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BLAIR CORP
Form 10-Q
November 09, 2004

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004 Commission File Number 1-878

BLAIR CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

25-0691670

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

220 HICKORY STREET, WARREN, PENNSYLVANIA

16366-0001

(Address of principal executive offices) (Zip Code)

(814) 723-3600

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed
since last
report)

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

YES X NO

Indicate by check mark whether the registrant is an accelerated filer (as

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defined in Rule 12b-2 of the Exchange Act.) YES X NO

As of November 5, 2004 the registrant had outstanding 8,199,480 shares of its common stock without nominal or par value.

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS (UNAUDITED)

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

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Blair Corporation and Subsidiaries

Consolidated Balance Sheets

	(Unaudited) September 30	December 31
	2004	2003

Assets		
Current assets:		
Cash and cash equivalents	\$ 35,401,909	\$ 36,380,049
Customer accounts receivable, less allowances for doubtful accounts and returns of \$41,724,563 in 2004 and \$47,473,108 in 2003	141,836,923	154,660,076
Inventories: (Note G)		
Merchandise	82,255,476	65,990,631
Advertising and shipping supplies	19,116,557	19,610,207

Deferred income taxes (Note V)	101,372,033	85,600,838
Prepaid expenses	11,715,000	12,211,000
	2,726,507	2,200,191

Total current assets	293,052,372	291,052,154
Property, plant, and equipment:		
Land (Note Y)	1,142,144	1,142,144
Buildings and leasehold improvements (Note Y)	67,235,893	67,169,830
Equipment	74,282,810	72,979,845

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Construction in progress	1,097,273	1,386,067
	-----	-----
	143,758,120	142,677,886
Less allowances for depreciation	93,539,162	88,798,632
	-----	-----
	50,218,958	53,879,254
Trademarks	433,982	488,164
Other long-term assets	507,896	556,231
	-----	-----
Total assets	\$344,213,208	\$345,975,803
	=====	=====

See accompanying notes.

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Blair Corporation and Subsidiaries
Consolidated Balance Sheets - continued

	(Unaudited)	
	September 30	December 31
	2004	2003
	-----	-----
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable (Note Q)	\$ 15,000,000	\$ 15,000,000
Trade accounts payable	30,229,323	35,129,055
Advance payments from customers	2,463,492	2,286,055
Accrued expenses (Note R)	15,159,051	17,732,395
Accrued federal and state taxes	2,130,688	3,997,935
Current portion of capital lease obligations (Note S)	208,932	378,632
	-----	-----
Total current liabilities	65,191,486	74,524,072
Capital lease obligations, less current portion (Note S)	14,730	101,622
Deferred income taxes (Note V)	2,497,000	2,549,000
Stockholders' equity:		
Common stock without par value:		
Authorized 12,000,000 shares		
issued 10,075,440 shares (including shares held in treasury) -- stated value	419,810	419,810
Additional paid-in capital	13,379,882	14,134,983
Retained earnings	301,388,604	296,397,999
Accumulated other comprehensive (loss) income	(5,997)	(20,016)
	-----	-----
	315,182,299	310,932,776

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Less 1,884,609 shares in 2004 and 1,962,439 shares in 2003 of common stock in treasury -- at cost	37,071,930	39,514,841
Less receivable and deferred compensation from stock plans	1,600,377	2,616,826
	-----	-----
	276,509,992	268,801,109
	-----	-----
Total liabilities and stockholders' equity	\$344,213,208	\$345,975,803
	=====	=====

See accompanying notes.

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Blair Corporation and Subsidiaries

Consolidated Statements of Income

	(Unaudited) Three Months Ended September 30		(Unaudited) Nine Months September	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net sales	\$107,074,331	\$124,100,444	\$362,709,317	\$415,800,000
Other income (Note W)	10,887,234	11,001,885	35,298,276	30,000,000
	-----	-----	-----	-----
	117,961,565	135,102,329	398,007,593	446,000,000
Cost and expenses:				
Cost of goods sold	51,469,350	60,780,989	173,247,355	201,000,000
Advertising	25,947,175	33,746,291	94,955,714	113,000,000
General and administrative	31,232,772	32,530,994	97,727,526	98,000,000
Provision for doubtful accounts	4,476,095	6,702,356	18,067,391	22,000,000
Interest	94,838	72,159	260,893	0
	-----	-----	-----	-----
	113,220,230	133,832,789	384,258,879	437,000,000
Income before income taxes	4,741,335	1,269,540	13,748,714	8,000,000
Income taxes (Note V)	1,800,000	477,000	5,225,000	3,000,000
	-----	-----	-----	-----
Net income	\$ 2,941,335	\$ 792,540	\$ 8,523,714	\$ 5,000,000
	=====	=====	=====	=====
Basic earnings per share based on weighted average shares outstanding (Note T)	\$.36	\$.10	\$1.05	\$1.05
	=====	=====	=====	=====

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Diluted earnings per share based on
weighted average shares outstanding
and assumed conversions (Note T)

\$.36 \$.10 \$1.04

See accompanying notes.

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Blair Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity

	(Unaudited) Three Months Ended September 30		(Unaudited) Nine Months Ended September 30
	2004	2003	2004
Common Stock	\$ 419,810	\$ 419,810	\$ 419,810
Additional Paid-in Capital:			
Balance at beginning of period	13,488,871	14,311,675	14,134,871
Issuance of 0 and 575 shares for the three months ended September 30, 2004 and 2003 and 4,050 and 5,375 shares for the nine months ended September 30, 2004 and 2003 of common stock to non-employee directors	-0-	11,746	(24,000)
Forfeitures of 10,850 and 0 shares for the three months ended September 30, 2004 and 2003 and 16,850 and 2,400 shares for the nine months ended September 30, 2004 and 2003 of common stock under Omnibus Stock and Employee Stock Purchase Plans	(71,223)	-0-	(94,000)
Exercise of 6,560 and 0 shares for the three months ended September 30, 2004 and 2003 and 90,630 and 13,004 shares for the nine months ended September 30, 2004 and 2003 of non-qualified stock options under Omnibus Stock Plan	(56,766)	-0-	(856,000)
Tax benefit on exercise of non-qualified stock options	19,000	-0-	221,000
Balance at end of period	13,379,882	14,323,421	13,379,871
Retained Earnings:			
Balance at beginning of period	299,630,497	288,795,224	296,397,000

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Net income	2,941,335	792,540	8,523
Cash dividends (Note U)	(1,183,228)	(1,160,576)	(3,533)
	<hr/>		
Balance at end of period	301,388,604	288,427,188	301,388
Accumulated Other Comprehensive Loss:			
Balance at beginning of period	(20,028)	(18,562)	(20)
Foreign currency translation	14,031	(12,101)	14
	<hr/>		
Balance at end of period	(5,997)	(30,663)	(5)
Treasury Stock:			
Balance at beginning of period	(37,097,422)	(40,840,954)	(39,51)
Issuance of 0 and 575 shares for the three months ended September 30, 2004 and 2003 and 4,050 and 5,375 shares for the nine months ended September 30, 2004 and 2003 of common stock to non-employee directors	-0-	1,163	126
Forfeitures of 10,850 and 0 shares for the three months ended September 30, 2004 and 2003 and 16,850 and 2,400 shares for the nine months ended September 30, 2004 and 2003 of common stock under Omnibus Stock and Employee Stock Purchase Plans	(162,288)	-0-	(277)
Exercise of 6,560 and 0 shares for the three months ended September 30, 2004 and 2003 and 90,630 and 13,004 shares for the nine months ended September 30, 2004 and 2003 of non-qualified stock options under Omnibus Stock Plan	187,780	-0-	2,59
	<hr/>		
Balance at end of period	(37,071,930)	(40,839,791)	(37,07)

See accompanying notes.

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Blair Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity - continued

(Unaudited) Three Months Ended September 30		(Unaudited) Nine Month September
2004	2003	2004
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Receivable and Deferred Compensation from Stock Plans:			
Balance at beginning of period	(1,995,815)	(2,581,030)	(2,616,826)
Forfeitures of 10,850 and 0 shares for the three months ended September 30, 2004 and 2003 and 16,850 and 2,400 shares for the nine months ended September 30, 2004 and 2003 of common stock under Omnibus Stock and Employee Stock Purchase Plans	48,832	-0-	84,350
Amortization of deferred compensation, net of forfeitures	63,545	37,493	182,433
Executive officer restricted stock awards	238,093	-0-	565,984
Applications of dividends and cash repayments	44,968	48,386	183,682

Balance at end of period	(1,600,377)	(2,495,151)	(1,600,377)

Total stockholders' equity	\$276,509,992	\$259,804,814	\$276,509,992
	=====		
Comprehensive Income:			
Net income	\$ 2,941,335	\$ 792,540	\$ 8,523,714
Adjustment from foreign currency translation	14,031	(12,101)	14,019

Comprehensive income	\$ 2,955,366	\$ 780,439	\$ 8,537,733
	=====		

See accompanying notes.

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Blair Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	(Unaudited)	
	Nine Months Ended	
	September 30	
	2004	2003

Operating activities		
Net income	\$ 8,523,714	\$ 5,393,382
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	6,584,394	6,832,317
Amortization	249,922	258,150
Impairment of assets held for sale	-0-	300,773

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Provision for doubtful accounts	18,067,391	22,950,454
Provision for deferred income taxes	444,000	1,384,000
Tax benefit on exercise of non-qualified stock options	221,000	29,000
Compensation expense (net of forfeitures) for stock awards	701,711	344,225
Changes in operating assets and liabilities providing (using) cash:		
Customer accounts receivable	(5,244,164)	(15,051,162)
Inventories	(15,771,195)	(16,914,387)
Prepaid expenses and other assets	(673,730)	(918,317)
Trade accounts payable	(4,899,541)	6,051,133
Advance payments from customers	177,437	(248,359)
Accrued expenses	(2,571,438)	(5,413,061)
Federal and state taxes	(1,866,174)	(6,755,577)
Net cash provided by (used in) operating activities	3,943,327	(1,757,429)
Investing activities		
Purchases of property, plant, and equipment	(2,924,292)	(5,337,788)
Net cash used in investing activities	(2,924,292)	(5,337,788)
Financing activities		
Principal repayments on capital lease obligations	(256,592)	(260,809)
Dividends paid	(3,533,109)	(3,478,041)
Exercise of non-qualified stock options	1,737,278	222,368
Repayments of notes receivable from stock plans	44,270	3,415
Net cash used in financing activities	(2,008,153)	(3,513,067)
Effect of exchange rate changes on cash	10,978	(48,082)
Net decrease in cash	(978,140)	(10,656,366)
Cash and cash equivalents at beginning of year	36,380,049	49,975,503
Cash and cash equivalents at end of period	\$ 35,401,909	\$ 39,319,137

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BLAIR CORPORATION AND SUBSIDIARIES
(Unaudited)
September 30, 2004

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Blair Corporation and its wholly-owned subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation

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S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. All adjustments that were considered necessary for a fair presentation have been included. These adjustments were of a normal recurring nature. Operating results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information refer to the financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2003.

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

On August 20, 2003 The Company commenced operations of a new wholly-owned subsidiary, JLB Service Bank. The establishment of JLB Service Bank enables the Company to manage its credit portfolio in a more cost-effective and efficient manner. The bank's products involve the extension of credit on an unsecured basis to individuals who are customers of Blair Corporation to facilitate their purchases of Blair's merchandise. As of September 30, 2004, JLB Service Bank's total assets represented 1.68% of the total consolidated assets of the Company. Gross revenue of JLB Service Bank was .96% and .97% of the Company's consolidated gross revenue for the three months and nine months ended September 30, 2004.

NOTE B - REVENUE RECOGNITION

Sales (cash, Blair Credit, or third party credit card) are recorded when the merchandise is shipped to the customer, in accordance with the provisions of Staff Accounting Bulletin No. 101, Revenue Recognition in financial statements and Staff accounting bulletin No. 104, Revenue Recognition, as issued by the Securities & Exchange Commission. Blair credit sales are made under Easy Payment Plan sales arrangements. Monthly, a provision for doubtful accounts is charged against income based on management's estimate of realization. Any recoveries of bad debts previously written-off are credited back against the allowance for doubtful accounts in the period received. As reported in the balance sheet, the carrying amount, net of allowances for doubtful accounts and returns, for customer accounts receivable on Blair credit sales approximates fair value.

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

Finance charges on time payment accounts are recognized on an accrual basis of accounting. The increase in finance charges compared to the third quarter of 2003 and nine months ended September 30, 2003 primarily resulted from increased finance charge revenues associated with the Blair Credit activities of JLB Service Bank.

NOTE C - USE OF ESTIMATES

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

NOTE D - CASH AND CASH EQUIVALENTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES

(Unaudited)

September 30, 2004

NOTE E - RETURNS

A provision for anticipated returns is recorded monthly as a percentage of gross sales based upon historical experience. This provision is charged directly against gross sales to arrive at net sales as reported in the Unaudited Consolidated Statements of Income. Actual returns are charged against the allowance for returns, which is netted against accounts receivable in the balance sheet. The provision for returns charged against income for the three months ended and the nine months ended September 30, 2004 amounted to \$14,539,609 and \$54,125,168, respectively. The provision for returns charged against income for the three months ended and the nine months ended September 30, 2003 amounted to \$18,952,565 and \$63,137,875, respectively. Management believes these provisions are adequate based upon the relevant information presently available. However, changes in facts or circumstances could result an additional adjustment to the Company's provisions.

NOTE F - DOUBTFUL ACCOUNTS

A provision for doubtful accounts is recorded monthly as a percentage of gross credit sales based upon experience of delinquencies (accounts over 30 days past due) and charge-offs (accounts removed from accounts receivable for non-payment) and current credit market conditions. Management believes these provisions are adequate based upon the relevant information presently available. However, changes in facts or circumstances could result an additional adjustment to the Company's provisions.

NOTE G - INVENTORIES

Inventories are valued at the lower of cost or market. Cost of merchandise inventories is determined principally on the last-in, first-out (LIFO) method. If the FIFO method had been used, merchandise inventories would have increased by approximately \$4,488,000 at both September 30, 2004 and December 31, 2003. Cost of advertising and shipping supplies is determined on the first-in, first-out (FIFO) method. Advertising and shipping supplies include printed advertising material and related mailing supplies for promotional mailings which are generally scheduled to occur within two months. These direct response advertising costs are then expensed over the period of expected future benefit, generally nine weeks. The Company has a reserve for slow moving and obsolete inventory amounting to \$2,908,000 at September 30, 2004, \$3,600,000 at December 31, 2003 and \$3,880,000 at September 30, 2003. The closing of the Starbrick Outlet Store in January 2004 resulted in \$2.4 million of write-downs in the first quarter 2004. These write-downs primarily were provided for in the December 31, 2003 obsolescence reserve. Due to the nonrecurring nature of the write-downs related to the closing of the Starbrick Outlet Store, the obsolescence reserve at September 30, 2004 is lower than the reserve at December 31, 2003 on higher levels of inventory.

NOTE H - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated on the basis of cost. Depreciation has been provided principally by the straight-line method using rates, which are

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estimated to be sufficient to depreciate the cost of the assets over their period of usefulness. Amortization of assets recorded under capital lease obligations is included with depreciation expense. Maintenance and repairs are charged to expense as incurred.

