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NAUTICA ENTERPRISES INC  
Form 10-K  
May 30, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
  
FOR THE FISCAL YEAR ENDED MARCH 1, 2003

OR

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

COMMISSION FILE NUMBER: 0-0708

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 No.)

40 WEST 57TH STREET, NEW YORK, NEW YORK  
(Address of Principal Executive Offices)

10019  
(Zip Code)

Registrant's telephone number, including area code: (212) 541-5757  
Securities registered pursuant to Section 12(b) of the Act: NONE  
Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class  
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Common Stock,  
par value \$.10 per share

Preferred Stock  
Purchase Rights

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

Yes  No

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

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to  
Item 405 of Regulation S-K is not contained herein, and will not be contained,  
to the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any

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amendment to this Form 10-K.[X]

On May 28, 2003, the aggregate market value of the voting stock held by non-affiliates of the registrant, using the average bid and asked prices of the registrant's stock on such date, was \$303,191,226. As of May 28, 2003 there were issued and outstanding 33,590,100 shares of the Company's Common Stock.

### DOCUMENTS INCORPORATED BY REFERENCE

Identification of Document -----	Part into which Incorporated -----
Proxy Statement for Annual Meeting of Stockholders to be held July 8, 2003.	Part III

### PART I

#### ITEM 1. BUSINESS.

Nautica Enterprises, Inc., a Delaware corporation (together with its subsidiaries, the "Company"), through its subsidiaries, designs, sources, markets and distributes apparel under the following brands: Nautica; Nautica Competition; Nautica Jeans Company; Earl Jean; John Varvatos; E. Magrath; and Byron Nelson. These products feature innovative designs, classic and contemporary styling, quality fabrics and functionality. The Company operates in three primary segments: wholesale, retail and licensing.

Through its wholesale business, the Company sells Nautica branded apparel primarily to leading department and specialty stores in over 2,300 retail locations throughout the United States. Earl Jean and John Varvatos products are sold primarily to high-end department stores, upscale specialty retailers and fashion forward boutiques in over 1,100 and 85 retail locations, respectively, primarily throughout the United States and certain European markets.

The Company's in-store shop programs for the Nautica, Nautica Competition, Nautica Jeans Company and Nautica Children's Company collections are an integral part of the Company's marketing strategy for its wholesale business. Through this program, the Company and a department store customer create a specific area within the store dedicated to the exclusive merchandising and sale of the Nautica, Nautica Competition, Nautica Jeans Company or Nautica Children's Company collections, as the case may be. Each of these shops are outfitted with signature fixtures consistent with the image of each of the brands and present the collections in an integrated, visually attractive environment. At the end of the fiscal year 2003, the number of Nautica in-store shops was approximately 1,400. Since its introduction in 1999, the number of Nautica Jeans shops has grown to approximately 1,300. The continued development of these shop programs is dependent on general apparel industry conditions, continued participation of retail customers and continued demand by consumers for the Nautica collections. Nautica Children's Company shops were first introduced in 2002.

In addition to its wholesale business, the Company operates 100 Nautica, nine Nautica Jeans, one Earl Jean and one John Varvatos outlet stores. The stores provide a sales channel for the Company's products for value oriented consumers and allows for the organized distribution of excess and out-of-season merchandise. The Company also operates six full-price stores, as follows: one Nautica store, three Earl Jean stores and two John Varvatos stores.

The Company strategically extends the Nautica brands and

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broadens the international distribution of the Nautica apparel collection through license arrangements. The Nautica name and trademarks are currently licensed for a range of products consistent with Nautica's design concepts and image. They are also licensed globally to companies for distribution of the Nautica collection. In addition, John Varvatos Company licenses its name and trademarks for a number of products.

### BRANDS AND PRODUCTS

#### Nautica

Through the Nautica brand the Company offers a collection of men's sportswear, outerwear and activewear. The Nautica collection features innovative designs, classic styling and quality fabrics. The Nautica name and trademarks are displayed on Nautica products to promote brand awareness and maintain consumer loyalty. While Nautica products are targeted to the 25-55 year old age group, the Company believes that its products appeal to both younger and older consumers who identify with the Nautica lifestyle and image. The Nautica collection is generally priced at a range of price points within the better men's collection category.

The Nautica collection is designed, like all of the Company's brands, by an in-house design and merchandising staff. Products in the Nautica collection include the following: sportswear and business casual -- sweaters, woven shirts and pants; outerwear -- parkas, anoraks, bomber jackets and inclement weather gear in various fabrications; activewear -- fleece tops and bottoms, tee shirts and swimwear; and, caps. The Nautica collection is sold through the Company's wholly-owned subsidiary, Nautica International, Inc.

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Nautica maintains an inventory of basic, year-round items in order to allow for the continuous replenishment of such stock to its retail customers. Such items include pants, cotton knit polo shirts, cotton sweaters, tee shirts, lightweight jackets and swimwear. Retail customers are able to reorder these products throughout the year via electronic data interchange.

The Nautica collections are presented during Nautica's four merchandising/selling seasons, with approximately three deliveries in each season. Core and key items are delivered throughout each delivery season along with fashion merchandise based on seasonal themes developed by Nautica's design and merchandising teams. These themed groups are distinguished by their distinctive use of color, novelty prints, innovative fabrics and unique design elements. The four merchandising/selling seasons consist of Spring, Summer, Fall and Holiday.

#### Nautica Competition

The Nautica Competition brand features active-inspired apparel products using performance and activewear fabrics. The Company believes that while these products are aimed at a younger age group (18-40) and provide a "bridge" between Nautica Jeans Company and Nautica, they also appeal to the Nautica core customer.

The Nautica Competition collection includes activewear inspired knit tops, knit bottoms, sweaters, tee shirts and outwear, including parkas, anoraks, bomber jackets and inclement weather gear. The collection is sold through the Company's wholly-owned subsidiary, Nautica International, Inc.

The Nautica Competition collections are presented during four

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merchandising/selling seasons, with approximately two deliveries in each season. All deliveries are based on seasonal athletic themes developed by the Company's in-house design and merchandising staffs and are distinguished by the use of graphics, color and innovative fabrics and styling details.

### Nautica Jeans Company

Through the Nautica Jeans Company brand, the Company offers a denim-based collection of men's and women's apparel. The products of the Nautica Jeans Company are targeted to the 16-25 year old age group and feature various themes.

The Nautica Mens Jeans collection includes jeans, woven shirts, knits, bottoms and outerwear. Knits include sweaters, tee shirts and activewear; bottoms include denim jeans, casual pants, denim shorts and casual shorts; and, outerwear includes jean jackets and lightweight, transitional weight and down outerwear. The Nautica Mens Jeans collection is offered through approximately 1,900 doors.

The Nautica Womens Jeans collection includes a full range of products including jeans, woven shirts, knits, bottoms and outerwear. Knits include sweaters, tee shirts and activewear; bottoms include denim jeans, casual pants, denim skirts, casual skirts, denim dresses, casual dresses, denim shorts and casual shorts; and, outerwear includes jean jackets and lightweight, transitional weight and down outerwear. The Nautica Womens Jeans collection is offered through approximately 300 doors.

The Nautica Jeans Company collections are presented in twelve fashion deliveries with four key item deliveries. Each delivery includes products that are merchandised together, using colorations, labels, patches and intriguing fabrics. The Nautica Jeans Company products that are offered on a year round basis through the Company's automatic replenishment program include the following: for Nautica Mens Jeans, five basic jeans offered in five different fits and three to five different washes/rinses, tee shirts, twill cargo pants and, seasonally, three denim shorts and a twill cargo short; and, for Nautica Womens Jeans, four basic jeans offered in four different fits and three different washes/rinses, tee shirts, twill pants and, seasonally, two denim shorts in three washes/rinses. The collections are sold through the Company's wholly-owned subsidiary, Nautica Jeans Company.

