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LANDS END INC
Form SC14D9C
May 16, 2002

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14D-9
(RULE 14d-101)

SOLICITATION/RECOMMENDATION STATEMENT UNDER SECTION 14(d) (4)
OF THE SECURITIES EXCHANGE ACT OF 1934

LANDS' END, INC.
(Name of Subject Company)

LANDS' END, INC.
(Name of Person Filing Statement)

COMMON STOCK, PAR VALUE \$0.01 PER SHARE
(Title and Classes of Securities)

5115086106
(Cusip Number of Class of Securities)

DONALD R. HUGHES
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
LANDS' END, INC.
ONE LANDS' END LANE
DODGEVILLE, WISCONSIN 53595
(608) 935-9341

(Name, Address and Telephone number of Person Authorized to Receive
Notices and Communications on Behalf of the Person(s) Filing Statement)

with copies to:

KARL DAHLEN
SENIOR LEGAL OFFICER
LANDS' END, INC.
ONE LANDS' END LANE
DODGEVILLE, WISCONSIN 53595
(608) 935 9341

ROBERT S. OSBORNE, P.C.
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[x] Check the box if the filing relates solely to preliminary communications
made before the commencement of a tender offer.

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Thursday May 16, 8:30 am Eastern Time

Press Release

SOURCE: Lands' End, Inc.

Lands' End Reports Sales and Earnings for First Quarter
DODGEVILLE, Wis., May 16 /PRNewswire-FirstCall/ --

Lands' End, Inc. (NYSE: LE - News), the direct merchant of classically styled apparel and home furnishings, today reported results for its first quarter of fiscal year 2003, ended May 3, 2002.

.. (Photo: <http://www.newscom.com/cgi-bin/prnh/20020403/LELOGO>)

Total revenue for the first quarter just ended was \$341 million, up 10 percent from \$311 million in the prior year's first quarter. Net income for the quarter was \$16.5 million, and diluted earnings per share were \$0.54, compared with net income of \$5.9 million, or \$0.20, for the same period last year.

On May 13, 2002, Lands' End announced that it had entered into a definitive agreement with Sears, Roebuck and Co. for Sears to acquire 100 percent of the outstanding common stock of Lands' End in a cash tender offer for \$62 a share or approximately \$1.9 billion (the "Transaction").

LANDS' END FIRST QUARTER HIGHLIGHTS AND COMMENTS

Segment merchandise sales data for first quarter (in millions)

| | | | Percent |
|-------------------------|-------|-------|---------|
| | 1Q03 | 1Q02 | Change |
| Core business segment | \$198 | \$173 | + 14.4% |
| Specialty segment | 85 | 86 | - 0.9% |
| International segment | 32 | 28 | + 12.5% |
| Total merchandise sales | \$315 | \$287 | + 9.6% |
| Internet | \$79 | \$ 54 | + 46.3% |

Segment merchandise sales data (full-price and liquidation sales) excludes shipping and handling revenue. Internet merchandise sales are included in the respective business segments.

In the quarter just ended, growth in the core business segment was led by strength in the women's division. The co-ed division showed modest growth, and men's showed a modest decline. In the specialty segment, the Kids and Home divisions were relatively flat; and Business Outfitters was slightly down. All international businesses had strong sales increases when measured in their local currencies, and overall international sales in U.S. dollars were improved from last year.

Gross profit for the quarter just ended was \$157 million, or 46.0 percent of total revenue, compared with \$132 million, or 42.4 percent of total revenue in the prior year. Merchandise gross profit margin rose due to higher initial margins from improved sourcing, as well as from lower levels of liquidations and lower provisions for inventory reserves. Lower liquidations of excess inventory were due to a change in timing of our post-holiday clearance catalog that shifted revenue into the fourth quarter of last year.

Liquidation of excess inventory was 8 percent of net merchandise sales for the first quarter, compared with 11 percent in the prior year. Inventory was \$216

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million as of May 3, 2002, up 9 percent from \$198 million at the same time last year. Inventory is currently in line with the sales increase and with planned levels, and the quality of inventory is improved from the prior year.