NOTE I - TRADEMARKS

Trademarks are stated on the basis of cost. All trademarks are being amortized by the straight-line method for a period of 15 years. Amortization expense amounted to \$18,061 for the three months ended and \$54,182 for the nine months ended in 2004 and 2003, respectively.

NOTE J - ASSET IMPAIRMENT

The Company analyzes its long-lived and intangible assets for events and circumstances that might indicate that the assets may be impaired and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts. There are no indications of impairment present at September 30, 2004.

NOTE K - EMPLOYEE BENEFITS

The Company's employee benefits include a profit sharing and retirement feature available to all eligible employees. The Company's contributions are dependent on net income of the Company and recognized on an accrual basis of accounting. The contributions to the plan charged against income for the three months ended and nine months ended September 30, 2004 amounted to \$300,004 and \$870,241, and for the three months ended and nine months ended September 30, 2003 amounted to \$87,627 and \$606,016, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES

(Unaudited)

September 30, 2004

NOTE K - EMPLOYEE BENEFITS - continued

As part of the same benefit plan, the Company has a contributory savings feature whereby all eligible employees may contribute up to 25% of their annual base salaries. The Company's matching contribution to the plan is based upon a percentage formula as set forth in the plan agreement. The Company's matching contributions to the plan charged against income for the three months ended and nine months ended September 30, 2004 amounted to \$481,407 and \$1,339,786, and for the three months ended and nine months ended September 30, 2003 amounted to \$523,208 and \$1,630,380, respectively.

NOTE L - FINANCIAL INSTRUMENTS

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

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NOTE M - NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities when the liability is incurred and not as a result of an entity's commitment to an exit plan. The statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 in the first quarter of 2003 did not have an impact on the Company's financial results. During 2004 and 2003, the provisions of this statement impacted the accounting treatment of the voluntary separation of employees due to the closing of the Blair Outlet Stores in Warren, Pennsylvania and Erie, Pennsylvania. (See Note Z)

The Company adopted SFAS No. 148, Accounting For Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123, Accounting For Stock-Based Compensation effective the year ended December 31, 2002. It provides alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires prominent disclosure about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company's adoption of SFAS No. 148 in 2002 enhanced stock-based employee compensation disclosures and had no effect on the method of accounting followed by the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES
(Unaudited)
September 30, 2004

NOTE M - NEW ACCOUNTING PRONOUNCEMENTS - continued

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

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

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

On October 13, 2004, the Financial Accounting Standards Board (FASB) concluded that Statement 123R, Share-Based Payment, which would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, would be effective for public companies for interim or annual periods beginning after June 15, 2005. While the statement has not been finalized, its current form will require the company to expense the fair value of stock option grants rather than disclose the impact on its consolidated net income within the footnotes, as is our current practice.

NOTE N - STOCK COMPENSATION

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

Stock activity in the third quarter of 2004 and 2003 generally includes transactions pertaining to stock awarded to non-employee directors as well as stock awarded and forfeited via the Company's Omnibus Stock and Employee Stock Purchase Plans. Activity is accounted for by comparing the market value of the awards, as required by the Plans, to the cost of the treasury shares used for

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these transactions. The difference is booked to additional paid-in capital.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES
(Unaudited)
September 30, 2004

NOTE N - STOCK COMPENSATION - continued

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

	Pro Forma			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2004	2003	2004	2003
Net income as reported	\$2,941,335	\$792,540	\$8,523,714	\$5,393,382
Add: Total stock-based employee compensation expense recorded for all awards, net of related tax effects	211,165	55,730	536,487	167,956
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	387,031	266,945	1,105,307	688,206
Pro forma net income	\$2,765,469	\$581,325	\$7,954,894	\$4,873,132
Earnings per share:				
Basic - as reported	\$.36	\$.10	\$1.05	\$.67
Basic - pro forma	\$.34	\$.07	\$.98	\$.61
Diluted - as reported	\$.36	\$.10	\$1.04	\$.67
Diluted - pro forma	\$.34	\$.07	\$.97	\$.60

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock options under the fair value method of SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 3.49%, 4.95% and 5.20% for stock options issued 4/15/03, 4/15/02 and 4/16/01, respectively; dividend yields of 2.54%, 3.11% and 3.50% for stock options issued 4/15/03, 4/15/02 and 4/16/01, respectively; volatility factors of the expected market price of the Company's common stock of .540, .564 and .547 for stock options issued 4/15/03, 4/15/02 and 4/16/01, respectively; and a weighted-average expected life of 7 years for the stock options issued

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4/15/03, 4/15/02 and 4/16/01. The per share fair value of the options granted was determined to be \$10.63, \$8.83 and \$7.40 for stock options issued 4/15/03, 4/15/02 and 4/16/01, respectively.

NOTE O - RECLASSIFICATIONS

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

NOTE P - CONTINGENCIES

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

NOTE Q - FINANCING ARRANGEMENTS

The Company maintains two facilities that collectively provide \$110 million of credit. As of September 30, 2004 the Company was in compliance with all debt covenants.

The syndicated revolving facility (the "Credit Agreement") was amended on September 1, 2004. The amended Credit Agreement increases the commitment level from \$30 million to \$40 million and is secured by inventory and certain other assets of the Company and its subsidiaries. The Company is required to meet certain covenants that relate to tangible net worth, maintaining a defined leverage ratio and fixed charge coverage ratio, and complying with certain indebtedness restrictions. At September 30, 2004, the Company had no borrowings (loans) outstanding on this credit facility and had letters of credit totaling \$16.2 million outstanding, which reduces the amount of borrowings available, under the Credit Agreement. Outstanding letters of credit totaled \$20.9 million at December 31, 2003, and \$20.7 million at September 30, 2003. The amended facility is scheduled to expire on September 1, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) September 30, 2004

NOTE Q - FINANCING ARRANGEMENTS - continued

The Company also maintains a securitization of up to \$100 million in accounts receivable. At the present time, \$70 million of the \$100 million is available to the Company. The Company sells all right, title and interest in and to certain of its accounts receivable to Blair Factoring Company, a wholly-owned subsidiary. Blair Factoring Company is a separate, bankruptcy remote, special purpose entity that entered into a Receivables Purchase Agreement with PNC Bank, National Association, as administrator, and certain conduit purchasers. The Company's consolidated financial statements reflect all the accounts of Blair Factoring Company, including the receivables and secured borrowings. Transactions entered into under the Receivables Purchase Agreement are considered secured borrowings and collateral transactions under the provisions

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of Statement of Financial Accounting Standards No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The securitization requires certain performance standards for the Company's accounts receivable portfolio in addition to complying with the covenants in the Credit Agreement. At September 30, 2004, December 31, 2003, and September 30, 2003, the Company had \$15 million outstanding, the minimum amount required to be outstanding, under the Receivables Purchase Agreement, all of which was classified as short-term. At September 30, 2004 and September 30, 2003, the weighted average interest rate was 2.05% and 1.98%, respectively. Interest paid for the three months and nine months ended September 30, 2004 was approximately \$88,000 and \$234,000, and for the three months and nine months ended September 30, 2003 was approximately \$57,000 and \$206,000, respectively. The securitization has a scheduled termination date of April 7, 2006.

NOTE R - ACCRUED EXPENSES

Accrued expenses consist of:

	September 30 2004	December 31 2003
Employee Compensation	\$11,075,827	\$12,395,998
Contribution to profit sharing and retirement plan	870,241	1,436,117
Health insurance	912,901	1,148,038
Voluntary Separation Program	551,834	762,106
Taxes, other than taxes on income	13,206	814,574
Other accrued items	1,735,042	1,175,562
	\$15,159,051	\$17,732,395

NOTE S - LEASES

Capital Leases

The Company leases certain data processing and telephone equipment under agreements that expire in various years through 2007. The following is a schedule by year of future minimum capital lease payments required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2004:

2004	\$104,796
2005	114,568
2006	11,146
2007	1,857
	232,367
Less amount representing interest	(8,705)
	223,662
Present value of minimum lease payments	223,662
Less current portion	(208,932)
	\$ 14,730
Long-term portion of capital lease obligation	\$ 14,730

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES
(Unaudited)
September 30, 2004

NOTE S - LEASES - continued

Operating Leases

The Company leases certain data processing, office and telephone equipment under agreements that expire in various years through 2009. The Company has also entered into several lease agreements for buildings, expiring in various years through 2012.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2004:

2004	\$ 813,098
2005	2,940,806
2006	2,283,873
2007	1,507,717
2008	1,058,438
Thereafter	3,083,462

	\$11,687,394
	=====

NOTE T - EARNINGS PER SHARE AND WEIGHTED AVERAGE SHARES OUTSTANDING

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2004	2003	2004	2003

Numerator:				
Net income	\$2,941,335	\$ 792,540	\$8,523,714	\$5,393,382
Denominator:				
Weighted-average shares outstanding	8,190,664	8,120,476	8,156,965	8,114,594
Contingently issueable shares-Omnibus Stock Purchase Plan	(68,536)	(61,811)	(68,536)	(61,811)

Denominator for basic earnings per share	8,122,128	8,058,665	8,088,429	8,052,783
Effect of dilutive securities:				
Employee stock options	82,736	19,211	72,900	24,596

Denominator for diluted earnings per share	8,204,864	8,077,876	8,161,329	8,077,379
	=====			
Basic earnings per share	\$.36	\$.10	\$1.05	\$.67
	=====			
Diluted earnings per share	\$.36	\$.10	\$1.04	\$.67
	=====			

NOTE U - DIVIDENDS DECLARED

2-21-03	\$.15 per share	2-13-04	\$.15 per share
4-15-03	.15	4-29-04	.15
7-15-03	.15	7-20-04	.15
10-21-03	.15	10-19-04	.15

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Blair Corporation has declared a dividend for 284 consecutive quarters.

For the three months and nine months ended September 30, 2004 the company declared dividends of \$1,228,236 and \$3,672,520, of which \$1,183,228 and \$3,533,109 was paid directly to shareholders and charged to retained earnings. For the three months and nine months ended September 30, 2003 the company declared dividends of \$1,208,821 and \$3,623,588, of which \$1,160,576 and \$3,478,041 was paid directly to shareholders and charged to retained earnings. The remaining dividends declared for the three months and nine months ended September 30, 2004, \$45,008 and \$139,411, and the three months and nine months ended September 30, 2003, \$48,245 and \$145,547, were associated with the shares of stock held by the company according to the provisions of the restricted stock awards. These remaining dividends were applied against the receivable from stock plans and were charged to compensation in the financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES (Unaudited) September 30, 2004

NOTE V - INCOME TAXES

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The components of income tax expense (benefit) are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Currently payable:				
Federal	\$(1,936,000)	\$(4,845,000)	\$4,006,000	\$1,539,000
Foreign	105,000	163,000	147,000	352,000
State	(235,000)	(734,000)	628,000	28,000
	(2,066,000) (5,416,000)		4,781,000 1,919,000	
Deferred	3,866,000	5,893,000	444,000	1,384,000
	\$ 1,800,000 \$ 477,000		\$5,225,000 \$3,303,000	

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

Three Months Ended September 30	Nine Months Ended September 30
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	2004	2003	2004	2003
Statutory rate applied to pretax income	\$1,659,467	\$444,339	\$4,812,050	\$3,043,734
State income taxes, net of federal tax benefit	226,200	(3,900)	323,700	142,350
Other items	(85,667)	36,561	89,250	116,916
	\$1,800,000	\$477,000	\$5,225,000	\$3,303,000

The Company has approximately \$2.8 million of a Pennsylvania net operating loss carry forward that can be used to offset future Pennsylvania Taxable Income. A deferred tax asset has been established based on the \$2.8 million net operating loss available to be carried forward. The deferred tax asset is offset by a valuation allowance because it is uncertain as to whether the Company will generate sufficient income in the State of Pennsylvania in the future to absorb the net operating loss before they expire in 2011.

Components of the provision for deferred income tax expense are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Advertising costs	\$3,949,000	\$4,927,000	\$ (262,000)	\$2,182,000
Provision for doubtful accounts	856,000	216,000	1,437,000	(98,000)
Provision for estimated returns	(16,000)	13,000	213,000	(623,000)
Severance costs	22,000	33,000	81,000	95,000
Depreciation	104,000	721,000	(52,000)	(44,000)
Inventory writedown	(277,000)	23,000	264,000	46,000
Deferred stock compensation	(116,000)	(16,000)	(286,000)	(44,000)
Incentive compensation	(547,000)	-0-	(547,000)	-0-
Other items - net	(109,000)	(24,000)	(404,000)	(130,000)
	\$3,866,000	\$5,893,000	\$ 444,000	\$1,384,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES
(Unaudited)
September 30, 2004

NOTE V - INCOME TAXES - continued

Components of the deferred tax asset and liability under the liability method as of September 30, 2004 and December 31, 2003 are as follows:

September 30 December 31

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	2004	2003
Current net deferred tax asset:		
Doubtful accounts	\$12,685,000	\$14,122,000
Returns allowance	2,093,000	2,306,000
Inventory obsolescence	1,110,000	1,374,000
Inventory costs	(372,000)	(372,000)
Vacation pay	1,921,000	1,798,000
Advertising costs	(7,280,000)	(7,542,000)
State net operating loss	139,000	196,000
Other items	1,558,000	525,000

Total deferred tax assets	11,854,000	12,407,000
State valuation allowance	(139,000)	(196,000)

Deferred tax assets, net of valuation allowance	\$11,715,000	\$12,211,000
	=====	
Long-term deferred tax liability		
Property, plant and equipment	\$ 2,497,000	\$ 2,549,000
	=====	

NOTE W - OTHER INCOME

Other income consists of:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Finance charges on time payment accounts	\$9,268,447	\$9,010,271	\$30,401,349	\$26,323,846
Commissions earned	229,524	437,783	1,365,945	1,002,762
Other items	1,389,263	1,553,831	3,530,982	3,338,280

	\$10,887,234	\$11,001,885	\$35,298,276	\$30,664,888
	=====			

Finance charges on time payment accounts are recognized on an accrual basis of accounting. The higher finance charges primarily resulted from increased finance charge revenues associated with the establishment of JLB Service Bank on August 20, 2003.

NOTE X - BUSINESS SEGMENT AND CONCENTRATION OF BUSINESS RISK

The Company operates as one segment in the business of selling women's and men's fashion apparel and accessories and home furnishing items. Specifically, the segment includes the Womenswear, Menswear, Home, Crossing Pointe, Stores and Allegheny Trail product lines. Allegheny Trail was added in the third quarter of 2003. The Stores product line was added in the first quarter of 2004 reflecting a reclassification within the segment from the other product lines to this product line. The Company announced on May 3, 2004, that they will discontinue circulation of its Crossing Pointe Catalog title beginning in 2005. The Company's intention is to more fully focus new business development efforts on the core Blair brand and its proven appeal to significant market segments. The decision to focus on core operations is based in part on the historical success of the Blair brand and an extensive consumer and brand strategy study undertaken by the Company as part of its efforts to enhance profitability and shareholder value. The Company has evaluated the impact of discontinuing circulation of the Crossing Pointe title on all assets associated with this operation. All appropriate reserves have been recorded. The Company does not anticipate that this decision will have a negative effect on 2004 profitability, but does expect it to benefit 2005 performance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

BLAIR CORPORATION AND SUBSIDIARIES
(Unaudited)
September 30, 2004

NOTE X - BUSINESS SEGMENT AND CONCENTRATION OF BUSINESS RISK - continued

The Company's segment reporting is consistent with the presentation made to the Company's chief operating decision-maker. The Company's customer base is comprised of individuals throughout the United States and is diverse in both geographic and demographic terms. Advertising is done mainly by means of catalogs, direct mail letters and the internet, which offer the Company's merchandise.

