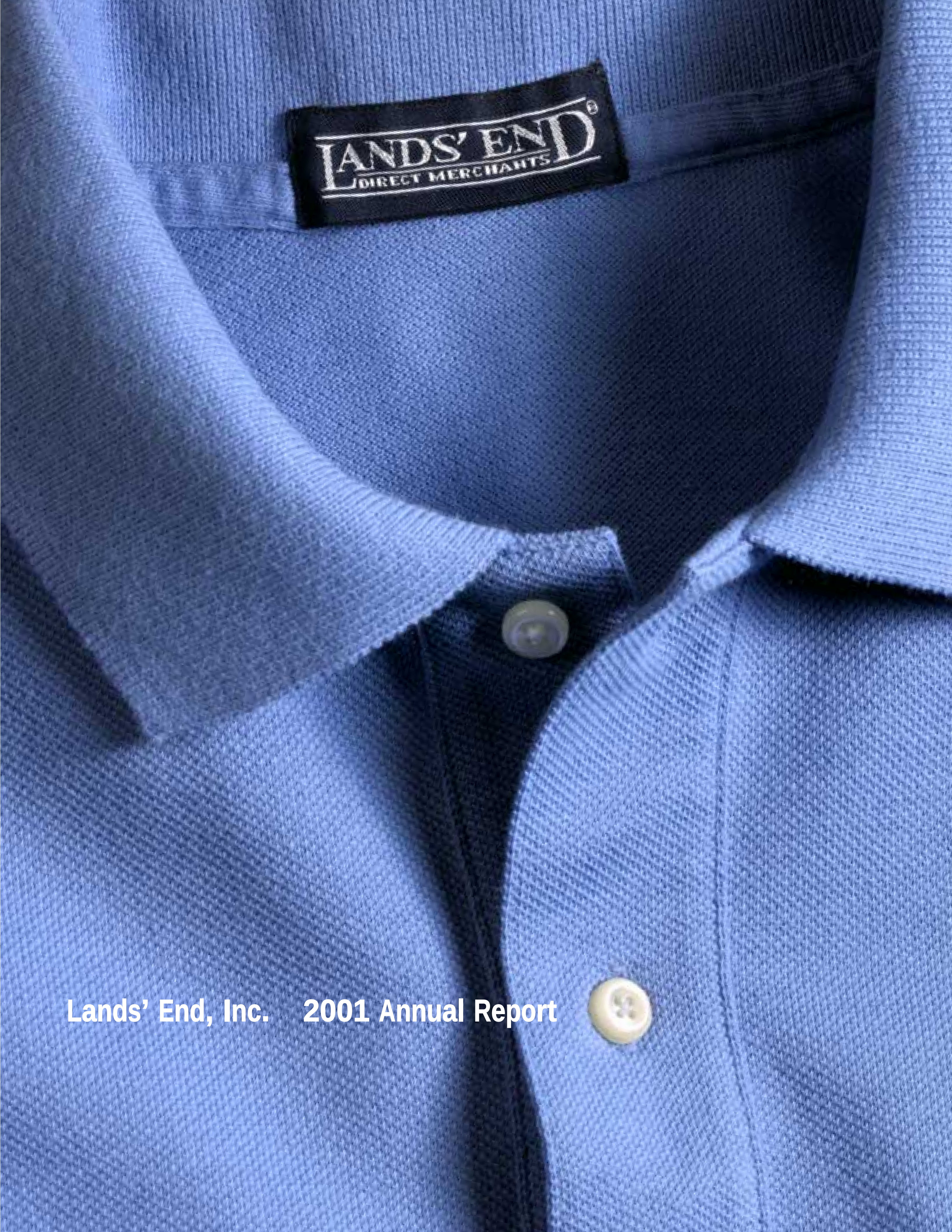


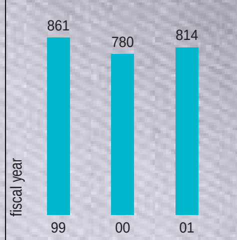
Lands' End, Inc. 2001 Annual Report

Lands' End *Direct Merchants*

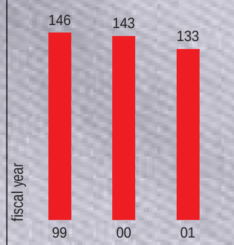
As a leading global direct merchant, we are dedicated to offering exceptional quality products at prices that represent honest value, backed by the best customer service in the industry. *Guaranteed. Period.®*

Our core business segment is composed of adult apparel offered through our regular monthly and prospecting catalogs and our two catalogs of tailored and casual clothing for the workweek–*First Person* for women and *Lands' End for Men*. Merchandise sales in our core business segment were $814 million in fiscal 2001 and $780 million in fiscal 2000.

Core segment
Dollars in millions



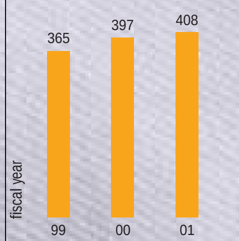
International segment
Dollars in millions



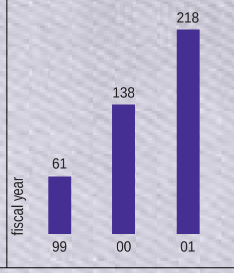
Our international business segment includes operations in Japan, Germany and the United Kingdom. These catalogs are written in local languages and denominated in local currencies. International segment merchandise sales were $133 million in fiscal 2001 and $143 million in fiscal 2000.

Our specialty business segment contains three catalogs–*Corporate Sales*, our business-to-business catalog offering the Lands' End brand as an option for company incentives, rewards, gifts and group apparel; *Kids*, a collection of comfortable casual clothing for children; and *Coming Home*, featuring products for the home. Merchandise sales in this segment were $408 million in fiscal 2001 and $397 million in fiscal 2000.

Specialty segment
Dollars in millions



Internet sales
Dollars in millions

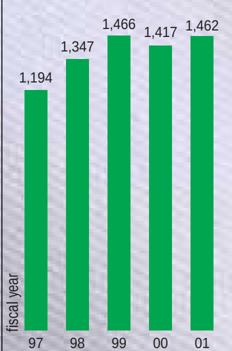


landsend.com is our Lands' End Web site, where we have expanded our Direct Merchant concept for the growing number of customers who prefer cyber-shopping. All of our products are available on the Web. Internet merchandise sales were $218 million in fiscal 2001 and $138 million in fiscal 2000. All Internet, export and liquidation sales are included in the respective business segment figures.

Financial Highlights

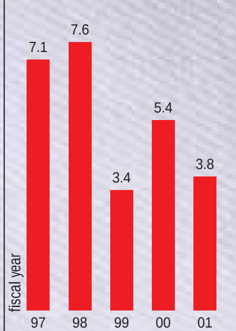
Lands' End, Inc. & Subsidiaries

Total revenue
Dollars in millions



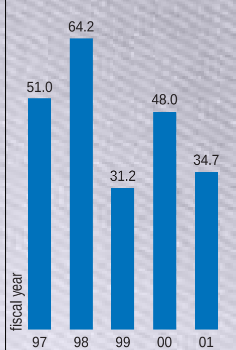
Total revenue was $1.462 billion, up 3.2 percent. Five-year compound annual growth rate: 5.8 percent.

Pretax return on total revenue
Percent



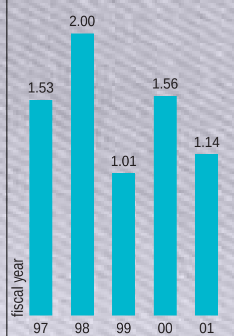
Pretax return on total revenue was 3.8 percent this year.

Net income
Dollars in millions



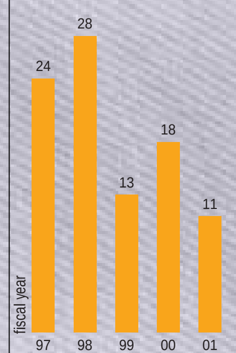
Net income was $34.7 million in fiscal 2001 and $48.0 million a year ago. Fiscal 2000 includes a non-recurring credit of $1.1 million.

Diluted earnings per share
Dollars



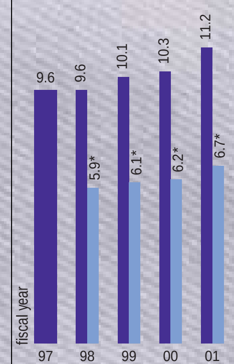
Diluted earnings per share were $1.14, down 27 percent from the prior year.

Return on average shareholders' investment
Percent



Return on average shareholders' investment was 11 percent this year, down from 18 percent last year, and averaged about 19 percent over the last five years.

36-month buyers/ 12-month buyers*
Millions



11.2 million customers have purchased during the past 36 months and 6.7 million during the past 12 months. We have more than 31 million names on our complete mailing list.

Inside this report

On the cover: the Lands' End mesh knit polo

David F. Dyer

Dear Shareholder: I'm pleased to report that after a challenging start to the past year, we were able to finish fiscal year 2001 with a flourish.

Our holiday and year-end performance was especially gratifying in that it came during a very challenging time for most of the retail sector and in spite of a tough economy in general. We also weathered an unusually harsh winter here in Wisconsin, which additionally put our operations under strain.

Nonetheless, our team at Lands' End pulled together to put the customer first, with all hands on deck to get our orders out as quickly and as efficiently as possible.

Our solid finish in fiscal year 2001 capped a two-year period during which we embarked on a number of initiatives to position Lands' End for improved results and future growth.

Over this time, we greatly refreshed our products and our creative presentation. We improved vendor sourcing and increased our gross merchandise profit – and at the same time continued to add details and quality to our great line of merchandise. We reduced the number of SKUs in our inventory and improved inventory turnover, thereby reducing interest expense.

Throughout all this, both seasoned and new Lands' End customers responded with gratifying results. We are especially proud of the fact that our global 12-month buyer file ended the year with 6.7 million customers, up 8 percent from the prior year. New customer acquisition and reactivation of former customers were the best in our history. The result: We enter the new fiscal year with one of the strongest customer files we have ever enjoyed.

“New customer acquisition and reactivation of former customers were the best in our history.”

The greatest success we saw this year was the momentum in our core business. Last fall, changes in the styles, colors and silhouettes of our merchandise offerings brought a strong response from customers. Our creative presentations were reinvigorated and compelling, with terrific photography and catalog design. While we experienced some inventory shortfalls in selected products around the holiday season, we addressed them quickly via improvements in inventory management. The details of this year’s performance are fully explained in the Management’s Discussion and Analysis section of this annual report.

The Internet has been a huge success for Lands’ End, accounting for about 16 percent of last year’s business – a growth rate of about 59 percent. Most important, landsend.com is profitable. About 25 percent of those sales last year were from new customers making their first purchase with Lands’ End. We continue to be a leader in on-line capabilities with tools such as “My Personal Shopper,” “My Virtual Model” and “Lands’ End Live,” customer-friendly services used by hundreds of thousands of on-line purchasers.

Our Corporate Sales division completed another strong year of double-digit sales increases and exemplary profits. Its performance was somewhat offset by shortfalls in our international business due to currency fluctuations and a weakness in our Japanese business, where a weak economy continues to pose major challenges.

