NAUTICA ENTERPRISES INC
Form 10-Q
January 11, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

(x) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 1, 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 0-6708

Nautica Enterprises, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	95-2431048
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
40 West 57th Street, New York, N.Y.	10019
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, including Area Code (212) 541-5757

(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 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 X No

APPLICABLE ONLY TO ISSUERS INVOLVED IN
BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of Common Stock outstanding as of January 11, 2002 was 33,174,490.

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES

DECEMBER 1, 2001
(unaudited)

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

ASSETS	(unaudited) December 1, 2001	March 3, 2001

Current assets:		
Cash and cash equivalents	$ 28,406	$ 36,674
Short-term investments	6,074	5,546
Accounts receivable - net	118,728	105,269
Inventories	91,184	98,021
Prepaid expenses and other current assets	6,030	7,477
Deferred tax benefit	12,016	10,859
Total current assets	262,438	263,846
Property, plant and equipment - net of accumulated depreciation and amortization	124,312	101,361
Goodwill - net of accumulated amortization	66,665	5,243
Other assets	9,315	7,856
	$ 462,730	$ 378,306
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 754	$ --
Notes payable	30,000	--
Accounts payable - trade	29,093	43,881
Accrued expenses and other current liabilities	42,992	37,613
Income taxes payable	15,225	11,548
Total current liabilities	118,064	93,042
Long-term liabilities:		
Long-term debt - net	14,321	--
Interest rate swap liability	822	--
Total long-term liabilities	15,143	--
Stockholders' equity:		
Preferred stock - par value $.01; authorized, 2,000,000 shares; no shares issued	--	--
Common stock - par value $.10; authorized, 100,000,000 shares; issued 44,672,000 shares at December 1, 2001 and 43,329,000 shares at March 3, 2001	4,467	4,333
Additional paid-in capital	92,141	71,766
Retained earnings	393,802	368,148
Accumulated other comprehensive (loss) - net of deferred tax benefit of $1,157	(1,904)	--
	488,506	444,247
Less:		
Common stock in treasury - at cost; 11,498,000 shares at December 1, 2001 and March 3, 2001	(158,983)	(158,983)
Total stockholders' equity	329,523	285,264

	$ 462,730	$ 378,306
	=========	=========

The accompanying notes are an integral part of these statements.

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(amounts in thousands, except share data)

	(unaudited)		
	Nine Months Ended December 1, 2001	Nine Months Ended December 2, 2000	T De
Net sales	$ 535,486	$ 469,527	
Cost of goods sold	313,544	275,208	
Gross profit	221,942	194,319	
Selling, general and administrative expenses	186,595	148,644	
Net royalty income	(6,244)	(6,256)	
Operating profit	41,591	51,931	
Interest income (expense) - net	(347)	2,025	
Earnings before provision for income taxes	41,244	53,956	
Provision for income taxes	15,590	20,935	
NET EARNINGS	$ 25,654	$ 33,021	
Net earnings per share of common stock:			
Basic	$ 0.78	$ 1.03	
Diluted	$ 0.75	$ 1.00	
Weighted average number of common shares outstanding:			
Basic	32,864,000	31,915,000	
Diluted	34,304,000	33,179,000	
Cash dividends per common share	none	none	

The accompanying notes are an integral part of these statements.

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Nine Month Ended December 1,
CASH FLOWS FROM OPERATING ACTIVITIES	
Net earnings	$ 25,654
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	21,258
Provision for bad debts	5,184
Changes in operating assets and liabilities, net of acquisitions	
Short-term investments	(528)
Accounts receivable	(14,674)
Inventories	17,025
Prepaid expenses and other current assets	1,471
Other assets	(1,633)
Accounts payable - trade	(16,703)
Accrued expenses and other current liabilities	(868)
Income taxes payable	3,677
Total adjustments	14,209
Net cash provided by operating activities	39,863
CASH FLOWS FROM INVESTING ACTIVITIES	
Payment for purchase of Earl Jean, Inc.	(48,601)
Payment for purchase of childrenswear business	(6,681)
Purchase of property, plant and equipment	(39,967)
Net cash (used in) investing activities	(95,249)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from long-term debt	15,075
Proceeds from notes payable	30,000
Purchase of treasury stock	--
Proceeds from issuance of common stock	2,043
Net cash provided by (used in) financing activities	47,118
(Decrease) increase in cash and cash equivalents	(8,268)
Cash and cash equivalents at beginning of period	36,674