Sales of the women's and men's fashion apparel and accessories accounted for 86% of total sales through the three months and nine months ended September 30, 2004 and 88% of total sales through the three months and nine months ended September 30, 2003, respectively. Home products accounted for the remaining sales volume.

NOTE Y - LONG-LIVED ASSETS PREVIOUSLY CLASSIFIED AS HELD FOR SALE

In January 2003, the Company made the decision to close its liquidation outlet store located in Erie, Pennsylvania. This closure was effective at the close of business on March 28, 2003. While the Company continues to hold the assets for sale, the sales process has taken longer than anticipated and the assets are no longer being classified as Held for Sale in accordance with SFAS No. 144. The carrying value of the asset, after considering a \$300,773 impairment charge taken in 2003, is deemed to be stated fairly at September 30, 2004.

NOTE Z - VOLUNTARY SEPARATION PROGRAM

In the first quarter of 2004, the Company accrued and charged to expense \$67,000 in separation costs. The costs were charged to General and Administrative Expense in the income statement. The \$67,000 charge represents severance pay, related payroll taxes and medical benefits due the 33 eligible employees who accepted the voluntary separation program offered in connection with closing the Company's Outlet Store located in Warren, Pennsylvania on January 16, 2004. As of the end of the first quarter of 2004, \$67,000 had been paid. This liability is considered satisfied.

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

In the first quarter of 2001, the Company accrued and charged to expense \$2.5 million in separation costs. The costs were charged to General and

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Administrative Expense in the income statement. The \$2.5 million charge represents severance pay, related payroll taxes and medical benefits due the 56 eligible employees who accepted the voluntary separation program rather than relocate or accept other positions in the Company. The program was offered to eligible employees of the Blair Mailing Center from which the merchandise returns operations have been relocated and the mailing operations have been outsourced. As of the end of the third quarter of 2004, \$1.9 million of the \$2.5 million has been paid.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Results of Operations

Comparison of Third Quarter 2004 and Third Quarter 2003

Net income for the third quarter ended September 30, 2004 was \$2.9 million, or \$.36 per basic and diluted share, compared to net income of \$793,000, or \$.10 per basic and diluted share, for the third quarter ended September 30, 2003. Results for the third quarter of 2004 reflect a planned decrease in net sales offset primarily by enhanced efficiencies of core operations and the Company's continued focus on profitability and enhancing shareholder value.

Net sales for the third quarter of 2004 totaled \$107.1 million and were 13.7% lower (\$17.0 million) than net sales for the third quarter of 2003. The number of advertising mailings and incoming orders decreased in the third quarter of 2004 as compared to the third quarter of 2003. This reflects the Company's strategic decision to focus on more targeted mailings for greater efficiency and optimized yield. Gross sales revenue generated per advertising dollar increased almost 11% in the third quarter of 2004 compared to the third quarter of 2003. The total number of orders shipped decreased 18.2% while the average order size increased 4.6% in the third quarter of 2004 as compared to the third quarter of 2003. The provision for returned merchandise as a percentage of gross sales decreased (135 basis points) in the third quarter of 2004 as compared to the third quarter of 2003. Management attributes this favorable change to improved product quality and fit.

Other income decreased 1.0% from \$11.0 million to \$10.9 million in the third quarter of 2004 versus the third quarter of 2003. Increased finance charges were primarily offset by lower continuity program commissions earned. The higher finance charges resulted primarily from increased finance charge revenues associated with the Blair Credit activities of JLB Service Bank.

Cost of goods sold decreased \$9.3 million (15.3%) to \$51.5 million in the third quarter of 2004 as compared to the third quarter of 2003. Cost of goods sold as a percentage of net sales decreased to 48.07% in the third quarter of 2004 from 49.0% in the third quarter of 2003. The decrease can be attributed primarily to reduced customer returns, declining merchandise costs and, to a lesser extent, lower overall shipping and liquidation costs in the third quarter of 2004 as

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compared to the third quarter of 2003.

Advertising expenses in the third quarter of 2004 decreased \$7.8 million (23.1%) to \$25.9 million from the third quarter of 2003. The Company's more targeted mailings lead to strategic decreases in catalog and letter mailings. The catalog reduction includes the reduction in Crossing Pointe mailings as a result of the Company's decision to discontinue circulation of its 4 year old Crossing Pointe title in early 2005.

The total number of catalog mailings released in the third quarter of 2004 was 11.2 million or 23.2% less than in the third quarter of 2003. The total number of prospect catalog mailings decreased 5.0 million (46.8%) in the third quarter of 2004 as compared to the third quarter of 2003. The reduction in prospect circulation is primarily attributable to reduced Crossing Pointe circulation in the third quarter of 2004 compared to the third quarter of 2003.

The total number of letter mailings released in the third quarter of 2004 decreased by 27.7% (3.2 million) as compared to the third quarter of 2003.

Total circulation of the co-op and media advertising programs decreased 12.0% (18.2 million pieces) in the third quarter of 2004 as compared to the third quarter of 2003.

The Company launched e-commerce sites for Blair www.blair.com, and Crossing Pointe www.crossingpointe.com, in the third quarter of 2000. In the third quarter of 2004, the Company generated \$20.4 million in e-commerce sales demand as compared to \$18.7 million in the third quarter of 2003, a 9.1% increase.

General and administrative expense decreased 4.0% (\$1.3 million) in the third quarter of 2004 as compared to the third quarter of 2003. The lower general and administrative expense in the third quarter of 2004 was primarily attributable to reduced variable employee costs associated with lower sales volume. As a percent of net sales, general and administrative expenses were 29.2% for the quarter ended September 30, 2004 compared to 26.2% for the quarter ended September 30, 2003. The increase in percentage of net sales is primarily attributable to increased fees for professional services which is partially due to the added expense of complying with Section 404 of the Sarbanes-Oxley Act.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Results of Operations - Continued

Comparison of Third Quarter 2004 and Third Quarter 2003 - Continued

The provision for doubtful accounts decreased \$2.2 million from \$6.7 million to \$4.5 million or 33.2% in the third quarter of 2004 as compared to the third quarter of 2003. The decrease is primarily the result of a 13.0% decrease in

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credit sales. The estimated bad debt rate used in the third quarter of 2004 was 185 basis points lower than the bad debt rate used in the third quarter of 2003. The estimated bad debt rate has decreased primarily due to reduced credit offers to both Blair and Crossing Pointe prospects as well as improved delinquency and charge-off experience. Prospect credit offers traditionally result in higher bad debts.

The provision for doubtful accounts is based on current expectations (consumer credit and economic trends, etc.), sales mix (prospect/customer) and current and prior years' experience, especially delinquencies (accounts over 30 days past due) and actual charge-offs (accounts removed from accounts receivable for non-payment). At September 30, 2004, the delinquency rate of open accounts receivable was 192 basis points lower than at September 30, 2003. The charge-off rate for the third quarter of 2004 was 17 basis points lower than the charge-off rate for the third quarter of 2003.

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

Interest expense increased \$22,679 (31.4%) in the third quarter of 2004 compared to the third quarter of 2003. Interest expense results primarily from the Company's required borrowings under the Receivables Purchase Agreement. Interest rates have been higher in the third quarter of 2004.

Income taxes as a percentage of income before income taxes were 38.0% in the third quarter of 2004 and 37.6% in the third quarter of 2003. The federal income tax rate was 35% in both years. The slight change in the total income tax rate was caused by a change in the Company's effective state income tax rate.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Results of Operations - continued

Comparison of Nine Month Periods Ended September 30, 2004 and September 30, 2003

Net income for the nine months ended September 30, 2004 increased 58.0% to \$8.5 million, or \$1.05 per basic and \$1.04 per diluted share, as compared to \$5.4 million, or \$.67 per basic and diluted share, for the nine months ended September 30, 2003. Results for the first nine months of 2004 reflect a planned decrease in net sales offset primarily by enhanced efficiencies of core operations and the Company's focus on profitability and enhancing shareholder value.

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Net sales for the first nine months of 2004 decreased \$52.7 million to \$362.7 million or 12.7% less than net sales for the first nine months of 2003. The decrease in net sales was primarily attributable to the Company's strategic decision to focus on more targeted mailings for greater efficiency and optimized yield. Gross sales revenue generated per advertising dollar increased approximately 4.2% in the first nine months of 2004 as compared to the first nine months of 2003. The provision for returned merchandise as a percentage of gross mail order sales decreased slightly (32 basis points) in the first nine months of 2004 as compared to the first nine months of 2003. Management attributes this favorable change to improved product quality and fit.

Other income increased approximately \$4.6 million or 15.1% to \$35.3 million in the first nine months of 2004 as compared to the first nine months of 2003. Increased finance charges and commissions were primarily responsible for the higher other income. The higher finance charges resulted primarily from increased finance charge revenues associated with the establishment of JLB Service Bank on August 20, 2003. The higher commissions resulted from increased continuity program activity.

Cost of goods sold decreased \$28.2 million or 14.0% to \$173.2 million in the first nine months of 2004 as compared to the same period in 2003. As a percentage of net sales, cost of goods sold decreased to 47.8% in the first nine months of 2004 from 48.5% in the first nine months of 2003. The decrease in cost of goods sold can be attributed primarily to reduced customer returns, declining merchandise costs and to a lesser extent, lower overall shipping and liquidation costs in 2004 as compared to 2003.

Advertising expenses in the first nine months of 2004 decreased \$18.9 million or 16.6% to \$95.0 million. The Company's more targeted mailings lead to strategic decreases in catalog and letter mailings. The catalog reduction includes the reduction in Crossing Pointe mailings as a result of the Company's decision to discontinue circulation of its 4 year old Crossing Pointe title in early 2005.

The total number of catalog mailings released in the first nine months of 2004 was 14.9 million or 9.5% less than those released in the first nine months of 2003. The total number of prospect catalog mailings decreased 9.6 million (20.5%) in the first nine months of 2004 as compared to the first nine months of 2003.

The total number of letter mailings released in the first nine months of 2004 was 19.1 million or 42.5% less than those released in the first nine months of 2003.

Total circulation of the co-op and media advertising programs decreased 130.7 million pieces or 21.1% in the first nine months of 2004 as compared to the first nine months of 2003.

The Company launched e-commerce sites for Blair www.blair.com and Crossing Pointe www.crossingpointe.com in the third quarter of 2000. In the first nine months of 2004, the Company generated \$66.0 million in e-commerce gross sales demand, an increase of 9.5% over the first nine months of 2003.

General and administrative expense of \$97.7 million for the first nine months of 2004 is \$1.3 million or 1.3% less than the first nine months of 2003. Reduced variable employee costs associated with lower sales volume served to lower general and administrative expense in the first nine months of 2004. Offsetting the labor related reduction in general and administrative expenses was an increase in professional fees. The increased professional fees partially reflect costs associated with the engagement of McKinsey & Company, a national marketing and strategy consulting firm, to assist the Company in conducting a comprehensive consumer, brand and strategy study aimed at enhancing shareholder

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value. Another contributing factor is fees related to complying with Section 404 of the Sarbanes-Oxley Act

The provision for doubtful accounts decreased \$4.9 million from \$23.0 million to \$18.1 million or 21.3% for the first nine months of 2004 compared to the same period in 2003. The estimated bad debt rate used in the first nine months of 2004 was approximately 12% or 100 basis points lower than the bad debt rate used in the first nine months of 2003. The

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Results of Operations - continued

Comparison of Nine Month Periods Ended September 30, 2004 and September 30, 2003 - continued

estimated bad debt rate has decreased primarily due to reduced credit offers to both Blair and Crossing Pointe prospects as well as improved delinquency and charge-off experience. Prospect credit offers traditionally result in higher bad debts.

The provision for doubtful accounts is based on current expectations (consumer credit and economic trends, etc.), sales mix (prospect/customer) and current and prior years' experience, especially delinquencies (accounts over 30 days past due) and actual charge-offs (accounts removed from accounts receivable for non-payment). At September 30, 2004, the delinquency rate of open accounts receivable was approximately 14% or 192 basis points lower than at September 30, 2003. The charge-off rate for the first nine months of 2004 was 5% or 7 basis points lower than the charge-off rate for the first nine months of 2003.

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

Interest expense increased approximately \$4,000 to \$260,893 or 1.5% in the first nine months of 2004 as compared to the first nine months of 2003. Interest expense results primarily from the Company's required borrowings under the Receivables Purchase Agreement. Interest rates have been higher in the first nine months of 2004.

Income taxes as a percentage of income before income taxes were 38.0% in the first nine months of 2004 and 2003. The federal income tax rate was 35% in both years.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Liquidity and Sources of Capital

The Company maintains two facilities that collectively provide \$110 million of credit. As of September 30, 2004 the Company was in compliance with all debt covenants.

The syndicated revolving facility (the "Credit Agreement") was amended on September 1, 2004. The amended Credit Agreement increases the commitment level from \$30 million to \$40 million and is secured by inventory and certain other assets of the Company and its subsidiaries. The Company is required to meet certain covenants that relate to tangible net worth, maintaining a defined leverage ratio and fixed charge coverage ratio, and complying with certain indebtedness restrictions. At September 30, 2004, the Company had no borrowings (loans) outstanding on this credit facility and had letters of credit totaling \$16.2 million outstanding, which reduces the amount of borrowings available, under the Credit Agreement. Outstanding letters of credit totaled \$20.9 million at December 31, 2003, and \$20.7 million at September 30, 2003. The amended facility is scheduled to expire on September 1, 2007.

The Company also maintains a securitization of up to \$100 million in accounts receivable. At the present time, \$70 million of the \$100 million is available to the Company. The Company sells all right, title and interest in and to certain of its accounts receivable to Blair Factoring Company, a wholly-owned subsidiary. Blair Factoring Company is a separate, bankruptcy remote, special purpose entity that entered into a Receivables Purchase Agreement with PNC Bank, National Association, as administrator, and certain conduit purchasers. The Company's consolidated financial statements reflect all the accounts of Blair Factoring Company, including the receivables and secured borrowings. Transactions entered into under the Receivables Purchase Agreement are considered secured borrowings and collateral transactions under the provisions of Statement of Financial Accounting Standards No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The securitization requires certain performance standards for the Company's accounts receivable portfolio in addition to complying with the covenants in the Credit Agreement. At September 30, 2004, December 31, 2003, and September 30, 2003, the Company had \$15 million outstanding, the minimum amount required to be outstanding, under the Receivables Purchase Agreement, all of which was classified as short-term. At September 30, 2004 and September 30, 2003, the weighted average interest rate was 2.05% and 1.98%, respectively. Interest paid for the three months and nine months ended September 30, 2004 was approximately \$88,000 and \$234,000, and for the three months and nine months ended September 30, 2003 was approximately \$57,000 and \$206,000, respectively. The securitization has a scheduled termination date of April 7, 2006.

The following table and narrative highlight significant changes in cash and cash

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equivalents for the nine months ended September 30, 2004 and 2003.

