TOO INC
Form 10-Q
September 11, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 3, 2002

OR

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

For the transition period from to

Commission file number 1-14987

TOO, INC.
(Exact name of registrant as specified in its charter)

Delaware	31-1333930
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8323 Walton Parkway, New Albany, OH	43054
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (614) 775-3500

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

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding at September 3, 2002
$.01 Par Value	34,060,548 Shares

TOO, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

TOO, INC.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands except per share amounts)

	Thirteen Weeks Ended	Twenty-Six

	August 3, 2002	August 4, 2001	August 3, 2002
Net sales	$ 141,248	$ 125,468	$ 299,839
Costs of goods sold, buying and occupancy costs	91,803	84,494	196,871
Gross income	49,445	40,974	102,968
General, administrative and store operating expenses	39,898	35,720	83,423
Operating income	9,547	5,254	19,545
Interest expense, net	516	377	769
Income before income taxes	9,031	4,877	18,776
Provision for income taxes	3,500	2,000	7,400
Net income	$ 5,531	$ 2,877	$ 11,376
Earnings per share:			
Basic	$ 0.17	$ 0.09	$ 0.35
Diluted	$ 0.16	$ 0.09	$ 0.34
Weighted average common shares:			
Basic	33,483	30,938	32,454
Diluted	34,501	32,006	33,518

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

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TOO, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	August 3, 2002 (unaudited)	Februar 200
ASSETS		
Current Assets:		
Cash and equivalents	$ 79,572	$ 63,
Receivables	2,629	2,
Inventories	55,462	44,
Store supplies	11,095	10,

Other	1,443	2,
Total current assets	150,201	123,
Property and equipment, net	144,842	126,
Deferred income taxes	14,249	14,
Other assets	81	
TOTAL ASSETS	$ 309,373	$ 265,
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion long-term debt	$ -	$ 17,
Accounts payable	31,139	23,
Accrued expenses	40,517	39,
Income taxes payable	11,103	19,
Total current liabilities	82,759	99,
Long-term debt, less current portion	-	32,
Other long-term liabilities	6,764	5,
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, 50 million shares authorized	-	
Common stock, $.01 par value, 100 million shares authorized, 34.1 million and 31.3 million issued and outstanding at August 3, 2002 and February 2, 2002, respectively	341	
Paid in capital	115,575	35,
Retained earnings	103,934	92,
Total shareholders' equity	219,850	128,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 309,373	$ 265,

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

TOO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Twenty-Six Weeks Ended	
	August 3, 2002	August 4, 2001
Cash flows from operating activities:		
Net income	$ 11,376	$ 6,692

Impact of other operating activities on cash flows:		
Depreciation and amortization	9,946	8,852
Changes in assets and liabilities:		
Inventories	(10,925)	(6,162)
Accounts payable and accrued expenses	9,500	2,937
Income taxes	(6,220)	(7,317)
Other assets	894	2
Other liabilities	1,469	802
Net cash provided by operating activities	16,040	5,806
Investing activities:		
Capital expenditures	(28,434)	(23,552)
Net cash used for investing activities	(28,434)	(23,552)
Financing activities:		
Net proceeds from issuance of common stock	73,606	-
Repayment of term loan	(50,000)	-
Stock options, restricted stock and other equity changes	4,822	3,301
Net cash provided by financing activities	28,428	3,301
Net increase (decrease) in cash and equivalents	16,034	(14,445)
Cash and equivalents, beginning of period	63,538	54,788
Cash and equivalents, end of period	$ 79,572	$ 40,343

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

TOO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

Too, Inc. (referred to herein as "Too" or "the Company") is the operator of two specialty retailing businesses, Limited Too and mishmash. Limited Too sells apparel, underwear, sleepwear, swimwear, lifestyle and personal care products for fashion-aware, trend-setting young girls ages seven to fourteen years. mishmash, launched by the Company in late September 2001, sells cosmetics, sportswear, intimate apparel and footwear to young women ages fourteen to nineteen. The assortment also includes accessories, jewelry, room decor furnishings and lifestyle products. The consolidated financial statements include the accounts of Too, Inc. and its wholly owned subsidiaries and reflect the Company's assets, liabilities, results of operations and cash flows on a historical cost basis.

The accompanying unaudited interim consolidated financial statements as of August 3, 2002 and for the thirteen and twenty-six weeks ended August 3, 2002 and August 4, 2001, are presented to comply with the rules and regulations of the Securities and Exchange Commission. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's 2001 Annual Report on Form 10-K. In the opinion of management, the accompanying interim consolidated financial statements reflect all adjustments, which are of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations for a full fiscal year.

