

Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

NAUTICA ENTERPRISES INC  
Form 10-Q  
July 15, 2003

UNITED STATES  
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 May 31, 2003 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: 000-06708  
-----

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  
-----

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

Yes X No  
-----

# Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

The number of shares of Common Stock outstanding as of July 14, 2003 was 33,611,600.

## NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES

MAY 31, 2003  
(unaudited)

### INDEX

	Page No. -----
Part I - Financial Information:	
Item 1. Financial Statements:	
Condensed Consolidated Balance Sheets As at May 31, 2003 (unaudited) and March 1, 2003	2
Condensed Consolidated Statements of Earnings For the Three Month Periods Ended May 31, 2003 and June 1, 2002 (unaudited)	3
Condensed Consolidated Statements of Cash Flows For the Three Month Periods Ended May 31, 2003 and June 1, 2002 (unaudited)	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	18
Item 4. Controls and Procedures.	18
Part II - Other Information:	
Item 6. Exhibits and Reports on Form 8-K	19

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

	(unaudited) May 31, 2003 -----	March -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 97,588	\$ 82
Accounts receivable - net	74,104	98
Inventories	95,667	87

Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

Prepaid expenses and other current assets	6,563	3
Deferred tax benefit	22,050	22
Assets held for sale	1,542	2
	-----	-----
Total current assets	297,514	297
Property, plant and equipment, at cost -		
less accumulated depreciation and amortization	92,321	96
Goodwill, at cost	30,054	30
Other intangibles, at cost - less accumulated amortization	34,913	34
Other assets	12,664	8
	-----	-----
Total Assets	\$ 467,466	\$ 468
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 754	\$
Accounts payable - trade	43,403	34
Accrued expenses and other current liabilities	55,044	57
Income taxes payable	8,140	14
	-----	-----
Total current liabilities	107,341	106
Long-term liabilities:		
Long-term debt - net	13,379	13
Interest rate swap liability	1,948	1
	-----	-----
Total long-term liabilities	15,327	15
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 45,139,000 shares at May 31, 2003 and 45,136,000 shares at March 1, 2003	4,514	4
Additional paid-in capital	96,238	96
Retained earnings	404,502	406
Accumulated other comprehensive (loss) - net of deferred tax benefit of \$593 at May 31, 2003 and \$772 at March 1, 2003	(995)	(1)
	-----	-----
	504,259	505
Less:		
Common stock in treasury, at cost; 11,549,000 shares at May 31, 2003 and 11,534,000 shares at March 1, 2003	(159,461)	(159)
	-----	-----
Total stockholders' equity	344,798	346
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 467,466	\$ 468
	=====	=====

The accompanying notes are an integral part of these statements.

Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

	(unaudited)	
	Three Months Ended May 31, 2003	Three Months Ended June 1, 2002
	-----	-----
Net sales	\$ 139,220	\$ 125,895
Cost of goods sold	80,783	70,161
	-----	-----
Gross profit	58,437	55,734
Selling, general and administrative expenses	60,463	59,363
Special charges	3,178	3,356
Net royalty income	(2,830)	(2,372)
	-----	-----
Operating loss	(2,374)	(4,613)
Interest expense	408	265
Investment income	(230)	(679)
	-----	-----
Loss before benefit for income taxes	(2,552)	(4,199)
Benefit for income taxes	(949)	(1,574)
	-----	-----
NET LOSS	\$ (1,603)	\$ (2,625)
	=====	=====
Net loss per share of common stock:		
Basic	\$ (0.05)	\$ (0.08)
	=====	=====
Diluted	\$ (0.05)	\$ (0.08)
	=====	=====
Weighted average number of common shares outstanding:		
Basic	33,592,000	33,432,000
	=====	=====
Diluted	33,592,000	33,432,000
	=====	=====
Cash dividends per common share	none	none
	=====	=====

The accompanying notes are an integral part of these statements.

