

MCRAE INDUSTRIES INC

Form 10-Q

June 14, 2004

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

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended May 1, 2004

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 1-8578

McRae Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

56-0706710

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

400 North Main Street

Mt. Gilead, North Carolina 27306

(Address of principal executive offices)

Telephone Number (910) 439-6147

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Common Stock, \$1 Par Value Class A 1,942,543 shares as of June 9, 2004

Common Stock, \$1 Par Value Class B 823,456 shares as of June 9, 2004

McRae Industries, Inc. and Subsidiaries

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

McRae Industries, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEET
ASSETS

(In thousands, except share and per share data)

	<u>May 1, 2004</u>	<u>August 2, 2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,438	\$ 6,192
Accounts and notes receivable, net	12,410	10,334
Inventories (see Note B)	18,119	17,559
Net investment in capitalized leases	146	146
Prepaid income taxes	974	314
Prepaid expenses and other current assets	517	242
	<u> </u>	<u> </u>
Total current assets	35,604	34,787
	<u> </u>	<u> </u>
Property and equipment, net		
	5,390	4,541
Other assets:		
Net investment in capitalized leases	1,694	1,716
Notes receivable	25	71
Real estate held for investment	1,451	1,390
Goodwill	362	362
Cash surrender value of life insurance	2,220	2,220
Trademarks	1,049	1,049
Other	12	13
	<u> </u>	<u> </u>
Total other assets	6,813	6,821
	<u> </u>	<u> </u>
Total Assets		
	<u>\$47,807</u>	<u>\$46,149</u>

See notes to condensed consolidated financial statements

McRae Industries, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEET
LIABILITIES AND SHAREHOLDERS' EQUITY
(In thousands, except share and per share data)

	<u>May 1, 2004</u>	<u>August 2, 2003</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable, banks - current portion	\$ 577	\$ 577
Accounts payable	5,915	5,211
Accrued employee benefits	257	427
Deferred revenues	745	1,012
Accrued payroll and payroll taxes	1,152	913
Contract contingencies	400	400
Other	1,149	1,044
	<u> </u>	<u> </u>
Total current liabilities	10,195	9,584
	<u> </u>	<u> </u>
Notes payable, banks, net of current portion	3,278	3,307
Lease guarantees	1,657	1,568
Minority interest	82	88
Commitment and contingencies		
Shareholders' equity:		
Common stock:		
Class A, \$1 par; Authorized 5,000,000 shares; Issued and outstanding, 1,929,943 and 1,914,972 shares, respectively	1,930	1,915
Class B, \$1 par; Authorized 2,500,000 shares; Issued and outstanding, 838,556 and 853,527 shares, respectively	839	853
Additional paid-in capital	791	791
Retained earnings	29,035	28,043
	<u> </u>	<u> </u>
Total shareholders' equity	32,595	31,602
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$47,807	\$46,149
	<u> </u>	<u> </u>

NOTE: The condensed consolidated balance sheet at August 2, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to condensed consolidated financial statements

McRae Industries, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	May 1, 2004	May 3, 2003	May 1, 2004	May 3, 2003
Net revenues	\$ 24,780	\$ 19,221	\$ 65,602	\$ 56,629
Cost of revenues	19,625	14,530	51,110	42,959
Gross profit	5,155	4,691	14,492	13,670
Costs and expenses:				
Research & development	363	215	1,196	640
Selling, general and administrative	3,529	3,662	11,179	11,023
Other expense (income), net	(32)	(46)	(89)	(427)
Interest expense	32	42	103	135
Total costs and expenses	3,892	3,873	12,389	11,371
Earnings from operations before income taxes and minority interest	1,263	818	2,103	2,299
Provision for income taxes	474	253	770	827
Minority shareholder's interest in earnings of subsidiary	(1)	(3)	(5)	(7)
Net earnings	\$ 790	\$ 568	\$ 1,338	\$ 1,479
Net earnings per common share	\$.29	\$.20	\$.48	\$.53
Weighted average number of common shares outstanding	2,768,499	2,768,499	2,768,499	2,768,499

See notes to condensed consolidated financial statements

McRae Industries, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	May 1, 2004	May 3, 2003
Net cash used in operating activities	\$(1,175)	\$(1,499)
Cash flows from investing activities:		
Proceeds from sales of assets	12	394
Purchase of trade names and other assets		(150)
Capital expenditures	(1,262)	(324)
Net collections of long-term receivables	46	51
Net cash (used in) provided by investing activities	(1,204)	(29)
Cash flows from financing activities:		
Proceeds from long-term debt	401	
Principal repayments of notes payable	(430)	(400)
Dividends paid	(346)	(341)
Net cash used in financing activities	(375)	(741)
Net decrease in cash and cash equivalents	(2,754)	(2,269)
Cash and cash equivalents at beginning of period	6,192	5,822
Cash and cash equivalents at end of period	\$ 3,438	\$ 3,553

NOTE: Transfers of office equipment from inventory to property and equipment amounting to \$516,000 and \$827,000 for the first nine months of fiscal 2004 and 2003, respectively, are excluded from this statement of cash flows as non-cash operating and investing activities.

