FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-17** | Period of Report: **1994-04-02**
SEC Accession No. 0000045379-94-000008

(HTML Version on secdatabase.com)

FILER

HANNAFORD BROTHERS CO
CIK:**45379**| IRS No.: **010085930** | State of Incorp.:**ME** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-07603** | Film No.: **94529111**
SIC: **5411** Grocery stores

Business Address
145 PLEASANT HILL RD
SCARBOROUGH ME 04011
2078832911

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark one)

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

For the quarterly period ended April 2, 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 Number 1-7603

HANNAFORD BROS. CO.
(Exact name of Registrant as specified in its charter)

Maine	01-0085930
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

145 Pleasant Hill Road, Scarborough, Maine 04074
(Address of principal executive offices; Zip Code)

Registrant's telephone number, including area code: (207) 883-2911

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 .

As of May 9, 1994, there were 41,474,933 outstanding shares of Common

Stock, $.75 par value, the only authorized class of common stock of the Registrant.

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PART II

HANNAFORD BROS. CO. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	(Dollars in thousands)	
	(UNAUDITED)	
	April 2,	January 1,

	1994	1994
Current assets:		
Cash and cash items	$ 97,106	$ 77,496
Short-term investments	14,885	19,855
Accounts receivable, net	16,724	15,765
Inventories	119,102	129,934
Prepaid expenses	4,048	4,695
Deferred income taxes	7,620	7,920
Total current assets	259,485	255,665
Property, plant and equipment, net	436,832	437,606
Leased property under capital leases, net	52,249	50,070
Investment in financing leases	1,779	1,787
Other assets:		
Notes receivable	531	2,395
Deferred charges, net	39,075	38,416
Computer software costs, net	8,652	8,790
Miscellaneous assets	664	626
Total other assets	48,922	50,227
	$799,267	$795,355

See accompanying notes to consolidated financial statements.

HANNAFORD BROS. CO. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	(Dollars in thousands) (UNAUDITED) April 2, 1994	January 1, 1994
Current liabilities:		
Current maturities of long-term debt	$ 7,470	$ 7,180
Obligations under capital leases	1,423	1,412
Accounts payable	73,620	79,679
Accrued payroll	15,296	17,323
Other accrued expenses	27,333	29,348
Income taxes	6,855	1,893
Total current liabilities	131,997	136,835

Deferred income tax liabilities	23,036	23,753
Other liabilities	20,526	20,618
Long-term debt	153,010	156,716
Obligations under capital leases	61,513	58,835
Redeemable preferred stock of a subsidiary, par value $100 per share	1,883	1,883
Shareholders' equity:		
Class A Serial Preferred stock, no par, authorized 2,000,000 shares	-	-
Class B Serial Preferred stock, par value $.01 per share, authorized 28,000,000 shares	-	-
Common stock, par value $.75 per share: Authorized 110,000,000 shares; issued and outstanding 41,401,060 shares at April 2, 1994, and 41,210,774 shares at January 1, 1994	31,051	30,908
Additional paid-in capital	103,112	99,748
Preferred stock purchase rights	414	412
Retained earnings	272,725	265,647
Total shareholders' equity	407,302	396,715
	$799,267	$795,355

See accompanying notes to consolidated financial statements.

HANNAFORD BROS. CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands except per share data)

	(UNAUDITED) THREE MONTHS ENDED	
	April 2, 1994	April 3, 1993
Sales and other revenues	$519,078	$490,565
Cost of sales	393,333	369,031
Gross margin	125,745	121,534
Selling, general and administrative expenses	102,396	100,113
Operating profit	23,349	21,421

Interest expense, net	4,735	4,984
Earnings before income taxes	18,614	16,437
Income taxes	7,555	6,668
Earnings before cumulative effect of change in accounting principle	11,059	9,769
Cumulative effect to January 3, 1993 of change in income tax accounting	-	2,100
Net earnings	$ 11,059	$ 11,869
Per share of common stock:		
Earnings before cumulative effect of change in accounting principle	$ .27	$ .24
Cumulative effect to January 3, 1993 of change in income tax accounting	-	.05
Net earnings	$ .27	$ .29
Cash dividends	$ .095	$ .085
Weighted average number of common shares outstanding (000's)	41,316	40,859

See accompanying notes to consolidated financial statements.