The consolidated financial statements as of August 3, 2002, and for the thirteen and twenty-six weeks ended August 3, 2002 and August 4, 2001 included herein have been reviewed by the independent public accounting firm of PricewaterhouseCoopers LLP and the report of such firm follows the notes to consolidated financial statements. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for its report on the consolidated financial statements because that report is not a "report" within the meaning of Sections 7 and 11 of that Act.

2. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if stock options or restricted stock were converted to common stock using the treasury stock method.

The following table shows the amounts used in the computation of basic and diluted earnings per share (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
Net income	$ 5,531	$ 2,877	$11,376	$ 6,692
Weighted average common shares - basic	33,483	30,938	32,454	30,878
Dilutive effect of stock options and restricted stock	1,018	1,068	1,064	925
Weighted average common shares - diluted	34,501	32,006	33,518	31,803

Due to the options' price exceeding the average market price of the common shares for the reporting periods, certain options were excluded from the calculation of net income per diluted share. In fiscal 2002, options to purchase 14,000 common shares were not included in the computation of net income per diluted share for both the thirteen and twenty-six weeks ended August 3, 2002. In fiscal 2001, options to purchase 185,000 and 215,000 common shares were not included in the computation of net income per diluted share for the thirteen and twenty-six weeks ended August 4, 2001, respectively.

3. INVENTORIES

The fiscal year of the Company is comprised of two principal selling seasons: Spring (the first and second quarters) and Fall (the third and fourth quarters). Inventories are principally valued at the lower of average cost or market, on a first-in, first-out basis utilizing the retail method. Inventory valuation at the end of the first and third quarters reflects adjustments for markdowns and shrinkage estimates for the total selling season.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, at cost, consisted of (in thousands):

	August 3, 2002	February 2, 2002
Land	$ 8,040	$ 7,797
BuildingS	41,241	-
Furniture, fixtures and equipment	123,486	105,554
Leasehold improvements	44,005	45,408
Construction-in-progress	6,347	49,069
Total	223,119	207,828
Less: accumulated depreciation and amortization	(78,277)	(81,413)
Property and equipment, net	$ 144,842	$ 126,415

5. RELATIONSHIP WITH THE LIMITED

In connection with the August 23, 1999 Spin-off, the Company entered into a service agreement with Limited Logistics Services (formerly known as Limited Distribution Services), a wholly owned subsidiary of The Limited, to provide distribution services to us covering flow of merchandise from factory to our stores for up to three years after the Spin-off. Most of the merchandise and related materials for the Company's stores were shipped to a distribution center owned by The Limited in Columbus, Ohio, where the merchandise was received, inspected, allocated and packed for shipment to stores. Under the service agreement, The Limited distributed merchandise and related materials using common and contract carriers to the Company's stores. Inbound freight was charged to Too based upon actual receipts and related charges, while outbound freight was charged based on a percentage of cartons shipped. In February 2002, the Company began operating its own distribution center and, beginning in the second quarter of 2002, inbound and outbound freight is handled by common and contract carriers under contracts negotiated by Too, Inc.

Our former main office was owned by Distribution Land Corp., a wholly owned subsidiary of the Limited, and leased to us with a lease term expiring in August 2002. In April 2002, the Company completed construction of its new home office and, as of May 2002, no further amounts were due Distribution Land Corp. under the lease.

Our largest apparel supplier has been Mast Industries, Inc., a wholly owned subsidiary of The Limited. Mast Industries supplied approximately 30% of the apparel that we purchased in 2001. We believe that all transactions that we have entered into with Mast Industries have been on terms that would have been obtained on an arm's length basis since we treat them as if they were a third party. We were not, and will not be, obligated to continue to source products through Mast Industries.

Amounts payable to The Limited, including merchandise payables to Mast Industries, approximated $9.2 and $8.0 million at August 3, 2002 and February 2, 2002, respectively.

6. CREDIT FACILITY

During August 1999, the Company entered into a five-year $100 million credit agreement (the "Credit Facility") with a syndicate of banks. The Credit Facility is collateralized by virtually all assets of the Company and was comprised of a $50 million five-year term loan and a $50 million revolving loan commitment. The entire amount of the term portion was drawn in order to fund a $50 million dividend to The Limited and $14 million was drawn under the revolving loan commitment principally to repay a portion of working capital advances made by the Limited prior to the Spin-off.