Cash and cash equivalents at end of period	$ 28,406
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	$ 1,431
Cash paid during the period for income taxes	$ 12,042

The accompanying notes are an integral part of these statements.

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 1, 2001
(unaudited)
(amounts in thousands, except share data)

NOTE 1 - The accompanying financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. 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. These statements include all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of financial position and results of operations. The financial statements included herein should be read in conjunction with the financial statements and notes thereto included in the latest annual report on Form 10-K.

NOTE 2 - The results of operations for the nine-month period ended December 1, 2001 are not necessarily indicative of the results to be expected for the full year.

NOTE 3 - Certain amounts in the prior year period have been reclassified to conform with classifications used at December 1, 2001.

NOTE 4 - The Company utilized the last-in, first-out "LIFO" method for certain wholesale inventories as at December 1, 2001 and March 3, 2001 and for the nine and three-month periods ended December 1, 2001 and December 2, 2000. The "LIFO" inventory for the nine and three-month periods ended December 1, 2001 and December 2, 2000 are based upon end of year estimates. Inventories at December 1, 2001 and March 3, 2001 consist primarily of finished goods.

NOTE 5 - As of December 1, 2001 and March 3, 2001, the Company had $175,000 and $150,000, respectively, in lines of credit with four commercial banks. Such lines of credit are available for short-term borrowings and letters of credit, collateralized by imported inventory and accounts receivable. At December 1, 2001 and March 3, 2001, letters of credit outstanding under the lines were $43,272 and $58,600, respectively. At December 1, 2001, there

was $30,000 of short-term borrowings outstanding with the four commercial banks. The short-term borrowings have various interest rates ranging from 70 - 100 basis points above the London Interbank Offered Rate (LIBOR) and mature on various dates through December 31, 2001. Subsequent to December 1, 2001, the $30,000 of short-term borrowings was repaid.

NOTE 6 - Basic net earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding for the period. Diluted net earnings per share reflects the weighted-average common shares outstanding plus the potential dilutive effect of options, which are convertible into common shares. Options which were excluded from the calculation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the common shares and, therefore, would be anti-dilutive, were 2,179,600 and 2,357,700 during the nine months ended and 2,635,100 and 2,357,700 during the three months ended December 1, 2001 and December 2, 2000, respectively.

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 1, 2001
(unaudited)
(amounts in thousands, except share data)

NOTE 7 - The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by the Company's senior management.

The Company has the following two reportable segments: Wholesale and Retail. The Wholesale segment designs, markets, sources and distributes sportswear, activewear, outerwear, a jeans collection, a tailored clothing collection, robes and sleepwear for men, and a jeans collection, robes and sleepwear for women, to retail store customers. The Retail segment sells men's and women's apparel and other Nautica-branded products primarily through retail store locations directly to consumers.

The reportable segments are distinct business units, separately managed with different distribution channels.

	Wholesale	Retail	All other	Corpor elimina
FOR THE NINE MONTHS ENDED DECEMBER 1, 2001				
Net sales	$406,977	$128,509	$ --	$ -
Segment operating profit (loss)	30,254	12,384	6,243	(7,29
Segment assets	320,865	69,784	9,084	62,99
Depreciation expense	15,015	1,919	321	1,53
Capital expenditures	27,797	9,961	--	2,20

FOR THE NINE MONTHS ENDED DECEMBER 2, 2000				
Net sales	$356,127	$113,400	$ --	$ -
Segment operating profit (loss)	35,187	16,863	6,792	(6,91
Segment assets	220,957	56,148	9,014	75,90
Depreciation expense	13,468	1,295	223	1,13
Capital expenditures	14,882	1,445	16	3,35