On the staffing front, I am pleased to report that Jeffrey A. Jones joined Lands’ End last year as Chief Operating Officer. Jeff has 25 years of experience in finance,

Standing (left to right): Lee Eisenberg, Executive Vice President and Creative Director; Phil Schaecher, Senior Vice President, Operations; Mindy Meads, Executive Vice President, Merchandising and Design; Dave Zentmyer, Senior Vice President, Corporate Sales
Sitting (left to right): Kelly Ritchie, Senior Vice President, Employee Services; Don Hughes, Senior Vice President and Chief Financial Officer; Dave Dyer, President and Chief Executive Officer; Jeff Jones, Chief Operating Officer; Bill Bass, Senior Vice President, Internet and International

information systems, strategic planning and general management. Together with our senior management group, I am certain we have the talent and the leadership necessary to make Lands' End a high-performance, high-growth company over the next several years.

The management team and I believe that Lands' End is on very solid ground. We have the right products and the right focus on exceptional merchandise quality, honest pricing and a commitment to customer service second to none. We look forward to keeping you informed of developments in our growth plan as the year progresses.

In the meantime, thank you for your ongoing investment and confidence in Lands' End.

Sincerely,

David F. Dyer
President and Chief Executive Officer

Breathing new life into the classics America loves.

The world is full of hype and hoopla and the Next Big Thing, especially in this digital age. But our philosophy has always been, stick with the classics. Figure out a way to build them better, and customers will beat a path to your door (or to your friendly phone operators or Web site).

This simple credo was resoundingly ratified by our customers in 2000. Many of the classics that drove our sales are the ones we've built our business on, though quite a few of them were refreshed with new styling and colors. We think these classics will continue to hold the key to our future.

Mesh knit polo

Take that polo of ours. The one you see on our cover, and here to your right. We introduced it in 1978, at the height of all those little designer critters running around on the breast of almost every polo you saw. We made our polo critter-free, and put our emphasis on fabric, fit and features.

Today, countless improvements later, it may be the best polo on the market for $19.50, with a garment-washed, combed cotton pique knit that never shrinks out of fit. Smoothly taped collar and shoulder seams that won't rub or chafe. Long tennis tails that stay tucked in, even when you're remonstrating with your broker. And much more.

Pinpoint Oxford

We've sold over 10 million of them since we launched this great shirt. And 2000 was one of our best polo years ever.

Look what just graduated from our Oxfords. In the past 20 years, we've earned a reputation as one of the premier merchants of that business essential, the Oxford dress shirt. There's the silky soft Pinpoint Oxford. The hearty Hyde Park® Oxford. And the Original Oxford, the one that started it all in 1978, still possibly America's best dress shirt value.

Blazer shirt

Our Oxfords had another strong year in 2000, partly because our customers continue to recognize their great value – few other Pinpoint Oxfords at our price have a genuine split-back yoke, for more ease in the shoulders – and partly because we continually refresh our assortment with new colors, patterns and collar styles.

But the world is changing. The workplace isn't as formal as it used to be, and Lands' End® is a leader in the new business casual clothing. So we've also introduced a whole line of colorful new blazer shirts. Plaids. Stripes. Mini-tartans. Ginghams. All finely fabricated, in high-count cottons, and beautifully tailored. All in neck and sleeve sizes, for a perfect fit. Look for even more adventurous variations in the future.

The hardest-working jacket in America. While our reversible goose down "Jacket of the Year" created tremendous demand in 2000, it was also a great year for our intrepid Squall® Jacket. Introduced in 1982 as a sailing jacket, it quickly became a favorite of sailors, skiers and adventurers alike, as much for its bright colors and easy-moving feel as its superior weatherbeating qualities.

Squall jacket

Reversible goose down jacket

The Squall® Jacket continues to win many new customers each year. But also coming on strong is our line of Polartec® jackets and parkas. In the fall of 2001, look for a significant new product introduction that will bring Polartecs that are softer, more comfortable and more packable, without giving up one bit of warmth. And look for a redesign of the Squall's longer cousin, the Squall® Parka – refinements that will come without raising the price of that garment one penny over last year's price of $99.50. (Value is always as important to our outerwear as functionality.)

Can you say "tankini"? Over the years, we've tried to be innovators with fit. Offering sizes from women's petite to men's double extra large in many of our key products, as well as an expanding number of women's plus-size products. And we constantly fit test our products on real people, refining the specifications, improving the comfort and look.

Batik hi-neck tankini top/hi-cut bottom

Floral Illusion – The Suit of the Season

One of the results has been that we've become a headquarters for supremely comfortable, tugless swimsuits. Tanks with more sensible coverage at seat and thigh. Sporty new tankinis that cover your tummy. And even swim separates that flatter women who are one size on top, another on the bottom.

Our customers have responded with enthusiasm. "I'll never submit myself to the torture of going into a department store and trying on a suit again," wrote a woman from South Carolina.

The Better Cotton Sweater. Back in our early days as a sailing outfitter, a cotton sweater was absolutely de rigueur out on the water. (This was before most of the high-tech synthetics came along.) We noticed that most cotton sweaters really didn't have the craftsmanship of the fine wool sweaters we wore in colder months.

V-neck drifter sweater

Cashmere sweater

So we went to work and began putting that same kind of craftsmanship into our cotton sweaters. With fully fashioned shoulders for a more natural fit. And more careful joining of neck, cuffs, waistband. We also sought out finer combed cottons that wouldn't bag or sag out of shape. The result was our Better Cotton Sweater, now enjoying a resurgence of popularity in crewneck, V-neck, cardigan and many women's-only styles, in our usual plethora of colors.

In the early eighties, we got our first feel of a cashmere sweater in a Georgetown specialty shop, and were as smitten with its indescribably soft feel as we were shocked by its lofty price tag. As direct merchants, we thought we could do better.

We went to Mongolia for the world's finest "white cashmere" and began building the relationship that today allows us to sell some of the finest, softest cashmere sweaters a customer will ever find at our kind of prices. Again in 2000, our cashmere sweaters were one of America's most popular (and coveted) Christmas presents.

Our attaché for Minnesota Veterinary Associates

Our attaché builds brands. In the late seventies, our creative director became frustrated with the impracticality of the expensive leather briefcase he was carrying. Sure, it looked good, but it just didn't do all the things he wanted it to.

He sketched out a new design, which soon became the Original Attaché. Today it may still be the most functional one you can buy, with an ingenious assortment of inner and outer pockets, a clip for keys, straps for an umbrella, even an easy-feeling Ergopad™ shoulder pad.

While this attaché is popular among our catalog customers, it has also become a great favorite in our Corporate Sales business, now sporting the logos of many of today's Fortune 500® companies. We sell thousands upon thousands of them every year.

Rugby playsuit

The kids factor. When we began our children's catalog business in 1988, we offered child-sized versions of many of our Lands' End classics, with the same emphasis on quality and value. Moms and dads were enthusiastic. Now we've branched out into many items that are still classic as can be, but much more playful. Like our rugby playsuits and Climber™ pants. And an ever-expanding assortment of children's footwear our customers love.

So what's the bottom line? At Lands' End, we won't be slaves to fads. We'll stick with the classics that got us where we are today. But we'll keep on making them better, fresher, more colorful and stylish for our customers. Because after all, we believe these are the classics all America loves.

Fiscal 2001 was a year during which we've seen the results of our strategic initiatives of the last two years take hold. Sales momentum picked up towards the end of the third quarter and continued strongly through our all-important holiday season, and we reported a double-digit increase in both revenue and earnings for the fourth quarter. This success enabled us to complete the year with an annual 3.2 percent increase in total revenue, but a 27.8 percent decrease in earnings, mainly due to the weakness of the first nine months. Our strong finish for the year was gratifying in the face of a difficult economy.

Consolidated statements of operations presented as a percentage of revenue

For the period ended	January 26, 2001	January 28, 2000	January 29, 1999
Net merchandise sales	92.7%	93.1%	93.5%
Shipping and handling revenue	7.3	6.9	6.5
Total revenue	100.0	100.0	100.0
Cost of sales	49.8	51.3	51.5
Shipping and handling costs	7.7	7.1	6.5
Total cost of sales	57.5	58.4	58.0
Gross profit	42.5	41.6	42.0
Selling, general and administrative expenses	38.3	36.2	37.1
Non-recurring charge (credit)	–	(0.2)	0.8
Income from operations	4.2	5.6	4.1
Interest income (expense), net	0.1	(0.1)	(0.5)
Other	(0.5)	(0.1)	(0.2)
Income before income taxes	3.8	5.4	3.4
Income tax provision	1.4	2.0	1.3
Net income	2.4%	3.4%	2.1%

The company adopted the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force "Accounting for Shipping and Handling Fees and Costs" (EITF 00-10) in the fourth quarter of fiscal 2001. All periods presented have been restated to reflect this on a consistent basis. (See Note 1.)

Segment net merchandise sales[1]

	January 26, 2001		January 28, 2000		January 29, 1999	
(Amounts in millions)	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
Core	$ 814	60%	$ 780	59%	$ 861	63%
Specialty	408	30%	397	30%	364	27%
International	133	10%	143	11%	146	10%
Total net sales	$1,355	100%	$1,320	100%	$1,371	100%

(1) Shipping and handling revenue is not included.

Segment income (loss) before income taxes[2]

	January 26, 2001		January 28, 2000		January 29, 1999	
(Amounts in millions)	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Core	$ 35	2.4 %	$ 32	2.3 %	$ 27	1.9 %
Specialty	28	1.9 %	43	3.0 %	23	1.6 %
International	(1)	(0.1)%	3	0.2 %	5	0.3 %
Other	(7)	(0.4)%	(2)	(0.1)%	(5)	(0.4)%
Income before income taxes	$ 55	3.8 %	$ 76	5.4 %	$ 50	3.4 %

(2) Percentages are based on total revenue.

Results of operations for fiscal 2001, compared with fiscal 2000

Total revenue increased by 3.2 percent

Total revenue consists of net merchandise sales and shipping and handling revenue. Net merchandise sales are sales from our business segments (Core, Specialty and International). Shipping and handling revenue consists of shipping and handling and gift box service charges received from customers.

Total revenue for the year just ended was $1.462 billion, compared with $1.417 billion in the prior year, an increase of 3.2 percent. Net merchandise sales were $1.355 billion in fiscal 2001, compared to $1.320 billion last year, an increase of 2.7 percent. Merchandise sales for the core business segment were $814 million, up more than 4 percent from the prior year, due to the strong growth of the coed division (men's and women's casual wear), which grew by 16 percent. The specialty business segment merchandise sales grew about 3 percent to $408 million, due mainly to continued double-digit growth of Corporate Sales, which reached $170 million in merchandise sales for fiscal 2001. Merchandise sales for the international business segment were $133 million, down 7 percent from last year, primarily due to softer sales in Japan and weaker currency conversions. Seasonally strong sales resulted in a higher level of backorders during the fourth quarter and a first-time fulfillment rate of 85 percent for the year as a whole, slightly below the prior year's rate. Overall merchandise sales growth was primarily attributable to changes in circulation, which included adding back our post-Thanksgiving catalog and our January full-price catalog, shifting the timing of our fall/winter mailings, increased page circulation and improved merchandise selection and creative presentations.

