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BLAIR CORP  
Form 10-Q  
May 09, 2006

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 quarterly period ended March 31, 2006      Commission File Number 1-878

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Blair Corporation

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(Exact name of registrant as specified in its charter)

DELAWARE

25-0691670

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(State or other jurisdiction of  
incorporation or organization)

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

220 HICKORY STREET, WARREN, PENNSYLVANIA

16366-0001

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(Address of principal executive offices)

(Zip Code)

(814) 723-3600

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(Registrant's telephone number, including area code)

Not applicable

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

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Indicate by check mark whether the registrant is a large accelerated filer, an

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accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer -----

Accelerated filer                   X  
-----

Non-accelerated filer -----

Indicate by check mark whether the registrant is a shell company  
(as defined in Rule 12b-2 of the Exchange Act.)   YES           NO   X  
  -----    -----

As of May 3, 2006 the registrant had outstanding 3,983,403 shares of its common stock without nominal or par value.

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS (UNAUDITED)

BLAIR CORPORATION AND SUBSIDIARIES

March 31, 2006

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Blair Corporation and Subsidiaries  
Consolidated Balance Sheets

|  | (Unaudited)<br>March 31<br>2006 | December 31<br>2005 |
|--|---------------------------------|---------------------|
| -----  |                                 |                     |
| Assets   |                                 |                     |
| Current Assets:  |                                 |                     |
| Cash and cash equivalents  | \$ 22,781,744                   | \$ 53,099,129       |
| Receivables, less allowances for doubtful accounts<br>of \$145,019 in 2006 and \$158,471 in 2005 | 4,961,346                       | 2,987,832           |
| Inventories:   |                                 |                     |
| Merchandise  | 76,995,377                      | 71,217,282          |
| Advertising and shipping supplies  | 16,076,116                      | 12,146,732          |

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|  |               |               |
|--|---------------|---------------|
|  | 93,071,493    | 83,364,014    |
| Deferred income taxes                          | 118,000       | 731,000       |
| Prepaid and refundable federal and state taxes | 2,313,911     | -0-           |
| Prepaid expenses                               | 2,528,284     | 2,781,777     |
| Total current assets                           | 125,774,778   | 142,963,752   |
| Property, plant and equipment:                 |               |               |
| Land   | 1,142,144     | 1,142,144     |
| Buildings and leasehold improvements           | 66,687,821    | 66,609,565    |
| Equipment                                      | 75,689,509    | 75,320,297    |
| Construction in progress                       | 4,987,922     | 3,961,206     |
|  | 148,507,396   | 147,033,212   |
| Less allowances for depreciation               | 99,789,067    | 98,350,258    |
|  | 48,718,329    | 48,682,954    |
| Trademark                                      | 325,617       | 343,678       |
| Other long-term assets                         | 1,047,608     | 1,103,903     |
| Total assets                                   | \$175,866,332 | \$193,094,287 |

See accompanying notes.

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Blair Corporation and Subsidiaries  
Consolidated Balance Sheets - Continued

|  | (Unaudited)<br>March 31<br>2006 | December 31<br>2005 |
|--|---------------------------------|---------------------|
| Liabilities and Stockholders' Equity         |                                 |                     |
| Current liabilities:                         |                                 |                     |
| Trade accounts payable                       | \$ 24,288,094                   | \$ 29,137,285       |
| Advance payments from customers              | 3,566,052                       | 1,873,803           |
| Reserve for sales returns                    | 4,995,000                       | 4,602,000           |
| Accrued expenses                             | 18,472,220                      | 20,994,747          |
| Accrued federal and state taxes              | -0-                             | 6,782,444           |
| Current portion of capital lease obligations | 18,640                          | 19,198              |

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|   |               |               |
|---|---------------|---------------|
| Total current liabilities   | 51,340,006    | 63,409,477    |
| Capital lease obligations, less current portion   | 11,472        | 14,695        |
| Deferred income taxes   | 2,395,000     | 2,582,000     |
| Other long-term liability   | 858,094       | 679,720       |
| 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  | 13,700,346    | 13,553,937    |
| Retained earnings   | 328,093,229   | 334,023,925   |
| Accumulated other comprehensive loss  | (78,166)      | (48,579)      |
|   | -----         | -----         |
|   | 342,135,219   | 347,949,093   |
| Less 6,109,239 shares in 2006 and 6,124,818 shares in 2005 of common stock in treasury -- at cost | 220,844,951   | 221,381,619   |
| Less receivable and deferred compensation from stock plans  | 28,508        | 159,079       |
|   | -----         | -----         |
| Total stockholders' equity  | 121,261,760   | 126,408,395   |
|   | -----         | -----         |
| Total liabilities and stockholders' equity  | \$175,866,332 | \$193,094,287 |
|   | =====         | =====         |

See accompanying notes.

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Blair Corporation and Subsidiaries  
Consolidated Statements of Income

|                    | (Unaudited)        |                |
|--------------------|--------------------|----------------|
|                    | Three Months Ended |                |
|                    | March 31           |                |
|                    | 2006               | 2005           |
|                    | -----              | -----          |
| Net sales          | \$ 102,682,991     | \$ 107,557,919 |
| Other revenue      | 1,511,280          | 10,715,572     |
|                    | -----              | -----          |
|                    | 104,194,271        | 118,273,491    |
| Cost and expenses: |                    |                |
| Cost of goods sold | 47,920,130         | 52,774,761     |

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|  |                |             |
|--|----------------|-------------|
| Advertising  | 31,543,715     | 29,458,705  |
| General and administrative   | 32,421,844     | 31,859,818  |
| Provision for doubtful accounts  | 50,877         | 3,492,632   |
| Interest (income) expense, net   | (316,161)      | (125,229)   |
| Other expense (income), net  | 47,596         | (209,519)   |
|  | -----          | -----       |
|  | 111,668,001    | 117,251,168 |
|  | -----          | -----       |
| (Loss) income before income taxes  | (7,473,730)    | 1,022,323   |
| Income taxes (benefit) provision   | (2,679,000)    | 372,000     |
|  | -----          | -----       |
| Net (loss) income  | \$ (4,794,730) | \$ 650,323  |
|  | =====          | =====       |
| <br>   |                |             |
| Basic (loss) earnings per share based on<br>weighted average shares outstanding                              | \$ (1.23)      | \$.08       |
|  | =====          | =====       |
| <br>   |                |             |
| Diluted (loss) earnings per share based on<br>weighted average shares outstanding<br>and assumed conversions | \$ (1.23)      | \$.08       |
|  | =====          | =====       |

See accompanying notes.

