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LANDS END INC
Form 10-Q
November 29, 2001

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

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934.
For the Quarter Ended October 26, 2001

OR

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

For the transition period from to

Commission file number 1-9769

LANDS' END, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

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

53595
(Zip code)

Registrant's telephone number,
including area code

608-935-9341

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

Yes No

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

Common stock, \$.01 par value 29,761,422 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 | |
|---|--------------------|------------------|
| | Oct. 26, 2001 | Oct. 27, 2000 |
| | (Unaudited) | |
| Revenue | | |
| Net merchandise sales | \$348,357 | \$336,391 |
| Shipping and handling revenue | 27,758 | 25,870 |
| Total revenue | 376,115 | 362,261 |
| Cost of sales | | |
| Cost of merchandise sales | 185,247 | 190,663 |
| Shipping and handling costs | 25,952 | 26,389 |
| Total cost of sales | 211,199 | 217,052 |
| Gross profit | 164,916 | 145,209 |
| Selling, general and administrative expenses | 144,050 | 135,713 |
| Income from operations | 20,866 | 9,496 |
| Other income (expense): | | |
| Interest expense | (658) | (801) |
| Interest income | 59 | 235 |
| Other | (843) | (1,878) |
| Total other expense, net | (1,442) | (2,444) |
| Income before income taxes | 19,424 | 7,052 |
| Income tax provision | 7,284 | 2,609 |
| Net income | \$ 12,140 | \$ 4,443 |
| Basic earnings per share | \$ 0.41 | \$ 0.15 |
| Diluted earnings per share | \$ 0.41 | \$ 0.15 |
| Basic weighted average shares outstanding | 29,335 | 30,290 |
| Diluted weighted average shares outstanding | 29,782 | 30,491 |

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

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

Nine months ended
Oct. 26, Oct. 27,
2001 2000
(unaudited)

Revenue

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| | | |
|--|-----------|-----------|
| Net merchandise sales | \$898,348 | \$857,981 |
| Shipping and handling revenue | 74,708 | 65,745 |
| Total revenue | 973,056 | 923,726 |
| Cost of sales | | |
| Cost of merchandise sales | 477,549 | 468,483 |
| Shipping and handling costs | 73,790 | 68,998 |
| Total cost of sales | 551,339 | 537,481 |
| Gross profit | 421,717 | 386,245 |
| Selling, general and administrative expenses | 385,142 | 378,156 |
| Income from operations | 36,575 | 8,089 |
| Other income (expense): | | |
| Interest expense | (1,141) | (1,148) |
| Interest income | 984 | 1,454 |
| Other | (2,757) | (3,865) |
| Total other expense, net | (2,914) | (3,559) |
| Income before income taxes | 33,661 | 4,530 |
| Income tax provision | 12,623 | 1,676 |
| Net income | \$ 21,038 | \$ 2,854 |
| Basic earnings per share | \$ 0.72 | \$ 0.09 |
| Diluted earnings per share | \$ 0.71 | \$ 0.09 |
| Basic weighted average shares outstanding | 29,376 | 30,261 |
| Diluted weighted average shares outstanding | 29,798 | 30,681 |

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)

| | Oct. 26, 2001 (unaudited) | January 26, 2001 |
|------------------------------|---------------------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 12,339 | \$ 75,351 |
| Receivables, net | 18,390 | 19,808 |
| Inventory | 294,344 | 188,211 |
| Prepaid advertising | 34,266 | 17,627 |
| Other prepaid expenses | 10,755 | 9,715 |
| Deferred income tax benefits | 11,628 | 10,973 |