Shipping and handling revenue was $107 million, an increase of 10.6 percent, primarily due to increased shipping rates in response to higher costs and a higher level of merchandise sales.

Our Internet sales at *landsend.com* were $218 million in fiscal 2001, compared with $138 million in fiscal 2000. About 17 percent of our Internet buyers are new to Lands' End, and we believe this channel will continue to have important growth potential for us.

Gross profit margin

Gross profit for the year just ended was $622 million, or 42.5 percent of total revenue, compared with $590 million, or 41.6 percent of total revenue, for the prior year. Merchandise gross profit margin rose 130 basis points, mainly due to higher initial margins resulting from improved sourcing and a lower level of liquidations. This was partially offset by relatively higher shipping and handling costs, especially in the fourth quarter. Liquidations were about 11 percent of net merchandise sales in fiscal 2001, compared with 12 percent in the prior year.

In fiscal 2001, the cost of inventory purchases was down 2.0 percent, compared with deflation of 2.7 percent in fiscal 2000. This reduction was a result of improved sourcing. As a result, the LIFO inventory reserve was reduced by $4.4 million and $5.9 million in fiscal 2001 and 2000, respectively.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased 9.2 percent to $560 million in fiscal 2001, compared with $513 million in the prior year. As a percentage of sales, SG&A was 38.3 percent in fiscal 2001 and 36.2 percent in the prior year. The increase in the SG&A ratio was primarily the result of higher catalog costs associated with increased page circulation, as well as higher information services expenses as we continue to invest in the Internet and upgrade systems capabilities. The number of full-price catalogs mailed totaled 269 million in fiscal 2001, up 14 percent from the prior year, and the total number of pages mailed increased by about 18 percent.

The cost of producing and mailing catalogs represented about 39 percent and 38 percent of total SG&A in fiscal 2001 and 2000, respectively.

Depreciation and amortization expense was $23.4 million, up 13.1 percent from the prior year, mainly due to computer software. Rental expense was $16.0 million, up 3.4 percent from fiscal 2000, primarily due to additional computer hardware.

Credit lines and capital expenditures

Interest expense on lines of credit was down in fiscal 2001 due to lower average borrowing levels. Interest expense decreased to $1.5 million in fiscal 2001, compared to $1.9 million in fiscal 2000. We spent $45 million in cash on capital expenditures, which included $31 million for computer hardware and software. In addition, the company acquired a new airplane by exchanging two of its own aircraft in fiscal 2001. Also, we purchased about $28 million in treasury stock. Our lines of credit peaked at $73 million in fiscal 2001, compared with a peak of $53 million in the prior year. At January 26, 2001, the company's foreign subsidiaries had short-term debt outstanding of $16.9 million and domestic operations had no outstanding borrowings. No long-term debt was outstanding at fiscal year-end 2001.

Net income decreased

Net income for fiscal 2001 was $34.7 million, down 27.8 percent from the $48.0 million earned in fiscal 2000. Diluted earnings per share for the year just ended were $1.14, compared with $1.56 per share for the prior year. Fiscal 2000 includes a non-recurring after-tax increase to net income of $1.1 million, or $0.04 per share. Before the effect of this adjustment, net income for the prior year was $46.9 million, or $1.52 per diluted share. The diluted weighted average number of common shares outstanding was 30.4 million for fiscal 2001 and 30.9 million for fiscal 2000.

Segment results

The company has three business segments consisting of Core (regular monthly and prospecting catalogs, First Person, and Lands' End for Men, formerly Beyond Buttondowns); Specialty (Corporate Sales, Kids and Coming Home); and International (foreign-based operations in Japan, Germany and the United Kingdom). "Other" includes corporate expenses, intercompany eliminations, other income and deduction items that are not allocated to segments. (See Note 12.)

The core segment's net merchandise sales were $813.7 million, representing 60 percent of the company's net merchandise sales and an increase of $33.6 million compared with the prior year. The coed division led the strong growth in the core business segment.

The specialty segment's net merchandise sales were $408.1 million, which were 30 percent of the company's net merchandise sales and $11.6 million above the prior year. This sales increase was mainly from our Corporate Sales business-to-business division.

The international segment's net merchandise sales were $133.2 million, about 10 percent of total net merchandise sales. This is a decrease of $10.0 million from the prior year and was primarily due to soft sales in Japan and currency issues related to the weakening of the Deutsche Mark and British Pound against the U.S. Dollar.

Income (loss) before income taxes for the segments were: core increased by $2.3 million to $34.7 million in fiscal 2001 from $32.4 million in the prior year; specialty decreased by $14.9 million to $28.3 million in fiscal 2001 from $43.2 million in the prior year; international decreased by $4.0 million to a loss of $1.3 million in fiscal 2001 from income of $2.7 million last year; and the loss in the category "other" increased by $4.7 million to a loss of $6.7 million in fiscal 2001 from a loss of $2.0 million in fiscal 2000. This loss of $6.7 million in "other" is mainly the result of foreign currency translations and transactions. (See Note 1.) The core segment's increase in income before income taxes was primarily the result of improved sourcing, offset by higher catalog costs due to increased catalog circulation. The specialty segment decrease in income before income taxes was mainly due to higher catalog and national advertising costs associated with lower productivity of the catalogs. International's decrease in income before income taxes was attributed mainly to its sales decrease in Japan and currency issues.

Accounting standards

The company adopted EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," in the fourth quarter of fiscal 2001. Under its provisions, shipping and handling charges billed to customers are now recorded as part of total revenue, and shipping and handling costs are now classified as part of cost of sales. Previously, all shipping and handling revenue and costs were netted within selling, general and administrative expenses. These reclassifications have no impact on income from operations or net income, but they do have an impact on total revenue, cost of sales, gross profit, and selling, general and administrative expenses. (See Note 1.)

Results of operations for fiscal 2000, compared with fiscal 1999

Total revenue decreased by 3.4 percent

Total revenue for fiscal year 2000 totaled $1.417 billion, compared with $1.466 billion in the prior year, a decrease of 3.4 percent. This decrease was greater than anticipated, even with the planned reduction in catalog pages mailed during the year. The specialty business segment had the strongest performance for fiscal 2000, with sales up about 9 percent to $396.5 million, due in large part due to the success of our Corporate Sales business-to-business division, which accounted for about $140 million in sales. Sales for the core business segment were $780.1 million, down 9 percent from the prior year, due largely to an 18 percent page circulation reduction. Sales for the international business segment were $143.2 million, slightly down from $146 million last year. Lower inventory levels throughout the year resulted in a first-time fulfillment of about 88 percent.

Merchandise sales for November and December, the two most important months of our critical holiday season, were down almost 15 percent from the prior year. This was due principally to the planned strategy of mailing fewer catalog pages to reduce unprofitable mailings, the elimination of a full-size catalog at Thanksgiving time and a lower level of liquidation sales compared with the prior year when catalog mailings and promotional pricing were aggressively increased to clear excess inventory. In January, the company traditionally mails its January full-price primary catalog, as well as an end-of-season clearance catalog. In fiscal 2000, these two mailings were combined into one book, with only a small presentation devoted to full-price merchandise, resulting in a 30 percent page reduction and a 24 percent decline in merchandise sales for the month of January.

Our Internet sales at *landsend.com* more than doubled in fiscal 2000, with sales of $138 million, compared with $61 million in fiscal 1999. We found that more than 20 percent of our Internet buyers were new to Lands' End, and believe this channel will continue to be an important growth opportunity for us.

Gross profit margin

Gross profit for the year just ended was $590 million, or 41.6 percent of total revenue, compared with $616 million, or 42.0 percent of total revenue, for the prior year. During the first nine months of fiscal 2000, gross profit margin ran well below the prior year, due primarily to a higher level of liquidated merchandise sales at steeper markdowns. However, in the fourth quarter, gross profit margin was strong due to higher initial margins as a result of improved sourcing and the lower level of liquidations. Liquidations were about 12 percent of net merchandise sales in fiscal 2000, compared with 10 percent in the prior year.

In fiscal 2000, the cost of inventory purchases was down 2.7 percent, compared with inflation of 0.5 percent in fiscal 1999. This reduction was a result of deflation, as well as more efficient negotiations with our suppliers. As a result, the LIFO inventory reserve was reduced by $5.9 million in fiscal 2000.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses decreased 5.7 percent to $513 million in fiscal 2000, compared with $544 million in the prior year. The decrease was due to a reduction in the number of catalog pages mailed, somewhat offset by relatively higher fulfillment costs. As a percentage of sales, SG&A was 36.2 percent in fiscal 2000 and 37.1 percent in the prior year. The decrease in the SG&A ratio was primarily the result of the reduction in the number of pages mailed and greater overall catalog productivity (sales per page). The number of full-price catalogs mailed totaled 236 million in fiscal 2000, down 9 percent from the prior year, while the total number of pages mailed decreased by about 17 percent.

The cost of producing and mailing catalogs represented about 38 percent and 43 percent of total SG&A in fiscal 2000 and 1999, respectively.

Depreciation and amortization expense was $20.7 million, up 10.6 percent from the prior year, related primarily to additional computer hardware and software, and buildings. Rental expense was $15.5 million, down 0.8 percent from fiscal 1999, as a result of three store closings.

Credit lines and capital expenditures

Inventory decreased to $162 million in fiscal 2000, down 26 percent from $220 million in the prior year. As a result of lower inventory levels and reduced purchases of treasury stock, borrowing decreased under our short-term lines of credit. Interest expense decreased to $1.9 million in fiscal 2000, compared to $7.7 million in fiscal 1999. We spent $28 million in capital expenditures and purchased about $4.5 million in treasury stock. Our lines of credit peaked at $53 million in fiscal 2000, compared with a peak of $257 million in the prior year. At January 28, 2000, the company's foreign subsidiaries had short-term debt outstanding of $11.7 million and domestic operations had no outstanding borrowings. No long-term debt was outstanding at fiscal year-end 2000.

Net income increased

Net income for fiscal 2000 was $48.0 million, up 54 percent from the $31.2 million earned in fiscal 1999. Diluted earnings per share for the year just ended were $1.56, compared with $1.01 per share for the prior year. In the third and fourth quarters of fiscal 1999, the company had after-tax non-recurring charges of $0.9 million and $7.0 million, respectively, or $0.26 per share for the entire fiscal year. Fiscal 2000 included an addition to after-tax net income of $1.1 million, or $0.04 per share, from the reversal of a portion of that non-recurring charge. Before the effect of these adjustments, net income for fiscal year 2000 was $46.9 million, or $1.52 per diluted share, compared with fiscal 1999 net income of $39.1 million, or $1.27 per share. The diluted weighted average number of common shares outstanding was 30.9 million for fiscal 2000 and 30.8 million for fiscal 1999.

Segment results

The company has three business segments consisting of Core (regular monthly and prospecting catalogs, First Person, and Beyond Buttondowns), Specialty (Kids, Corporate Sales and Coming Home catalogs) and International (foreign-based operations in Japan, Germany and the United Kingdom). "Other" includes corporate expenses, intercompany eliminations, other income and deduction items that are not allocated to segments. (See Note 12.)

The core segment's net merchandise sales were $780.1 million or 59 percent of net merchandise sales in fiscal 2000, which represent a decrease of $80.8 million from the prior year. Within the core segment, sales from the monthly and prospecting full-price catalogs were down from the prior year due principally to a planned reduction in circulation and pages mailed. Total pages circulated were down 18 percent in the core segment.

