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NAUTICA ENTERPRISES INC  
Form 10-Q  
January 10, 2003

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2002 or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-6708

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

Delaware  
(State or Other Jurisdiction of Incorporation or Organization)

95-2431048  
(I.R.S. Employer Identification Number)

40 West 57th Street, New York, N.Y.  
(Address of Principal Executive Offices)

10019  
(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 / /

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

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

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confirmed by a court.

Yes / / No / /

## APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of Common Stock outstanding as of January 10, 2003 was 33,604,350.

## NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES

NOVEMBER 30, 2002  
(unaudited)

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

ASSETS	(unaudited) November 30, 2002 -----
Current assets:	
Cash and cash equivalents	\$ 54,673
Short-term investments	6,194
Accounts receivable - net	110,067
Inventories	91,862
Prepaid expenses and other current assets	7,407
Deferred tax benefit	18,702
Assets held for sale	2,842
	-----
Total current assets	291,747
Property, plant and equipment, at cost - less accumulated depreciation and amortization	100,007
Goodwill, at cost	31,328
Intangibles, at cost - less accumulated amortization	35,130
Other assets	8,794
	-----
Total Assets	\$ 467,006 =====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current maturities of long-term debt	\$ 754
Accounts payable - trade	39,513
Accrued expenses and other current liabilities	61,305
Income taxes payable	10,738
	-----
Total current liabilities	112,310
Long-term liabilities:	
Long-term debt - net	13,756
Interest rate swap liability	1,386
	-----
Total long-term liabilities	15,142
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 45,127,000 shares at November 30, 2002 and 44,718,000 shares at	

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March 2, 2002	4,513
Additional paid-in capital	95,300
Retained earnings	400,484
Accumulated other comprehensive (loss) - net of deferred tax benefit of \$921 at November 30, 2002 and \$1,132 at March 2, 2002	(1,535)
	-----
	498,762
Less:	
Common stock in treasury, at cost; 11,523,000 shares at November 30, 2002 and 11,498,000 shares at March 2, 2002	(159,208)
	-----
Total stockholders' equity	339,554
	-----
Total Liabilities and Stockholders' Equity	\$ 467,006
	=====

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 November 30, 2002	Nine Months Ended December 1, 2001	Three Mo Ended November 30, 2001
	-----	-----	-----
Net sales	\$ 515,222	\$ 535,486	\$ 207,000
Cost of goods sold	293,385	313,544	120,000
	-----	-----	-----
Gross profit	221,837	221,942	86,000
Selling, general and administrative expenses	190,103	186,396	66,000
Special charges	13,694	--	10,000
Net royalty income	(6,990)	(6,244)	(2,000)
	-----	-----	-----
Operating profit	25,030	41,790	12,000
Interest expense	1,322	1,510	
Investment (income) loss	(416)	(964)	
	-----	-----	-----
Earnings before provision for income taxes	24,124	41,244	11,000
Provision for income taxes	9,047	15,590	4,000
	-----	-----	-----
NET EARNINGS	\$ 15,077	\$ 25,654	\$ 7,000
	=====	=====	=====

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Net earnings per share of common stock:			
Basic	\$ 0.45	\$ 0.78	\$ 0
	=====	=====	=====
Diluted	\$ 0.44	\$ 0.75	\$ 0
	=====	=====	=====
Weighted average number of common shares outstanding:			
Basic	33,555,000	32,864,000	33,613,
	=====	=====	=====
Diluted	34,359,000	34,304,000	34,136,
	=====	=====	=====
Cash dividends per common share	none	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)

	(unaudited)	
	Nine Months Ended November 30, 2002	Nine Mo Ended December
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 15,077	\$ 25
	-----	-----
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	19,741	21
Provision for bad debts	1,357	5
Mark to market swap adjustment	528	
Loss on impairment of long-lived assets	10,338	
Changes in operating assets and liabilities, net of assets and liabilities acquired		
Short-term investments	156	
Accounts receivable	(21,688)	(14
Inventories	(25,419)	17
Prepaid expenses and other current assets	(1,808)	1
Other assets	(627)	(1
Accounts payable - trade	9,111	(16
Accrued expenses and other current liabilities	17,975	
Income taxes payable	1,449	3
	-----	-----
Total adjustments	11,113	14
	-----	-----
Net cash provided by operating activities	26,190	39
	-----	-----

