BLAIR CORP
Form 10-K
March 15, 2004

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003 Commission file number 1-878

BLAIR CORPORATION

Incorporated in Delaware	I.R.S. Employer Identification Number:
220 Hickory Street Warren, Pennsylvania 16366 (814) 723-3600	25-0691670

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS ON WHICH REGISTERED	NAME OF EACH EXCHANGE
Common Stock, without nominal or par value	American Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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

Indicate by check mark 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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2003 was approximately $178,892,795. There were 8,126,401 shares of common stock outstanding as of March 5, 2004 as reported by the Company's transfer agent and the aggregate market value of the voting stock held by nonaffiliates of the registrant as of March 5, 2004 was $217,299,963.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2004 Annual Meeting of Stockholders (the

"Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

(a) GENERAL.

Blair Corporation (the "Company") was founded in 1910 by John L. Blair, Sr., and was incorporated in 1924 under the laws of the State of Delaware. The Company's business consists of the sale of fashion apparel for men and women, plus a wide range of home products. Although the Company's revenues are generated primarily through direct mail merchandising, the Company has transitioned into a multi-channel direct marketer, as an increasing amount of total sales revenue, approximately 12% in 2003, is being generated through its e-commerce Web sites which were launched in 2000. The Company operates three retail stores, two in Pennsylvania and one in Delaware. The Company employs approximately 2,600 people. None of the Company's employees are subject to collective bargaining agreements.

(b) INFORMATION REGARDING INDUSTRY SEGMENTS.

The Company's business consists of one reportable segment, which is direct mail, e-commerce and retail merchandising of men's and women's fashion apparel and home products. The Company's segment reporting is consistent with the presentation made to the Company's chief operating decision makers.

(c) DESCRIPTION OF BUSINESS.

The Company markets a wide range of merchandise, manufactured by a number of independent suppliers, both domestic and foreign. Most of these suppliers have been associated with the Company for many years and manufacture products based upon the Company's specifications. Suppliers are selected in accordance with their ability to produce high quality products in a cost-effective manner.

The Company markets its products mainly by direct mail. Catalogs and letters containing color folders depict the current styles of Womenswear (such as coordinates, dresses, tops, pants, skirts, lingerie, sportswear, suits, jackets, outerwear and shoes), Menswear (such as suits, shirts, outerwear, active wear, slacks, shoes, and accessories), and Home (such as bedspread ensembles, draperies, furniture covers, area rugs, bath accessories, kitchenware, gifts, collectibles and personal care items) and are mailed directly to existing and prospective customers. Sales of the Menswear and Womenswear products, including the Crossing Pointe product line which was introduced in 2000 and the Allegheny Trail business which was introduced in June 2003, accounted for 88% of the Company's total sales in 2003, and sales of home products accounted for the remaining 12%. Media and co-op prospect advertising programs continue to be used as components of the Company's customer acquisition strategy. The Company continued to expand its Internet presence in 2003 generating over $84 million in sales demand, approximately 12% of the Company's total gross sales, as compared to approximately $66 million in sales demand or 10% in 2002. The Company launched e-commerce Web sites for Blair www.blair.com and Crossing Pointe www.crossingpointe.com in the third quarter of 2000 and has continued to expand its affiliate partnerships to extend the reach of the Web sites. The Company's Web sites have also become an effective way to help liquidate excess inventory.

Both catalog mailings and letter mailings are mailed from commercial printers engaged by the Company. Prior to the second quarter of 2001, letter mailings originated from the Company's former Mailing Center in nearby Irvine, Pennsylvania. In the second quarter of 2001, the mailing operations were outsourced and in the third quarter of 2001, the merchandise returns operations that were located in the former Mailing Center were relocated to the Company's new Returns Center in Erie, Pennsylvania. Orders for merchandise are processed at the Company's corporate offices in Warren, Pennsylvania (telephone orders via the call centers in Franklin, Pennsylvania, Erie, Pennsylvania and Warren, Pennsylvania) and orders are filled and mailed from the Company's Distribution Center in Irvine, Pennsylvania. All of the Company's products, including Allegheny Trail, are warehoused in its Irvine, Pennsylvania Distribution Center. The Distribution Center has been expanded to include the former Mailing Center, and enhanced to improve customer service levels and to support the Company's growth plans. The Company serves customers throughout the United States.

The Company's Web sites enable it to more efficiently promote and liquidate discontinued, overstocked and returned merchandise. The Delaware retail store is the only Company retail facility located outside of the Company's home state of Pennsylvania.

The Company considers its merchandise to be value-priced and competes for sales with other direct marketers, retail department stores, specialty shops, discount store chains and e-commerce and multi-channel marketers. The Company competes based on its sales expertise - its unique combination of product, quality, price, credit, guarantee and service.

During 2003, the Company continued to broaden its customer information database system. The marketing and credit department databases are continually updated in order to enhance the Company's ability to market to both customers and prospects. The information database system, covering all of the Company's products and customer file, is used by the marketing and credit departments to administer strategic business decisions.

In June 2003, the Company formed a new wholly-owned subsidiary, Allegheny Trail Corp., to launch a wholesale business targeted primarily at outdoor sporting goods and recreational retailers. Allegheny Trail offers a core product line of men's and women's outdoor apparel basics at entry-level price points allowing retailers to be more competitive with major brands.

In August 2003, the Company commenced operations of a new wholly-owned subsidiary, JLB Service Bank. The establishment of JLB Service Bank will enable the Company to manage its credit portfolio in a more cost-effective and efficient manner. The bank's products will involve the extension of credit on an unsecured basis to individuals who are customers of Blair Corporation to facilitate their purchases of Blair's merchandise.

In October 2001, the Company announced a partnership with actress, artist and author, Jane Seymour, to launch the "Jane Seymour Signature Collection" of women's apparel. The Jane Seymour fashions have been sold exclusively through the Company's Crossing Pointe catalog and Web site (www.crossingpointe.com). The Company will not be renewing its partnership agreement with Ms. Seymour when it expires in September 2004.

(d) FOREIGN OPERATIONS AND EXPORT SALES.

The Company does not derive any revenue from sales of merchandise outside of the United States.

The Company's International Trade Offices, the Company's only foreign operations, directly source more than 33% of the Company's merchandise from foreign suppliers. All activity is intercompany and the foreign offices have insignificant amounts of cash and fixed assets.

(e) AVAILABLE INFORMATION.

The Company makes available free of charge copies of its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments made to these reports pursuant to Section 13(a) and 15(d) of the Exchange Act, on its Web site at www.blair.com. Such reports are posted as soon as reasonably practicable after being filed with the SEC.

ITEM 2. PROPERTIES

The Company owns the following properties:

1. Blair Headquarters (220 Hickory Street, Warren, Pennsylvania).

2. Blair Distribution Center South (Route 62, Irvine, Pennsylvania).

3. Blair Distribution Center North (former Mailing Center) (Route 62, Irvine, Pennsylvania).

4. Blair Warehouse Outlet (Route 62, Starbrick, Pennsylvania).

5. Blair Warehouse Outlet (Millcreek Mall, Erie, Pennsylvania).

6. Bell Warehouse Building (Liberty Street, Warren, Pennsylvania).

7. Starbrick Warehouse Building (Route 62, Starbrick, Pennsylvania).

The Blair Warehouse Outlet buildings in Starbrick and Erie Pennsylvania are not currently being used by the Company. The Company is currently seeking alternative uses for the Starbrick facility and holds the Erie Outlet as an asset held for sale. The Company leases the following properties:

1. Blair Retail Store (Wilmington, Delaware).

2. Telephone Call Center (Erie, Pennsylvania).

3. Telephone Call Center (Franklin, Pennsylvania).

4. Blair Retail Store (Grove City, Pennsylvania).

5. Blair Returns Center (Erie, Pennsylvania).

6. International Trade Offices (Hong Kong, Taiwan, Singapore, India, Korea and China).

In addition, four of the Company's wholly-owned subsidiaries lease office space in the Wilmington, Delaware area, which they use as their principal offices.

Management believes that these properties are capable of meeting the Company's anticipated needs for the near future. However, the Company's marketing strategy and potential sales growth may require expansion of the Company's customer service and call center capabilities.

ITEM 3. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

PART II

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

The Company's Common Stock is traded on the American Stock Exchange (symbol BL). The number of record holders of the Company's Common Stock at December 31, 2003 was 2,356.

	2003			2002		
	Sales Price		Dividends	Sales Price		Dividends
	High	Low	Declared	High	Low	Declared
First Quarter	$24.800	$21.720	$.15	$22.450	$16.500	$.15
Second Quarter	24.730	20.600	.15	25.580	18.250	.15
Third Quarter	23.000	20.220	.15	26.800	19.250	.15
Fourth Quarter	25.700	21.150	.15	25.450	18.250	.15

The payment of dividends is dependent on future earnings, capital requirements and financial condition. The Company currently intends to continue its policy of paying regular cash dividends: however, the Company will evaluate its dividend policy on an ongoing basis.

ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31	2003	2002	2001	2000
Net sales..................	$581,939,971	$568,545,582	$580,700,163	$574,595
Net income.................	14,526,182	19,135,556	9,292,146	21,104
Total assets	345,975,803	344,097,432	324,113,329	356,506
Long-term debt	-0-	-0-	-0-	
Per share:				
Basic earnings..........	1.82	2.39	1.17	
Diluted earnings	1.81	2.38	1.17	
Cash dividends declared...........	.60	.60	.60	

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

RESULTS OF OPERATIONS

The year 2003 was the third consecutive difficult year for the direct marketing industry. During this period, the Company has continued to invest in operational enhancements as well as its customer file in order to better position itself to meet near-term challenges and achieve long-term growth. During 2003, the Company completed its enhanced automated fulfillment project which significantly contributed to an overall improvement in the operating efficiencies of its distribution capabilities and a reduction in backlog. In addition, the Company incurred additional selling expenses in 2003 as a result of its strategic advertising initiatives including additional catalog mailings to current and prospective customers intended to maintain the customer file and improve inventory management. A decline in response rates compared to the prior year resulted in a reduction of advertising efficiency.

During 2003, the Company laid the groundwork for two new initiatives planned for 2004. These initiatives include Allegheny Trail Corporation, the Company's wholesale business targeting outdoor sporting goods and recreational retailers, and the re-launch of the Company's Irvine Park catalog, aimed at a younger, more affluent menswear customer. Start-up costs associated with these initiatives are anticipated to adversely impact earnings in the first quarter of 2004.

