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LANDS END INC
Form 10-Q
June 04, 2002

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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 May 3, 2002
- 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 36-2512786
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Lands' End Lane, Dodgeville, WI 53595
(Address of principal executive (Zip code)
offices)

Registrant's telephone number, 608-935-9341
including area code

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 June 4, 2002:

Common stock, \$.01 par value 30,037,942, shares outstanding

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LANDS' END, INC. & SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDS' END, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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(In thousands, except per share data)

| | Three months ended | |
|---|--------------------|-------------------|
| | May 3, 2002 | April 27, 2001 |
| | (unaudited) | |
| 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 income (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 |

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

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

| | May 3, 2002 | February 1, 2002 |
|---------------------------|----------------|---------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$114,422 | \$122,091 |
| Receivables, net | 17,388 | 13,297 |
| Inventory | 215,717 | 227,220 |

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| | | |
|---|-----------|-----------|
| Prepaid advertising | 18,742 | 15,710 |
| Other prepaid expenses | 9,738 | 8,361 |
| Deferred income tax benefits | 15,905 | 15,905 |
| Total current assets | 391,912 | 402,584 |
| Property, plant and equipment, at cost: | | |
| Land and buildings | 117,624 | 117,785 |
| Fixtures and equipment | 107,872 | 105,588 |
| Computer hardware and software | 118,366 | 116,000 |
| Leasehold improvements | 4,877 | 4,837 |
| Total property, plant and equipment | 348,739 | 344,210 |
| Less-accumulated depreciation and amortization | 154,971 | 150,342 |
| Property, plant and equipment, net | 193,768 | 193,868 |
| Intangibles, net | 2,696 | 2,668 |
| Total assets | \$588,376 | \$599,120 |
| Liabilities and shareholders' investment | | |
| Current liabilities: | | |
| Lines of credit | \$ 16,502 | \$ 16,169 |
| Accounts payable | 69,275 | 83,363 |
| Reserve for returns | 7,238 | 9,384 |
| Accrued liabilities | 51,727 | 46,910 |
| Accrued profit sharing | 2,373 | 4,781 |
| Income taxes payable | 13,944 | 24,957 |
| Total current liabilities | 161,059 | 185,564 |
| Deferred income taxes | 11,376 | 12,838 |
| Shareholders' investment: | | |
| Common stock, 40,221 shares issued | 402 | 402 |
| Donated capital | 8,400 | 8,400 |
| Additional paid-in capital | 39,777 | 39,568 |
| Deferred compensation | (37) | (56) |
| Accumulated other comprehensive income | 958 | 3,343 |
| Retained earnings | 572,499 | 556,003 |
| Treasury stock, 10,208 and 10,236 shares at cost, respectively | (206,058) | (206,942) |
| Total shareholders' investment | 415,941 | 400,718 |
| Total liabilities and shareholders' investment | \$588,376 | \$599,120 |

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

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

| | Three months ended | |
|---|--------------------|-------------------|
| | May 3, 2002 | April 27, 2001 |
| | (unaudited) | |
| 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 |

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| | | |
|--|-----------|-----------|
| Changes in current 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) | 768 |
| 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) | (1,497) |
| 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 |
| Supplemental cash flow disclosures: | | |
| Interest paid | \$ 281 | \$ 233 |
| Income taxes paid | 21,055 | 17,000 |

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

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

Note 1. Summary of significant accounting policies

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 (S.E.C.), 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

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latest Annual Report on Form 10-K, which includes financial statements for the year ended February 1, 2002.

Pending acquisition

On May 13, 2002, Lands' End announced that it had entered into a definitive agreement with Sears, Roebuck and Co. (Sears) 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"). Additional information on this "Transaction" can be obtained from filings on behalf of the company with the S.E.C. commencing on May 13, 2002.

Reclassifications

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

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 shareholders' investment. Gains and losses resulting from the translation of other foreign-denominated assets and foreign currency transactions are recorded as other income and expense in the consolidated statements of operations. For the periods ended May 3, 2002 and April 27, 2001, a gain of \$0.1 million and a loss of \$0.4 million were recorded, respectively.

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

Derivative instruments and hedging activities

The company has transactions with foreign subsidiaries, which expose the company to variability in foreign currency cash flows. To mitigate this risk, the company enters into foreign exchange forward contracts and options with a maximum hedging period of 24 months. Such foreign exchange forward contracts and options are treated as cash flow hedges for accounting purposes with the fair value of the derivative instruments recorded on the consolidated balance sheet as assets or liabilities and, to the extent that it is effective, it is recorded to accumulated other comprehensive income. The company has no other freestanding or embedded derivative instruments.