	Wholesale	Retail	All other	Corpor elimina
FOR THE THREE MONTHS ENDED DECEMBER 1, 2001				
Net sales	$152,786	$ 48,254	$ --	$
Segment operating profit (loss)	17,778	4,755	2,042	(2,3
Segment assets	320,865	69,784	9,084	62,9
Depreciation expense	4,900	705	106	5
Capital expenditures	7,536	3,075	--	2
FOR THE THREE MONTHS ENDED DECEMBER 2, 2000				
Net sales	$136,541	$ 42,087	$ --	$
Segment operating profit (loss)	18,774	6,915	2,560	(1,8
Segment assets	220,957	56,148	9,014	75,9
Depreciation expense	4,443	473	62	3
Capital expenditures	9,126	164	--	1,2

NAUTICA ENTERPRISES, INC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
DECEMBER 1, 2001
(unaudited)
(amounts in thousands, except share data)

Net sales from external customers represent sales in the United States, except for foreign sales of $6,384 and $6,497 for the nine months ended December 1, 2001 and December 2, 2000, respectively.

In the Corporate/eliminations column, the segment assets primarily consist of the Company's cash and investment portfolio at December 1, 2001 and December 2, 2000. The segment operating profit (loss) in the Corporate/eliminations column consists of corporate overhead expenses.

NOTE 8 - During the nine months ended December 1, 2001, the Company's licensing unit terminated its license agreement with Hampton Industries, Inc. ("Hampton") to market Nautica childrenswear, and established a new business unit to assume certain of its operations. The Company made a payment to Hampton of approximately $6,681 for the purchase of inventory and certain other assets related to the Nautica childrenswear business, and agreed to forgive specific royalties and other expenses associated with the license agreement contingent upon Hampton satisfactorily performing certain distribution and logistics functions for the Company, for a

period of time.

NOTE 9 - On April 30, 2001, the Company, through a wholly-owned subsidiary, acquired substantially all of the assets and assumed certain liabilities of Earl Jean, Inc. ("Earl Jean"), a privately held corporation. Earl Jean is a leading designer, manufacturer, wholesaler, retailer and marketer of luxury women's jeanswear and related apparel. The purchase price was $45,000 in cash, 1,122,271 newly issued shares of the Company's restricted common stock (valued at $18,466) and an additional cash payment of approximately $1,852 for excess working capital. Furthermore, additional consideration of up to $21,000 in cash may be earned if certain performance standards are met during fiscal 2003-2012. The source of the cash consideration was a combination of general corporate funds and short-term borrowings from the Company's existing line of credit made in the ordinary course of business with certain banks. The acquisition was accounted for under the purchase method of accounting for business combinations and the results of operations of Earl Jean have been recorded from the date of acquisition. The purchase price plus acquisition expenses were allocated to Earl Jean's assets and liabilities based on their estimated fair value. The excess of the purchase price over the estimated fair value of the net assets acquired of $60,011 is being amortized on a straight-line basis over twenty years.

At December 1, 2001, the Company was still compiling certain information required to complete the allocation of the purchase price of Earl Jean. Further adjustments may arise as a result of the finalization of the ongoing review.

The following unaudited pro forma condensed results of operations reflect the acquisition of Earl Jean as if it had occurred on March 4, 2001 and March 5, 2000, respectively. The revenues and results of operations included in the following pro forma unaudited condensed statements of operations is not necessarily considered indicative of the results of operations for the periods specified had the transaction actually been completed at the beginning of the period.

	(unaudited)	
	Nine Months Ended December 1, 2001	Nine Months Ended December 2, 2000
Pro forma net sales	$ 541,622	$ 493,831
Pro forma net earnings	26,653	33,674
Pro forma net earning per share of common stock:		
Basic	$ 0.81	$ 1.02

Diluted	0.78	0.98

NOTE 10 - A supplemental schedule of non-cash investing and financing activities to the Company's Statement of Cash Flows is presented below.