COMPARISON OF 2003 AND 2002

Net income for 2003 decreased 24.1% to $14. 5 million or $1.82 basic earnings per share, $1.81 diluted earnings per share, compared to $19.1 million, or $2.39 basic earnings per share, $2.38 diluted earnings per share, in 2002. The decline in net income in 2003 resulted primarily from increases in advertising expenses, cost of goods sold, general & administrative expenses and the provision for doubtful accounts that were not totally offset by the increase in sales.

Net sales for 2003 increased $13.4 million to $581.9 million or 2.4% greater than net sales for 2002. The increase in net sales was primarily attributable to strategic increases in catalog and letter mailings to current and prospective customers that served to generate sales, maintain the customer file and improve inventory management. Actual response rates in 2003 were lower than in 2002 and were lower than expected levels for 2003. The provision for returned merchandise as a percentage of gross sales decreased 50 basis points or $3.4 million in 2003 as compared to 2002. Management attributes this favorable change to improved product quality and fit and to delivery efficiencies driven by its new fulfillment equipment.

Other income increased approximately $2.9 million or 7.2% to $43.6 million in 2003 as compared to 2002. The increase was primarily due to increased finance charge revenues associated with the establishment of JLB Service Bank on August 20, 2003.

Cost of goods sold increased $7.2 million or 2.7% to $277.5 million in 2003 compared to 2002. As a percentage of net sales, cost of goods sold increased to 47.7% in 2003 from 47.5% in 2002. The slight increase in cost of goods sold reflects the net impact of multiple variables. Serving to positively impact cost of goods sold were: effective inventory management resulting in lower inventory liquidation costs, less outbound freight in the fourth quarter attributable to increased use of shipping consolidators affording the company the opportunity to disseminate customer packages deeper in the mail stream which provided greater postal discounts, and lower in-bound freight in the fourth quarter compared to the prior year. In 2002, the Company incurred significant amounts of air freight (driven by the west coast dock strike) to expedite foreign shipments in an attempt to fill customer backorders. Cost of goods sold was negatively impacted in 2003 by: an increase in sales generated from promotional activities intended to address lower response rates, higher inbound freight expenses in the first quarter associated with the west coast dock strike, a greater mix in the first quarter of outbound packages in excess of one pound that increased shipping costs, and the postal rate increase of approximately 10% that took place on June 30, 2002. The Company's International Trade Offices, the Company's only foreign operations, directly sourced more than 33% of the Company's merchandise from foreign suppliers in 2003 as compared to 30% in 2002. The existence of these offices serves to lower the Company's cost of acquiring merchandise. All activity is intercompany and all merchandise is purchased in U.S. dollars. The foreign offices have insignificant amounts of cash and fixed assets, which are converted to U.S. dollars for financial statement purposes.

Advertising expense in 2003 increased $10.5 million or 7.2% to $156.4 million. Strategic increases in letter and catalog mailings to current customers accounted for the majority of the increase. The June 30, 2002 postal rate increase and a 2% increase in printing costs effective April 1, 2003 also contributed to this variance.

The total number of catalog mailings released in 2003 was 26.6 million or 14.5% greater than those released in 2002. The total number of letter mailings released in 2003 was 3.3 million or 6.2% greater than those released in 2002. Total

circulation of the co-op and media advertising programs increased by 89.4 million pieces or 9.8% in 2003 as compared to 2002.

The Company launched e-commerce sites for Blair www.blair.com and Crossing Pointe www.crossingpointe.com in the third quarter of 2000. In 2003, the Company generated $84.3 million in e-commerce sales demand as compared to $65.6 million in 2002.

General and administrative expense increased by $5.3 million or 4.1% in 2003 as compared to 2002. The increase in general and administrative expense is attributable to increased employee costs (primarily wages and the cost of health insurance), professional fees, additional bank fees incurred as a result of rate increases for check processing along with the amortization of costs associated with the amended securitization, increased costs incurred to service an expanded credit program, depreciation on the new fulfillment equipment and professional fees incurred for the establishment of the JLB Service Bank and Allegheny Trail subsidiaries. The Company's amended securitization of accounts receivable, which is discussed further in the "Liquidity and Sources of Capital" section, provided additional liquidity and extended the term of the facility. JLB Service Bank enables the Company to manage its accounts receivable portfolio in a more cost-effective and efficient manner. The formation of Allegheny Trail represents the launch of a wholesale business targeted at outdoor sporting goods and recreational retailers.

The provision for doubtful accounts increased $1.8 million from $30.0 million to

$31.8 million or 6.1% in 2003 compared to 2002. The increase is primarily the result of a 4.8% increase in credit sales. The estimated bad debt rate used in 2003 was 26 basis points lower than the bad debt rate used in 2002. The estimated bad debt rate has decreased primarily due to reduced credit offers to both Blair and Crossing Pointe prospects in the second half of the year and improved credit experience on the Crossing Pointe credit portfolio. Prospect credit offers traditionally result in higher bad debts.

The provision for doubtful accounts is based on current expectations (consumer credit and economic trends, etc.), sales mix (prospect/customer) and current and prior years' experience, especially delinquencies (accounts over 30 days past due) and actual charge-offs (accounts removed from accounts receivable for non-payment). At December 31, 2003, the delinquency rate of open accounts receivable was 30 basis points lower than at December 31, 2002. Conversely, the charge-off rate for 2003 was 15 basis points greater than the charge-off rate for 2002. The increased charge off experience is the result of additional customer and prospect credit marketing initiatives implemented early in 2003. Due to the inherent credit risk associated with these initiatives, bad debt and related charge off experience increased to anticipated levels. As the year progressed, the credit marketing initiatives were curtailed resulting in less credit risky sales (primarily in the fourth quarter) and an improved year-end delinquency rate.

Recoveries of bad debts previously charged off have been credited back against the allowance for doubtful accounts. The allowance for doubtful accounts as a percentage of delinquent accounts is the same at December 31, 2003 and December 31, 2002. At December 31, 2003, the allowance for doubtful accounts as a percentage of open accounts is 61 basis points less than December 31, 2002. Both statistics reflect the greater mix of customer (versus prospect) open accounts at year-end.

At this time, the Company feels that the allowance for doubtful accounts is sufficient to cover the charge-offs from the current customer accounts receivable portfolio. Also, credit granting, collection and behavior models continue to be updated and improved, and, along with expanding database capabilities, provide valuable credit-marketing opportunities and improve the ability to forecast doubtful accounts.

Interest expense decreased $607,000 or 63.4% to $351,000 in 2003 as compared to 2002. Interest expense for 2002 included an amount attributable to an IRS tax settlement. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable, inventories and growth initiatives. At December 31, 2003, inventories were 15.3% higher and gross customer accounts receivable were 2.9% higher as compared to December 31, 2002. Average borrowings were comparable in 2003 to 2002. Interest rates were substantially lower throughout 2003.

Income taxes as a percentage of income before income taxes were 37.3% in 2003 and 38.5% in 2002. The federal income tax rate was 35% in both years. The difference in the total income tax rate was caused by a change in the Company's effective state income tax rate.

COMPARISON OF 2002 AND 2001

Net income for 2002 increased 106% to $19. 1 million , or $2.39 basic earnings per share, $2.38 diluted earnings per share, as compared to $9.3 million, or $1.17 basic and diluted earnings per share, in 2001. The improved net income in 2002 resulted primarily from decreases in operating costs, cost of goods sold and the provision for doubtful accounts. Operating costs, which include advertising, general and administrative and interest expenses, decreased 7.0% in 2002 as compared to 2001. Cost of goods sold as a percentage of net sales decreased to 47.5% for 2002 from 49.2% for 2001. The provision for the doubtful accounts decreased 4.3% in 2002 as compared to 2001. The year 2001 included $4 million of interest income resulting from a

favorable Internal Revenue tax settlement. The one-time gain in interest income increased net income for 2001 by $2.6 million, $.32 basic and diluted earnings per share. In addition, 2001 also included a $2.5 million charge attributable to the Company's voluntary separation program. The one-time charge decreased net income for 2001 by $1.5 million, $.19 basic and diluted earnings per share.

Net sales for 2002 decreased $12.2 million to $568.5 million or 2.1% lower than net sales for 2001. Actual response rates in 2002 were higher than in 2001 and were higher than expected levels for 2002. Gross sales revenue generated per advertising dollar increased 12.7% in 2002 as compared to 2001. The provision for returned merchandise as a percentage of gross sales decreased slightly in 2002 as compared to 2001. The decrease in sales was attributable to several factors, including weaker economic conditions and a softer retail market . Additionally, the Company intentionally reduced advertising expenditures and did not mail to less productive and less profitable customers, who are greater credit risks.

Other income decreased approximately $7.1 million or 14.9% to $40.6 million in 2002 as compared to 2001. Decreased finance charges and commissions in 2002 and a one-time $4 million interest payment received on an Internal Revenue tax settlement in 2001 were primarily responsible for the lower other income. The lower finance charges resulted from decreased customer accounts receivable and the lower commissions resulted from decreased continuity program activity.

Cost of goods sold decreased $15.6 million to $270.3 million in 2002 compared to 2001. As a percentage of net sales, cost of goods sold decreased to 47.5% for 2002 from 49.2% for 2001. The improvement in cost of goods sold is attributable to stable or declining product costs, the Company's efforts to improve gross margins, the lower rate of merchandise returned and more effective inventory management resulting in lower inventory liquidation costs. The Company's International Trade Offices, the Company's only foreign operations, directly source more than 30% of the Company's merchandise from foreign suppliers. All activity is intercompany and all merchandise is purchased in U.S. dollars. The foreign offices have insignificant amounts of cash and fixed assets, which amounts are converted to U.S. dollars for financial statement purposes.

Advertising expense in 2002 decreased $23.2 million or 13.7% to $145.9 million. Reductions in advertising volume and paper costs were primarily responsible for the lower advertising cost in 2002. The Company's cost of paper fell more than 20% from the beginning of 2001 up to December 31, 2002.

The total number of catalog mailings released in 2002 was 1 million or .5% less than those released in 2001. The total number of letter mailings released in 2002 was 28.6 million or 34.5% less than those released in 2001. Total circulation of the co-op and media advertising programs decreased 272.8 million pieces or 23.0% in 2002 as compared to 2001.