HANNAFORD BROS. CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Dollars in thousands) (UNAUDITED) THREE MONTHS ENDED	
	April 2, 1994	April 3, 1993
Cash flows from operating activities:		
Net income	$ 11,059	$ 11,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,443	13,736
Cumulative effect of accounting change	-	(2,100)
(Increase) decrease in inventories	10,832	(2,775)
Decrease in receivables and prepayments	1,553	2,231
Decrease in accounts payable		

and accrued expenses	(10,194)	(10,798)
Increase (decrease) in income taxes payable	4,963	(600)
Decrease in deferred taxes	(418)	(222)
Other operating activities	314	101
Net cash provided by operating activities	32,552	11,442
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(12,425)	(14,375)
Sale of property, plant and equipment, net	1,361	536
(Increase) decrease in deferred charges	(1,225)	337
Increase in computer software costs	(645)	(1,050)
(Increase) decrease in short-term investments	4,970	(6,826)
Net cash used in investing activities	(7,964)	(21,378)
Cash flows from financing activities:		
Principal payments under capital lease obligations	(340)	(335)
Issuance of common stock	3,506	3,394
Payments of long-term debt	(4,166)	(3,258)
Dividends paid	(3,978)	(3,517)
Net cash used for financing activities	(4,978)	(3,716)
Net increase (decrease) in cash and cash items	19,610	(13,652)
Cash and cash items at beginning of period	77,496	94,789
Cash and cash items at end of period	$ 97,106	$ 81,137

See accompanying notes to consolidated financial statements.

HANNAFORD BROS. CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental disclosures of cash flow information

	(Dollars in thousands) (UNAUDITED) THREE MONTHS ENDED	
Cash paid during the first quarter for:	April 2, 1994	April 3, 1993
Interest (net of amount capitalized, $514 in 1994 and $383 in 1993)	$4,644	$4,596
Income taxes	$3,010	$7,490

Supplemental disclosure of non-cash investing and financing activities

A capital lease obligation of $3,030,000 was incurred during the three month period ended April 2, 1994.

Disclosure of accounting policy

For the purposes of the Consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash items.

HANNAFORD BROS. CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. 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 the disclosures are adequate to make the information presented not misleading. In the opinion of management, the amounts shown reflect all adjustments necessary to present fairly the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature.

Earnings per share of common stock have been determined by dividing net earnings available to common shareholders by the weighted average number of shares of common stock outstanding. The assumed exercise of existing employee stock options has been excluded since it does not result in any material dilution. Net earnings available to common shareholders is equal to net earnings reduced by preferred stock dividends of $47,000 for the three months ended April 2, 1994 and $70,000 for the three months ended April 3, 1993.

It is suggested that the financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report.

2. CHANGE IN METHOD OF ACCOUNTING FOR INCOME TAXES

Effective January 3, 1993, the Company adopted STATEMENT OF FINANCIAL ACCOUNTING STANDARDS (SFAS) NO. 109 - ACCOUNTING FOR INCOME TAXES (The Statement). The Statement requires a liability method be used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the Statement, income tax expense was determined using the deferred method. Deferred tax expense was based on items of income and expense reported in different years in the financial statements and tax returns and were measured at the tax rate in effect in the year the difference originated.

As permitted by the Statement, the Company has elected not to restate the financial statements of any prior periods, the impact of which would not be material. In addition, the change does not impact pretax income from continuing operations for the three months ended April 2, 1994 and April 3, 1993. The cumulative effect of this change for periods prior to January 3, 1993 is $2.1 million or $.05 per share and is shown separately in the Consolidated Statement of Earnings for the quarter ended April 3, 1993.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	(In thousands)	
	(Unaudited) April 2, 1994	January 1, 1994
Land and improvements	$ 55,424	$ 55,699
Buildings	174,888	175,894
Furniture, fixtures & equipment	259,283	252,474
Leasehold interests & improvements	149,601	145,595
Construction in progress	15,876	16,789
	655,072	646,451
Less accumulated depreciation and amortization	218,240	208,845
	$436,832	$437,606

4. LEASED PROPERTY

Leased property under capital leases consists of the following:

	(In thousands)	
	(Unaudited) April 2, 1994	January 1, 1994
Real property	$68,181	$65,151
Less accumulated amortization	15,932	15,081
	$52,249	$50,070

5. LONG-TERM DEBT

During the first quarter of 1994, the Company extinguished certain debt, secured by real estate and held by insurance companies, totalling $1,866,000. This debt had a term of 25 years and an interest rate of 8.75%.

6. REDEEMABLE PREFERRED STOCK OF A SUBSIDIARY

On April 21, 1994, the Company redeemed 18,834 shares of a Series B Voting Preferred Stock of its subsidiary. The shares had a par value of $100 and were redeemed at $108 per share, or a total of $2,034,000.

