TOO INC
Form 10-Q
December 13, 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 November 2, 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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

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 December 9, 2002
$.01 Par Value	34,090,811 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		Thirty-Nine Weeks E	
	November 2, 2002	November 3, 2001	November 2, 2002	Novem 20
Net sales	$ 164,629	$ 148,763	$ 464,468	$ 4
Costs of goods sold, buying and occupancy costs	105,608	97,381	302,479	2
Gross income	59,021	51,382	161,989	1
General, administrative and store operating expenses	41,606	37,968	125,029	1
Operating income	17,415	13,414	36,960	
Interest (income) expense, net	(121)	74	648	
Income before income taxes	17,536	13,340	36,312	
Provision for income taxes	6,700	5,300	14,100	
Net income	$ 10,836	$ 8,040	$ 22,212	$
Earnings per share:				
Basic	$ 0.32	$ 0.26	$ 0.67	$
Diluted	$ 0.31	$ 0.25	$ 0.65	$
Weighted average common shares:				
Basic	34,061	31,042	32,990	
Diluted	34,903	32,131	33,980	

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

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

	November 2, 2002	Februar 2002
	(unaudited)	
ASSETS		
Current Assets:		
Cash and equivalents	$ 88,227	$ 63

Receivables	3,502	2
Inventories	55,698	44
Store supplies	11,263	10
Other	1,360	2
Total current assets	160,050	123
Property and equipment, net	145,940	126
Deferred income taxes	14,262	14
Other assets	1,140	
TOTAL ASSETS	$ 321,392	$ 265
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion long-term debt	$ -	$ 17
Accounts payable	25,640	23
Accrued expenses	46,069	39
Income taxes payable	11,438	19
Total current liabilities	83,147	99
Long-term debt, less current portion	-	32
Other long-term liabilities	7,754	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 November 2, 2002 and February 2, 2002, respectively	341	
Paid in capital	115,380	35
Retained earnings	114,770	92
Total shareholders' equity	230,491	128
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 321,392	$ 265

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

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

	Thirty-Nine Weeks Ended	
	November 2, 2002	November 2001

Cash flows from operating activities:		
Net income	$ 22,212	$ 14
Impact of other operating activities on cash flows:		
Depreciation and amortization	14,248	13
Changes in assets and liabilities:		
Inventories	(11,161)	(12
Accounts payable and accrued expenses	9,921	6
Income taxes	(5,896)	(2
Other assets	722	(2
Other liabilities	2,459	1
Net cash provided by operating activities	32,505	18
Investing activities:		
Capital expenditures	(36,047)	(54
Net cash used for investing activities	(36,047)	(54
Financing activities:		
Net proceeds from issuance of common stock	73,394	
Repayment of term loan	(50,000)	
Stock options, restricted stock and other equity changes	4,837	4
Net cash provided by financing activities	28,231	4
Net increase (decrease) in cash and equivalents	24,689	(30
Cash and equivalents, beginning of period	63,538	54
Cash and equivalents, end of period	$ 88,227	$ 24

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. Goldmark, a 50% joint venture with Angus & Coote (Holdings) Limited, was launched in late October 2002. Goldmark offers real gold and sterling silver jewelry, watches, diamond rings and body jewelry to men and women ages 15 to 30. 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 November 2, 2002 and for the thirteen and thirty-nine weeks ended November 2, 2002 and November 3, 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 November 2, 2002, and for the thirteen and thirty-nine weeks ended November 2, 2002 and November 3, 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		Thirty-Nin
	November 2, 2002	November 3, 2001	November 2, 2002
Net income	$ 10,836	$ 8,040	$ 22,212
Weighted average common shares - basic	34,061	31,042	32,990
Dilutive effect of stock options			

and restricted stock	842	1,089	990
Weighted average common shares - diluted	34,903	32,131	33,980

Due to the options' strike 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 853,000 and 140,700 common shares were not included in the computation of net income per diluted share for the thirteen and thirty-nine weeks ended November 2, 2002, respectively. In fiscal 2001, options to purchase 150,000 and 215,400 common shares were not included in the computation of net income per diluted share for the thirteen and thirty-nine weeks ended November 3, 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 inventory markdowns and shrinkage estimates for the total selling season.

4. PROPERTY AND EQUIPMENT, NET

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

	November 2, 2002	February 2, 2002
Land	$ 8,041	$ 7,797
Buildings	41,266	-
Furniture, fixtures and equipment	134,114	105,554
Leasehold improvements	38,717	45,408
Construction-in-progress	5,744	49,069
Total	227,882	207,828
Less: accumulated depreciation and amortization	(81,942)	(81,413)
Property and equipment, net	$ 145,940	$ 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 carrier s 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. Beginning in February 2002, the Company began operating its own distribution center and subsequently terminated the service agreement in mid 2002.