The Company launched e-commerce sites for Crossing Pointe, www.crossingpointe.com, and the Blair Online Outlet early in the third quarter of 2000. The Blair Web site, www.blair.com, incorporating the Online Outlet, was launched late third quarter/early fourth quarter of 2000. A redesigned Blair Web site was introduced in the first quarter of 2001 featuring improved navigation and quicker access to the Company's expanded product offerings. In 2002, the Company generated $65.6 million in e-commerce sales demand as compared to over $37 million in 2001.

General and administrative expense increased by $3.6 million or 2.8% to $130.9 million in 2002 as compared to 2001. The increase in general and administrative expense in 2002 is attributable to increased employee costs, primarily benefits determined by corporate performance (profit sharing and incentive bonus) and health insurance. General and administrative expense in 2001 was affected by the one-time $2.5 million charge for the Company's voluntary separation program. The $2.5 million charge represents the cost of the severance pay, related payroll taxes and medical benefits due the 56 eligible employees who accepted the voluntary separation program rather than relocate or accept other positions in the Company. The program was offered to eligible employees of the former Blair Mailing Center from which the merchandise returns operations have been relocated and the mailing operations have been outsourced. As of December 31, 2002, $1.4 million of the $2.5 million charge had been paid.

The provision for doubtful accounts decreased $1.3 million from $31.3 million to $30.0 million or 4.3% in 2002 compared to 2001. The provision for doubtful accounts as a percentage of gross credit sales decreased 65 basis points in 2002 as compared to 2001.

The provision for doubtful accounts is based on current expectations (consumer credit and economic trends, etc.), sales mix (prospect/customer) and current and prior years experience, especially delinquencies (accounts over 30 days past due) and actual charge-offs (accounts removed from accounts receivable for non-payment). The estimated bad debt rate, excluding Crossing Pointe credit sales, used in 2002 was approximately 21 basis points lower in 2002 as compared to 2001. At December 31, 2002, the delinquency rate of open accounts receivable, excluding Crossing Pointe, was 21 basis points lower than at December 31, 2001. The delinquency rate for Crossing Pointe was 251 basis points higher. Crossing Pointe is more weighted to prospects and Crossing Pointe credit sales increased more than 123% in 2002 as compared to 2001. The charge-off rate for 2002 was approximately the same as the charge-off rate for 2001.

Recoveries of bad debts previously charged off have been credited back against the allowance for doubtful accounts. The allowance for doubtful accounts as a percentage of delinquent accounts was approximately the same at December 31, 2002 as at December 31, 2001.

Credit granting, collection and behavioral models continue to be updated and improved, and, along with expanding database capabilities, provide valuable credit-marketing opportunities and improve the ability to forecast doubtful accounts.

Interest expense decreased $1.2 million or 55.3% to $1 million in 2002 as compared to 2001. Interest expense results primarily from the Company's borrowings necessary to finance customer accounts receivable, inventories and growth initiatives. At December 31, 2002, inventories were 22.2% lower and gross customer accounts receivable were 3.8% lower as compared to December 31, 2001. As a result, average borrowings were much lower in 2002 than in 2001. Also, interest rates were substantially lower throughout 2002.

Income taxes as a percentage of income before income taxes were 38.5% in 2002 and 26.9% in 2001. The federal income tax rate was 35% in both years. Income taxes in 2001 were reduced by $1.5 million due to an Internal Revenue tax settlement. In total, the Company recovered approximately $11 million in federal and state tax refunds in 2001.

LIQUIDITY AND SOURCES OF CAPITAL

All working capital and cash requirements for the year 2003 were met using funds from operations and surplus cash.

On December 20, 2001, the Company entered into a Credit Agreement with PNC Bank, National Association, as agent, and certain other banks. The Agreement put in place a syndicated revolving credit facility of up to $30 million, secured by inventory and certain other assets of the Company and its subsidiaries. The revolving credit facility expires on December 20, 2004. The Credit Agreement was amended on July 25, 2003 to increase the commitments to the facility from $28 million to $30 million. As of December 31, 2003, the facility had lender commitments of $30 million. For each borrowing tranche, the Company may select from three options to determine the interest rate. The options are: a base rate option (greater of Prime or Fed Funds Rate plus .5% as of December 31, 2003); swing loan rate option (as quoted by PNC Bank); or Euro-rate option as defined in the Credit Agreement. The Company is required to meet certain covenants that relate to tangible net worth, maintain a defined leverage ratio and fixed charge coverage ratio, and comply with certain indebtedness restrictions. As of December 31, 2003, the Company was in compliance with all the Agreement's covenants. At December 31, 2003, the Company had no borrowings (loans) outstanding and had letters of credit totaling $20.9 million outstanding, which reduces the amount of borrowings available, under the Credit Agreement. At December 31, 2002, the Company had no borrowings (loans), but had letters of credit outstanding of $16.2 million.

Also, on December 20, 2001, the Company completed a securitization of up to $100 million in accounts receivable with PNC Bank, National Association, as administrator, and certain conduit purchasers. At December 20, 2001, the securitization had initial lender commitments of $50 million. On April 9, 2003, the lender commitment level increased to $70 million. Also, the securitization was amended to extend the term to April 7, 2006 and the interest rate charged was amended from 1-month LIBOR plus 55 basis points to 1-month LIBOR plus 80 basis points. The Company sells all right, title and interest in and to certain of its accounts receivables to Blair Factoring Company, a wholly-owned subsidiary. Blair Factoring Company is a separate, bankruptcy remote, special purpose entity that entered into a Receivables Purchase Agreement with PNC Bank, National Association, as administrator, and certain conduit purchasers. The Company's consolidated financial statements reflect all the accounts of Blair Factoring Company, including the receivables and secured borrowings. Transactions entered into under the Receivables Purchase Agreement are considered secured borrowings and collateral transactions under the provisions of Statement of Financial Accounting Standards No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. At the present time, $70 million of the $100 million is available to the Company. The remaining $30 million is not subscribed to at the present time. The securitization requires certain performance standards for the Company's accounts receivable portfolio in addition to complying with the covenants in the Credit Agreement. As of December 31, 2003, the Company was in compliance with all the requirements of the Receivables Purchase Agreement. At both December 31, 2003 and December 31, 2002, the Company had $15 million outstanding, the minimum amount required to be outstanding, under the Receivables Purchase Agreement, all of which was classified as short-term. At December 31, 2003 and 2002, the weighted average interest rate was 1.97% and 2.38%, respectively. Interest paid during 2003, 2002 and 2001 was approximately $282,000, $366,000, and $2,050,000, respectively.

The ratio of current assets to current liabilities was 3.92 at December 31, 2003, 3.41 at December 31, 2002, and 3.41 at December 31, 2001. Working capital increased $13.9 million to $217.9 million in 2003. The 2003 increase was primarily attributable to an $11.4 million increase in inventories, a $5.4 million increase in customer accounts receivable and a $9.6 million reduction in accounts payable and related accruals, offset partially by a $13.6 million reduction in cash and cash equivalents.

Merchandise inventory turned 3.4 times in 2003, 3.4 times in 2002, and 2.4 times in 2001. Merchandise inventory as of December 31, 2003 increased 19.8% from December 31, 2002 and decreased 24.8% from December 31, 2001. Merchandise inventory levels have been generally higher from December 31, 2002 through December 31, 2003 due to strategic efforts to increase inventory levels for recurring merchandise items in an effort to improve fill rates and related customer service levels. Inventory liquidation efforts were consistent with the prior year. The merchandise inventory levels are net of the Company's reserve for inventory obsolescence. The reserve totaled $3.6 million at December 31, 2003, $4.0 million at December 31, 2002 and $4.2 million at December 31, 2001. The decrease in the obsolescence reserve is attributable principally to more effective means of liquidating obsolete inventory. Inventory write-offs and write-downs (reductions to below cost) charged against the reserve for obsolescence were $4.9 million in 2003, $5.7 million in 2002 and $11.2 million in 2001. A monthly provision for obsolete inventory is added to the reserve and expensed to cost of goods sold, based on the levels of merchandise inventory and merchandise purchases.

An operating segment is identified as a component of an enterprise for which separate financial information is available for evaluation by the chief decision-maker, or decision-making group, in deciding on how to allocate resources and assess performance. The Company operates as one business segment consisting of the Womenswear, Menswear, Home, Crossing Pointe and Allegheny Trail product lines. Allegheny Trail was added in the third quarter of 2003. The following tables illustrate the percent of net sales and merchandise inventory that each product line represents.

Product Line	12/31/03 Net Sales (in millions)	Percent of Total Net Sales	12/31/02 Net Sales (in millions)	Percent of Total Net Sales
Womenswear	$370.0	63.6%	$364.2	64.1%
Menswear	102.0	17.5%	109.3	19.2%
Home	69.0	11.9%	59.9	10.5%
Crossing Pointe	40.1	6.9%	35.2	6.2%
Allegheny Trail	.8	.1%	N/A	N/A
Total	$581.9	100.0%	$568.6	100.0%

Product Line	12/31/03 Merchandise Inventory (in millions)	12/31/02 Merchandise Inventory (in millions)	12/31/01 Merchandise Inventory (in millions)
Womenswear	$ 43.3	$ 32.1	$ 51.9

Menswear	8.1	11.0	13.1
Home	6.6	5.0	4.0
Crossing Pointe	6.7	7.0	4.2
Allegheny Trail	1.3	N/A	N/A
Total	$ 66.0	$ 55.1	$ 73.2

The Company looks upon its credit granting (Blair Credit) as a marketing advantage. Blair Credit customers, on average, buy more, buy more often and are more loyal than cash and third party credit card customers. The company has determined that the benefit from the increased sales volume achieved by offering Blair Credit is significant and more than outweighs the cost of the credit program. The cost of the credit program is comparable to the discount rates of third party credit cards. The Company's gross credit sales increased 4.8% in 2003 as compared to 2002, decreased 3.3% in 2002 as compared to 2001, and decreased 2.7% in 2001 as compared to 2000.

On August 20, 2003 the Company commenced operations of a new wholly-owned subsidiary, JLB Service Bank. The establishment of JLB Service Bank will enable the Company to manage its credit portfolio in a more cost-effective and efficient manner. The bank's products involve the extension of credit on an unsecured basis to individuals who are customers of Blair Corporation to facilitate their purchases of Blair merchandise. As of December 31, 2003, JLB Service Bank's total assets represented 1.3% of total consolidated assets of the Company. Gross revenue of JLB Service Bank was .32% of the Company's consolidated gross revenue for the year ended December 31, 2003.