- 3 -

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

	(unaudited)	
	Three Months Ended May 31, 2003	Three Months Ended June 1, 2002
	-----	-----

Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,603)	\$ (2,625)
	-----	-----
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,152	6,651
Provision for bad debts	436	128
Loss on write-off of long-lived assets	3,575	--
Increase in interest rate swap liability	169	--
Gain on sale of assets held for sale	(958)	
Changes in operating assets and liabilities, net of assets and liabilities acquired		
Short-term investments	--	(444)
Accounts receivable	24,173	25,155
Inventories	(8,037)	2,795
Prepaid expenses and other current assets	(3,135)	(2,061)
Other assets	(3,870)	(1,891)
Accounts payable - trade	8,714	2,038
Accrued expenses and other current liabilities	(1,503)	3,174
Income taxes payable	(5,954)	(1,836)
	-----	-----
Total adjustments	19,762	33,709
	-----	-----
Net cash provided by operating activities	18,159	31,084
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,519)	(4,305)
Sale of assets held for sale	1,300	--
	-----	-----
Net cash used in investing activities	(3,219)	(4,305)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(188)	(188)
Proceeds from issuance of common stock	22	1,656
Purchase of treasury stock	(139)	--
	-----	-----
Net cash (used in) provided by financing activities	(305)	1,468
	-----	-----
Increase in cash and cash equivalents	14,635	28,247
Cash and cash equivalents at beginning of period	82,953	45,814
	-----	-----
Cash and cash equivalents at end of period	\$ 97,588	\$ 74,061
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 229	\$ 315
	=====	=====
Cash paid during the period for income taxes	\$ 4,953	\$ 219
	=====	=====

The accompanying notes are an integral part of these statements.

- 4 -

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002  
(unaudited)

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

(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 three-month period ended May 31, 2003 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 May 31, 2003.
- NOTE 4 - The Company utilized the last-in, first-out "LIFO" method for certain wholesale inventories as at May 31, 2003 and March 1, 2003 and for the three-month periods ended May 31, 2003 and June 1, 2002. The "LIFO" inventory for the three-month periods ended May 31, 2003 and June 1, 2002 are based upon end of year estimates. Inventories at May 31, 2003 and March 1, 2003 consist primarily of finished goods.
- NOTE 5 - As of May 31, 2003 and March 1, 2003, 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 May 31, 2003 and March 1, 2003, letters of credit outstanding under the lines were \$77,770 and \$46,483, respectively, and there were no short-term borrowings outstanding.
- NOTE 6 - Basic net loss per share excludes dilution and is computed by dividing the loss available to common stockholders by the weighted-average common shares outstanding for the period. Diluted net loss per share reflects the weighted-average common shares outstanding plus the potential dilutive effect of options, which are convertible into common shares. The diluted net loss per share was the same as basic net loss per share for the three months ended May 31, 2003 and June 1, 2002, since the effect of any potentially dilutive securities were excluded from the calculation because they would be anti-dilutive.
- Options that were excluded from the calculation of diluted net loss per share totaled 3,547,300 and 2,612,300 for the three months ended May 31, 2003 and June 1, 2002, respectively.

- 5 -

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002  
(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.

The Company has the following three reportable segments: Wholesale, Retail and Licensing. 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 Licensing segment licenses the Company's trademarks for the manufacture and sale of various products for distribution throughout the world.

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

	Wholesale -----	Retail -----	Licensing -----	Corporate/ elimination -----
FOR THE THREE MONTHS ENDED				
MAY 31, 2003				
Net sales	\$ 107,125	\$ 32,095	\$ --	\$ --
Segment operating profit (loss)	(881)	359	2,830	(4,682)
Segment assets	275,979	48,578	5,748	137,161
Depreciation expense	4,958	421	21	609
Capital expenditures	2,642	1,329	--	548
FOR THE THREE MONTHS ENDED				
JUNE 1, 2002				
Net sales	\$ 95,337	\$ 30,558	\$ --	\$ --
Segment operating profit (loss)	(363)	225	2,372	(6,847)
Segment assets	254,301	49,717	8,673	111,545
Depreciation expense	5,144	731	106	573
Capital expenditures	3,916	254	--	135

Net sales from external customers represent sales in the United States of America, except for foreign sales of \$2,924 and \$1,009 for the three months ended May 31, 2003 and June 1, 2002, respectively. The Licensing segment does not report sales, as all of its revenue is derived from royalties, which are reported separately in the consolidated statements of earnings.

Foreign operations resulted in operating losses of \$6,339 and \$3,287 for the three months ended May 31, 2003 and June 1, 2002,

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

respectively.

Long-lived assets in foreign countries were \$944 and \$3,168 for the periods ended May 31, 2003 and June 1, 2002, respectively.

