BLAIR CORP
Form 10-Q
August 14, 2001

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Period Ended June 30, 2001 Commission File Number 1-878

BLAIR CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	25-0691670
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

220 HICKORY STREET, WARREN, PENNSYLVANIA	16366-0001
(Address of principal executive offices)	(Zip Code)

(814) 723-3600
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES X NO

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As of August 10, 2001 the registrant had outstanding 7,970,044 shares of its common stock without nominal or par value.

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS (UNAUDITED)

BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2001

CONSOLIDATED BALANCE SHEETS

BLAIR CORPORATION AND SUBSIDIARIES

	June 30 2001	December 31 2000
ASSETS		
Current assets:		
Cash	$ 12,312,666	$ 7,497,907
Customer accounts receivable, less allowances for doubtful accounts and returns of $47,190,237 in 2001 and $46,764,673 in 2000	161,304,367	172,393,572
Inventories - Note F		
Merchandise	94,400,550	94,912,349
Advertising and shipping supplies	13,527,954	14,660,290
	107,928,504	109,572,639
Deferred income taxes - Note E	12,696,000	11,728,000
Prepaid expenses	1,415,191	958,849
Total current assets	295,656,728	302,150,967
Property, plant and equipment:		
Land	1,142,144	1,142,144
Buildings	64,313,433	64,235,385
Equipment	59,054,606	54,664,689
	124,510,183	120,042,218
Less allowances for depreciation	70,213,340	66,391,927
	54,296,843	53,650,291
Trademarks	665,290	704,894

TOTAL ASSETS	$350,618,861	$356,506,152
	============	============
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable - Note H	$ 50,000,000	$ 25,000,000
Trade accounts payable	42,031,479	76,038,528
Advance payments from customers	2,359,350	2,077,053
Accrued expenses - Note D	11,549,742	14,289,318
Accrued federal and state taxes	3,700,924	929,101
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Total current liabilities	109,641,495	118,334,000
Deferred income taxes - Note E	964,000	1,146,000
Stockholders' equity:		
Common Stock without par value: Authorized 12,000,000 shares; issued 10,075,440 shares (including shares held in treasury) - stated value	419,810	419,810
Additional paid-in capital	14,599,554	14,612,333
Retained earnings	270,300,901	267,444,414
	------------	------------
	285,320,265	282,476,557
Less 2,105,396 shares in 2001 and 2,106,596 shares in 2000 of common stock in treasury - at cost	43,189,579	43,218,782
Less receivable from stock plans	2,117,320	2,231,623
	------------	------------
	240,013,366	237,026,152
	------------	------------
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$350,618,861	$356,506,152
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See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

BLAIR CORPORATION AND SUBSIDIARIES

	Three Months Ended June 30		Six Mo J
	2001	2000	2001
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Net sales	$164,093,069	$157,063,466	$297,148,214
Other income - Note G	11,122,746	11,723,180	22,425,685
Interest from tax settlement	4,061,253	-0-	4,061,253
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	179,227,068	168,786,646	323,635,152
Costs and expenses:			
Cost of goods sold	78,838,780	77,373,075	143,249,625
Advertising	48,822,315	36,866,122	87,512,602
General and administrative	32,721,729	31,704,364	65,330,117
Provision for doubtful accounts	9,467,386	9,058,607	17,761,407
Interest	736,592	424,108	1,464,081
	170,586,802	155,426,276	315,317,832
INCOME BEFORE INCOME TAXES	8,690,266	13,360,370	8,317,320
Income taxes - Note E	3,211,000	5,074,000	3,070,000
NET INCOME	$ 5,479,266	$ 8,286,370	$ 5,247,320
Basic and diluted earnings per share - Note C	$ .69	$1.04	$ .66

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BLAIR CORPORATION AND SUBSIDIARIES

	Three Months Ended June 30		Six Mon Ju
	2001	2000	2001
Common Stock	$ 419,810	$ 419,810	$ 419,810
Additional paid-in capital:			
Balance at beginning of period	14,612,333	14,578,976	14,612,333
Issuance of Common Stock to non-employee directors	(5,871)	441	(5,871
Forfeitures of Common Stock under Employee Stock Purchase Plan	(6,908)	(27,035)	(6,908