The $50 million revolving loan commitment is available to fund working capital requirements and for general corporate purposes. Interest on borrowings under the Credit Facility is based on matrix pricing applied to either the London Interbank Offered Rate or Prime, as defined in the agreement. A commitment fee based on matrix pricing is charged on the unused portion of the revolving loan commitment. The commitment fee is up to 1/2 of 1% of the unused revolving credit commitment per annum. Under the terms of the Credit Facility, the Company is required to comply with certain covenants including financial ratios. The Credit Facility limits the Company from incurring certain additional indebtedness and restricts substantial asset sales, capital expenditures above approved limits and cash dividends. The Company is in compliance with all applicable terms of the Credit Facility. As of August 3, 2002, there were no amounts outstanding under the revolving portion of the Credit Facility.

On May 24, 2002, the Company paid off the entire $50 million term loan due under the Credit Facility from the proceeds of the common stock offering (see Note 9). The $50 million revolving loan commitment under the Credit Facility remains in effect and is available to the Company for future business purposes.

Interest expense, including the amortization and write-off of financing fees, amounted to $884,000 for the thirteen weeks ended August 3, 2002. Interest expense was partially offset by interest income of $368,000 for the quarter. Interest expense and interest income amounted to $1,015,000 and $638,000, respectively, for the thirteen weeks ended August 4, 2001. For the twenty-six weeks ended August 3, 2002 and August 4, 2001, interest expense amounted to $1,922,000 and $2,067,000, respectively, and interest income amounted to $1,153,000 and $1,558,000, respectively.

7. ADVERTISING BARTER TRANSACTIONS

During the quarter, the Company entered into barter transactions for advertising whereby advertising space was allotted to third-parties in the Company's catalog in exchange for production of Limited Too television promotional spots and other forms of promotion. The Company accounts for barter transactions in accordance with EITF 99-17, "Accounting for Advertising Barter Transactions." EITF 99-17 requires that barter transactions be recorded at the fair value of advertising surrendered only if the fair value is determinable based on the entity's own historical practice of receiving cash for similar advertising. No revenues or expenses were recorded for the quarter ended August 3, 2002.

8. RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," will be effective in the first quarter of 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the corresponding estimated retirement cost by increasing the carrying amount 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, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Because costs associated with exiting leased properties at the end of the lease terms are minimal, the Company believes that when the statement is adopted, it will not have a significant effect on the Company's results of operations or its financial position.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued by the Financial Accounting Standards Board during the second quarter of 2002. SFAS 145 eliminates FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board (APB) Opinion No. 30. SFAS 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement 4 shall be applied in fiscal years beginning after May 15, 2002. The provisions of this Statement related to Statement 13 shall be effective for transactions occurring after May 15, 2002. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002. The Company believes that the adoption of the provisions of this statement related to the recission of Statement 4 will not have a significant effect on the Company's results of operations or its financial position. The adoption of the other provisions of this statement did not have a material impact on the Company's consolidated financial statements.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued by the Financial Accounting Standards Board during the second quarter of 2002. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 eliminates the definition and requirement for recognition of exit costs in EITF Issue No. 94-3 where a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. This statement is effective for exit or disposal activities initiated after December 31, 2002. The Company believes that the adoption of this statement will not have a significant impact on its results of operations or financial position.

9. COMMON STOCK OFFERING

On April 29, 2002, the Company filed a registration statement on Form S-3, File Number 333-87188, with the Securities and Exchange Commission to sell up to 2.8 million shares of its common stock.

On May 24, 2002, the Company received $73.6 million net proceeds from the sale of 2.4 million shares of its common stock. On that day, the Company paid off the entire $50 million term loan under the Credit Facility and the remaining proceeds will be used for general corporate purposes. The $50 million revolving loan commitment under the Credit Facility remains in effect and is available to the Company for future business purposes.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of Too, Inc.:

We have reviewed the accompanying consolidated balance sheet of Too, Inc. and its subsidiaries (the "Company") as of August 3, 2002, and the related consolidated statements of income for each of the thirteen and twenty-six week periods ended August 3, 2002 and August 4, 2001 and the consolidated statements of cash flows for the twenty-six week periods ended August 3, 2002 and August 4, 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of February 2, 2002, and the related consolidated statements of income, shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 20, 2002 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of February 2, 2002 is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Columbus, Ohio
August 14, 2002

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Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Net sales for the thirteen weeks ended August 3, 2002 were $141.2 million, an increase of 13% from $125.5 million for the comparable period of 2001. Gross income increased 20% to $49.4 million from $41.0 million in 2001 and operating income rose 79% to $9.5 million from $5.3 million in 2001. Net income increased 90% to $5.5 million from $2.9 million in 2001. Diluted earnings per share increased 78% to $.16, from $.09 in 2001.