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| | | |
|---|-----------|-----------|
| Total current assets | 381,722 | 321,685 |
| Property, plant and equipment, at cost: | | |
| Land and buildings | 116,949 | 104,815 |
| Fixtures and equipment | 106,554 | 103,866 |
| Computer hardware and software | 116,744 | 99,979 |
| Leasehold improvements | 4,675 | 4,630 |
| Construction in progress | - | 4,289 |
| Total property, plant and equipment | 344,922 | 317,579 |
| Less-accumulated depreciation and amortization | 150,517 | 132,286 |
| Property, plant and equipment, net | 194,405 | 185,293 |
| Intangibles, net | 654 | 651 |
| Total assets | \$576,781 | \$507,629 |
| Liabilities and shareholders' investment | | |
| Current liabilities: | | |
| Lines of credit | \$ 53,885 | \$ 16,940 |
| Accounts payable | 108,386 | 96,168 |
| Reserve for returns | 10,472 | 9,061 |
| Accrued liabilities | 51,763 | 41,135 |
| Accrued profit sharing | 3,508 | 2,357 |
| Income taxes payable | 9,025 | 13,213 |
| Total current liabilities | 237,039 | 178,874 |
| Deferred income taxes | 12,304 | 14,567 |
| Shareholders' investment: | | |
| Common stock, 40,221 shares issued | 402 | 402 |
| Donated capital | 8,400 | 8,400 |
| Additional paid-in capital | 33,060 | 31,908 |
| Deferred compensation | (69) | (121) |
| Accumulated other comprehensive income | 3,417 | 5,974 |
| Retained earnings | 510,125 | 489,087 |
| Treasury stock, 11,091 and 10,945 shares at cost, respectively | (227,897) | (221,462) |
| Total shareholders' investment | 327,438 | 314,188 |
| Total liabilities and shareholders' investment | \$576,781 | \$507,629 |

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)

| | Nine Months Ended | |
|---|-------------------|------------------|
| | Oct. 26, 2001 | Oct. 27, 2000 |
| | (unaudited) | |
| Cash flows from (used for) operating activities: | | |
| Net income | \$ 21,038 | \$ 2,854 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 19,578 | 17,220 |
| Deferred compensation expense | 52 | 89 |
| Loss on disposal of fixed assets | 364 | 40 |
| Deferred income taxes | (2,918) | - |

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| | | |
|--|-----------|-----------|
| Tax benefit of stock options | 1,152 | 1,832 |
| Changes in current assets and liabilities: | | |
| Receivables, net | 1,418 | (4,239) |
| Inventory | (106,133) | (98,310) |
| Prepaid advertising | (16,639) | (26,014) |
| Other prepaid expenses | (1,040) | (2,953) |
| Accounts payable | 12,218 | 35,430 |
| Reserve for returns | 1,411 | 652 |
| Accrued liabilities | 12,536 | (2,611) |
| Accrued profit sharing | 1,151 | (2,576) |
| Income taxes payable | (4,188) | (9,119) |
| Other | (2,557) | 1,013 |
| Net cash flows used for operating activities | (62,557) | (86,692) |
| Cash flows used for investing activities: | | |
| Cash paid for capital additions | (30,965) | (30,185) |
| Net cash flows used for investing activities | (30,965) | (30,185) |
| Cash flows from (used for) financing activities: | | |
| Proceeds from short-term debt | 36,945 | 58,515 |
| Purchases of treasury stock | (12,388) | (2,249) |
| Issuance of treasury stock | 5,953 | 4,229 |
| Net cash flows from financing activities | 30,510 | 60,495 |
| Net decrease in cash and cash equivalents | (63,012) | (56,382) |
| Beginning cash and cash equivalents | 75,351 | 76,413 |
| Ending cash and cash equivalents | \$ 12,339 | \$ 20,031 |
| Supplemental cash flow disclosures: | | |
| Interest paid | \$ 852 | \$ 954 |
| Income taxes paid | 21,167 | 8,841 |

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

1. Interim financial statements

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

2. Reclassifications

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

3. Foreign currency translations and transactions

Financial statements of the foreign subsidiaries and foreign-denominated assets are translated into U.S. dollars in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 52. Translation adjustments of the financial statements of the foreign subsidiaries are recorded in accumulated other comprehensive income, which is a component of shareholders' investment. Gains and losses resulting from the translation of foreign-denominated assets and foreign currency transactions are recorded as other income and expense on the consolidated statements of operations. For the quarter ended October 26, 2001 and October 27, 2000, losses of \$0.9 million and \$2.1 million were recorded, respectively. For the nine months ended October 26, 2001 and October 27, 2000, there were losses of \$1.9 million and \$4.1 million, respectively.