### Nautica Children's Company

Through Nautica Children's Company, a wholly-owned subsidiary of the Company which commenced operations in April 2001, the Company offers an active-inspired, denim-based collection of boys apparel for infants and the 4-20 year old age group. The collection includes jeans, woven shirts, knits, bottoms and outerwear. Knits include sweaters, tee shirts

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and activewear; bottoms include denim jeans, casual pants, denim shorts and casual shorts; and, outerwear includes jean jackets, lightweight, transitional weight and down outerwear.

The Children's collection is presented in twelve fashion deliveries with four key item deliveries. Each delivery includes products that are merchandised together, using coloration, labels, patches and intriguing fabrics. The Nautica Children's Company products that are offered on a year-round basis through the Company's automatic replenishment program include three different fits, three different washes/rinses, tee shirts, twill cargo

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pants and, seasonally, two denim shorts in three washes/rinses.

### Nautica Sleepwear

The Nautica robes and sleepwear collections and Nautica underwear are sold to men and women, and the Nautica Blue collection to juniors, through the Company's wholly-owned subsidiary, Nautica Furnishings, Inc. The Nautica robes and sleepwear collection for men includes robes, boxer shorts, jams, henley camp shirts, nightshirts and pull-on pants. The Nautica robes and sleepwear collection for women includes pajamas, knit tops and pants, drawstring shorts, chemise, gowns, nightshirts and robes. Nautica underwear includes woven boxer shorts, knit boxers, knit briefs, tee shirts and athletic shorts. Product sold to juniors is marketed under the Nautica Blue brand.

The Nautica robes and sleepwear collections are presented in four merchandising seasons for men and five merchandising seasons for women and juniors, with monthly deliveries. The deliveries are distinguished by fabrications, use of color, pattern and prints, and styling. In addition, certain of the products are offered through the Company's automatic replenishment program. Nautica underwear is presented in two merchandising seasons.

### Earl Jean

The Earl Jean business was acquired by the Company in April 2001. Earl Jean, Inc., a wholly owned subsidiary of the Company, designs, sources, markets and distributes high-end contemporary denim products, related apparel and accessories for women and men. The brand's core customers are urban professionals and affluent teens ages 18-35, with price points at the high-end of the retail market.

The Earl Jean collection includes women's and men's jeans in a variety of washes and fabrications, woven shirts, skirts, tee shirts, leather outerwear, handbags, footwear and belts. It is presented in four merchandising seasons with two to three deliveries in each season. Earl Jean primarily distributes products through leading upscale specialty and department stores across the United States, selected countries in Europe, Japan and Canada.

### John Varvatos Company

In 2000, the Company launched the John Varvatos men's contemporary designer collection. The collection is sold to luxury department stores and better specialty stores, domestically and internationally. The collection consists of sportswear, tailored clothing, furnishings, accessories and footwear at men's designer price points. Sportswear includes sweaters, knits, wovens, pants, outerwear and leather; tailored clothing includes suits, jackets, dress pants and top coats; furnishings includes dress shirts and neckwear; and, accessories include scarves, hats, belts, footwear and bags. The collection is presented in three merchandising seasons with two to three deliveries in each season. The John Varvatos collection is sold through the Company's wholly-owned subsidiary, John Varvatos Company.

### E. Magrath and Byron Nelson

Through the E. Magrath Apparel Company, a wholly-owned subsidiary of the Company, the Company offers the E. Magrath and Byron Nelson golf sportswear collections. Each collection includes knit shirts, woven shirts, trousers, shorts, lightweight outerwear and windshirts, and are targeted to consumers for on and off golf course wear. The Byron Nelson label, which is licensed by the Company, is displayed on the products offered in the Byron Nelson collections. The Byron Nelson products target an older and more affluent consumer. These collections are presented in two lines each year and are sold in

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better country clubs and resorts nationwide.

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### Other Activities

The Company also licenses the Nautica name and related trademarks for a range of products consistent with Nautica's design concepts and image through Nautica Apparel, Inc., a wholly-owned subsidiary of the Company ("Nautica Licensing"), and the John Varvatos name and related trademarks for hosiery, fragrance and a limited edition sneaker collection. See "Licensing."

### DIRECT RETAILING

#### Outlet Stores

The Company operates 100 Nautica, nine Nautica Jeans, one Earl Jean and one John Varvatos outlet stores located in outlet centers throughout the United States. Such operations are primarily conducted through its wholly-owned subsidiary, Nautica Retail USA, Inc. These outlet stores have enabled the Company to increase sales in certain geographic markets where its products were not previously available and reach consumers who favor value-oriented retailers. They also provide opportunities for the Company to sell excess and out-of-season merchandise, thereby reducing the need to sell such merchandise to discounters at excessively low prices. The Company's outlet stores are geographically positioned to minimize potential conflict with the Company's retail customers. Outlet stores purchase products directly from the Company and its suppliers, and source basic products and styles through the Company.

#### Full-Price Stores

The Company, through wholly-owned subsidiaries, operates six full-price retail stores, as follows: one Nautica store, three Earl Jean stores and two John Varvatos stores. In fiscal 2003, the Company announced, given that the Nautica full-price retail store located in Rockefeller Plaza had been performing below expectations, it is evaluating its long-term strategy with respect to such store. The Earl Jean stores are located in New York's Soho neighborhood, Larchmont, California and South Beach, Miami, Florida. The John Varvatos stores are located in New York's Soho neighborhood and West Hollywood, California. The Company's full-price stores display the breadth of each of the respective Nautica, Earl Jean and John Varvatos collections.

### LICENSING

The Company strategically extends the Nautica product line and broadens the international distribution of the Nautica brand through license arrangements. These license arrangements allow the Company to enter new businesses and countries with minimal capital commitments and to benefit from the experience of the licensee with the licensed product or the local market. The Nautica name and related trademarks are licensed through Nautica Licensing.

Nautica Licensing currently licenses products for wholesale and/or retail distribution in the following product categories: fragrances, tailored clothing, dress shirts, neckwear, watches, hosiery, eyewear, women's swimwear, leather belts, wallets and accessories, top coats, gloves, scarves, umbrellas, beach towels, and the Nautica Home Collection featuring bedding, bath linens and accessories, tableware and furniture. Except for fragrances, eyewear and watches, which are licensed for sale globally, these products are licensed for sale primarily in the United States.

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Internationally, Nautica apparel currently is licensed for sale in over 100 countries, including, among others, Australia, Bahamas, Bermuda, Bulgaria, Canada, Chile, China, Colombia, Cyprus, Ecuador, Greece, Guatemala, Honduras, Hong Kong, Hungary, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Nicaragua, Panama, Paraguay, Peru, Philippines, Puerto Rico, Romania, Singapore, Taiwan, Thailand, Turkey, and Venezuela. In addition to wholesale distribution of Nautica apparel, international licensees operate Nautica retail stores in certain of these markets.

As a provision of the agreement by which the Company acquired the Nautica brand in 1984, David Chu, Vice Chairman of the Company, is entitled to receive 50% of the net royalty income from licensing the Nautica name and trademarks. The Company receives the remaining 50% of such net royalty income.

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The Company also licenses the John Varvatos name and trademarks for hosiery, fragrance and skin care products and a limited edition sneaker collection. The John Varvatos apparel collection is also distributed in Japan.