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Blair Corporation and Subsidiaries  
Consolidated Statements of Stockholders' Equity

|   | (Unaudited)        |            |
|---|--------------------|------------|
|   | Three Months Ended |            |
|   | March 31           |            |
|   | 2006               | 2005       |
|   | -----              | -----      |
| Common Stock  | \$ 419,810         | \$ 419,810 |
| Additional Paid-in Capital:   |                    |            |
| Balance at beginning of period  | 13,553,937         | 13,238,311 |
| Issuance of 425 shares in 2006 and 300 shares in<br>2005 of common stock to non-employee directors  | (4,841)            | (4,013)    |
| Issuance of 12,420 shares in 2006 and 7,928 shares in<br>2005 of common stock under Omnibus Stock Plan-<br>Executive Officer Stock Awards | (34,907)           | (37,198)   |
| Forfeitures of 750 shares in 2006 and 1,150 shares in   |                    |            |

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|   |               |              |
|---|---------------|--------------|
| 2005 of common stock under Omnibus Stock and Employee Stock Purchase Plans  | (10,685)      | (9,144)      |
| Exercise of 3,484 shares in 2006 and 6,200 shares in 2005 of common stock under Omnibus Stock Plan- Non-Qualified Stock Options     | (35,216)      | (39,324)     |
| Tax benefit on exercise of Non-Qualified Stock Options  | 69,000        | 30,000       |
| Unvested Stock Options under Omnibus Stock Plan   | 163,058       | -0-          |
|   | -----         |              |
| Balance at end of period  | 13,700,346    | 13,178,632   |
| Retained Earnings:  |               |              |
| Balance at beginning of period  | 334,023,925   | 306,544,284  |
| Net (loss) income   | (4,794,730)   | 650,323      |
| Cash dividends per share- \$.30 in 2006 and \$.15 in 2005   | (1,135,966)   | (1,194,993)  |
|   | -----         |              |
| Balance at end of period  | 328,093,229   | 305,999,614  |
| Accumulated Other Comprehensive Loss:   |               |              |
| Balance at beginning of period  | (48,579)      | (118,634)    |
| Foreign currency translation losses   | (29,587)      | (3,230)      |
|   | -----         |              |
| Balance at end of period  | (78,166)      | (121,864)    |
| Treasury Stock:   |               |              |
| Balance at beginning of period  | (221,381,619) | (35,955,582) |
| Issuance of 425 shares in 2006 and 300 shares in 2005 of common stock to non-employee directors                                     | 14,478        | 8,588        |
| Issuance of 12,420 shares in 2006 and 7,928 shares in 2005 of common stock under Omnibus Stock Plan- Executive Officer Stock Awards | 410,844       | 226,938      |
| Forfeitures of 750 shares in 2006 and 1,150 shares in 2005 of common stock under Omnibus Stock and Employee Stock Purchase Plans    | -0-           | (22,706)     |
| Exercise of 3,484 shares in 2006 and 6,200 shares in 2005 of common stock under Omnibus Stock Plan- Non-Qualified Stock Options     | 111,346       | 165,674      |
|   | -----         |              |
| Balance at end of period  | (220,844,951) | (35,577,088) |

See accompanying notes.

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Blair Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity - Continued

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|  | (Unaudited)        |                |
|--|--------------------|----------------|
|  | Three Months Ended |                |
|  | March 31           |                |
|  | 2006               | 2005           |
|  | -----              |                |
| Receivable and Deferred Compensation from Stock Plans:   |                    |                |
| Balance at beginning of year   | (159,079)          | (1,560,915)    |
| Issuance (net of forfeitures) of common stock under<br>Omnibus Stock Plan - Restricted Stock Awards and<br>Executive Officer Awards: |                    |                |
| Receivable   | (2,738)            | 7,347          |
| Deferred compensation  | -0-                | -0-            |
| Amortization of deferred compensation,<br>net of forfeitures   | 79,104             | 47,786         |
| Amortization of Executive Officer Stock awards,<br>net of vesting and forfeitures  | (1,071)            | 92,845         |
| Applications of dividends and cash repayments  | 55,276             | 76,771         |
|  | -----              |                |
| Balance at end of period   | (28,508)           | (1,336,166)    |
|  | -----              |                |
| Total stockholders' equity   | \$ 121,261,760     | \$ 282,562,938 |
|  | =====              |                |
| Comprehensive (loss) income:   |                    |                |
| Net (loss) income  | \$ (4,794,730)     | \$ 650,323     |
| Adjustment from foreign currency translation   | (29,587)           | (3,230)        |
|  | -----              |                |
| Comprehensive(loss) income   | \$ (4,824,317)     | \$ 647,093     |
|  | =====              |                |

See accompanying notes.

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Blair Corporation and Subsidiaries  
Consolidated Statements of Cash Flows

|                      | (Unaudited)        |            |
|----------------------|--------------------|------------|
|                      | Three Months Ended |            |
|                      | March 31           |            |
|                      | 2006               | 2005       |
|                      | -----              |            |
| Operating activities |                    |            |
| Net (loss) income    | \$ (4,794,730)     | \$ 650,323 |

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|   |               |               |
|---|---------------|---------------|
| Adjustments to reconcile net income to net cash               |               |               |
| (used in) provided by operating activities:                   |               |               |
| Depreciation  | 1,880,103     | 2,161,925     |
| Amortization  | 74,356        | 82,528        |
| Loss (gain) on disposal of assets                             | 73,310        | (208,366)     |
| Provision for doubtful accounts                               | 50,877        | 3,492,632     |
| Provision for deferred income taxes                           | 426,000       | 290,000       |
| Compensation expense (net of forfeitures)<br>for stock awards | 664,424       | 351,814       |
| Changes in operating assets and liabilities                   |               |               |
| providing (using) cash:                                       |               |               |
| Customer accounts receivable                                  | 71,876        | 9,226,671     |
| Receivables   | (2,095,238)   | (691,345)     |
| Inventories   | (9,707,479)   | 3,438,767     |
| Prepaid expenses and other assets                             | 254,259       | (530,591)     |
| Trade accounts payable  | (4,848,566)   | 3,246,439     |
| Advance payments from customers                               | 1,692,249     | 1,303,513     |
| Accrued returns   | 389,887       | 231,667       |
| Accrued expenses and other long-term liability                | (2,344,153)   | (1,295,842)   |
| Federal and state taxes                                       | (9,096,355)   | (4,309,869)   |
| <hr style="border-top: 1px dashed black;"/>                   |               |               |
| Net cash (used in) provided by operating activities           | (27,309,180)  | 17,440,266    |
| Investing activities  |               |               |
| Purchases of property, plant and equipment                    | (1,988,376)   | (1,708,593)   |
| Proceeds from sale of assets                                  | 200           | 505,349       |
| <hr style="border-top: 1px dashed black;"/>                   |               |               |
| Net cash used in investing activities                         | (1,988,176)   | (1,203,244)   |
| Financing activities  |               |               |
| Principal repayments on capital lease obligations             | (3,781)       | (69,920)      |
| Dividends paid  | (1,135,966)   | (1,194,993)   |
| Exercise of non-qualified stock options                       | 76,129        | 126,350       |
| Repayments of notes receivable from stock plans               | 4,095         | 35,400        |
| Tax benefit on exercise of non-qualified stock options        | 69,000        | 30,000        |
| <hr style="border-top: 1px dashed black;"/>                   |               |               |
| Net cash used in financing activities                         | (990,523)     | (1,073,163)   |
| Effect of exchange rate changes on cash                       |               |               |
|   | (29,506)      | (2,992)       |
| <hr style="border-top: 1px dashed black;"/>                   |               |               |
| Net (decrease) increase in cash                               | (30,317,385)  | 15,160,867    |
| Cash and cash equivalents at beginning of period              | 53,099,129    | 50,559,995    |
| <hr style="border-top: 1px dashed black;"/>                   |               |               |
| Cash and cash equivalents at end of period                    | \$ 22,781,744 | \$ 65,720,862 |
| <hr style="border-top: 3px double black;"/>                   |               |               |