See notes to condensed consolidated financial statements

McRae Industries, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by the accounting principals generally accepted in the United States for complete financial statements. In addition, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended May 1, 2004 are not necessarily indicative of the results that may be expected for the year ending July 31, 2004. The interim condensed consolidated financial information should be read in conjunction with the Company's August 2, 2003 audited consolidated financial statements and footnotes thereto included in the McRae Industries, Inc. Annual Report filed with the SEC.

Certain reclassifications have been made to the prior year's financial statements to conform with the current year's presentation.

NOTE B INVENTORIES

The components of inventory consist of the following (in thousands):

	<u>May 1, 2004</u>	<u>August 2, 2003</u>
Raw materials	\$ 3,931	\$ 3,293
Work-in-process	2,368	1,081
Finished goods	11,820	13,185
	<u>\$ 18,119</u>	<u>\$ 17,559</u>

NOTE C SUBSEQUENT EVENTS

On May 28, 2004, the Company declared a cash dividend of \$.06 cents per share on its Class A Common Stock payable on June 25, 2004 to shareholders of record on June 11, 2004.

NOTE D SUMMARY OF BUSINESS SEGMENTS

	Three Months Ended		Nine Months Ended	
	May 1, 2004	May 3, 2003	May 1, 2004	May 3, 2003
(In thousands)				
Net revenues				
Bar Code	\$ 2,868	\$ 2,339	\$ 7,779	\$ 7,378
Office Products	7,195	6,368	17,099	15,710
Military Boots	9,920	5,341	25,663	15,251
Western/Work Boots	4,720	5,148	15,718	18,214
Eliminations/Other	77	25	(657)	76
	24,780	19,221	65,602	56,629
Net (loss) earnings from operations				
Bar Code	(148)	(439)	(869)	(1,153)
Office Products	503	151	(146)	(379)
Military Boots	664	949	2,739	2,480
Western/Work Boots	62	(48)	(103)	602
Eliminations/Other	182	205	482	749
	1,263	818	2,103	2,299
Provision for income taxes (benefit)	474	253	770	827
Minority shareholder s interest	(1)	(3)	(5)	(7)
Net (loss) earnings	\$ 790	\$ 568	\$ 1,338	\$ 1,479
	May 1, 2004	August 2, 2003		
Assets				
Bar Code	\$ 4,663	\$ 4,987		
Office Products	12,938	13,074		
Military Boots	12,087	6,328		
Western/Work Boots	11,408	14,214		
Eliminations/Other	6,711	7,546		
	\$47,807	\$46,149		

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

The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto, and with the Company's Annual Report on Form 10-K for the fiscal year ended August 2, 2003, including the financial information and management's discussion and analysis contained therein.

CRITICAL ACCOUNTING ESTIMATES

Our timely preparation of financial reports and related disclosures requires us to use estimates and assumptions that may cause actual results to be materially different from our estimated results. Specifically, we use estimates when accounting for depreciation, amortization, cost per copy contract contingencies, useful lives for intangible assets, and asset valuation allowances (including those for bad debts, inventory, and deferred income tax assets). Our most critical accounting estimates include the following:

Contract Contingencies

Our office products business leases equipment (usually for a sixty-month period) to county-wide education systems and sells the lease to third party leasing companies. Under this program the school systems are billed on a monthly, quarterly or annual basis at a specified rate for each copy they make. The cost per copy charged to the school system is designed to cover the equipment cost, supplies (except for paper and staples), service, and a finance charge. On a quarterly basis, on a program-by-program basis, we project an expected outcome over the life of the program. We use historical copy usage to predict the number of copies to be made over the remaining life of the program. We adjust this estimate of the number of expected future copies based on known factors that will influence copy rates in each program. We use historical service and supply costs incurred on each program to estimate future service and supply costs on a per copy basis. We adjust these estimated costs for known factors that will impact service and supplies in the future. We also estimate any other costs expected to be incurred such as depreciation on rental equipment. On programs where the sum of the estimated future costs exceeds the expected future revenue, we recognize a provision for 100% of the expected losses for these programs.

Intangible As