The Company acquired substantially all of the assets of Earl Jean for $48,601 in cash, including acquisition expenses, and $18,466 in common stock. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	$ 69,415
Cash paid	(48,601)
Common stock issued	(18,466)
Liabilities assumed	$ 2,348

NOTE 11 - On July 31, 2001, the Company entered into a loan agreement with HSBC Bank USA ("HSBC"). The loan, in the maximum amount of $15,075, is being used to finance a portion of the construction and development of the new distribution facility in Martinsville, Virginia. The loan is secured by a deed of trust on the distribution facility.

A portion of the loan equal to $13,500 was advanced on July 31,2001. This advance called for interest only payments at the end of each month, commencing August 31, 2001, and was based on the one-month LIBOR rate plus 1.00%.

On November 30, 2001, the remaining portion of the loan, $1,575, was advanced and the term of the loan was fixed at seven years. Principal payments of $188 and interest payments are due at the end of each calendar quarter, commencing March 28, 2002. Interest will be computed based on the three-month LIBOR rate plus 1.00%. The loan agreement provides for various financial and restrictive covenants including, among others, tangible net worth, minimum fixed charges and minimum funded debt. The loan will mature on November 28, 2008, at which time the entire outstanding loan balance of $9,987 will be due and payable.

The Company entered into a swap agreement with HSBC, effective November 30, 2001, to hedge against interest rate fluctuations. This agreement effectively converts the loan from a variable interest rate to a fixed interest rate of 6.95% per annum. If the three-month LIBOR rate plus 1.00% is more than 6.95%, then HSBC will pay the difference to the Company. If the three-month LIBOR rate plus 1.00% is less than 6.95%, then the Company will pay the difference to HSBC. The net interest paid

(unaudited)
(amounts in thousands, except share data)

or received under this agreement is included in interest expense. The Company has adopted Statement of Financial Accounting Standards ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, which requires companies to record all derivative instruments as assets or liabilities on the balance sheet, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. In accordance with the guidelines of SFAS 133, the Company classified the swap as a cash flow hedge. The fair value of the swap resulted in the Company recording a long-term liability of $822 and a loss in other comprehensive income, net of taxes, of $511. The fair value is based upon the estimated amount that the Company would have to pay to terminate the agreement, as determined by HSBC.

NOTE 12 - For the three and nine months ended December 1, 2001, comprehensive income was as follows:

	(unaudited) Nine Months Ended December 1, 2001	Three Months Ended December 1, 2001
Net earnings	$ 25,654	$ 13,585
Other comprehensive (loss), net of taxes:		
Foreign currency translation adjustments	(1,393)	(1,393)
Unrealized loss on interest rate swap	(511)	(511)
Comprehensive income	$ 23,750	$ 11,681

NOTE 13 - On November 2, 2001, the Company's Board of Directors adopted a Stockholder Rights Plan that entitled stockholders of record on November 12, 2001 to receive a dividend distribution of one Right for each share of common stock held. The Rights, which expire on November 12, 2011, entitle stockholders to purchase from the Company a unit consisting of 1/100 of a share of Series A Junior Participating Preferred Stock at a price of $60 per unit, subject to adjustment. The Rights will become exercisable only if a person or group, other than the current Chairman of the Board, acquires 15% or more of the Company's common stock.

NOTE 14 - In April 2001, the Financial Accounting Standards Board's Emerging Issues Task Force reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to

a Reseller of the Vendor's Products." This issue concluded that consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration characterized as a cost incurred if a benefit is or will be received from the recipient of the consideration if certain conditions are met. This pronouncement is effective for the Company's first quarter of the year ending March 1, 2003. The Company has not yet determined the impact of adopting this pronouncement on its consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations." This statement requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and establishes criteria to separately recognize intangible assets apart from goodwill. The Company does not believe that the adoption of this pronouncement will have a material impact on its consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS 142, "Goodwill and Other Intangible Assets." This statement requires that goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective in the first quarter of the year ending March 1, 2003, goodwill and intangible assets with indefinite lives will no longer be amortized and will be tested for impairment using the guidance for measuring impairment set forth in this statement. The Company has not yet determined the impact of adopting this pronouncement on its consolidated financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment of long-lived assets and assets to be disposed of. This statement supersedes FASB 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", however, it retains the fundamental provisions of FASB 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 is effective for the Company's first quarter of the year ending March 1, 2003. The Company has not yet determined the impact of adopting this pronouncement on its consolidated financial statements.