Balance at end of period	14,599,554	14,552,382	14,599,554
Retained Earnings:			
Balance at beginning of period	266,017,142	256,880,678	267,444,414
Net income	5,479,266	8,286,370	5,247,320
Cash dividends declared - Note B	(1,195,507)	(1,198,218)	(2,390,833
Balance at end of period	270,300,901	263,968,830	270,300,901
Treasury Stock:			
Balance at beginning of period	(43,218,782)	(42,028,258)	(43,218,782
Purchase of Common Stock for treasury	-0-	(1,318,943)	-0-
Issuance of Common Stock to non-employee directors	31,746	22,434	31,746
Forfeitures of Common Stock under Employee Stock Purchase Plan	(2,543)	(7,371)	(2,543
Balance at end of period	(43,189,579)	(43,332,138)	(43,189,579
Receivable from stock plans:			
Balance at beginning of period	(2,178,287)	(2,333,951)	(2,231,623
Forfeitures of Common Stock under Employee Stock Purchase Plan	3,150	11,100	3,150
Repayments	57,817	51,295	111,153
Balance at end of period	(2,117,320)	(2,271,556)	(2,117,320
TOTAL STOCKHOLDERS' EQUITY	$240,013,366	$233,337,328	$240,013,366

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

BLAIR CORPORATION AND SUBSIDIARIES

	Six Months Ended June 30	
	2001	2000
OPERATING ACTIVITIES		
Net income	$ 5,247,320	$ 15,224,526
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,870,502	2,744,902
Provision for doubtful accounts	17,761,407	16,321,068
Provision for deferred income taxes	(1,150,000)	(3,847,000)

Compensation expense from stock awards (net of forfeitures)	19,574	(43,500)
Changes in operating assets and liabilities (using) providing cash:		
Customer accounts receivable	(6,672,202)	(21,000,720)
Inventories	1,644,135	7,459,110
Prepaid expenses	(456,342)	(469,804)
Trade accounts payable	(34,007,049)	(12,565,946)
Advance payments from customers	282,297	1,245,662
Accrued expenses	(2,739,576)	1,975,252
Accrued federal and state taxes	2,771,823	8,397,771
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(13,428,111)	15,441,321
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(4,477,450)	(6,211,416)
NET CASH USED IN INVESTING ACTIVITIES	(4,477,450)	(6,211,416)
FINANCING ACTIVITIES		
Net borrowings (repayments)of bank borrowings	25,000,000	(1,450,000)
Dividends paid	(2,390,833)	(2,419,601)
Purchase of Common Stock for treasury	-0-	(3,501,222)
Payments on receivable from stock plans	111,153	99,700
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	22,720,320	(7,271,123)
INCREASE IN CASH	4,814,759	1,958,782
Cash at beginning of year	7,497,907	1,625,236
CASH AT END OF PERIOD	$ 12,312,666	$ 3,584,018

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2001

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Blair Corporation and its wholly-owned subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31,

2001. For further information refer to the financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

The consolidated financial statements include the accounts of Blair Corporation and its wholly-owned subsidiaries. All significant intercompany accounts are eliminated upon consolidation.

NOTE B - DIVIDENDS DECLARED

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

NOTE C - EARNINGS PER SHARE AND WEIGHTED AVERAGE SHARES OUTSTANDING

Earnings pershare are computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share." Basic earnings per share are computed using the weighted average number of shares of common stock outstanding during the period. For diluted earnings per share, the weighted average number of shares includes common stock equivalents related to stock options.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Numerator:				
Net income	$ 5,479,266	$ 8,286,370	$ 5,247,320	$15,224,526
Numerator for basic earnings per share	5,479,266	8,286,370	5,247,320	15,224,526
Numerator for diluted earnings per share	5,479,266	8,286,370	5,247,320	15,224,526
Denominator:				
Denominator for basic earnings per share: - Weighted average shares	7,969,819	7,991,961	7,969,401	8,057,701
Effect of diluted securities:				
- Stock options	235	-0-	117	-0-
Denominator for diluted earnings per share: - Adjusted weighted average shares	7,970,054	7,991,961	7,969,518	8,057,701
Basic earnings per share	$.69	$1.04	$.66	$1.89
Diluted earnings per share	$.69	$1.04	$.66	$1.89

BLAIR CORPORATION AND SUBSIDIARY

June 30, 2001

NOTE D - ACCRUED EXPENSES Accrued expenses consist of:

	June 30 2001	December 31 2000
Employee compensation	$ 7,166,756	$ 9,476,660
Contribution to profit sharing and retirement plan	597,707	2,288,916
Taxes, other than taxes on income	800,329	745,312
Voluntary separation program	1,688,085	-0-
Other accrued items	1,296,865	1,778,430
	$11,549,742	$14,289,318

NOTE E - INCOME TAXES
The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The components of income tax expense are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Currently payable:				
Federal	$ 4,379,000	$ 7,791,000	$ 4,045,000	$11,817,000
State	375,000	1,081,000	175,000	1,320,000
	4,754,000	8,872,000	4,220,000	13,137,000
Deferred credit	(1,543,000)	(3,798,000)	(1,150,000)	(3,847,000)
	$ 3,211,000	$ 5,074,000	$ 3,070,000	$ 9,290,000