The Company has added new facilities, modernized its existing facilities and acquired new cost-saving equipment during the last several years. Capital expenditures for property, plant and equipment totaled $7.2 million during 2003, $12.3 million during 2002 and $4.9 million during 2001.

Capital expenditures had been projected to be $15 million plus for each of the years 2001 and 2002 and nearly $10 million for 2003. However, capital expenditures for 2001 were delayed due to economic conditions. This included slowing the implementation of the previously announced modernization and enhancement of the Company's fulfillment operations. The fulfillment project was completed in the second quarter of 2003 at a total cost of $13.2 million, down from earlier estimates of $21 million. The company anticipates that this equipment will increase the productivity of its fulfillment operations.

Capital expenditures are projected to be approximately $34 million in total for the years 2004, 2005, 2006. Approximately $24 million of the $34 million is attributable to improving our information services capabilities. Most of the $7.2 million of capital expenditures in 2003 were attributable to the fulfillment project.

Upon review of the Company's inventory liquidation strategy, the Company made the decision in January 2004 to close its outlet store located in Warren, Pa. This closure was effective at the close of business on January 16, 2004. The Company is considering alternative uses for the building. Evolvement of the Company's inventory liquidation strategy into more rapid and profitable methods of disposing obsolete and excess inventory led to this decision. Over the past three years, package insertions, telephone upsell promotions, sale catalogs and the e-commerce channel have proven to be more successful and profitable in moving inventory than the traditional outlet sales process.

The Company continues to hold for sale its liquidation outlet store located in Erie, Pa. The Company believes the sale will be completed by June 30, 2004.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

The Company has contractual obligations consisting of capital leases for data processing and telephone equipment, operating leases for buildings, data processing, office and telephone equipment and a line of credit securitization for general liquidity which requires a minimum borrowing level.

		PAYMENTS DUE BY PERIOD		
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	
Capital Lease Obligations	$ 511,440	$ 408,027	$ 103,413	-
Operating leases	12,825,820	3,131,118	4,514,611	
Unconditional Purchase Obligations - Outstanding Letters of Credit	20,900,000	20,900,000	-0-	
Line of Credit - Securitization	15,000,000	15,000,000	-0-	
TOTAL	$49,237,260	$39,439,145	$ 4,618,024	$

The Company has commercial commitments consisting of a revolving credit facility of up to $30 million and a securitization of up to $100 million in accounts receivable.

		AMOUNT OF COMMITMENT EXPIRATION PER PERIOD	
OTHER COMMERCIAL COMMITMENTS	TOTAL AMOUNTS COMMITTED	LESS THAN 1 YEAR	1 - 3 YEARS
Line of Credit - Revolving effective 7/25/03	$ 30,000,000	$ 30,000,000	-0-
Line of Credit - Securitization effective 4/9/03	70,000,000	-0-	70,000,000
TOTAL	$100,000,000	$ 30,000,000	$ 70,000,000

If an event of default should occur, payments and/or maturity of the lines of credit could be accelerated. The Company is not in default and does not expect to be in default of any of the provisions of the credit facilities. (See "Liquidity and Sources of Capital" for details of the Company's credit facilities).

The Company recently declared a quarterly dividend of $.15 per share payable on March 15, 2004. The Company has declared dividends for 281 consecutive quarters. It is the Company's intent to continue paying dividends; however, the Company will evaluate its dividend practice on an ongoing basis. See "Future Considerations".

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

CRITICAL ACCOUNTING POLICIES

Preparation of the Company's financial statements requires the application of a number of accounting policies which are described in "Note 1. Significant Accounting Policies" in the "Notes to Consolidated Financial Statements". The critical accounting policies, which, if interpreted differently under different conditions or circumstances, could result in material changes to the reported results, deal with properly valuing accounts receivable and inventory. Properly valuing accounts receivable and inventory requires establishing proper reserve and allowance levels, specifically the allowances for doubtful accounts and returns and the reserve for inventory obsolescence. The Company's senior financial management and the Company's auditors (Ernst & Young) review the critical accounting policies and estimates with the Audit Committee of the Board of Directors.

The Company's revenue recognition policy is as follows: Sales (cash, Blair Credit, or third party credit card) are recorded when the merchandise is shipped to the customer in accordance with the provisions of Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements.

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

The allowance for doubtful accounts and related items, provision for doubtful accounts and Blair Credit, are discussed in "Results of Operations," Liquidity and Sources of Capital" and "Future Considerations". A change in the bad debt rate would cause changes in the provision for doubtful accounts and the allowance for doubtful accounts. Based on the Company's 2003 level of credit sales and finance charges, net income would change by approximately $2.5 million, or $.32 per share, from a one percentage point change in the bad debt rate.

The allowance for returns is recorded as an offset against customer accounts receivable. A monthly provision for anticipated returns is recorded as a percentage of gross sales, based upon historical experience. The provision is charged against gross sales to arrive at net sales, and actual returns are charged against the allowance for returns. Returns are generally more predictable as they settle within two-to-three months but are impacted by season, new products and/or product lines, type of sale (cash, credit card, Blair Credit) and sales mix (prospect/customer). The Company feels that the allowance for returns is sufficient to cover the actual returns that will occur in 2004 on 2003 sales. A change in the returns rate would cause changes in the provision for returns and the allowance for returns. Based on the Company's 2003 level of sales, net income would change by approximately $2.0 million, or $.26

per share, from a one percentage point change in return rate.

The reserve for inventory obsolescence and related items, inventory levels and write-downs, are discussed in "Liquidity and Sources of Capital" and Future Considerations". The Company feels that the reserve for inventory obsolescence is sufficient to cover the write-offs that will occur in future years on merchandise in inventory as of December 31, 2003. A change in the obsolescence rate would cause changes in cost of goods sold and the reserve for inventory obsolescence . Based on the Company's 2003 level of merchandise subject to obsolescence, net income would change by approximately $1.9 million, or $.24 per share, from a one percentage point change in the obsolescence rate.

The Company's advertising expense policy is as follows: Advertising and shipping supply inventories include printed advertising material and related mailing supplies for promotional mailings, which are generally scheduled to occur within two months. These direct-response advertising costs are then expensed over the period of expected future benefit, generally nine weeks.

At December 31, 2003, the Company had total gross deferred tax assets of $12.2 million. These assets relate principally to asset valuation reserves including bad debts, returns and inventory obsolescence. Based on recent historical earnings performance and current projections, management believes that a valuation allowance is not required against these deferred tax

assets, except for the valuation allowance against state net operating losses, which was provided due to its uncertainty of realization based upon the state's net operating loss carryforward rules.

IMPACT OF INFLATION AND CHANGING PRICES

Although inflation has moderated in our economy, the Company is continually seeking ways to cope with its impact. To the extent permitted by competition, increased costs are passed on to customers by selectively increasing selling prices over a period of time. Historically, profit margins have been pressured by postal and paper rate increases. Paper rates have moderated over the reporting period. Postal rates increased on January 10, 1999, on January 7, 2001, on July 1, 2001, and again on June 30, 2002. Based on recent public communications by the United States Postal Service, it is anticipated that postal rates will not increase again until 2006. The Company spent approximately $103.8 million for postage and delivery services in 2003.

The Company principally uses the LIFO method of accounting for its merchandise inventories. Under this method, the cost of products sold reported in the financial statements approximates current costs and thus reduces distortion in reported income due to increasing costs. However, the Company has been experiencing consistent to declining merchandise costs and the LIFO reserve has fallen to $4.5 million at December 31, 2003 from $5.7 million at December 31, 2002. The LIFO reserve was $5.4 million at December 31, 2001.

Property, plant and equipment are continuously being expanded and updated. Major projects are discussed under "Liquidity and Sources of Capital". Assets acquired in prior years will be replaced at higher costs but this will take place over many years. New assets, when acquired, will result in higher depreciation charges, but in many cases, due to technological improvements, savings in operating costs should result. The charges to operations for depreciation represent the allocation of historical costs incurred over past years and are significantly less than if they were based on the current cost of productive capacity being used.

ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and other Intangible Assets. Statement No. 142 requires testing of goodwill and intangible assets with indefinite lives for impairment rather than amortizing them. The adoption of this statement in the first quarter of 2002 had no impact on the Company's financial results.

Effective January 1, 2002, the Company implemented SFAS No. 143, Accounting for Asset Retirement Obligations which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and capitalized as part of the carrying amount of the long-lived asset. When a liability is initially recorded, the entity capitalizes the cost by increasing the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, a gain or loss is recorded. The adoption of this statement did not have an effect on the Company.

SFAS No. 145, Rescission of FASB No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections, and FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others were adopted by the Company effective January 1, 2003. The adoption of these standards did not have a material impact on the Company's results of operations or financial condition.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which supersedes SFAS No. 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. Although retaining many of the provisions of SFAS No. 121, SFAS No. 144 establishes a uniform accounting model for long-lived assets to be disposed. The Company's adoption of this statement in the first quarter of 2002 did not have an impact on the Company's financial results for 2002. During 2003, the provisions of this statement impacted the accounting treatment of the planned sale of the Blair Outlet Store in Erie, Pennsylvania. (See Note 9)

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities when the liability is incurred and not as a result of an entity's commitment to an exit plan. The statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 in the first quarter of 2003 did not have an impact on the Company's financial results. During 2003, the provisions of this statement impacted the accounting treatment of the voluntary separation of employees due to the closing of the Blair Outlet Store in Erie, Pennsylvania. (See Note 10)

The Company adopted SFAS No. 148, Accounting For Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123, Accounting For Stock-Based Compensation effective the year ended December 31, 2002. It provides

alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires prominent disclosure about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company's adoption of SFAS No. 148 in 2002 enhanced stock-based employee compensation disclosures and had no effect on the method of accounting followed by the Company.

In April 2003, the FASB issued SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement is generally effective for contracts entered into or modified after June 30, 2003. The Company adopted the new statement effective July 1, 2003. The Company has historically not utilized derivative instruments, and as a result, the adoption of this statement has had no impact on the financial statements of the Company.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise at the beginning of the Company's third quarter. The effective dates of certain provisions of SFAS No. 150 have been deferred. The Company believes the adoption of this standard will not have a material impact on its results of operations or financial condition.

As of December 31, 2003, the Company adopted FASB Interpretation No. 46 R, Consolidation of Variable Interest Entities, revised in December 2003. The adoption of this statement has had no impact on the financial statements of the Company.