NOTE 15 - Subsequent to December 1, 2001, the Company entered into a Sale and Cancellation Agreement with the Vice Chairman of the Company, to purchase and cancel all rights under a Letter Agreement

dated May 1, 1998 ("1998 Agreement") for $5,600. The 1998 Agreement entitled the Vice Chairman to receive a payment, subject to certain limitations, of 1.5% on the net sales of certain merchandise sold by various subsidiaries of the Company. Under the Sale and Cancellation Agreement, all current and future obligations arising from the 1998 Agreement have been cancelled, including approximately $1,200 that the Company has been accruing for the current year. As a result of the cancellation of the 1998 Agreement, the Company will incur a one-time charge of approximately $4,600 in the fourth quarter.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (unaudited)

RESULTS OF OPERATIONS

For the Nine Months Ended December 1, 2001:

Net sales increased 14.0% to $535.5 million in the nine months ended December 1, 2001 from $469.5 million in the comparable prior year period. The increase in sales is due primarily to increased unit volume rather than price increases. The reported sales reflect a 14.3% increase in the Wholesale segment to $407.0 million from $356.1 million and a 13.3% increase in the Retail segment to $128.5 million from $113.4 million. The growth in the Wholesale segment, despite a low single-digit decrease in core sportswear, was driven by sales in certain product lines, including Men's and Women's Jeans, Men's Sleepwear, Earl Jean, Nautica Childrenswear and John Varvatos, offset in part by the discontinuation of the Nautica Sport Tech ("NST") brand. Excluding NST brand products, which were discontinued in the prior year, Wholesale segment sales would have increased 16.5%. The increase in Retail segment sales is primarily a result of sales from six new outlet stores and two full-price stores opened since the first quarter of last year. Also, the Retail segment was successful in selling through its excess inventory, resulting in lower inventory levels that are now in line with the Company's plan. Same store sales for the period were up 1.6% from the comparable prior year period, despite a difficult retail environment.

Gross profit for the period was 41.4%, equal to the comparable prior year period. Despite a significant amount of promotional activity and the sell-through of excess inventory in the retail outlet stores, the Company was able to keep its gross profit percentage stable due primarily to the continued effort from the Company's operating teams to better source products, and the impact of higher margins on certain new product lines, particularly Earl Jean. In addition, the gross profit for the period included additional inventory reserves taken in the Nautica Europe business unit.

Selling, general and administrative expenses ("SG&A") increased by $38.0 million to $186.6 million in Fiscal 2002 from $148.7 million in Fiscal 2001. SG&A expenses, as a percentage of net sales, increased to 34.8% in Fiscal 2002 from 31.7% in Fiscal 2001. The increase as a percentage of net sales is due to several factors: costs and charges, principally bad debts, associated with the Nautica Europe business unit; the continued investment in the Company's new distribution facility in Martinsville, Virginia; costs associated with the introduction of a new trademark; and investments in new businesses.

Net royalty income remained essentially flat at $6.2 million in comparison to the prior year period. Sales strength in men's fragrance and home products plus the recognition of a settlement from the termination of the men's footwear license were offset in part by the termination of the childrenswear license, as the Company established a business unit to assume the operations of

the Nautica childrenswear business during the current year period.

Interest income (expense) resulted in an expense of $.3 million compared to income of $2.0 million in the prior year period. The decrease is due to interest expense of approximately $1.5 million on the Company's short and long-term borrowings, and lower average cash balances as a result of the cash paid for the acquisition of Earl Jean. Working capital needs, particularly to support the Company's new businesses, also contributed to the lower average cash balances.