### Supplemental disclosures of cash flow information:

|                |             |             |
|----------------|-------------|-------------|
| Cash Paid For: |             |             |
| Interest       | \$ 682      | \$ 124,059  |
| Income taxes   | \$6,000,000 | \$4,071,100 |

See accompanying notes.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BLAIR CORPORATION AND SUBSIDIARIES

(Unaudited)

March 31, 2006

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Blair Corporation (the "Company" or "Blair") and its wholly-owned subsidiaries have been prepared in accordance with U.S. 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 U.S. generally accepted accounting principles for complete financial statements. All adjustments that were considered necessary for a fair presentation have been included. These adjustments were of a normal recurring nature. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

NOTE B - REVENUE RECOGNITION

Sales are recorded when the merchandise is shipped to the customer, in accordance with the provisions of Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements and Staff Accounting Bulletin No. 104, Revenue Recognition, as issued by the Securities & Exchange Commission.

NOTE C - COSTS AND EXPENSES

Cost of goods sold consists of merchandise costs, including sourcing, importing and inbound freight costs. In addition, cost of goods sold includes writedowns, shipping cartons, shipping supplies, merchandise samples and internally incurred shipping and handling costs.

NOTE D - USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. 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 E - RETURNS

The provision for returns charged against income for the first quarter of 2006 and 2005 amounted to \$14,450,142 and \$15,809,659, respectively. Management believes these provisions are adequate based upon the relevant information presently available. However, changes in facts or circumstances could result in an additional adjustment to the Company's provisions.

NOTE F - INVENTORIES

Inventories are valued at the lower of cost or market. Cost of merchandise

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inventories is determined principally on the last-in, first-out (LIFO) method. An actual valuation of inventory under the LIFO method can be made only at the end of each year. However, an interim analysis is performed based on management's estimates of expected year-end inventory levels and costs. Results of the interim analysis for the first quarter of 2006 were comparable to year-end calculations. If the FIFO method had been used, merchandise inventories would have increased by approximately \$1,160,000 at March 31, 2006 and December 31, 2005.

### NOTE G - STOCK COMPENSATION

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (R) (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No.123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees ("Opinion No. 25"), and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized on the income statement as an expense based on fair values. Pro forma disclosure is no longer an alternative. The Company adopted SFAS No. 123(R) on January 1, 2006 using the modified-prospective method. As allowed under the modified-prospective method, the financial results for prior periods have not been restated.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

#### BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) March 31, 2006

### NOTE G - STOCK COMPENSATION - Continued

Prior to January 1, 2006, the Company accounted for its share-based payments to employees using Opinion No. 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options, as permitted by SFAS No. 123. Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits resulting from the exercise of stock options as operating cash inflows in the consolidated statements of cash flows, in accordance with the provisions of the Emerging Issues Task Force ("EITF") Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Non-qualified Employee Stock Option." SFAS No. 123(R) requires the benefits of tax deductions in excess of the recognized compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This excess amount was \$69,000 and \$30,000 in the first quarter of 2006 and 2005, respectively, and is shown as "Tax benefit on exercise of non-qualified stock options" in the consolidated statement of cash flows.

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company's loss before income taxes and net income for the three months ended March 31, 2006 are \$218,000 and \$140,000 greater, respectively, than if the Company had continued

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to account for share-based compensation under Opinion No. 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been a loss of \$1.19 per share, if the Company had not adopted SFAS No. 123(R), compared to reported basic and diluted earnings per share of a loss of \$1.23.

Stock activity in 2006 generally includes transactions pertaining to stock awarded to non-employee directors as well as stock awarded and forfeited via the Company's Omnibus Stock and Employee Stock Purchase Plans. Activity is accounted for by comparing the market value of the awards, as required by the Plans, to the cost of the treasury shares used for these transactions. The difference is booked to additional paid-in capital. The following table presents the pro forma net earnings and net earnings per share for the quarter ending March 31, 2005, as if the Company had applied the provisions of SFAS No. 123(R) during that period:

|   | Pro Forma<br>2005<br>----- |
|---|----------------------------|
| Net income as reported  | \$ 650,323                 |
| Add: Total stock-based employee compensation expense recorded for all awards, net of related tax effects                              | 403,398                    |
| Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects | (570,571)                  |
|   | -----                      |
| Pro forma net income  | \$ 483,150<br>=====        |
| Earnings per share:   |                            |
| Basic - as reported   | \$0.08<br>=====            |
| Basic - pro forma   | \$0.06<br>=====            |
| Diluted - as reported   | \$0.08<br>=====            |
| Diluted - pro forma   | \$0.06<br>=====            |

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

|                                |         |
|--------------------------------|---------|
| Risk-free interest rate        | 3.49%   |
| Dividend yields                | 2.54%   |
| Volatility                     | .540    |
| Weighted-average expected life | 7 years |
| Per share fair value           | \$10.63 |

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BLAIR CORPORATION AND SUBSIDIARIES  
(Unaudited)  
March 31, 2006

### NOTE H - RECLASSIFICATIONS

Certain amounts in the prior year Consolidated Statements of Cash Flows have been reclassified to conform with the current year presentation.

### NOTE I - 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 of such litigation will not have a material effect on the Company's financial condition or results of operations.

### NOTE J - ACCRUED EXPENSES

Accrued expenses consist primarily of employee compensation and benefit related items.