In the Corporate/eliminations column, the segment assets primarily consist of the Company's cash and cash equivalents at May 31, 2003 and June 1, 2002. The segment operating profit (loss) in the Corporate/eliminations column consists of corporate overhead expenses for the three months ended May 31, 2003 and corporate overhead expenses and special charges associated with the closure of the Rockland, Maine distribution facility (see Note 13) for the three months ended June 1, 2002. The special charge associated with the Nautica business in Europe (see Note 13) is reflected in the operating profit (loss) of the Wholesale column for the three months ended May 31, 2003.

- 6 -

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002  
(unaudited)  
(amounts in thousands, except share data)

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 net carrying value of the underlying asset was \$23,585 at May 31, 2003.

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 pays 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 rate is at or above 7.00%. If the three-month LIBOR rate rises above 7.00%, the swap knocks out and the Company will 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 1.28% at May 31, 2003. 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



## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

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.

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 \$169 for the three months ended May 31, 2003.

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

Fiscal Year Ended		
-----		
2004	\$	566
2005		754
2006		754
2007		754
2008		754
Thereafter		10,551
		-----
		14,133
Less current maturities		(754)
		-----
Total	\$	13,379
		=====

- 7 -

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002  
 (unaudited)  
 (amounts in thousands, except share data)

NOTE 9 - The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." It applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans, which provide for granting of options with exercise prices equal to the fair market value of common stock at the date of grant, other than for restricted stock. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS No. 123, the

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

Company's net earnings and net earnings per share would be reduced to the pro forma amounts as follows:

	May 31, 2003	June 1, 2002
Net loss		
As reported	\$ (1,603)	\$ (2,625)
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards granted, modified, or settled, net of tax	(741)	(1,287)
Pro forma	\$ (2,344)	\$ (3,912)
Basic net loss per share		
As reported	\$ (0.05)	\$ (0.08)
Pro forma	\$ (0.07)	\$ (0.12)
Diluted net loss per share		
As reported	\$ (0.05)	\$ (0.08)
Pro forma	\$ (0.07)	\$ (0.12)

NOTE 10 - For the three months ended May 31, 2003 and June 1, 2002, comprehensive loss was as follows:

	(unaudited)	
	Three Months Ended May 31, 2003	Three Months Ended June 1, 2002
Net loss	\$ (1,603)	\$ (2,625)
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustments	292	175
Unrealized loss on interest rate swap	--	(109)
Comprehensive loss	\$ (1,311)	\$ (2,559)

-8-

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002  
(unaudited)  
(amounts in thousands, except share data)

Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

NOTE 11 - 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. On June 24, 2003 and July 6, 2003, the Company's Board of Directors authorized amendments to the Stockholder Rights Plan (see Note 15).

NOTE 12 - 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 fiscal year 2003, 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. The components of other intangible assets are as follows:

	(unaudited) May 31, 2003		March 1, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	-----	-----	-----	-----
Amortized Intangible Assets				
Trademarks	\$ 2,453	\$ 1,494	\$ 2,376	\$ 1,405
Other intangibles	956	529	956	482
	-----	-----	-----	-----
	3,409	2,023	3,332	1,887
Unamortized trademarks	33,527	--	33,527	--
	-----	-----	-----	-----
	\$36,936	\$ 2,023	\$36,859	\$ 1,887
	=====	=====	=====	=====

Amortization expense for intangible assets subject to amortization in each of the next five fiscal years is estimated to be \$438 in 2004, \$527 in 2005, \$333 in 2006, \$57 in 2007 and \$31 in 2008.

NOTE 13 - During the third quarter of the prior 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 non-cash, pre-tax special charge in connection with this write-down of \$10,338.

During the fourth quarter of the prior fiscal year, the Company recorded pre-tax special charges of \$2,588 in connection with its decision to transition its Nautica business in Europe to licensing or other arrangements. The special charges consisted of \$1,313 in wind-down costs, the write-down of fixed assets and lease

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

termination costs. The balance of \$1,275 represents the impairment of goodwill in accordance with SFAS No. 142. During the current period, additional pre-tax special charges of \$3,178 were recorded. These special charges consist of \$2,617 for the write-down of fixed assets, and the balance for wind-down, lease termination and severance costs.