4. Derivative instruments and hedging activities

The company has adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which establish accounting and reporting standards for forward contracts, options, other derivative instruments and related hedging activities. Statements No. 133 and No. 138 require, in part, that the company report all derivative instruments on the consolidated balance sheets as assets or liabilities at their fair value. The treatment of subsequent changes in fair value depends on whether hedge accounting is available. For the third quarter of fiscal 2002, a gain of \$0.5 million was recorded in other income on the consolidated statements of operations, compared with a gain of \$0.2 million in the third quarter of fiscal 2001. A gain of \$0.3 million was realized in the nine months ended October 26, 2001, compared to a loss of \$0.4 million for the same time period last year.

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

The company currently has foreign exchange forward contracts and options that mitigate the company's exposure to the variability in future cash flows on forecasted transactions with the company's foreign subsidiaries. To reduce risk, the company enters into foreign currency forward contracts and put options with a maximum hedging period of 24 months. The company estimates that net hedging gains of approximately \$4.7 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 October 27, 2001 and November 1, 2002.

5. Earnings per share

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 | | Nine months ended | |
|--|--------------------|---------------|-------------------|---------------|
| | Oct. 26, 2001 | Oct. 27, 2000 | Oct. 26, 2001 | Oct. 27, 2000 |
| Net income | \$ 12,140 | \$ 4,443 | \$ 21,038 | \$ 2,854 |
| Average shares of common stock outstanding | 29,335 | 30,290 | 29,376 | 30,261 |

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| | | | | |
|---|---------|---------|---------|---------|
| Incremental shares from assumed exercise of stock options | 447 | 201 | 422 | 420 |
| Diluted weighted average shares of common stock outstanding | 29,782 | 30,491 | 29,798 | 30,681 |
| Basic earnings per share | \$ 0.41 | \$ 0.15 | \$ 0.72 | \$ 0.09 |
| Diluted earnings per share | \$ 0.41 | \$ 0.15 | \$ 0.71 | \$ 0.09 |

6. Comprehensive income

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

| | Three months ended | | Nine months ended | |
|---|--------------------|------------------|-------------------|------------------|
| | Oct. 26, 2001 | Oct. 27, 2000 | Oct. 26, 2001 | Oct. 27, 2000 |
| Net income | \$12,140 | \$ 4,443 | \$21,038 | \$ 2,854 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments | 75 | (467) | (611) | (1,374) |
| Net unrealized gain (loss) on forward contracts and options | (369) | 331 | (1,947) | 2,387 |
| Comprehensive income | \$11,846 | \$ 4,307 | \$18,480 | \$ 3,867 |

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

7. New accounting pronouncements

On June 30, 2001 the Financial Accounting Standards Board ("FASB") finalized SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to use the purchase method of accounting. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The company does not anticipate any significant impact from adoption of SFAS Nos. 141 and 142. Additionally, SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," have been issued by the FASB. The company does not anticipate any significant impact from their adoption.

8. 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

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allocated operating expenses, which includes interest expense and interest income. Segment identifiable assets are those that are directly used in or identified with segment operations. "Other" includes currency gains and losses, corporate expenses, intercompany eliminations, and other income and expense items that are not allocated to segments.

The following tables include pertinent financial data by operating segment for the periods ended October 26, 2001 and October 27, 2000 (1).

Three months ended October 26, 2001

| (In thousands) | Core | Specialty | Inter- national | Other | Consoli- dated |
|--------------------------------------|-----------|-----------|--------------------|---------|-------------------|
| Net merchandise sales | \$187,880 | \$128,548 | \$ 31,929 | \$ - | \$348,357 |
| Income (loss) before income taxes | 10,126 | 11,484 | 708 | (2,894) | 19,424 |
| Identifiable assets | 334,298 | 184,567 | 57,916 | - | 576,781 |
| Depreciation and amortization | 3,848 | 2,696 | 565 | - | 7,109 |
| Capital expenditures | 7,568 | 5,081 | 296 | - | 12,945 |
| Interest expense | 316 | 178 | 164 | - | 658 |
| Interest income | 6 | 35 | 18 | - | 59 |