### NOTE K - STOCKHOLDERS' EQUITY

The following table sets forth the computations of basic and diluted earnings per share as required by Statement of Financial Accounting Standards No. 128:

|   | Three Months Ended<br>March 31 |            |
|---|--------------------------------|------------|
|   | 2006                           | 2005       |
| Numerator:  |                                |            |
| Net (loss) income   | \$ (4,794,730)                 | \$ 650,323 |
| Denominator:  |                                |            |
| Weighted average shares outstanding                           | 3,958,687                      | 8,238,350  |
| Contingently issuable shares -<br>Omnibus Stock Purchase Plan | 52,286                         | 61,436     |
| Denominator for basic earnings per share                      | 3,906,401                      | 8,176,914  |
| Effect of dilutive securities:                                |                                |            |
| Employee stock options  | N/A                            | 133,496    |
| Denominator for diluted earnings per share                    | 3,906,401                      | 8,310,410  |
| Basic earnings per share                                      | (\$1.23)                       | \$0.08     |
| Diluted earnings per share                                    | (\$1.23)                       | \$0.08     |

As a result of the loss incurred for the three month period ended March 31, 2006, the common stock equivalents would be anti-dilutive (i.e., reduced the loss) and, therefore, were excluded.

### NOTE L - INCOME TAXES

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using the enacted tax rate(s) expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized.

The \$2.7 million tax benefit for the first quarter of 2006 was generated as a

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result of the net loss before income taxes and consists primarily of amounts available from a Federal Net Operating Loss carryback . This benefit is reflected on the balance sheet as a current asset labeled prepaid and refundable federal and state taxes.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

#### BLAIR CORPORATION AND SUBSIDIARIES

(Unaudited)

March 31, 2006

#### NOTE M - BUSINESS SEGMENT AND CONCENTRATION OF BUSINESS RISK

The Company operates as one segment in the business of selling women's and men's fashion apparel and accessories and home furnishing items. Specifically, the segment includes the Womenswear, Menswear, Home and Stores product lines.

The Company's segment reporting is consistent with the presentation made to the Company's chief operating decision-maker. The Company's customer base is comprised of individuals throughout the United States and is diverse in both geographic and demographic terms. Advertising is done mainly by means of catalogs, direct mail letters and the internet, which offer the Company's merchandise.

#### NOTE N - SEPARATION PROGRAMS

In 2005, the Company accrued and charged to expense \$933,000 in separation costs. The costs were charged against the gain on the sale of the credit portfolio in the income statement. The \$933,000 charge represents severance pay and related payroll taxes for personnel whose services were no longer required after the sale of the credit portfolio. As of March 31, 2006, \$366,000 of the \$933,000 remains unpaid and recognized as an accrued liability.

In 2005, in addition to the \$933,000 of separation costs related to the sale of the credit portfolio, the Company accrued and charged to expense an additional \$2.6 million in separation costs. In the first quarter of 2006, the Company accrued and charged to expense \$1.5 million in separation costs. The costs were charged to General and Administrative Expense in the income statement. The aggregate \$4.1 million charge represents severance pay, related payroll taxes and medical benefits due to former employees who have separated from the Company. These charges are in connection with the previously announced changes to the Company's organizational structure and leadership team. Going forward, the Company's business operations will consist of three principal groups: Merchandising and Design, Merchandise Procurement and Marketing Services. For more than a year, the Company has been refocusing its energies on its core businesses in an effort to better position itself for long-term growth and to increase shareholder value. This focus has been the impetus for recent major business decisions made by the Company, which include selling its credit portfolio to World Financial Capital Bank, an industrial bank subsidiary of Alliance Data Systems Corporation, expanding its internal marketing and advertising capabilities, closing its Crossing Pointe and Allegheny Trail divisions and investing in its distribution center. As of March 31, 2006, \$3.2 million of the \$4.1 million remains unpaid and recognized as an accrued liability.

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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 \$2.5 million charge represents severance pay, related payroll taxes and medical benefits due to 56 eligible employees who accepted a 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 the end of the first quarter of 2006, \$2.4 million of the \$2.5 million has been paid.

The following table summarizes the charges to income and related accruals as of March 31, 2006, December 31, 2005 and December 31, 2004 pertaining to the voluntary separation programs described above.

|                              | Blair<br>Mailing<br>Center | Credit<br>Portfolio<br>Sale | Changes in<br>Organizational<br>Structure |
|------------------------------|----------------------------|-----------------------------|---|
| Accrual at December 31, 2004 | \$495,000                  | \$ -                        | \$ -                                      |
| Expense                      | -                          | 933,000                     | 2,600,000                                 |
| Payments                     | 367,000                    | 395,000                     | 416,000                                   |
| Accrual at December 31, 2005 | 128,000                    | 538,000                     | 2,184,000                                 |
| Expense                      | -                          | -                           | 1,475,000                                 |
| Payments                     | 50,000                     | 172,000                     | 416,000                                   |
| Accrual at March 31, 2006    | \$ 78,000                  | \$366,000                   | \$3,243,000                               |

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

#### BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) March 31, 2006

#### Comparison of First Quarter 2006 and First Quarter 2005

##### Overview

During the first quarter of 2006, the Company incurred costs, made investments and adjusted its business model in support of its strategy to focus on its core customers and enhance shareholder value.

Net sales for the first quarter ended March 31, 2006 were \$102.7 million, a decrease of 4.5%, compared to \$107.6 million reported for the first quarter ended March 31, 2005. The Company reported a net loss for the first quarter ended March 31, 2006 of \$4.8 million, or \$1.23 per basic and diluted share, compared to net income of \$650,000, or \$0.08 per basic and diluted share, reported for the first quarter of 2005.

The per share results for 2006 reflect the reduction of weighted-average shares outstanding resulting from Blair's tender offer for the repurchase of 4.4

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million outstanding shares on August 16, 2005. The Company had 4.0 million shares of common stock outstanding at March 31, 2006, compared to 8.2 million shares at March 31, 2005. Without the reduction in outstanding shares for the first quarter of 2006, basic per share results would have been a loss of \$0.58.

The decrease in net sales for the first quarter of 2006 is primarily attributable to a continuing softness in response rates to the traditional letter mailings channel of the Company's direct marketing programs. The Company plans to address the declining response to these traditional letter mailings by introducing a newly designed and successfully tested special catalogue in the second half of 2006. Higher energy related costs, which generally reduced consumer discretionary income and an assumption by management that there was hesitancy on the part of the Company's credit reliant customers to purchase using the new Blair credit card ("Blair Credit") also contributed to the decline in sales. Blair Credit is granted by a third party as part of a long-term marketing and servicing alliance under a Private Label Credit Program Agreement (the "Program Agreement") having a term of ten (10) years. Sales for the quarter also reflect some decreases in average unit selling prices as a result of price-point repositioning in key product areas for our core customers.