	Nine Months Ended September 30		Increase/ (decrease)
	2004	2003	
Net cash provided by (used in) operating activities	\$3,943,327	\$ (1,757,429)	\$5,700,756
Net cash (used in) investing activities	(2,924,292)	(5,337,788)	2,413,496
Net cash (used in) financing activities	(2,008,153)	(3,513,067)	1,504,914
Effect of exchange rate changes on cash	10,978	(48,082)	59,060
Net (decrease) in cash and cash equivalents	\$ (978,140)	\$ (10,656,366)	\$9,678,226

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Liquidity and Sources of Capital - continued

Net cash provided by operating activities was \$3.9 million for the nine months ended September 30, 2004, a \$5.7 million increase compared to the same period in fiscal 2003. This increase is primarily attributable to a \$3.1 million improvement in net income along with favorable changes in several components of working capital. The primary factors of improved working capital are favorable changes to accounts receivable (\$4.9 million) and accrued taxes (\$4.9 million). These positive impacts were offset somewhat by a \$6.8 million change in payables and accrual balances resulting from the seasonal build in merchandise inventory.

The net cash flow used in investing activities was lower by \$2.4 million due to lower level of capital expenditures. In 2003, the Company was in the final stages of a modernization and expansion program of its fulfillment complex.

The \$1.5 million increase in net cash flows used in financing activities for the nine months ended September 30, 2004 over the comparable period in 2003, is primarily due to higher proceeds from exercised stock options.

Anticipated cash requirements during 2004 are primarily to fund capital expenditures and pay dividends. The Company expects to fund 2004 cash requirements with cash generated from operations and cash on hand.

The Company was in compliance with all debt covenants as of September 30, 2004.

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The Company believes it has adequate financial resources to support anticipated short-term and long-term capital needs and commitments.

Merchandise inventory turnover was 2.8 at September 30, 2004, 3.4 at December 31, 2003 and 3.5 at September 30, 2003. Merchandise inventory as of September 30, 2004 was 24.7% higher than at December 31, 2003 and 25.9% higher than at September 30, 2003. The increase in merchandise inventories is primarily the result of the company's efforts to improve initial and final merchandise fill rates thereby positively impacting profitability and customer service levels.

The merchandise inventory levels are net of the Company's reserve for inventory obsolescence. The reserve totaled \$2.9 million at September 30, 2004, \$3.6 million at December 31, 2003 and \$3.9 million at September 30, 2003. Inventory write-offs and write-downs (reductions to below cost) charged against the reserve for obsolescence were \$5.8 million in the first nine months of 2004 and \$4.0 million in the first nine months of 2003. The closing of the Starbrick Outlet Store in January 2004, accounts for \$2.4 million of the write-downs in the first nine months of 2004. These write-downs were provided for in the December 31, 2003 obsolescence reserve. Due to the nonrecurring nature of the write-downs related to the closing of the Starbrick Outlet Store, the obsolescence reserve at September 30, 2004 is lower than the reserve at December 31, 2003 on higher levels of inventory. However, management believes that the amount of the reserve for obsolescence is appropriate. A monthly provision for obsolete inventory is added to the reserve and expensed to cost of goods sold, based on the levels of merchandise inventory and merchandise purchases.

An operating segment is identified as a component of an enterprise for which separate financial information is available for evaluation by the chief decision-maker, or decision-making group, in deciding on how to allocate resources and assess performance. The Company operates as one business segment consisting of the Womenswear, Menswear, Home, Crossing Pointe, Allegheny Trail and Store product lines. Allegheny Trail was added in the third quarter of 2003. The Store product line was added in the first quarter of 2004. It was previously included in the Womenswear, Menswear, Home and Crossing Pointe product lines.

The reduction in Crossing Pointe net sales is the result of reduced circulation in the first nine months of 2004 compared to the first nine months of 2003. The Company will discontinue its 4 year old Crossing Pointe catalog title in early 2005.

The Store product line shows a decrease of \$3.4 million in merchandise inventory when comparing the September 30, 2004 balance to the September 30, 2003 balance. This is due to the closing of the Starbrick Outlet Store in January, 2004, which was accounted for in the fourth quarter of 2003.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

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Liquidity and Sources of Capital - continued

The following tables illustrate the percent of net sales and merchandise inventory that each product line represents.

Product Line	9/30/04 Net Sales (in millions)	Percent of Total Net Sales	9/30/03 Net Sales (in millions)	Percent of Total Net Sales
Womenswear	\$232.9	64.2%	\$266.0	64.0%
Menswear	61.0	16.8%	63.6	15.3%
Home	49.2	13.6%	50.4	12.1%
Crossing Pointe Stores	16.4	4.5%	30.6	7.4%
	2.2	0.6%	4.7	1.1%
Allegheny Trail	1.0	0.3%	0.2	0.1%
Total	\$362.7	100.0%	\$415.5	100.0%

Product Line	9/30/04 Merchandise Inventory (in millions)	9/30/03 Merchandise Inventory (in millions)
Womenswear	\$49.6	\$38.5
Menswear	17.2	8.0
Home	9.5	5.1
Crossing Pointe Stores	3.3	8.3
	0.5	3.9
Allegheny Trail	2.2	1.5
Total	\$82.3	\$65.3

The Company looks upon its credit granting (Blair Credit) as a marketing advantage. Blair Credit customers, on average, buy more, buy more often and are more loyal than cash and credit card customers. The Company has determined that the benefit from the increased sales volume achieved by offering Blair Credit is significant and more than outweighs the cost of the credit program. The Company's gross credit sales decreased 10.4% in the first nine months 2004 as compared to first nine months 2003 in line with the strategic decision to focus on more targeted mailings for greater efficiency and optimized yield.

On August 20, 2003 the Company commenced operations of a new wholly-owned subsidiary, JLB Service Bank. The establishment of JLB Service Bank enables the Company to manage its credit portfolio in a more cost-effective and efficient manner. The bank's products involve the extension of credit on an unsecured basis to individuals who are customers of Blair Corporation to facilitate their purchases of Blair merchandise. As of September 30, 2004, JLB Service Bank's total assets represented 1.68% of total consolidated assets of the Company. Gross revenue of JLB Service Bank was .97% of the Company's consolidated gross revenue for the nine months ended, September 30, 2004.

The Company has added new facilities, modernized its existing facilities and acquired new cost-saving equipment during the last several years. Capital expenditures for property, plant and equipment totaled \$2.9 million during the first nine months 2004, compared to \$5.3 million during the first nine months 2003.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Liquidity and Sources of Capital - continued

Upon review of the Company's inventory liquidation strategy, the Company made the following decisions. In January 2004, the Company closed its outlet store located in Warren, Pennsylvania. This closure was effective at the close of business on January 16, 2004. The Company is considering alternative uses for the building. On March 28, 2003, the Company closed its outlet store located in Erie, Pennsylvania. While the Company continues to hold the assets for sale, the sales process has taken longer than anticipated and the assets are no longer being classified as Held for Sale in accordance with SFAS No. 144. The carrying value of the asset, after considering a \$300,773 impairment charge taken in 2003, is deemed to be stated fairly at September 30, 2004. Evolvement of the Company's inventory liquidation strategy into more rapid and profitable methods of disposing obsolete and excess inventory led to these decisions. Over the past three years, package insertions, telephone upsell promotions, sale catalogs and the growing e-commerce channel have proven to be more successful and profitable in moving inventory than the traditional outlet sales process.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Contractual Obligations

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

Contractual Obligations	Total	Payments Due By Period			
		Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years
Capital Lease Obligations	\$ 232,367	\$ 104,796	\$ 127,571	\$ 0-	\$ 0-
Operating Leases	11,687,394	813,098	6,732,396	2,008,486	2,133,414
Unconditional Purchase Obligations - Outstanding Letters of Credit	16,200,000	16,200,000	0-	0-	0-
Line of Credit - Securitization	15,000,000	15,000,000	0-	0-	0-

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Total	\$43,119,761	\$32,117,894	\$6,859,967	\$2,008,486	\$2,133,414
	=====	=====	=====	=====	=====

The Company has commercial commitments consisting of a revolving credit facility of \$40 million and a receivables securitization of \$70 million.

Other Commercial Commitments	Total Amounts Committed	Less than 1 year	Amount of Commitment Expiration Per Period		
			1 - 3 years	4 - 5 years	After 5 years
-----	-----	-----	-----	-----	-----
Line of Credit- Revolving effective 9/01/04	\$ 40,000,000	\$40,000,000	\$ -0-	\$ -0-	\$ -0-
Line of Credit - Securitization effective 4/9/03	70,000,000	-0-	70,000,000	-0-	-0-
	-----	-----	-----	-----	-----
Total	\$110,000,000	\$40,000,000	\$70,000,000	\$ -0-	\$ -0-
	=====	=====	=====	=====	=====

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Contractual Obligations - continued

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

The Company recently declared a quarterly dividend of \$.15 per share payable on December 15, 2004. The Company has declared dividends for 284 consecutive quarters. It is the Company's intent to continue paying dividends; however, the Company will evaluate its dividend practice on an ongoing basis. (See "Future Considerations").

Critical Accounting Policies

Preparation of the Company's financial statements requires the application of a number of accounting policies which are described in "Note 1, Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" in the Company's 2003 10-K. The critical accounting policies, which if interpreted differently under different conditions or circumstances could result in material changes to the reported results, deal with properly valuing accounts receivable

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and inventory. Properly valuing accounts receivable and inventory requires establishing proper reserve and allowance levels, specifically the allowances for doubtful accounts and returns and the reserve for inventory obsolescence. The Company's senior financial management and the Company's auditors review the critical accounting policies and estimates with the Audit Committee of the Board of Directors.

The Company's revenue recognition policy is as follows: Sales (cash, Blair Credit, or third party credit card) are recorded when the merchandise is shipped to the customer in accordance with the provisions of Staff Accounting Bulletin No. 104, Revenue Recognition.

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

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

The allowance for returns is a deduction from customer accounts receivable. A monthly provision for anticipated returns is recorded as a percentage of gross sales, based upon historical experience. The provision is charged against gross sales to arrive at net sales, and actual returns are charged against the allowance for returns. Returns are generally more predictable as they settle within two-to-three months, but are impacted by season, new products and/or product lines, type of sale (cash, credit card, Blair Credit) and sales mix (prospect/customer). The Company feels that the allowance for returns is sufficient to cover the returns that will occur after September 30, 2004 from sales prior to October 1, 2004. A change in the returns rate would cause changes in the provision for returns and the allowance for returns. Based on the Company's 2003 level of sales, net income would change by approximately \$2.0 million, or \$.26 per share, from a one percentage point change in the returns rate.

The reserve for inventory obsolescence and related items, inventory levels and write-downs, are discussed in "Liquidity and Sources of Capital" and "Future Considerations". The Company feels that the reserve for inventory obsolescence is sufficient to cover the write-offs that will occur in future years on merchandise in inventory as of September 30, 2004. A change in the obsolescence rate would cause changes in cost of goods sold and the reserve for inventory obsolescence. Based on the Company's 2003 level of merchandise subject to obsolescence, net income would change by approximately \$1.9 million, or \$.24 per share, from a one percentage point change in the obsolescence rate.

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Critical Accounting Policies - continued

At September 30, 2004, the Company had total gross deferred tax assets of \$11.7 million. These assets relate principally to asset valuation reserves including bad debts, returns and inventory obsolescence. Based on recent historical earnings performance and current projections, management believes that a valuation allowance is not required against these deferred tax assets, except for the valuation allowance against state net operating losses, which was provided due to its uncertainty of realization based upon the state's net operating loss carryforward rules.

Impact of Inflation and Changing Prices

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

The Company principally uses the LIFO method of accounting for its merchandise inventories. Under this method, the cost of products sold reported in the financial statements approximates current costs and thus reduces distortion in reported income due to increasing costs. However, the Company has been experiencing consistent to declining merchandise costs and the LIFO reserve has fallen to \$4.5 million at September 30, 2004 and at December 31, 2003 from \$5.7 million at September 30, 2003.

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

Accounting Pronouncements

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

Effective January 1, 2002, the Company implemented SFAS No. 143, Accounting for Asset Retirement Obligations which addresses financial accounting and reporting

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

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

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which supersedes SFAS No. 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. Although retaining many of the provisions of SFAS No. 121, SFAS No. 144 establishes a uniform accounting model

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Accounting Pronouncements - continued

for long-lived assets to be disposed. The Company's adoption of this statement in the first quarter of 2002 did not have an impact on the Company's financial results for 2002. During 2003, the provisions of this statement impacted the accounting treatment of the planned sale of the Blair Outlet Store in Erie, Pennsylvania. (See Note Y)

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities when the liability is incurred and not as a result of an entity's commitment to an exit plan. The statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 in the first quarter of 2003 did not have an impact on the Company's financial results. During 2004 and 2003, the provisions of this statement impacted the accounting treatment of the voluntary separation of employees due to the closing of the Blair Outlet Stores in Warren, Pennsylvania and Erie, Pennsylvania. (See Note Z)

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

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

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

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

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

On October 13, 2004, the Financial Accounting Standards Board (FASB) concluded that Statement 123R, Share-Based Payment, which would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, would be effective for public companies for interim or annual periods beginning after June 15, 2005. While the statement has not been finalized, its current form will require the company to expense the fair value of stock option grants rather than disclose the impact on its consolidated net income within the footnotes, as is our current practice.

Future Considerations

The Company is faced with the ever-present challenge of maintaining and expanding its customer file. This involves the acquisition of new customers (prospects), the conversion of new customers to established customers (active repeat buyers) and the retention and/or reactivation of established customers.

These actions are vital in growing the business but are being negatively impacted by increased operating costs, a declining labor pool, increased competition in the retail sector, high levels of consumer debt, varying consumer response rates and an uncertain economy. The preceding factors can also negatively impact the Company's ability to properly value accounts receivable and inventories by making it more difficult to establish proper reserve and allowance levels, specifically, the allowances for doubtful accounts and returns and the reserve for inventory obsolescence.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Future Considerations - continued

The Company's marketing strategy includes targeting customers in the "40 to 75, low-to-moderate income" market. Success of the Company's marketing strategy requires investment in database management, digital asset management, campaign management, financial and operating systems, prospecting programs, catalog marketing, new product lines, telephone call centers, e-commerce, fulfillment operations and credit management. Management believes that these investments should improve Blair Corporation's position in new and existing markets and provide opportunities for future earnings growth.

The Company announced on May 3, 2004, that it will discontinue circulation of its four year-old Crossing Pointe Catalog title beginning in 2005 and is presently evaluating the opportunity for maintaining a web based Crossing Pointe business. The Company's intention is to more fully focus new business development efforts on the core Blair brand and its proven appeal to significant market segments. The decision to focus on core operations is based in part on the historical success of the Blair brand and an extensive consumer and brand strategy study undertaken by the Company as part of its efforts to enhance profitability and shareholder value. The Company does not anticipate that this decision will have a negative effect on 2004 profitability, but does expect it to benefit 2005 performance.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

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

- The paragraph on the provision for doubtful accounts in the Results of Operations, Comparison of Third Quarter 2004 and Third Quarter 2003.
- The paragraph on the provision for doubtful accounts in the Results of Operations, Comparison of Nine Month Periods Ended September 30, 2004 and September 30, 2003.
- Liquidity and Sources of Capital.
- Critical Accounting Policies.

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- The Impact of Inflation and Changing Prices.
- Future Considerations.