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

Three months ended October 27, 2000

| | Core | Specialty | Inter- national | Other | Consoli- dated |
|--------------------------------------|-----------|-----------|--------------------|---------|-------------------|
| Net merchandise sales | \$184,977 | \$123,286 | \$ 28,128 | \$ - | \$336,391 |
| Income (loss) before income taxes | 200 | 9,650 | (671) | (2,127) | 7,052 |
| Identifiable assets | 303,521 | 167,404 | 71,909 | - | 542,834 |
| Depreciation and amortization | 2,918 | 2,085 | 588 | - | 5,591 |
| Capital expenditures | 8,756 | 5,497 | 386 | - | 14,639 |
| Interest expense | 414 | 233 | 154 | - | 801 |
| Interest income | 78 | 96 | 61 | - | 235 |

Nine months ended October 26, 2001

| | Core | Specialty | Inter- national | Other | Consoli- dated |
|--------------------------------------|-----------|-----------|--------------------|---------|-------------------|
| Net merchandise sales | \$520,398 | \$287,321 | \$90,629 | \$ - | \$898,348 |
| Income (loss) before income taxes | 23,801 | 16,138 | (45) | (6,233) | 33,661 |
| Identifiable assets | 334,298 | 184,567 | 57,916 | - | 576,781 |
| Depreciation and amortization | 11,506 | 6,353 | 1,719 | - | 19,578 |

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| | | | | | |
|----------------------|--------|--------|--------|------|--------|
| Capital expenditures | 19,651 | 10,850 | 464 | - | 30,965 |
| Interest expense | 376 | 207 | 558 | - | 1,141 |
| Interest income | \$ 434 | \$ 239 | \$ 311 | \$ - | \$ 984 |

Nine months ended October 27, 2000

| | Core | Specialty | Inter- national | Other | Consoli- dated |
|--------------------------------------|-----------|-----------|--------------------|---------|-------------------|
| Net merchandise sales | \$496,297 | \$274,332 | \$ 87,352 | \$ - | \$857,981 |
| Income (loss) before income taxes | (489) | 12,480 | (2,748) | (4,713) | 4,530 |
| Identifiable assets | 303,521 | 167,404 | 71,909 | - | 542,834 |
| Depreciation and amortization | 9,956 | 5,491 | 1,773 | - | 17,220 |
| Capital expenditures | 18,640 | 10,280 | 1,265 | - | 30,185 |
| Interest expense | 465 | 257 | 426 | - | 1,148 |
| Interest income | \$ 866 | \$ 478 | \$ 110 | \$ - | \$ 1,454 |

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

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Item 2.

Management's Discussion and Analysis

Results of Operations

Three Months Ended October 26, 2001, compared with
Three Months Ended October 27, 2000

Total revenue for the third quarter just ended was \$376.1 million, up 3.8 percent from \$362.3 million in the prior year's quarter. For the third quarter, sales of full-price merchandise to the U.S. consumer rose 16 percent, while as previously announced, liquidation sales declined about \$15 million. In the core business segment, women's and coed showed significant growth. In the specialty segment, Kids had strong double-digit sales increases, while Corporate Sales, the non-consumer division that is part of the specialty segment, showed a double-digit decline, mainly due to the continued slowdown in national business spending. In local currencies, the U.K. and Germany had double-digit growth compared with the prior year, while Japan's sales were slightly down. When measured in U.S. dollars, the international business segment was up by about 14 percent.

During the first four weeks of the current quarter, total revenue was up approximately 3 percent, compared with the similar period a year ago. While our fourth quarter results are highly dependent on the next few weeks, we believe we have a good opportunity to exceed last year's strong fourth quarter sales and earnings.

Gross profit in the quarter just ended was \$164.9 million, or 43.8 percent of total revenue, compared with \$145.2 million, or 40.1 percent of total revenue, in the similar quarter last year. The strong improvement in gross profit margin was attributable to the \$15.4 million reduction in

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liquidation sales and continued improvements in vendor sourcing.