In 2005, Blair sold its credit portfolio to World Financial Capital Bank, a wholly-owned subsidiary of Alliance Data Systems Corporation. Net income and earnings per share results for the first quarter of 2006 reflect the impact of the transition from the Company managing its proprietary credit program to having a third party administer the Blair Credit program. As a result of the sale of the credit portfolio, the Company no longer receives finance charge revenue, does not incur bad debts and has lower general and administrative costs associated with the administration of the credit portfolio. Excluding the net results generated by the credit portfolio in the first quarter of 2005, the Company would have incurred a net loss of \$1.7 million or \$0.21 per basic share compared to the reported net income of \$650,000, or \$0.08 per basic and diluted share in the first quarter of 2005.

During the first quarter of 2006, Blair Credit sales as a payment method were not yet comparable to prior levels of its proprietary credit program. The Company continues to work closely with its credit partner to develop and refine marketing initiatives that will provide additional customer benefits and improve Blair Credit usage when buying products. The Company anticipates that over time Blair Credit activity levels will approach historical proprietary credit program levels.

Several additional factors adversely affected results for the first quarter of 2006. The inflationary impact of the January 2006 postage and paper rate increases, higher customer acquisitions costs and the soft response to the Company's traditional letter mailings all reduced advertising efficiency and adversely impacted pre-tax earnings by \$3.5 million or \$0.58 per basic share.

Throughout 2005 and into 2006, the Company has been reevaluating its business practices in light of changes in the marketplace and its business model. During the quarter, the Company incurred expenses associated with reconfiguring its operations. The reported results for the first quarter include a pre-tax severance charge of \$1.5 million or \$0.25 per basic share associated with continuing restructuring efforts. Also in the first quarter, the Company incurred an increase in pre-tax professional fees of \$560,000 or \$.09 per basic share primarily related to an extensive consumer and brand strategy study for its Home business. In addition, first quarter results include a pre-tax compensation expense of \$220,000 or \$0.04 per basic share related to the adoption of FASB Statement No. 123(R) which requires all share-based payments to employees, including grants of employee stock options, to be recognized as an expense in the income statement based on fair values.

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

BLAIR CORPORATION AND SUBSIDIARIES  
(Unaudited)  
March 31, 2006

Overview - Continued

Comparison of First Quarter 2006 and First Quarter 2005 - Continued

The Company continued to realize favorable improvements in the product procurement area. Cost of goods sold as a percentage of net sales for the first quarter of 2006 was 46.7%, a significant improvement from 49.1% for the first quarter of 2005. This improvement is the result of continued efforts to reduce the cost of merchandise due to increased direct sourcing by the Company as well as lower inventory liquidation costs.

In recent years, the Company has experienced generally lower results in the first quarter. In this regard, the loss for the first quarter of 2006 may not be indicative of future results.

Results of Operations

Net loss for the first quarter ended March 31, 2006 was \$4.8 million or \$1.23 per basic share, compared to net income of \$650,000 or \$.08 per basic and diluted share, for the first quarter ended March 31, 2005.

Net sales for the first quarter of 2006 totaled \$102.7 million and were 4.5% lower (\$4.9 million) than net sales for the first quarter of 2005. In addition to the internal and external factors discussed in the overview, first quarter 2005 net sales included \$620,000 from the Crossing Pointe catalog and the Allegheny Trail business which were closed in 2005. Gross sales revenue generated per advertising dollar decreased almost 11% in the first quarter of 2006 compared to the first quarter of 2005. The primary reasons for the reduction in advertising efficiency include January 2006 postage and paper rate increases, reduced response to the Company's traditional letter mailings channel of its direct marketing programs and increased customer acquisition efforts. The total number of orders shipped decreased approximately 4% and the average order size decreased approximately 4% in the first quarter of 2006 as compared to the first quarter of 2005. The Company has reduced average selling prices in key product areas for its core customers as part of a price-point repositioning strategy. The provision for returned merchandise as a percentage of gross sales decreased 65 basis points in the first quarter of 2006 as compared to the first quarter of 2005. Management attributes this favorable change to continued emphasis on improved product quality and fit.

Other revenue decreased 85.9% from \$10.7 million to \$1.5 million in the first quarter of 2006 versus the first quarter of 2005 primarily due to the elimination of finance charge revenues. The elimination of finance charges resulted from the previously announced sale of the Company's proprietary credit portfolio in November 2005. As a result of the sale, the Company no longer realizes finance charge revenue, maintains provisions for doubtful accounts and incurs general and administrative expenses associated with supporting the



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proprietary credit program.

Cost of goods sold decreased \$4.9 million (9.2%) to \$47.9 million in the first quarter of 2006 as compared to the first quarter of 2005. Cost of goods sold as a percentage of net sales for the first quarter of 2006 was 46.7%, a significant improvement from 49.1% for the first quarter of 2005. The improvement in cost of goods sold as a percentage of net sales reflects an increase in direct sourcing, which significantly lowered merchandise acquisition costs. The Company plans to continue to expand internal product development and direct sourcing as part of its strategic initiatives to further reduce cost of goods and increase profitability. The Company's direct sourcing offices, located in Hong Kong, Taiwan, Singapore, New Delhi, Shanghai and Pakistan, the Company's only foreign operations, directly sourced more than 35% of the Company's merchandise from foreign suppliers in the first quarter of 2006 as compared to approximately 26% in first quarter of 2005. The existence of these offices serves to lower the Company's cost of acquiring merchandise. Other factors that contributed to improvement in the above percentage include a reduction in customer returns reflecting ongoing programs to improve merchandise quality, internal efforts to lower overall shipping costs and initiatives to lower overall inventory liquidation costs.

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

#### BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) March 31, 2006

##### Results of Operations - Continued

##### Comparison of First Quarter 2006 and First Quarter 2005 - Continued

Advertising expenses in the first quarter of 2006 increased \$2.1 million (7.1%) to \$31.5 million from the first quarter of 2005. The total number of catalog mailings released in the first quarter of 2006 was 2.8 million or 6.4% greater than the first quarter of 2005. The increase in catalog circulation reflects the Company's transitioning to catalogs from traditional letter style mailing and increased customer acquisition efforts. The total number of prospect catalog mailings increased 263,000 or 3.8% in the first quarter of 2006 as compared to the first quarter of 2005. The increase in prospect circulation is the result of increased customer acquisition efforts.

The total number of letter mailings released in the first quarter of 2006 decreased by 37.2% (3.7 million) as compared to the first quarter of 2005. The decrease in letter mailings was in recognition of continued soft response to this channel of the Company's marketing programs. The Company plans to address the declining response to these traditional letter mailings by introducing a newly designed and successfully tested special catalog in the second half of 2006.

Total circulation of the co-op and media advertising programs increased 11.4% (33.5 million pieces) in the first quarter of 2006 as compared to the first quarter of 2005 as part of the Company's expanded customer acquisition efforts

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in the first half of the year.