The impact from cash flow hedges for the first quarter of fiscal 2003 was a net gain of \$0.8 million, compared to a net loss of \$0.3 million in the first quarter of fiscal 2002, which is included in other income and expense on the consolidated statements of operations. The company estimates that net hedging gains of \$0.6 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 May 4, 2002 and May 2, 2003.

Earnings per share

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

| (In thousands, except per share data) | Three months ended | |
|--|--------------------|----------------|
| | May 3, 2002 | April 27, 2001 |
| Net income | \$ 16,496 | \$ 5,858 |
| Average shares of common stock outstanding | 30,004 | 29,380 |
| Incremental shares from assumed exercise of stock options | 549 | 240 |
| Diluted weighted average shares of common stock outstanding | 30,553 | 29,620 |
| Basic earnings per share | \$ 0.55 | \$ 0.20 |
| Diluted earnings per share | \$ 0.54 | \$ 0.20 |

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

Comprehensive income

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

| (In thousands) | Three months ended | |
|---|--------------------|----------------|
| | May 3, 2002 | April 27, 2001 |
| Net income | \$ 16,496 | \$ 5,858 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 404 | (619) |
| Unrealized loss on forward contracts and options | (2,789) | (878) |
| Comprehensive income | \$ 14,111 | \$ 4,361 |

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

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segment for the quarters ended May 3, 2002 and April 27, 2001 (1).

Three months ended May 3, 2002

| (In thousands) | Core | Specialty | Inter- national | Other | Consoli- dated |
|----------------------------------|-----------|-----------|--------------------|-------|-------------------|
| Net merchandise sales | \$197,484 | \$ 85,499 | \$ 31,645 | \$ - | \$314,628 |
| Income before income taxes | 20,350 | 3,823 | 1,513 | 920 | 26,606 |
| Identifiable assets | 358,423 | 176,536 | 53,417 | - | 588,376 |
| Depreciation and amortization | 4,512 | 2,223 | 523 | - | 7,258 |
| Capital expenditures | 4,259 | 2,097 | 386 | - | 6,742 |
| Interest expense | 89 | 39 | 153 | - | 281 |
| Interest income | 326 | 141 | 31 | - | 498 |

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

Three months ended April 27, 2001

| (In thousands) | Core | Specialty | Inter- national | Other | Consoli- dated |
|--------------------------------------|-----------|-----------|--------------------|-------|-------------------|
| Net merchandise sales | \$172,693 | \$ 86,294 | \$ 28,130 | \$ - | \$287,117 |
| Income (loss) before income taxes | 8,108 | 2,799 | (1,251) | (283) | 9,373 |
| Identifiable assets | 274,260 | 135,084 | 61,406 | - | 470,750 |
| Depreciation and amortization | 3,787 | 1,865 | 583 | - | 6,235 |
| Capital expenditures | 6,201 | 3,054 | 106 | - | 9,361 |
| Interest expense | 21 | 10 | 202 | - | 233 |
| Interest income | 275 | 137 | 224 | - | 636 |

(1) Fiscal 2002 has been restated to conform to fiscal 2003 presentation.

New accounting standard not yet adopted

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements no. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". Statement 145 rescinds Statement 4, "Reporting Gains and Losses from Extinguishment of Debt—an amendment of APB Opinion No. 30", which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria set forth by APB Opinion 30 will now be used to classify those gains and losses. Statement 64 amended Statement 4, and is no longer necessary because Statement 4 has been rescinded. Statement 44 was issued to establish accounting requirements for the effects of

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transition to the provisions of the Motor Carrier Act of 1980. Statement 145 also amends Statement 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This Statement also makes non-substantive technical corrections to existing pronouncements. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002 with earlier adoption encouraged. The company does not expect the provisions of SFAS No. 145 to have a material impact on the company's consolidated financial position, results of operations, or cash flows and intends to adopt SFAS No. 145 for the 2003 fiscal year.