### MARKETING

The Company's in-store shop programs for the Nautica, Nautica Competition, Nautica Jeans Company and Nautica Children's Company collections are an integral part of the Company's marketing strategy of its Nautica wholesale business. Through this program, the Company and a department store customer create a specific area within the store dedicated to the exclusive merchandising and sale of the Nautica, Nautica Competition, Nautica Jeans Company or Nautica Children's Company collections, as the case may be. Each of these shops, strategically located in the collections departments of leading department stores, are outfitted with signature fixtures consistent with the image of each of the brands and present the collections in an integrated, visually attractive environment.

The Company plans to continue its efforts to expand and update its in-store shops in department stores which currently sell the Nautica, Nautica Competition, Nautica Jeans Company and Nautica Children's Company collections and to install such shops in additional retail locations. The continued development of the Company's in-store shop program is dependent on general apparel industry conditions, continued participation by retail customers and continued demand by consumers for the Company's collections, and no assurance can be given that the Company will be able to continue to expand and update its in-store shops.

In order to maximize the effectiveness of the Company's in-store shop program, the Company operates a merchandise coordinator program. Each of the Company's merchandise coordinators services a group of retail customers within a common geographic region. They communicate with and visit each of their customers on a regular basis to ensure proper visual display of the Company's merchandise, analyze inventory requirements, and provide selling and merchandising support to the sales staff. Merchandise coordinators also train certain department store employees with regard to product features, sales methods and shop management. In addition, they provide sales information to the Company's retail analysts who monitor retail performance and develop plans to assist these retail customers with future purchases of Company products. Management believes that the performance of the Company's in-store shops is enhanced by the close interaction of its merchandise coordinators with its retail customers.

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Company products are marketed by a regional sales force and sales representatives through its showrooms in New York City, Dallas, Texas, Los Angeles, California and London, England to leading department and specialty stores. In fiscal year 2003, May Department Stores Company, Federated Department Stores, Inc. and Dillard Department Stores, Inc. accounted for approximately 27%, 20% and 17%, respectively, of the Company's total wholesale sales. No other customer of the Company accounted for 10% or more of the Company's sales during that period.

The Company implements, on an annual basis, marketing strategies that support and extend brand awareness, build sales and develop the Company's customer base, both geographically and demographically. Targeted marketing initiatives are developed and executed for each of the Company's business units. These marketing initiatives comprise an integrated matrix of communication vehicles that include national and regional print advertising, outdoor and radio advertising, consumer promotions, corporate sponsorships, retail events, in-store merchandising and visual presentations, seasonal fashion shows, brand websites and on-going public relations and consumer outreach programs. Brand communication continues at the in-store level with advertising and brand imagery prominently featured in signature brand fixtures.

The Nautica brands' advertising campaigns, featured in national and regional consumer magazines, newspapers and trade publications, deliver appropriate brand messages to the desired audiences. Publications featuring Company advertising campaigns reflect the diversification of the Company's businesses with titles that include, among others, GQ, Sports Illustrated, Cosmopolitan, Vanity Fair, DNR, WWD, House & Garden, The New York Times Magazine, Maxim, Vibe, Vogue and Details. Outdoor advertising media, utilized on a regional basis, includes bus panels, billboards, commuter rail cards and telephone kiosks.

Strategically planned retail events, consumer promotions and sponsorships, such as acting as the official apparel sponsor of the No. 1 ranked Men's Professional Beach Volleyball Team, bring attention to the Company's brands on a global basis while supporting local retail sales and reinforcing the brand's authentic and active image.

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### PRODUCT DESIGN AND SOURCING

The Company manages the development of its apparel from initial product concept through color and pattern design, fabric identification and testing, and garment manufacturing. Products are designed by in-house design staffs. The design teams work in conjunction with the sales and production teams to determine the apparel styles for a particular season based upon an evaluation of current style trends, prior year's sales and consultations with retail customers. In conjunction with agents located in foreign countries, the Company arranges fabric sourcing and garment production to ensure that final products satisfy detailed specifications and quality standards.

The Company contracts for the manufacture of its products and does not own or operate any manufacturing facilities. During fiscal 2003, a significant portion of the Company's products were produced in Asia and other foreign countries, with the remaining portion produced in the United States. In the United States, suppliers operate under the close supervision of the Company's production departments. The Company's agent and sourcing office, based in Hong Kong and Taiwan, respectively, monitor foreign production to ensure compliance with design specifications, quality standards and timely delivery of



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finished garments. They are assisted by Company employees based in New York who visit with the manufacturers to monitor production. The Company has curtailed travel to certain parts of the world due to Severe Acute Respiratory Syndrome ("SARS"), and is monitoring the situation and reviewing its travel policies on a current basis.

To date, the Company has not experienced difficulty in obtaining manufacturing services. Management believes that many alternate manufacturing sources exist. However, the inability of current sources to satisfy the Company's manufacturing requirements, the loss of certain manufacturers, the loss of an agent of the Company or a delay in locating manufacturing capacity following termination of a manufacturing relationship, could have a material adverse effect on the Company's business and operating results. While the Company has long standing relationships with many of its manufacturers and believes its relations to be good, it does not have long-term commitments with manufacturers.

The Company sources for many of its manufacturers, a broad range of natural and synthetic fabrics, primarily from foreign textile mills and converters. The Company separately negotiates with fabric suppliers for the sale of required fabric which is then purchased by its manufacturers in accordance with the Company's specifications. To date, the Company has not experienced difficulty in sourcing fabrics for its manufacturers. Management believes that many alternate sources of supplies exist. However, the inability of current sources to satisfy the Company's fabric requirements, the loss of certain fabric vendors, or a delay in manufacturers obtaining fabrics from certain vendors, could have a material adverse effect on the Company's business and operating results. The Company does not have any long-term commitments with fabric suppliers.

The Company contracts to purchase its goods in United States dollars and has not experienced material difficulties as a result of foreign political, economic or social instability. However, the Company's business remains subject to the risks associated with foreign suppliers, including, without limitation, economic, political and health risks, including with respect to SARS.

### TRADEMARKS

Nautica and its related trademarks (the "Nautica Marks") are registered trademarks of Nautica Licensing in the United States for apparel and certain other products, including all licensed products. Applications to register the Nautica Marks in other product categories have been filed by the Company in the United States. In addition, Nautica Licensing has registered or is in the process of registering the Nautica Marks in over 100 countries throughout the world for apparel and other complementary product categories.

In addition to the Nautica Marks, the Company and its subsidiaries have registered, or are in the process of registering, the following trademarks, among other related marks, in the United States and certain other countries for apparel and certain other products: Nautica Competition; Nautica Jeans Company; Earl Jean; and, John Varvatos Company.

The Company regards its trademarks and other proprietary rights as valuable assets and actively manages its trademark portfolio, maintaining long-standing trademarks as well as obtaining trademark registrations for new brands. The

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Company polices its trademark portfolio against infringement but there can be no assurance that these efforts will be successful or that the Company will have adequate remedies for any such infringement.

### BACKLOG AND SEASONALITY

On March 1, 2003, the Company had unfilled customer orders of approximately \$295.7 million of merchandise, compared to approximately \$ 295.1 million of such orders at March 2, 2002. These amounts include both confirmed and unconfirmed orders which, the Company believes, based on industry practice and past experience, will be confirmed. We expect that substantially all such orders will be filled within the 2004 fiscal year. Backlog may be materially affected by a number of factors, including seasonal factors, the mix of product, the timing of the receipt and processing of customer orders and the timing of shipment. Accordingly, order book data should not be taken as providing meaningful period-to-period comparisons.