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

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Statutory rate applied to pre-tax income	$ 3,041,593	$ 4,676,130	$ 2,911,062	$ 8,580,084
State income taxes, net of federal tax benefit	115,700	386,100	18,200	692,250
Other items	53,707	11,770	140,738	17,666
	$ 3,211,000	$ 5,074,000	$ 3,070,000	$ 9,290,000

Components of the provision for deferred income tax credit are as follows:

	Three Months Ended June 30 2001	2000	Six Months Ended June 30 2001	2000
Provision for estimated returns	$ 22,000	$ (44,000)	$ 891,000	$ 865,000
Provision for doubtful accounts	(345,000)	886,000	145,000	1,741,000
Advertising costs	2,938,000	2,691,000	(60,000)	888,000
Other items - net	139,000	(7,000)	229,000	353,000
Severance	(310,000)	-0-	645,000	-0-
Inventory Obsolescence	(901,000)	272,000	(700,000)	397,000
	$ 1,543,000	$ 3,798,000	$ 1,150,000	$ 3,847,000

BLAIR CORPORATION AND SUBSIDIARY

June 30, 2001

NOTE E - INCOME TAXES - Continued

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

	June 30 2001	December 31 2000
Current net deferred tax assets:		
Doubtful accounts	$13,596,000	$13,048,000
Returns allowances	2,389,000	1,498,000
Inventory obsolescence	1,686,000	2,386,000
Inventory costs	(2,085,000)	(2,085,000)
Vacation pay	1,408,000	1,408,000
Advertising costs	(5,071,000)	(5,011,000)
Severance costs	645,000	-0-
Other items	128,000	484,000
	$12,696,000	$11,728,000
Long-term deferred tax liability:		
Property, plant and equipment	$ 964,000	$ 1,146,000

NOTE F - INVENTORIES

Inventories are valued at the lower of cost or market. Cost of merchandise inventories is determined principally on the last-in, first-out (LIFO) method. Cost of advertising and shipping supplies is determined on the first-in, first-out (FIFO) method. Advertising and shipping supplies include printed advertising material and related mailing supplies for promotional mailings which are generally scheduled to occur within two months. These costs are expensed when mailed. If the FIFO method had been used for all inventories, the total amount would have increased by approximately $6,717,000 at both June 30, 2001 and December 31, 2000.

NOTE G - OTHER INCOME Other income consists of:

	Three Months Ended June 30 2001	Three Months Ended June 30 2000	Six Months Ended June 30 2001	Six Months Ended June 30 2000
Finance charges on time payment accounts	$ 9,536,325	$ 9,496,722	$19,324,657	$18,553,286
Commissions earned	1,020,645	1,004,132	1,909,848	1,745,400
Other items	565,776	1,222,326	1,191,180	2,085,314
	$11,122,746	$11,723,180	$22,425,685	$22,384,000

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

NOTE H - FINANCING ARRANGEMENTS
On November 13, 1998, the Company entered into an amended and restated $95,000,000 Revolving Credit Facility, which expires on November 13, 2001. The interest rate is, at the Company's option, based on a base rate option, swing loan rate option or Euro-rate option as defined in the agreement. The Revolving Credit Facility is unsecured and requires the Company to meet certain covenants, as outlined in the agreement, some of which have been amended since November 13, 1998. These covenants specifically relate to tangible net worth, maintaining a defined leverage ratio, interest coverage ratio and fixed charge coverage ratio and complying with certain indebtedness restrictions. As of June 30, 2001 and December 31, 2000, the Company was in compliance with all the agreement's covenants. At June 30, 2001, the Company had borrowed $50,000,000 all of which was classified as short term and at December 31, 2000, $25,000,000 all of which was classified as short term. As of August 10, 2001, the Company's borrowings outstanding totaled $45,000,000.

NOTE I - NEW ACCOUNTING PRONOUNCEMENTS
Accounting for Derivative Instruments and Hedging Activities The Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company adopted the new statement effective January 1, 2001. The Company has historically not invested in derivative instruments, and as a result, the adoption of this statement has had no impact on the financial statements of the Company.

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

Business Combinations and Goodwill and Other Intangible Assets In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting

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

NOTE J - VOLUNTARY SEPARATION PROGRAM

In the first quarter of 2001, the Company accrued and charged to expense $2.5 million in separation costs. The costs were charged to General and Administrative Expense in the income statement. The one-time $2.5 million charge represents severance pay, related payroll taxes and medical benefits due the 56 eligible employees who accepted the voluntary separation program rather than relocate or accept other positions in the Company. The program was offered to eligible employees of the Blair Mailing Center from which the merchandise returns operations will be relocated and the mailing operations have been outsourced. As of June 30, 2001, $811,915 of the $2.5 million has been paid.