Our 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 terminated the aforementioned 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 $6.6 and $8.0 million at November 2, 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 November 2, 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. The $50 million revolving loan commitment under the Credit Facility remains in effect and is available to the Company for future business purposes.

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Interest expense, including financing fees, amounted to $239,000 for the thirteen weeks ended November 2, 2002. Interest expense was more than offset by interest income of $360,000 for the quarter. Interest expense and interest income amounted to $916,000 and $842,000, respectively, for the thirteen weeks ended November 3, 2001. For the thirty-nine weeks ended November 2, 2002 and November 3, 2001, interest expense amounted to $2,161,000 and $2,983,000 respectively, and interest income amounted to $1,513,000 and $2,400,000, respectively.

7. ADVERTISING BARTER TRANSACTIONS

During fiscal year 2002, the Company entered into advertising barter transactions whereby advertising space was allotted to third-parties in the Company's catalog in exchange for production of Limited Too television commercials, airtime and other advertising. 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 thirteen and thirty-nine weeks ended November 2, 2002.

8. RECENTLY ISSUED 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.

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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 are effective for transactions occurring after May 15, 2002. All other provisions of this Statement are 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 rescission 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 FINANCING

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 sold 2.4 million shares of its common stock, resulting in net proceeds of $73.4 million. On that day, the Company paid off the entire $50 million term loan due under the Credit Facility and the remaining proceeds from the sale of common stock 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 November 2, 2002, and the related consolidated statements of income for each of the thirteen and thirty-nine week periods ended November 2, 2002 and November 3, 2001 and the consolidated statements of cash flows for the thirty-nine week periods ended November 2, 2002 and November 3, 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
November 13, 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 November 2, 2002 were $164.6 million, an increase of 11% from $148.8 million for the comparable period of 2001. Gross income increased 15% to $59.0 million from $51.4 million in 2001 and operating income rose 30% to $17.4 million from $13.4 million in 2001. Net income increased 35% to $10.8 million from $8.0 million in 2001. Diluted earnings per share increased 24% to $.31, versus $.25 in 2001.

Net sales for the thirty-nine weeks ended November 2, 2002 were $464.5 million, an increase of 13% from $410.9 million for the comparable period of 2001. Gross income increased 18% to $162.0 million from $137.3 million in 2001 and operating income rose 47% to $37.0 million from $25.1 million in 2001. Net income increased 51% to $22.2 million from $14.7 million in 2001. Diluted earnings per share increased to $.65, a 41% increase, versus diluted earnings per share of $.46 in 2001.

FINANCIAL SUMMARY

The following summarized financial and statistical data compares the thirteen and thirty-nine weeks ended November 2, 2002, to the comparable 2001 period:

Thirteen Weeks Ended	

	November 2, 2002	November 3, 2001	Percent Change	November 2002
Net sales (millions)	$ 164.6	$ 148.8	11%	$ 464.5
Comparable store sales performance/(1)/	(1%)	5%		1%
Retail sales per average square foot/(2)/	$ 80 /(3)/	$ 83 /(3)/	(4%)	$ 233
Retail gross square feet at end of quarter (thousands)	2,041 /(3)/	1,850 /(3)/	10%	
Stores with "Girl Power" format	264	206		
Percentage of Limited Too stores in "Girl Power" format	53%	46%		
Number of Stores:				
Limited Too:				
Beginning of period	484	422		459
Opened	15	30		42
Closed	(2)	-		(4)
End of period	497	452		497
mishmash	11	6		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.

Net Sales

Net sales for the third quarter of 2002 increased 11% to $164.6 million from $148.8 million in 2001. Comparable store sales were -1% for the third quarter of 2002 compared to 5% comparable store sales during the third quarter of 2001. Net sales benefited from a 10% year on year increase in Limited Too square footage.

Year-to-date net sales were $464.5 million, a 13% increase over 2001 year-to-date sales of $410.9. The increase was due to the net addition of 38 new Limited Too stores. Also, comparable store sales rose 1% on a year-to-date basis.

The best performing merchandise categories during the thirteen and thirty-nine weeks ended November 2, 2002 were cut and sewn casual tops, active bottoms, denim and skirts. During the quarter, a good sales performance was turned in by the non-apparel areas led by innerwear, candy and toys, as well as lifestyle accessories.

