FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-08-02** | Period of Report: **1994-06-18**
SEC Accession No. 0000835582-94-000007

(HTML Version on secdatabase.com)

FILER

HOMELAND HOLDING CORP
CIK:**835582**| IRS No.: **731311075** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **033-22829** | Film No.: **94541292**
SIC: **5400** Food stores

Mailing Address
400 N E 36TH
OKLAHOMA CITY OK 73125

Business Address
400 N E 36TH ST
OKLAHOMA CITY OK 73125
4055575500

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: June 18, 1994

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 No.: 33-48862

HOMELAND HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	73-1311075
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 N.E. 36th Street
Oklahoma City, Oklahoma 73125
(Address of principal executive offices) (Zip Code)

(405) 557-5500
(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 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 July 29, 1994.

Class A Common Stock, including redeemable common stock: 34,743,200 shares
Class B Common Stock: None

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HOMELAND HOLDING CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

ASSETS

<TABLE>
<CAPTION>

<S>	June 18, 1994 (Unaudited) <C>	January 1, 1994 <C>
Current assets:		
Cash and cash equivalents	$ -	$ 2,194
Receivables, net of allowance for uncollectible accounts of $1,842 and $2,034	10,373	11,750
Inventories	92,282	93,145
Prepaid expenses and other current assets	4,010	3,697
Deferred tax assets	3,997	3,997
Total current assets	110,662	114,783
Property, plant and equipment:		
Land	12,077	12,486
Buildings	30,343	30,335
Fixtures and equipment	59,982	59,950
Land and leasehold improvements	31,038	31,045
Transportation equipment	93	93
Software	17,410	17,410
Leased assets under capital leases	51,321	51,321
Construction in progress	5,856	2,564
	208,120	205,204
Less accumulated depreciation and amortization	74,729	67,509
Net property, plant and equipment	133,391	137,695
Excess of purchase price over fair value of net assets acquired, net of amortization of $769 and $717	3,763	3,815
Other assets and deferred charges	12,672	13,919
Total assets	$260,488	$270,212

Continued

</TABLE>

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

HOMELAND HOLDING CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS, Continued

(In thousands, except share and per share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	June 18, 1994 (Unaudited)	January 1, 1994
<S>	<C>	<C>
Current liabilities:		
Book overdraft	$ 1,522	$ -
Accounts payable - trade	31,643	33,800
Salaries and wages	2,080	2,746
Taxes	7,345	4,724
Accrued interest payable	3,094	3,366
Other current liabilities	6,046	6,548
Current portion of long-term debt	1,000	6,000
Current portion of obligations under capital leases	3,142	3,334
Total current liabilities	55,872	60,518
Long-term obligations:		
Long-term debt	130,000	135,750
Obligations under capital leases	16,389	17,807
Other noncurrent liabilities	9,270	9,709
Total long-term obligations	155,659	163,266
Commitments and contingencies	-	-
Redeemable common stock, Class A, $.01 par value, 3,864,211 shares at June 18, 1994 and 3,970,211 shares at January 1, 1994, at redemption value	9,313	9,568
Stockholders' equity:		
Common stock		
Class A, $.01 par value, authorized - 40,500,000 shares, issued - 31,604,989 shares at June 18, 1994 and 31,498,989 shares at January 1, 1994 outstanding - 30,878,989 shares	316	315
Additional paid-in capital	46,612	46,358
Accumulated deficit	(5,541)	(7,753)
Minimum pension liability adjustment	-	(572)
Treasury stock, 726,000 shares at June 18, 1994 and 620,000 shares at January 1, 1994, at cost	(1,743)	(1,488)
Total stockholders' equity	39,644	36,860
Total liabilities and stockholders' equity	$260,488	$270,212

</TABLE>

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

HOMELAND HOLDING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

	12 weeks ended June 18, 1994	12 weeks ended June 19, 1993
<S>	<C>	<C>
Sales, net	$ 182,490	$ 189,606
Cost of sales	133,973	139,733
Gross profit	48,517	49,873
Selling and administrative	42,330	43,673

Operating profit	6,187	6,200
Interest expense	4,043	4,154
Income before income taxes	2,144	2,046
Income tax expense	339	464
Net income	$ 1,805	$ 1,582
Net income per common share	$ .05	$ .05
Weighted average shares outstanding	34,743,200	34,978,700

</TABLE>

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

HOMELAND HOLDING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

<S>	24 weeks ended June 18, 1994 <C>	24 weeks ended June 19, 1993 <C>
Sales, net	$ 367,327	$ 380,463
Cost of sales	271,672	281,625
Gross profit	95,655	98,838
Selling and administrative	84,347	87,872
Operating profit	11,308	10,966
Interest expense	8,050	9,428
Income before income taxes and extraordinary items	3,258	1,538
Income tax expense	1,046	1,480
Income before extraordinary items	2,212	58
Extraordinary items net of applicable income taxes of $785	-	(3,139)
Net income (loss)	$ 2,212	$ (3,081)
Income before extraordinary items per common share	$ .06	$ 0.00
Extraordinary items per common share	-	(0.09)
Net income (loss) per common share	$ .06	$ (0.09)