The provision for income taxes decreased to 37.8% from 38.8% of earnings before income taxes in the comparable prior year period. The decrease is due primarily to a reduction in the effective state income tax rates.

Net earnings were $25.7 million compared to $33.0 million in the prior year period as a result of the factors discussed above.

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For the Three Months Ended December 1, 2001:

Net sales increased 12.5% to $201.0 million in the three months ended December 1, 2001 from $178.6 million in the comparable prior year period. The increase in sales is due primarily to increased unit volume rather than price increases. The reported sales reflect an 11.9% increase in the Wholesale segment to $152.8 million from $136.5 million and a 14.7% increase in the Retail segment to $48.3 million from $42.1 million. The growth in the Wholesale segment, despite a mid single-digit decrease in core sportswear, was driven by sales in certain product lines, including Men's and Women's Jeans, Men's Sleepwear, Earl Jean and Nautica Childrenswear. The increase in Retail segment sales is a result of sales from new stores opened since the third quarter of last year plus the sell-through of excess inventory in the outlet stores. Same store sales for the period were up 4.6% from the comparable prior year period, reflecting the sell-through of the excess inventory and despite a difficult retail environment.

Gross profit for the period was 40.4% compared to 41.6% in the comparable prior year period. The decrease is due primarily to the sell-through of excess inventory in the retail outlet stores and additional inventory reserves taken in the Nautica Europe business unit. This decrease was offset in part by the continued effort from the Company's operating teams to better source products, and the impact of higher margins on certain new product lines, particularly Earl Jean.

Selling, general and administrative expenses ("SG&A") increased by $10.6 million to $61.0 million in Fiscal 2002 from $50.3 million in Fiscal 2001. SG&A expenses, as a percentage of net sales, increased to 30.3% in Fiscal 2002 from 28.2% in Fiscal 2001. The increase as a percentage of net sales is principally due to the continued investment in the new distribution facility and the investment in new businesses such as the men's line of Earl Jean scheduled to launch this fall and Nautica Underwear for men, which was launched in the current quarter.

Net royalty income decreased $0.6 million to $2.0 million in Fiscal 2002 from $2.6 million in Fiscal 2001. Increases in home products were offset by the termination of the childrenswear license, as the Company established a business unit to assume the operations of the Nautica childrenswear business during Fiscal 2002.

Interest income (expense) resulted in an expense for the quarter of $.4 million compared to income of $.6 million in the comparable prior year period. The decrease is due to interest expense of approximately $.7 million on the

Company's short and long-term borrowings, and lower average cash balances as a result of the cash paid for the acquisition of Earl Jean. Working capital needs, particularly to support the Company's new businesses, also contributed to the lower average cash balances.

The provision for income taxes decreased to 37.8% from 38.8% of earnings before income taxes in the comparable prior year period. The decrease is due primarily to a reduction in the effective state income tax rates.

Net earnings were $13.6 million compared to $16.5 million in the prior year period as a result of the factors discussed above.

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LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended December 1, 2001, the Company generated cash from operating activities of $39.9 million, principally from net earnings. Accounts receivable for the nine-month period increased $14.7 million and were financed principally by cash generated from net earnings and an increase in short-term borrowings. Accounts receivable were 29.4% higher than the same period in the prior year due mainly to the increase in wholesale sales and the timing of shipments, with a higher percentage occurring in the last part of the quarter. Inventory for the nine-month period decreased $17.0 million due mainly to the sales of excess inventory through the retail outlets and the Company's efforts to better manage the timing of receipts with demand and to reduce its replenishment excess. Inventory was $5.0 million or 5.2% lower than the same period in the prior year due to these same reasons. During the nine months ended December 2, 2000, the Company generated cash from operating activities of $67.6 million principally from net earnings and a $28.6 million transfer of certain marketable securities into cash equivalents. Increases in accounts receivable and inventory of $5.7 and $22.3 million, respectively, resulted from increased sales, and were financed principally by cash generated from net earnings, and increases in accounts payable and accrued expenses. Accounts receivable were 14.5% lower than the same period in the prior year due to the timing of shipments, with a lower percentage occurring in the last part of the quarter. Inventory was 38.6% higher than the same period in the prior year due to increased sales and the timing of merchandise received.

