2000 - Continued

The Company launched e-commerce sites for Crossing Pointe, www.crossingpointe.com, and the Blair Online Outlet early in the third quarter of 2000. The Blair website, www.blair.com (including the Online Outlet), was launched late third quarter/early fourth quarter of 2000. A redesigned www.blair.com was introduced in the first quarter of 2001 and features improved navigation and quicker access to our expanded product offerings. The Company has also launched e-commerce sites for Scandia Woods and Irvine Park, new men's targeted apparel catalogs. Over $8 million in e-commerce sales were generated in the third quarter of 2001 as compared to $2.5 million for the entire year of 2000.

General and administrative expense decreased 4.4% in the third quarter of 2001 as compared to the third quarter of 2000. The lower general and administrative expense in the third quarter of 2001 was primarily attributable to reductions in professional services and in employee benefits tied to the Company's profitability.

The provision for doubtful accounts as a percentage of credit sales decreased 24.7% in the third quarter of 2001 as compared to the third quarter of 2000. The estimated 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 for the third quarter of 2001 was approximately 23% lower than the bad debt rate used in third quarter of 2000. The estimated bad debt rate decreased primarily due to a reduction in prospect sales and improving delinquency and charge-off rates. At September 30, 2001, the delinquency rate of open accounts receivable was approximately 12% lower than at September 30, 2000. The delinquency rate for established credit customers (96.6% of open receivables at September 30, 2001, 95.2% at September 30, 2000) decreased 11% and the delinquency rate for prospects (3.4% of open receivables at September 30, 2001, 4.8% at September 30, 2000) increased 3.8%. The charge-off rate for the third quarter of 2001 was 6.5% more than the charge-off rate for the third quarter of 2000, but was approximately 14% lower 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. 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 increased 17% in the third quarter of 2001 as compared to the third quarter of 2000. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable, inventories and growth initiatives. At September 30, 2001, inventories were up 10.5% and gross customer accounts receivable were down 2.5% as compared to September 30, 2000. Average debt outstanding was higher in the third quarter of 2001 than in the third quarter of 2000.

Income taxes as a percentage of loss before income taxes were 37.5% in the third quarter of 2001 and 45.6% in the third quarter of 2000. 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.

Results of Operations - Continued

Comparison of Nine Month Periods Ended September 30, 2001 and September 30, 2000

Net income for the nine months ended September 30, 2001 was $1,933,007, or $.24 per share, as compared to $14,451,049, or $1.80 per share, for the nine months ended September 30, 2000. Results for the first nine months of 2001 were negatively affected by liquidation of excess inventory, the current downturn in economic conditions, a continued decline in response rates and consumer spending and the costs associated with the Company's investments in several growth initiatives. The nine months of 2001 also included a $2.5 million charge attributable to the Company's voluntary separation program. The one-time charge, decreased net income for the first nine months of 2001 by $1.5 million, or $.18 per share. The nine months of 2001 also included $4 million of interest income resulting from an Internal Revenue tax settlement. The one-time gain in interest income increased net income for the first nine months of 2001 by $2.6 million, or $.32 per share.

Net sales for the first nine months of 2001 increased to a record level and were 4.4% higher than net sales for the first nine months of 2000. Actual response rates in the first nine months of 2001 were lower than in the first nine months of 2000 and were below expected levels for the first nine months of 2001. Gross sales revenue generated per advertising dollar decreased approximately 18% in the first nine months of 2001 as compared to the first nine months of 2000. The total number of orders shipped decreased while the average order size increased in the first nine months of 2001 as compared to the first nine months of 2000. The provision for returned merchandise as a percentage of gross sales increased slightly in the first nine months of 2001 as compared to the first nine months of 2000.

Other income decreased 1.8% in the first nine months of 2001 as compared to the first nine months of 2000. Other income decreased primarily because the Company has not realized any gain on barter in 2001.

A one-time $4 million interest payment resulting from an Internal Revenue tax settlement was received at the end of June 2001. The Company also recovered approximately $9 million in federal income tax refunds from the tax settlement.

Cost of goods sold as a percentage of net sales increased to 49.9% in the first nine months of 2001 from 49.4% in the first nine months of 2000. Liquidation of excess inventory primarily in the third quarter of 2001, more than offset stable or declining product costs and the Company's efforts to improve gross margins.