Weighted average shares outstanding	34,763,408	34,980,771

</TABLE>

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

HOMELAND HOLDING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share and per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Minimum Pension Liability Adjustment	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 2, 1993	31,364,989	$314	$46,036	$(8,035)	$ -	486,000	$(1,165)	$37,150
Purchase of treasury stock	4,500	-	11	-	-	4,500	(11)	-
Net loss	-	-	-	(3,081)	-	-	-	(3,081)
Balance, June 19, 1993	31,369,489	$314	$46,047	$(11,116)	$ -	490,500	$(1,176)	$34,069
Balance, January 1, 1994	31,498,989	$315	$46,358	$(7,753)	$(572)	620,000	$(1,488)	$36,860
Purchase of treasury stock	106,000	1	254	-	-	106,000	(255)	-
Adjustment to reduce minimum liability	-	-	-	-	572	-	-	572
Net income	-	-	-	2,212	-	-	-	2,212
Balance, June 18, 1994	31,604,989	$316	$46,612	$(5,541)	$ -	726,000	$(1,743)	$39,644

</TABLE>

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

HOMELAND HOLDING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except share and per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

	24 weeks ended June 18, 1994	24 weeks ended June 19, 1993

<S> <C> <C>

Cash flows from operating activities:		
Net income (loss)	$ 2,212	$(3,081)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,594	7,417
Amortization of financing costs	664	706
(Gain)loss on disposal of assets	(31)	(39)
Amortization of beneficial interest in operating leases	119	121
Write-off of financing costs on long-term debt retired	-	1,148
Provision for losses on accounts receivable	-	50
Change in assets and liabilities:		
Decrease in receivables	1,377	4,679
Decrease in inventories	863	9,212
Increase in prepaid expenses and other current assets	(313)	(1,197)
(Increase) decrease in other assets and deferred charges	142	(62)
Increase (decrease) in accounts payable - trade	(2,157)	2,751
Decrease in salaries and wages	(666)	(242)
Increase (decrease) in taxes	2,621	(1,430)
Decrease in accrued interest payable	(272)	(1,499)
Increase (decrease) in other current liabilities	70	(1,844)
Decrease in other noncurrent liabilities	(385)	(621)
Net cash provided by operating activities	11,838	16,069
Cash flows used in investing activities:		
Capital expenditures	(3,333)	(2,076)
Cash received from sale of assets	394	290
Net cash used in investing activities	(2,939)	(1,786)
Cash flows used by financing activities:		
Payments on subordinated debt	-	(47,750)
Net borrowings (payments) under revolving credit loans	(9,750)	15,000
Principal payments under notes payable	(1,000)	(1,250)
Principal payments under capital lease obligations	(1,610)	(1,557)
Payments to acquire treasury stock	(255)	(11)
Increase in book overdraft	1,522	-
Net cash used by financing activities	(11,093)	(35,568)
Net decrease in cash and cash equivalents	(2,194)	(21,285)
Cash and cash equivalents at beginning of period	2,194	25,855
Cash and cash equivalents at end of period	$ -	$ 4,570
Supplemental information:		
Cash paid during the period for interest	$ 7,629	$10,225
Cash paid during the period for income taxes	$ 236	$ 135

</TABLE>

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

HOMELAND HOLDING CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS.

The accompanying unaudited consolidated financial statements of Homeland Holding Corporation and Subsidiary (the "Company") reflect all adjustments consisting only of normal and recurring adjustments which are, in the opinion of management, necessary to present fairly the consolidated financial position and the consolidated results of operations and cash flows for the periods presented. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company for the period ended January 1, 1994 and the notes thereto.

2. ACCOUNTING POLICIES.

The policies of the Company are summarized in the consolidated financial statements of the Company for the 52 weeks ended January 1, 1994 and the notes thereto.

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

RESULTS OF OPERATIONS

COMPARISON OF TWELVE AND TWENTY-FOUR WEEKS ENDED JUNE 18, 1994 WITH TWELVE AND TWENTY-FOUR WEEKS ENDED JUNE 19, 1993.