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

New requirements adopted by the Securities and Exchange Commission in response to the passage of the Sarbanes-Oxley Act of 2002 will require an annual review and evaluation of our internal control systems and attestation of these systems by our independent auditors. We are currently reviewing our internal control procedures and considering further documentation of such procedures that may be necessary. While we currently believe we have identified and committed the appropriate resources and developed an achievable plan of execution to meet all of the new requirements in a timely manner, there is risk inherent in the significant number of tasks to be completed over the balance of our fiscal year. Any improvements in our internal control systems or in documentation of such control systems could be costly to prepare or implement, divert attention of management of finance staff, and may cause our operating expenses to increase over the ensuing year.

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BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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approximately \$150,000 in each year.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), each of the Chief Executive Officer and the Chief Financial Officer of the Company has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms.

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

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PART II. OTHER INFORMATION

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

Item 1. Legal Proceedings

The Company is from time to time a party to ordinary routine litigation incidental to various aspects of its operations. Management is not currently aware of any litigation that will have a material adverse impact on the Company's financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Not Applicable.

Item 3. Defaults Upon Senior Securities
Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders
Not Applicable

Item 5. Other Information

On October 22, 2004, the Company announced that it is exploring the possibility of selling its consumer finance receivable portfolio to a third-party financial institution. Similar to financial institutions that issue credit cards, Blair currently offers its domestic customers credit for Blair-related purchases. This action is responsive to a suggestion made by a small group of shareholders in July to sell the consumer finance receivable portfolio. The Company has retained outside advisors to assist in exploring this alternative. The ultimate determination will be based on what is in the best interest of all Blair

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shareholders.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1 Restated Certificate of Incorporation (1)
- 3.2 Amended and Restated Bylaws of Blair Corporation (2)
- 4 Specimen Common Stock Certificate (3)
- 10.1 Stock Accumulation and Deferred Compensation Plan for Directors (4)
- 10.2 Blair Corporation 2000 Omnibus Stock Plan (5)
- 10.3 Blair Credit Agreement (6)
- 10.4 Amendment No. 2 to Credit Agreement (7)
- 10.5 Amendment No. 3 to Credit Agreement (8)
- 10.6 Change in Control Severance Agreement-Vice Presidents
- 10.7 Change in Control Severance Agreement-CEO and Senior Vice Presidents
- 11 Statement regarding computation of per share earnings 9)
- 31.1 Section 302 Certification-CEO
- 31.2 Section 302 Certification-CFO
- 32.1 Section 906 Certification-CEO
- 32.2 Section 906 Certification-CFO

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PART II. OTHER INFORMATION - Continued

BLAIR CORPORATION AND SUBSIDIARIES

September 30, 2004

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

(2) Incorporated herein by reference to Exhibit 3.2 to the Companies Quarterly Report on Form 10-Q filed with the SEC on August 14, 2003 (SEC File No. 1-878).

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

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

(5) Incorporated herein by reference to Exhibit A to the Company's Proxy Statement filed with the SEC on March 17, 2000 (SEC File No. 1-878).

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

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

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(8) Certain schedules to the agreement have been omitted.

(9) Incorporated by reference to Note T of the financial statements included herein.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BLAIR CORPORATION

(Registrant)

Date: November 9, 2004

By JOHN E. ZAWACKI

JOHN E. ZAWACKI
President and Chief Executive Officer

By BRYAN J. FLANAGAN

BRYAN J. FLANAGAN
Senior Vice President and Chief
Financial Officer

By MICHAEL R. DELPRINCE

MICHAEL R. DELPRINCE
Controller

[Certifications to follow]

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CERTIFICATION

I, John E. Zawacki, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blair Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

JOHN E. ZAWACKI

JOHN E. ZAWACKI
President and
Chief Executive Officer

CERTIFICATION

I, Bryan J. Flanagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blair Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control

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over financial reporting.

Date: November 9, 2004

BRYAN J. FLANAGAN

BRYAN J. FLANAGAN
Senior Vice President and
Chief Financial Officer

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Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Blair Corporation (the "Company") on Form 10-Q for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John E. Zawacki, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2004

JOHN E. ZAWACKI

JOHN E. ZAWACKI
President and
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authentication, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by section 906, has been provided to Blair Corporation and will be retained by Blair Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Blair Corporation (the "Company") on Form 10-Q for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan J. Flanagan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2004

BRYAN J. FLANAGAN

BRYAN J. FLANAGAN
Senior Vice President and Chief
Financial Officer

A signed original of this written statement required by Section 906, or other document authentication, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by section 906, has been provided to Blair Corporation and will be retained by Blair Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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Exhibit 10.5

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THIRD AMENDMENT TO CREDIT AGREEMENT

This Third Amendment to Credit Agreement (the "Third Amendment") is dated as of September 1, 2004 and is made by and among BLAIR CORPORATION, a Delaware corporation (the "Borrower"), the Guarantors now or hereafter party thereto, the BANKS under the Credit Agreement (as hereafter defined) and PNC BANK, NATIONAL ASSOCIATION, in its capacity as agent for the Banks under the Credit Agreement (hereinafter referred to in such capacity as the "Agent").

RECITALS:

WHEREAS, the Borrower, the Guarantors, the Banks and the Agent entered into that certain Credit Agreement dated as of December 20, 2001, as amended by that Amendment No.1 to Credit Agreement dated as of July 8, 2002 and by that Amendment No.2 to Credit Agreement dated as of July 25, 2003 (as amended to date, the "Credit Agreement");

WHEREAS, the parties to the Credit Agreement desire to amend the Credit Agreement as set forth herein; and

WHEREAS, capitalized terms used herein and not otherwise defined herein shall have the meanings given to them under the Credit Agreement.

NOW, THEREFORE, in consideration of the foregoing and intending to be legally bound, the parties hereto agree as follows:

Amendments to and Waivers Under the Credit Agreement other than Anti-Terrorism Provisions.

Definitions.

The following new definitions shall be inserted in alphabetical order in Section 1.1 of the Credit Agreement:

Book Value of Qualifying Fixed Assets shall mean the net book value of Qualifying Fixed Assets as of the most recently ended fiscal quarter.

Consolidated Adjusted Indebtedness shall mean (i) the consolidated Indebtedness of the Borrower and its Subsidiaries, less (ii) the positive difference between (A) total cash plus Permitted Investments of the Borrower and its Subsidiaries on a consolidated basis less (B) \$5,000,000.

Qualifying Fixed Assets shall mean equipment, subject to

the following conditions

- (i) the Loan Parties own such equipment;
- (ii) such property is located on the owned or leased premises of the Loan Parties; and
- (iii) the Agent has a Prior Security Interest in such property, free and clear of any Liens except for Permitted Liens.

The following definitions are hereby amended and restated to read as set forth below:

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Base Tangible Net Worth shall mean, as of any date of determination, the sum of \$245,000,000 (representing approximately 90% of the Consolidated Tangible Net Worth of the Borrower and its Subsidiaries as of June 30, 2004), plus the sum of the following amounts earned or received from July 1, 2004 through the last day of each fiscal quarter after June 30, 2004: (i) 50% of consolidated net income of the Borrower

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Exhibit 10.5

and its Subsidiaries for each fiscal quarter in which net income was earned (as opposed to a net loss) plus (ii) 50% of the proceeds received by Borrower from any sale by Borrower of capital stock of the Borrower after deducting expenses incurred in connection with such sale

Borrowing Base shall mean at any time the sum of (i) 50% of Qualified Inventory, (ii) the lesser of (A) \$10,000,000 or (B) 50% of the Book Value of Qualifying Fixed Assets plus (iii) the amount of cash maintained in the Collateral Account, provided that the Cash Collateral Condition has been met. Notwithstanding anything to the contrary herein, upon thirty (30) days prior written notice from the Agent to the Borrower, the Required Banks may, in their reasonable discretion based on customary or industry standards, at any time hereafter, increase or decrease the advance percentage for Qualified Inventory or the Book Value of Qualifying Fixed Assets, or increase the level of any reserves or ineligibles, or define or maintain such other reserves or ineligibles, as the Required Banks may deem necessary or appropriate. Any such change shall become effective immediately upon written notice from the Agent to the Borrower for the purpose of calculating the Borrowing Base hereunder.

EBITDA for any period of determination shall mean

(i) the sum of net income, depreciation, amortization, other non-recurring, non-cash charges to net income and losses on the sale of assets, and interest expense and income tax expense minus (ii) non-recurring, non-cash credits to net income and gains on the sale of assets, in each case of the Borrower and its Subsidiaries for such period determined and consolidated in accordance with GAAP.

Expiration Date shall mean, with respect to the Commitments, August 31, 2007.

Fixed Charges shall mean the sum of interest expense (net of cash interest income on Permitted Investments) (including borrowing, interest capital or equivalent costs under the Trade Receivables Securitization), scheduled principal payments on Indebtedness including capital leases, dividends and distributions to shareholders of the Borrower and capital expenditures .

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Leverage Ratio shall mean as of any date of determination the ratio of Consolidated Adjusted Indebtedness of Borrower and its Subsidiaries on such date to the EBITDA for the four prior fiscal quarters ending on such date or immediately before such date if such date is not a quarter end.

Issuance of Letters of Credit (Section 2.10.1)

Section 2.10.1 (Issuance of Letters of Credit) is hereby amended and restated to read as set forth below.

"Borrower may request the issuance of a letter of credit (each a "Letter of Credit") on behalf of itself or another Loan Party by delivering or having such other Loan Party deliver to the Agent or any other Bank which agrees to issue Letters of Credit hereunder (each an "Issuing Bank") (with a copy of such notice to the Agent) a completed application and agreement for letters of credit in such form as the Issuing Bank may specify from time to time by no later than 10:00 a.m., Pittsburgh time, at least five (5) Business Days in advance of the proposed date of issuance of Standby Letters of Credit, or such shorter period as may be agreed to by the Issuing Bank, or one (1) Business Day (such notice period may be increased to two (2) Business Days at the request of the Issuing Bank if it reasonably determines that it requires more notice) in advance of the proposed date of issuance of Trade Letters of Credit. Each Letter of Credit shall be a Standby Letter of Credit or a Trade Letter of Credit. Subject to the terms and conditions hereof and in reliance on the agreements of the other Banks set forth in this Section 2.10.1, the Issuing Bank or any of the Issuing Bank's Affiliates will issue a Letter of Credit provided that each Letter of Credit shall (A) have a maximum maturity of twelve (12) months from the date of issuance, and (B) in no event expire later than (i) with respect to Standby Letters of Credit, ten (10) Business Days prior to the Expiration Date and (ii) with respect to Trade Letters of Credit, one hundred eighty (180) days after the Expiration Date and providing that, except with respect to Trade Letters of Credit outstanding after the Revolving Credit Commitments have expired on the Expiration Date, in no event shall the Revolving Facility Usage exceed, at any one time, the Revolving Credit Commitments. Each of the Banks and the Loan Parties acknowledge and agree that notwithstanding that (a) no Loans shall be made after the Expiration Date and (b) no Letters of Credit (including Trade Letters of Credit) shall be issued after the Expiration Date: (1)

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Exhibit 10.5

the Reimbursement Obligations of the Loan Parties pursuant to Section 2.10.3 or elsewhere in this Agreement shall remain in effect after the Expiration Date so long as any Trade Letter of Credit is outstanding or any Reimbursement Obligation remains unpaid, (2) the Agent's security interest in all Collateral shall remain in full force and effect until all Trade Letters of Credit have expired and all Reimbursement Obligations and other Obligations have been indefeasibly paid in full, and (3) the obligations of the Banks under Sections 2.10.3 and 2.10.7 of this Agreement to reimburse the Issuing Bank with respect

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to Trade Letters of Credit, shall remain in effect after the Expiration Date so long as any Trade Letter of Credit remains outstanding and any Reimbursement Obligation remains unpaid. Each Issuing Bank shall notify the Agent within one (1) Business Day after any new Letter of Credit is issued or the face amount of Letters of Credit outstanding and issued by such Issuing Bank has changed and shall from time to time and upon request of the Agent deliver a schedule of the outstanding Letters of Credit issued by such Issuing Bank."

Investments (Section 7.2.4).

A new clause (x) is hereby added to Section 7.2.4 (Investments) to follow immediately after clause (ix) and to read as follows:

"(x) Other Investments not included in clauses (i) through (vi) above, provided that the aggregate amount thereof does not exceed \$15,000,000."

Dividends (Section 7.2.5).

The last clause of Section 7.2.5 (Dividends) (beginning "except for dividends paid by the Borrower and repurchases") is hereby amended and restated to read as follows:

"except for dividends paid by the Borrower and repurchases by the Borrower of its Shares provided that (1) there shall exist no Potential Default or Event of Default on the date of any such payment of a dividend or stock repurchase, and (2) the total consideration paid for all stock repurchases by the Borrower over the term of this Agreement shall not exceed \$10,000,000."

Liquidations, Mergers, Consolidations, Acquisitions (Section 7.2.6).

Clause (i) of Section 7.2.6 (Liquidations, Mergers, Consolidations, Acquisitions Dividends) is hereby amended and restated to read as follows:

"(i) the aggregate consideration paid or given, whether in cash, stock, or other property, and liabilities assumed by the Borrower and its Subsidiaries in all Transactions during each fiscal year of the Borrower (the "Transaction Consideration") does not exceed \$15,000,000;"

Capital Expenditures and Leases (Section 7.2.14).

The text of Section 7.2.14 (Capital Expenditures and Leases) is hereby deleted and the words "intentionally omitted" are hereby inserted in lieu thereof.

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Minimum Fixed Charge Coverage Ratio (Section 7.2.16).

Section 7.2.16 (Minimum Fixed Charge Coverage Ratio) is hereby amended and restated to read as set forth below.

"7.2.16 Minimum Fixed Charge Coverage Ratio.

The Loan Parties shall not permit the Fixed Charge Coverage Ratio, calculated as of the end of each fiscal quarter for the four (4) fiscal quarters then ended, to be less than the minimum ratio specified below during the period specified below.

Period	Minimum Ratio
Date of Third Amendment to Credit Agreement through September 30, 2005	1.15 to 1.0
After September 30, 2005	1.25 to 1.0"

Monthly Borrowing Base Certificates, Schedules of Accounts, Inventory and Payables (Section 7.3.4).

The first clause of Section 7.3.4 (Monthly Borrowing Base Certificates, Schedules of Accounts, Inventory and Payables) which now reads "As soon as available: by the fifteenth (15th) day of each fiscal month of the Borrower" is hereby amended and restated to read as follows:

"As soon as available: by the fifteenth (15th) Business Day of each fiscal month of the Borrower"

Budgets, Forecasts, Other Reports, Insurance Policies and Information (Section 7.3.8).

Clause (i) of Section 7.3.8 (Budgets, Forecasts, Other Reports, Insurance Policies and Information) is hereby amended and restated to read as follows:

"(i) the annual budget and any forecasts or projections of the Borrower, to be supplied not later than thirty (30) days after the commencement of the fiscal year to which any of the foregoing may be applicable,"

Pricing Grid (Schedule 1.1(A)).

Schedule 1.1(A) is hereby amended and restated to read as set forth on Schedule 1.1(A) hereto. The changes to the Applicable Margin and Applicable Revolving Credit Commitment Fee Rate resulting from the amendment and restatement of such Schedule 1.1(A) shall be effective on the date of this Third Amendment.

Schedule of Commitments (Schedule 1.1(B)).