Gross Income

Gross income, expressed as a percentage of net sales, was 35.9% for the third quarter of 2002, an increase of 140 basis points from a gross income rate of 34.5% for the third quarter of 2001. This rate increase was due to higher initial mark-ups and a lower markdown rate.

For the year-to-date period, the gross income rate increased 150 basis points to 34.9% from 33.4% in 2001. Higher initial mark-ups and a lower markdown rate more than offset costs associated with increased catalog circulation.

General, Administrative and Store Operating Expenses

General, administrative and store operating expense, expressed as a percentage of net sales, was 25.3% for the third quarter of 2002, a decrease of 20 basis points from a rate of 25.5% for the third quarter of 2001. This rate decrease was primarily due to lower distribution center costs, and lower store expenses as a rate to sales, which more than offset the increase in marketing and home office expenses.

On a year-to-date basis, general, administrative and store operating expense decreased by 40 basis points to 26.9% in 2002 from 27.3% in 2001. The decrease during the year-to-date period was due to lower distribution center, catalog 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 10.6% in the third quarter of 2002, an increase of 160 basis points from 9.0% for the same period in 2001. The year-to-date operating income rate increased to 8.0% in 2002 compared to 6.1% in 2001. The increase in the operating income rate for both the quarter and year-to-date periods was due primarily to higher merchandise margins and lower general, administrative and store operating expenses expressed as a percentage of sales.

Income Taxes

Income tax expense during the third quarter amounted to $6.7 million and $14.1 million for the quarter ending and year to date period ending November 2, 2002, respectively, compared to $5.3 million and $9.8 million for the comparable periods ending November 3, 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.

FINANCIAL CONDITION

Liquidity and Capital Resources

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

Net cash provided by operating activities amounted to $32.5 million for the thirty-nine weeks ended November 2, 2002 versus $18.9 million for the same 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, accounts payable and accrued expenses, as well as lower inventory levels. These items more than offset the decrease in income taxes payable.

Investing activities represented capital expenditures, which were primarily for new and remodeled stores, as well as progress payments on the construction of our new home office and distribution center. Capital expenditures on the home office and distribution center amounted to $15.2 million and $6.8 million, respectively.

Financing activities represented the issuance of restricted stock, proceeds from the issuance of 2.4 million shares of common stock and the corresponding repayment of the term loan, along with the proceeds from employee stock option exercises.

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

	November 2, 2002	February 2, 2002
Working capital, including current portion of long-term debt of $0 and $17,500 at November 2, 2002 and February 2, 2002, respectively	$ 76,903	$ 23,815
Capitalization:		
Long-term debt	-	32,500
Shareholders' equity	230,491	128,209
Total capitalization	$ 230,491	$ 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 have begun. The Credit Facility contains customary representations and warranties as well as certain affirmative, negative and financial covenants.

On May 24, 2002, the Company sold 2.4 million shares of its common stock, resulting in net proceeds of $73.4 million. On that day, the Company paid off the entire $50 million term loan due under the Credit Facility and the remaining

proceeds from the sale of common stock 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.

No amounts were borrowed against the $50 million revolving credit commitment during the thirty-nine weeks ended November 2, 2002.

Capital Expenditures

Capital expenditures totaled $36.0 million for the thirty-nine weeks ended November 2, 2002 compared to $54.0 million for the comparable period of 2001. The decrease is primarily due to costs the Company incurred in 2001 for the construction of the new distribution center and home office. 2002 capital expenditures included $14.0 million for new and remodeled stores, $6.8 million for the new distribution center and $15.2 million for the new home office and other items. We anticipate spending under $40 million in 2002 for capital expenditures including the construction of approximately 56 new Limited Too stores, five new mishmash stores and the remodeling of approximately nine stores. 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 costs 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.

Recently Issued 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 are effective for transactions occurring after May 15, 2002. All other provisions of this Statement are 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 rescission 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.

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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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes the Company's exposure to interest rate and market risk associated with financial instruments is not material in as much as there is no outstanding debt.

Item 4. Controls and Procedures

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon this evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about

the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Since the date of our evaluation to the filing date of this Quarterly Report on Form 10-Q, there have been no significant changes in our internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(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

None.

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: December 13, 2002

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.

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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 13, 2002

/s/ Michael Rayden

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

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.

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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material inf ormation 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 quarterly report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies

and material weaknesses.

Date: December 13, 2002

/s/ Kent A. Kleeberger

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

EXHIBIT INDEX

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