During the nine months ended December 1, 2001, the Company's principal investing activities related primarily to the acquisitions of Earl Jean and the Nautica childrenswear business, the purchase of property, plant and equipment for the Nautica in-store shop program, the completion of the new distribution facility and the completion of a new full-price retail store in New York's Rockefeller Plaza. The Company expects to continue to incur capital expenditures to expand the in-store shop program, and to open additional retail stores. At December 1, 2001, there were no other material commitments for capital expenditures.

The Company has a total of $175.0 million in lines of credit with four commercial banks available for short-term borrowings and letters of credit. These lines are collateralized by imported inventory and accounts receivable. At December 1, 2001 and March 3, 2001, letters of credit outstanding under the lines were $43.3 million and $58.6 million, respectively. At December 1, 2001, there were $30.0 million of short-term borrowings outstanding and $15.1 million of long-term borrowings outstanding, inclusive of its current portion.

Historically, the Company has experienced its highest level of sales in the second and third quarters and its lowest level in the first and fourth quarters due to seasonal patterns. In the future, the timing of seasonal shipments may vary by quarter. The Company anticipates that internally generated

funds from operations, existing cash balances, short-term investments and the Company's existing credit lines will be sufficient to satisfy its cash requirements.

INFLATION AND CURRENCY FLUCTUATIONS

The Company believes that inflation and the effect of fluctuations of the dollar against foreign currencies have not had a material effect on the cost of imports or the Company's results of operations.

NEW ACCOUNTING PRONOUNCEMENTS

In April 2001, the Financial Accounting Standards Board's Emerging Issues Task Force reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." This issue concluded that consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration characterized as a cost incurred if a benefit is or will be received from the recipient of the consideration if certain conditions are met. This pronouncement is effective for the Company's first quarter of the year ending March 1, 2003. The Company has not yet determined the impact of adopting this pronouncement on its consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations." This statement requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and establishes criteria to separately recognize intangible assets apart from goodwill. The Company does not believe that the adoption of this pronouncement will have a material impact on its consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS 142, "Goodwill and Other Intangible Assets." This statement requires that goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective in the first quarter of the year ending March 1, 2003, goodwill and intangible assets with indefinite lives will no longer be amortized and will be tested for impairment using the guidance for measuring impairment set forth in this statement. The Company has not yet determined the impact of adopting this pronouncement on its consolidated financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment of long-lived assets and assets to be disposed of. This statement supersedes FASB 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", however, it retains the fundamental provisions of FASB 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 is effective for the Company's first quarter of the year ending March 1, 2003. The Company has not yet determined the impact of adopting this pronouncement on its consolidated financial statements.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Certain statements in this Form 10-Q and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases, and in oral statements made by or with the approval of authorized personnel constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on the Company's current expectations of future events and are subject to a number of risks and uncertainties that may cause the Company's actual results to differ materially from those described in the forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. These factors and uncertainties include, among others: the risk that new businesses of the Company will not be integrated successfully; the overall level of consumer spending on apparel; dependence on sales to a limited number of large department store customers; risks related to extending credit to customers; actions of existing or new competitors and changes in economic or political conditions in the markets where the Company sells or sources its products; risks associated with consolidations, restructuring and other ownership changes in the retail industry; changes in trends in the market segments in which the Company competes; risks associated with uncertainty relating to the Company's ability to launch, support and implement new product lines in the United States and Europe; effects of competition; changes in the costs of raw materials, labor and advertising; and, the ability to secure and protect trademarks and other intellectual property rights. These and other risks and uncertainties are disclosed from time to time in the Company's filings with the Securities and Exchange Commission, in the Company's press releases and in oral statements made by or with the approval of authorized personnel. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure about interest rate risk