Advertising expense in the first nine months of 2001 increased 27% from the first nine months of 2000. A planned larger advertising effort, a postal rate increase and new marketing growth initiatives (Crossing Pointe, e-commerce and men's and women's targeted apparel catalogs) were primarily responsible for the increased advertising costs in the first nine months of 2001.

The total number of catalog mailings released in the first nine months of 2001 was 36% more than in the first nine months of 2000 (135.3 million vs. 99.4 million). Print advertising for Crossing Pointe (started in third quarter of 2000) is all via catalog and is included in the catalog mailings numbers.

The total number of letter mailings released in the first nine months of 2001 was 7% less than in the first nine months of 2000 (61.9 million vs. 66.6 million). Letter mailings are most productive when targeting the Company's female customers and, since mid-year 2000, have been used to promote our women's apparel lines.

Total volume of the co-op media advertising programs increased 8% in the first nine months of 2001 as compared to the first nine months of 2000 (833 million vs. 773 million).

BLAIR CORPORATION AND SUBSIDIARY

September 30, 2001

Results of Operations - Continued

Comparison of Nine Month Periods Ended September 30, 2001 and September 30, 2000 - Continued

The Company launched e-commerce sites for Crossing Pointe, www.crossingpointe.com, and the Blair Online Outlet early in the third quarter of 2000. The Blair website, www.blair.com (including the Online Outlet), was launched late third quarter/early fourth quarter of 2000. A redesigned www.blair.com was introduced in the first quarter of 2001 and features improved navigation and quicker access to our expanded product offerings. The Company has also launched e-commerce sites for Scandia Woods and Irvine Park, new men's targeted apparel catalogs. Over $22 million in e-commerce sales were generated in the first nine months of 2001 as compared to $2.5 million for the entire year of 2000.

General and administrative expense increased 4.1% in the first nine months of 2001 as compared to the first nine months of 2000. The higher general and administrative expense in 2001 was primarily attributable to the one-time $2.5 million charge for the Company's voluntary separation program, and to the costs associated with e-commerce, Crossing Pointe and recently introduced men's and women's targeted apparel catalogs. 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 Blair Mailing Center from which the merchandise returns operations have been relocated and the mailing operations have been outsourced. As of September 30, 2001, $1,002,218 of the $2.5 million charge has been paid.

The provision for doubtful accounts as a percentage of credit sales decreased 1.4% in the first nine months of 2001 as compared to the first nine months of 2000.The estimated 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 for the first nine months of 2001 was approximately the same as the bad debt rate used in the first nine months of 2000. The estimated bad debt rate has stayed approximately the same primarily due to a tightening of credit granting, slightly lower prospect sales and improving delinquency and charge-off rates. At September 30, 2001, the delinquency rate of open accounts receivable was approximately 12% lower than at September 30, 2000. The delinquency rate for established credit customers (96.6%of open receivables at September 30, 2001, 95.2% at September 30, 2000) decreased 11% and the delinquency rate for prospects (3.4% of open receivables at September 30, 2001, 4.8% at September 30, 2000) increased 3.8%. The charge-off rate for the first nine months of 2001 was

18% more than the charge-off rate for the first nine months of 2000, but the charge-off rate for the third quarter of 2001 was only 6.5% more than charge-off rate for the third quarter of 2000 and was 14% lower 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. 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 increased 52% in the first nine months of 2001 as compared to the first nine months of 2000. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable, inventories and growth initiatives. At September 30, 2001, inventories were up 10.5% and gross customer accounts receivable were down 2.5% as compared to September 30, 2000. Average debt outstanding has been higher in 2001 than in 2000.

Results of Operations - Continued

Comparison of Nine Month Periods Ended September 30, 2001 and September 30, 2000 - Continued

Income taxes as a percentage of income before income taxes were 35.9% in the first nine months of 2001 and 37.4% in the first nine months of 2000. The federal income tax rate was 35% in both years. The decrease in the total income tax rate was caused by a change in the Company's effective state income tax rate.