The Company maintains two e-commerce sites, [www.blair.com](http://www.blair.com) and [www.irvinepark.com](http://www.irvinepark.com). In the first quarter of 2006, the Company generated \$26.5 million in e-commerce net sales as compared to \$23.4 million in the first quarter of 2005, a 13.2% increase. The year-over-year increase reflects continued customer interest in migrating to the Company's websites and the impact of internal initiatives designed to encourage customers to purchase online. During the quarter, web site traffic increased 20% over 2005 levels and the revenue resulting from advertising investments in search engine marketing doubled.

General and administrative expenses increased 1.8% (\$562,000) in the first quarter of 2006 as compared to the first quarter of 2005. As a percent of net sales, general and administrative expenses were 31.6% for the quarter ended March 31, 2006 compared to 29.6% for the quarter ended March 31, 2005. Reduced variable employee costs associated with lower sales volume and the sale of the Company's proprietary credit portfolio on November 2005 were more than offset by severance costs of \$1.5 million, increased professional fees of \$560,000 and a compensation charge of \$220,000 associated with the adoption FASB Statement No. 123(R). The severance costs relate to the Company's ongoing evaluation of its business practices in light of changes in the marketplace and its business model. The increased professional fees primarily relate to an extensive consumer and brand strategy study for the Company's Home business. The adoption of FASB Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as an expense in the income statement based on fair values.

The provision for doubtful accounts decreased approximately \$3.4 million from \$3.5 million to \$51,000 or 98.5% in the first quarter of 2006 as compared to the first quarter of 2005. The 2005 amount represents provisions for doubtful accounts prior to the sale of the Company's proprietary credit portfolio to World Financial Capital Bank on November 4, 2005.

Net interest (income) expense, improved by \$191,000 in the first quarter of 2006 compared to the first quarter of 2005. Interest income increased due to higher rates. Interest expense decreased as a result of no borrowings outstanding during the first quarter of 2006. Subsequent to the sale of the Company's proprietary credit portfolio in 2005, the Company utilized a portion of the proceeds from the sale to pay off its outstanding debt.

Net other expense (income), decreased by \$257,000 in the first quarter of 2006 compared to the first quarter of 2005. In connection with the discontinuance of the Crossing Pointe catalog title, on March 30, 2005, the Company sold all open Crossing Pointe credit accounts receivable to a third party at a discount. After comparing the proceeds of the sale to the net carrying value of this asset, the Company realized a gain of approximately \$500,000, which was recorded on this financial statement line item in 2005.

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

BLAIR CORPORATION AND SUBSIDIARIES

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(Unaudited)  
March 31, 2006

### Results of Operations - Continued

#### Comparison of First Quarter 2006 and First Quarter 2005 - Continued

Income taxes (benefit) payable as a percentage of income before income taxes were 35.8% in the first quarter of 2006 as compared to 36.4% in the first quarter of 2005. The federal income tax rate was 35% in both years. The change 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

At March 31, 2006, the Company had no borrowings outstanding under its \$75 million credit facility. The Company had letters of credit totaling \$15.4 million outstanding, which reduces the amount of borrowings available under the amended and restated credit agreement. Outstanding letters of credit totaled \$19.6 million at December 31, 2005, and \$19.1 million at March 31, 2005. Letters of credit are comprised mainly of two categories. One such category is comprised of commercial letters of credit used for the purpose of purchasing goods from non-U.S. suppliers. The other category is comprised of performance guarantees for a consolidated subsidiary and insurance bonding purposes. All letters of credit have a term of one year or less.

The Company was in compliance with all debt covenants as of March 31, 2006. The Company believes it has adequate financial resources to support anticipated short-term and long-term capital needs and commitments.

The following table and narrative highlight significant changes in cash and cash equivalents for the three months ended March 31, 2006 and 2005.

|   | Three Months Ended<br>March 31 |              | Increase<br>(decrease) |
|---|--------------------------------|--------------|------------------------|
|   | 2006                           | 2005         |                        |
| Net cash (used in) provided by operating activities | \$(27,309,180)                 | \$17,440,266 | \$(44,749,446)         |
| Net cash used in investing activities               | (1,988,176)                    | (1,203,244)  | (784,932)              |
| Net cash used in financing activities               | (990,523)                      | (1,073,163)  | 82,640                 |
| Effect of exchange rate changes on cash             | (29,506)                       | (2,992)      | (26,514)               |
|   |                                |              |                        |
| Net decrease in cash and cash equivalents           | \$(30,317,385)                 | \$15,160,867 | \$(45,478,518)         |

The \$30.3 million decrease in cash and cash equivalents is primarily due to unfavorable cash flow from operating activities. Net cash used in operating activities was \$27.3 million for the three months ended March 31, 2006, a \$44.7 million decrease compared to the same period in fiscal 2005. This decrease is primarily attributable to unfavorable changes in several components of working capital. The primary factors are unfavorable changes to accounts receivable of \$9.1 million, inventories of \$13.1 million, trade accounts payable and accrued expenses of \$13.9 million and provisions for doubtful accounts of \$3.4 million.

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Anticipated cash requirements during 2006 are primarily to fund capital expenditures and pay dividends. The Company expects to fund 2006 cash requirements with cash provided from operations, cash on hand and borrowings as needed under the current credit facility.

The Company operates as one business segment consisting of the Womenswear, Menswear, Home and Stores product lines. 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.

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

#### BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) March 31, 2006

#### Liquidity and Sources of Capital - Continued

The following table illustrates net sales and the percent of net sales that each product line represents.

| Product Line    | 3/31/06<br>Net Sales<br>(in millions) | Percent of<br>Total Net<br>Sales | 3/31/05<br>Net Sales<br>(in<br>millions) | Percent of<br>Total Net<br>Sales |
|-----------------|---------------------------------------|----------------------------------|--|----------------------------------|
| Womenswear      | \$67.2                                | 65.4%                            | \$69.8                                   | 64.8%                            |
| Menswear        | 18.4                                  | 17.9%                            | 19.2                                     | 17.8%                            |
| Home            | 16.7                                  | 16.3%                            | 17.5                                     | 16.3%                            |
| Crossing Pointe | 0.0                                   | 0.0%                             | 0.4                                      | 0.4%                             |
| Stores          | 0.4                                   | 0.4%                             | 0.4                                      | 0.4%                             |
| Allegheny Trail | 0.0                                   | 0.0%                             | 0.3                                      | 0.3%                             |
| Total           | \$102.7                               | 100.0%                           | \$107.6                                  | 100.0%                           |

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 \$2.0 million during the first quarter of 2006, compared to \$1.7 million during the first quarter of 2005. Most of the \$2.0 million of capital expenditures in the first quarter of 2006 were attributable to improving the Company's information services capabilities as they support the order fulfillment and the outsourced credit origination functions.