FUTURE CONSIDERATIONS

The Company is faced with the ever-present challenge of maintaining and expanding its customer file. This involves the acquisition of new customers (prospects), the conversion of new customers to established customers (active repeat buyers) and the retention and/or reactivation of established customers. These actions are vital in growing the business but are being negatively impacted by increased operating costs, increased competition in the retail sector, high levels of consumer debt, varying consumer response rates and an uncertain economy. The preceding factors can also negatively impact the Company's ability to properly value accounts receivable and inventories by making it more difficult to establish proper reserve and allowance levels, specifically, the allowances for doubtful accounts and returns and the reserve for inventory obsolescence.

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

The Company has had a working arrangement with actress, artist and author, Jane Seymour, to launch the "Jane Seymour Signature Collection" of women's apparel. The Jane Seymour inspired fashions have been sold exclusively through the Company's Crossing Pointe catalog and Web site www.crossingpointe.com. The Company will not be renewing its partnership agreement with Ms. Seymour when it expires in September 2004.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Forward-looking statements in this report, including without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Such forward-looking statements are included in, but not limited to, this ITEM 7.

Investors are cautioned that such forward-looking statements involve risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth, accounts receivable and inventory; (iii) external factors such as, but not limited to, changes in consumer response rates, changes in consumer credit trends, success of new business lines and increases in postal, paper and printing costs; and (iv) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The carrying amounts of cash, customer accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The interest rates on the Company's securitized and revolving credit facilities are adjusted regularly to reflect current market rates. Accordingly, the carrying amounts of the Company's borrowings also approximate fair value.

The Company is subject to market interest rate risk from exposure to changes in interest rates based upon its financing, investing and cash management activities. The Company utilizes variable-rate debt to manage its exposure to changes in interest rates. The Company does not expect changes in interest rates to have a material adverse effect on its income or cash flow in 2004. A change of one percentage point in the interest rate would cause a change in interest expense, based on the Company's levels of debt for the years 2003 and 2004, of approximately $150,000 in each year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 15 of this Report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), each of the Chief

Executive Officer and the Chief Financial Officer of the Company has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms.

There were no significant changes in the Company's internal controls or in any other factors that could significantly affect those controls subsequent to the date of the most recent evaluation of the Company's internal controls by the Company, including any corrective actions with regard to any significant deficiencies or material weaknesses.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

On February 26, 2004, the Company adopted a Code of Ethics for its Principal Executive Officer and Senior Financial Officer (the "Code of Ethics"). A copy of the Code of Ethics is filed as an exhibit to this Form 10-K. The Code of Ethics is also available free of charge by writing to the Secretary of Blair Corporation, 220 Hickory Street, Warren, Pennsylvania 16366.

Information regarding directors and executive officers of the Company appearing under the caption "Election of Directors" in the Company's Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on March 29, 2004 (the "2004 Proxy Statement") is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information appearing under the caption "Executive Compensation" in the 2004 Proxy Statement is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information setting forth the security ownership of certain beneficial owners and management appearing under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" in the 2004 Proxy Statement is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information appearing under the caption "Principal Accounting Fees and Services" in the 2004 Proxy Statement is hereby incorporated by reference.

PART IV

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

(a) EXHIBITS AND FINANCIAL STATEMENTS AND SCHEDULES.

(1) Financial Statements. The Company's consolidated financial statements are included at pages F-1 to F-16.

(2) Quarterly Results of Operations (page F-17)

(3) Financial Statement Schedules. SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS is being filed as part of this report on Form 10-K pursuant to Item 15(d), and should be read in conjunction with the consolidated financial statements of the Company described in Item 15(a)(1) above which such Schedule II follows at page F-18.

All other schedules set forth in the applicable accounting regulations of the Securities and Exchange Commission either are not required under the related instructions or are not applicable and, therefore, have been omitted.

(4) List of Exhibits.

The exhibits filed as a part of this Form 10-K are as follows (filed herewith unless otherwise noted):

3.1	Restated Certificate of Incorporation of the Company (1)
3.2	Amended and Restated Bylaws of the Company (2)
4	Form of Specimen Common Stock Certificate of Blair Corporation (3)
10.1	Stock Accumulation and Deferred Compensation Plan for Directors (4)
10.2	Blair Corporation 2000 Omnibus Stock Plan (5)
10.3	Blair Credit Agreement (6)
10.4	Amendment No. 2 to Credit Agreement (7)
11	Statement regarding computation of per share earnings (8)
14	Code of Ethics
21	Subsidiaries of Blair Corporation
23	Consent of Independent Auditors
31.1	CEO Certification pursuant to Section 302
31.2	CFO Certification pursuant to Section 302
32.1	CEO Certification pursuant to Section 906
32.2	CFO Certification pursuant to Section 906

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(b) REPORTS ON FORM 8-K.

The following Form 8-K was furnished pursuant to Item 12 of Form 8-K and is therefore not deemed to be, nor intended by the Company to be, "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section:

On October 22, 2003 the Company furnished a Form 8-K announcing its earnings for the quarter and nine months ended September 30, 2003.

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

(2) Incorporated herein by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed with the SEC on July 19, 2000 (SEC File No. 333-41772).

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

(4) Incorporated herein by reference to Exhibit A to the Company's Proxy Statement filed with the SEC on March 20, 1998 (SEC File No. 1-878).

(5) Incorporated herein by reference to Appendix A to the Company's Proxy Statement filed with the SEC on March 14, 2003 (SEC File No. 1-878).

(6) Incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K filed with the SEC on January 9, 2002 (SEC File No. 1-878).

(7) Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on August 8, 2003 (SEC File No. 1-878). Certain schedules to the agreement have been omitted.

(8) Incorporated by reference to Note 5 of the financial statements included herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLAIR CORPORATION (REGISTRANT)

Date: March 15, 2004

By: /s/John E. Zawacki

John E. Zawacki
President and
Chief Executive Officer

By: /s/Bryan J. Flanagan

Bryan J. Flanagan
Senior Vice President and
Chief Financial Officer

By: /s/Michael R. DelPrince

Michael R. DelPrince
Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: March 15, 2004 By: /s/Craig N. Johnson

Craig N. Johnson
Chairman of the Board of Directors

Date: March 15, 2004 By: /s/John E. Zawacki

John E. Zawacki
President, Chief Executive Officer
and Director
(Principal Executive Officer)

Date: March 15, 2004 By: /s/Bryan J. Flanagan

Bryan J. Flanagan
Senior Vice President,
Chief Financial Officer
and Director
(Chief Financial Officer)

Date: March 15, 2004 By: /s/Steven M. Blair

Steven M. Blair
Vice President, Customer
Services and Director

Date: March 15, 2004 By: /s/Thomas P. McKeever

Thomas P. McKeever
Senior Vice President,
Operations and
Administration and Director

Date: March 15, 2004 By: /s/Robert D. Crowley

Robert D. Crowley
Senior Vice President,
Menswear, Home and
Marketing Services and Director

Date: March 15, 2004 By: /s/Murray K. McComas

Murray K. McComas
Director

Report of Independent Auditors

Board of Directors and Stockholders
Blair Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Blair Corporation and Subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003 listed in the index at Item 15(a). Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of Blair Corporation management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 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 Blair Corporation and Subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Buffalo, New York
February 6, 2004

Blair Corporation and Subsidiaries

Consolidated Balance Sheets

	DECEMBER 31 2003	DECEMBER 31 2002

ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,380,049	$ 49,975,503
Customer accounts receivable, less allowances for doubtful accounts and returns of $47,473,108 in 2003 and $47,206,228 in 2002	154,660,076	149,229,882
Inventories:		
Merchandise	65,990,631	55,101,925
Advertising and shipping supplies	19,610,207	19,115,380
	85,600,838	74,217,305
Deferred income taxes (Note 6)	12,211,000	11,623,000
Prepaid expenses	2,200,191	1,937,635
Assets held for sale (Note 9)	1,368,526	1,669,299
Total current assets	292,420,680	288,652,624
Property, plant, and equipment:		
Land	692,144	692,144
Buildings and leasehold improvements	65,559,992	65,280,676
Equipment	72,979,845	58,956,855
Construction in progress	1,386,067	9,376,463
	140,618,048	134,306,138
Less allowances for depreciation	88,107,320	80,000,142
	52,510,728	54,305,996
Trademarks	488,164	560,407
Other long-term assets	556,231	578,405
Total assets	$345,975,803	$344,097,432

	DECEMBER 31	
	2003	2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable (Note 2)	$ 15,000,000	$ 15
Trade accounts payable	35,129,055	40
Advance payments from customers	2,286,055	3
Accrued expenses (Note 3)	17,732,395	19
Accrued federal and state taxes	3,997,935	4
Current portion of capital lease obligations (Note 4)	378,632	

Total current liabilities	74,524,072	84
Capital lease obligations, less current portion (Note 4)	101,622	
Deferred income taxes (Note 6)	2,549,000	1
Stockholders' equity (Note 5): Common stock without par value: Authorized 12,000,000 shares issued 10,075,440 shares (including shares held in treasury) -- stated value	419,810	
Additional paid-in capital	14,134,983	14
Retained earnings	296,397,999	286
Accumulated other comprehensive (loss) income	(20,016)	
	310,932,776	301
Less 1,962,439 shares in 2003 and 2,032,610 shares in 2002 of common stock in treasury -- at cost	(39,514,841)	(41
Less receivable and deferred compensation from stock plans	(2,616,826)	(2
	268,801,109	257
Total liabilities and stockholders' equity	$ 345,975,803	$ 344

See accompanying notes.

Blair Corporation and Subsidiaries

Consolidated Statements of Income

	YEARS ENDED DECEMBER 31		
	2003	2002	2001
Net sales	$581,939,971	$568,545,582	$580,700,16
Other income (Note 7)	43,566,444	40,644,415	47,766,06
	625,506,415	609,189,997	628,466,22
Cost and expenses:			
Cost of goods sold	277,540,941	270,342,217	285,923,18
Advertising	156,412,869	145,906,864	169,102,38
General and administrative	136,211,667	130,882,944	127,260,55
Provision for doubtful accounts	31,826,636	29,986,973	31,333,32
Interest	351,120	958,443	2,142,63

	602,343,233	578,077,441	615,762,08
Income before income taxes	23,163,182	31,112,556	12,704,14
Income taxes (Note 6)	8,637,000	11,977,000	3,412,00
Net income	$ 14,526,182	$ 19,135,556	$ 9,292,14
Basic earnings per share based on weighted average shares outstanding	$ 1.82	$ 2.39	$ 1.1
Diluted earnings per share based on weighted average shares outstanding and assumed conversions	$ 1.81	$ 2.38	$ 1.1

See accompanying notes.