Liquidity and Sources of Capital

All working capital and cash requirements for the first nine months of 2001 were met. In November 1998, the Company entered into an amended and restated $95,000,000 Revolving Credit Facility, which expires on November 13, 2001. The Facility has been reduced to $55,000,000 and extended to December 31, 2001. The Company intends to replace the extended Facility by December 31, 2001. This unsecured Revolving Credit Facility requires the Company to meet certain covenants some of which have been amended since November 1998, and the Company is in compliance with all the covenants. Borrowings outstanding at September 30, 2001 were $35,000,000 all classified as current. Borrowings outstanding at December 31, 2000 were $25,000,000 all classified as current. As of November 12, 2001, the Company's borrowings outstanding totaled $18,275.000.

The ratio of current assets to current liabilities was 2.73 at September 30, 2001 2.55 at December 31, 2000 and 3.07 at September 30, 2000. Working Capital decreased $1,394,771 in the first nine months of 2001 primarily due to dividends paid exceeding net income. The 2001 decrease was primarily reflected in decreased customer accounts receivable and increased notes payable more than offsetting decreased trade accounts payable and increased inventories.

Merchandise inventory turnover was 2.4 at September 30, 2001, 2.8 at December 31, 2000 and 2.9 at September 30, 2000. Merchandise inventory as of September 30, 2001 decreased 3.3% from December 31, 2000 and increased 8.5% from September 30, 2000. Inventory levels have increased since September 30, 2000 due to lower than expected response rates since mid-2000 and the introduction of new catalogs in late 2000 and early 2001. Sales mailings were increased in the third quarter of 2001 to help bring inventory levels down.

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 Products net sales as a percentage of total net sales were 12.8% ($53.6 million) in the first nine months of 2001 as compared to 14.2% ($57.3 million) in the first nine months of 2000. Menswear net sales as a percentage of total net sales were 18.3% ($77.0 million) as compared to 19.2% ($77.3 million). Womenswear net sales as a percentage of total sales were 66.2% ($278.2 million) as compared to 66.2% ($266.5 million). Crossing Pointe net sales as a percentage of total net sales were 2.7% ($11.3 million) as compared to .3% ($1.2 million). Home Products merchandise inventory totaled $7.9 million at September 30, 2001, $17.1 million at December 31, 2000 and $21.4 million at September 30, 2000. Menswear merchandise inventory was $21.6 million at September 30, 2001, $20.7 million at December 31, 2000 and $20.0 million at September 30, 2000. Womenswear merchandise inventory was $57.9 million at September 30, 2001, $54.3 million at December 31, 2000 and $41.0 million at September 30, 2000. Crossing Pointe merchandise inventory was $4.4 million at September 30, 2001, $2.8 million at December 31, 2000 and $2.1 million at September 30, 2000.

Liquidity and Sources of Capital - Continued

The Company looks upon its credit granting (Blair Credit) as a marketing advantage. In the early 1990's, the Company started extending revolving credit to first-time (prospect) buyers. Blair Credit was offered only to established customers prior to that time. Prospects responded. This led to a broad offering of pre-approved lines of credit to prospects in 1995 and 1996. Sales, accounts receivable and bad debts expectedly increased. However, as the receivables aged, bad debts greatly exceeded expected levels. The Company recognized that it didn't have all the necessary credit controls in place and put a hold (second quarter 1996) on pre-approved credit offers and reviewed and strengthened (mid-1996 and on) credit controls. Blair Credit customers, on average, buy more, buy more often and are more loyal than cash and credit card customers. The benefit from the increased sales volume achieved by offering Blair Credit is significant and more than outweighs the cost of the credit program. The cost and/or contribution of the credit program itself can be quickly assessed by comparing finance charges (included in other income) to the provision for doubtful accounts. For the first nine months of 2001, finance charges were $28.7 million and the provision for doubtful accounts was $24.0 million (net of $4.6 million) as compared to the first nine months of 2000, finance charges were $27.7 million and the provision for doubtful accounts was $24.5 million (net of $3.2 million). This assessment does 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 .3% in the first nine months of 2001 as compared to the first nine months of 2000.

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 $5.7 million during the first nine months of 2001 and $9.7 million during the first nine months of 2000. 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 will be delayed due to the current economic conditions. This includes slowing the implementation of the previously announced $23 million modernization and enhancement of the Company's fulfillment operations. Capital expenditures for the year 2001 are projected to be approximately $8 million.