The components and related activity for the - above-mentioned special charges relating to the Rockefeller Plaza store and Europe through May 31, 2003 were as follows:

-9-

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002  
 (unaudited)  
 (amounts in thousands, except share data)

	Asset Write-Down -----	Wind-Down Costs -----	Severance and Termination Benefits -----	Totals -----
Fiscal Year 2003				
Provision	\$ 12,239	\$ 548	\$ 139	\$ 12,926
Fiscal Year 2003 Activity	(12,239)	(478)	(69)	(12,786)
	-----	-----	-----	-----
Balance at March 1, 2003	--	70	70	140
Fiscal Year 2004				
Provision	2,617	494	67	3,178
Fiscal Year 2004 Activity	(2,617)	(494)	(67)	(3,178)
	-----	-----	-----	-----
Balance at May 31, 2003	\$ --	\$ 70	\$ 70	\$ 140
	=====	=====	=====	=====

In accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," the Company is expecting an additional pre-tax special charge between \$3,500 and \$4,500 in the second quarter of the current fiscal year in connection with the transition of the Nautica Europe business.

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 special charges related to the closing totaled 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. The distribution facility consists of three separate buildings, of which

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

two were sold during the current period at a gain of approximately \$958. However, an impairment charge of approximately \$1,000 was recorded on the remaining property during the current period to properly reflect the amount the Company expects to realize on the sale of such property. These components and the related activity through May 31, 2003 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	--	(366)	(3,406)	(3,772)
	-----	-----	-----	-----
Balance at March 1, 2003	--	502	1,015	1,517
Fiscal Year 2004				
Provision	958	--	--	958
Fiscal Year 2004 Activity	(958)	(191)	(176)	(1,325)
	-----	-----	-----	-----
Balance at May 31, 2003	\$ --	\$ 311	\$ 839	\$ 1,150
	=====	=====	=====	=====

-10-

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002  
(unaudited)  
(amounts in thousands, except share data)

NOTE 14 - In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The disclosure provisions of FIN 45 are effective for the Company's first quarter of the year ending February 28, 2004. The adoption of this pronouncement did not have a material impact on the consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This standard provides alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the pro forma effect on reported results of applying the fair value based method for entities that use the intrinsic value method of accounting. The pro forma effect disclosures are also required to be prominently disclosed in interim period financial statements. This statement is effective for financial statements for fiscal years ending after December 15, 2002 and is effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002, with earlier application permitted. The Company does not plan a change to the fair value based method of accounting for stock-based employee compensation and has included the disclosure requirements of SFAS No. 148 in the accompanying financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendments of Statement No. 133 on Derivative Instruments and Hedging Activities", which requires certain contracts to be treated as either derivatives or hybrid instruments, on a consistent basis. SFAS No. 149 is effective for contracts and hedging transactions executed or modified after June 30, 2003. The Company is currently in the process of evaluating the potential impact that this pronouncement will have on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which requires certain financial instruments that were previously presented on the consolidated balance sheets as equity or temporary equity to be presented as liabilities. Such instruments include mandatory redeemable preferred and common stock, and certain options and warrants. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003 and for the first interim period beginning after June 15, 2003. The Company is currently in the process of evaluating the potential impact that this pronouncement will have on its consolidated financial statements.

NOTE 15 -

On June 24, 2003, the Company's Board of Directors authorized Amendment No. 1 ("Amendment No. 1") to the Stockholder Rights Plan (the "Plan"). Pursuant to Amendment No. 1, the Plan has been amended to remove an express exception applicable to the Company's current Chairman of the Board for purposes of a person or group acquiring 15% or more of the Company's common stock. In addition, the redemption provisions in the Plan have been amended to provide that, in the event of a "Qualifying Tender Offer", as defined in the Plan, the Rights attributable to such Plan will be redeemed under certain circumstances. On July 6, 2003, the Company's Board of Directors authorized Amendment No. 2 ("Amendment No. 2") to the Plan. Pursuant to Amendment No. 2, the Plan has been amended to exempt the Merger (as defined in the paragraph below) and related transactions from the Rights Agreement and to provide that the Rights will expire immediately prior to the consummation of the Merger.