SALES. Net sales for the 12 weeks and 24 weeks ended June 18, 1994 decreased 3.8% and 3.5%, respectively, over the net sales of the corresponding periods of 1993. The decreases in net sales were primarily attributable to increased competition in the Company's market area resulting primarily from additional store openings of Wal-Mart Stores, Inc. ("Wal-Mart") supercenter stores and Albertson's Inc. stores during late 1993 and early 1994. (Three Wal-Mart supercenter stores and one Albertson's store opened in the Company's market area during the first two quarters of 1994). Although the Company does not know how many stores Wal-Mart ultimately will open in the Company's market area and the Company is taking steps to respond competitively, including increased promotions (see Cost and Expenses below), Wal-Mart's entry into the Company's market area may continue to have an adverse effect on the Company's operations in the future.

Net sales for the 12 weeks and 24 weeks ended June 18, 1994 for the Company's continuing stores decreased 3.2% over the comparable prior periods due primarily to competitors' store openings in the Company's market area.

COST AND EXPENSES. Gross profit as a percentage of sales for the 12 weeks ended June 18, 1994 increased to 26.6% compared to 26.3% for the corresponding period of 1993. Gross profit as a percentage of sales for the 24 weeks ended June 18, 1994 remained constant at 26.0% compared to the corresponding period of 1993. The increase in the gross profit margin for the 12 weeks ended June 18, 1994 and the maintenance of the margin during the 24 weeks ended June 18, 1994 was due to higher vendor retail allowances than in the corresponding periods of 1993. During the first half of 1994, additional emphasis was placed on obtaining vendor retail allowances, which resulted in the Company's receiving more such allowances during this period than in the first half of 1993. The increase in vendor retail allowances was offset by increased markdowns which were taken in response to the increased competition in the Company's market area in an effort to remain price competitive and retain market share. The increased markdowns occurred primarily in the first quarter of 1994.

Gross profit without regard to warehouse and transportation costs as a percentage of sales increased to 28.9% for the 12 weeks ended June 18, 1994 compared to 28.4% for the comparable prior period, and increased slightly to 28.3% for the 24 weeks ended June 18, 1994 compared to 28.2% for the same period last year. This increase is due to the higher vendor retail allowances during the first half of 1994 compared to the corresponding period of 1993 offset in part by increased markdowns (which occurred primarily in the first quarter of 1994) in response to the increased competition.

Selling and administrative expenses decreased $1.3 million for the 12 weeks ended June 18, 1994 compared to the prior period, although as a percentage of sales they increased to 23.2% from 23.0%. The increase as a percentage of sales is due to the decline in sales during the 12 weeks ended June 18, 1994. Selling and administrative expenses as a percentage of sales decreased slightly to 23.0% for the 24 weeks ended June 18, 1994 from 23.1% for the comparable prior period on a total sales decline of $13.1 million. The decreases in expenses for the 12 weeks and 24 weeks ended June 18, 1994 were primarily due to a reduction in retail wages and benefits resulting from the modified collective bargaining agreement entered into with the United Food and Commercial Workers of North America in December 1993. In addition, during the 12 weeks and 24 weeks ended June 18, 1994 there was a decrease in consulting expenses compared to the corresponding periods of 1993 and a decrease in non-recurring expenses which had been incurred during the 24 weeks ended June 19, 1993 in connection with the closing of two stores. These decreases were offset in part by a contractual increase in the monthly fees in connection with the Company's computer services agreement and the one-time change in the administration of the vacation policy which occurred during the 24 weeks ended June 19, 1993 which did not recur in 1994.

OPERATING INCOME. Operating income for the 12 weeks ended June 18, 1994 remained constant at $6.2 million compared to the corresponding period of 1993, due to the decrease in sales which was offset by a decrease in selling and administrative expenses. Operating income for the 24 weeks ended June 18, 1994 increased slightly to $11.3 million compared to $11.0 million in the corresponding period of 1993. The increase for the 24 weeks ended June 18, 1994 was the result of the decrease in selling and administrative expenses offset in part by the decrease in sales.

INTEREST EXPENSE. Interest expense for the 12 weeks and 24 weeks ended June 18, 1994 decreased to $4.0 million and $8.0 million, respectively, from $4.2 million and $9.4 million, respectively, in the corresponding periods of 1993. The decreases were due to the redemption of the Company's 15-1/2% Subordinated Notes due November 1, 1997 (the "Subordinated Notes") on March 1, 1993, and the ability of the Company to reduce its outstanding debt during 1994.

INCOME TAX EXPENSE. The income tax expense for the 12 weeks and 24 weeks ended June 18, 1994 was $339,000 and $1.0 million, respectively, compared to $464,000 and $695,000, respectively (including the net effects of the extraordinary items discussed below) for the corresponding periods of the prior year. The income tax expense is principally comprised of alternative minimum tax expense.

Reference is made to the Internal Revenue Service ("IRS") Revenue Agent's Report and protest referenced in the Company's Form 10-Q for the quarter which ended March 26, 1994. The Company filed its protest to the IRS Appeals Office on June 14, 1994.