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CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(18,336)	(39)
Acquisitions, net of cash acquired	--	(55)
	-----	-----
Net cash used in investing activities	(18,336)	(95)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	--	15
Proceeds from notes payable	--	30
Principal payments on long-term debt	(565)	
Proceeds from issuance of common stock	1,795	2
Purchase of treasury stock	(225)	
	-----	-----
Net cash provided by financing activities	1,005	47
	-----	-----
Increase (decrease) in cash and cash equivalents	8,859	(8)
Cash and cash equivalents at beginning of period	45,814	36
	-----	-----
Cash and cash equivalents at end of period	\$ 54,673	\$ 28
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 798	\$ 1
	=====	=====
Cash paid during the period for income taxes	\$ 7,530	\$ 12
	=====	=====

The accompanying notes are an integral part of these statements.

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED NOVEMBER 30, 2002 AND 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 accounting principles generally accepted in the United States of America 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 November 30, 2002 are not necessarily indicative of the results

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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 November 30, 2002.

NOTE 4 - The Company utilized the last-in, first-out "LIFO" method for certain wholesale inventories as at November 30, 2002 and March 2, 2002 and for the nine and three-month periods ended November 30, 2002 and December 1, 2001. The "LIFO" inventory for the nine and three-month periods ended November 30, 2002 and December 1, 2001 are based upon end of year estimates. Inventories at November 30, 2002 and March 2, 2002 consist primarily of finished goods.

NOTE 5 - As of November 30, 2002 and March 2, 2002, the Company had \$175,000 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 November 30, 2002 and March 2, 2002, letters of credit outstanding under the lines were \$66,332 and \$33,805, respectively, and there were no short-term borrowings outstanding.

NOTE 6 - Basic net earnings per share excludes dilution and is computed by dividing income available to common stockholders 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. Dilutive stock options included in the calculation of diluted weighted-average shares were 803,400 and 1,440,400 during the nine months ended and 523,700 and 984,200 during the three months ended November 30, 2002 and December 1, 2001, respectively.

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 antidilutive, were 2,043,900 and 2,179,600 during the nine months ended and 3,314,400 and 2,635,100 during the three months ended November 30, 2002 and December 1, 2001, respectively.

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE PERIODS ENDED NOVEMBER 30, 2002 AND DECEMBER 1, 2001  
(unaudited)  
(amounts in thousands, except share data)

NOTE 7 - The Company has adopted Statement of Financial Accounting Standards ("SFAS") 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.

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

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

	Wholesale -----	Retail -----	All other -----	Corporate/ eliminations -----	Tot -----
FOR THE NINE MONTHS ENDED					
NOVEMBER 30, 2002					
Net sales	\$387,743	\$127,479	\$ --	\$ --	\$515
Segment operating profit (loss)	29,257	1,916	6,987	(13,130)	25
Segment assets	317,580	53,892	6,253	89,281	467
Depreciation expense	15,093	2,283	88	1,854	19
Capital expenditures	14,144	3,372	--	820	18
FOR THE NINE MONTHS ENDED					
DECEMBER 1, 2001					
Net sales	\$406,977	\$128,509	\$ --	\$ --	\$535
Segment operating profit (loss)	30,453	12,384	6,243	(7,290)	41
Segment assets	320,865	69,784	9,084	62,997	462
Depreciation expense	15,015	1,919	321	1,537	18
Capital expenditures	27,797	9,961	--	2,209	39
FOR THE THREE MONTHS ENDED					
NOVEMBER 30, 2002					
Net sales	\$158,689	\$ 48,400	\$ --	\$ --	\$
Segment operating profit (loss)	17,239	(4,744)	2,531	(2,788)	-
Segment assets	317,580	53,892	6,253	89,281	-
Depreciation expense	5,647	804	(124)	705	-
Capital expenditures	4,952	630	--	376	-
FOR THE THREE MONTHS ENDED					
DECEMBER 1, 2001					
Net sales	\$152,786	\$ 48,254	\$ --	\$ --	\$
Segment operating profit (loss)	17,977	4,755	2,042	(2,318)	-
Segment assets	320,865	69,784	9,084	62,997	-
Depreciation expense	4,900	705	106	515	-
Capital expenditures	7,536	3,075	--	291	-



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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE PERIODS ENDED NOVEMBER 30, 2002 AND 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 \$6,338 and \$6,384 for the nine months ended November 30, 2002 and December 1, 2001, respectively.