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002  
(unaudited)  
(amounts in thousands, except share data)

On July 7, 2003, the Company announced that it had entered into an Agreement and Plan of Merger dated as of July 7, 2003 (the "Merger Agreement") with VF Corporation ("VF") and Voyager Acquisition Corporation, VF's wholly owned subsidiary, providing for, among other things, the merger (the "Merger") of Voyager Acquisition Corporation with and into the Company. Pursuant to the Merger Agreement, VF will pay the Company's stockholders \$17.00 per share in cash. VF will also pay approximately \$14,600, net of taxes, to cash out the Company's employee stock options. The Boards of Directors of the Company and VF have approved the merger. The merger is subject to the Company's stockholder approval, receipt of government approvals and other customary conditions. The merger is not conditioned on financing. In connection with the transaction, VF has obtained commitments from the Company's Chairman and Vice Chairman to vote all Company shares owned by them in favor of the merger, representing a total of approximately 10% of the total shares outstanding.

-12-

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

#### RESULTS OF OPERATIONS

For the Three Months Ended May 31, 2003:

Net sales increased 10.6% to \$139.2 million in the three months ended May 31, 2003 from \$125.9 million in the comparable prior year period. Wholesale segment sales increased 12.4% to \$107.1 million from \$95.3 million due primarily to strong performances of Nautica Men's Jeans, Nautica Children's, Nautica Women's Sleepwear and Nautica Men's Underwear. Retail segment sales increased 5.0% to \$32.1 million from \$30.6 million due primarily to sales in the children's line which were up 63.6% from the prior year period as a result of expanding the line to additional outlet stores. In addition, sales from four new Earl Jean stores and two new John Varvatos stores contributed to the increase.

Gross profit, as a percentage of sales, was 42.0%, compared to 44.3% in the comparable prior year period due primarily to an increase in markdowns and allowances in the Company's wholesale businesses coupled with an increase in markdowns in the Nautica outlet division due to price compression.

Selling, general and administrative expenses ("SG&A") increased by \$1.1 million to \$60.5 million in fiscal 2004 from \$59.4 million in fiscal 2003. SG&A, as a percentage of net sales, decreased to 43.4% in fiscal 2004 from 47.2% in fiscal 2003. The decrease as a percentage of net sales is due primarily to leverage gained as a result of higher net sales in the current period. In addition, the prior year period included investments in the Earl Jean Women's and Men's businesses, the development of the Nautica Women's Sportwear line and the expansion of the John Varvatos business into the European market.

During the first quarter of fiscal 2004, the Company recorded a pre-tax special charge of \$3.2 million (\$2.0 million on an after tax basis) or \$0.06 on a per share basis. This charge relates to the Company's decision in the prior

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

year to transition its Nautica business in Europe to licensing or other arrangements. The charge consists of \$2.6 million for the write-down of fixed assets and \$0.6 million in wind-down and lease termination costs.

During the first quarter of fiscal 2004, the Company sold two of the three properties it was classifying as held for sale located in Rockland, Maine. The sale resulted in a gain of \$1.0 million, and represents a recovery of a portion of the special charge recognized in the fourth quarter of fiscal 2002 for the write-down of the distribution facility in Rockland, Maine. In addition, the remaining property was written down by \$1.0 million to properly reflect the amount the Company expects to realize on the sale of such property. The aforementioned gain and write-down are netted and reported in special charges in the Company's consolidated financial statements.

Net royalty income increased by \$0.4 million to \$2.8 million from \$2.4 million in the prior year period. The increase was due primarily to the sales strength in home products, as well as new licenses for women's swimwear and beachwear, and the new fragrance, Nautica Competition, during the current year period.

Investment income decreased by \$0.5 million to \$0.2 million from \$0.7 million in the prior year period. The decrease is due to \$0.4 million of income from short-term investments included in the prior year period. During the fourth quarter of fiscal 2003, the Company sold its short-term investments due to poor overall performance.

The provision for income taxes decreased to 37.2% from 37.5% 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 loss for the current year period was \$1.6 million compared to \$2.6 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 \$0.4 million.

-13-

### LIQUIDITY AND CAPITAL RESOURCES

During the three months ended May 31, 2003, the Company generated cash from operating activities of \$18.2 million, principally from a decrease in accounts receivable of \$24.2 million. Accounts receivable was 15.0% or \$9.7 million higher than the prior year period due to a 10.6% or \$13.3 million increase in sales. Inventory was 50.3% or \$32.0 million higher than the prior year period due to a number of factors including: an increase in replenishment inventory for certain businesses, as it can take six to nine months to produce the product; the expansion of the Nautica Children's business into more of the Company's outlet stores; and the receipt of fall product earlier than in the prior year to support a more timely transition from the summer season.