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

Note 2. Shareholder's investment

Stock options

Pursuant to shareholder approval in May 2002, the company increased from 5.5 million to 6.7 million the number of shares of common stock, either authorized and unissued shares or treasury shares, that may be issued pursuant to the exercise of options granted under the company's Stock Option Plan (for employees). As of June 4, 2002, a total of 2,762,006 shares of company common stock have been issued pursuant to the exercise of stock options awarded under the Stock Option Plan (for employees) and Non-Employee Director Stock Option Plan. In addition, a total of 2,788,051 stock options are currently outstanding.

Per the company's stock option plans, consummation of the tender offer by Sears, Roebuck and Co. shall cause all company stock options to fully vest and become exercisable. Upon completion of the merger, each unexercised and outstanding stock option will be cancelled and exchanged for a cash payment equal to the excess of \$62 over the grant price, less applicable taxes.

Item 2.

Management's Discussion
and Analysis

Results of Operations

Three Months Ended May 3, 2002, compared with
Three Months Ended April 27, 2001

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"). Additional information on this "Transaction" can be obtained from filings on behalf of the company with the S.E.C. commencing on May 13, 2002.

Total revenue for the first quarter just ended was \$341.2 million, up 10 percent from \$311.1 million in the prior year's first quarter. 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. Internet sales at landsend.com were \$79 million in the quarter just ended, compared with \$54 million in the prior 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 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 (SG&A) 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

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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.

Net income for the quarter just ended 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.

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Segment results

The company has three business segments consisting of Core (regular monthly and prospecting catalogs, Lands' End Women and Lands' End Men), Specialty (Kids, Business Outfitters, and 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.

The core segment's net merchandise sales were \$197.5 million, representing 62.8 percent of the company's net merchandise sales and an increase of \$24.8 million from the prior year. The women's and co-ed divisions accounted for the strong growth in the core segment. The core segment's pretax income increased \$12.2 million from the prior year.

The specialty segment's net merchandise sales were \$85.5 million, which were 27.2 percent of the company's net merchandise sales and \$0.8 million below the prior year. This sales decrease was principally from our Business Outfitters and Kids divisions. The specialty segment's pretax income increased \$1.0 million from the prior year.

The international segment's net merchandise sales were \$31.6 million, which were 10.0 percent of total net merchandise sales and \$3.5 million above the prior year. The increase was mainly from the German and United Kingdom businesses. The international segment's pretax income increased by \$2.8 million from the prior year.

Segment net merchandise sales for the three months ended (1)
(Amounts in thousands)

Net Merchandise Sales

| | May 3, 2002 | | April 27, 2001 | |
|-----------------|-------------|----------------|----------------|----------------|
| | Amount | % of Net Sales | Amount | % of Net Sales |
| Core | \$197,484 | 62.8% | \$172,693 | 60.1% |
| Specialty | 85,499 | 27.2% | 86,294 | 30.1% |
| International | 31,645 | 10.0% | 28,130 | 9.8% |
| Total net sales | \$314,628 | 100.0% | \$287,117 | 100.0% |

(1) Shipping and handling revenue is excluded.

Income (loss) before income taxes for the three months ended (2)
(Amounts in thousands)

| | May 3 2002 | | April 27, 2001 | |
|---------------|------------|--------------|----------------|--------------|
| | Amount | % of Revenue | Amount | % of Revenue |
| Core | \$20,350 | 6.0% | \$ 8,108 | 2.6% |
| Specialty | 3,823 | 1.1% | 2,799 | 0.9% |
| International | 1,513 | 0.4% | (1,251) | (0.4%) |
| Other | 920 | 0.3% | (283) | (0.1%) |
| Income before | | | | |

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| | | | | |
|--------------|----------|------|----------|------|
| income taxes | \$26,606 | 7.8% | \$ 9,373 | 3.0% |
|--------------|----------|------|----------|------|

(2) Percentages are based on total revenue.

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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 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.

The company has a 3-year \$200 million senior unsecured revolving credit agreement ("Credit facility") with a syndicate of banks to provide funding for working capital for operations and general corporate purposes. The Credit facility will mature on November 4, 2004, with a provision for a one-year extension, subject to lender approval. Additionally, the company may request that the lenders increase the total commitment to an amount not to exceed \$250 million. Indebtedness under the Credit facility bears interest calculated, at the company's option, at either defined base rate, LIBOR plus a margin based on the company's fixed charge coverage ratio or competitive bid rates. Under the Credit facility, the company is required to pay a facility fee based on the total commitment and to maintain certain financial ratios, including fixed charge coverage and total indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA). At May 3, 2002, the only reduction to this Credit facility was about \$31 million of 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 May 3, 2002, of which about \$17 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 June 4, 2002, 13.1 million shares have been purchased, and there is a balance of 1.6 million shares available to the company.