The Company finances its capital needs through available capital, future earnings, bank lines of credit and its long-term debt which totals $15.1 million, inclusive of its current portion. The Company's exposure to market risk for changes in interest rates are primarily in its investment portfolio and its short and long-term borrowings. The Company, pursuant to investing guidelines, mitigates exposure on its investments by limiting maturity, placing investments with high credit quality issuers and limiting the amount of credit exposure to any one issuer. All of the Company's indebtedness, including borrowings under its $175 million lines of credit and long-term debt, bear interest at variable rates. Accordingly, changes in interest rates would impact the Company's results of operations in future periods. The Company entered into a swap agreement, effective November 30, 2001, to hedge against interest rate fluctuations on its long-term debt. The swap agreement effectively converts the long-term debt from a variable interest rate to a fixed interest rate of 6.95% per annum.

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PART II

OTHER INFORMATION

Items 1 through 9. - All items are inapplicable except:

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Index

Exhibit No.	
3(a)	Registrant's By-laws as currently in effect are incorporated herein by reference to Registrant's Registration Statement on Form S-1 (Registration No. 33-21998).
3(b)	Registrant's Restated Certificate of Incorporation is incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1995, as amended by a Certificate of Amendment incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended May 31, 1996.
3(c)	Certificate of Designations of Series A Junior Participating Preferred Stock of Nautica Enterprises, Inc., in the form as filed with the Secretary of State of the State of Delaware, included as Exhibit A to the Rights Agreement, dated as of November 2, 2001, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, is incorporated herein by reference from the Registrant's Current Report on Form 8-K filed on November 8, 2001.
4(i)(a)	Rights Agreement, dated as of November 2, 2001, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, which includes the Certificate of Designations of Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C, is incorporated herein by reference from the Registrant's Current Report on Form 8-K filed on November 8, 2001.
10(iii)(a)	Registrant's Executive Incentive Stock Option Plan is incorporated herein by reference from the Registrant's Registration Statements on Form S-8 (Registration Number 33-1488), as amended by the Company's Registration Statement on Form S-8 (Registration Number 33-45823).
10(iii)(b)	Registrant's 1989 Employee Incentive Stock Plan is incorporated herein by reference from the Registrant's Registration Statement on Form S-8 (Registration Number 33-36040).
10(iii)(c)	Registrant's 1996 Stock Incentive Plan is incorporated herein by reference from Registrant's Registration Statement on Form S-8 (Registration Number 333-55711).

10(iii)(d) Registrant's 1994 Incentive Compensation Plan is incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1997.

10(iii)(e) Registrant's Deferred Compensation Plan is incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1998.

10(iii)(f) Option Agreement and Royalty Agreement, each dated July 1, 1987, by and among the Registrant and David Chu are incorporated herein by reference from the Registrant's Registration Statement on Form S-1 (Registration No. 33-21998), and letter agreement dated May 1, 1998 between Mr. Chu and the Registrant is incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1998. Sale and Cancellation Letter Agreement, dated January 7, 2002, between the Registrant and Mr. Chu.

10(iii)(g) Employment Agreement, dated October 1, 1999, by and between the Registrant and John Varvatos, and Split Dollar Agreement, dated May 5, 2000, by and between the Registrant and John Varvatos are incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended March 4, 2000.

(b) Reports on Form 8-K.

On November 8, 2001, the Company filed a Current Report on Form 8-K relating to the declaration by the Board of Directors of the Registrant, on November 2, 2001, of a dividend distribution of one Right for each outstanding Share of Common Stock, par value $0.10 per share, of the Registrant, to stockholders of record on November 12, 2001. The description and terms of the Rights are set forth in the Rights Agreement, between the Company and Mellon Investor Services LLC, attached as an exhibit to such Current Report on Form 8-K.

SIGNATURES

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

NAUTICA ENTERPRISES, INC.

By: s/ Harvey Sanders

Harvey Sanders
Chairman of the Board
and President

Date: January 11, 2002

By: s/ Wayne A. Marino

Wayne A. Marino
Chief Financial Officer

Date: January 11, 2002