During the three months ended June 1, 2002, the Company generated cash from operating activities of \$31.1 million, principally from a decrease in accounts receivable of \$25.2 million. Accounts receivable was 26.3% lower than the same period in the prior year due mainly to the reduction in wholesale shipments in the current year period. Inventory was \$61.3 million or 49.1% lower than the same period in the prior year due to the Company's ability to better manage the timing of receipts with customer demand as well as a reduction in its offerings of replenishment styles.



## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

During the three months ended May 31, 2003 and June 1, 2002, the Company's principal investing activities related primarily to the purchase of property, plant and 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 May 31, 2003 and March 1, 2003, letters of credit outstanding under the lines were \$77.8 million and \$46.5 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 May 31, 2003:

(amounts in millions)					
Contractual Obligations	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total
-----	-----	-----	-----	-----	-----
Operating leases	\$ 18.7	\$ 34.6	\$ 29.8	\$ 60.3	\$143.4
Letters of credit	77.8	--	--	--	77.8
Long-term debt	0.8	1.5	1.5	10.3	14.1
	-----	-----	-----	-----	-----
	\$ 97.3	\$ 36.1	\$ 31.3	\$ 70.6	\$235.3
	=====	=====	=====	=====	=====

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 and the Company's existing credit lines will be sufficient to satisfy its cash requirements.

-14-

### 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.

### RECENT ACCOUNTING PRONOUNCEMENTS

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The disclosure provisions of FIN 45 are effective for the Company's first quarter of the year ending February 28, 2004. The adoption of this pronouncement did not have a material impact on the consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This standard provides alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the pro forma effect on reported results of applying the fair value based method for entities that use the intrinsic value method of accounting. The pro forma effect disclosures are also required to be prominently disclosed in interim period financial statements. This statement is effective for financial statements for fiscal years ending after December 15, 2002 and is effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002, with earlier application permitted. The Company does not plan a change to the fair value based method of accounting for stock-based employee compensation and has included the disclosure requirements of SFAS No. 148 in the accompanying financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendments of Statement No. 133 on Derivative Instruments and Hedging Activities", which requires certain contracts to be treated as either derivatives or hybrid instruments, on a consistent basis. SFAS No. 149 is effective for contracts and hedging transactions executed or modified after June 30, 2003. The Company is currently in the process of evaluating the potential impact that this pronouncement will have on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which requires certain financial instruments that were previously presented on the consolidated balance sheets as equity or temporary equity to be presented as liabilities. Such instruments include mandatory redeemable preferred and common stock, and certain options and warrants. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003 and for the first interim period beginning after June 15, 2003. The Company is currently in the process of evaluating the potential impact that this pronouncement will have on its consolidated financial statements.

-15-

### USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in 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

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

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.

-16-

### RECENT EVENTS

On July 7, 2003, the Company, VF Corporation ("VF"), and Voyager

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of VF (the "Merger Subsidiary"), entered into an Agreement and Plan of Merger (the "Merger Agreement," which agreement is incorporated herein by reference as Exhibit 2(b)). The Merger Agreement provides, among other things, for the merger of the Merger Subsidiary with and into the Company (the "Merger"), with the Company remaining as the surviving corporation (the "Surviving Corporation"). The Merger contemplates that all of the issued and outstanding shares of the Company (other than shares held as treasury stock or owned by VF or any subsidiary of VF) will be converted into \$17 per share, in cash. VF will also pay approximately \$14.6 million, net of taxes, to cash out the Company's employee stock options. The Boards of Directors of the Company and VF have approved the merger. The merger is subject to the Company's stockholder approval, receipt of government approvals and other customary conditions. The merger is not conditioned on financing. In connection with the transaction, VF has obtained commitments from the Company's Chairman and Vice Chairman to vote all Company shares owned by them in favor of the merger, representing a total of approximately 10% of the total shares outstanding. The Merger will become effective at such time as a certificate of merger is duly filed with the Delaware Secretary of State (or at such later time as may be specified in the certificate of merger) (the "Effective Time"). From and after the Effective Time, the Surviving Corporation will possess all the rights, powers, privileges and franchises and be subject to all of the obligations, liabilities, restrictions and disabilities of the Company and the Merger Subsidiary, all as provided under the General Corporation Law of the State of Delaware.