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Capital investment

Capital expenditures for fiscal 2003 are currently planned to be about \$35 million, of which about \$7 million had been expended through May 3, 2002. Major projects to date have been investments in our information technology and certain material handling equipment. 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, operational needs and treasury stock purchases for the foreseeable future.

Possible future changes

A 1992 Supreme Court decision confirmed that the U.S. Constitution's Commerce Clause bars 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. The company attempts to conduct its operations in compliance with its interpretation of this legal standard. However, there continues to be uncertainty due to inconsistent application of the Supreme Court decision by state and federal courts. While the company has not received assessments from any state, there can be no assurance the company's compliance will not be challenged. The amount of potential assessments, if any, cannot 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 taxes by mail order companies. In October 1998, the Internet Tax Freedom Act was enacted. Among other things, this act placed a three-year moratorium on multiple and discriminatory taxes on electronic commerce and appointed an Advisory Commission to study tax issues related to electronic and other forms of commerce. In its final report to Congress on April 3, 2000, the Advisory Commission favored the extension of the moratorium and greater uniformity and simplification of the state sales and use tax systems. The moratorium has since been extended until November 1, 2003. Also, there have been several other initiatives at the congressional and state levels to implement the Advisory Commission's recommendations to modify current sales and use tax laws and policies. We continue to monitor this activity and its potential effect on the company's collection obligations. The company anticipates that any legislative change, if adopted, would be applied only on a prospective basis.

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 described previously, no further guidance is being provided at this time.

Statement regarding forward-looking information

Statements in this document 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

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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.

Additional information

This document is neither an offer to purchase nor a solicitation of an offer to sell securities of Lands' End. On May 17, 2002, a tender offer (referenced above) commenced, Sears, Roebuck and Co. filed a tender offer statement with the U.S. Securities and Exchange Commission, and Lands' End filed 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 are available at no charge at the S.E.C.'s Web site at www.sec.gov and may also be obtained by calling (800) 732-7780 and selecting option three.

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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

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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 May 3, 2002, the company had outstanding foreign currency forward contracts totaling about \$60.5 million and options totaling nearly \$4.9 million, compared in the prior year of nearly \$59 million for foreign currency forward contracts and almost \$16 million 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 May 3, 2002, the company had no outstanding financial instruments related to its debt or investments.

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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

At the Annual Meeting of Shareholders held on May 22, 2002, pursuant to the Notice of Annual Meeting of Shareholders and Proxy

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Statement dated April 22, 2002, the voting results were as follows:

- (a) Each of the three nominees (David F. Dyer, Cheryl A. Francis and Richard C. Marcus) were elected to the Board of Directors as follows:

| Director's name | Shares voted FOR | Shares WITHHELD |
|-------------------|------------------|-----------------|
| David F. Dyer | 27,732,045 | 193,918 |
| Cheryl A. Francis | 27,689,341 | 236,622 |
| Richard C. Marcus | 27,688,010 | 237,953 |

- (b) The appointment of Ernst & Young LLP as independent public accountants for the company for the fiscal year ending January 31, 2003, was approved (27,491,817 shares voted FOR; 424,256 shares voted AGAINST; and 9,589 shares ABSTAINED).
- (c) Approve an amendment to the company's stock option plan (22,965,071 shares voted FOR; 4,822,876 shares voted AGAINST; and 137,715 shares ABSTAINED).

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 May 3, 2002:

Form 8-K filed on February 14, 2002, announcing the company's raising of its earnings guidance for fiscal 2002, ended February 1, 2002.

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Form 8-K filed on February 28, 2002, regarding the company's meeting with members of the financial community in New York, New York, on Wednesday, February 27, 2002.

Form 8-K was filed on March 15, 2002, announcing its fourth quarter performance and fiscal year 2002 results.

Form 8-K under Item 4 filed on March 28, 2002, announcing changes in Registrant's Certifying Accountant.

Form 8-K filed on April 9, 2002, updating its business outlook for fiscal 2003, ended January 31, 2003.

Form 8-K/A under Item 4 filed on April 12, 2002, for changes in Registrant's Certifying Accountant

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.

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Date: June 4, 2002

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