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. In the future, the timing of seasonal shipments may vary by quarter.

### COMPETITION

The apparel industry is highly competitive. The Company encounters substantial competition from brands such as Polo/Ralph Lauren, Tommy Hilfiger, Claiborne, Lucky Jeans, Polo Jeans, DKNY Jeans, Kenneth Cole, Diesel, Seven, Juicy Couture and Joie, as well as from certain non-designer lines. In addition, department stores, including some of the Company's major retail customers, have increased in recent years the amount of goods manufactured and sold under their own labels. Some of the Company's competitors are significantly larger and more diversified than the Company and have substantially greater resources available for marketing their products. The Company believes that its ability to compete effectively depends upon the continuing appeal of Nautica apparel and the Company's other products to its retail customers and consumers as well as the Company's ability to continue to offer high quality apparel at appropriate price points.

### EMPLOYEES

At March 1, 2003, the Company had approximately 3,300 employees. Approximately 225 of such employees are parties to a collective bargaining agreement. The Company considers its relations with its employees to be good.

### 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 through 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.

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### ITEM 2. PROPERTIES.

The general location of the primary properties of the Company and its subsidiaries, whether they are owned or leased, their use and

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approximate square footage, are as follows:

LOCATION	OWNED/LEASED	USE
Martinsville, VA	Owned	Warehouse and Customer Service Center, Information Systems
New York, NY	Leased	Corporate, Administrative, Showroom and Sales, Design and Production Offices
New York, NY	Leased	Design, Production, Sales and Administrative Offices
New York, NY	Leased	Design and Production Offices
New York, NY	Leased	Design and Administrative Offices
Los Angeles, CA	Leased	Showroom and Sales Offices
Dallas, TX	Leased	Warehouse and Administrative Offices
Dallas, TX	Leased	Showroom and Sales Offices
London, England	Leased	Showroom and Sales Offices
London, England	Leased	Showroom and Sales Offices

The Company also leases 111 outlet stores and six full-price retail stores in locations throughout the United States. The outlet stores range in size from approximately 2,400 to 9,300 square feet, and average approximately 3,800 square feet. The full-price retail stores range in size from approximately 1,100 square feet to approximately 5,000 square feet, except for the Nautica full-price retail store, which is approximately 12,000 square feet and located in New York's Rockefeller Plaza.

Given that the Company's Martinsville, Virginia facility is completed and fully operational, the Company has ceased operations at its 350,000 square foot distribution facility in Rockland, Maine. Accordingly, the Company is actively marketing the property for sale. In addition, the Company is seeking to sublet or terminate leases in Paris, France, Madrid, Spain and London, England, in view of the Company's decision to transition its Nautica Europe business to licensing or other key arrangements.

The Company believes that its existing facilities are well maintained, in good operating condition and adequate for the purposes utilized.

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### ITEM 3. LEGAL PROCEEDINGS.

From time to time, the Company is involved in litigation that arises from the ordinary operations of its business. In the event of an adverse outcome of any of these proceedings, the Company believes that the resulting liabilities would not have a material adverse effect on its financial condition or results of operations.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security-holders during the fourth quarter of fiscal 2003.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's common stock is publicly quoted on the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ") under the trading symbol "NAUT."

The following table sets forth, for the periods indicated, the high and low reported sales prices per share for the common stock as reported on the NASDAQ National Market System:

	HIGH	LOW
FISCAL 2002		
First Quarter Ended June 2, 2001	\$21.20	\$14.47
Second Quarter Ended September 1, 2001	21.65	12.83
Third Quarter Ended December 1, 2001	14.76	10.46
Fourth Quarter Ended March 2, 2002	14.49	12.57
FISCAL 2003		
First Quarter Ended June 1, 2002	\$16.22	\$12.94
Second Quarter Ended August 31, 2002	13.75	10.98
Third Quarter Ended November 30, 2002	12.38	8.06
Fourth Quarter Ended March 1, 2003	12.37	9.45
FISCAL 2004		
First Quarter (through May 23, 2003)	\$11.50	\$ 9.02

As of May 23, 2003, there were approximately 300 holders of record of the Company's common stock.

The policy of the Company is to retain earnings to provide funds for the operation and expansion of its business and, accordingly, the Company has paid no cash dividends on its Common Stock. Any payment of future cash dividends and the amount thereof will be dependent upon the Company's earnings, financial requirement, and other factors deemed relevant by the Company's Board of Directors.

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### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information with respect to compensation plans under which equity securities of the Company are authorized for issuance as of the end of the 2003 fiscal year:

#### EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY -----	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS COLUMN (a) -----	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS COLUMN (b) -----	NUMB REMA FOR  COMP (EXCL REFL -----
Equity compensation plans approved by security holders*	4,439,000	\$ 14.97	
Equity compensation plans not approved by security holders**	281,940 -----	\$ 0.87	
Total.....	4,720,940 =====		

\* Represents options granted under the 1996 Stock Incentive Plan, the 1989 Employee Incentive Stock Plan and the Executive Incentive Stock Option Plan. The number reflected in Column (c) represents additional options available for issuance under the 1996 Stock Incentive Plan. No additional options may be granted under the 1989 Employee Incentive Stock Plan and the Executive Incentive Stock Option Plan.

\*\* Represents options granted on July 1, 1987 to the Vice Chairman of the Company. The Option Agreement representing such grant provided, as adjusted for stock splits (and subject to future adjustments), for the Vice Chairman to purchase up to an aggregate of 2,262,064 shares of the Company's Common Stock at a purchase price of \$0.87 per share. The options expire 60 days after the earlier of (i) July 1, 2007, or (ii) 10 months following the date that the Vice Chairman ceases to be employed by the Company. At March 1, 2003, 281,940 options exercisable at \$0.87 per share remain outstanding.

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#### ITEM 6. SELECTED FINANCIAL DATA.

	Year ended			
	March 1, 2003	March 2, 2002	March 3, 2001	M
Amounts in thousands, except per share data				

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Selected consolidated statements of earnings data							
Net sales	\$	693,715	\$	692,092	\$	627,731	\$
Net earnings	\$	20,698	\$	17,259	\$	46,103	\$
Net earnings per share of common stock							
Basic	\$	0.62	\$	0.52	\$	1.45	\$
Diluted	\$	0.60	\$	0.50	\$	1.39	\$
Cash dividends per share of common stock							
		None		None		None	
Selected consolidated balance sheet data							
Total assets	\$	468,127	\$	422,070	\$	378,306	\$
Long-term debt, excluding current portion		13,567		14,321		-	
Working capital		191,240		151,214		170,804	
Stockholders' equity		346,226		322,580		285,264	

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

The Company operates in three primary business segments, Wholesale, Retail and Licensing. The Wholesale segment consists of businesses that design, market, source and distribute 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.

Fiscal year ended March 1, 2003 compared to March 2, 2002:

Net sales increased slightly to \$693.7 million in the fiscal year ended March 1, 2003 from \$692.1 million in the prior year. Wholesale sales increased 1.0% to \$519.9 million from \$516.5 million. Strong performances of Nautica Men's and Women's Jeans, Nautica Men's and Women's Sleepwear, and the contribution of the new Nautica Men's Underwear business were offset by a 9.2% decrease in the Nautica Men's Sportswear business. For fiscal 2004, the Company expects net sales to remain essentially flat to fiscal 2003, with growth in Nautica Sleepwear, Nautica Children's, Earl Jean and John Varvatos being offset by an estimated decrease in the Nautica Men's Sportswear business of approximately 13%-15%, due to, in part, the ongoing pressure facing the overall men's collection business in department stores. Retail sales decreased 1.0% to \$173.8 million from \$175.6 million primarily as a result of reduced consumer traffic in outlet malls due to the continued sluggish economy.