Long-lived assets in foreign countries were \$3,375 and \$4,105 for the periods ended November 30, 2002 and December 1, 2001, respectively.

The All other column represents activity of the Company's licensing unit.

In the Corporate/eliminations column, the segment assets primarily consist of the Company's cash and investment portfolio, deferred taxes and corporate fixed assets at November 30, 2002 and December 1, 2001. The segment operating profit (loss) in the Corporate/eliminations column consists of corporate overhead expenses and special charges associated with the closure of the Rockland, Maine distribution facility (see Note 12) for the nine months ended November 30, 2002 and corporate overhead expenses for the nine months ended December 1, 2001. The special charge associated with the write-down of the fixed assets of the Company's Rockefeller Plaza store (see Note 13) is reflected in the operating profit (loss) of the Retail column.

### NOTE 8 -

The Company has a loan agreement with HSBC Bank USA ("HSBC") in the amount of \$15,075, the funds of which were used to finance a portion of the construction and development of the Company's distribution facility in Martinsville, Virginia. The loan is secured by a deed of trust on the distribution facility. The carrying value of the underlying asset was \$17,600 at November 1, 2002.

The term of the loan is seven years. Principal payments of \$188 and interest payments are due at the end of each calendar quarter. Interest is 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. On March 22, 2002, the Company replaced such agreement with a "knock-out" swap agreement with Fleet National Bank ("Fleet"), which expires on November 28, 2008. The swap agreement provides that the Company pay a fixed interest rate of 6.32% on the notional amount. The swap settles quarterly and contains a knock-out provision that is activated when the three-month LIBOR is at or above 7.00%. If the three-month LIBOR rate rises above 7.00%, the swap knocks out and the Company will

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not receive any payments under the agreement until such time as the three-month LIBOR rate declines below 7.00%. The three-month LIBOR rate was 1.42% at November 30, 2002. The net interest paid or received under this agreement is included in interest expense.

The Company has adopted SFAS No. 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

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 FOR THE PERIODS ENDED NOVEMBER 30, 2002 AND DECEMBER 1, 2001  
 (unaudited)  
 (amounts in thousands, except share data)

Prior to March 22, 2002 the Company classified the swap as a cash flow hedge, in accordance with SFAS No. 133. The fair value of the swap resulted in the Company recording a long-term liability of \$858. The fair value was based upon the estimated amount that the Company would have to pay to terminate the agreement. The "knock-out" swap agreement does not qualify for hedge accounting and, accordingly, the Company began recording the changes in the fair market value of the swap from March 22, 2002 as interest expense. The charge to interest expense was \$528 for the nine months ended November 30, 2002.

The amount of long-term debt maturing in each of the next five fiscal years is as follows:

Fiscal Year Ended	
-----	
2003	\$ 189
2004	754
2005	754
2006	754
2007	754
Thereafter	11,305
	-----
	14,510
Less current maturities	(754)
	-----
Total	\$ 13,756
	=====

NOTE 9 - For the nine and three months ended November 30, 2002, comprehensive income (loss) was as follows:

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	(unaudited)	
	Nine Months Ended November 30, 2002 -----	Three Months Ended November 30, 2002 -----
Net earnings	\$ 15,077	\$ 7,271
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustments	435	41
Unrealized loss on interest rate swap	(109)	--
	-----	-----
Comprehensive income	\$ 15,403 =====	\$ 7,312 =====

NOTE 10 - 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 11 - In July 2001, the Financial Accounting Standards Board issued SFAS No. 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 current year, goodwill and intangible assets with indefinite lives are no longer being amortized, but are being tested for impairment using the guidance for measuring impairment set forth in SFAS No. 142.