NOTE K - EMPLOYEE STOCK PURCHASE PLAN

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

NOTE L - OMNIBUS STOCK PLAN

The Company has an Omnibus Stock Plan that gives the Company the ability to offer a variety of equity based awards to persons who are key to the Company's growth, development and financial success. Awards are valued in accordance with the terms and conditions of the Omnibus Stock Plan as determined by the Omnibus Stock Plan Committee. Non-qualified stock options totaling 90,519 options were awarded to the executive officers on April 16, 2001. Restricted stock awards totaling 35,400 shares of treasury stock were issued to certain employees on July 19, 2000.

NOTE M - CONTINGENCIES

The Company is involved in certain items of litigation, arising in the normal course of business. While it cannot be predicted with certainty, management believes that the outcome will not have a material effect on the Company's financial condition or results of operations.

NOTE N - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE O - RECLASSIFICATIONS
Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

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

BLAIR CORPORATION AND SUBSIDIARY

June 30, 2001

Results of Operations

Comparison of Second Quarter 2001 and Second Quarter 2000

Net income for the second quarter ended June 30, 2001 was $5,479,266, or $.69 per share, compared to net income of $8,286,370, or $1.04 per share, for the second quarter ended June 30, 2000. The second quarter of 2001 was impacted by $4 million of pre-tax interest income resulting from a favorable Internal Revenue tax settlement. Without the one-time gain in interest income, net income for the 2001 second quarter would have been $2,920,444, or $.37 per share. Results for the 2001 second quarter were affected by lower than expected response rates, uncertain economic conditions and a decrease in consumer spending. The quarter was also negatively impacted by costs associated with investments in several growth initiatives including Crossing Pointe, Blair's men's and women's targeted apparal catalogs and e-commerce. It is expected that these investments will continue, subject to adjustment, during the remainder of the year.

Net sales for the second quarter of 2001 increased to a record level and were 4.5% higher than net sales for the second quarter of 2000. Actual response rates in the second quarter of 2001 were lower than in the second quarter of 2000. Actual response rates were below expected levels in the second quarter of 2001. Gross sales revenue generated per advertising dollar decreased approximately 21% in the second quarter of 2001 as compared to the second quarter of 2000. The total number of orders shipped decreased while the average order size increased in the second quarter of 2001 as compared to the second quarter of 2000. The provision for returned merchandise as a percentage of gross sales increased in the second quarter of 2001 as compared to the second quarter of 2000.

Other income decreased approximately 5% in the second quarter of 2001 as compared to the second quarter of 2000. Other income decreased primarily because the Company has not realized any gain on barter in 2001.

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

Cost of goods sold as a percentage of net sales decreased to 48.1% in the second quarter of 2001 from 49.3% in the second quarter of 2000. The improvement in cost of goods is attributable to stable or declining product costs and the Company's efforts to improve gross margins.

Advertising expense in the second quarter of 2001 increased 32% from the second quarter of 2000. A planned larger advertising effort, a postal rate increase and new marketing growth initiatives (Crossing Pointe, e-commerce and men's and women's targeted apparal catalogs) were primarily responsible for the increased advertising costs in the second quarter of 2001.

The total number of catalog mailings released in the second quarter of 2001 was 38% more than in the second quarter of 2000 (55.9 million vs. 40.6 million). Print advertising for Crossing Pointe (started in third quarter of 2000) is all via catalog and is included in the catalog mailings number for the second quarter of 2001.

The total number of letter mailings released in the second quarter of 2001 was 1% more than in the second quarter of 2000 (31.3 million vs. 30.9 million). Letter mailings are most productive when targeting the Company's female customers and, since mid-year 2000, have been used only to promote our women's apparel lines.

Total volume of the co-op and media advertising programs increased 10% in the second quarter of 2001 as compared to the second quarter of 2000 (303 million vs. 275 million).

Results of Operations - Continued

Comparison of Second Quarter 2001 and Second Quarter 2000 - Continued

The Company launched e-commerce sites for Crossing Pointe, www.crossingpointe.com, and the Blair Online Outlet early in the third quarter of 2000. The Blair website, www.blair.com (including the Online Outlet), was launched late third quarter/early fourth quarter of 2000. A redesigned www.blair.com was introduced in the first quarter of 2001 and features improved navigation and quicker access to our expanded product offerings. The Company has also launched e-commerce sites for Scandia Woods and Irvine Park, new men's targeted apparel catalogs. Over $10 million in e-commerce sales were generated in the first six months of 2001 as compared to $1 million for the first six months of 2000.