The specialty segment's net merchandise sales were $396.5 million or 30 percent of total net merchandise sales in fiscal 2000, which represents an increase of $31.9 million from the prior year. This sales increase was mainly from our Corporate Sales business-to-business division.

The international segment's net merchandise sales were $143.2 million or 11 percent of total net merchandise sales in fiscal 2000, which represents a decrease of $2.7 million from the prior year. The decrease was due mainly to lower sales for the United Kingdom and Japan.

Income (loss) before income taxes for the segments were: core increased by $5.1 million to $32.4 million in fiscal 2000 from $27.3 million in the prior year; specialty increased by $20.2 million to $43.2 million in fiscal 2000 from $23.0 million in the prior year; and international decreased by $2.0 million to $2.7 million in fiscal 2000 from $4.7 million last year. The core and specialty segments' increase in income before income taxes was primarily the result of the company's strategy to reduce circulation and focus on catalog productivity. In addition, both core and specialty segments incurred non-recurring credits of $0.5 million and $1.3 million, respectively. This compares to fiscal 1999 non-recurring charges of $7.6 million and $5.0 million allocated to core and specialty, respectively. International's decrease in income before income taxes was attributed mainly to its sales decrease in the United Kingdom and Japan.

The Christmas season is our busiest

Our business is highly seasonal. The fall/winter season is a five-month period ending in December. In the longer spring/summer season, orders are fewer and the merchandise offered generally has lower unit selling prices than products offered in the fall/winter season. As a result, total revenue is usually substantially greater in the fall/winter season, and SG&A as a percentage of total revenue is usually higher in the spring/summer season. Additionally, as we continue to refine our marketing efforts by experimenting with the timing of our catalog mailings, quarterly results may fluctuate.

Nearly 37 percent of our total revenue came in the fourth quarter of fiscal 2001, compared to about 34 percent in fiscal 2000. Approximately 92 percent and 59 percent of before-tax profit was realized in the fourth quarter of fiscal 2001 and 2000, respectively.

Liquidity and capital resources

To date, the bulk of our working capital needs have been met through funds generated from operations and from short-term bank loans. Our principal need for working capital has been to meet peak inventory requirements associated with our seasonal sales pattern. In addition, our resources have been used to make asset additions and purchase treasury stock. As of January 26, 2001, the company had unsecured domestic credit facilities totaling $200 million. As of January 26, 2001, the only utilization of this facility was $36 million of outstanding letters of credit. The company also maintains foreign credit lines for use in foreign operations totaling the equivalent of approximately $45 million, of which $16.9 million was used at January 26, 2001.

Since fiscal 1990, the company's board of directors has authorized the purchase of a total of 14.7 million shares of the company's common stock. A total of 1.1 million, 0.1 million and 1.1 million shares have been purchased in the fiscal years ended January 26, 2001, January 28, 2000 and January 29, 1999, respectively. As of January 26, 2001, 12.7 million shares have been purchased, and there is a balance of 2.0 million shares authorized to be purchased by the company from time to time.

The board of directors from time to time evaluates its dividend practice. Given our current authorization to buy back additional shares, the payment of cash dividends is not planned for the foreseeable future.

Capital investment

Capital investment was about $45 million in fiscal 2001. Information technology was the major focus of our investments.

In the coming year, we plan to invest between $45 million and $50 million in capital expenditures, investing primarily in our information technology and completing our Stevens Point, Wisconsin facility. We believe that our cash flow from operations and borrowings under our current credit facilities will provide adequate resources to meet our capital requirements and operational needs for the foreseeable future.

Market risk disclosure

The company attempts to reduce its exposure to the effects of currency fluctuations on cash flows by using derivative instruments to hedge. The company is subject to foreign currency risk related to its transactions with operations in Japan, Germany and the United Kingdom and with foreign third-party vendors. The company's foreign currency risk management policy is to hedge the majority of merchandise purchases by foreign operations and from foreign third-party vendors, which includes forecasted transactions, through the use of foreign exchange forward contracts and options to minimize this risk. The company's policy is not to speculate in derivative instruments for profit on the exchange rate price fluctuation, trade in currencies for which there are no underlying exposures or enter into trades for any currency to intentionally increase the underlying exposure. Derivative instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract.

As of January 26, 2001, the company had net outstanding foreign currency forward contracts totaling about $77 million and options totaling $16 million. Based on the anticipated cash flows and outflows for the next 12 months and the foreign currency derivative instruments in place at January 26, 2001, a hypothetical 10 percent strengthening of the U.S. dollar relative to all other currencies would adversely affect the expected fiscal 2002 cash flows by $0.7 million.

The company is subject to the risk of fluctuating interest rates in the normal course of business, primarily as a result of its short-term borrowing and investment activities at variable interest rates. As of January 26, 2001, the company had no outstanding financial instruments related to its debt or investments. At January 26, 2001, a sensitivity analysis was performed for its short-term debt and investments that have interest rate risk. The company has determined that a 10 percent change in the company's weighted average interest rates would have no material effect on the consolidated financial statements.

Possible future changes

A 1992 Supreme Court decision confirmed that the Commerce Clause of the United States Constitution prevents a state from requiring the collection of its use tax by a mail order company unless the company has a physical presence in the state. However, there continues to be uncertainty due to inconsistent application of the Supreme Court decision by state and federal courts. The company attempts to conduct its operations in compliance with its interpretation of the applicable legal standard, but there can be no assurance that such compliance will not be challenged.

In recent challenges, various states have sought to require companies to begin collection of use taxes and/or pay taxes from previous sales. The company has not received assessments from any state. The amount of potential assessments, if any, can not be reasonably estimated.

The Supreme Court decision also established that Congress has the power to enact legislation that would permit states to require collection of use taxes by mail order companies. Congress has from time to time considered proposals for such legislation. The company anticipates that any legislative change, if adopted, would be applied only on a prospective basis.

In October 1998, The Internet Tax Freedom Act was signed into law. Among the provisions of this Act is a three-year moratorium on multiple and discriminatory taxes on electronic commerce. An Advisory Commission was appointed to study electronic commerce tax issues and submitted its final report to Congress on April 3, 2000. Among other recommendations, the majority of the Advisory Commission favored the extension of the moratorium for an additional five years, until 2006, and greater uniformity and simplification of the state sales and use tax systems. Following the Advisory Commission's final report, there have been several initiatives at the congressional and state levels to implement the recommendations of the Advisory Commission or otherwise adjust the current sales and use tax laws and policies. We continue to monitor this activity and its potential effect on the company's collection obligations.

Business outlook

We are taking a conservative approach to our business in light of the uncertainty in the U.S. economy, particularly as seen in the retail environment. For fiscal 2002, a 53-week year that will end on February 1, 2002, the company expects that sales will increase in the single-digit range, and we expect gross profit margin to show continued improvement. As a result, we expect an increase in diluted earnings per share of at least 20 percent for the year as a whole.

As described later in our statement regarding forward-looking information, our business's profit level is sensitive to many factors, including changes in sales volume, which are difficult for us, like most retailers, to accurately predict.

Statement regarding forward-looking information

Statements in this report (including, but not limited to, the president's letter and Management's Discussion and Analysis) that are not historical, including, without limitation, statements regarding our plans, expectations, assumptions and estimations for fiscal 2002, gross profit margin and earnings, as well as anticipated sales trends and future development of our business strategy, are considered forward-looking in this report. As such, these statements are subject to a number of risks and uncertainties. Future results may be materially different from those expressed or implied by these statements due to a number of factors. Currently, we believe that the principal factors that create uncertainty about our future results are the following: customer response to our merchandise offerings, circulation changes and other initiatives; the mix of our sales between full price and liquidation merchandise; overall consumer confidence and general economic conditions, both domestic and foreign; effects of shifting patterns of e-commerce versus catalog purchases; costs associated with printing and mailing catalogs and fulfilling orders; dependence on consumer seasonal buying patterns; fluctuations in foreign currency exchange rates; and changes that may have different effects on the various sectors in which we operate (e.g., rather than individual consumers, the Corporate Sales Division, included in the specialty segment, sells to numerous corporations, and certain of these sales are for their corporate promotional activities). Our future results could, of course, be affected by other factors as well.

The company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

Consolidated Statements of Operations

Lands' End, Inc. & Subsidiaries

(In thousands, except per share data)	For the period ended January 26, 2001	January 28, 2000	January 29, 1999
Revenue:			
Net merchandise sales	$1,354,974	$1,319,823	$1,371,375
Shipping and handling revenue	107,309	97,063	94,746
Total revenue	1,462,283	1,416,886	1,466,121
Cost of sales:			
Cost of merchandise sales	728,446	727,291	754,661
Shipping and handling costs	112,158	99,791	95,368
Total cost of sales	840,604	827,082	850,029
Gross profit	621,679	589,804	616,092
Selling, general and administrative expenses	560,019	512,647	543,824
Non-recurring charge (credit)	–	(1,774)	12,600
Income from operations	61,660	78,931	59,668
Other income (expense):			
Interest expense	(1,512)	(1,890)	(7,734)
Interest income	2,244	882	16
Other	(7,381)	(1,679)	(2,450)
Total other expense, net	(6,649)	(2,687)	(10,168)
Income before income taxes	55,011	76,244	49,500
Income tax provision	20,354	28,210	18,315
Net income	$ 34,657	$ 48,034	$ 31,185
Basic earnings per share	$ 1.15	$ 1.60	$ 1.02
Diluted earnings per share	$ 1.14	$ 1.56	$ 1.01
Basic weighted average shares outstanding	30,047	30,085	30,471
Diluted weighted average shares outstanding	30,422	30,854	30,763

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements..

Consolidated Balance Sheets

Lands' End, Inc. & Subsidiaries

(In thousands)	January 26, 2001	January 28, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 75,351	$ 76,413
Receivables, net	19,808	17,753
Inventory	188,211	162,193
Prepaid advertising	17,627	16,572
Other prepaid expenses	9,715	5,816
Deferred income tax benefits	10,973	10,661
Total current assets	321,685	289,408
Property, plant and equipment, at cost:		
Land and buildings	104,815	102,776
Fixtures and equipment	103,866	102,886
Computer hardware and software	99,979	73,024
Leasehold improvements	4,630	4,453
Construction in progress	4,289	–
Total property, plant and equipment	317,579	283,139
Less – accumulated depreciation and amortization	132,286	117,317
Property, plant and equipment, net	185,293	165,822
Intangibles, net	651	966
Total assets	$ 507,629	$ 456,196
Liabilities and shareholders' investment		
Current liabilities:		
Lines of credit	$ 16,940	$ 11,724
Accounts payable	96,168	74,510
Reserve for returns	9,061	7,869
Accrued liabilities	41,135	43,754
Accrued profit sharing	2,357	2,760
Income taxes payable	13,213	10,255
Total current liabilities	178,874	150,872
Deferred income taxes	14,567	9,117
Shareholders' investment:		
Common stock, 40,221 shares issued	402	402
Donated capital	8,400	8,400
Additional paid-in capital	31,908	29,709
Deferred compensation	(121)	(236)
Accumulated other comprehensive income	5,974	2,675
Retained earnings	489,087	454,430
Treasury stock, 10,945 and 10,071 shares at cost, respectively	(221,462)	(199,173)
Total shareholders' investment	314,188	296,207
Total liabilities and shareholders' investment	$ 507,629	$ 456,196

The accompanying notes to consolidated financial statements are an integral part of these consolidated balance sheets.