Gross profit, as a percentage of sales, was 42.7% compared to 41.1% in the prior year. The increase is due primarily to the Company's ability to better source products, improved full-price sales of Nautica Men's Jeans, Nautica Men's and Women's Sleepwear and Nautica Children's, as well as improved margins the Company achieved on sales to discount retailers.

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Selling, general and administrative expenses increased by \$5.3 million to \$254.9 million from \$249.6 million in the prior year. Selling, general and administrative expenses as a percentage of net sales increased to 36.7% from 36.1% in the prior year. The increase in the 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.

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. Approximately \$2.6 million of this charge was paid during the current fiscal year, with the balance expected to be paid during the first quarter of the next fiscal year and is 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 began realizing a portion of 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. This charge consisted of the impairment of fixed assets of the Company's Rockefeller Plaza store, based on the performance and anticipated outlook of the store in accordance with SFAS No. 144.

During the fourth quarter of fiscal 2003, the Company recorded a pre-tax special charge of \$2.6 million (\$1.6 million on an after tax basis) or \$0.05 per diluted share. This charge relates to the Company's decision to transition its Nautica business in Europe to licensing or other arrangements. The charge consists of \$1.3 million in wind-down costs, the write-down of fixed assets and lease termination costs and \$1.3 million for the impairment of goodwill in accordance with SFAS No. 142.

Net royalty income increased by \$1.4 million to \$9.3 million from \$7.9 million in the prior year. The increase is due primarily to the sales strength in home products during the current fiscal year. The prior year's income included the recognition of a settlement from the termination of the men's footwear license. Excluding this settlement, net royalty income increased \$3.6 million from the prior year.

Investment income decreased by \$0.9 million to \$0.6 million from \$1.5 million in the prior year. During the current year, the Company sold its short-term investments due to poor performance. Conversely, the prior year's income on these investments included unrealized capital gains. The decrease in income from short-term investments was offset, in part, by an increase in interest income earned on higher average cash balances during the current year, as a result of cash paid during the prior year for the acquisition of Earl Jean. Interest expense remained essentially flat compared to last year at \$2.0 million.

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

Net earnings increased \$3.4 million to \$20.7 million from \$17.3 million in the prior year as a result of the factors discussed above. Excluding special charges taken in both the current and prior year, net earnings for the current year would have been \$30.9 million compared to \$26.2 million in

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the prior year.

Fiscal year ended March 2, 2002 compared to March 3, 2001:

Net sales increased 10.3% to \$692.1 million in the fiscal year ended March 2, 2002 from \$627.7 million in the prior year. Wholesale sales increased 8.7% to \$516.5 million from \$475.2 million due primarily to the strong performance of Nautica Men's and Women's Jeans and the contribution of new businesses, including Earl Jean and Nautica Children's. These increases were offset by higher markdown allowances and returns in the Nautica Men's Sportswear business. Retail sales increased 15.1% to \$175.6 million from \$152.5 million as a result of sales from new stores opened during the year and full year sales of stores opened in the prior year. Also, the Retail segment was successful in selling through its excess inventory, resulting in lower inventory levels. Same store sales for the year were up 3.0% from the prior year, despite a difficult retail environment.

Gross profit, as a percentage of sales, was 41.1% compared to 41.5% in the prior year. The decrease is due primarily to higher markdown allowances and returns in the Wholesale segment, an aggressive push to sell through excess inventory in the Retail segment, and additional inventory reserves taken in the Nautica Europe business unit. This decrease was offset, in part, by the

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continued effort from the Company's operating teams to better source products, and the impact of higher margins on certain new product lines, particularly Earl Jean.

Selling, general and administrative expenses increased by \$52.7 million to \$249.6 million from \$196.9 million in the prior year. Selling, general and administrative expenses as a percentage of net sales increased to 36.1% from 31.4% in the prior year. The increase in the percentage of net sales is due primarily to the following: costs and charges, principally bad debts and marketing, associated with the Nautica Europe business unit; costs associated with operating additional distribution facilities while the Company transitions its distribution operations to its new facility in Martinsville, Virginia; costs associated with updating store displays to reflect the Company's new icon (the J-class(TM) sailboat); the integration of newer businesses; and several new brand extensions.

In the fourth quarter of fiscal year 2002, the Company recorded pre-tax special charges of \$14.4 million (\$9.0 million on an after tax basis) or \$0.26 per diluted share. These charges consisted of costs related to the closing of the Rockland, Maine distribution facility of approximately \$8.7 million, costs of approximately \$4.6 million relating to a payment made to the Company's Vice Chairman, net of accrued obligations and certain other costs associated with the cancellation of a 1998 Letter Agreement, and charges relating to certain employee terminations of approximately \$1.1 million.

The Company moved its distribution facility from Rockland, Maine to a new distribution and customer service center in Martinsville, Virginia. The charges relating to the distribution facility, which were recognized in the fourth quarter of fiscal 2002, included approximately \$7.9 million for the write-down of the facility to its estimated net realizable value and approximately \$0.8 million for costs associated with the closure and sale of the facility. Of the \$0.8 million, approximately \$0.4 million was paid in fiscal 2003 and the balance is expected to be paid in fiscal 2004 with cash from operations. Additional severance related costs associated with the



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elimination of approximately 300 union and non-union employees in Rockland, Maine totaling approximately \$3.4 million on a pre-tax basis was recognized in the first quarter of fiscal 2003 of which, approximately \$2.6 million was paid during fiscal 2003 and the balance is expected to be paid during fiscal 2004 with cash from operations. The Company expects annual savings associated with these actions 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 began realizing these cost savings in the fourth quarter of fiscal 2003.

The costs associated with the cancellation of a 1998 Letter Agreement were paid in the fourth quarter of fiscal 2002. The Company expects annual savings to be between \$1.0 and \$2.0 million. These savings will be reflected in selling, general and administrative expenses in the Company's consolidated financial statements and began being realized in the fourth quarter of fiscal 2002.

Approximately \$0.8 million of the costs associated with charges relating to certain employee terminations recorded in the fourth quarter of fiscal 2002 were paid during fiscal 2003. The balance is expected to be paid during fiscal 2004 with cash from operations.

Net royalty income decreased by \$0.9 million to \$7.9 million from \$8.8 million in the prior year. The decrease is due primarily to the following: the termination of its childrenswear license agreement, the operations of which the Company assumed in the current year; payments received in the prior year as a result of royalty audits; and the termination of its footwear license agreement. This decrease was offset, in part, by sales strength in existing licensed products, particularly home products and small leather goods and accessories.

Investment income decreased by \$1.6 million to \$1.5 million from \$3.1 million in the prior year. The decrease was due to lower average cash balances during the year as a result of the cash paid for the acquisition of Earl Jean and additional working capital needs, particularly to support the Company's new businesses. Interest expense increased \$1.8 million to \$2.0 million from \$0.2 million in the prior year as a result of interest incurred on the Company's short and long-term borrowings.

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

Net earnings decreased \$28.8 million to \$17.3 million from \$46.1 million in the prior year as a result of the factors discussed above. Excluding special charges recorded in fiscal 2002, net earnings for the current year would have been \$26.2 million.