General and administrative expense increased 3.2% in the second quarter of 2001 as compared to the second quarter of 2000. The higher general and administrative expense in 2001 was primarily attributable to increased depreciation and amortization.

The provision for doubtful accounts as a percentage of credit sales increased 6.6% in the second quarter of 2001 as compared to the second quarter of 2000. The estimated provision for doubtful accounts is based on current expectations (consumer credit and economic trends, etc...), sales mix (prospect/customer) and current and prior years' experience, especially delinquencies (accounts over 30 days past due) and actual charge-offs (accounts removed from accounts receivable for non-payment). The estimated bad debt rate used for the second quarter of 2001 was approximately 7% higher than the bad debt rate used in the second quarter of 2000. The estimated bad debt rate increased primarily due to a larger credit marketing program to prospects (new customers) and uncertain economic conditions. At June 30, 2001 the delinquency rate of open accounts receivable was approximately 2% lower than at June 30, 2000. The delinquency rate for established credit customers (represents 96.3% of open receivables at June 30, 2001 vs. 95.5% at June 30, 2000) decreased .5%. The charge-off rate for the second quarter of 2001 was 13.4% more than the charge-off rate for the second quarter of 2000, primarily due to the expanded credit-marketing program to prospects. Recoveries of bad debts previously charged off have been credited back against the allowance for doubtful accounts. Credit granting, collection and behavior models continue to be updated and improved, and, along with expanding database capabilities, provide valuable credit-marketing opportunities.

Interest expense increased 74% in the second quarter of 2001 as compared to the second quarter of 2000. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable and inventories. At June 30, 2001, inventories were up 49% and gross customer accounts receivable were down 1.5% as compared to June 30, 2000.

Income taxes as a percentage of income before income taxes were 36.9% in the second quarter of 2001 and 38.0% in the second quarter of 2000. The federal income tax rate was 35% in both years. The decrease in the total income tax rate was caused by a change in the Company's effective state income tax rate.

Results of Operations - Continued

Comparison of Six Month Periods Ended June 30, 2001 and June 30, 2000.

Net income for the six months ended June 30, 2001 was $5,247,320, or $.66 per share, as compared to $15,224,526, or $1.89 per share, for the six months ended June 30, 2000. Results for the first six months of 2001 were affected by lower than expected response rates, uncertain economic conditions and a decrease in consumer spending. The six months of 2001 included $4 million of interest income resulting from a favorable Internal Revenue tax settlement. The one-time gain in interest income increased net income for the first six months of 2001 by $2.6 million, $.32 per share. The six months of 2001 also included a $2.5 million charge attributable to the Company's voluntary separation program. The one-time charge decreased net income for the first six months of 2001 by $1.5 million, $.18 per share.

Net sales for the first six months of 2001 increased to a record level and were 3.5% higher than net sales for the first six months of 2000. Actual response rates in the first six months of 2001 were lower than in the first six months of 2000. Actual response rates were below expected levels in the first six months of 2001. Gross sales revenue generated per advertising dollar decreased approximately 22% in the first six months of 2001 as compared to the first six months of 2000. The total number of orders shipped decreased while the average order size increased in the first six months of 2001 as compared to the first six months of 2000. The provision for returned merchandise as a percentage of gross sales increased in the first six months of 2001 as compared to the first six months of 2000.

Other income was approximately the same in the first six months of 2001 as compared to the first six months of 2000. Increased finance charges were offset by reductions in a number of miscellaneous items, primarily gain on barter.

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

Cost of goods sold as a percentage of net sales decreased to 48.2% in the first six months of 2001 from 49.3% in the first six months of 2000. The improvement in cost of goods is attributable to stable or declining product costs and the Company's efforts to improve gross margins.

Advertising expense in the first six months of 2001 increased 32% from the first six months of 2000. A planned larger advertising effort, a postal rate increase and new marketing growth initiatives (Crossing Pointe, e-commerce and men's and women's targeted apparel catalogs) were primarily responsible for the increased advertising costs in the first six months of 2001.

The total number of catalog mailings released in the first six months of 2001 was 42% more than in the first six months of 2000 (92.9 million vs. 65.5 million). Print advertising for Crossing Pointe (started in third quarter of 2000) is all via catalog and is included in the catalog mailings number for the first six months of 2001.

The total number of letter mailings released in the first six months of 2001 was 10% less than in the first six months of 2000 (48.5 million vs. 54.1 million). Letter mailings are most productive when targeting the Company's female customers and, since mid-year 2000, have been used only to promote our women's apparel lines.