Consolidated Statements of Shareholders' Investment

Lands' End, Inc. & Subsidiaries

(Dollars in thousands)	Comprehensive Income	Common Stock	Donated Capital	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
Balance, Jan. 30, 1998		$402	$8,400	$26,457	$(1,047)	$ 875	$375,211	$(167,586)	$242,712
Purchase of treasury stock		–	–	–	–	–	–	(35,557)	(35,557)
Issuance of treasury stock		–	–	–	–	–	–	1,845	1,845
Tax benefit of stock options exercised		–	–	537	–	–	–	–	537
Deferred compensation expense		–	–	–	653	–	–	–	653
Comprehensive income:									
Net income	$31,185	–	–	–	–	–	31,185	–	31,185
Other comprehensive income:									
Foreign currency translation adjustments	1,128	–	–	–	–	1,128	–	–	1,128
Comprehensive income	$32,313								
Balance, Jan. 29, 1999		$402	$8,400	$26,994	$ (394)	$2,003	$406,396	$(201,298)	$242,503
Purchase of treasury stock		–	–	–	–	–	–	(4,516)	(4,516)
Issuance of treasury stock		–	–	–	–	–	–	6,641	6,641
Tax benefit of stock options exercised		–	–	2,715	–	–	–	–	2,715
Deferred compensation expense		–	–	–	158	–	–	–	158
Comprehensive income:									
Net income	$48,034	–	–	–	–	–	48,034	–	48,034
Other comprehensive income:									
Foreign currency translation adjustments	92	–	–	–	–	92	–	–	92
Unrealized gain on forward contracts and options	580	–	–	–	–	580	–	–	580
Comprehensive income	$48,706								
Balance, Jan. 28, 2000		$402	$8,400	$29,709	$ (236)	$2,675	$454,430	$(199,173)	$296,207
Purchase of treasury stock		–	–	–	–	–	–	(27,988)	(27,988)
Issuance of treasury stock		–	–	–	–	–	–	5,699	5,699
Tax benefit of stock options exercised		–	–	2,199	–	–	–	–	2,199
Deferred compensation expense		–	–	–	115	–	–	–	115
Comprehensive income:									
Net income	$34,657	–	–	–	–	–	34,657	–	34,657
Other comprehensive income:									
Foreign currency translation adjustments	(1,770)	–	–	–	–	(1,770)	–	–	(1,770)
Unrealized gain on forward contracts and options	5,069	–	–	–	–	5,069	–	–	5,069
Comprehensive income	$37,956								
Balance, Jan. 26, 2001		$402	$8,400	$31,908	$ (121)	$5,974	$489,087	$(221,462)	$314,188

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

Lands' End, Inc. & Subsidiaries

(In thousands)	For the period ended January 26, 2001	January 28, 2000	January 29, 1999
Cash flows from (used for) operating activities:			
Net income	$ 34,657	$ 48,034	$ 31,185
Adjustments to reconcile net income to net cash flows from operating activities –			
Non-recurring charge (credit)	–	(1,774)	12,600
Depreciation and amortization	23,432	20,715	18,731
Deferred compensation expense	115	158	653
Deferred income taxes	5,138	8,270	(5,948)
Loss on disposal of fixed assets	437	926	586
Changes in current assets and liabilities:			
Receivables, net	(2,055)	3,330	(5,640)
Inventory	(26,018)	57,493	21,468
Prepaid advertising	(1,055)	4,785	(2,844)
Other prepaid expenses	(3,899)	1,773	(2,504)
Accounts payable	21,658	(13,412)	4,179
Reserve for returns	1,192	676	1,065
Accrued liabilities	(1,091)	(7,664)	6,993
Accrued profit sharing	(403)	504	(2,030)
Income taxes payable	2,958	(4,323)	(5,899)
Tax benefit of stock options	2,199	2,715	537
Other	3,299	672	1,128
Net cash flows from operating activities	60,564	122,878	74,260
Cash flows from (used for) investing activities:			
Cash paid for capital additions	(44,553)	(28,013)	(46,750)
Net cash flows used for investing activities	(44,553)	(28,013)	(46,750)
Cash flows from (used for) financing activities:			
Proceeds from (payment of) short-term debt	5,216	(27,218)	6,505
Purchases of treasury stock	(27,988)	(4,516)	(35,557)
Issuance of treasury stock	5,699	6,641	1,845
Net cash flows used for financing activities	(17,073)	(25,093)	(27,207)
Net increase (decrease) in cash and cash equivalents	(1,062)	69,772	303
Beginning cash and cash equivalents	76,413	6,641	6,338
Ending cash and cash equivalents	$ 75,351	$ 76,413	$ 6,641
Supplemental cash flow disclosures:			
Interest paid	$ 1,519	$ 1,890	$ 7,693
Income taxes paid	9,658	21,078	27,857

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Note 1. Summary of significant accounting policies

Nature of business

Lands' End, Inc. (the company) is a direct marketer of traditionally styled apparel, domestics (primarily bedding and bath items), soft luggage and other products. The company manages its business in three operating segments consisting of core, specialty and international, based principally on type of catalog focusing on customer needs and markets served. The company's primary market is the United States, and other markets include Europe, the Pacific Basin area and Canada.

Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries after elimination of intercompany accounts and transactions.

Year-end

The company's fiscal year is comprised of 52-53 weeks, usually ending on the Friday closest to January 31. Fiscal 2001 ended on January 26, 2001, fiscal 2000 ended on January 28, 2000 and fiscal 1999 ended on January 29, 1999. All three years were comprised of 52 weeks. Fiscal 2002 is a 53-week year ending on February 1, 2002.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue recognition

The company records revenue at the time of shipment for catalog and e-commerce sales and at the point of sale for inlet and outlet store sales. The company provides a reserve for returns.

Reserve for returns

At the time of sale, the company provides a reserve equal to the gross profit on projected merchandise returns, based on its prior returns experience.

Cash and cash equivalents

The company's cash equivalents include short-term investments with a maturity of less than three months.

Inventory

Inventory, primarily merchandise held for sale, is stated at last-in, first-out (LIFO) cost, which is lower than market. If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventory would have been approximately $16.6 million and $21.0 million higher than reported at January 26, 2001 and January 28, 2000, respectively.

Advertising

The company expenses the costs of advertising for magazines, television, radio and other media the first time the advertising takes place, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Direct-response advertising consists primarily of catalog production and mailing costs that are generally amortized within three months from the date catalogs are mailed. Advertising costs reported as prepaid assets were $17.6 million and $16.6 million as of January 26, 2001 and January 28, 2000, respectively. Advertising expenses were $251.6 million, $225.0 million and $262.9 million for fiscal years ended January 26, 2001, January 28, 2000 and January 29, 1999, respectively.

Depreciation

Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets, which are 20 to 30 years for buildings and land improvements and five to 10 years for leasehold improvements and furniture, fixtures, equipment and software. The company provides one-half year of depreciation in the year of addition and retirement.

Intangibles

Intangible assets consist primarily of trademarks that are amortized over 15 years on a straight-line basis.

Financial instruments with off-balance-sheet risk

The company uses import letters of credit to purchase foreign-sourced merchandise. The letters of credit are primarily U.S. dollar-denominated and are issued through third-party financial institutions to guarantee payment for such merchandise within agreed-upon time periods. At January 26, 2001, the company had outstanding letters of credit of approximately $36 million, all of which had expiration dates of less than one year.

The counterparties to these financial instruments are primarily large financial institutions; management believes the risk of counterparty nonperformance on these financial instruments is not significant.

Foreign currency translations and transactions

Financial statements of the foreign subsidiaries and foreign-denominated assets are translated into U.S. dollars in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 52. Translation adjustments of the financial statements of the foreign subsidiaries are recorded in accumulated other comprehensive income, which is a component of stockholders' equity. Gains and losses resulting from the translation of foreign-denominated assets and foreign currency transactions are recorded as other income and expense on the consolidated statements of operations. For the years ended January 26, 2001, January 28, 2000 and January 29, 1999, losses of $5.8 million, $1.2 million and $1.9 million were recorded as other expense on the consolidated statements of operations, respectively. The loss recorded in fiscal 2001 resulted from the significant weakening of the British Pound and Deutsche Mark against the U.S. Dollar.

Fair values of financial instruments

The fair value of financial instruments does not materially differ from their carrying values.

Reclassifications

Certain financial statement amounts have been reclassified to be consistent with the fiscal 2001 presentation.

Accounting standards

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 provides interpretive guidance on the proper recognition, presentation and disclosure of revenues in financial statements. As the company's revenue recognition policies previously complied with generally accepted accounting principles and the related interpretive guidance set forth in SAB 101, the adoption of SAB 101 did not have any impact on the company's consolidated financial statements.

In May 2000, the Emerging Issues Task Force issued EITF 00-14, "Accounting for Certain Sales Incentives" ("EITF 00-14"). The adoption of EITF 00-14 did not have a material impact on the company's consolidated financial statements.

In July 2000, the Emerging Issues Task Force issued EITF 00-10, "Accounting for Shipping and Handling Fees and Costs." The company adopted EITF 00-10 in the fourth quarter of fiscal 2001 and has restated all comparative prior period financial statements. Under its provisions, amounts billed to a customer in a sale transaction related to shipping and handling represent revenue earned for the goods provided and should be classified as sales revenue. Shipping and handling charges billed to customers are now recorded as part of total revenue, and shipping and handling costs are now classified as part of cost of sales. Previously, all shipping and handling revenue and costs were netted within selling, general and administrative expenses. These reclassifications have no impact on income from operations or net income, but they do have an impact on total revenue, cost of sales, gross profit, and selling, general and administrative expenses.

Note 2. Shareholders' investment

Capital stock

The company currently has authorized the issuance of 160 million shares of $0.01 par value common stock. The company is authorized to issue 5 million shares of preferred stock, $0.01 par value. The company's board of directors has the authority to issue shares and to fix dividend, voting and conversion rights, redemption provisions, liquidation preferences and other rights and restrictions of the preferred stock. No preferred shares have been issued.

Treasury stock

In December 2000, the company's board of directors authorized the additional purchase of 2.0 million shares of the company's common stock, increasing the total shares that have been authorized for purchase since fiscal 1990 from 12.7 million to 14.7 million. A total of 12.7 million, 11.6 million and 11.4 million shares had been purchased as of January 26, 2001, January 28, 2000 and January 29, 1999, respectively.

