

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**  
SEC Accession No. **0000898430-95-000777**

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FILER

**VIKING OFFICE PRODUCTS INC**

CIK: **859303** | IRS No.: **952082946** | State of Incorpor.: **CA** | Fiscal Year End: **0630**  
Type: **10-Q** | Act: **34** | File No.: **000-18237** | Film No.: **95536347**  
SIC: **5961** Catalog & mail-order houses

Mailing Address  
*13809 SOUTH FIGUEROA  
STREET  
LOS ANGELES CA 90061*

Business Address  
*13809 S FIGUEROA ST  
LOS ANGELES CA 90061  
2133214493*

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the quarterly period ended March 31, 1995

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 0-18237  
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VIKING OFFICE PRODUCTS, INC.

-----  
(Exact name of registrant as specified in its charter)

California

95-2082946

-----  
(State or other jurisdiction of  
incorporation or organization)

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

13809 South Figueroa Street  
Los Angeles, California

90061

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

(213) 321-4493

-----  
(Registrant's Telephone Number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the

registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO  
 --- ---

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

CLASS	OUTSTANDING AT MAY 2, 1995
-----	-----
Common Stock	40,693,134

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VIKING OFFICE PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands)

<TABLE>  
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	March 31, 1995	June 24, 1994
	-----	-----
	(unaudited)	
<S>	<C>	<C>
A S S E T S		
Current assets:		
Cash and cash equivalents.....	\$ 22,603	\$ 25,609
Short-term investments.....	38,457	22,921
Accounts receivable, net.....	96,155	65,079
Merchandise inventories.....	56,136	45,298
Prepaid catalog costs.....	9,290	10,929
Prepaid expenses and other current assets.....	2,492	2,068
	-----	-----
Total current assets.....	225,133	171,904
Property, plant, equipment and improvements, net.....	40,682	23,172
Other assets:		
Notes receivable, deposits and other.....	2,256	1,350
Intangible assets, net.....	30,111	30,794
	-----	-----

Total other assets.....	32,367	32,144
	-----	-----
Total assets.....	\$298,182	\$227,220
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses.....	\$ 85,618	\$ 61,006
Sales and value added taxes payable.....	4,267	2,153
Taxes on income.....	15,366	13,522
	-----	-----
Total current liabilities.....	105,251	76,681
Deferred income taxes.....	307	307
Stockholders' equity:		
Common stock.....	88,690	84,706
Retained earnings.....	109,387	75,145
Unamortized value of long-term incentive stock grants.....	(7,930)	(8,416)
Cumulative foreign currency translation adjustment.....	2,477	(1,203)
	-----	-----
Total stockholders' equity.....	192,624	150,232
	-----	-----
Total liabilities and stockholders' equity.....	\$298,182	\$227,220
	=====	=====

</TABLE>

VIKING OFFICE PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands except per share data)  
(unaudited)

<TABLE>  
<CAPTION>

	Three Months Ended March 31,		Nine Months Ended March 31,	
	1995	1994	1995	1994
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Revenues.....	\$232,109	\$162,596	\$603,661	\$425,550

Cost of goods sold, including delivery.....	154,001	105,517	399,817	276,778
	-----	-----	-----	-----
Gross profit.....	78,108	57,079	203,844	148,772
Selling, general and administrative expenses.....	58,269	41,340	156,062	112,938
	-----	-----	-----	-----
Operating income.....	19,839	15,739	47,782	35,834
Other income.....	2,394	1,218	5,823	3,397
Interest expense.....	65	52	101	129
	-----	-----	-----	-----
Income before income taxes.....	22,168	16,905	53,504	39,102
Provision for income taxes.....	7,483	6,111	19,262	15,349
	-----	-----	-----	-----
Net income.....	\$ 14,685	\$ 10,794	\$ 34,242	\$ 23,753
	=====	=====	=====	=====
Net income per share.....	\$ .34	\$ .26	\$ .80	\$ .57
	=====	=====	=====	=====
Common and common equivalent shares outstanding.....	42,610	42,200	42,540	41,960
	=====	=====	=====	=====

</TABLE>

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VIKING OFFICE PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

<TABLE>  
<CAPTION>

	Nine Months Ended March 31,	
	1995	1994
	-----	-----
	<C>	<C>
Cash flows from operating activities:		
Cash received from customers.....	\$ 521,678	\$ 403,118
Cash paid to suppliers and employees.....	(476,669)	(380,824)
Interest received.....	1,986	722
Interest paid.....	(140)	(98)
Income taxes paid.....	(17,671)	(6,868)
	-----	-----
Net cash provided by operating activities...	29,184	16,050

Cash flows from investing activities:

Capital expenditures.....	(20,892)	(7,061)
Short-term investments.....	(15,536)	(13,575)
Proceeds from sale of fixed assets.....	41	70
Issuance of notes receivable and other.....	(845)	46
	-----	-----
Net cash used in investing activities.....	(37,232)	(20,520)
Cash flows from financing activities:		
Proceeds from issuance of stock.....	3,984	2,217
	-----	-----
Net cash provided by financing activities...	3,984	2,217
Effect of exchange rate changes on cash.....	1,058	(134)
	-----	-----
Net decrease in cash and cash equivalents.....	(3,006)	(2,387)
Cash and cash equivalents, beginning of period.	25,609	26,089
	-----	-----
Cash and cash equivalents, end of period.....	\$ 22,603	\$ 23,702
	=====	=====
Reconciliation of net income to net cash provided by operating activities:		
Net income.....	\$ 34,242	\$ 23,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	5,486	3,644
Loss on sale of fixed assets.....	51	431
Provision for doubtful accounts and customer returns.....	8,485	6,755
Deferred taxes on income.....	--	450
Increase in accounts receivable.....	(36,326)	(23,516)
Increase in inventories.....	(9,386)	(8,116)
Increase in prepaid expenses and other assets.....	1,392	56
Increase in accounts payable, accrued expenses, and other liabilities.....	25,240	12,593
	-----	-----
Total adjustments.....	(5,058)	(7,703)
	-----	-----
Net cash provided by operating activities.....	\$ 29,184	\$ 16,050
	=====	=====

</TABLE>

NOTES TO FINANCIAL STATEMENTS

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(UNAUDITED)

1. FINANCIAL STATEMENTS:

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report to Shareholders for the year ended June 24, 1994.

The June 24, 1994 condensed consolidated balance sheet was derived from the audited consolidated balance sheet at June 24, 1994, which was incorporated by reference in the Company's annual report on Form 10-K.

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

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OF OPERATIONS  
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The following table shows, for the periods indicated, the percentage relationships to revenues of items included in the Condensed Consolidated Statements of Income and the percentage changes in the dollar amounts of such items from period to period.

<TABLE>  
<CAPTION>

		Percent Inc. (Dec.)	
		-----	
Three Months Ended	Nine Months Ended	3 Months	9 Months

	March 31,		March 31,		-----	-----
	1995	1994	1995	1994	1995 vs. 1994	1995 vs. 1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues.....	100.0%	100.0%	100.0%	100.0%	42.8%	41.9%
Cost of goods sold, including delivery.....	66.3	64.9	66.2	65.0	45.9	44.5
Gross profit.....	33.7	35.1	33.8	35.0	36.8	37.0
Selling, general and administrative expenses.....	25.1	25.4	25.9	26.5	41.0	38.2
Operating income.....	8.6	9.7	7.9	8.5	26.0	33.3
Other income.....	1.0	0.7	1.0	0.7	96.6	71.4
Interest expense.....	0.0	0.0	0.0	0.0	NA	NA
Income before taxes on income....	9.6	10.4	8.9	9.2	31.1	36.8
Taxes on income.....	3.3	3.8	3.2	3.6	22.5	25.5
Net income.....	6.3%	6.6%	5.7%	5.6%	36.0	44.2

</TABLE>

THREE MONTHS ENDED MARCH 31, 1995 COMPARED TO THE THREE MONTHS ENDED  
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MARCH 31, 1994.  
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Revenues for the three months ended March 31, 1995, increased by \$69.5 million, or 42.8%, over the comparable period of the prior year. Of this increase, \$15.7 million was attributable to United States operations, \$49.6 million was attributable to European operations and \$4.2 million was attributable to the Australian division, which began sales in November 1993. This increase in revenues was favorably impacted by a 4.2% average increase during the quarter in the value of the currencies of the foreign countries where Viking was engaged in business relative to the U.S. Dollar. The European operations include cross border sales into Belgium beginning May 1994, Luxembourg and the Republic of Ireland beginning in September 1994, and sales into the Netherlands beginning in November 1994. On a company-wide basis, during the three months ended March 31, 1995, the number of catalogs mailed increased 19.0%, the number of customers who purchased products increased 23.7% and the average revenue per customer increased 15.4% compared to the comparable period of the prior year.

Gross profit for the three months ended March 31, 1995 increased by \$21.0 million or 36.8% over the comparable period of the prior year. As a percentage of revenues, gross profit



declined 1.4% to 33.7%. The decrease in gross profit is primarily attributable to lower margins associated with the Company's entry into new markets as indicated above and higher costs related to paper products. Gross margin was also lower in the U.K. due to the promotion of the new same day delivery program and the reduction of the minimum order required for free delivery from (Pounds)50 to (Pounds)30.

Selling, general, and administrative expenses for the three months ended March 31, 1995, increased by \$16.9 million, or 41.0% over the comparable period of the prior year, slightly less than the percentage increase in revenue. As a percentage of revenues, these expenses decreased from 25.4% in the three months ended March 31, 1994 to 25.1% in the three months ended March 31, 1995. These expenses declined as a percentage of revenues primarily due to the Company achieving certain economies of scale in its larger divisions and in corporate general and administrative expenses.