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 FOR THE PERIODS ENDED NOVEMBER 30, 2002 AND DECEMBER 1, 2001  
 (unaudited)  
 (amounts in thousands, except share data)

The components of other intangible assets are as follows:

(unaudited)			
November 30, 2002 -----		March 2, 2002 -----	
Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
-----	-----	-----	-----

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Amortized Intangible Assets				
Trademarks	\$ 2,360	\$ 1,291	\$ 2,327	\$ 1,063
Other intangibles	956	422	956	258
	-----	-----	-----	-----
	3,316	1,713	3,283	1,321
Unamortized trademarks	33,527	--	33,527	--
	-----	-----	-----	-----
	\$36,843	\$ 1,713	\$36,810	\$ 1,321
	=====	=====	=====	=====

Amortization expense for intangible assets subject to amortization in each of the next five fiscal years is estimated to be \$140 in 2003, \$527 in 2004, \$527 in 2005, \$333 in 2006 and \$12 in 2007.

The following presents a comparison of net earnings and earnings per share for the nine and three months ended November 30, 2002 to the respective adjusted amounts for the nine and three months ended December 1, 2001 that would have been reported had SFAS No. 142 been in effect during the prior year:

	(unaudited) Nine Months Ended		(unaudited) Three Months Ended	
	November 30, 2002	December 1, 2001	November 30, 2002	December 1, 2001
	-----	-----	-----	-----
Reported net earnings	\$ 15,077	\$ 25,654	\$ 7,271	\$ 25,654
Goodwill amortization	--	712	--	712
Intangible assets amortization	--	634	--	634
	-----	-----	-----	-----
Adjusted net earnings	\$ 15,077	\$ 27,000	\$ 7,271	\$ 27,000
	=====	=====	=====	=====
Net earnings per share - basic				
Reported net earnings	\$ 0.45	\$ 0.78	\$ 0.22	\$ 0.78
Goodwill amortization	--	0.02	--	0.02
Intangible assets amortization	--	0.02	--	0.02
	-----	-----	-----	-----
Adjusted net earnings per share - basic	\$ 0.45	\$ 0.82	\$ 0.22	\$ 0.82
	=====	=====	=====	=====
Net earnings per share - diluted				
Reported net earnings	\$ 0.44	\$ 0.75	\$ 0.21	\$ 0.75
Goodwill amortization	--	0.02	--	0.02
Intangible assets amortization	--	0.02	--	0.02
	-----	-----	-----	-----
Adjusted net earnings per				

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share - diluted	\$ 0.44	\$ 0.79	\$ 0.21	\$
	=====	=====	=====	=====

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 FOR THE PERIODS ENDED NOVEMBER 30, 2002 AND DECEMBER 1, 2001  
 (unaudited)  
 (amounts in thousands, except share data)

NOTE 12 - During the fourth quarter of fiscal 2002, the Company recorded special charges in connection with its decision to close its distribution facility in Rockland, Maine and certain other employee terminations. The Company is in the process of moving the businesses that currently use this facility to its new distribution and customer service center in Martinsville, Virginia. This transition is expected to be completed no later than January 31, 2003. The special charges related to the closing will total approximately \$13,159, of which \$9,803 was recognized in the fourth quarter of fiscal 2002 and \$3,356 was recognized in the first quarter of fiscal 2003. The special charges are comprised of the write-down of the facility from its net carrying value of \$10,712 to its estimated net realizable value of \$2,842, costs associated with the closure and sale of the facility and severance related costs associated with the elimination of approximately 300 union and non-union employees and certain other employee terminations. These components and the related activity through November 30, 2002 were as follows:

	ASSET WRITE DOWN ----	WIND DOWN COSTS -----	SEVERANCE AND TERMINATION BENEFITS -----	TOTALS -----
Fiscal Year 2002 Provision	\$ 7,870	\$ 868	\$ 1,065	\$ 9,803
Fiscal Year 2002 Activity	(7,870)	--	--	(7,870)
	-----	-----	-----	-----
Balance at March 2, 2002	--	868	1,065	1,933
Fiscal Year 2003 Provision	--	--	3,356	3,356
Fiscal Year 2003 Activity	--	(313)	(2,434)	(2,747)
	-----	-----	-----	-----
Balance at November 30, 2002	\$ --	\$ 555	\$ 1,987	\$ 2,542
	=====	=====	=====	=====

NOTE 13 - Effective March 3, 2002, the Company adopted Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The scope of Issue 01-9 includes vendor consideration to any purchasers of the vendor's products at any point along the distribution chain, regardless of whether the purchaser receiving the consideration is a direct customer of the vendor. There was no significant impact on the financial statements upon adoption.