Blair Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity

	YEARS ENDED DE	
	2003	2002
COMMON STOCK	$ 419,810	$ 419
ADDITIONAL PAID-IN CAPITAL:		
Balance at beginning of year	14,428,903	14,589
Issuance of common stock to non-employee directors	(6,355)	(2
Issuance of common stock under Omnibus Stock Plan (Note 5)	10,695	(80
Forfeitures of common stock under Omnibus Stock Plan (Note 5)	(18,055)	(17
Exercise of non-qualified stock options under Omnibus Stock Plan	(409,205)	(82
Tax benefit on exercise of non-qualified stock options	129,000	22
Balance at end of year	14,134,983	14,428
RETAINED EARNINGS:		
Balance at beginning of year	286,511,847	271,954
Net income	14,526,182	19,135
Cash dividends per share - $.60 in 2003, 2002 and 2001	(4,640,030)	(4,578
Balance at end of year	296,397,999	286,511

ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:		
Balance at beginning of year	12,686	
Foreign currency translation	(32,702)	12
Balance at end of year	(20,016)	12
TREASURY STOCK:		
Balance at beginning of year	(41,264,330)	(43,187
Issuance of 5,375 shares in 2003, 3,000 shares in 2002 and 1,825 shares in 2001 of common stock to non-employee directors	130,219	63
Issuance of common stock under Omnibus Stock Plan (Note 5)	275,663	1,740
Forfeitures of common stock under Omnibus Stock Plan (Note 5)	(45,696)	(134
Exercise of non-qualified stock options under Omnibus Stock Plan	1,389,303	253
Balance at end of year	(39,514,841)	(41,264
RECEIVABLE AND DEFERRED COMPENSATION FROM STOCK PLANS:		
Balance at beginning of year	(2,775,102)	(1,987
Issuance (net of forfeitures) of common stock under Omnibus Stock Plan: (Note 5)		
Receivable	(77,763)	(464
Deferred compensation	(192,907)	(1,054
Amortization of deferred compensation, net of forfeitures	163,495	68
Executive officer restricted stock awards	35,357	
Applications of dividends and cash repayments	230,094	663
Balance at end of year	(2,616,826)	(2,775
Total stockholders' equity	$ 268,801,109	$ 257,333
COMPREHENSIVE INCOME:		
Net income	$ 14,526,182	$ 19,135
Adjustment from foreign currency translation	(32,702)	12
Comprehensive income	$ 14,493,480	$ 19,148

See accompanying notes.

Blair Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	YEARS ENDED DEC	
	2003	2002
OPERATING ACTIVITIES		

Net income	$ 14,526,182	$ 19,135,
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	8,718,062	8,066,
Amortization	342,903	335,
Impairment of assets held for sale	300,773	-
Loss on disposal of property and equipment	--	-
Provision for doubtful accounts	31,826,636	29,986,
Provision for deferred income taxes	350,000	(1,346,
Tax benefit on exercise of non-qualified stock options	129,000	22,
Compensation expense (net of forfeitures) for stock awards	470,667	345,
Changes in operating assets and liabilities providing (using) cash:		
Customer accounts receivable	(37,257,221)	(20,913,
Inventories	(11,383,533)	21,194,
Prepaid expenses and other assets	(238,768)	(1,176,
Trade accounts payable	(5,676,968)	(6,828,
Advance payments from customers	(1,673,746)	2,034,
Accrued expenses	(2,365,447)	8,150,
Federal and state taxes	(459,152)	1,805,
Net cash (used in) provided by operating activities	(2,390,612)	60,813,
INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(7,191,272)	(12,262,
Net cash used in investing activities	(7,191,272)	(12,262,
FINANCING ACTIVITIES		
Net repayments of bank borrowings	--	-
Principal repayments on capital lease obligations	(350,171)	(331,
Dividends paid	(4,640,030)	(4,578,
Exercise of non-qualified stock options	980,098	171,
Repayments of notes receivable from stock plans	34,081	436,
Net cash used in financing activities	(3,976,022)	(4,302,
Effect of exchange rate changes on cash	(37,548)	13,
Net (decrease) increase in cash	(13,595,454)	44,263,
Cash and cash equivalents at beginning of year	49,975,503	5,712,
Cash and cash equivalents at end of year	$ 36,380,049	$ 49,975,

See accompanying notes.

BLAIR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

As of June 30, 2003 the Company formed a new wholly owned subsidiary, Allegheny Trail Corporation, to launch a wholesale business targeted primarily at outdoor sporting goods and recreational retailers. Allegheny Trail will offer a core product line of men's and women's outdoor apparel basics at entry-level price points allowing retailers to be more competitive with major brands.

On August 20, 2003 the Company commenced operations of a new wholly owned subsidiary, JLB Service Bank. The establishment of JLB Service Bank will enable the Company to manage its credit portfolio in a more cost-effective and efficient manner. The bank's products will involve the extension of credit on an unsecured basis to individuals who are customers of Blair Corporation to facilitate their purchases of Blair's merchandise. As of December 31, 2003, JLB Service Bank's total assets represented 1.3% of the total consolidated assets of the Company. Gross revenue of JLB Service Bank was .32% of the Company's consolidated total revenues for the year ended December 31, 2003.

REVENUE RECOGNITION

Sales (cash, Blair Credit, or third party credit card) are recorded when the merchandise is shipped to the customer, in accordance with the provisions of Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. Blair credit sales are made under Easy Payment Plan sales arrangements. Monthly, a provision for potentially doubtful accounts is charged against income based on management's estimate of realization. Any recoveries of bad debts previously written-off are credited back against the allowance for doubtful accounts in the period received. As reported in the balance sheet, the carrying amount, net of allowances for doubtful accounts and returns for customer accounts receivable on Blair credit sales, approximates fair value.

The Company records internally incurred shipping and handling costs in cost of sales.

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

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of available cash, money market securities, and other investments with a maturity of three months or less when purchased. Amounts reported in the Consolidated Balance Sheets approximate fair values.

RETURNS

A provision for anticipated returns is recorded monthly as a percentage of gross sales based upon historical experience. This provision is charged directly against gross sales to arrive at net sales as reported in the consolidated statements of income. Actual returns are charged against the allowance for returns, which is netted against accounts receivable in the balance sheet. The provision for returns charged against income in 2003, 2002 and 2001 amounted to $87,238,648, $85,734,678 and $89,930,958, respectively. Management believes these provisions are adequate based upon the relevant information presently available. However, it is reasonably possible that the Company's provisions may change in the near term.

DOUBTFUL ACCOUNTS

A provision for doubtful accounts is recorded monthly as a percentage of gross credit sales based upon experience of delinquencies (accounts over 30 days past due) and charge-offs (accounts removed from accounts receivable for non-payment) and current credit market conditions. Management believes these provisions are adequate based upon the relevant information presently available. However, it is reasonably possible that the Company's provisions may change in the near term.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost of merchandise inventories is determined principally on the last-in, first-out (LIFO) method. If the FIFO method had been used, inventories would have increased by approximately $4,488,000 and $5,676,000 at December 31, 2003 and 2002, respectively. Cost of advertising and shipping supplies is determined on the first-in, first-out (FIFO) method. Advertising and shipping supply inventories include printed advertising material and related mailing supplies for promotional mailings, which are generally scheduled to occur within two months. These direct-response advertising costs are then expensed over the period of expected future benefit, generally nine weeks. The Company has a reserve for slow moving and obsolete inventory amounting to $3,600,000 and $4,000,000 at December 31, 2003 and 2002, respectively.

During 2003, inventory quantities in certain LIFO pools were reduced resulting in a liquidation of certain LIFO inventory quantities carried at higher costs prevailing in prior years as compared with costs at December 31, 2003. The effect of this liquidation was to increase net income by approximately $.02 per share in 2003.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment is stated on the basis of cost. Depreciation has been provided principally by the straight-line method using rates, which are estimated to be sufficient to amortize the cost of the assets over their period of usefulness. Amortization of assets recorded under capital lease obligations is included with depreciation expense. Maintenance and repairs are charged to expense as incurred.

TRADEMARKS

Trademarks are stated on the basis of cost. All trademarks are being amortized by the straight-line method for a period of 15 years. Amortization expense amounted to $72,243, $72,244 and $72,244 in 2003, 2002 and 2001, respectively.

ASSET IMPAIRMENT

The Company analyzes its long-lived and intangible assets for events and circumstances that might indicate that the assets may be impaired and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts. There are no indications of impairment present at December 31, 2003.

EMPLOYEE BENEFITS

The Company's employee benefits include a profit sharing and retirement feature available to all eligible employees. Contributions are dependent on net income of the Company and recognized on an accrual basis of accounting. The contributions to the plan charged against income in 2003, 2002 and 2001 amounted to $1,436,117, $2,094,327 and $880,397, respectively.

As part of the same benefit plan, the Company has a contributory savings feature whereby all eligible employees may contribute up to 25% of their annual base salaries. The Company's matching contribution to the plan is based upon a percentage formula as set forth in the plan agreement. The Company's matching contributions to the plan charged against income in 2003, 2002 and 2001 amounted to $2,033,288, $1,921,688 and $1,992,715, respectively.

INCOME TAXES

The Company accounts for deferred taxes by recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The company accounts for the tax benefit from the exercise of non-qualified stock options by reducing its accrued income tax liability and increasing additional paid-in capital.

FINANCIAL INSTRUMENTS

The carrying amounts of cash, customer accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The interest rates on the Company's securitized and revolving credit facilities are adjusted regularly to reflect current market rates. Accordingly, the carrying amounts of the Company's borrowings also approximate fair value.

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Statement No. 142 requires testing of goodwill and intangible assets with indefinite lives for impairment rather than amortizing them. The adoption of this statement in the first quarter of 2002 had no impact on the Company's financial results.

Effective January 1, 2002, the Company implemented SFAS No. 143, Accounting for

Asset Retirement Obligations which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and capitalized as part of the carrying amount of the long-lived asset. When a liability is initially recorded, the entity capitalizes the cost by increasing the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, a gain or loss is recorded. The adoption of this statement did not have an effect on the Company.