Other income for the three months ended March 31, 1995 increased by \$1,176,000 or 96.6% over the comparable period of the prior year. The increase was attributable to cash discounts received on higher European inventory purchases and to higher invested balances.

Taxes on income for the three months ended March 31, 1995 increased by \$1.4 million due to higher pretax earnings. The estimated effective tax rate decreased from 36.1% for the three months ended March 31, 1994 to 33.8% for the current period. This decrease was primarily attributable to the utilization of available operating loss carryforwards in France.

NINE MONTHS ENDED MARCH 31, 1995 COMPARED TO THE NINE MONTHS ENDED

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MARCH 31, 1994.  
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Revenues for the nine months ended March 31, 1995, increased by \$178.1 million, or 41.9%, over the comparable period of the prior year. Of this increase, \$43.9 million was attributable to United States operations, \$113.5 million was attributable to European operations and \$20.7 million was attributable to Viking's new Australian division. This increase in revenues was favorably impacted by a 3.3% average increase during the quarter in the value of the currencies of the foreign countries where Viking was engaged in business relative to the U.S. Dollar. On a company-wide basis, during the nine months ended March 31, 1995, the number of catalogs mailed increased 26.4%, the number of customers who purchased products increased 24.8% and the average revenue per customer increased by 13.7% versus the prior year.

Gross profit for the nine months ended March 31, 1995 increased by \$55.1 million or 37.0% over the comparable period of the prior year. As a percentage of revenues, gross profit decreased from 35.0% in the nine months ended March 31, 1994, to 33.8% in the nine months ended March 31, 1995. The decrease in gross profit is primarily attributable to lower margins associated with the

Company's entry into new markets as indicated above and higher costs related to paper products. Gross margin was also lower in the U.K. due to the promotion of the new same day delivery program and the reduction of the minimum order required for free delivery from (Pounds)50 to (Pounds)30.

Selling, general, and administrative expenses for the nine months ended March 31, 1995, increased by \$43.1 million, or 38.2% over the comparable period of the prior year. As a percentage of revenues, these expenses decreased from 26.5% in the nine months ended March 31, 1994 to 25.9% in the nine months ended March 31, 1995. These expenses declined as a percentage of revenues primarily due to the Company achieving certain economies of scale in its larger divisions and in corporate general and administrative expenses.

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Other income for the nine months ended March 31, 1995 increased by \$2.4 million or 71.4% over the comparable period of the prior year. The increase was attributable to cash discounts received on higher European inventory purchases and to higher invested balances.

Taxes on income for the nine months ended March 31, 1995 increased by \$3.9 million due to higher pretax earnings. The estimated effective tax rate decreased from 39.3% for the nine months ended March 31, 1994 to 36.0% for the current period. This decrease was primarily attributable to the utilization of available operating loss carryforwards in France. In the nine months ended March 31, 1994, taxes on income also included a \$450,000 one time charge for the cumulative effect on prior years of adopting Statement of Financial Accounting Standard No. 109 as of the beginning of the prior fiscal year.

#### LIQUIDITY AND CAPITAL RESOURCES

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Viking's primary source of liquidity has been cash flow from operations. Viking believes that its existing cash and short-term investments, funds generated from operations and available credit under its revolving credit facility will be sufficient to finance its working capital and capital expenditure requirements for the foreseeable future.

Viking believes there are substantial opportunities throughout Europe to expand its business and is currently developing plans for entry into Germany during the latter part of calendar 1995. Future capital expenditures related to expansion plans in Germany and other European countries have not yet been determined, however, management believes that capital requirements for such expansion will be provided from existing cash and short term investments, and cash flows from operations.

Viking has a revolving credit agreement with Citibank, N.A. which provides

for an unsecured revolving credit facility up to \$30.0 million through June 1995. Advances under this credit facility bear interest at the bank's base rate or at the bank's base rate less 1/4% depending on certain of Viking's financial ratios. At the option of Viking, the rate of interest may be determined by reference to LIBOR or domestic certificate of deposit rates. In addition, Viking is required to pay a commitment fee varying from 1/4% to 1/2% on the unused amount of the revolving credit facility. Such commitment fee rates are dependent on certain of Viking's financial ratios. At March 31, 1995, no amounts were outstanding under this credit facility and the entire \$30.0 million was available for borrowing.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) The following Exhibits are included herein:

(27) Financial Data Schedule, Article 5

(b) REPORTS ON FORM 8-K.

There were no reports filed on Form 8-K during the three months ended March 31, 1995.

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SIGNATURE

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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.

VIKING OFFICE PRODUCTS, INC.

DATE: May 10, 1995

By: /s/ Lisa Y. Billig

-----  
Lisa Y. Billig  
Vice President, Finance  
Chief Financial Officer

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