### 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 as to the success of the Company's announced merger; 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, political or health conditions in the markets where the Company sells or sources its products, including with respect to SARS; downturn or generally reduced shopping activity caused by public safety concerns; risks associated with consolidations, restructurings 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; 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; risks associated with the relocation of Earl Jean, Inc.; the risk that the cost of transitioning the Nautica Europe business to licensing or other key arrangements will be more than anticipated or that the Company will not be able to negotiate acceptable terms; 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

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

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.

### ACCESS TO COMPANY REPORTS ON THE INTERNET

Copies of the Company's filings with the Securities and Exchange Commission (including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K) are available free of charge in the investor relations section of the Company's website at [www.nautica.com](http://www.nautica.com). The Company's filings are available on the same day they are electronically filed with the SEC.

-17-

### 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 \$14.1 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 6.32% per annum. The swap contains a knock-out provision that is activated when the three-month LIBOR rate is at or above 7.00%. If the three-month LIBOR rate rises above 7.00%, the swap knocks out and the Company will not receive any payments under the agreement until such time as the three-month LIBOR rate declines below 7.00%.

### ITEM 4: CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this Quarterly Report on Form 10-Q, the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rule 13a-14(c) of the Securities Exchange Act of 1934.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based upon the Evaluation of disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer of the Company have concluded that, subject to the limitations noted above, the Company's disclosure controls and procedures were effective 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.

There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and the Chief Financial Officer completed their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

-18-

### 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.

- 2(a) Asset Purchase Agreement, dated as of April 23, 2001, by and among the Registrant, EJI Acquisition Subsidiary, Inc., Earl Jean, Inc., Benjamin Freiwald and Suzanne Costas Freiwald is incorporated herein by reference to Registrant's Current Report on Form 8-K dated April 30, 2001.
- 2(b) Agreement and Plan of Merger dated as of July 7, 2003 among Nautica Enterprises, Inc., VF Corporation and Voyager Acquisition Corporation is incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on July 8, 2003.
- 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.

## Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

- 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.
- 4(i) (b) Amendment No. 1 to Rights Agreement, dated as of June 26, 2003, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, is incorporated herein by reference to Exhibit 2 to the Registrant's Current Report on Form 8-K filed on June 26, 2003.
- 4(i) (c) Amendment No. 2 to Rights Agreement, dated as of July 6, 2003, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, is incorporated herein by reference to Exhibit 3 to the Registrant's Current Report on Form 8-K filed on July 7, 2003.
- 10(iii) (a) Registrant's Executive Incentive Stock Option Plan is incorporated herein by reference from the Registrant's Registration Statement on Form S-8 (Registration No. 33-1488), as amended by the Company's Registration Statement on Form S-8 (Registration No. 33-45823).
- 19-
- 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 No. 33-36040).
- 10(iii) (c) Registrant's 1996 Stock Incentive Plan is incorporated herein by reference from the Registrant's Registration Statement on Form S-8 (Registration No. 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.
- 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

Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

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) Voting Agreement dated as of July 7, 2003 among VF Corporation, Voyager Acquisition Corporation, Harvey Sanders, the Harvey Sanders Grantor Retained Income Trust and David Chu is incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on July 8, 2003.
  
- 99(b) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
  
- 99(c) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
  
- (b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K, dated May 1, 2003, which furnished a press release dated May 1, 2003 announcing the Company's earnings for the year and quarter ended March 1, 2003.

-20-

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: July 15, 2003

-----

By: /s/ Wayne A. Marino

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

Date: July 15, 2003

-----



-21-

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 functions):

(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 registrant'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.

Date: July 15, 2003

-----

Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

By: /s/ Harvey Sanders

-----  
Harvey Sanders  
Chief Executive Officer

-22-

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 functions):
  - (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 registrant's internal controls; and

Edgar Filing: NAUTICA ENTERPRISES INC - Form 10-Q

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.

Date: July 15, 2003  
-----

By: /s/ Wayne A. Marino  
-----

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