EXTRAORDINARY ITEMS. There were no extraordinary items incurred during the 12 weeks or 24 weeks ended June 18, 1994. Extraordinary items for the 12 weeks ended March 27, 1993 consisted of the payment of $2.776 million in premiums on the redemption of $47.750 million in aggregate principal amount of the Subordinated Notes at a purchase price of 105.8% of the outstanding principal amount and $1.148 million in unamortized financing costs related to the redemption of the Subordinated Notes. The extraordinary items for such 1993 period have been shown in the financial statements net of income taxes of $785,000.

INCOME OR LOSS. The Company recorded net income of $1.8 million and $2.2 million, respectively, during the 12 weeks and 24 weeks ended June 18, 1994, compared to net income of $1.6 million and net loss of $3.1 million, respectively, for the comparable prior periods. The increases in the net income were due to the decreases in selling and administrative expenses, interest expense and the extraordinary items recognized in the 12 weeks ended March 27, 1993, offset in part by the decreases in sales.

LIQUIDITY AND CAPITAL RESOURCES

The major sources of liquidity for the Company's operations and expansion have been internally generated funds and borrowings under revolving credit facilities. The Company's Revolving Credit Agreement, dated as of March 4, 1992, as amended (the "Revolving Credit Agreement"), among the Company, Union Bank of Switzerland, New York Branch ("UBS"), as agent and as lender, and other lenders and other financial institutions, provides for a commitment of up to $50 million in secured revolving credit loans, including a swing loan and certain letters of credit (the "Revolving Credit Facility"). Borrowings under the Revolving Credit Agreement bear interest at the UBS Base Rate plus 1.5% or at an adjusted Eurodollar Rate plus 2.5%, which rates are subject to increase upon certain conditions. At July 29, 1994, $20.25 million was outstanding under the Revolving Credit Facility.

At July 29, 1994, the Company had outstanding indebtedness of $12 million of Series A Senior Secured Floating Rate Notes due 1997, bearing interest at a floating rate of 3% over LIBOR, $75 million of Series B Senior Secured Fixed Rate Notes due 1999, bearing interest at 11-3/4% per annum which are not redeemable by the Company until on or after March 1, 1997, and $33 million of Series D Senior Secured Floating Rate Notes due 1997. These notes were issued under an Indenture with United States Trust Company of New York, as trustee (the "Senior Note Indenture").

Based on the Company's recent operating performance, management believes that it is probable that the Company will not be able to comply with certain financial covenants under the Revolving Credit Agreement at the end of the third quarter of 1994 and at the end of fiscal year 1994. In addition, the Company may not be in compliance with one of its financial covenants contained in the Senior Note Indenture at the end of fiscal year 1994. Although the Company is taking steps to improve its overall business, no assurance can be given that such efforts will succeed. If the Company is not in compliance with its financial covenants, it will seek to obtain amendments from its lenders. Although the Company has been successful in obtaining amendments to its Revolving Credit Agreement in the past, there is no assurance that it will be able to do so in the future. There is also no assurance that it will be able to obtain an amendment under the Senior Note Indenture if one is required.

The Company has engaged outside advisors to assist with the sale of all or a substantial portion of the operations of the Company. Such a transaction would involve the assumption by the other party of certain liabilities of the Company, including long-term contractual liabilities relating to the affected operations, for liabilities under contracts for the purchase of product, computer services, transportation services and lease obligations. It is management's intention to negotiate and consummate a transaction during 1994. Based on the information currently available to management, it is management's judgment that it is more likely than not that the sale of a substantial portion of the operations of the Company will be agreed upon and consummated. If such a sale is not completed, management would pursue other strategic alternatives, including but not limited to mergers, joint ventures or further outsourcing.

PART II - OTHER INFORMATION

ITEM 5. OTHER INFORMATION

SUBSEQUENT EVENTS

On June 30, 1994, the Company closed one store after completing a major remodel and expansion on a nearby store. The closing of this store is not expected to have a material adverse effect on the Company's on-going operations and profitability.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: No exhibits are filed as part of this Report.

(b) Reports on Form 8-K: No reports on Form 8-K were filed during the quarter ended June 18, 1994.

SIGNATURES

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.

HOMELAND HOLDING CORPORATION

Date: August 2, 1994

By: Max E. Raydon
Max E. Raydon, President, Chief Executive Officer and Director (Principal Executive Officer)

Date: August 2, 1994

By: Mark S. Sellers
Mark S. Sellers, Executive Vice President/Finance, Treasurer, Chief Financial Officer and Secretary (Principal Financial Officer)

Date: August 2, 1994

By: Mary Mikkelson
Mary Mikkelson, Chief Accounting Officer, Assistant Treasurer and Assistant Secretary (Principal Accounting Officer)