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Effective March 3, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but will be reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company completed the required impairment tests of goodwill and no adjustment to the carrying value of goodwill was required.

Effective March 3, 2002 the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets." This supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long Lived Assets to be Disposed of," while retaining many of the requirements of such statement. During the third quarter of the current fiscal year, the Company determined that based upon the current performance and anticipated future outlook of its Rockefeller Plaza store, and in accordance with SFAS No. 144, the fixed assets of the store were impaired. As a result, the Company incurred a special non-cash, pre-tax charge in connection with this write-down of \$10,338.

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE PERIODS ENDED NOVEMBER 30, 2002 AND DECEMBER 1, 2001  
(unaudited)  
(amounts in thousands, except share data)

The FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," on April 30, 2002. Statement No. 145 rescinds Statement No.4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Upon adoption of Statement No. 145, companies will be required to apply the criteria in APB Opinion No. 30, "Reporting the Results of Operations - reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" in determining the classification of gains and losses resulting from the extinguishments of debt. Statement No. 145 is effective for fiscal years beginning after May 15, 2002. The Company is currently evaluating the requirements and impact of this statement on its consolidated results of operations and financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after

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December 31, 2002. The Company is currently evaluating the requirements and impact of this statement, however it does not expect the adoption of this pronouncement will have a material effect on the consolidated results of operations or financial position.

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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 November 30, 2002:

Net sales decreased 3.8% to \$515.2 million in the nine months ended November 30, 2002 from \$535.5 million in the comparable prior year period. The reported sales reflect a 4.7% decrease in the Wholesale segment to \$387.7 million from \$407.0 million and a 0.8% decrease in the Retail segment to \$127.5 million from \$128.5 million. The decline in the Wholesale segment was due primarily to a decrease in the Company's core sportswear business, offset in part by strong performances of Nautica Men's and Women's Jeans, Men's and Ladies Furnishings, as well as contributions from newer businesses including Earl Jean and Nautica Men's Underwear. The slight decrease in Retail segment sales was a result of same store sales being down mid-single digits from the comparable prior year period due to a difficult retail environment and the Company's decision not to implement the clearance sales that took place in the prior year period. This decrease was offset by sales from two new full-priced stores opened since the third quarter of last year.

Gross profit, as a percentage of sales, was 43.1%, compared to 41.4% in the comparable prior year period. The increase is due primarily to the Company's inventory management initiatives and improved sourcing in the Nautica Children's, Nautica Men's Jeans and Nautica Furnishings businesses. These increases were offset in part by a decrease in the Company's core sportswear business as a result of increased promotional activity in department stores.

Selling, general and administrative expenses ("SG&A") increased by \$3.7 million to \$190.1 million in fiscal 2003 from \$186.4 million in fiscal 2002. SG&A, as a percentage of net sales, increased to 36.9% in fiscal 2003 from 34.8% in fiscal 2002. The increase as a percentage of net sales is due primarily to investments in the Earl Jean Women's and Men's businesses, the development of the Nautica Women's Sportswear line and the expansion of the John Varvatos business into the European market and through new John Varvatos retail stores. In addition, the Company incurred a full nine months of expenses from the Earl Jean business in the current period compared to only seven months in the prior year period. During the prior year period, the Company incurred costs, principally bad debts, in the Nautica Europe business unit of approximately \$7.9 million. Excluding the costs associated with Nautica Europe, SG&A increased \$11.6 million compared to the prior year period.

During the first quarter of fiscal 2003, the Company recorded a pre-tax special charge of \$3.4 million (\$2.1 million on an after tax basis) or \$0.06 on a per share basis. This charge consisted of costs associated with the elimination of approximately 300 union and non-union employees related to the closing of the Rockland, Maine distribution facility. These costs are expected to be paid during the current fiscal year and are anticipated to be funded with cash from operations. The Company expects annual savings associated with this action to be between \$3.5 and \$4.0 million. These savings will be reflected in distribution costs and reported in selling, general and administrative expenses in the Company's consolidated financial statements. The Company expects to begin

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realizing these cost savings in the fourth quarter of the current fiscal year.