Net sales for the twenty-six weeks ended August 3, 2002 were $299.8 million, an increase of 14% from $262.1 million for the comparable period of 2001. Gross income increased 20% to $103.0 million from $85.9 million in 2001 and operating income rose 67% to $19.5 million from $11.7 million in 2001. Net income increased 70% to $11.4 million from $6.7 million in 2001. Diluted earnings per share increased to $.34, a 62% increase, from diluted earnings per share of $.21 in 2001.

FINANCIAL SUMMARY

The following summarized financial and statistical data compares the thirteen and twenty-six weeks ended August 3, 2002, to the comparable 2001 period:

	Thirteen Weeks Ended			
	August 3, 2002	August 4, 2001	Percent Change	August 3 2002
Net sales (millions)	$ 141.2	$ 125.5	13%	$ 299.8
Comparable store sales performance/(1)/	0%	0%		2
Retail sales per average square foot/(2)/	$ 71 /(3)/	$ 73	(3%)	$ 153
Retail gross square feet at end of				

quarter (thousands)	1,985 /(3)/	1,725	15%	
Stores with "Girl Power" format	247	176		
Percentage of Limited Too stores in "Girl Power" format	51%	42%		
Number of Stores:				
Limited Too:				
Beginning of period	471	413		459
Opened	14	9		27
Closed	(1)	-		(2
End of period	484	422		484
mishmash	11	-		11

/(1)/ A store is included in our comparable store sales calculation once it has completed 52 weeks of operation. Further, stores that have changed more than 20% in square feet are treated as new stores for purposes of this calculation. Fiscal 2001 comparable store sales are reported on a calendar-shifted basis.

/(2)/ Retail sales per average square foot is the result of dividing net sales for the fiscal quarter by average gross square feet, which reflects the impact of opening and closing stores throughout the quarter.

/(3)/ Amounts exclude mishmash stores.

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Net Sales

Net sales for the second quarter of 2002 increased 13% to $141.2 million from $125.5 million in 2001. Comparable store sales were flat for the second quarter of 2002 compared to flat comparable store sales during the second quarter of 2001. Net sales benefited from a 15% increase in Limited Too square footage over last year.

Year-to-date net sales were $299.8 million, a 14% increase over 2001 year-to-date sales of $262.1. The increase was primarily due to the net addition of 62 new Limited Too and 11 new mishmash stores since the end of the second quarter of 2001.

The best performing merchandise categories during the thirteen and twenty-six weeks ended August 3, 2002 were active wear led by active pants and shorts, as well as jeanswear and skirts.

Gross Income

Gross income, expressed as a percentage of net sales, was 35.0% for the second quarter of 2002, an increase of 230 basis points from a gross income rate of 32.7% for the second quarter of 2001. This rate increase was due to higher initial mark-ups and an improved markdown rate, at cost, which more than offset the increased buying and occupancy rate due to increased catalog circulation.

For the year-to-date period, the gross income rate increased 150 basis points to 34.3% from 32.8% in 2001. Higher initial mark-ups and a lower markdown rate, at cost, more than offset increased buying and occupancy costs.

General, Administrative and Store Operating Expenses

General, administrative and store operating expense, expressed as a percentage of net sales, was 28.2% for the second quarter of 2002, a decrease of 30 basis points from a rate of 28.5% for the second quarter of 2001. This rate decrease was primarily due to lower home office and web related expenses, which more than offset the increase in marketing expense.

On a year-to-date basis, general, administrative and store operating expense decreased by 50 basis points to 27.8% in 2002 from 28.3% in 2001. The decrease in rate for the year-to-date period was due to lower distribution center and web related expenses, along with a decrease in the store payroll rate.

Operating Income

Operating income, expressed as a percentage of net sales, was 6.8% in the second quarter of 2002, an increase of 260 basis points from 4.2% for the same period in 2001. Year-to-date operating income increased to 6.5% in 2002 compared to 4.5% in 2001. The increase in operating income, expressed as a percentage of net sales, for both the quarter and year-to-date periods was due to higher merchandise margins and lower general, administrative and store operating expenses.