For the first quarter this year, selling, general and administrative expenses were \$131 million, up 8 percent from \$121 million in the prior year. As a percentage of total revenue, SG&A was 38.5 percent, compared with 39.0 percent in the prior year. Stronger customer response resulted in increased productivity per catalog page, resulting in relatively lower catalog costs. These improvements were partially offset by higher accruals for employee compensation and profit-sharing expense, both due to improved profitability.

BUSINESS OUTLOOK

On April 9, 2002, Lands' End updated its business outlook and filed it with the Securities and Exchange Commission on a form 8-K. Because of the Transaction, no further guidance is being provided at this time.

CANCELLATION OF CONFERENCE CALL AND WEB CAST

The conference call and Web cast previously scheduled for 9:30 CT, May 16, 2002, will not be held.

Lands' End is a direct merchant of traditionally styled, classic products offered to customers around the world through regular mailings of its monthly and specialty catalogs and via the Internet at <http://www.landsend.com>.

STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Statements in this release that are not historical, including, without limitation, statements regarding our plans, expectations, assumptions, and estimations for the Transaction or for fiscal 2003 revenues, gross profit margin, and earnings, as well as anticipated sales trends and future development of our business strategy, are considered forward-looking and speak only as of today's date. 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 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 Business Outfitters 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. Also, the Transaction is not yet completed and is subject to a two-thirds minimum tender condition. More information about these risks and uncertainties may be found in the company's 8-K and 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.

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ADDITIONAL INFORMATION

This release is neither an offer to purchase nor a solicitation of an offer to sell securities of Lands' End. At the time the tender offer (referenced above) is commenced, Sears, Roebuck and Co. will file a tender offer statement with the U.S. Securities and Exchange Commission, and Lands' End will file a solicitation/recommendation statement with respect to the offer. Investors and Lands' End stockholders are strongly advised to read the tender offer statement (including an offer to purchase, letter of transmittal and related tender documents) and the related solicitation/recommendation statement because they will contain important information. These documents will be available at no charge at the SEC's Web site at <http://www.sec.gov> and may also be obtained by calling (800) 732-7780 and selecting option three.

Preliminary and unaudited
CONSOLIDATED STATEMENTS OF OPERATIONS
Lands' End, Inc., & Subsidiaries
(Amounts in thousands, except per share data)

| | Three months ended | |
|--|--------------------|-------------------|
| | May 3, 2002 | April 27, 2001 |
| Revenue | | |
| Net merchandise sales | \$314,628 | \$287,117 |
| Shipping and handling revenue | 26,547 | 24,003 |
| Total revenue | 341,175 | 311,120 |
| Cost of sales | | |
| Cost of merchandise sales | 157,914 | 154,913 |
| Shipping and handling costs | 26,325 | 24,263 |
| Total cost of sales | 184,239 | 179,176 |
| Gross profit | 156,936 | 131,944 |
| Selling, general and administrative expenses | 131,292 | 121,438 |
| Income from operations | 25,644 | 10,506 |
| Other income (expense) | | |
| Interest expense | (281) | (233) |
| Interest income | 498 | 636 |
| Other | 745 | (1,536) |
| Total other expense, net | 962 | (1,133) |
| Income before income taxes | 26,606 | 9,373 |
| Income tax provision | 10,110 | 3,515 |
| Net income | \$16,496 | \$5,858 |
| Basic earnings per share | \$0.55 | \$0.20 |
| Diluted earnings per share | \$0.54 | \$0.20 |
| Basic weighted average shares outstanding | 30,004 | 29,380 |
| Diluted weighted average shares outstanding | 30,553 | 29,620 |