As expected, liquidations of excess inventory were 12 percent of net merchandise sales in the quarter just ended, compared with 17 percent in the prior year. Third quarter ending inventory was \$294 million, up 13 percent from \$261 million a year ago, reflecting the planned earlier receipts of fall merchandise and greater investment in key styles. Inventory is in excellent condition, significantly improved from the prior year. We shipped about 92 percent of items at the time of order placement during the quarter just ended, consistent with our high standards of customer service and an improvement over last year's 90 percent first time fulfillment rate.

For the third quarter this year, selling, general and administrative expenses totaled \$144.1 million, compared with \$135.7 million last year. As a percentage of total revenue, SG&A was 38.3 percent, compared with 37.5 percent in the similar period last year. The change in the SG&A ratio resulted from higher employee incentives and profit sharing expense, as well as higher depreciation and opening costs for our Stevens Point complex. When measured as a percent of total revenue, these were mostly offset by reductions in catalog circulation cost, national advertising and all other operating expenses.

Net income for the quarter was \$12.1 million, compared with \$4.4 million earned in the same quarter last year. Diluted earnings per share were \$0.41, compared with \$0.15 in the prior year, representing a new third quarter company record.

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Segment results

The company has three business segments consisting of Core (regular monthly and prospecting catalogs, Lands' End Women, formerly First Person, and Lands' End Men), Specialty (Kids, Corporate Sales and Coming Home catalogs) and International (foreign-based operations in Japan, United Kingdom and Germany). "Other" includes currency gains and losses, corporate expenses, intercompany eliminations, and other income and deduction items that are not allocated to segments. (See Note 8.)

The core segment's net merchandise sales were \$187.9 million, representing 53.9 percent of the company's net merchandise sales and an increase of \$2.9 million from the prior year. The coed and women's divisions accounted for the growth in the core segment. The core segment's pretax income increased \$9.9 million from the prior year.

The specialty segment's net merchandise sales were \$128.5 million, which was 36.9 percent of the company's net merchandise sales and \$5.3 million above the prior year. This increase resulted from double-digit sales growth from Kids, partially offset by Corporate Sales decline. The specialty segment's pretax income increased \$1.8 million from the prior year.

The international segment's net merchandise sales were \$31.9 million, which was 9.2 percent of total net merchandise sales and \$3.8 million above the prior year. The increase was driven by double-digit sales growth in the United Kingdom and Germany. In their local currencies, the U.K. and Germany had increased sales compared to the prior year. The international segment's pretax income increased \$1.4 million from the prior year.

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

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Net Merchandise Sales

| | Three months ended October 26, 2001 | | Three months ended October 27, 2000 | |
|-----------------|--|----------------|--|----------------|
| | Amount | % of Net Sales | Amount | % of Net Sales |
| Core | \$187,880 | 53.9% | \$184,977 | 55.0% |
| Specialty | 128,548 | 36.9% | 123,286 | 36.7% |
| International | 31,929 | 9.2% | 28,128 | 8.3% |
| Total net sales | \$348,357 | 100.0% | \$336,391 | 100.0% |

(1) Shipping and handling revenue is excluded.

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

| | Three months ended October 26, 2001 | | Three months ended October 27, 2000 | |
|-------------------------------|--|--------------|--|--------------|
| | Amount | % of Revenue | Amount | % of Revenue |
| Core | \$10,126 | 2.7% | \$ 200 | 0.1% |
| Specialty | 11,484 | 3.1% | 9,650 | 2.7% |
| International | 708 | 0.2% | (671) | (0.2%) |
| Other | (2,894) | (0.8%) | (2,127) | (0.6%) |
| Income before income taxes | \$19,424 | 5.2% | \$ 7,052 | 2.0% |

(2) Percentages are based on total revenue.