### LIQUIDITY AND CAPITAL RESOURCES

During the year ended March 1, 2003, the Company generated cash from operating activities of \$60.9 million, principally from net earnings and an increase in accounts payable and accrued expenses of \$18.4 million, offset by increases in accounts receivable and inventory of \$10.6 and \$21.2 million, respectively. Accounts receivable was 10.0% higher than the prior year due to a \$22.7 million increase in wholesale sales in the fourth quarter compared to last year. Inventory was higher than the prior year due to a number of factors including: an increase to support backlog for the upcoming summer

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season; 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 spring product earlier than in the prior year to support a more timely transition from the fall season. Accounts payable and accrued expenses increased due to the increase in inventory.

During the year ended March 2, 2002, the Company generated cash from operating activities of \$91.1 million, principally from net earnings and decreases in accounts receivable and inventory of \$14.3 and \$41.8 million, respectively, offset by a decrease in accounts payable of \$15.4 million. Accounts receivable was 14.8% lower than the prior year due to a reduction in wholesale shipments in the fourth quarter. Inventory was 32.2% lower than the prior year due to the Company's aggressive sell-through of inventory through its Retail outlets, ability to better manage the timing of receipts with customer demand, and reduction in its offerings of replenishment styles. Accounts payable was 30.7% lower than the prior year due to the reduction in inventory.

During the year ended March 1, 2003, cash used in investing activities was \$24.5 million. This amount was primarily for the purchase of property, plant and equipment for the Nautica in-store shop program and the build-out of retail stores. The Company expects to continue to incur capital expenditures to expand and update its in-store shop program, and to open additional retail stores.

During the year ended March 2, 2002, cash used in investing activities was \$99.6 million. This amount related primarily to the acquisitions of Earl Jean and the Nautica childrenswear business, the purchase of property, plant and equipment for the Nautica in-store shop program, the completion of the new distribution facility in Martinsville, Virginia and the completion of a new full-price retail store in New York's Rockefeller Plaza. The Company expects to continue to incur capital expenditures to expand and update the in-store shop program, and to open additional retail stores.

During the year ended March 1, 2003, cash provided by financing activities was \$0.7 million. This amount consisted of proceeds from the issuance of common stock through the Company's Employee Incentive Stock Option Plan, offset by cash used to pay down the principal balance on its long-term debt. During fiscal year 2001, the Board of Directors authorized the Company to repurchase up to 4,000,000 shares of its outstanding stock on the open market. Under this authorization and a previous authorization, the Company purchased 36,000 shares at a cost of \$0.3 million during 2003 and 2,533,000 shares at a cost of \$28.8 million during 2001.

As of March 1, 2003 and March 2, 2002, the Company had \$175.0 million 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 March 1, 2003 and March 2, 2002, letters of credit outstanding under the lines were \$46.5 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 March 1, 2003, and is based on information appearing in the Notes to Consolidated Financial Statements:

(amounts in millions)					
Contractual Obligations	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total

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Operating leases	\$ 18.7	\$ 34.6	\$ 29.8	\$ 65.0	\$ 148.1
Letters of credit	46.5	-	-	-	46.5
Long-term debt	0.8	1.5	1.5	10.5	14.3
-----					
	\$ 66.0	\$ 36.1	\$ 31.3	\$ 75.5	\$ 208.9
=====					

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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.

### 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

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." 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. The Company adopted the provisions of SFAS No. 145 upon its effective date, which did not have a material impact on the consolidated financial statements.

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

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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 expecting a pre-tax special charge between \$7.0 and \$8.6 million in the first half of the next fiscal year based on the adoption of this pronouncement.

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 Company is currently in the process of evaluating the potential impact that this pronouncement will have on its 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

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of accounting for stock-based employee compensation and has included the disclosure requirements of SFAS No. 148 in the accompanying financial statements.

### 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. 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

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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.

### FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This Annual Report contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including, without limitation, the statements under "Management's

Discussion and Analysis of Financial Condition and Results of Operations" are "forward-looking statements." Forward-looking statements may include the words "believes," "expects," "plans," "intends," "anticipates," "continues" or other similar expressions. These statements are based on the Company's current expectations of future events and are subject to a number of risks and

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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 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, in the Company's press releases and in oral statements made by or with the approval of authorized personnel. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments.

### 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.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company finances its capital needs through available capital, future earnings, bank lines of credit and its long-term debt which totals \$14.3 million, inclusive of its current portion. The Company's exposure to market risk for changes in interest rates is 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 \$175.0 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Financial Statements required by Part II, Item 8 are included in Part IV, Item 15.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

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## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required is incorporated by reference from the Proxy Statement prepared with respect to the Annual Meeting of Stockholders to be held on July 8, 2003.

### ITEM 11. EXECUTIVE COMPENSATION.

The information required is incorporated by reference from the Proxy Statement prepared with respect to the Annual Meeting of Stockholders to be held on July 8, 2003.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required is incorporated by reference from the Proxy Statement prepared with respect to the Annual Meeting of Stockholders to be held on July 8, 2003.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required is incorporated by reference from the Proxy Statement prepared with respect to the Annual Meeting of Stockholders to be held on July 8, 2003, and by reference to Footnotes I, K and T of the Consolidated Financial Statements included in this report and referred to at Part IV, Item 15.

### ITEM 14. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this Annual Report on Form 10-K, 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.

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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 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.

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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.

### PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements

The following Consolidated Financial Statements of Nautica Enterprises, Inc. and Subsidiaries required by Part II, Item 8, are included in Part IV of this report:

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Consolidated Balance Sheets at March 1, 2003 and March 2, 2002	F-2 - F-3
Consolidated Statements of Earnings for each of the three years in the period ended March 1, 2003	F-4
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended March 1, 2003	F-5 - F-6
Consolidated Statements of Cash Flows for each of the three years in the period ended March 1, 2003	F-7
Notes to Consolidated Financial Statements	F-8 - F-28

2. Financial Statement Schedule

Included in Part IV of this report:



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Schedule for each of the three years in the period ended March 1, 2003:

### II - Valuation and Qualifying Accounts

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#### 3. Exhibits

- 2 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.
- 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.
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- 3(c) Certificate of Designations of Series A Junior Participating Preferred Stock of Nautica Enterprises, Inc., in the form as filed with the Secretary of State of the State of Delaware, included as Exhibit A to the Rights Agreement, dated as of November 2, 2001, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, is incorporated herein by reference from the Registrant's Current Report on Form 8-K filed on November 8, 2001.
- 4(i) (a) Rights Agreement, dated as of November 2, 2001, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, which includes the Certificate of Designations of Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C, is incorporated herein by reference from the Registrant's Current Report on Form 8-K filed on November 8, 2001.
- 10(iii) (a) Registrant's Executive Incentive Stock Option Plan is incorporated herein by reference from the Registrant's Registration Statements on Form S-8 (Registration Number 33-1488), as amended by the Company's Registration Statement on Form S-8 (Registration Number 33-45823).
- 10(iii) (b) Registrant's 1989 Employee Incentive Stock Plan is incorporated herein by reference from the Registrant's Registration Statement on Form S-8 (Registration Number 33-36040).
- 10(iii) (c) Registrant's 1996 Stock Incentive Plan is incorporated herein by reference from the 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 June 7, 2002.

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- 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 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.

- 21 Subsidiaries of Registrant
- 22 Consent of Independent Certified Public Accountants
- 99(a) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 99(b) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
- (b) Reports on Form 8-K - None

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### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders  
NAUTICA ENTERPRISES, INC.