Results of Operations - Continued

Comparison of Six Month Periods Ended June 30, 2001 and June 30, 2000 - Continued

Total volume of the co-op and media advertising programs increased 22% in the first six months of 2001 as compared to the first six months of 2000 (745 million vs. 614 million).

The Company launched e-commerce sites for Crossing Pointe, www.crossingpointe.com, and the Blair Online Outlet early in the third quarter of 2000. The Blair website, www.blair.com (including the Online Outlet), was launched late third quarter/early fourth quarter of 2000. A redesigned www.blair.com was introduced in the first quarter of 2001 and features improved navigation and quicker access to our expanded product offerings. The Company has also launched e-commerce sites for Scandia Woods and Irvine Park, new men's targeted apparel catalogs. Over $10 million in e-commerce sales were generated in the first six months of 2001 as compared to $1 million for the first six months of 2000.

General and administrative expense increased 8.7% in the first six months of 2001 as compared to the first six months of 2000. The higher general and administrative expense in 2001 was primarily attributable to the one-time $2.5 million charge for the Company's voluntary separation program, and to the costs associated with e-commerce, Crossing Pointe and recently introduced men's and women's targeted apparel catalogs. The $2.5 million charge represents the cost of the severance pay, related payroll taxes and medical benefits due the 56 eligible employees who accepted the voluntary separation program rather than relocate or accept other positions in the Company. The program was offered to eligible employees of the Blair Mailing Center from which the merchandise returns operations will be relocated and the mailing operations have been outsourced. As of June 30, 2001, $811,915 of the $2.5 million charge has been paid.

The provision for doubtful accounts as a percentage of credit sales increased 10.4% in the first six months of 2001 as compared to the first six months of 2000. The estimated provision for doubtful accounts is based on current expectations (consumer credit and economic trends, etc...), sales mix (prospect/customer) and current and prior years' experience, especially delinquencies (accounts over 30 days past due) and actual charge-offs (accounts removed from accounts receivable for non-payment). The estimated bad debt rate used for the first six months of 2001 was approximately 10% higher than the bad debts rate used in the first six months of 2000. The estimated bad debt rate increased primarily due to a larger credit marketing program to prospects (new customers) and uncertain economic conditions. At June 30, 2001, the delinquency rate of open accounts receivable was approximately 2% lower than at June 30, 2000. The delinquency rate for established credit customers (represents 96.3% of open receivables at June 30, 2001 vs. 95.5% at June 30, 2000) decreased .5%. The charge-off rate for the first six months of 2001 was 23.4% more than the charge-off rate for the first six months of 2000, primarily due to the expanded credit-marketing program to prospects. Recoveries of bad debts previously charged off have been credited back against the allowance for doubtful accounts. Credit granting, collection and behavior models continue to be updated and improved, and, along with expanding database capabilities, provide valuable credit-marketing opportunities.

Interest expense increased 66% in the first six months of 2001 as compared to the first six months of 2000. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable and inventories. At June 30, 2001, inventories were up 49% and gross customer accounts receivable were down 1.5% as compared to June 30, 2000.

Income taxes as a percentage of income before income taxes were 36.9% in the first six months of 2001 and 37.9% in the first six months of 2000. The federal income tax rate was 35% in both years. The decrease in the total income tax rate was caused by a change in the Company's effective state income tax rate.

Liquidity and Sources of Capital

All working capital and cash requirements for the first six months of 2001 were met. In November 1998, the Company entered into an amended and restated $95,000,000 Revolving Credit Facility, which expires on November 13, 2001. This unsecured Revolving Credit Facility requires the Company to meet certain covenants, some of which have been amended since November 1998, and the Company is in compliance with all the covenants. Borrowings outstanding at June 30, 2001 were $50,000,000, all classified as current. Borrowings outstanding at December 31, 2000 were $25,000,000, all classified as current. AS of August 10, 2001, the Company's borrowings outstanding totaled $45,000,000. The increase in borrowings in 2001 is primarily attributable to the growth in inventories.

The ratio of current assets to current liabilities was 2.70 at June 30, 2001, 2.55 at December 31, 2000 and 3.84 at June 30, 2000. Working capital increased $2,198,266 in the first six months of 2001 primarily due to the net income generated in the second quarter. The 2001 increase was primarily reflected in increased cash and decreased trade accounts payable more than offsetting decreased customer accounts receivable and increased notes payable.

Merchandise inventory turnover was 2.4 at June 30, 2001, 2.8 at December 31, 2000 and 3.0 at June 30, 2000. Merchandise inventory as of June 30, 2001 decreased .5% from December 31, 2000 and increased 49% from June 30, 2000. Inventory levels have increased since June 30, 2000 due to lower than expected response rates since mid-2000 and the introduction of new catalogs in late 2000 and early 2001. Sales mailings will be increased in the third quarter of 2001 to help bring inventory levels down.