SFAS No. 145, Rescission of FASB No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections, and FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others were adopted by the Company effective January 1, 2003. The adoption of these standards did not have a material impact on the Company's results of operations or financial condition.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which supersedes SFAS No. 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. Although retaining many of the provisions of SFAS No. 121, SFAS No. 144 establishes a uniform accounting model for long-lived assets to be disposed. The Company's adoption of this statement in the first quarter of 2002 did not have an impact on the Company's financial results. During 2003, the provisions of this statement impact the accounting treatment of the planned sale of the Blair Outlet Store in Erie, Pennsylvania. (Note 9).

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities when the liability is incurred and not as a result of an entity's commitment to an exit plan. The statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 in the first quarter of 2003 did not have an impact on the Company's financial results. During 2003, the provisions of this statement impact the accounting treatment of the voluntary separation of employees due to the closing of the Blair Outlet Store in Erie, Pennsylvania (Note 10).

The Company adopted SFAS No. 148, Accounting For Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123, Accounting For Stock-Based Compensation effective the year ended December 31, 2002. It provides alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires prominent disclosure about the method of accounting for stock-based employee compensation

and the effect of the method used on reported results. The Company's adoption of SFAS No. 148 in 2002 enhanced stock-based employee compensation disclosures and had no effect on the method of accounting followed by the Company.

In April 2003, the FASB issued SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and

Hedging Activities. This statement is generally effective for contracts entered into or modified after June 30, 2003. The Company adopted the new statement effective July 1, 2003. The Company has historically not utilized derivative instruments, and as a result, the adoption of this statement has had no impact on the financial statements of the Company.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise at the beginning of the Company's third quarter. The effective dates of certain provisions of SFAS No. 150 have been deferred. The Company believes the adoption of this standard will not have a material impact on its results of operations or financial condition.

As of December 31, 2003, the Company adopted FASB Interpretation No. 46 R, Consolidation of Variable Interest Entities, revised in December 2003. The adoption of this statement has had no impact on the financial statements of the Company.

STOCK COMPENSATION

In accordance with the provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123) the Company has elected to continue applying the provisions of Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, the Company does not recognize compensation expense for stock options when the stock option price at the grant date is equal to or greater than the fair market value of the stock at that date.

The following illustrates the pro forma effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 for the years ended December 31:

	PRO FORMA	
	2003	2002
Net income as reported	$ 14,526,182	$19,135,556
Add: Total stock-based employee compensation expense recorded for all awards, net of related tax effects	313,138	511,831
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,057,347)	(884,486)
Pro forma net income	$ 13,781,973	$18,762,901
Earnings per share:		
Basic - as reported	$ 1.82	$ 2.39
Basic - pro forma	$ 1.73	$ 2.34
Diluted - as reported	$ 1.81	$ 2.38
Diluted - pro forma	$ 1.72	$ 2.34

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Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock options under the fair value method of SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 3.49%, 4.95% and 5.20% for stock options issued 4/15/03, 4/15/02 and 4/16/01, respectively; dividend yields of 2.54%, 3.11% and 3.50% for stock options issued 4/15/03, 4/15/02 and 4/16/01,

respectively; volatility factors of the expected market price of the Company's common stock of .540, .564 and .547 for stock options issued 4/15/03, 4/15/02 and 4/16/01, respectively; and a weighted-average expected life of 7 years for the stock options issued 4/15/03, 4/15/02 and 4/16/01. The per share fair value of the options granted was determined to be $10.63, $8.83 and $7.40 for stock options issued 4/15/03, 4/15/02 and 4/16/01, respectively.

RECLASSIFICATIONS

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

CONTINGENCIES

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

2. FINANCING ARRANGEMENTS

On December 20, 2001, the Company entered into a Credit Agreement with PNC Bank, National Association, as agent, and certain other banks. The Agreement puts in place a syndicated revolving credit facility of up to $30 million, secured by inventory and certain other assets of the Company and its subsidiaries. The revolving credit facility expires on December 20, 2004. The Credit Agreement was amended on July 25, 2003 to increase the lender commitments to the facility from $28 million to $30 million. As of December 31, 2003, the facility had lender commitments of $30 million. For each borrowing tranche, the Company may select from three options to determine the interest rate. The options are: a base rate option (greater of Prime or Fed Funds Rate plus .5% as of December 31, 2003); swing loan rate option (as quoted by PNC Bank); or Euro-rate option as defined in the Credit Agreement. The Company is required to meet certain covenants that relate to tangible net worth, maintaining a defined leverage ratio and fixed charge coverage ratio, and complying with certain indebtedness restrictions. As of December 31, 2003, the Company was in compliance with all the Agreement's covenants. At December 31, 2003, the Company had no borrowings (loans) outstanding and had letters of credit totaling $20.9 million outstanding, which reduces the amount of borrowings available, under the Credit Agreement. At December 31, 2002, the Company had no borrowings (loans), but had letters of credit outstanding of $16.2 million.

Also, on December 20, 2001, the Company completed a securitization of up to $100 million in accounts receivable with PNC Bank, National Association, as administrator, and certain conduit purchasers. At December 20, 2001, the securitization had initial lender commitments of $50 million. On April 9, 2003, the lender commitment level increased to $70 million. Also, the securitization was amended to extend the term to April 7, 2006. The interest rate charged was amended from 1-month LIBOR plus 55 basis points to 1-month LIBOR plus 80 basis points. The Company sells all right, title and interest in and to certain of its accounts receivables to Blair Factoring Company, a wholly-owned subsidiary. Blair Factoring Company is a separate, bankruptcy remote, special purpose entity that entered into a Receivables Purchase Agreement with PNC Bank, National Association, as administrator, and certain conduit purchasers. The Company's consolidated financial statements reflect all the accounts of Blair Factoring Company, including the receivables and secured borrowings. Transactions entered into under the Receivables Purchase Agreement are considered secured borrowings and collateral transactions under the provisions of Statement of Financial Accounting Standards No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. At the present time, $70 million of the $100 million is available to the Company. The securitization requires certain performance standards for the Company's accounts receivable portfolio in addition to complying with the covenants in the Credit Agreement. As of December 31, 2003, the Company was in compliance with all the requirements of the Receivables Purchase Agreement. At December 31, 2003 and 2002, the Company had $15 million outstanding, the minimum amount required to be outstanding, under the Receivables Purchase Agreement, all of which was classified as short-term. At December 31, 2003 and 2002, the weighted average interest rate was 1.97% and 2.38%, respectively. Interest paid during 2003, 2002 and 2001 was approximately $282,000, $366,000 and $2,050,000, respectively.

3. ACCRUED EXPENSES

Accrued expenses consist of:

	DECEMBER 31 2003	DECEMBER 31 2002
Employee compensation	$12,395,998	$12,923,615
Contribution to profit sharing and retirement plan	1,436,117	2,094,327
Health insurance	1,148,038	1,767,850
Voluntary Separation Program	762,106	1,098,103
Taxes, other than taxes on income	814,574	919,183
Other accrued items	1,175,562	1,167,163
	$17,732,395	$19,970,241

4. LEASES

CAPITAL LEASES

The Company leases certain data processing and telephone equipment under agreements that expire in various years through 2005. The following is a schedule by year of future minimum capital lease payments required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2003:

2004	$ 408,027
2005	103,413
	511,440
Less amount representing interest	(31,186)
Present value of minimum lease payments	480,254
Less current portion	(378,632)
Long-term portion of capital lease obligation	$ 101,622

The Company entered into capital lease obligations amounting to $0 and $7,086 in 2003 and 2002, respectively.

OPERATING LEASES

The Company leases certain data processing, office and telephone equipment under agreements that expire in various years through 2008. The Company also has entered into several lease agreements for buildings, expiring in various years through 2012. Rent expense for the Company for 2003, 2002 and 2001 was $4,099,730, $4,121,734 and $5,183,281, respectively. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2003:

2004	$ 3,131,118
2005	2,558,997
2006	1,955,614
2007	1,283,409
2008	3,511
Thereafter	3,893,171
	$12,825,820

5. STOCKHOLDERS' EQUITY

EARNINGS PER SHARE AND WEIGHTED AVERAGE SHARES OUTSTANDING

The following table sets forth the computations of basic and diluted earnings per share as required by Statement of Financial Accounting Standards No. 128:

YEARS ENDED DECEMBER 31

	2003	2002
Numerator:		
Net income	$14,526,182	$19,135,556
Denominator:		
Denominator for basic earnings per share - weighted average shares outstanding	7,983,178	8,005,182
Effect of dilutive securities:		
Employee stock options	34,426	26,061
Denominator for diluted earnings per share - Weighted average shares outstanding and assumed conversions	$ 8,017,604	$ 8,031,243
Basic earnings per share	$ 1.82	$ 2.39
Diluted earnings per share	$ 1.81	$ 2.38

DIVIDENDS

In 2003 and 2002, the company declared dividends of $4,835,912 and $4,805,171, of which $4,640,030 and $4,578,524 was paid directly to shareholders and charged to retained earnings. The remaining dividends declared, $195,882 in 2003 and $226,647 in 2002, were associated with the shares of stock held by the company according to the provisions of the restricted stock awards. These remaining dividends were applied against the receivable from stock plans and were charged to compensation in the financial statements. Prior to 2002, all dividends declared were charged to retained earnings.

RESTRICTED STOCK AWARDS

During 2000, the Company adopted, with stockholder approval, an Omnibus Stock Plan (Omnibus Plan) that provided for 750,000 shares of the Company's treasury stock to be reserved for sale and issuance to employees at a price to be established by the Omnibus Stock Plan Committee. In April 2003, the Company reserved, with stockholder approval, 400,000 additional shares. At December 31, 2003 and 2002, 599,852 shares and 397,927 shares were available to be issued under the Plan, respectively. The difference between the exercise price and the market price of the shares awarded equals compensation, which $-0-, $90,644 and $-0- was expensed in 2003, 2002 and 2001, respectively. Under the Omnibus Plan, awards were granted on one date in 2003 and three separate dates in 2002. In 2003 and 2002, under the provisions of certain awards granted, compensation of $192,908 and $1,054,967, net of forfeitures, respectively, was recorded as deferred expense and will be amortized over the vesting period of seven years. Amortization expense was $153,085 and $68,745 in 2003 and 2002, respectively.