Consolidated results for the nine months ended October 26, 2001,
compared with nine months ended October 27, 2000

Total revenue for the nine months ended October 26 was \$973.1 million, up 5.3 percent from \$923.7 million during the same period last year. Growth of merchandise sales in the core business segment was led by strength in the coed and women's divisions. In the specialty segment, the Kids division showed the strongest growth; Coming Home was relatively flat and Corporate Sales had a decline in the high-single digits, reflecting a slowdown in national business spending. The U.K. and Germany had double-digit sales increases when measured in their local currencies, while Japan showed a single digit decrease. When measured in U.S. dollars, the international business segment had a low-single digit increase.

Gross profit for the first nine months of fiscal 2002 was \$421.7 million, or 43.3 percent of total revenue, compared with \$386.2 million, or 41.8 percent of total revenue in the prior year. Merchandise gross profit margin rose due to higher initial margins from improved sourcing and a reduction in liquidation sales. Liquidation of excess inventory was

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about 11 percent of net merchandise sales for the first nine months of this year, compared to 13 percent in the prior year.

For the first nine months of fiscal 2002, selling, general and administrative expenses were \$385.1 million, up 1.9 percent from \$378.2 million in the prior year. As a percentage of total revenue, SG&A was 39.6 percent, compared with 40.9 percent in the prior year. The improvement in the SG&A ratio was mainly due to lower national advertising and relatively lower catalog circulation cost. This was offset by higher employee incentives and profit sharing expense, due to improved profitability.

Net income for the nine months just ended was \$21.0 million, and diluted earnings per share were \$0.71, compared with a net income of \$2.9 million, or \$0.09 per share, for the same period last year.

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Segment results

The core segment's net merchandise sales were \$520.4 million, representing 57.9 percent of the company's net merchandise sales, an increase of \$24.1 million from the prior year. The coed and women's divisions accounted for the growth in the core segment. The core segment's pretax income increased \$24.3 million from the prior year.

The specialty segment's net merchandise sales were \$287.3 million, which was 32.0 percent of the company's net merchandise sales and \$13.0 million above the prior year. This sales increase was principally from our Kids' division, offset by Corporate Sales. The specialty segment's pretax income increased \$3.7 million from the prior year.

The international segment's net merchandise sales were \$90.6 million, which was 10.1 percent of total net merchandise sales and \$3.3 million above the prior year. The sales increase was from the United Kingdom and Germany. The international segment's pretax income improved by \$2.7 million from the prior year.

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

Net Merchandise Sales

| | Nine months ended October 26, 2001 | | Nine months ended October 27, 2000 | |
|-----------------|---------------------------------------|----------------|---------------------------------------|----------------|
| | Amount | % of Net Sales | Amount | % of Net Sales |
| Core | \$520,398 | 57.9% | \$496,297 | 57.8% |
| Specialty | 287,321 | 32.0% | 274,332 | 32.0% |
| International | 90,629 | 10.1% | 87,352 | 10.2% |
| Total net sales | \$898,348 | 100.0% | \$857,981 | 100.0% |

(1) Shipping and handling revenue is excluded.

Income (loss) before income taxes (2)

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(Amounts in thousands)

| | October 26, 2001 | | October 27, 2000 | |
|----------------------------|------------------|--------------|------------------|--------------|
| | Amount | % of Revenue | Amount | % of Revenue |
| Core | \$ 23,801 | 2.5% | \$ (489) | (0.1%) |
| Specialty | 16,138 | 1.7% | 12,480 | 1.4% |
| International | (45) | - | (2,748) | (0.3%) |
| Other | (6,233) | (0.6%) | (4,713) | (0.5%) |
| Income before income taxes | \$ 33,661 | 3.6% | \$ 4,530 | 0.5% |

(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 type and timing of its catalog mailings, quarterly results may fluctuate. Accordingly, results for the individual quarters are not necessarily indicative of the results to be expected for the entire year.

Liquidity and capital resources

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

At October 26, 2001, the company had unsecured domestic credit facilities totaling \$200 million, of which nearly \$35 million had been used, along with a reduction of about \$31 million for outstanding letters of credit.

On November 5, 2001, the company entered into 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. This agreement replaces the company's \$200 million, 364-day unsecured credit agreement. 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

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fixed charge coverage and total indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA).