During the third quarter of fiscal 2003, the Company recorded a pre-tax special charge of \$10.3 million (\$6.5 million on an after tax basis) or \$0.19 per diluted share. Based on the current performance and anticipated outlook of the Company's Rockefeller Plaza store, the fixed assets were deemed to be impaired in accordance with SFAS No. 144.

Net royalty income increased by \$0.8 million to \$7.0 million from \$6.2 million in the prior year period. The increase was due primarily to the sales strength in home products during the current year period. This increase was offset in part by the recognition of a settlement from the termination of the men's footwear license during the comparable prior year period.

Investment income decreased by \$0.6 million to \$0.4 million from \$1.0 million in the prior year period. The decrease is due to unrealized losses in the Company's short-term investments during the current year period as opposed to unrealized gains in the prior year period. This decrease was offset, in part, by an increase in interest income earned on higher average cash balances during the current year period, as a result of cash paid during the prior year period for the acquisition of Earl Jean.

The provision for income taxes decreased to 37.5% from 37.8% of earnings before income taxes in the comparable prior year period. The decrease is due primarily to a reduction in the overall effective income tax rates.

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Net earnings for the current year period was \$15.1 million compared to \$25.7 million in the comparable prior year period as a result of the factors discussed above. Excluding the special charges discussed above, net earnings for the current year period would have been \$23.6 million.

For the Three Months Ended November 30, 2002:

Net sales increased 3.0% to \$207.1 million in the three months ended November 30, 2002 from \$201.0 million in the comparable prior year period. The reported sales reflect a 3.9% increase in the Wholesale segment to \$158.7 million from \$152.8 million and a 0.3% increase in the Retail segment to \$48.4 million from \$48.3 million. The increase in the Wholesale segment was due primarily to increases in Nautica Men's and Women's Jeans, Men's and Ladies Furnishings as well as contributions from newer businesses including Earl Jean and Nautica Men's Underwear, offset in part, by a decrease in the Company's core sportswear business. The slight increase in Retail segment sales is primarily a result of sales from two new full-priced stores offset by a mid-single digit decline in same store sales compared to the third quarter of the prior fiscal year.

Gross profit, as a percentage of sales, was 41.6%, compared to 40.4% in the comparable prior year period. The increase is due primarily to the Company's inventory management initiatives and improved sourcing in the Nautica Children's, Nautica Men's Jeans and Nautica Furnishings businesses. These increases were offset in part by a decrease in the Company's core sportswear business as a result of increased promotional activity in department stores.

SG&A increased by \$5.3 million to \$66.1 million in fiscal 2003 from \$60.8 million in fiscal 2002. SG&A, as a percentage of net sales, increased to 31.9% in fiscal 2003 from 30.2% in fiscal 2002. Increases in SG&A were due primarily to investments in the Earl Jean Women's and Men's businesses, the development of the Nautica Women's Sportswear line and the expansion of the John



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Varvatos business into the European market and through new John Varvatos retail stores.

During the third quarter of fiscal 2003, the Company recorded a pre-tax special charge of \$10.3 million (\$6.5 million on an after tax basis) or \$0.19 per diluted share. Based on the current performance and anticipated outlook of the Company's Rockefeller Plaza store, the fixed assets were deemed to be impaired in accordance with SFAS No. 144.

Net royalty income increased by \$0.5 million to \$2.5 million from \$2.0 million in the prior year period. The increase was due primarily to the sales strength in home products during the current year period.

Investment income decreased by \$0.3 million compared to the prior year period. The decrease is due to unrealized losses in the Company's short-term investments during the current year period as opposed to unrealized gains in the prior year period. This decrease was offset, in part, by an increase in interest income earned on higher average cash balances during the current year period, as a result of cash paid during the prior year period for the acquisition of Earl Jean.

The provision for income taxes decreased to 37.5% from 37.8% of earnings before income taxes in the comparable prior year period. The decrease is due primarily to a reduction in the overall effective income tax rates.

Net earnings for the current year period was \$7.3 million compared to \$13.6 million in the comparable prior year period as a result of the factors discussed above. Excluding the special charge discussed above, net earnings for the current year period would have been \$13.7 million.