Treasury stock activity in terms of shares was as follows:

For the period ended	January 26, 2001	January 28, 2000	January 29, 1999
Beginning balance	10,070,868	10,317,118	9,281,138
Purchase of stock	1,123,848	122,400	1,144,460
Issuance of stock	(249,600)	(368,650)	(108,480)
Ending balance	10,945,116	10,070,868	10,317,118

Earnings per share

A reconciliation of the basic and diluted per share computations is as follows (dollars are shown in thousands, except per share data):

	January 26, 2001	January 28, 2000	January 29, 1999
Net income	$34,657	$48,034	$31,185
Basic weighted average shares of common stock outstanding	30,047	30,085	30,471
Incremental shares from assumed exercise of stock options	375	769	292
Diluted weighted average shares of common stock outstanding	30,422	30,854	30,763
Basic earnings per share	$ 1.15	$ 1.60	$ 1.02
Diluted earnings per share	$ 1.14	$ 1.56	$ 1.01

As of January 26, 2001, 1,111,800 stock options were outstanding with exercise prices ranging from $32.38 to $66.13 per share and were therefore not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares during fiscal 2001.

Stock awards and grants

The company has a restricted stock award plan. Under the provisions of the plan, a committee of the company's board of directors may award shares of the company's common stock to its officers and key employees. Such shares vest over a five- or 10-year period on a straight-line basis from the date of the award.

The granting of these awards and grants has been recorded as deferred compensation based on the fair market value of the shares at the date of grant. Compensation expense under these plans is recorded as shares vest. The amount of the awards and grants outstanding total 8,760 shares, 17,960 shares and 31,000 shares for the periods ended January 26, 2001, January 28, 2000 and January 29, 1999, respectively.

Stock options

The company has reserved 5.5 million and 0.4 million shares of common stock and treasury stock that may be issued pursuant to the exercise of options granted under the company's Stock Option Plan (for employees) and the Non-Employee Director Stock Option Plan, respectively.

Under the company's stock option plans, options are granted at the discretion of a committee of the company's board of directors to officers, key employees of the company and members of the board of directors of the company who are not also employed by the company. No option may have an exercise price less than the fair market value per share of the common stock at the date of the grant.

Activity under the stock option plans was as follows:

	Options	Average Exercise Price	Exercisable Options
Balance at January 30, 1998	1,467,317	$21.42	350,107
Granted	1,874,000	$23.73	
Exercised	(108,480)	$17.01	
Forfeited	(541,330)	$22.35	
Balance at January 29, 1999	2,691,507	$23.41	473,597
Granted	591,000	$38.64	
Exercised	(368,650)	$18.02	
Forfeited	(137,840)	$32.17	
Balance at January 28, 2000	2,776,017	$26.94	1,371,397
Granted	1,056,500	$31.06	
Exercised	(249,600)	$22.83	
Forfeited	(172,900)	$34.88	
Balance at January 26, 2001	3,410,017	$28.11	1,362,467

The range of options outstanding as of January 26, 2001 is as follows:

Price Range Per Share	Number of Options Shares Outstanding/Exercisable	Weighted Average Exercise Price Outstanding/Exercisable	Weighted Average Remaining Contractual Life *(In years)*
$15.00–$29.99	2,087,300/1,184,200	$21.96/$19.48	8.5
$30.00–$44.99	1,044,717/ 164,767	33.34/ 33.56	8.1
Over $45.00	278,000/ 13,500	54.63/ 57.88	9.0
	3,410,017/1,362,467	$28.11/$21.56	8.4

The options above generally have a 10-year term. Options granted under the company's Stock Option Plan generally vest from six months to five years; options granted under the Non-Employee Director Stock Option Plan vest over a period from zero to two years.

Stock-based compensation

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the company accounts for its stock-based compensation plans as presented by APB Opinion No. 25 and related interpretations. Accordingly, compensation costs related to the stock awards and grants were $0.1 million, $0.2 million and $0.7 million in fiscal 2001, 2000 and 1999, respectively. These compensation costs are recorded in deferred compensation in the shareholders' investment section of the consolidated balance sheets.

Had compensation cost for the company's options granted after January 27, 1995 been determined consistent with the provisions of SFAS No. 123, the company's net income and earnings per share would have been reduced to the following pro forma amounts:

(In thousands, except per share data)	January 26, 2001	January 28, 2000	January 29, 1999
Net income			
As reported	$34,657	$48,034	$31,185
Pro forma	$28,253	$42,378	$26,429
Basic earnings per share			
As reported	$ 1.15	$ 1.60	$ 1.02
Pro forma	$ 0.94	$ 1.41	$ 0.87
Diluted earnings per share			
As reported	$ 1.14	$ 1.56	$ 1.01
Pro forma	$ 0.93	$ 1.38	$ 0.86

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes pricing model. The resulting compensation cost was amortized over the vesting period.

The option grant fair values and assumptions used to determine such value are as follows:

Options granted during	2001	2000	1999
Weighted average grant-date fair value	$18.42	$19.74	$11.21
Assumptions:			
Risk-free interest rate	5.90%	5.58%	4.74%
Expected volatility	50.48%	38.55%	35.86%
Expected term (in years)	7.0	7.0	7.0

Note 3. Income taxes

Earnings before income taxes consisted of the following (in thousands):

	2001	2000	1999
United States	$60,203	$78,050	$44,499
Foreign	(5,192)	(1,806)	5,001
Total	$55,011	$76,244	$49,500

The components of the provision for income taxes for each of the periods presented are as follows (in thousands):

Period ended	January 26, 2001	January 28, 2000	January 29, 1999
Current:			
Federal	$14,647	$19,984	$21,026
State	360	473	1,752
Foreign	209	(517)	1,485
Deferred	5,138	8,270	(5,948)
	$20,354	$28,210	$18,315

The difference between income taxes at the statutory federal income tax rate of 35 percent and income tax reported in the statements of operations is as follows (in thousands):

Period ended	January 26, 2001		January 28, 2000		January 29, 1999	
	Amount	%	Amount	%	Amount	%
Tax at statutory federal tax rate	$19,254	35%	$26,685	35%	$17,325	35%
Foreign taxes (excess over statutory rate)	389	1	22	–	263	–
State income taxes, net of federal benefit	417	1	907	1	1,306	3
Tax credits and other	294	–	596	1	(579)	(1)
	$20,354	37%	$28,210	37%	$18,315	37%

Under the liability method prescribed by SFAS No. 109, "Accounting for Income Taxes," deferred taxes are provided based upon enacted tax laws and rates applicable to the periods in which taxes become payable.

Temporary differences which give rise to deferred tax assets and liabilities as of January 26, 2001 and January 28, 2000 are as follows (in thousands):

Period ended	January 26, 2001	January 28, 2000
Deferred tax assets:		
Catalog advertising	$ (4,628)	$ (4,968)
Inventory	7,059	8,233
Employee benefits	4,615	4,231
Reserve for returns	3,353	2,912
Other	574	253
Total	$10,973	$10,661
Deferred tax liabilities:		
Depreciation	$13,069	$ 8,581
Other	1,498	536
Total	$14,567	$ 9,117

Note 4. Lines of credit

As of January 26, 2001, the company had unsecured domestic credit facilities totaling $200 million. The only reduction of the facility was about $36 million for outstanding letters of credit. There were no outstanding borrowings under the credit facilities as of January 26, 2001 and January 28, 2000.

In addition, the company has unsecured lines of credit with various foreign banks totaling the equivalent of approximately $45 million for its wholly-owned subsidiaries. There was $16.9 million outstanding at January 26, 2001, compared with $11.7 million as of January 28, 2000.

The following table summarizes certain information regarding these short-term borrowings:

(Dollars in millions)	2001	2000	1999
Maximum amount of borrowings	$ 73	$ 53	$257
Average amount of borrowings	$ 26	$ 33	$134
Weighted average interest rate during year	4.67%	4.96%	5.77%
Weighted average interest rate at year-end	4.62%	3.43%	5.42%

Note 5. Long-term debt

There was no long-term debt as of January 26, 2001 and January 28, 2000.

Note 6. Leases

The company leases store and office space and equipment under various leasing arrangements. The leases are accounted for as operating leases. Total rental expense under these leases was $16.0 million, $15.5 million and $15.6 million for the years ended January 26, 2001, January 28, 2000 and January 29, 1999, respectively.

Total future fiscal year commitments under these leases as of January 26, 2001 are as follows (in thousands):

2002	$ 9,418
2003	7,389
2004	4,522
2005	1,729
2006	1,270
Thereafter	5,101
	$29,429

Note 7. Retirement plan

The company has a retirement plan, which covers most regular employees and provides for annual contributions at the discretion of the board of directors. Also included in the plan is a 401(k) feature that allows employees to make contributions, and the company matches a portion of those contributions. Total expense provided under this plan was $5.3 million, $5.2 million and $4.8 million for the years ended January 26, 2001, January 28, 2000 and January 29, 1999, respectively.

Note 8. Postretirement benefits

In January 1998, the company implemented a plan to provide health insurance benefits for eligible retired employees. These insurance benefits will be funded through insurance contracts, a group benefit trust or general assets of the company. The assets were contributed to the plan in January 2001 and January 2000. The cost of these insurance benefits is recognized as the eligible employees render service.

The following table presents the change in the benefit obligation and plan assets in fiscal years 2001 and 2000:

(In thousands)	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 5,394	$ 5,731
Service cost	649	767
Interest cost	428	385
Plan participants' contributions	22	16
Actuarial gain (loss)	733	(1,448)
Benefits paid	(154)	(57)
Benefit obligation at end of year	$ 7,072	$ 5,394
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 3,965	$ 1,978
Actual return on plan assets	120	58
Employer contributions	2,063	1,970
Plan participants' contributions	22	16
Benefits paid	(154)	(57)
Fair value of plan assets at end of year	$ 6,016	$ 3,965
Net amount recognized:		
Funded status	$(1,056)	$(1,429)
Unrecognized net actuarial gain	(47)	(985)
Unrecognized prior service cost	3,514	3,783
Prepaid benefit cost	$ 2,411	$ 1,369
Weighted-average assumptions at end of year:		
Discount rate	7.50%	8.00%
Expected return on plan assets	7.50%	7.50%

The components of net periodic benefit cost for the years ended January 26, 2001 and January 28, 2000 were as follows:

(In thousands)	2001	2000
Service cost	$ 649	$ 767
Interest cost	428	385
Expected return on plan assets	(297)	(148)
Recognized net actuarial gain	(27)	–
Amortization of prior service cost	269	269
Total postretirement benefit cost	$1,022	$1,273

For measurement purposes, an 8 percent annual rate of increase in the per capita cost of covered health care benefits is assumed for fiscal year 2002. The rate is assumed to decrease gradually to 5 percent for fiscal year 2007 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1 percentage point change in assumed health care cost trend rates would have the following effects:

(In thousands)	Service and Interest Costs	Postretirement Benefit Obligation
1 percent increase	$ 60	$ 407
1 percent decrease	(51)	(347)

Note 9. Non-recurring charge and related reversal

During fiscal year 1999, in connection with changes in executive management, the company announced a Plan designed to reduce administrative and operational costs stemming from duplicative responsibilities and certain non-profitable operations. This Plan included the reduction of staff positions, the closing of three outlet stores, the liquidation of the Willis & Geiger operations and the termination of a licensing agreement with MontBell Co. Ltd. A non-recurring charge of $12.6 million was recorded in fiscal 1999 related to these matters.

Below is a summary of related costs for the periods ended January 26, 2001.

(In thousands)	Balance January 28, 2000	Costs Incurred	Balance January 26, 2001
Severence costs	$1,007	$(1,007)	$ –
Asset impairments	31	(31)	–
Facility exit costs and other	107	(107)	–
Total	$1,145	$(1,145)	$ –

For the year ended January 26, 2001, the company completed the Plan and incurred the remaining costs totaling $1.1 million.