The company also maintains foreign credit lines for use of foreign operations totaling the equivalent of approximately \$43 million as of October 26, 2001, of which about \$19 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 November 29, 2001, 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 2002 are currently planned to be between \$42 million and \$45 million, of which about \$31 million had been expended through October 26, 2001. Major projects to date are investments in our information technology and the construction of our new Stevens Point, Wisconsin facility. The company believes that its cash flow from operations and borrowings under its current credit facilities will provide adequate resources to meet its capital requirements and operational needs for the foreseeable future.

Possible future changes

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

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

The Supreme Court decision also established that Congress has the power to enact legislation that would permit states to require collection of use taxes by mail order companies. Congress has from time to time considered proposals for such legislation. The company anticipates that any legislative change, if adopted, would be applied only on a prospective basis.

In October 1998, The Internet Tax Freedom Act was signed into law. Among the provisions of this Act was a three-year moratorium on multiple and discriminatory taxes on electronic commerce. An Advisory Commission was appointed to study electronic commerce tax issues and submitted its final report to Congress on April 3, 2000. Among other recommendations, the majority of the Advisory Commission favored the extension of the moratorium and greater uniformity and simplification of the state sales and use tax

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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.

Business Outlook

For fiscal 2002, a 53-week year that will end on February 1, 2002, the company, given its recent experience, has a good opportunity to exceed last year's fourth quarter sales and earnings. Last year's strong fourth quarter sales and earnings present a challenging point of comparison, especially given the current economic environment. We are more cautious about post-Christmas performance and the general softness of consumer spending.

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Statement regarding forward-looking information

Statements in this release that are not historical, including, without limitation, statements regarding our plans, expectations, assumptions, and estimations for fiscal 2002 revenues, gross profit margin, and earnings, as well as anticipated sales trends and future development of our business strategy, are considered forward-looking and speak only as of today's date. As such, these statements are subject to a number of risks and uncertainties. Future results may be materially different from those expressed or implied by these statements due to a number of factors. Currently, we believe that the principal factors that create uncertainty about our future results are the following: customer response to our merchandise offerings, circulation changes and other initiatives; the mix of our sales between full price and liquidation merchandise; overall consumer confidence and general economic conditions, both domestic and foreign; effects of weather on customer purchasing behavior; effects of shifting patterns of e-commerce versus catalog purchases; costs associated with printing and mailing catalogs and fulfilling orders; dependence on consumer seasonal buying patterns; fluctuations in foreign currency exchange rates; and changes that may have different effects on the various sectors in which we operate (e.g., rather than individual consumers, the Corporate Sales Division, included in the specialty segment, sells to numerous corporations, and certain of these sales are for their corporate promotional activities). Our future results could, of course, be affected by other factors as well. More information about these risks and uncertainties may be found in the company's 10-K filings with the S.E.C.

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

Item 3: Quantitative and Qualitative Disclosure About Market Risk

The company attempts to reduce its exposure to the effects of currency fluctuations on cash flows by using derivative instruments to hedge. The company is subject to foreign currency risk related to its transactions with operations in Japan, Germany and United Kingdom and with foreign third-party vendors. The company's foreign currency risk management policy is to hedge the majority of merchandise purchases by foreign operations and from foreign third-party vendors, which includes forecasted transactions, through the use of foreign exchange forward contracts and options to minimize this risk. The company's policy is not to speculate in derivative instruments for profit on the exchange rate price fluctuation, trade in

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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 October 26, 2001, the company had outstanding foreign currency forward contracts totaling about \$65 million and options totaling nearly \$11 million, compared in the prior year of nearly \$59 million for foreign currency forward contracts and no option contracts outstanding.

The company is subject to the risk of fluctuating interest rates in the normal course of business, primarily as a result of its short-term borrowing and investment activities at variable interest rates. As of October 26, 2001, 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

There were no matters submitted to a vote of security holders for the quarter ended October 26, 2001.

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

A report on Form 8-K was filed on August 10, 2001, announcing the company's second quarter results.

SIGNATURE

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

LANDS' END, INC.

Date: November 29, 2001

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