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CONSOLIDATED BALANCE SHEETS
Lands' End, Inc., & Subsidiaries

| (In thousands) | May 3, 2002 | April 27, 2001 |
|--|----------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$114,422 | \$26,591 |
| Receivables, net | 17,388 | 17,140 |
| Inventory | 215,717 | 197,561 |
| Prepaid advertising | 18,742 | 20,801 |
| Other prepaid expenses | 9,738 | 7,378 |
| Income taxes receivable | -- | 397 |
| Deferred income tax benefits | 15,905 | 10,973 |
| Total current assets | 391,912 | 280,841 |
| Property, plant and equipment, at cost: | | |
| Land and buildings | 117,624 | 104,880 |
| Fixtures and equipment | 107,872 | 103,512 |
| Computer hardware and software | 118,366 | 105,334 |
| Leasehold improvements | 4,877 | 4,642 |
| Construction in progress | -- | 7,461 |
| Total property, plant and equipment | 348,739 | 325,829 |
| Less - accumulated depreciation and amortization | 154,971 | 138,134 |
| Property, plant and equipment, net | 193,768 | 187,695 |
| Other assets | 2,696 | 2,214 |
| Total assets | \$588,376 | \$470,750 |
| Liabilities and shareholders' investment | | |
| Current liabilities: | | |
| Lines of credit | \$16,502 | \$21,573 |
| Accounts payable | 69,275 | 67,152 |
| Reserve for returns | 7,238 | 7,287 |
| Accrued liabilities | 51,727 | 35,626 |
| Accrued profit sharing | 2,373 | 755 |
| Income taxes payable | 13,944 | -- |
| Total current liabilities | 161,059 | 132,393 |
| Deferred income taxes | 11,376 | 17,251 |
| Shareholders' investment: | | |
| Common stock, 40,221 shares issued | 402 | 402 |
| Donated capital | 8,400 | 8,400 |
| Additional paid-in capital | 39,777 | 32,358 |
| Deferred compensation | (37) | (103) |
| Accumulated other comprehensive income | 958 | 4,477 |
| Retained earnings | 572,499 | 494,945 |
| Treasury stock, 10,208 and 10,834 shares at cost, respectively | (206,058) | (219,373) |
| Total shareholders' investment | 415,941 | 321,106 |
| Total liabilities and shareholders' investment | \$588,376 | \$470,750 |

Preliminary and unaudited

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CONSOLIDATED STATEMENTS OF CASH FLOWS
 Lands' End, Inc., & Subsidiaries
 (In thousands)

| | Three months ended | |
|--|--------------------|-------------------|
| | May 3, 2002 | April 27, 2001 |
| Cash flows from (used for) operating activities: | | |
| Net income | \$16,496 | \$5,858 |
| Adjustments to reconcile net income to net cash flows used for operating activities- | | |
| Depreciation and amortization | 7,258 | 6,235 |
| Deferred compensation expense | 19 | 18 |
| Deferred income taxes | (1,462) | 2,684 |
| Loss on disposal of fixed assets | 276 | -- |
| Tax benefit of stock options | 209 | 450 |
| Changes in assets and liabilities: | | |
| Receivables, net | (4,091) | 2,668 |
| Inventory | 11,503 | (9,350) |
| Prepaid advertising | (3,032) | (3,174) |
| Other prepaid expenses | (1,377) | (275) |
| Accounts payable | (14,088) | (29,016) |
| Reserve for returns | (2,146) | (1,774) |
| Accrued liabilities | 4,128 | (4,779) |
| Accrued profit sharing | (2,408) | (1,602) |
| Income taxes payable | (11,013) | (13,610) |
| Other | (2,416) | (454) |
| Net cash flows used for operating activities | (2,144) | (46,121) |
| Cash flows used for investing activities: | | |
| Cash paid for capital additions | (6,742) | (9,361) |
| Net cash flows used for investing activities | (6,742) | (9,361) |
| Cash flows from (used for) financing activities: | | |
| Proceeds from short-term debt | 333 | 4,633 |
| Purchases of common stock | (9) | (4) |
| Issuance of treasury stock | 893 | 2,093 |
| Net cash flows from financing activities | 1,217 | 6,722 |
| Net decrease in cash and cash equivalents | (7,669) | (48,760) |
| Beginning cash and cash equivalents | 122,091 | 75,351 |
| Ending cash and cash equivalents | \$114,422 | \$26,591 |