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### LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended November 30, 2002, the Company generated cash from operating activities of \$26.2 million, principally from net earnings. Accounts receivable and inventory for such nine-month period increased \$21.7 million and \$25.4 million, respectively, and were financed principally by cash generated from net earnings and increases in accounts payable and accrued expenses. Accounts receivable was \$8.7 million or 7.3% lower on November 30, 2002 compared to December 1, 2001 due to a decrease in sales for the period, as well as credits posted earlier in the current year period than in the prior year period. Inventory was essentially flat on November 30, 2002 compared to December 1, 2001. The Company continues to better manage the timing of receipts with customer demand and has reduced its offerings of replenishment styles.

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 such 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 on December 1, 2001 compared to December 2, 2000 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 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 on December 1, 2001 compared to December 2, 2000 due to these same reasons.

During the nine months ended November 30, 2002, the Company's principal investing activities related primarily to the purchase of property, plant and

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equipment for the Nautica in-store shop program. The Company expects to continue to incur capital expenditures to expand the in-store shop program, and to open additional retail stores.

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 November 30, 2002 and March 2, 2002, letters of credit outstanding under the lines were \$66.3 million and \$33.8 million, respectively, and there were no short-term borrowings outstanding.

The following is a summary of the Company's contractual obligations for the periods indicated that existed as of November 30, 2002:

	(amounts in millions)					
Contractual Obligations	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total	
Operating leases	\$ 17.3	\$ 32.4	\$ 29.3	\$ 58.8		\$137.8
Letters of credit	66.3	--	--	--		66.3
Long-term debt	0.8	1.5	1.5	10.7		14.5
	-----	-----	-----	-----		-----
	\$ 84.4	\$ 33.9	\$ 30.8	\$ 69.5		\$218.6
	=====	=====	=====	=====		=====

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.

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### CURRENCY FLUCTUATIONS AND INFLATION

The Company contracts production with manufacturers located primarily in Asia. These contracts are denominated in United States dollars. The Company believes that, to date, the effect of fluctuations of the dollar against foreign currencies has not had a material effect on the cost of production or the Company's results of operations. There can be no assurance that costs for the Company's products will not be affected by future fluctuations in the exchange rate between the United States dollar and the local currencies of these manufacturers. Due to the number of currencies involved, the Company cannot quantify the potential effect of such future fluctuations on future income. The Company does not engage in hedging activities with respect to such exchange rate risk.

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

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Effective March 3, 2002, the Company adopted Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The scope of Issue 01-9 includes vendor consideration to any purchasers of the vendor's products at any point along the distribution chain, regardless of whether the purchaser receiving the consideration is a direct customer of the vendor. There was no significant impact on the financial statements upon adoption.

Effective March 3, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but will be reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company completed the required impairment tests of goodwill and no adjustment to the carrying value of goodwill was required.

Effective March 3, 2002 the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets." This supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long Lived Assets to be Disposed of," while retaining many of the requirements of such statement. During the third quarter of the current fiscal year, the Company determined that based upon the current performance and anticipated future outlook of its Rockefeller Plaza store, and in accordance with SFAS No. 144, the fixed assets of the store were impaired. As a result, the Company incurred a special non-cash, pre-tax charge in connection with this write-down of \$10,338.

The FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," on April 30, 2002. Statement No. 145 rescinds Statement No.4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Upon adoption of Statement No. 145, companies will be required to apply the criteria in APB Opinion No. 30, "Reporting the Results of Operations - reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" in determining the classification of gains and losses resulting from the extinguishments of debt. Statement No. 145 is effective for fiscal years beginning after May 15, 2002. The Company is currently evaluating the requirements and impact of this statement on its consolidated results of operations and financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company is currently evaluating the requirements and impact of this statement, however it does not expect the adoption of this pronouncement will have a material effect on the consolidated results of operations or financial position.