A summary of the restricted stock activity under the Omnibus Plan is as follows:

	YEARS ENDED DECEMBER 31	
	2003	2002
Shares granted and issued	13,350	11,611, 51,500 and 3,849
Grant and issue price per share	$7.00	$7.50, $8.00 and $-0-

Market value per share at date of issue	$21.45	$23.20, $25.25 and $23.55
Shares canceled and forfeited	1,200	1,000
Original price per share	$8.00 - $10.50	$7.50
Weighted average price per share	$7.63	$7.50

BLAIR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

In 2003, under the provisions of certain awards granted to executive officers on two separate dates, shares vest at the rate of 20% per year over the five-year vesting period. The Company records equity and expense during the vesting periods of the awards based on the number of eligible shares and the market value of the shares on the grant date. Upon vesting, shares are issued out of treasury stock. The Company recorded expense of $35,357 in 2003. A summary of the executive officer stock activity under the Omnibus Plan is as follows:

	YEARS ENDED DECEMBER 31	
	2003	2002
Shares granted	10,650 AND 4,848	-
Market value per share at date of issue	$21.45	-
Shares canceled and forfeited	-	-

Under the Omnibus Plan, the Company also may provide non-qualified stock options. The price of option shares granted under the Omnibus Plan shall not be less than the fair market value of common stock on the date of grant, and the term of the stock option shall not exceed ten years from date of grant. Options vest over a three-year period. On April 15, 2003, April 15, 2002 and April 16, 2001, the Company issued 170,427, 167,229 and 90,519 options to employees at an exercise price of $23.60, $19.30 and $17.10 per share, respectively.

A summary of the stock options activity in the Company's Omnibus Plan is as follows:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1, 2001	-	$ -
Granted in 2001	90,519	17.10
Exercised in 2001	-	-
Forfeited in 2001	-	-
Outstanding at December 31, 2001	90,519	17.10
Granted in 2002	167,229	19.30

Exercised in 2002	(10,001)	17.10
Forfeited in 2002	(7,035)	18.57
Outstanding at December 31, 2002	240,712	18.59
Granted in 2003	170,427	23.60
Exercised in 2003	(54,146)	18.10
Forfeited in 2003	-	-
Outstanding at December 31, 2003	356,993	$ 21.05

Of the options outstanding, 186,566, 20,172 and 0 were exercisable at December 31, 2003, 2002 and 2001, respectively. The exercise price of options outstanding ranged from $17.10 to $23.60, with a weighted-average remaining contractual life of 8.64 years at December 31, 2003.

6. INCOME TAXES

The components of income tax expense are as follows:

	YEARS ENDED DECEMBER 31		
	2003	2002	2001
Currently payable:			
Federal	$7,045,000	$12,060,000	$1,424,000
Foreign	280,000	300,000	42,000
State	962,000	963,000	30,000
	8,287,000	13,323,000	1,496,000
Deferred	350,000	(1,346,000)	1,916,000
	$8,637,000	$11,977,000	$3,412,000

BLAIR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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

	YEARS ENDED DECEMBER 31		
	2003	2002	200
Statutory rate applied to pretax income	$ 8,107,114	$ 10,889,394	$ 4,4
State income taxes, net of federal benefit	825,000	544,700	
Tax refund	--	--	(1,5
Other items	(295,114)	542,906	4

	$ 8,637,000	$ 11,977,000	$ 3,4

The Company has approximately $4 million of a Pennsylvania net operating loss carryforward that can be used to offset future Pennsylvania Taxable Income. A deferred tax asset has been established based on the $4 million net operating loss available to be carried forward. The deferred tax asset is offset by a valuation allowance because it is uncertain as to whether the Company will generate sufficient income in the future to absorb the net operating losses before they expire in 2011.

Income taxes paid (refunded) during 2003, 2002 and 2001 amounted to $8,807,997, $11,400,758 and $(126,245), respectively.

Components of the deferred tax asset and liability under the liability method as of December 31, 2003 and 2002 are as follows:

	DECEMBER 31	
	2003	2002
Current net deferred tax asset		
Doubtful accounts	$ 14,122,000	$ 14,048,000
Returns allowance	2,306,000	1,587,000
Inventory obsolescence	1,374,000	1,527,000
Inventory costs	(372,000)	(328,000)
Vacation pay	1,798,000	1,670,000
Advertising costs	(7,542,000)	(7,371,000)
State net operating loss	196,000	490,000
Other items	525,000	490,000
Total deferred tax assets	12,407,000	12,113,000
State valuation allowance	(196,000)	(490,000)
Deferred tax assets, net of valuation allowance	$ 12,211,000	$ 11,623,000
Long-term deferred tax liability		
Property, plant, and equipment	$ 2,549,000	$ 1,611,000

7. OTHER INCOME

Other income consists of:

	YEARS ENDED DECEMBER 31		
	2003	2002	200
Finance charges on time payment accounts	$36,163,981	$34,776,872	$37,79
Commissions earned	1,493,579	2,239,888	3,65
Interest from tax settlement	--	--	4,06
Other items	5,908,884	3,627,655	2,25
	$43,566,444	$40,644,415	$47,76

BLAIR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

8. BUSINESS SEGMENT AND CONCENTRATION OF BUSINESS RISK

The Company operates as one segment in the business of selling women's and men's fashion wearing apparel and accessories and home furnishing items. Specifically, the segment includes the Womenswear, Menswear, Home, Crossing Pointe and Allegheny Trail product lines. Allegheny Trail was added in the third quarter of 2003. The Company's segment reporting is consistent with the presentation made to the Company's chief operating decision-maker. The Company's customer base is comprised of individuals throughout the United States and is diverse in both geographic and demographic terms. Advertising is done mainly by means of catalogs, direct mail letters and the internet, which offer the Company's merchandise.

Sales of the women's and men's fashion wearing apparel and accessories accounted for 88%, 90% and 89% of total 2003, 2002 and 2001 sales, respectively. Home products accounted for the remaining sales volume.

9. LONG-LIVED ASSETS CLASSIFIED AS HELD FOR SALE

In January 2003, the Company made the decision to close its liquidation outlet store located in Erie, Pennsylvania. This closure was effective at the close of business on March 28, 2003. The Company intends to sell the building and believes that the sale will be completed in 2004. Assets Held for Sale of $1,368,526 and $1,669,299 at December 31, 2003 and 2002, respectively, consist of the net book value of the land, land improvements and building. The carrying value of the asset was reduced in 2003 as a result of the level of interest in the asset.

10. VOLUNTARY SEPARATION PROGRAM

In the first quarter of 2003, the Company accrued and charged to expense $75,000 in separation costs. The costs were charged to General and Administrative Expense in the income statement. The one-time $75,000 charge represents severance pay, related payroll taxes and medical benefits due the 32 eligible employees who accepted the voluntary separation program offered in connection with closing the Company's Outlet Store located in Erie, Pennsylvania on March 28, 2003. As of the end of the second quarter of 2003, $53,000 had been paid. This liability is considered satisfied and resulted in $22,000 being taken back to income in the second quarter of 2003.

In the first quarter of 2001, the Company accrued and charged to expense $2.5 million in separation costs. The costs were charged to General and Administrative Expense in the income statement. The one-time $2.5 million charge represents severance pay, related payroll taxes and medical benefits due the 56 eligible employees who accepted the voluntary separation program rather than relocate or accept other positions in the Company. The program was offered to eligible employees of the Blair Mailing Center from which the merchandise returns operations have been relocated and the mailing operations have been outsourced. As of December 31, 2003, approximately $1.7 million of the $2.5 million has been paid. Approximately $281,000, $336,000 and $1,083,000 were paid out during 2003, 2002 and 2001, respectively.

BLAIR CORPORATION AND SUBSIDIARIES

QUARTERLY RESULTS OF OPERATIONS

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2003 and 2002.

	2003 Quarter Ended				Qu	
	March 31	June 30	September 30	December 31	March 31	June
Net Sales..........	$137,014	$154,345	$124,100	$166,481	$135,261	$147,5
Cost of goods sold.	67,862	72,765	60,781	76,133	64,535	68,9
Net income.........	500	4,101	793	9,132	5,601	7,0
Basic earnings per share..............	0.06	0.51	0.10	1.15	0.70	0.
Diluted earnings per share..........	0.06	0.51	0.10	1.14	0.70	0.

Quarter ended September 30, 2003 includes additional net income of $260,000, $.03 per basic and diluted share. The additional net income and basic and diluted earnings per share in the quarter was due to reductions in the provisions for doubtful accounts and returns resulting from actual bad debt and returns experience bettering prior estimates. Quarter ended September 30, 2002 includes additional net income of $241,000, $.03 per basic and diluted share. The additional net income and increase in basic and diluted earnings per share in the quarter was due to reductions in the provisions for doubtful accounts and returns resulting from actual bad debt and returns experience bettering prior estimates.

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BLAIR CORPORATION AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
DECEMBER 31, 2003

COLUMN A	COLUMN B	COLUMN C	COLU
Description	BALANCE AT BEGINNING OF PERIOD	ADDITIONS- CHARGED TO COSTS AND EXPENSES	DEDUC DESC

Year ended December 31, 2003:			
Allowance deducted from asset account (customer accounts receivable):			
For doubtful accounts	$40,138,263	$ 31,826,636(A)	$ 31,6
For estimated loss on returns	7,067,965	87,238,648	87,1
Total	47,206,228	119,065,284	118,7
Allowance deducted from asset account (merchandise inventories)			
For obsolete inventory	4,000,000	4,515,882	4,9
Total	$51,206,228	$123,581,166	$123,7
Year ended December 31, 2002:			
Allowance deducted from asset account (customer accounts receivable):			
For doubtful accounts	$39,088,189	$ 29,986,973(A)	$ 28,9
For estimated loss on returns	6,878,971	85,734,678	85,5
Total	45,967,160	115,721,651	114,4
Allowance deducted from asset account (merchandise inventories)			
For obsolete inventory	4,150,000	5,562,834	5,7
Total	$50,117,160	$121,284,485	$120,1
Year ended December 31, 2001:			
Allowance deducted from asset account (customer accounts receivable):			
For doubtful accounts	$39,771,673	$ 31,333,326(A)	$ 32,0
For estimated loss on returns	6,993,000	89,930,958	90,0
Total	46,764,673	121,264,284	122,0
Allowance deducted from asset account (merchandise inventories)			
For obsolete inventory	6,250,000	9,123,081	11,2
Total	$53,014,673	$130,387,365	$133,2

Note (A) -- Current year provision for doubtful accounts, charged against income.

Note (B) -- Accounts charged off, net of recoveries.

Note (C) -- Sales value of merchandise returned.

Note (D) -- Inventory liquidated, net of proceeds received.