We have audited the accompanying consolidated balance sheets of Nautica Enterprises, Inc. and Subsidiaries as of March 1, 2003 and March 2, 2002, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended March 1, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

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financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nautica Enterprises, Inc. and Subsidiaries as of March 1, 2003 and March 2, 2002, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended March 1, 2003, in conformity with accounting principles generally accepted in the United States of America.

We have also audited the schedule listed in the accompanying index at Item 14(a) 2 for each of the three years in the period ended March 1, 2003. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

GRANT THORNTON LLP

New York, New York  
April 16, 2003

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Nautica Enterprises, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS  
(amounts in thousands, except share data)

ASSETS	MARCH 1, 2003	March 2, 2002
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 82,953	\$ 45,814
Short-term investments	-	6,350
Accounts receivable - net of allowances of \$45,432 in 2003 and \$42,525 in 2002	98,713	89,736
Inventories	87,630	66,443
Prepaid expenses and other current assets	3,428	5,599
Deferred tax benefit	22,229	18,912
Assets held for sale	2,842	2,842
	-----	-----
Total current assets	297,795	235,696
PROPERTY, PLANT AND EQUIPMENT, at cost - less accumulated depreciation and amortization	96,427	111,327
GOODWILL, at cost	30,054	31,328
OTHER INTANGIBLES, at cost - less accumulated amortization	34,972	35,489
OTHER ASSETS	8,879	8,230
	-----	-----
	\$468,127	\$422,070
	=====	=====

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The accompanying notes are an integral part of these statements.

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### Nautica Enterprises, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS (CONTINUED)  
(amounts in thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	MARCH 1, 2003	March 2, 2002
	-----	-----
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 754	\$ 754
Accounts payable - trade	34,690	30,402
Accrued expenses and other current liabilities	57,017	44,037
Income taxes payable	14,094	9,289
	-----	-----
Total current liabilities	106,555	84,482
<b>LONG-TERM LIABILITIES</b>		
Long-term debt - net	13,567	14,321
Interest rate swap liability	1,779	687
	-----	-----
Total long-term liabilities	15,346	15,008
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - par value \$.01; authorized, 2,000,000 shares; no shares issued	-	-
Common stock - par value \$.10; authorized, 100,000,000 shares; issued, 45,136,000 shares in 2003 and 44,718,000 shares in 2002	4,514	4,472
Additional paid-in capital	96,216	93,546
Retained earnings	406,105	385,407
Accumulated other comprehensive loss - net of deferred tax benefit of \$772 at March 1, 2003 and \$1,132 at March 2, 2002	(1,287)	(1,862)
Common stock in treasury at cost; 11,534,000 shares at March 1, 2003 and 11,498,000 shares at March 2, 2002	(159,322)	(158,983)
	-----	-----
	346,226	322,580
	-----	-----
	\$468,127	\$422,070
	=====	=====

The accompanying notes are an integral part of these statements.

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Nautica Enterprises, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS  
(amounts in thousands, except share data)

	YEAR ENDED MARCH 1, 2003 -----	Year ended March 2, 2002 -----	Year end March 3 2001 -----
Net sales	\$ 693,715	\$ 692,092	\$ 627,000
Cost of goods sold	397,348	407,677	367,000
	-----	-----	-----
Gross profit	296,367	284,415	260,000
Selling, general and administrative expenses	254,933	249,593	196,000
Special charges	16,282	14,442	
Net royalty income	(9,329)	(7,860)	(8,000)
	-----	-----	-----
Operating profit	34,481	28,240	72,000
Investment income	604	1,471	3,000
Interest expense	(1,968)	(1,959)	(1,000)
	-----	-----	-----
Earnings before provision for income taxes	33,117	27,752	75,000
Provision for income taxes	12,419	10,493	29,000
	-----	-----	-----
NET EARNINGS	\$ 20,698	\$ 17,259	\$ 46,000
	=====	=====	=====
Net earnings per share of common stock:			
Basic	\$ 0.62	\$ 0.52	\$ 1.00
	=====	=====	=====
Diluted	\$ 0.60	\$ 0.50	\$ 1.00
	=====	=====	=====
Weighted-average number of common shares outstanding:			
Basic	33,567,000	32,946,000	31,862,000
	=====	=====	=====
Diluted	34,307,000	34,319,000	33,241,000
	=====	=====	=====

The accompanying notes are an integral part of these statements.

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Nautica Enterprises, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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Years ended March 1, 2003, March 2, 2002 and March 3, 2001  
(amounts in thousands, except share data)

	Common stock		Additional	Retained
	Shares	Amount	paid-in capital	earnings
Balance at March 4, 2000	42,696,000	\$ 4,270	\$ 67,559	\$322,045
Common stock issued on exercise of stock options	633,000	63	2,183	
Income tax benefit from stock options			2,024	
Purchase of treasury stock				
Net earnings				46,103
Balance at March 3, 2001	43,329,000	4,333	71,766	368,148
Common stock issued in connection with the acquisition of Earl Jean, Inc.	1,122,000	112	18,354	
Common stock issued on exercise of stock options	267,000	27	2,531	
Income tax benefit from stock options			895	
Comprehensive income				
Net earnings				17,259
Other comprehensive (loss), net of taxes:				
Foreign currency translation adjustments				
Unrealized loss on interest rate swap				
Total comprehensive income				
Balance at March 2, 2002 (carried forward)	44,718,000	\$ 4,472	\$ 93,546	\$385,407

The accompanying notes are an integral part of these statements.

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### Nautica Enterprises, Inc. and Subsidiaries

#### CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

Years ended March 1, 2003, March 2, 2002 and March 3, 2001  
(amounts in thousands, except share data)

	Common stock		Additional	Retained
	Shares	Amount	paid-in capital	earnings
Balance at March 2, 2002 (brought forward)	44,718,000	\$ 4,472	\$93,546	\$385,407

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Common stock issued on exercise of stock options	418,000	42	1,787	
Income tax benefit from stock options			883	
Purchase of treasury stock				
Comprehensive income				
Net earnings				20,698
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments				
Unrealized loss on interest rate swap				
	-----	-----	-----	-----
Total comprehensive income				
Balance at March 1, 2003	45,136,000	\$ 4,514	\$96,216	\$406,105
	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

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Nautica Enterprises, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(amounts in thousands)

	YEAR ENDED MARCH 1, 2003	Year ended March 2, 2002	Year e March 200
	-----	-----	-----
Cash flows from operating activities			
Net earnings	\$ 20,698	\$ 17,259	\$ 46,
Adjustments to reconcile net earnings to net cash provided by operating activities			
Deferred income taxes	(3,676)	(6,921)	(2,
Depreciation and amortization	28,970	29,045	22,
Provision for bad debts	1,667	5,161	1,
Loss on impairment of long-lived assets	10,964	7,870	
Loss on impairment of goodwill	1,275	-	
Increase in interest rate swap liability	921	-	
Changes in operating assets and liabilities, net of assets and liabilities acquired			
Short-term investments	6,350	(804)	28,
Accounts receivable	(10,644)	14,342	(17,
Inventories	(21,187)	41,766	(24,
Prepaid expenses and other current assets	2,170	1,902	(2,
Other assets	(693)	(1,824)	
Accounts payable - trade	4,287	(15,394)	14,
Accrued expenses and other current liabilities	14,086	109	7,
Income taxes payable	5,687	(1,363)	3,
	-----	-----	-----
Net cash provided by operating activities	60,875	91,148	78,
	-----	-----	-----
Cash flows from investing activities			
Purchase of property, plant and equipment	(24,427)	(44,268)	(41,
Acquisitions, net of cash acquired	-	(55,282)	
Payments to register trademark	(45)	(91)	(

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Net cash used in investing activities	(24,472)	(99,641)	(41,
Cash flows from financing activities			
Proceeds from long-term debt	-	15,075	
Principal payments on long-term debt	(754)	-	
Proceeds from issuance of common stock	1,829	2,558	2,
Purchase of treasury stock	(339)	-	(28,
Net cash provided by (used in) financing activities	736	17,633	(26,
INCREASE IN CASH AND CASH EQUIVALENTS	37,139	9,140	9,
Cash and cash equivalents at beginning of year	45,814	36,674	27,
Cash and cash equivalents at end of year	\$ 82,953	\$ 45,814	\$ 36,
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	\$ 1,033	\$ 1,844	\$
Cash paid during the year for income taxes	\$ 10,326	\$ 18,724	\$ 27,

The accompanying notes are an integral part of these statements.