Income Taxes

Income tax expense during the second quarter amounted to $3.5 million and $7.4 million for the quarter ending and year to date period ending August 3, 2002, respectively, compared to $2.0 million and $4.5 million for the comparable periods ending August 4, 2001. During the second quarter the income tax provision rate decreased from 40.0% to 38.5% as a result of realigning our corporate operations, including the start up of our direct sourcing initiatives.

FINANCIAL CONDITION

Liquidity and Capital Resources

Cash provided from operating activities is the primary resource to support operations, including projected growth, seasonal working capital requirements and capital expenditures.

Net cash provided by operating activities amounted to $16.0 million for the twenty-six weeks ended August 3, 2002 versus $5.8 million for the comparable period in 2001. The increase in net cash provided by operating activities versus the comparable period in 2001 was due to an increase in net income and depreciation expense and better leveraging of inventory builds via accounts payable.

Investing activities represented capital expenditures, which were primarily for completing construction of the new home office and distribution center, as well as for new and remodeled stores.

Financing activities represented proceeds from the sale of 2.4 million common stock shares, including the inherent repayment of the term loan and employee stock option exercises.

A summary of our working capital position and capitalization follows (in thousands):

	August 3, 2002	February 2 2002
Working capital (inclusive of current portion of long-term debt of $17,500 at February 2, 2002)	$ 67,442	$ 23,815
Capitalization:		
Long-term debt	-	32,500
Shareholders' equity	219,850	128,209
Total capitalization	$ 219,850	$ 160,709
Amounts authorized under revolving portion of credit facility	$ 50,000	$ 50,000

In August 1999, we entered into a five-year, $100 million collateralized Credit Facility. The Credit Facility consisted of a $50 million five-year term loan and a $50 million, five-year annual revolving credit commitment. The Credit Facility's interest rates, which reflect matrix pricing, are based on the London Interbank Offered Rate or Prime plus a spread as defined in the agreement. The term loan was interest only until the end of the third year at which time the amortization of the outstanding principle balance would begin. The Credit Facility contains customary representations and warranties as well as certain affirmative, negative and financial covenants.

On May 24, 2002, the Company received net proceeds from the sale of 2.4 million shares of its common stock of $73.6 million. On that day, the Company paid off the entire $50 million term loan under the Credit Facility. The $50 million revolving loan commitment under the Credit Facility remains in effect and is available to the Company for future business purposes.

No amounts were borrowed against the $50 million revolving credit commitment during the twenty-six weeks ended August 3, 2002.

Capital Expenditures

Capital expenditures totaled $28.4 million for the twenty-six weeks ended August 3, 2002 compared to $23.6 million for the comparable period of 2001. 2002 capital expenditures included $8.2 million for new and remodeled stores, $6.7 million for the new distribution center and $13.5 million for the new home office and other items. We anticipate spending approximately $40 million in 2002 for capital expenditures including the construction of 50 to 55 new Limited Too stores, at least five new

mishmash stores and the remodeling or expansion of approximately ten stores identified for remodeling. Our store expansion and remodel program should add 210,000 to 220,000 gross square feet during 2002, representing an 11% to 12%

increase over year-end 2001. The Company expects that capital expenditures will be funded principally by net cash provided by operating activities.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that impact the amounts reported in the Company's consolidated financial statements and related notes. On an on-going basis, management evaluates its estimates and judgments, including those related to inventories, long-lived assets and sales returns. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ materially from management's estimates. Management believes the following estimates and assumptions are most significant to reporting the Company's results of operations and financial position.

Inventories - Inventories are valued at the lower of average cost or market, on a first-in, first-out basis, utilizing the retail method. Under the retail method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories. The use of the retail method will result in valuing inventories at the lower of cost or market if markdowns are currently taken as a reduction of the retail value and cost of inventories. Inherent in the retail method are certain significant management judgments and estimates including, among others, initial merchandise markup, markdowns and shrinkage, all of which significantly impact the ending inventory valuation at cost as well as the resulting gross margins. The Company calculates inventory valuations on an individual item-class basis to ensure a high degree of accuracy in estimating the cost. Inventory valuation at the end of the first and third quarters reflects adjustments for inventory markdowns and shrinkage estimates for the total selling season.

Long-Lived Assets - Property and equipment are stated at cost, net of accumulated depreciation and amortization. Service lives are established for store assets ranging from 5 to 10 years for building improvements and 3 to 10 years for other property and equipment. Property and equipment at the home office and distribution center is assigned service lives between 5 and 20 years. The distribution center and home office buildings are depreciated over 40 years. Assets are reviewed on an annual basis for impairment, and based on management's judgment, are written down to the estimated fair value based on anticipated future cash flows.