An operating segment is identified as a component of an enterprise for which separate financial information is available for evaluation by the chief decision maker, or decision making group, in deciding on how to allocate resources and assess performance. The Company operates as one business segment consisting of four product lines. The fourth product line, Crossing Pointe, was added in the third quarter of 2000 and is expected to become a significant revenue source over the next few years. Home Products net sales as a percentage of total net sales were 13.4% ($39.9 million) in the first six months of 2001 as compared to 14.0% ($40.1 million) in the first six months of 2000. Menswear net sales as a percentage of total net sales were 18.9% ($56.1 million) as compared to 19.6% ($56.2 million). Womenswear net sales as a percentage of total net sales were 65.5% ($194.6 million) as compared to 66.4% ($190.8 million). Crossing Pointe net sales as a percentage of total net sales were 2.2 % ($6.5 million) in the first six months of 2001. Home Products merchandise inventory totaled $11.5 million at June 30, 2001, $17.1 million at December 31, 2000 and $17.0 million at June 30, 2000. Menswear merchandise inventory was $20.6 million at June 30, 2001, $20.7 million at December 31, 2000 and $13.7 million at June 30, 2000. Womenswear merchandise inventory was $58.7 million at June 30, 2001, $54.3 million at December 31, 2000 and $31.4 million at June 30, 2000. Crossing Pointe merchandise inventory was $3.6 million at June 30, 2001, $2.8 million at December 31, 2000 and $1.2 million at June 30, 2000.

The Company looks upon its credit granting (Blair Credit) as a marketing advantage. In the early 1990's, the Company started extending revolving credit to first-time (prospect) buyers. Blair Credit was offered only to established customers prior to that time. Prospects responded. This led to a broad offering of pre-approved lines of credit to prospects in 1995 and 1996. Sales, accounts receivable and bad debts expectedly increased. However, as the receivables aged, bad debts greatly exceeded expected levels. The Company recognized that it didn't have all the necessary credit controls in place and put a hold (second quarter 1996) on pre-approved credit offers and reviewed and strengthened (mid-1996 and on) credit controls. Blair Credit customers, on average, buy more, buy more often and are more loyal than cash and credit

Liquidity and Sources of Capital - Continued

card customers. The benefit from the increased sales volume achieved by offering Blair Credit is significant and more than outweighs the cost of the credit program. The cost and/or contribution of the credit program itself can be quickly assessed by comparing finance charges (included in other income) to the provision for doubtful accounts. For the first six months of 2001, finance charges were $19.3 million and the provision for doubtful accounts was $17.8 million (net of $1.6 million) as compared to the first six months of 2000, finance charges were $18.6 million and the provision for doubtful accounts was $16.3 million (net of $2.2 million). This assessment does not take into consideration the administrative cost of the credit program (included in general and administrative expense), the cost of money and the impact on sales. The Company's gross credit sales decreased approximately 1% in the first six months of 2001 as compared to the first six months of 2000.

The Company has added new facilities, modernized its existing facilities and acquired new cost-saving equipment during the last several years. Capital expenditures for property, plant and equipment totaled $4.5 million during the first six months of 2001 and $6.2 million during the first six months of 2000. Capital expenditures had been projected to be $15 million plus for each of the years 2001 and 2002 and nearly $10 million for 2003. However, capital expenditures for 2001 will be delayed due to the current economic conditions. This includes slowing the implementation of the previously announced $23 million modernization and enhancement of the Company's fulfillment operations. Capital expenditures for the year 2001 are now projected to be $8 million.

As of the filing date of this report, the Company has not declared a quarterly dividend that would be payable on September 15, 2001. The dividend declaration will be considered on August 20, 2001, it is the Company's intent to continue paying dividends; however, the Company will evaluate its dividend practice on an on-going basis. See "Future Considerations."

The Company has, from the fourth quarter of 1996 through the year 2000, repurchased a total of 1,620,940 shares of its Common Stock - 864,720 shares purchased on the open market and 756,220 shares from the Estate of John L. Blair. In 2000, the Company purchased 268,704 shares on the open market. No shares have been repurchased in 2001.

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

Impact of Inflation and Changing Prices

Although inflation has moderated in our economy, the Company is continually seeking ways to cope with its impact. To the extent permitted by competition, increased costs are passed on to customers by selectively increasing selling prices over a period of time. Profit margins have been pressured by paper cost and postal rate increases. Paper prices were higher in 1998 than in 1997, lower in 1999 than in 1998, again higher in 2000 than in 1999 and stable to declining at this time. Postal rates increased on January 10, 1999, on January 7, 2001 and again on July 1, 2001.