Schedule 1.1(B) is hereby amended and restated to read as set forth on Schedule 1.1(B) hereto. The changes in the Commitments of the Banks resulting from the amendment and restatement of such Schedule 1.1(B) shall be effective on the date of this Third Amendment. On the date of this Third Amendment:

1. Revolving Credit Loans. The Borrower shall, on the date of this Third Amendment, repay all outstanding Revolving Credit Loans (subject to

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payment of indemnity under Section 4.6.2 of the Credit Agreement (i.e. breakage)). The Borrower may borrow new Revolving Credit Loans on the date hereof and the Banks shall participate in any such new Revolving Credit Loans according to Ratable Shares after giving effect to the changes in Commitments set forth on Schedule 1.1(B).

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Exhibit 10.5

2. Swing Loans and Letters of Credit. The Banks shall participate in outstanding Swing Loans and Letters of Credit according to their Ratable Shares after giving effect to the changes in Commitments set forth on Schedule 1.1(B).

Other Schedules and Exhibits

Each of the following additional schedules and exhibits to the Credit Agreement is hereby amended and restated in the form attached to this Third Amendment:

Schedules

Schedule 1.1(A)	-	Pricing Grid
Schedule 1.1(B)	-	Revolving Credit Commitments Of Banks And Addresses For Notices
Schedule 5.1.1	-	Qualifications To Do Business
Schedule 5.1.2	-	Capitalization

Exhibits

Exhibit 7.3.3	-	Quarterly Compliance Certificate
Exhibit 7.3.4	-	Borrowing Base Certificate

Amendments to Credit Agreement Relating to Anti-Terrorism Laws.

Definitions.

The following new definitions shall be inserted in alphabetical order in Section 1.1 of the Credit Agreement:

Anti-Terrorism Law(s) shall mean any Law(s) relating to terrorism or money laundering, including Executive Order No. 13224, the USA Patriot Act, the Laws comprising or implementing the Bank Secrecy

Act, and the Laws administered by the United States Treasury Department's Office of Foreign Asset Control (as any of the foregoing Laws may from time to time be amended, renewed, extended, or replaced).

Blocked Person shall have the meaning assigned to such term in Section 5.1.27.2.

Executive Order No. 13224 shall mean the Executive Order No.

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13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

USA Patriot Act shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

Anti-Terrorism Laws Representation (Section 5.1.27).

A new Section 5.1.27 is hereby added to follow immediately after Section 5.1.26 and to read as follows:

"5.1.27.1 General.

None of the Loan Parties or any Affiliate of any Loan Party, is in violation of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

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Exhibit 10.5

5.1.27.2 Executive Order No. 13224.

None of the Loan Parties, or any Affiliate of any Loan Party, or their respective agents acting or benefiting in any capacity in connection with the Loans, Letters of Credit or other transactions hereunder, is any of the following (each a "Blocked Person"):

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(iii) a Person or entity with which any Bank is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224;

(v) a Person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list, or

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(vi) a person or entity who is affiliated or associated with a person or entity listed above.

No Loan Party or, to the knowledge of any Loan Party, any of its agents acting in any capacity in connection with the Loans, Letters of Credit or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224."

Anti-Terrorism Laws Covenant (Section 7.1.15).

A new Section 7.1.15 is hereby added to follow immediately after Section 7.1.14 and to read as follows:

"7.1.15 Anti-Terrorism Laws.

The Loan Parties and their respective Affiliates and agents shall not (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224; or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the USA Patriot Act or any other Anti-Terrorism Law. The Borrower shall deliver to Banks any certification or other evidence requested from time to time by any Bank in its sole discretion, confirming Borrower's compliance with this Section 7.1.13. Each Bank hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act, each Bank is required to obtain, verify and record information that identifies the Borrower, including the name and address of the Borrower and other information that will allow such Bank to identify the Borrower in accordance with the Act. The Borrower agrees to provide any such information to each Bank and otherwise cooperate with each Bank in obtaining and verifying such information."

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Exhibit 10.5

No Reliance on Agent's Customer Identification Program (Section 9.19).

A new Section 9.19 is hereby added to follow immediately after Section 9.18 and to read as follows:

"9.19 No Reliance on Agent's Customer Identification Program.

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Each Bank acknowledges and agrees that neither such Bank, nor any of its Affiliates, participants or assignees, may rely on the Agent to carry out such Bank's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA Patriot Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with any of the Loan Parties, their Affiliates or their agents, the Loan Documents or the transactions hereunder or contemplated hereby: (1) any identity verification procedures, (2) any recordkeeping, (3) comparisons with government lists, (4) customer notices or (5) other procedures required under the CIP Regulations or such other Laws."

Certification from Banks and Participants (Section 10.18).

Section 10.18 is hereby amended and restated in its entirety to read as follows:

"10.18 Certifications from Banks and Participants.

10.18.1 Tax Withholding.

Each Bank or assignee or participant of a Bank that is not incorporated under the Laws of the United States of America or a state thereof (and, upon the written request of the Agent, each other Bank or assignee or participant of a Bank) agrees that it will deliver to each of the Borrower and the Agent two (2) duly completed appropriate valid Withholding Certificates (as defined under ss. 1.1441-1(c)(16) of the Income Tax Regulations (the "Regulations")) certifying its status (i.e. U.S. or foreign person) and, if appropriate, making a claim of reduced, or exemption from, U.S. withholding tax on the basis of an income tax treaty or an exemption provided by the Internal Revenue Code. The term "Withholding Certificate" means a Form W-9; a Form W-8BEN; a Form W-8ECI; a Form W-8IMY and the related statements and certifications as required under ss. 1.1441-1(e)(2) and/or (3) of the Regulations; a statement described in ss. 1.871-14(c)(2)(v) of the Regulations; or any other certificates under the Internal Revenue Code or Regulations that certify or establish the status of a payee or beneficial owner as a U.S. or foreign person. Each Bank, assignee or participant required to deliver to the Borrower and the Agent a Withholding Certificate pursuant to the preceding sentence shall deliver such valid Withholding Certificate as follows: (A) each Bank which is a party hereto on the Closing Date shall deliver such valid Withholding Certificate at least five (5) Business Days prior to the first date on which any interest or fees are payable by the Borrower hereunder for the account of such Bank; and (B) each assignee or participant shall deliver such valid Withholding Certificate at least five (5) Business Days before the effective date of such assignment or participation (unless the Agent in its sole discretion shall permit such assignee or participant to deliver such valid Withholding Certificate less than five (5) Business Days before such date in which case it shall be due on the date specified by the Agent). Each Bank, assignee or participant which so delivers a valid Withholding Certificate further undertakes to deliver to each of the Borrower and the Agent two (2) additional copies of such Withholding Certificate (or a successor form) on or before the date that such Withholding Certificate expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent Withholding Certificate so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the

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Agent. Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of or exemption from U.S. withholding tax, the Agent shall be entitled to withhold United States federal income taxes at the full 30% withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under ss. 1.1441-7(b)

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of the Regulations. Further, the Agent is indemnified under ss. 1.1461-1(e) of the Regulations against any claims and demands of any Bank or assignee or participant of a Bank for the amount of any tax it deducts and withholds in accordance with regulations under ss. 1441 of the Internal Revenue Code.

10.18.2 USA Patriot Act.

Each Bank or assignee or participant of a Bank that is not incorporated under the Laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA Patriot Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United states or foreign county, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to the Agent the certification, or, if applicable, recertification, certifying that such Bank is not a "shell" and certifying to other matters as required by Section 313 of the USA Patriot Act and the applicable regulations: (1) within 10 days after the Closing Date, and (2) as such other times as are required under the USA Patriot Act.

Representations and Warranties.

A. Warranties Under the Credit Agreement. The representations and warranties of the Loan Parties contained in the Credit Agreement, after giving effect to the amendments thereto on the date hereof, are true and correct on and as of the date hereof with the same force and effect as though made by the Loan Parties on such date, except to the extent that any such representation or warranty expressly relates solely to a previous date. The Loan Parties are in compliance with all terms, conditions, provisions, and covenants contained in the Credit Agreement.

B. Power and Authority; Validity and Binding Effect; No Conflict. Each Loan Party has full power to enter into, execute, deliver and carry out this Third Amendment, and such actions have been duly authorized by all necessary proceedings on its part. This Third Amendment has been duly and validly executed and delivered by each of the Loan Parties. This Third Amendment constitutes the legal, valid and binding obligation of each of the Loan Parties which is enforceable against such Loan Party in accordance with its terms. Neither the execution and delivery of this Third Amendment, nor the consummation

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of the transactions herein contemplated will conflict with, constitute a default under or result in any breach of (i) the terms and conditions of any organizational documents of any Loan Party or (ii) any Law or any material agreement or instrument or other obligation to which any Loan Party or any of its Subsidiaries is a party or by which any Loan Party or any of its Subsidiaries is bound, or result in the creation or enforcement of any Lien upon any property of any Loan Party or any of its Subsidiaries other than as set forth herein.

C. Consents and Approvals; No Event of Default. No consent, approval, exemption, order or authorization of any Person other than the parties hereto is required by any Law or any agreement in connection with the execution, delivery and carrying out of this Third Amendment. No event has occurred and is continuing and no condition exists or will exist after giving effect to this Third Amendment which constitutes an Event of Default or Potential Default.

Conditions to Effectiveness.

This Third Amendment shall be effective on the date (the "Effective Date") on which each of the following conditions have been satisfied. The Effective Date shall be the same as the date of this Third Amendment first written above:

Execution.

The Loan Parties, the Banks and the Agent shall have executed this Third Amendment.

Secretary's Certificate.

Each Loan Party shall have delivered to the Agent for the benefit of each Bank a certificate dated as of the date hereof and signed by the Secretary or Assistant Secretary of each Loan Party certifying as appropriate as to (i) all corporate action taken by each Loan Party in connection with this Third Amendment together with a copy of the resolutions of each Loan Party evidencing the same; (ii) the names of the officer or officers authorized to sign this Third

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Amendment and the true signatures of such officers and specifying that such officers are authorized to act on behalf of such Loan Party for purposes of this Third Amendment, on which the Agent and each Bank may conclusively rely; and (iv) a certificate from the Secretary or Assistant Secretary stating that each Loan Party's organizational documents, including its certificate or articles of incorporation and bylaws have not changed since the Closing Date and are in effect on the date hereof as on the Closing Date together with certificates of the appropriate state officials as to the continued existence and good standing of each Loan Party in each state where organized or qualified to do business.

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Opinion of Counsel.

An opinion of outside counsel confirming execution, delivery and enforceability of this Third Amendment, and the Credit Agreement as amended hereby, against the Loan Parties.

Fees and Expenses. The Borrower shall have paid to the Agent for the account of each of the Banks a fee in the amount of .25% times such Bank's Commitment and all other fees and expenses due and payable, including reasonable fees of the Agent's counsel.

Covenant Relating to Inventory Appraisal. The Borrower shall deliver to the Agent and the Banks an appraisal of the inventory of the Borrower within thirty (30) days after the date of this Third Amendment and such appraisal shall be satisfactory to the Agent and the Banks.

References to Credit Agreement, Loan Documents.

Any reference to the Credit Agreement or other Loan Documents in any document, instrument, or agreement shall hereafter mean and include the Credit Agreement or such Loan Document, including such schedules and exhibits, as amended hereby. In the event of irreconcilable inconsistency between the terms or provisions of this Third Amendment and the terms or provisions of the Credit Agreement or such Loan Document, including such schedules and exhibits, the terms and provisions of this Third Amendment shall control.

Force and Effect.

Each Loan Party a signatory hereto reconfirms, restates, and ratifies the Credit Agreement, and all other documents executed in connection therewith except to the extent any such documents are expressly modified by this Third Amendment and each Loan Party confirms that all such documents have remained in full force and effect since the date of their execution.

Governing Law.

This Third Amendment shall be deemed to be a contract under the laws of the Commonwealth of Pennsylvania and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles.

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Counterparts.

This Third Amendment may be signed in any number of counterparts each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

Exhibit 10.5

The undersigned have executed this Waiver and Third Amendment as of the day and year first above written.

BORROWER:
BLAIR CORPORATION

By: _____
Title:

GUARANTORS:
BLAIR HOLDINGS, INC.

By: _____
Title:

BLAIR PAYROLL, LLC

By: _____
Title:

BLAIR INTERNATIONAL HOLDINGS, INC.

By: _____
Title:

BLAIR CREDIT SERVICES CORPORATION

By: _____
Title:

ALLEGHENY TRAIL CORPORATION

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By: _____

Title:

BANKS:

PNC BANK, NATIONAL ASSOCIATION,
individually and as Agent

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By: _____

Title:

LASALLE BANK NATIONAL ASSOCIATION

By: _____

Title:

HSBC BANK USA, NATIONAL
ASSOCIATION, successor by merger
to HSBC Bank USA

By: _____

Title:

SCHEDULES AND EXHIBITS

Schedules

- Schedule 1.1(A) - Pricing Grid
- Schedule 1.1(B) - Revolving Credit Commitments Of Banks And
Addresses For Notices
- Schedule 5.1.1 - Qualifications To Do Business
- Schedule 5.1.2 - Capitalization

Exhibits

- Exhibit 7.3.3 - Quarterly Compliance Certificate
- Exhibit 7.3.4 - Borrowing Base Certificate

CHANGE IN CONTROL SEVERANCE AGREEMENT

This Agreement is effective _____, 2004 and is entered into among Blair Corporation (the "Company"), a Delaware corporation, and _____ ("Executive"), having an address at _____.

WHEREAS, the Company recognizes the substantial contribution Executive has made [and is expected to continue to make] to the Company, and the Company wishes to protect the Executive's position with the Company for the period provided in this Agreement; and

WHEREAS, Executive has agreed to [serve] [continue to serve] in the employ of the Company;

NOW, THEREFORE, the parties agree as follows:

1. Term of Agreement.

This Agreement shall continue in effect through _____, 2007, and may be extended by the Board of Directors for additional one-year terms as set forth below; provided, however, that this Agreement shall terminate and be of no further force or effect immediately upon Executive's ceasing to be an officer of the Company.

2. Extension by Board.

Commencing on _____, 2004, and continuing annually thereafter, the Board of Directors of the Company (the "Board") may extend the term of this Agreement for an additional year. The Board will review the Agreement and the Executive's performance annually for purposes of determining whether to extend the term, and will include the review and extension or non-extension in the minutes of the Board's meeting.

3. Change in Control followed by Termination of Employment.

Upon occurrence of a Change in Control of the Company, as defined in Section 4(A), followed by termination of Executive's employment within three years following the Change in Control, the provisions of Section 5 shall apply unless such termination is because of death, disability, retirement (in accordance with the Company's policies and practices), or Termination for Cause. Executive shall have the right to elect to voluntarily terminate the employment within three years following a Change in Control in the event that Executive suffers any of the following: (i) any material demotion, (ii) any material loss of title,

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office, or significant authority or responsibility, (iii) any material reduction in annual compensation or benefits, (iv) relocation of Executive's principal office by more than 50 miles from its location immediately prior to the Change in Control, (v) failure by the Company to obtain satisfactory agreement from any successor to assume the obligations and liabilities of this Agreement.

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4. Definitions.

(A) Change in Control. A "Change in Control" of the Company shall mean the occurrence of any of the following events:

(1) The acquisition by any individual, entity or group (a "Person") within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 25% of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities").

The following acquisitions of the Company's voting securities shall not constitute a Change in Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (a), (b) and (c) of subsection (3) of this Section 4; or

(2) Directors who, as of the date of this Agreement, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date of this Agreement whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(3) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets or stock of another corporation (a "Business Combination").