Sales Returns - Sales are recorded when the customer takes possession of merchandise. A reserve is provided for projected merchandise returns based on prior experience.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," will be effective in the first quarter of 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the corresponding estimated retirement cost by increasing the carrying amount 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, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Because costs associated with exiting leased properties at the end of the lease terms are minimal, the Company believes that when the statement is adopted, it will not have a significant effect on the Company's results of operations or its financial position.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued by the Financial Accounting Standards Board during the second quarter of 2002. SFAS 145 eliminates FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board (APB) Opinion No. 30. SFAS 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative

pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement 4 shall be applied in fiscal years beginning after May 15, 2002. The provisions of this Statement related to Statement 13 shall be effective for transactions occurring after May 15, 2002. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002. The Company believes that the adoption of the provisions of this statement related to the recission of Statement 4 will not have a significant effect on the Company's results of operations or its financial position. The adoption of the other provisions of this statement did not have a material impact on the Company's consolidated financial statements.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued by the Financial Accounting Standards Board during the second quarter of 2002. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 eliminates the definition and requirement for recognition of exit costs in EITF Issue No. 94-3 where a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. This statement is effective for exit or disposal activities initiated after December 31, 2002. The Company believes that the adoption of this statement will not have a significant impact on its results of operations or financial position.

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

The Company cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Management's Discussion and Analysis or made by management of the Company involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond the Company's control. Forward-looking statements are indicated by words such as "anticipate," "estimate," "expect," "intend," "risk," "could," "may," "will," "pro forma," "likely," "possible," "potential," and similar words and phrases and the negative forms and variations of these words and phrases, and include statements in this Management's Discussion and Analysis relating to anticipated capital expenditures in 2002 for new stores, the remodeling or expansion of existing stores and the related funding thereof. The following factors, among others, in some cases have affected, and in the future could affect, the Company's financial performance and actual results and could cause future performance and financial results to differ materially from those expressed or implied in any forward-looking statements included in this Management's Discussion and Analysis or otherwise made by management: changes in consumer spending patterns, consumer preferences and overall economic conditions; the impact of competition and pricing; changes in weather patterns; currency and exchange risks; changes in existing or potential trade restrictions, duties, tariffs or quotas; changes in political or financial stability; changes in postal rates and charges and paper and printing costs; availability of suitable store locations at appropriate terms; ability to develop new merchandise; ability to hire and train associates; and/or other risk factors that may be described in the Safe Harbor Statement and Business Risks section of the Company's Form 10-K, filed April 29, 2002, as well as other filings with the Securities and Exchange Commission. Future economic and industry trends that could potentially impact revenue and profitability are difficult to predict. Therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. In light of the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded a representation by the Company, or any other person, that the objectives of the Company will be achieved. The forward-looking statements made herein are based on information presently available to the management of the Company. The Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 4. Matters Submitted to a Vote of Security Holders

The 2002 annual meeting of stockholders was held on Tuesday, May 21, 2002, at 9:00 a.m. Eastern Time at our corporate offices, located at 8323 Walton Parkway, New Albany, Ohio.

ELECTION OF DIRECTORS	FOR	AGAINST	WITHHELD	RESULTS
Philip E. Mallott	28,456,414	-	1,050,039	Elected
Michael W. Rayden	21,705,829	-	7,800,624	Elected

Item 6. Exhibits

(a) Exhibits

15 Letter re: Unaudited Interim Financial Information to Securities and Exchange Commission re: Incorporation of Report of Independent Accountants.

99.1 Certification of Periodic Report by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Periodic Report by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On May 13, 2002, the Company filed a current report on Form 8-K that announced the Company's first quarter results.

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 thereunto duly authorized.

TOO, INC.
(Registrant)

By /s/ Kent A. Kleeberger

Kent A. Kleeberger,
Executive Vice President, Chief Operating Officer
and Chief Financial Officer
(duly authorized officer and Principal
Financial and Accounting Officer)

Date: September 11, 2002

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CERTIFICATION

I, Michael Rayden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Too, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 11, 2002

/s/ Michael Rayden

Michael Rayden
President, Chief Executive Officer and
Chairman of the Board of Directors

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CERTIFICATION

I, Kent Kleeberger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Too, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 11, 2002

/s/ Kent A. Kleeberger

Kent A. Kleeberger
Executive Vice President, Chief Operating
Officer and Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Document
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