The Company principally uses the LIFO method of accounting for its merchandise inventories. Under this method, the cost of products sold reported in the financial statements approximates current costs and thus reduces distortion in reported income due to increasing costs. The charges to operations for depreciation represent the allocation of historical costs incurred over past years and are significantly less than if they were based on the current cost of productive capacity being used.

Property, plant and equipment are continuously being expanded and updated. Major projects are discussed under Liquidity and Sources of Capital. Assets acquired in prior years will, of course, be replaced at higher costs but this will take place over many years. New assets, when acquired, will result in higher depreciation charges, but in many cases, due to technological improvements, savings in operating costs should result.

Accounting Pronouncement

In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued. Statement No. 133 provides new guidelines for accounting for derivative instruments and requires companies to recognize all derivatives on the balance sheet at fair value. Gains or losses resulting from changes in the values of the derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company adopted Statement No. 133 effective January 1, 2001. The adoption of Statement No. 133 did not have an impact on the financial statements of the Company, as the Company has historically not invested in derivative instruments.

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

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

Future Considerations

The Company is faced with the ever-present challenge of maintaining and expanding the customer file. This involves the acquisition of new customers (prospects), the conversion of new customers to established customers (active repeat buyers) and the retention and/or reactivation of established customers. These actions are vital in growing the business but are being impacted by increased operating costs, a declining labor pool, increased competition in the retail sector, high levels of consumer debt and varying consumer response rates.

The Company's marketing strategy includes targeting customers in the "40 to 60, low-to-moderate income" market and in the "60+, low-to-moderate income" market. The "40 to 60" market, is the fastest growing segment of the population. Success of the Company's marketing strategy requires investment in database management, financial and operating systems, prospecting programs, catalog marketing, new product lines, telephone call centers, Internet commerce and fulfillment capabilities and capacity. Management believes that these investments should improve Blair Corporation's position in new and existing markets and provide opportunities for future earnings growth.

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

Forward-looking statements in this 10-Q report, including without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Such forward-looking statements are included in, but not limited to, the following sections of the report.

- The paragraph on the provision for doubtful accounts in the Results of Operations, Comparison of Second Quarter 2001 and Second Quarter 2000.

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

- The paragraph on merchandise inventory in Liquidity and Sources of Capital.

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

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

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

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

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

- The Impact of Inflation and Changing Prices.

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

Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth, accounts receivable and inventory; and (iii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

PART II. OTHER INFORMATION

BLAIR CORPORATION AND SUBSIDIARIES

June 30, 2001

ITEM 1. Legal Proceedings

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

Item 2. Changes in Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

(a) The Company's Annual Meeting of Stockholders was held April 17, 2001.

(b) At the Annual Meeting of Stockholders, all of the Company's directors were elected at said meeting, as follows:

David A. Blair	6,879,625 Votes For,	97,480 Votes Withheld
Robert W. Blair	6,881,025 Votes For,	96,080 Votes Withheld
Steven M. Blair	6,871,425 Votes For,	105,680 Votes Withheld
Robert D. Crowley	6,880,975 Votes For,	96,130 Votes Withheld
John O. Hanna	6,879,775 Votes For,	97,330 Votes Withheld
Gerald A. Huber	6,874,451 Votes For,	102,654 Votes Withheld
Craig N. Johnson	6,877,461 Votes For,	99,644 Votes Withheld
Murray K. McComas	6,349,512 Votes For,	627,593 Votes Withheld
Thomas P. McKeever	6,875,474 Votes For,	101,631 Votes Withheld
Kent R. Sivillo	6,880,875 Votes For,	96,230 Votes Withheld
Blair T. Smoulder	6,880,848 Votes For,	96,257 Votes Withheld
John E. Zawacki	6,417,139 Votes For,	559,966 Votes Withheld

Since all of the directors of the Company were elected at the Annual Meeting of Stockholders, there are no directors whose term of office as a director continued after the meeting.

(c) The following other matter was voted upon at the meeting, and the following number of affirmative votes and negative votes were cast with respect to such matter:

The reappointment by the Company's Board of Directors of the firm of Ernst & Young LLP as independent certified public accountants to examine the financial statements and perform the annual audit of the Company for the year ending December 31, 2001 was ratified. This matter received 6,926,080 affirmative votes, 32,137 negative votes and 18,887 votes withheld.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

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

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

** Incorporated by reference to Exhibit 4.3 to the Form S-8 Registration Statement filed with the SEC on July 19, 2000 (SEC File No. 333-41770).

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

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

SIGNATURE

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

BLAIR CORPORATION

(Registrant)

Date August 10, 2001

By KENT R. SIVILL0

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