Future cash needs beyond 2006 will be financed by cash flow from operations, available cash on hand, existing borrowing arrangements and, if needed, other financing arrangements that may be available to the Company. However, the Company's current projection of future cash requirements may be affected by numerous factors, including changes in sales volume, operating cost fluctuations

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and revised capital spending activities.

### Critical Accounting Policies

Preparation of the Company's financial statements requires the application of a number of accounting policies, which are described in "Note 1, Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" in the Company's 2005 10-K. The critical accounting policies, which if interpreted differently under different conditions or circumstances could result in material changes to the reported results; deal with properly valuing accounts receivable (in 2005) and inventory, and our policy with regard to the timing of recording expenses for direct advertising costs. Properly valuing accounts receivable and inventory requires the establishment of proper reserve and allowance levels, specifically an allowance for doubtful accounts and returns and a reserve for inventory obsolescence. The Company's senior financial management and auditors review the critical accounting policies and estimates with the Audit Committee of the board of directors.

The Company's revenue recognition policy is as follows: Sales are recorded when the merchandise is shipped to the customer in accordance with the provisions of Staff Accounting Bulletin No. 104, Revenue Recognition.

The Company's advertising expense policy is as follows: Advertising and shipping supply inventories include printed advertising material and related mailing supplies for promotional mailings, which are generally scheduled to occur within two months. These direct-response advertising costs are then expensed over the period of expected future benefit, generally nine weeks.

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

### BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) March 31, 2006

#### Critical Accounting Policies - Continued

At March 31, 2006, the Company had total net current deferred tax assets of \$118,000. These assets relate principally to asset valuation reserves including returns and inventory obsolescence. Based on recent historical earnings performance and current projections, management believes that a valuation allowance is not required against these deferred tax assets, except for the valuation allowances against state net operating losses. The state net operating loss valuation allowance was provided due to its uncertainty of realization based upon the state's net operating loss carryforward rules.

#### Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees

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(Opinion No. 25), and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as expenses in the income statement based on fair values. Pro forma disclosure is no longer an alternative. As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company's income before income taxes and net income for the three months ended March 31, 2006 are \$218,000 and \$140,000 lower, respectively, than if it had continued to account for share-based compensation under Opinion No. 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been a loss of \$1.19 per share, if the Company had not adopted SFAS No. 123(R), compared to reported basic and diluted earnings per share of a loss of \$1.23.

SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow, which historically had been the accepted practice. This requirement reduces net operating cash flows and increases net financing cash flows in periods after adoption. The Company has not completed its estimate of what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), but expects them to be immaterial to its financial position.

### Future Considerations

The Company is faced with the ever-present challenge of maintaining and expanding its customer file. This involves the acquisition of new customers (prospects), the conversion of new customers to established customers (active repeat buyers) and the retention and/or reactivation of established customers.

These actions are vital in growing the business but are being negatively impacted by increased operating costs, a declining labor pool, increased competition in the retail sector, high levels of consumer debt, varying consumer response rates, increasing energy costs and an uncertain economy. The preceding factors can also negatively impact the Company's ability to properly value inventories by making it more difficult to establish proper allowance and reserve levels, specifically, the allowances for returns and the reserve for inventory obsolescence.

The Company's marketing strategy includes targeting customers in the "40 to 75, low-to-moderate income" market. Success of the Company's marketing strategy requires investment in database management, digital asset management, campaign management, financial and operating systems, prospecting programs, catalog marketing, telephone call centers, e-commerce and fulfillment operations. Management believes that these investments should improve the Company's position in new and existing markets and provide opportunities for future earnings growth.

In March 2006, the Company was notified that its main consolidator for outgoing packages filed for Chapter 7 bankruptcy. The Company has recently engaged the services of another consolidator and the cost of outbound freight for the balance of the year is anticipated to be higher than under the previous arrangement. The Company is exploring ways to mitigate the impact of the higher expense on future results due to the new arrangement.

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

BLAIR CORPORATION AND SUBSIDIARIES  
(Unaudited)  
March 31, 2006

#### Future Considerations - Continued

Requirements adopted by the Securities and Exchange Commission in response to the passage of the Sarbanes-Oxley Act of 2002 require an ongoing review and evaluation of our internal control systems and attestation of these systems by our independent auditors. We will review our internal control procedures and consider further documentation of such procedures that may be necessary in the future on an ongoing basis. While we currently believe we have identified and committed the appropriate resources to meet all of the requirements, there is always a risk inherent in any control system that not all errors or misstatements will be detected. Any improvements in our internal control systems or in documentation of such control systems could be costly to prepare or implement, could divert attention of management of our finance staff and may cause our operating expenses to increase over the ensuing year.

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

Forward-looking statements in this report, including without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believes", "anticipates", "plans", "expects" and similar expressions are intended to identify forward-looking statements. Any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Such forward-looking statements are included in, but not limited to, this Item 2.

Investors are cautioned that such forward-looking statements involve risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth and inventory; (iii) external factors such as, but not limited to, changes in consumer response rates, success of new business lines and increases in postal, paper and printing costs; and (iv) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk components since December 31, 2005.

#### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), each of the Chief Executive Officer and the Chief Financial Officer of the Company has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported within the applicable

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time periods specified by the Securities and Exchange Commission rules and forms.

There were no significant changes in the Company's internal controls or in any other factors that could significantly affect those controls subsequent to the date of the most recent evaluation of the Company's internal controls by the Company, including any corrective actions with regard to any significant deficiencies or material weaknesses.

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### PART II. OTHER INFORMATION

#### BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) March 31, 2006

### PART II. OTHER INFORMATION

#### 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 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Item 1A. to Part I of the Company's Form 10-K filed with the Securities and Exchange Commission on March 8, 2006 except as follows:

The Company's sales, revenue and operating income may be adversely impacted by changes in minimum customer credit scores determined by a third party.

Historically, Blair has managed its own credit portfolio and set the minimum credit scores a consumer must have to be entitled to purchase Blair merchandise on credit. Blair sold its receivables portfolio to World Financial Capital Bank, an industrial bank subsidiary of Alliance Data Systems Corporation in November 2005, and going forward they will have discretion over the minimum credit score necessary to be eligible to purchase Blair merchandise on credit. If the bank decides to raise the applicable credit rating standards, certain consumers will no longer qualify to purchase Blair merchandise on credit, which could lower sales thereby lowering revenue and operating income.