This Section 4(A)(3) shall not apply if, following such Business

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Combination:

(a) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in

the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be;

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(b) A Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation, so long as such ownership existed prior to the Business Combination; and

(C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(4) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(B) Termination for Cause. The occurrence of any of the following events or circumstances shall constitute "Cause" for the termination, at the election of the Board of Directors of the Company, of the employment of Executive under this Agreement:

(1) the perpetration of defalcations, dishonesty or fraud by Executive involving the Company or any of its subsidiaries, as established by certified public accountants employed by the Company, or willful, reckless or grossly negligent conduct of Executive entailing a substantial violation of any material provision of the laws, rules, regulations or orders of any governmental agency applicable to the Company or any of its

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subsidiaries;

(2) the repeated and deliberate failure by Executive, after advance written notice to him, to comply with reasonable policies or directives of the Company or of any subsidiary of the Company for which Executive is then serving as an executive officer; or

(3) the breach of this Agreement by Executive in any other material respect and failure to cure such breach within 30 calendar days after Executive receives written notice of such breach from the Company.

Notwithstanding the foregoing, Executive shall not be deemed to have been Terminated for Cause unless and until there shall have been delivered to Executive a Notice of Termination which shall include a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the members of the Board at a meeting of the Board called and held for that purpose (after reasonable notice to Executive and an opportunity for Executive, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the particulars thereof in detail. Executive shall not have the right to receive compensation or other benefits, other than those accrued hereunder or under any benefit plans of the Company as of the date of termination, for any period after the Date of Termination for Cause. During the period beginning on the date of the Notice of Termination for Cause pursuant to Section 6 hereof through the Date of Termination for Cause, stock options and related limited rights granted to Executive under any stock option or other plan shall not be exercisable nor shall any unvested performance or other stock awards granted to Executive under any stock plan of the Company vest or be exercisable. At the Date of Termination for Cause, such stock options and related limited rights and such unvested performance or other stock awards shall become null and void and shall not be exercisable by or delivered to Executive at any time subsequent to such Date of Termination for Cause.

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5. Termination Benefits.

(A) "Severance Period" shall mean 24.

(B) Sum Payable. Upon the occurrence of a Change in Control, followed by the termination of the Executive's employment within three years following the Change in Control due to (1) Executive's voluntary termination pursuant to Section 3, or (2) Executive's dismissal, unless such dismissal is due to Termination for Cause, the Company shall pay Executive, or in the event of his subsequent death, his beneficiary or beneficiaries, or his estate, as the case may be, a cash lump sum equal to one-twelfth of the Severance Period multiplied by Executive's base salary at the rate of base salary per annum in effect immediately prior to the Change in Control or on the date of the termination of Executive's employment, whichever is higher, plus the greater of (x) the average annual incentive bonus payment earned by Executive under the Company's Incentive Compensation Plan (or any successor plan) in respect of the three most recent

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complete fiscal years of the Company preceding the date of the termination of Executive's employment or (y) the target incentive bonus award under the Company's Incentive Compensation Plan (or any successor plan) for the year in which the Change in Control occurs or the year in which the termination of Executive's employment occurs, whichever is higher.

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(C) Equity Grants. Upon the occurrence of a Change in Control of the Company, all stock options, warrants, stock and any other security or award thereof held by the Executive which is subject to vesting shall immediately become fully vested.

The Company shall also pay Executive, or in the event of his subsequent death, his beneficiary or beneficiaries, or his estate, as the case may be, a cash lump sum equal to one-twelfth of the Severance Period multiplied by Executive's target award opportunity under the Company's Long-Term Performance Share Program.

(D) Life and Medical Insurance Coverage. Upon the occurrence of a Change in Control of the Company followed by Executive's voluntary (pursuant to Section 3) or involuntary termination of employment within three years following the Change in Control, other than Termination for Cause, the Company shall cause to be continued life and medical insurance coverage, including any dental, vision, long-term disability or other insurance-related program, substantially equivalent to the coverage maintained by the Company for Executive and his eligible dependents prior to his termination, except to the extent such coverage may be changed in its application to all Company employees on a nondiscriminatory basis. Such coverage and payments shall cease upon the expiration of the number of months in the Severance Period following the Date of Termination.

(E) Retirement Benefits. Upon the occurrence of a Change in Control of the Company followed by Executive's voluntary (pursuant to Section 3) or involuntary termination of employment within three years following the Change in Control, other than Termination for Cause, the Company shall contribute or credit to Executive's account under the Company's defined contribution retirement plans (currently, the Company's Savings Plan and Profit Sharing and 401(k) Plan) an amount of cash equal to the amount that the Company would have contributed or credited to such plans (including both profit-sharing contributions and Company matching contributions in respect of Executive's contributions to the plan) had Executive continued to be employed by the Company for an additional period of months equal to the Severance Period at an annual compensation equal to the sum of (x) Executive's base salary immediately prior to the Change in Control or at the time of the termination of Executive's employment, whichever is higher and (y) the greater of (A) the average annual incentive bonus payment earned by Executive under the Company's Incentive Compensation Plan (or any successor plan) in respect of the three most recent complete fiscal years of the Company preceding the date of the termination of Executive's employment or the date of the Change in Control, whichever is higher, or (B) the target incentive bonus award under the Company's Incentive Compensation Plan (or any successor plan)

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for the year in which the Change in Control occurs or the year in which the termination of Executive's employment occurs, whichever is higher; (and assuming for this purpose that Executive made the maximum permissible contributions to such plans during such period), such contributions being deemed to be made immediately prior to the termination of Executive's employment. The Company's contribution shall equal the average contribution based on the Company's performance over the most recently ended three-year period. All vesting restrictions on the Company's contributions shall lapse immediately upon a Change in Control of the Company.

(F) Outplacement Services. Upon the occurrence of a Change in Control of the Company followed by Executive's voluntary (pursuant to Section 3) or involuntary termination of employment within three years following the Change in Control, other than Termination for Cause, the Company shall for the number of months in the Severance Period, at its sole expense as incurred, not to exceed 10% of Executive's base salary at the rate per annum in effect immediately prior to the Change in Control or on the date of the termination of Executive's employment, whichever is higher, reimburse Executive for outplacement services, the scope and provider of which shall be selected by Executive in Executive's sole discretion.

(G) Section 280G. Notwithstanding the preceding paragraphs of this Section 5, in no event shall the aggregate payments or benefits to be made or afforded to Executive under said paragraphs (the "Termination Benefits") constitute an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986 or

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any successor thereto, and in order to avoid such a result, Termination Benefits will be reduced, if necessary, to the largest amount that will result in no portion of the amount payable or right accruing hereunder being subject to an excise tax under Section 4999 of the Code. The allocation of the reduction required hereby among the Termination Benefits provided by the preceding paragraphs of this Section 5 shall be determined by Executive.

6. Notice of Termination.

(A) Form. Any purported termination by the Company or by Executive in connection with a Change in Control shall be communicated by a written "Notice of Termination" which shall include the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

(B) Date of Termination. "Date of Termination" shall mean the date specified in the Notice of Termination (which, in the instance of Termination for Cause, shall not be less than thirty (30) days from the date such Notice of Termination is given); provided, however, that if a dispute regarding the Executive's termination exists, the "Date of Termination" shall be determined in accordance with Section 6(C) of this Agreement.

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(C) Dispute. If, within thirty (30) days after any Notice of Termination is given, the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, except upon the occurrence of a Change in Control and voluntary termination by the Executive in which case the Date of Termination shall be the date specified in the Notice, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected) and provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute in connection with a Change in Control, in the event that Executive is terminated for reasons other than Termination for Cause, the Company will continue to pay Executive the payments and benefits due under this Agreement in effect when the notice giving rise to the dispute was given (including, but not limited to, his current annual salary) and continue him or her as a participant in all compensation, benefit, and insurance plans in which he or she was participating when the notice of dispute was given, until the earlier of: (1) the resolution of the dispute in accordance with this Agreement; or (2) the expiration of the remaining term of this Agreement. Amounts paid under this Section 6(C) are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

7. Source of Payments.

It is intended by the parties hereto that all payments provided in this Agreement shall be paid in cash or check from the general funds of the Company.

8. Effect on Prior Agreements and Existing Benefit Plans.

This Agreement contains the entire understanding between the parties hereto and supersedes any prior agreement between the Company and Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive of a kind elsewhere provided. No provision of this Agreement shall be interpreted to mean that Executive is subject to receiving fewer benefits than those available to him without reference to this Agreement. Nothing in this Agreement shall confer upon Executive the right to continue in the employ of Company or shall impose on the Company any obligation to employ or retain Executive in its employ for any period.

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9. No Attachment.

(A) Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any

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attempt, voluntary or involuntary, to affect any such action shall be null, void, and of no effect.

(B) This Agreement shall be binding upon, and inure to the benefit of, Executive, the Company, and their respective successors and assigns.

10. Modification and Waiver.

(A) This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.

(B) No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

11. Required Regulatory Provisions.

The Board of Directors may terminate Executive's employment at any time, but any termination by the Board of Directors, other than Termination for Cause, shall not prejudice Executive's right to compensation or other benefits under this Agreement. Executive shall not have the right to receive compensation or other benefits for any period after Termination for Cause as defined in Section 4(B) above.

12. Severability.

If, for any reason, any provision of this Agreement, or any part of any provision, is held invalid, such invalidity shall not affect any other provision of this Agreement or any part of such provision not held so invalid, and each such other provision and part thereof shall to the full extent consistent with law continue in full force and effect.

13. Headings for Reference Only.

The headings of sections and paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement. In addition, references to the masculine shall apply equally to the feminine.

14. Governing Law.

The validity, interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, but only to the extent not preempted by Federal law.

15. Arbitration.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Executive within fifty

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(50) miles from the location of the Company's main office, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that Executive shall be entitled to seek specific performance of his right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

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16. Payment of Costs and Legal Fees.

All reasonable costs and legal fees paid or incurred by Executive pursuant to any dispute or question of interpretation relating to this Agreement shall be paid or reimbursed by the Company if Executive is successful pursuant to a legal judgment, arbitration or settlement.

17. Indemnification.

The Company shall provide Executive (including his heirs, executors and administrators) with coverage under a standard directors' and officers' liability insurance policy at its expense and shall indemnify Executive (and his heirs, executors and administrators) to the fullest extent permitted under Federal law against all expenses and liabilities reasonably incurred by him in connection with or arising out of any action, suit or proceeding in which he may be involved by reason of his having been a director or officer of the Company (whether or not he continues to be a director or officer at the time of incurring such expenses or liabilities), such expenses and liabilities to include, but not be limited to, judgments, court costs and attorneys' fees and the cost of reasonable settlements.

18. Successor to the Company.

The Company shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Company, expressly and unconditionally to assume and agree to perform the Company's obligations under this Agreement, in the same manner and to the same extent that the Company would be required to perform if no such succession or assignment had taken place.

19. Release.

Executive hereby acknowledges and agrees that prior to Executive's or his dependents' right to receive from the Company any compensation or benefit to be paid or provided to him or his dependents pursuant to Section 5 of this

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Agreement, Executive may be required by the Company, in its sole discretion, to execute and comply with the terms of a release in the form of Exhibit A hereto.

20. Date Signed: _____

ATTEST: THE COMPANY

WITNESS: EXECUTIVE

EXHIBIT A

RELEASE

In exchange for the benefits in your Change in Control Severance Agreement, _____, ("you") release and forever discharge the Released Parties, which include Blair Corporation and its successors, predecessors, subsidiaries, affiliates, and assigns (collectively "Businesses") and the Businesses' former or current

Exhibit 10.6

directors, officers, employees, members, agents, successors, predecessors, subsidiaries, affiliates, assigns and attorneys, from any and all charges, claims, damages, injury and actions, in law or equity, which you or your heirs, successors, executors, or other representatives ever had, now have, or may have by reason of any act, omission, matter, cause or thing through the date of your execution of this Release. You understand that this Release is a general release of all claims you may have against the Released Parties based on any act, omission, matter, case or thing through the date of your execution of this Release, whether known or unknown.

You realize there are many laws and regulations governing the employment relationship. These include, but are not limited to, Title VII of the Civil Rights Acts of 1964 and 1991; the Americans with Disabilities Act; the Age Discrimination in Employment Act, the National Labor Relations Act; 42 U.S.C. ss. 1981; the Family and Medical Leave Act; the Employee Retirement Income Security Act of 1974 (other than any accrued benefit(s) to which you have a non-forfeitable right under any pension benefit plan); other state, local, and federal employment laws; and any amendments to any of the foregoing. You also understand there may be other statutes and laws of contract and tort that also relate to your employment. By signing this Release, you waive and release any

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rights you may have against the Released Parties under these and any other laws based on any act, omission, matter, cause or thing through the date of your execution of this Release. You also agree not to initiate, join, or voluntarily participate in any action or suit in any court or to accept any damages or other relief from any such proceeding brought by anyone else based on any act, omission, matter, cause or thing through the date of your execution of this Release.

This document is important. We advise you to review it carefully and consult an attorney, if desired, before signing it, as well as any other professional whose advice you value, such as an accountant or financial advisor. If you agree to the terms of this Release, sign in the space below where your Release is indicated and return the Release to the Chief Executive Officer of Blair Corporation. The benefits identified in your Change in Control Severance Agreement are contingent upon your agreeing to this Release. You will have forty-five (45) calendar days from the date you receive this document to consider whether to sign this Release. If you choose to sign the Release before the end of that forty-five day period, you certify that you did so voluntarily for your own benefit and not because of any coercion.

You should also understand that you will have seven (7) calendar days after you sign this Release to revoke this Release. To revoke this Release, the Chief Executive Officer of Blair Corporation must receive written notice before the end of the seven-day period after you sign this Release. In the event you revoke or do not sign either this Release, you will not be entitled to any of the payments or benefits that you would be entitled to by virtue of entering into this Release. If you do not revoke this Release within seven (7) days after you sign it, this will be final, binding, and irrevocable.

Date Signed: _____
Name of Employee _____

ACCEPTED AND AGREED

Blair Corporation

By: _____
Name: _____
Title: _____

Exhibit 10.7

CHANGE IN CONTROL SEVERANCE AGREEMENT

This Agreement is effective _____, 2004 and is entered into among Blair Corporation (the "Company"), a Delaware corporation, and _____ ("Executive"), having an address at _____.

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WHEREAS, the Company recognizes the substantial contribution Executive has made [and is expected to continue to make] to the Company, and the Company wishes to protect the Executive's position with the Company for the period provided in this Agreement; and

WHEREAS, Executive has agreed to [serve] [continue to serve] in the employ of the Company;

NOW, THEREFORE, the parties agree as follows:

1. Term of Agreement.

This Agreement shall continue in effect through , 2007, and may be extended by the Board of Directors for additional one-year terms as set forth below; provided, however, that this Agreement shall terminate and be of no further force or effect immediately upon Executive's ceasing to be an officer of the Company.

2. Extension by Board.

Commencing on , 2004, and continuing annually thereafter, the Board of Directors of the Company (the "Board") may extend the term of this Agreement for an additional year. The Board will review the Agreement and the Executive's performance annually for purposes of determining whether to extend the term, and will include the review and extension or non-extension in the minutes of the Board's meeting.