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### USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in

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accordance with accounting principles that are generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period. Management continually evaluates its estimates and assumptions including those related to allowances for doubtful accounts, sales returns and allowances, inventory valuation, accrual for markdowns and the valuation of long-lived assets. Management bases its estimates and assumptions on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Changes in the economic conditions in the retail industry could have an impact on these estimates and the Company's actual results. Management believes that the following may involve a higher degree of judgment or complexity:

### Allowances for Doubtful Accounts

In the normal course of business, the Company extends credit, on open account, to its retail store customers, after a credit analysis based on financial and other criteria. The Company maintains allowances for doubtful accounts for estimated losses that result from the inability of its retail store customers to make their required payments. Management bases its allowances through analysis of the aging of accounts receivable at the date of the financial statements, assessments of historical collection trends, and an evaluation of the impact of current economic conditions.

### Sales Returns and Allowances

Costs associated with potential returns of merchandise and charge backs are recorded as a reduction to net sales, and are included in the allowance for doubtful accounts. These costs are based upon known returns and allowances, historic trends and the evaluation of the impact of current economic conditions.

### Inventory Valuation

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out method for certain wholesale inventories and by the first-in, first-out method for retail and the remaining wholesale inventories. The Company marks down inventory for estimated unmarketable inventory equal to the difference between the cost and the estimated net realizable value of the inventory. Management continually assesses the valuation of inventories by reviewing the costing of inventory, the significance of slow-moving inventory, and the impact of current economic conditions.

### Accrual for Markdowns

Costs associated with customer markdowns are recorded as a reduction to net sales, and are included in the allowance for doubtful accounts. These costs result from seasonal negotiations with the Company's retail store customers, as well as historic trends and the evaluation of the impact of current economic conditions.

### Valuation of Long-lived Assets

The Company reviews long-lived assets and certain identifiable intangibles held and used for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating the fair value and future benefits of such assets, the Company performs an analysis of the anticipated undiscounted future net cash flows of the individual assets over the remaining amortization period. The Company recognizes an impairment loss if the carrying value of the asset exceeds the expected future cash flows.

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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 risk that the Company will experience operational difficulties with its new distribution facility; 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; the ability to secure and protect trademarks and other intellectual property rights; and, the impact that any labor disruption at the Company's ports of entry could have on timely product deliveries. These and other risks and uncertainties are disclosed from time to time in the Company's filings with the Securities and Exchange Commission, including the Company's periodic reports on Forms 10-K and 10-Q, 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 \$14.5 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. On March 22, 2002, the Company entered into a "knock-out" swap agreement with Fleet National Bank ("Fleet"), which expires on November 28, 2008. The swap agreement provides that the Company pay a fixed interest rate of 6.32% on the notional amount. The swap settles quarterly and contains a knock-out provision that is activated when the three-month LIBOR is at or above 7.00%. If the three-month LIBOR rate rises above 7.00%, the swap knocks out and the Company will receive no payments under the agreement until such time as the three-month LIBOR rate declines below 7.00%. The three-month

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LIBOR rate was 1.42% at November 30, 2002. The net interest paid or received under this agreement is included in interest expense.

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### ITEM 4: CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934) as of a date (the "Evaluation Date") within 90 days before the filing date of this quarterly report, have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were effective and designed to ensure that material information relating to the Company and the Company's consolidated subsidiaries would be made known to them by others within those entities to allow timely decisions regarding required disclosures.

#### Changes in Internal Controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the Evaluation Date.

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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.  
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- |      |  |
|------|--|
| 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  |

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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), as amended and restated in Appendix A to the Registrant's Definitive Proxy Statement filed on June 7, 2002.
- 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.
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- 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

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Registrant and Mr. Chu is incorporated herein by reference from the Registrant's quarterly report on Form 10-Q for the fiscal quarter ended December 1, 2001.

- 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.
- 99(a) Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99(b) Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Reports on Form 8-K. None

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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

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Harvey Sanders  
Chairman of the Board and President

Date: January 10, 2003

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By: s/ Wayne A. Marino

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Wayne A. Marino  
Chief Financial Officer  
(Principal Financial Officer)

Date: January 10, 2003

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### CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Harvey Sanders, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nautica Enterprises, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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By: s/ Harvey Sanders

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Harvey Sanders  
Chief Executive Officer

Date: January 10, 2003  
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CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Wayne A. Marino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nautica Enterprises, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's

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internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: s/ Wayne A. Marino

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Wayne A. Marino  
Chief Financial Officer  
(Principal Financial Officer)

Date: January 10, 2003

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