As of the filing date of this report, the Company has not declared a quarterly dividend that would be payable on December 15, 2001. The dividend declaration will be considered on November 15, 2001. It is the Company's intent to continue paying dividends; however, the Company will evaluate its dividend practice on an on-going 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 have been repurchased in 2001.

Future cash needs will be financed by cash flow from operations, the existing borrowing arrangement and, if needed, other financing arrangements that may be available to the Company. The Company intends to renew or replace its current borrowing arrangement, which expires on December 31, 2001. The Company's current projection of future cash requirements, however, may be affected in the future by numerous factors, including changes in customer payments on accounts receivable, consumer credit industry trends, sales volume, operating cost fluctuations, revised capital spending plans and unplanned capital spending.

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 paper cost and postal rate increases. Paper prices were higher in 1998 than in 1997, lower in 1999 than in 1998, again higher in 2000 than in 1999 and stable to declining at this time. Postal rates increased on January 10, 1999, on January 7, 2001 and again on July 1, 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. 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.

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, of course, 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.

Accounting Pronouncement

In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued. Statement No. 133 provides new guidelines for accounting for derivative instruments and requires companies to recognize all derivatives on the balance sheet at fair value. Gains or losses resulting from changes in the values of the derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. 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 invested in derivative instruments.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." Bulletin No. 101 formalizes the SEC's position on application of revenue recognition rules. The Company adopted Bulletin No. 101 in the fourth quarter of 2000 and the adoption did not have a substantial effect on the Company.

In June 2001, Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", were issued. The Statements are effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the Statements beginning in the first quarter of 2002. It is anticipated that adoption of these Statements will not have a significant impact on the Company.

Future Considerations

The Company is faced with the ever-present challenge of maintaining and expanding the 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 impacted by increased operating costs, a declining labor pool, increased competition in the retail sector, high levels of consumer debt and varying consumer response rates.

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. 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, Internet commerce and fulfillment capabilities and capacity. 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 recently announced a partnership with accomplished actress, artist, author and mother, Jane Seymour, to launch the "Jane Seymour Signature Collection" of women's apparel. The Jane Seymour inspired fashions will be sold exclusively through the Company's Crossing Pointe catalog and website (www.crossingpointe.com). The first "Jane Seymour Signature Collection" fashions will preview in early January 2002 on the Crossing Pointe website and will debut in the Crossing Pointe Spring 2002 catalog mailing at the end of January 2002.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Forward-looking statements in this 10-Q 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 Third Quarter 2001 and Third Quarter 2000.

- The paragraph on the provision for doubtful accounts in the Results of Operations, Comparison of Nine Month Periods Ended September 30, 2001 and September 30, 2000.

- The paragraph on merchandise inventory in Liquidity and Sources of

Capital.

- The third sentence (The fourth product line, Crossing Pointe...) of the paragraph on operating segment in Liquidity and Sources of Capital.

- The paragraph on credit granting as a marketing advantage in Liquidity and Sources of Capital.

- The paragraph on capital expenditures in Liquidity and Sources of Capital.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995 - Continued

- The paragraph on dividend practice in Liquidity and Sources of Capital.

- The paragraph on future cash needs in Liquidity and Sources of Capital.

- The Impact of Inflation and Changing Prices.

- Future Considerations.

Investors are cautioned that such forward-looking statements involve risks and uncertainties 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; and (iii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission, including the Company's annual report on Form 10-K for the year ended December 31, 2000.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

September 30, 2001

ITEM 1. Legal Proceedings

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

Item 2. Changes in Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1	Restated Certificate of Incorporation*
3.2	Amended Bylaws of Blair Corporation**
4	Specimen Common Stock Certificate***
11	Statement regarding computation of per share earnings****

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 2001

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* 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).

** 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).

*** 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).

**** Incorporated by reference to Note C of the financial statements included herein.

SIGNATURE

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

BLAIR CORPORATION

(Registrant)

Date November 12, 2001

By KENT R. SIVILLO

KENT R. SIVILLO
Vice President and Treasurer
(Principal Financial Officer
and Duly Authorized Officer)