3. Change in Control followed by Termination of Employment.

Upon occurrence of a Change in Control of the Company, as defined in Section 4(A), followed by termination of Executive's employment within three years following the Change in Control, the provisions of Section 5 shall apply unless such termination is because of death, disability, retirement (in accordance with the Company's policies and practices), or Termination for Cause. Executive shall have the right to elect to voluntarily terminate the employment for any reason during a 30 day period commencing on the first anniversary of the date of a Change in Control or within three years following a Change in Control in the event that Executive suffers any of the following: (i) any material demotion, (ii) any material loss of title, office, or significant authority or responsibility, (iii) any material reduction in annual compensation or benefits, (iv) relocation of Executive's principal office by more than 50 miles from its location immediately prior to the Change in Control, (v) failure by the Company to obtain satisfactory agreement from any successor to assume the obligations and liabilities of this Agreement.

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Exhibit 10.7

4. Definitions.

(A) Change in Control. A "Change in Control" of the Company shall mean the occurrence of any of the following events:

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(1) The acquisition by any individual, entity or group (a "Person") within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 25% of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities").

The following acquisitions of the Company's voting securities shall not constitute a Change in Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (a), (b) and (c) of subsection (3) of this Section 4; or

(2) Directors who, as of the date of this Agreement, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date of this Agreement whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(3) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets or stock of another corporation (a "Business Combination").

This Section 4(A)(3) shall not apply if, following such Business Combination:

(a) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be;

(b) A Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then

Exhibit 10.7

outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation, so long as such ownership existed prior to the Business Combination; and

(c) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(4) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(B) Termination for Cause. The occurrence of any of the following events or circumstances shall constitute "Cause" for the termination, at the election of the Board of Directors of the Company, of the employment of Executive under this Agreement:

(1) the perpetration of defalcations, dishonesty or fraud by Executive involving the Company or any of its subsidiaries, as established by certified public accountants employed by the Company, or willful, reckless or grossly negligent conduct of Executive entailing a substantial violation of any material provision of the laws, rules, regulations or orders of any governmental agency applicable to the Company or any of its subsidiaries;

(2) the repeated and deliberate failure by Executive, after advance written notice to him, to comply with reasonable policies or directives of the Company or of any subsidiary of the Company for which Executive is then serving as an executive officer; or

(3) the breach of this Agreement by Executive in any other material respect and failure to cure such breach within 30 calendar days after Executive receives written notice of such breach from the Company.

Notwithstanding the foregoing, Executive shall not be deemed to have been Terminated for Cause unless and until there shall have been delivered to Executive a Notice of Termination which shall include a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the members of the Board at a meeting of the Board called and held for that purpose (after reasonable notice to Executive and an opportunity for Executive, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the particulars thereof in detail. Executive shall not have the right to receive compensation or other benefits, other than those accrued hereunder or under any benefit plans of the Company as of the date of termination, for any period after the Date of Termination for Cause. During the period beginning on the date of the Notice of Termination for Cause pursuant to

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Section 6 hereof through the Date of Termination for Cause, stock options and related limited rights granted to Executive under any stock option or other plan shall not be exercisable nor shall any unvested performance or other stock awards granted to Executive under any stock plan of the Company vest or be exercisable. At the Date of Termination for Cause, such stock options and related limited rights and such unvested performance or other stock awards shall become null and void and shall not be exercisable by or delivered to Executive at any time subsequent to such Date of Termination for Cause.

5. Termination Benefits.

(A) "Severance Period" shall mean 36.

(B) Sum Payable. Upon the occurrence of a Change in Control, followed by the termination of the

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Executive's employment within three years following the Change in Control due to (1) Executive's voluntary termination pursuant to Section 3, or (2) Executive's dismissal, unless such dismissal is due to Termination for Cause, the Company shall pay Executive, or in the event of his subsequent death, his beneficiary or beneficiaries, or his estate, as the case may be, a cash lump sum equal to one-twelfth of the Severance Period multiplied by Executive's base salary at the rate of base salary per annum in effect immediately prior to the Change in Control or on the date of the termination of Executive's employment, whichever is higher, plus the greater of (x) the average annual incentive bonus payment earned by Executive under the Company's Incentive Compensation Plan (or any successor plan) in respect of the three most recent complete fiscal years of the Company preceding the date of the termination of Executive's employment or (y) the target incentive bonus award under the Company's Incentive Compensation Plan (or any successor plan) for the year in which the Change in Control occurs or the year in which the termination of Executive's employment occurs, whichever is higher.

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(C) Equity Grants. Upon the occurrence of a Change in Control of the Company, all stock options, warrants, stock and any other security or award thereof held by the Executive which is subject to vesting shall immediately

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become fully vested.

The Company shall also pay Executive, or in the event of his subsequent death, his beneficiary or beneficiaries, or his estate, as the case may be, a cash lump sum equal to one-twelfth of the Severance Period multiplied by Executive's target award opportunity under the Company's Long-Term Performance Share Program.

(D) Life and Medical Insurance Coverage. Upon the occurrence of a Change in Control of the Company followed by Executive's voluntary (pursuant to Section 3) or involuntary termination of employment within three years following the Change in Control, other than Termination for Cause, the Company shall cause to be continued life and medical insurance coverage, including any dental, vision, long-term disability or other insurance-related program, substantially equivalent to the coverage maintained by the Company for Executive and his eligible dependents prior to his termination, except to the extent such coverage may be changed in its application to all Company employees on a nondiscriminatory basis. Such coverage and payments shall cease upon the expiration of the number of months in the Severance Period following the Date of Termination.

(E) Retirement Benefits. Upon the occurrence of a Change in Control of the Company followed by Executive's voluntary (pursuant to Section 3) or involuntary termination of employment within three years following the Change in Control, other than Termination for Cause, the Company shall contribute or credit to Executive's account under the Company's defined contribution retirement plans (currently, the Company's Savings Plan and Profit Sharing and 401(k) Plan) an amount of cash equal to the amount that the Company would have contributed or credited to such plans (including both profit-sharing contributions and Company matching contributions in respect of Executive's contributions to the plan) had Executive continued to be employed by the Company for an additional period of months equal to the Severance Period at an annual compensation equal to the sum of (x) Executive's base salary immediately prior to the Change in Control or at the time of the termination of Executive's employment, whichever is higher and (y) the greater of (A) the average annual incentive bonus payment earned by Executive under the Company's Incentive Compensation Plan (or any successor plan) in respect of the three most recent complete fiscal years of the Company preceding the date of the termination of Executive's employment or the date of the Change in Control, whichever is higher, or (B) the target incentive bonus award under the Company's Incentive Compensation Plan (or any successor plan) for the year in which the Change in Control occurs or the year in which the termination of Executive's employment occurs, whichever is higher; (and assuming for this purpose that Executive made the maximum permissible contributions to such plans during such period), such contributions being deemed to be made immediately prior to the termination of Executive's employment. The Company's contribution shall equal the average contribution based on the Company's performance over the most recently ended three-year period. All vesting restrictions on the Company's contributions shall lapse immediately upon a Change in Control of the Company.

(F) Outplacement Services. Upon the occurrence of a Change in Control of the Company followed by Executive's voluntary (pursuant to Section 3) or involuntary termination of employment within three years following the Change in Control, other than Termination for Cause, the Company shall for the number of months in the Severance Period, at its sole expense as incurred, not to exceed 10% of Executive's base salary at the rate per annum in effect immediately prior to the Change in Control or on the date of the termination of Executive's employment, whichever is higher, reimburse Executive for outplacement services, the scope and provider of which shall be selected by Executive in Executive's sole discretion.

(G) Section 280G. Notwithstanding the preceding paragraphs of this Section

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5, in the event that any payment or benefit, or any combination of payment or benefits, to Executive under said paragraphs (the "Termination Benefits") constitute an "excess parachute payment" under Section 280G of the Internal Revenue Code

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Exhibit 10.7

of 1986, or any successor thereto, then the Company, at the time such determination becomes final, shall pay to Executive an amount (the "gross-up payment") which would equal, after deducting all state and federal income and excise taxes incurred by the Executive with respect to receipt of the gross-up payment, the excise tax, if any, imposed on Executive pursuant to Section 4999 of the Code. For sake of clarity, the intent of this section is to render the executive unaffected on a net after-tax basis by the excise tax provision associated with Section 4999 of the Code.

6. Notice of Termination.

(A) Form. Any purported termination by the Company or by Executive in connection with a Change in Control shall be communicated by a written "Notice of Termination" which shall include the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

(B) Date of Termination. "Date of Termination" shall mean the date specified in the Notice of Termination (which, in the instance of Termination for Cause, shall not be less than thirty (30) days from the date such Notice of Termination is given); provided, however, that if a dispute regarding the Executive's termination exists, the "Date of Termination" shall be determined in accordance with Section 6(C) of this Agreement.

(C) Dispute. If, within thirty (30) days after any Notice of Termination is given, the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, except upon the occurrence of a Change in Control and voluntary termination by the Executive in which case the Date of Termination shall be the date specified in the Notice, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected) and provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute in connection with a Change in Control, in the event that Executive is terminated for reasons other than Termination for Cause, the Company will continue to pay Executive the payments and benefits due under this Agreement in effect when the notice giving rise to the dispute was given (including, but not limited to, his current annual salary) and continue him or her as a participant in all compensation, benefit, and insurance plans in which he or she was participating

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when the notice of dispute was given, until the earlier of: (1) the resolution of the dispute in accordance with this Agreement; or (2) the expiration of the remaining term of this Agreement. Amounts paid under this Section 6(C) are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

7. Source of Payments.

It is intended by the parties hereto that all payments provided in this Agreement shall be paid in cash or check from the general funds of the Company.

8. Effect on Prior Agreements and Existing Benefit Plans.

This Agreement contains the entire understanding between the parties hereto and supersedes any prior agreement between the Company and Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive of a kind elsewhere provided. No provision of this Agreement shall be interpreted to mean that Executive is subject to receiving fewer benefits than those available to him without reference to this Agreement. Nothing in this Agreement shall confer upon Executive the right to continue in the employ of Company or shall impose on the Company any obligation to employ or retain Executive in its employ for any period.

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9. No Attachment.

(A) Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to affect any such action shall be null, void, and of no effect.

(B) This Agreement shall be binding upon, and inure to the benefit of, Executive, the Company, and their respective successors and assigns.

10. Modification and Waiver.

(A) This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.

(B) No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

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11. Required Regulatory Provisions.

The Board of Directors may terminate Executive's employment at any time, but any termination by the Board of Directors, other than Termination for Cause, shall not prejudice Executive's right to compensation or other benefits under this Agreement. Executive shall not have the right to receive compensation or other benefits for any period after Termination for Cause as defined in Section 4(B) above.

12. Severability.

If, for any reason, any provision of this Agreement, or any part of any provision, is held invalid, such invalidity shall not affect any other provision of this Agreement or any part of such provision not held so invalid, and each such other provision and part thereof shall to the full extent consistent with law continue in full force and effect.

13. Headings for Reference Only.

The headings of sections and paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement. In addition, references to the masculine shall apply equally to the feminine.

14. Governing Law.

The validity, interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, but only to the extent not preempted by Federal law.

15. Arbitration.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Executive within fifty

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Exhibit 10.7

(50) miles from the location of the Company's main office, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that Executive shall be entitled to seek specific performance of his right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

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16. Payment of Costs and Legal Fees.

All reasonable costs and legal fees paid or incurred by Executive pursuant to any dispute or question of interpretation relating to this Agreement shall be paid or reimbursed by the Company if Executive is successful pursuant to a legal judgment, arbitration or settlement.

17. Indemnification.

The Company shall provide Executive (including his heirs, executors and administrators) with coverage under a standard directors' and officers' liability insurance policy at its expense and shall indemnify Executive (and his heirs, executors and administrators) to the fullest extent permitted under Federal law against all expenses and liabilities reasonably incurred by him in connection with or arising out of any action, suit or proceeding in which he may be involved by reason of his having been a director or officer of the Company (whether or not he continues to be a director or officer at the time of incurring such expenses or liabilities), such expenses and liabilities to include, but not be limited to, judgments, court costs and attorneys' fees and the cost of reasonable settlements.

18. Successor to the Company.

The Company shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Company, expressly and unconditionally to assume and agree to perform the Company's obligations under this Agreement, in the same manner and to the same extent that the Company would be required to perform if no such succession or assignment had taken place.

19. Release.

Executive hereby acknowledges and agrees that prior to Executive's or his dependents' right to receive from the Company any compensation or benefit to be paid or provided to him or his dependents pursuant to Section 5 of this Agreement, Executive may be required by the Company, in its sole discretion, to execute and comply with the terms of a release in the form of Exhibit A hereto.

20. Date Signed: _____

ATTEST:

THE COMPANY

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WITNESS:

EXECUTIVE

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Exhibit 10.7

EXHIBIT A

RELEASE

In exchange for the benefits in your Change in Control Severance Agreement, -----, ("you") release and forever discharge the Released Parties, which include Blair Corporation and its successors, predecessors, subsidiaries, affiliates, and assigns (collectively "Businesses") and the Businesses' former or current directors, officers, employees, members, agents, successors, predecessors, subsidiaries, affiliates, assigns and attorneys, from any and all charges, claims, damages, injury and actions, in law or equity, which you or your heirs, successors, executors, or other representatives ever had, now have, or may have by reason of any act, omission, matter, cause or thing through the date of your execution of this Release. You understand that this Release is a general release of all claims you may have against the Released Parties based on any act, omission, matter, case or thing through the date of your execution of this Release, whether known or unknown.

You realize there are many laws and regulations governing the employment relationship. These include, but are not limited to, Title VII of the Civil Rights Acts of 1964 and 1991; the Americans with Disabilities Act; the Age Discrimination in Employment Act, the National Labor Relations Act; 42 U.S.C. ss. 1981; the Family and Medical Leave Act; the Employee Retirement Income Security Act of 1974 (other than any accrued benefit(s) to which you have a non-forfeitable right under any pension benefit plan); other state, local, and federal employment laws; and any amendments to any of the foregoing. You also understand there may be other statutes and laws of contract and tort that also relate to your employment. By signing this Release, you waive and release any rights you may have against the Released Parties under these and any other laws based on any act, omission, matter, cause or thing through the date of your execution of this Release. You also agree not to initiate, join, or voluntarily participate in any action or suit in any court or to accept any damages or other relief from any such proceeding brought by anyone else based on any act, omission, matter, cause or thing through the date of your execution of this Release.

This document is important. We advise you to review it carefully and consult an attorney, if desired, before signing it, as well as any other professional whose advice you value, such as an accountant or financial advisor. If you agree to the terms of this Release, sign in the space below where your

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Release is indicated and return the Release to the Chief Executive Officers/Senior Vice President, Operations and Administration of Blair Corporation. The benefits identified in your Change in Control Severance Agreement are contingent upon your agreeing to this Release. You will have forty-five (45) calendar days from the date you receive this document to consider whether to sign this Release. If you choose to sign the Release before the end of that forty-five day period, you certify that you did so voluntarily for your own benefit and not because of any coercion.

You should also understand that you will have seven (7) calendar days after you sign this Release to revoke this Release. To revoke this Release, the Chief Executive Officer of Blair Corporation must receive written notice before the end of the seven-day period after you sign this Release. In the event you revoke or do not sign either this Release, you will not be entitled to any of the payments or benefits that you would be entitled to by virtue of entering into this Release. If you do not revoke this Release within seven (7) days after you sign it, this will be final, binding, and irrevocable.

Date Signed: -----

Name of Employee

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Exhibit 10.7

ACCEPTED AND AGREED

Blair Corporation

By: -----
Name:-----
Title: Chief Executive Officer

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