Note 10. Divestitures

Willis & Geiger

During fiscal 2000, the company completed the liquidation of its Willis & Geiger inventory and fixed assets. The company retains the Willis & Geiger tradename. Sales and results of operations of Willis & Geiger were not material to the consolidated financial statements.

Note 11. Sales and use tax

A 1992 Supreme Court decision confirmed that the Commerce Clause of the United States Constitution prevents a state from requiring the collection of its use tax by a mail order company unless the company has a physical presence in the state. However, there continues to be uncertainty due to inconsistent application of the Supreme Court decision by state and federal courts. The company attempts to conduct its operations in compliance with its interpretation of the applicable legal standard, but there can be no assurance that such compliance will not be challenged.

In recent challenges, various states have sought to require companies to begin collection of use taxes and/or pay taxes from previous sales. The company has not received assessments from any state. The amount of potential assessments, if any, cannot be reasonably estimated.

The Supreme Court decision also established that Congress has the power to enact legislation that would permit states to require collection of use taxes by mail order companies. Congress has from time to time considered proposals for such legislation. The company anticipates that any legislative change, if adopted, would be applied only on a prospective basis.

In October 1998, The Internet Tax Freedom Act was signed into law. Among the provisions of this Act is a three-year moratorium on multiple and discriminatory taxes on electronic commerce. An Advisory Commission was appointed to study electronic commerce tax issues and submitted its final report to Congress on April 3, 2000. Among other recommendations, the majority of the Advisory Commission favored the extension of the moratorium for an additional five years, until 2006, and greater uniformity and simplification of the state sales and use tax systems. Following the Advisory Commission's final report, there have been several initiatives at the congressional and state levels to implement the recommendations of the Advisory Commission or otherwise adjust the current sales and use tax laws and policies. We continue to monitor this activity and its potential effect on the company's collection obligations.

Note 12. Segment disclosure

The company organizes and manages its business segments (core, specialty and international) based on types of products that focus on specific customer needs and markets served. Certain products are combined for purposes of assessing financial performance. Each business segment is separately evaluated by executive management with financial information reviewed to assess performance. The company evaluates the performance of its business segments based on net income before income taxes. The company is not dependent upon any single customer or group of customers, the loss of which would have a material effect on the company.

Core

The core segment is composed of adult apparel offered through our regular monthly catalogs, tailored catalogs and prospector catalogs. Merchandise sales for these products that are received via the Internet, liquidation or export channels are included in this core segment. The regular monthly catalogs contain a full assortment of classically inspired, traditionally styled casual wear for adults. Some of these products include dress shirts, jeans, mesh knit shirts, women's knits, sweaters, outerwear and turtlenecks. The prospecting catalog is a condensed version of our monthly catalog featuring some of the company's best selling products. The prospector catalogs are sent to active buyers, to those on the house file who have been inactive or have yet to make a purchase and to prospective customers. The tailored catalogs are Lands' End for Men™ and First Person®, offering men and women a broad assortment of tailored and casual clothes for the workplace.

Specialty

The specialty segment is composed of Corporate Sales, Kids and Coming Home® businesses. Merchandise sales for these products that are received via the Internet, liquidation or export channels are included in this specialty segment. The specialty businesses have been developed over the years in response to customer requests for additional merchandise and are used to target specific needs that are important to Lands' End customers. The Corporate Sales division is a business-to-business unit that utilizes the company's embroidery capabilities to design and apply unique emblems and logos on Lands' End product for corporations, clubs, teams and other groups. The Kids business offers a collection of clothing for children of all ages. In addition, there is a uniform business that targets the growing uniform trend in many public and private schools. The Coming Home business offers home products, primarily bedding and bath items.

International

The international segment consists of foreign-based operations located in Japan, Germany and the United Kingdom, which include catalogs, Internet and liquidation channels. Catalogs are denominated in local currencies and written in native languages. There are phone and distribution centers located in both Japan and the United Kingdom. Germany has its own phone and customer service center, but orders are packed and shipped from the distribution center in the United Kingdom.

Segment net merchandise sales represent sales to external parties. Sales from the Internet, export sales shipped from the United States and liquidation sales are included in the respective business segments. Segment income before income taxes is net merchandise sales less direct and allocable operating expenses, which includes interest expense and interest income. Segment identifiable assets are those that are directly used in or identified with segment operations. "Other" includes corporate expenses, intercompany eliminations, currency gains and losses, and other income and expense items that are not allocated to segments.

Pertinent financial data by operating segment for the three years ended January 26, 2001 are as follows:[1]

(In thousands)	Core	Specialty	International	Other	Consolidated
			Fiscal year ended January 26, 2001		
Net merchandise sales	$813,710	$408,068	$133,196	$ –	$1,354,974
Income (loss) before income taxes	$ 34,740	$ 28,283	$ (1,280)	$(6,732)	$ 55,011
Identifiable assets	$293,885	$147,380	$ 66,364	$ –	$ 507,629
Depreciation and amortization	$ 14,020	$ 7,031	$ 2,381	$ –	$ 23,432
Capital expenditures	$ 28,733	$ 14,410	$ 1,410	$ –	$ 44,553
Interest expense	$ 690	$ 346	$ 476	$ –	$ 1,512
Interest income	$ 1,347	$ 675	$ 222	$ –	$ 2,244

(In thousands)	Core	Specialty	International	Other	Consolidated
			Fiscal year ended January 28, 2000		
Net merchandise sales	$780,123	$396,502	$143,198	$ –	$1,319,823
Income (loss) before income taxes[2]	$ 32,380	$ 43,175	$ 2,708	$(2,019)	$ 76,244
Identifiable assets	$262,397	$133,276	$ 60,523	$ –	$ 456,196
Depreciation and amortization	$ 12,165	$ 6,179	$ 2,371	$ –	$ 20,715
Capital expenditures	$ 17,573	$ 8,925	$ 1,515	$ –	$ 28,013
Interest expense	$ 848	$ 430	$ 612	$ –	$ 1,890
Interest income	$ 547	$ 278	$ 57	$ –	$ 882

(In thousands)	Core	Specialty	International	Other	Consolidated
			Fiscal year ended January 29, 1999		
Net merchandise sales	$860,891	$364,576	$145,908	$ –	$1,371,375
Income (loss) before income taxes[3]	$ 27,305	$ 23,016	$ 4,655	$(5,476)	$ 49,500
Identifiable assets	$273,929	$116,007	$ 65,983	$ –	$ 455,919
Depreciation and amortization	$ 11,310	$ 5,323	$ 2,098	$ –	$ 18,731
Capital expenditures	$ 24,828	$ 10,514	$ 11,408	$ –	$ 46,750
Interest expense	$ 3,910	$ 2,296	$ 1,528	$ –	$ 7,734
Interest income	$ 11	$ 5	$ –	$ –	$ 16

(1) Fiscal years 2000 and 1999 have been restated to conform to fiscal 2001 presentation.
(2) Includes non-recurring credits of $0.5 million and $1.3 million allocated to the core and specialty segments, respectively.
(3) Includes non-recurring charges of $7.6 million and $5.0 million allocated to the core and specialty segments, respectively.

Pertinent financial data by geographical location for the three years ended January 26, 2001 are as follows:

	Net Merchandise Sales			Identifiable Assets		
(In thousands)	Jan. 26, 2001	Jan. 28, 2000	Jan. 29, 1999	Jan. 26, 2001	Jan. 28, 2000	Jan. 29, 1999
United States	$1,221,778	$1,176,625	$1,225,467	$441,265	$395,673	$389,936
Other countries	133,196	143,198	145,908	66,364	60,523	65,983
Total	$1,354,974	$1,319,823	$1,371,375	$507,629	$456,196	$455,919

Note 13. Derivative instruments and hedging activities

The company's sales of merchandise to its subsidiaries in Japan, Germany and the United Kingdom are denominated in each subsidiary's local currency. To a lesser extent, the company has export sales to customers in Canada and incurs third-party expenses denominated in Canadian dollars. Accordingly, the future U.S. Dollar-equivalent cash flows may vary due to changes in related foreign currency exchange rates. To reduce that risk, the company enters into foreign currency forward contracts and put options with a maximum hedging period of 24 months. The company has no other freestanding or embedded derivative instruments.

As of July 31, 1999, the company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133). Statement 133 requires, in part, that the company report all derivative instruments on the consolidated balance sheets as assets or liabilities at their fair value. For the years ended January 26, 2001 and January 28, 2000, the adoption of Statement 133 has resulted in a net loss of $0.4 million and a net gain of $0.4 million, recognized in other income and expense in the consolidated statements of operations, respectively.

Under the Statement 133 cash flow hedging model, gains and losses on the derivative instrument that occur through the date the company sells merchandise to a subsidiary or purchases from a foreign third party are deferred in a component of equity (accumulated other comprehensive income) to the extent the hedging relationship is effective. The company assesses hedge effectiveness at least quarterly.

At the date merchandise is sold to a foreign subsidiary or purchased from a foreign third party, the hedging relationship is terminated and subsequent gains and losses on the hedging derivative instrument are reported currently in earnings. Upon the ultimate sale of the merchandise by the foreign subsidiary to a third party or purchase from a foreign third party, the gain or loss previously deferred in equity is reclassified into earnings. The company estimates that net hedging gains of $3.6 million will be reclassified from accumulated other comprehensive income into earnings through lower cost of sales and other income and expense within the 12 months between January 27, 2001 and February 1, 2002.

Note 14. Consolidated quarterly analysis (unaudited)

	Fiscal 2001				Fiscal 2000			
(In thousands, except per share data)	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Total revenue	$285,840	$275,625	$362,261	$538,557	$310,619	$274,075	$349,063	$483,129
Gross profit	119,768	121,268	145,209	235,434	125,490	117,183	140,335	206,796
Pretax income (loss)	464	(2,986)	7,052	50,481	10,332	7,068	13,890	44,954
Net income (loss)	$ 292	$ (1,881)	$ 4,443	$ 31,803	$ 6,509	$ 4,453	$ 8,751	$ 28,321
Basic earnings (loss) per share	$ 0.01	$ (0.06)	$ 0.15	$ 1.08	$ 0.22	$ 0.15	$ 0.29	$ 0.94
Diluted earnings (loss) per share	$ 0.01	$ (0.06)	$ 0.15	$ 1.07	$ 0.21	$ 0.14	$ 0.28	$ 0.92
Common shares outstanding	30,267	30,295	30,280	29,232	30,110	30,060	30,149	30,149

(In dollars)								
Market price of shares outstanding:								
Market high	61.50	42.00	37.25	31.80	39.94	49.50	78.44	83.50
Market low	27.25	28.56	18.70	21.75	28.13	37.56	39.56	28.00

Quarterly earnings per share amounts are based on the weighted average common shares outstanding for each quarter and, therefore, might not equal the amount computed for the total year.

Responsibility for Consolidated Financial Statements

The management of Lands' End, Inc. and its subsidiaries has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis. The consolidated financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

The company's consolidated financial statements have been audited by Arthur Andersen LLP, independent certified public accountants. Management has made available to Arthur Andersen LLP all the company's financial records and related data, as well as the minutes of shareholders' and directors' meetings. Furthermore, management believes that all representations made to Arthur Andersen LLP during its audit were valid and appropriate.