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Nautica Enterprises, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 1, 2003, March 2, 2002 and March 3, 2001  
(amounts in thousands, except share data)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nautica Enterprises, Inc. (the "Company") and its subsidiaries are primarily engaged in the design, marketing, sourcing, distributing and sale of men's, women's and children's apparel. The principal market for the Company's products is the United States of America.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

1. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

2. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



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### 3. Fair Value of Financial Instruments

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying value due to their short-term maturities. The fair value of long-term debt approximates the carrying value and is estimated based on the current interest rates offered to the Company for debt of similar maturity.

### 4. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents consist principally of municipal bonds that have been called for redemption and short-term notes. The market value of the cash equivalents approximates cost.

### 5. Short-Term Investments

Short-term investments are classified as trading securities and are adjusted to market value at the end of each accounting period. Unrealized market gains and losses are included in earnings. Realized gains and losses on sales of investments are determined on a specific identification basis, and are included in earnings.

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Nautica Enterprises, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 1, 2003, March 2, 2002 and March 3, 2001  
(amounts in thousands, except share data)

#### NOTE A (CONTINUED)

### 6. Accounts Receivable

The majority of the Company's accounts receivable are due from customers in the retail industry. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the retail industry as a whole.

### 7. Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out ("LIFO") method for certain wholesale inventories and by the first-in, first-out ("FIFO") method for retail and the remaining wholesale inventories.

Inventories valued using the LIFO method, consisting primarily of finished goods, comprised 33% and 34% of consolidated inventories

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before LIFO adjustment at March 1, 2003 and March 2, 2002, respectively. Had the Company utilized the FIFO method of accounting for all inventory, inventories would have been higher by \$2,317 and \$2,285 at March 1, 2003 and March 2, 2002, respectively.

### 8. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Buildings and improvements are depreciated using the straight-line method over their estimated useful lives of twenty to thirty-nine years. Machinery, equipment and fixtures are depreciated using the straight-line method over their estimated useful lives of three to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets.

### 9. Goodwill and Other Intangibles

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill recorded in connection with acquisitions had been amortized using the straight-line method over a ten- to forty-year period through March 2, 2002. Other intangibles with determinable lives are amortized on a straight-line basis over the estimated useful lives of the assets. Other intangibles without determinable lives represent trademarks that had been amortized using the straight-line method over the estimated useful lives of the assets through March 2, 2002. Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," changed the accounting for goodwill and other intangible assets without determinable lives from an amortization method to an impairment-only approach and, accordingly, the Company tests goodwill and other intangible assets without determinable lives for impairment through the use of independent third-party appraisals.

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Nautica Enterprises, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 1, 2003, March 2, 2002 and March 3, 2001  
(amounts in thousands, except share data)

#### NOTE A (CONTINUED)

### 10. Valuation of Long-Lived Assets

The Company continually 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 and recognizes an impairment loss if the carrying value exceeds the expected future cash flows. The impairment loss is measured based upon the difference between the fair value of the asset and its recorded carrying value.

### 11. Revenue Recognition

Revenue within wholesale operations is recognized at the time

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merchandise is shipped to customers. Retail store revenues are recognized at the time of sale. Allowances for estimated returns and discounts are provided when sales are recorded.

### 12. Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are recorded as revenue. The costs associated with shipping goods to customers are recorded as a cost of sales.

### 13. Advertising

All costs associated with advertising products are expensed when the advertising takes place. Costs associated with cooperative advertising programs, under which the Company generally shares the cost of a customer's advertising expenditures, are expensed when the related revenues are recognized. Advertising expenses were \$25,900, \$31,300 and \$29,200 in 2003, 2002 and 2001, respectively.

### 14. Income Taxes

The Company and its wholly-owned subsidiaries file a consolidated Federal income tax return. Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Deferred tax assets and liabilities are measured using enacted tax law.

### 15. Earnings Per Share

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 740,000 in 2003, 1,373,000 in 2002 and 1,379,000 in 2001.

Options that 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 1,934,000 in 2003, 2,161,000 in 2002 and 2,281,000 in 2001.

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Nautica Enterprises, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 1, 2003, March 2, 2002 and March 3, 2001  
(amounts in thousands, except share data)

NOTE A (CONTINUED)

### 16. Stock Options

The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." It applies APB Opinion No.

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

	2003	2002	
Net earnings			
As reported	\$ 20,698	\$17,259	\$
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards granted, modified, or settled, net of tax	(5,149)	(8,209)	
Pro forma	\$ 15,549	\$ 9,050	\$
Basic net earnings per share			
As reported	\$ 0.62	\$ 0.52	\$
Pro forma	\$ 0.46	0.27	
Diluted net earnings per share			
As reported	\$ 0.60	\$ 0.50	\$
Pro forma	\$ 0.45	0.27	

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the years ended March 1, 2003, March 2, 2002 and March 3, 2001, respectively: expected volatility of 47%, 50% and 44%; risk-free interest rates of 4.0%, 5.0% and 5.3%; and expected lives of seven years.

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Nautica Enterprises, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 1, 2003, March 2, 2002 and March 3, 2001  
(amounts in thousands, except share data)

NOTE A (CONTINUED)

### 17. Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation." Where the functional currency of a foreign

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subsidiary is its local currency, balance sheet accounts are translated at the current exchange rate and income statement items are translated at the average exchange rate for the period. Gains and losses resulting from translation are accumulated in a separate component of stockholders' equity. Where the local currency of a foreign subsidiary is not its functional currency, financial statements are translated at either current or historical exchange rates, as appropriate. These adjustments, along with gains and losses on currency transactions, are reflected in the consolidated statements of earnings.

### 18. Fiscal Year

References made to 2003, 2002 and 2001 relate to the fiscal years ended March 1, 2003, March 2, 2002 and March 3, 2001, respectively.

### 19. Reclassifications

Certain amounts in prior years have been reclassified to conform with classifications used in 2003.

### 20. Recent Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." 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. The Company adopted the provisions of SFAS No. 145 upon its effective date, which did not have a material impact on the consolidated financial statements.

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 expecting a pre-tax special charge between \$7,000 and \$8,600 in the first half of the next fiscal year based on the adoption of this pronouncement.

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Nautica Enterprises, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 1, 2003, March 2, 2002 and March 3, 2001  
(amounts in thousands, except share data)

NOTE A (CONTINUED)

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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 Company is currently in the process of evaluating the potential impact that this pronouncement will have on its 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.

### NOTE B - ACQUISITIONS

#### 1. Hampton Industries, Inc.

On April 2, 2001, the Company's licensing unit terminated its license agreement with Hampton Industr