In addition, lower sales may result from hesitancy on the part of the Company's credit reliant customers to purchase using the new Blair credit card.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 24, 2006 the Company issued a retainer grant of 125 shares of common stock to Jerel G. Hollens, concurrent with his appointment to the



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board of directors, as consideration for his service on the board of directors of the Company for a period of approximately two months. The Company relied on the exemption from registration provided for by Rule 506 of Regulation D and alternatively Section 4(2) of the Securities Act of 1933. By virtue of his status as a director of the Company, Mr. Hollens is an "accelerated investor" as that term is defined in Rule 501 of Regulation D. The Company did not offer or sell any securities by any form of general solicitation or general advertising, and the Company used reasonable care to assure that Mr. Hollens cannot take any action whereby he may be deemed to be an underwriter within the meaning of Section 2(11) of the Securities Act of 1933 by, among other things, affixing a legend on the certificates representing the shares of common stock granted to Mr. Hollens stating that the securities have not been registered under the Securities Act of 1933 and referring to the restrictions on transferability and sale of such securities, and a stop transfer order was given to the Company's transfer agent.

### 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.

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## PART II. OTHER INFORMATION - Continued

### BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) March 31, 2006

### Item 6. Exhibits

#### (a) Exhibits

- 3.1 Restated Certificate of Incorporation (1)
- 3.2 Amended and Restated Bylaws of Blair Corporation (2)
- 4 Specimen Common Stock Certificate (3)
- 10.1 Stock Accumulation and Deferred Compensation Plan for Directors (4)
- 10.2 Blair Corporation 2000 Omnibus Stock Plan (5)
- 10.3 Blair Credit Agreement (6)
- 10.4 Amendment No. 2 to Credit Agreement (7)
- 10.5 Amendment No. 3 to Credit Agreement (8)
- 10.6 Amendment No. 4 to Credit Agreement (9)
- 10.7 Amendment No. 5 to Credit Agreement (10)
- 10.8 Change in Control Severance Agreement-Vice Presidents (11)
- 10.9 Change in Control Severance Agreement-CEO and Senior Vice Presidents (12)
- 10.10 Purchase, Sale and Capital Servicing Transfer Agreement (13)
- 10.11 Private Label Credit Program Agreement (14)

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- 10.12 Amendment Agreement, dated as of July 15, 2005, which amends the Receivables Purchase Agreement (15)
- 10.13 Amended and Restated Credit Agreement, dated as of July 15, 2005 (16)
- 10.14 Agreement among Blair Corporation and Loeb, dated as of May 24, 2005 (17)
- 10.15 Agreement among Blair Corporation, and Mr. Phillip Goldstein and Mr. Andrew Dakos, dated as of May 24, 2005 (18)
- 10.16 Agreement among Blair Corporation, and Santa Monica and Mr. Lawrence Goldstein, dated as of May 25, 2005 (19)
- 11 Statement regarding computation of per share earnings (20)
- 31.1 CEO Certification pursuant to Section 302
- 31.2 CFO Certification pursuant to Section 302
- 32.1 CEO Certification pursuant to Section 906
- 32.2 CFO Certification pursuant to Section 906

(1) Incorporated by reference to Exhibit A to the Quarterly Report on Form 10-Q of the Company filed with the SEC on August 10, 1995 (SEC File No. 1-878).

(2) Incorporated herein by reference to Exhibit 3.2 to the Companies Quarterly Report on Form 10-Q filed with the SEC on August 14, 2003 (SEC File No. 1-878).

(3) Incorporated by reference to Exhibit 4.1 to the Form S-8 Registration Statement filed with the SEC on July 19, 2000 (SEC File No. 333-41770).

(4) Incorporated herein by reference to Exhibit A to the Company's Proxy Statement filed with the SEC on March 20, 1998 (SEC File No. 1-878).

(5) Incorporated herein by reference to Exhibit A to the Company's Proxy Statement filed with the SEC on March 17, 2000 (SEC File No. 1-878).

(6) Incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K filed with the SEC on January 9, 2002 (SEC File No. 1-878).

(7) Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on August 8, 2003 (SEC File No. 1-878). Certain schedules to the Agreement have been omitted.

(8) Incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 9, 2004 (SEC File No. 1-878). Certain schedules to the Agreement have been omitted.

(9) Incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K of the Company filed with the SEC on March 1, 2005 (SEC File No. 1-878). Certain schedules to the Agreement have been omitted.

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PART II. OTHER INFORMATION - Continued

BLAIR CORPORATION AND SUBSIDIARIES  
(Unaudited)  
March 31, 2006

Item 6. Exhibits - Continued

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- (10) Incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 6, 2005 (SEC File No. 1-878). Certain schedules to the Agreement have been omitted.
- (11) Incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 9, 2004 (SEC File No. 1-878).
- (12) Incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 9, 2004 (SEC File No. 1-878).
- (13) Incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on April 27, 2005 (SEC File No. 1-878). Certain schedules to the agreement have been omitted.
- (14) Incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed with the SEC on April 27, 2005 (SEC File No. 1-878). Certain schedules to the agreement have been omitted.
- (15) Incorporated herein by reference to (b) (i) to the Company's Schedule TO filed with the SEC on July 20, 2005 (SEC File No. 1-878). Certain schedules to the agreement have been omitted.
- (16) Incorporated herein by reference to (b) (ii) to the Company's Schedule TO filed with the SEC on July 20, 2005 (SEC File No. 1-878). Certain schedules to the agreement have been omitted.
- (17) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on May 27, 2005 (SEC File No. 1-878).
- (18) Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the SEC on May 27, 2005 (SEC File No. 1-878).
- (19) Incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed with the SEC on May 27, 2005 (SEC File No. 1-878).
- (20) Incorporated by reference to Note K of the financial statements included herein.

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SIGNATURE

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

BLAIR CORPORATION

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(Registrant)

Date: May 9, 2006  
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By JOHN E. ZAWACKI  
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JOHN E. ZAWACKI  
President and Chief Executive Officer

By LARRY J. PITORAK  
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LARRY J. PITORAK  
Interim Chief Financial Officer

By MICHAEL R. DELPRINCE  
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MICHAEL R. DELPRINCE  
Controller

[Certifications to follow]

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Exhibit 31.1

CERTIFICATION

I, John E. Zawacki, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blair Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash

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flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2006  
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JOHN E. ZAWACKI  
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JOHN E. ZAWACKI  
President and  
Chief Executive Officer

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### CERTIFICATION

I, Larry J. Pitorak, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blair Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2006

LARRY J. PITORAK

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LARRY J. PITORAK  
Interim Chief Financial Officer

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Exhibit 32.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Blair Corporation (the "Company") on Form 10-Q for the period ended March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John E. Zawacki, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 9, 2006  
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JOHN E. ZAWACKI  
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JOHN E. ZAWACKI  
President and  
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authentication, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Blair Corporation and will be retained by Blair Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Blair Corporation (the "Company") on Form 10-Q for the period ended March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Larry J. Pitorak, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 9, 2006  
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LARRY J. PITORAK  
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LARRY J. PITORAK  
Interim Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authentication, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Blair Corporation and will be retained by Blair Corporation and furnished to the Securities and Exchange Commission or its staff upon request.