Management of the company has established and maintains a system of internal control that provides for appropriate division of responsibility, reasonable assurance as to the integrity and reliability of the consolidated financial statements, the protection of assets from unauthorized use or disposition, the prevention and detection of fraudulent financial reporting, and the maintenance of an active program of internal audits. Management believes that, as of January 26, 2001, the company's system of internal control is adequate to accomplish the objectives discussed herein.

Two directors of the company, not members of management, serve as the audit committee of the board of directors and are the principal means through which the board supervises the performance of the financial reporting duties of management. The audit committee meets with management, the internal audit staff and the company's independent auditors to review the results of the audits of the company and to discuss plans for future audits. At these meetings, the audit committee also meets privately with the internal audit staff and the independent auditors to assure its free access to them.

David F. Dyer
Chief Executive Officer

Donald R. Hughes
Senior Vice President and
Chief Financial Officer

Report of Independent Public Accountants

To the Board of Directors and Shareholders of
Lands' End, Inc.:

We have audited the accompanying consolidated balance sheets of Lands' End, Inc. (a Delaware corporation) and its subsidiaries as of January 26, 2001, and January 28, 2000, and the related consolidated statements of operations, shareholders' investment and cash flows for each of the three years in the period ended January 26, 2001. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lands' End, Inc. and subsidiaries as of January 26, 2001, and January 28, 2000, and the results of their operations and their cash flows for each of the three years in the period ended January 26, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Arthur Andersen LLP

Milwaukee, Wisconsin
March 2, 2001

Eleven-Year Consolidated Financial Summary (unaudited)

The following selected financial data have been derived from the company's consolidated financial statements, which have been audited by Arthur Andersen LLP, independent public accountants. The information set forth below should be read in conjunction with "Management's Discussion and Analysis" and the consolidated financial statements and notes thereto included elsewhere herein.

(In thousands, except per share data)	2001	2000	1999
Income statement data:			
Total revenue[1]	$1,462,283	$1,416,886	$1,466,121
Pretax income	55,011	76,244	49,500
Percent to total revenue	3.8%	5.4%	3.4%
Net income before cumulative effect of change in accounting	34,657	48,034	31,185
Cumulative effect of accounting change	–	–	–
Net income	34,657	48,034	31,185
Per share of common stock:[2]			
Basic earnings per share before cumulative effect of change in accounting	$ 1.15	$ 1.60	$ 1.02
Cumulative effect of change in accounting	–	–	–
Basic earnings per share	$ 1.15	$ 1.60	$ 1.02
Diluted earnings per share	$ 1.14	$ 1.56	$ 1.01
Cash dividends per share	$ –	$ –	$ –
Common shares outstanding	29,276	30,149	30,142
Balance sheet data:			
Current assets	$ 321,685	$ 289,408	$ 294,303
Current liabilities	178,874	150,872	205,283
Property, plant, equipment and intangibles, net	185,944	166,788	161,616
Total assets	507,629	456,196	455,919
Noncurrent liabilities	14,567	9,117	8,133
Shareholders' investment	314,188	296,207	242,503
Other data:			
Net working capital	$ 142,811	$ 138,536	$ 89,020
Capital expenditures	44,553	28,013	46,750
Depreciation and amortization expense	23,432	20,715	18,731
Return on average shareholders' investment	11%	18%	13%
Return on average assets	7%	11%	7%

(1) Total revenue includes net merchandise sales and shipping and handling revenue, as required under EITF 00-10.

(2) Net income per share was computed after giving retroactive effect to the two-for-one stock split in May 1994.

(3) Effective January 30, 1993, the company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which was recorded as a change in accounting principle at the beginning of fiscal 1994 with an increase to net income of $1.3 million or $0.04 per share.

Fiscal year							
1998	1997	1996	1995	1994 [3]	1993	1992	1991
$1,346,687	$1,193,588	$1,103,589	$1,054,800	$924,457	$779,702	$721,641	$630,944
101,825	84,919	50,925	59,663	69,870	54,033	47,492	24,943
7.6%	7.1%	4.6%	5.7%	7.6%	6.9%	6.6%	4.0%
64,150	50,952	30,555	36,096	42,429	33,500	28,732	14,743
–	–	–	–	1,300	–	–	–
64,150	50,952	30,555	36,096	43,729	33,500	28,732	14,743
$ 2.01	$ 1.54	$ 0.89	$ 1.03	$ 1.18	$ 0.92	$ 0.77	$ 0.38
–	–	–	–	0.04	–	–	–
$ 2.01	$ 1.54	$ 0.89	$ 1.03	$ 1.22	$ 0.92	$ 0.77	$ 0.38
$ 2.00	$ 1.53	$ 0.89	$ 1.02	$ 1.21	$ 0.91	$ 0.76	$ 0.37
$ –	$ –	$ –	$ –	$ 0.10	$ 0.10	$ 0.10	$ 0.10
30,979	32,442	33,659	34,826	35,912	36,056	36,944	38,436
$ 299,146	$ 272,039	$ 222,089	$ 198,168	$192,276	$137,531	$131,273	$107,824
182,013	145,566	114,744	102,717	91,049	67,315	74,548	60,774
134,326	106,006	101,408	99,444	81,554	74,272	74,527	77,576
433,472	378,045	323,497	297,612	273,830	211,803	205,800	185,400
8,747	9,474	7,561	5,767	5,496	5,100	4,620	7,800
242,712	223,005	201,192	189,128	177,285	139,388	126,632	116,826
$ 117,133	$ 126,473	$ 107,345	$ 95,451	$101,227	$ 70,216	$ 56,725	$ 47,050
48,228	17,992	14,780	27,005	16,958	9,965	5,347	17,682
15,127	13,558	12,456	10,311	8,286	7,900	7,428	7,041
28%	24%	16%	20%	28%	25%	23%	13%
16%	15%	10%	13%	18%	16%	15%	8%

Directors and Officers

Directors

Gary C. Comer
Founder and Chairman
Lands' End, Inc.
Director since 1963

Richard C. Anderson
Vice Chairman
Lands' End, Inc.
Director since 1979

David F. Dyer
President and
Chief Executive Officer
Lands' End, Inc.
Director since 1998
(Also Director 1991-1994)

John N. Latter
Financial consultant
Director since 1978

Richard C. Marcus
Senior Advisor
Peter J. Solomon Company
An investment banking firm
Joined board in 2001

Paul D. Schrage
Chief Marketing Officer
McDonald's Corporation
(retired 1997)
Joined board in 2001

Eliot Wadsworth, II
General Partner
Housatonic Partners
A private equity investment partnership
Joined board in 2001

Committees of the Board

Audit
John N. Latter, Chairman
Paul D. Schrage

Compensation
Gary C. Comer, Chairman
John N. Latter

Nominating
Gary C. Comer, Chairman
Richard C. Anderson
John N. Latter
Richard C. Marcus
Paul D. Schrage
Eliot Wadsworth, II

Performance Compensation
John N. Latter, Chairman
Richard C. Marcus

Officers

*David F. Dyer
President and
Chief Executive Officer
8 years service

*Jeffrey A. Jones
Chief Operating Officer
Joined company in 2000

*Lee Eisenberg
Executive Vice President
Creative Director
2 years service

*Mindy C. Meads
Executive Vice President
Merchandising and Design
7 years service

*William Bass
Senior Vice President
E-commerce and International
2 years service

*Donald R. Hughes
Senior Vice President and
Chief Financial Officer
14 years service

*Kelly A. Ritchie
Senior Vice President
Employee Services
17 years service

*Francis P. Schaecher
Senior Vice President
Operations
19 years service

*David T. Zentmyer
Senior Vice President
Corporate Sales
19 years service

Deborah D. Barney
Vice President, General
Merchandising Manager
Coming Home
4 years service

Joan K. Conlin
Vice President, Operations
Distribution
19 years service

Lisa A. Fitzgerald
Vice President, General
Merchandising Manager
Women's Division
Joined company in 2000

Bradley M. Gillam
Vice President
Quality and Sourcing
14 years service

David A. Johnson
Vice President
Direct Marketing
12 years service

John P. Loranger
Vice President
Information Services
7 years service

Sidney C. Mashburn
Vice President
Design
2 years service

Stephen V. McCardell
Vice President
Inventory
15 years service

Ann Vesperman-Olson
Vice President, Operations
Sales and Service
4 years service

Harry S. Schutte
Vice President, Operations
Corporate Sales and
International
11 years service

Patricia A. Simigran
Vice President, General
Merchandising Manager
Kids Division
2 years service

Seymour S. (Sam) Taylor
Vice President
International
2 years service

Geoff D. Werner
Vice President, General
Merchandising Manager
Co-ed Division
7 years service

Philip W. Young
Vice President,
Managing Director
Europe
13 years service

Terry R. Janes
Treasurer
9 years service

* Executive Committee Member

Shareholder Information

Annual Meeting
The 2001 annual meeting of shareholders will be held on Wednesday, May 16, at Lands' End headquarters in Dodgeville, Wisconsin, beginning at 10:00 a.m.

Form 10-K Report
A copy of the company's annual report on Form 10-K, filed with the Securities and Exchange commission, is available without charge upon request from your investor contact in Dodgeville.

We will no longer mail quarterly reports to shareholders unless requested. All financial information can be accessed on the investor's corner at *www.landsend.com.*

Standards of Business Practices
We take special care in selecting partners who follow fair, decent and legal labor practices and agree to our Standards of Business Practices, a copy of which is available without charge upon request from your investor contact in Dodgeville.

Securities Information
The Firstar Trust Company, Milwaukee, Wisconsin 53212, is the transfer agent, registrar and dividend dispersing agent for Lands' End stock. Phone number for shareholder services: 800-637-7549. Lands' End stock is listed on the New York Stock Exchange. The stock tables in most daily newspapers list the company as "LandsE." Ticker symbol: LE.

Headquarters
Lands' End, Inc.
Lands' End Lane
Dodgeville, Wisconsin 53595
608-935-9341

Operating Subsidiaries
Lands' End Japan, K.K.
Sun Hamada Bldg. 4F
1-19-20 Shinyokohama
Kohuku-ku, Yokohama-shi
222 Japan
Keiko Hayashi, President
011-81-45-476-0830

Lands' End Direct Merchants UK Limited
Lands' End Way
Oakham, Rutland LE15 6US
Philip W. Young, Vice President
Managing Director, Europe
011-44-1572-722553

Lands' End GmbH
In Der Langwiese
66693 Mettlach
Germany
Stephen P. Bechwar
Managing Director, Germany
011-49-6864-9210

Corporate Secretary
Robert S. Osborne
Kirkland & Ellis
Chicago, Illinois 60601

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Dodgeville, Wisconsin 53595
800-356-4444
e-mail: *rdmensc@landsend.com*

www.landsend.com
Visit our Web site for the best experience in cybershopping and where you can access the investor's corner and find annual and quarterly reports and other detailed information about our company.

Catalogs
If you know someone you'd like to introduce to our quality products, call us toll-free at 800-356-4444. Our operators will gladly add a friend's name to our mailing list for a free trial subscription to our catalog.

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