HANNAFORD BROS. CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FIRST QUARTER 1994 RESULTS

RESULTS OF OPERATIONS

Sales and other revenues increased in the first quarter of 1994 to $519.1 million, an increase of $28.5 million or 5.8% over the first quarter of 1993. Retail sales for supermarkets and drug stores increased $29.9 million or 6.4% to $498.3 million, reflecting an increase of $9.0 million or 2.1% in sales from supermarkets that were open in both quarters presented ("comparable store sales") and additional sales of $20.9 million from the net impact of the remaining drug stores and new, expanded and closed supermarkets. Other sales and revenues, which include trucking, wholesale, real estate and miscellaneous retail operations, decreased $1.4 million.

Comparable store sales were up 0.9%, when excluding sales from the Easter holiday which were included in the first quarter this year, but were in the second quarter of 1993. Comparable store sales for the quarter were up 2.1% if the Easter sales are included. This increase sustains a positive trend in comparable store sales that began in November of 1993.

During the first three months of 1994, gross margins decreased to 24.2% of sales and other revenues in comparison to 24.8% for the comparable 1993 period. This decrease is a reflection of the increased competition throughout the Company's marketing territory. The Company continues to focus on maintaining a competitive pricing strategy in its marketing areas by passing operating efficiencies on to the customer in the form of lower prices.

Selling, general and administrative expenses decreased to 19.7% of sales and other revenues in the first quarter of 1994 as compared to 20.4% in the first quarter of 1993. This continues a downward trend that began in 1992. Payroll and payroll related expenses, which exceeded 50% of total selling, general and administrative expenses in both periods presented, were primarily responsible for this decrease. This resulted from cost containment efforts as evidenced by specific programs that reduced salaries and wages and employer related insurance costs expressed as a percentage of sales and other revenues.

Interest expense, net, decreased in the first quarter of 1994 to 0.9% of sales and other revenues from 1.0% in the first quarter of 1993. This decrease is a reflection of an increase in interest income coupled with a decrease in average debt levels. The increase in interest income is the result of a higher average level of invested funds in the first quarter of 1994 as compared to the first quarter of 1993. The decreased debt levels are the result of scheduled as well as early paydowns of the Company's debt instruments.

HANNAFORD BROS. CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FIRST QUARTER 1994 RESULTS

Net earnings of $11.1 million for the first quarter of 1994 represents a decrease of 6.8% from net earnings of $11.9 million for the first quarter of 1993. During the first quarter of 1993, the Company adopted, as required, SFAS NO. 109 - ACCOUNTING FOR INCOME TAXES (Note 2). The cumulative effect of this adjustment, which increased earnings by $2.1 million or $.05 per share, was reflected in the 1993 first quarter results. Excluding the change in accounting, net earnings for the first quarter of 1994 increased 13.2% over 1993 first quarter results.

Net earnings for the first quarter of 1994 were 2.1% of sales and other revenues versus 2.0% in 1993 before the impact of the accounting change. This improvement reflects the impact of reduced selling, general and administrative expenses and net interest expense expressed as a percentage of sales, offset by a reduction in gross margins.

CAPITAL RESOURCES AND LIQUIDITY

The Company remained in a strong liquidity position at April 2, 1994. The current ratio (FIFO basis) on April 2, 1994 was 2.08 while working capital (FIFO basis) was $142.4 million, or 17.8% of total assets. On January 1, 1994, the current ratio (FIFO basis) was 1.98 while working capital (FIFO basis) was $133.6 million, or 16.8% of total assets. The Company values the majority of its inventories using the LIFO method. The current cost of inventories exceeded the LIFO valuation by approximately $14.9 million on April 2, 1994 and $14.8 million on January 1, 1994. The Company's liquidity position is stronger than indicated by stated working capital and current ratios because of available unused lines of revolving credit of $50 million and available unused lines of short-term credit of $30 million on April 2, 1994. Cash and cash items increased $19.6 million to $97.1 million at April 2, 1994 from $77.5 million at January 1, 1994. This increase is primarily the result of an increase in cash provided by operating activities combined with a decrease in cash used in investing activities.

Cash provided by operating activities was $32.5 million in the first quarter of 1994, an increase of $21.2 million over the $11.4 million provided in the first quarter of 1993. This increase is due primarily to decreases in inventories and increases in income taxes payable.

Cash used in investing activities decreased $13.4 million during the first quarter of 1994 to $8.0 million from $21.4 million in the first quarter of 1993. This decrease is primarily the result of a decrease in short-term investments as the Company shifted funds to highly liquid investments that are classified as cash and cash items.

Cash used in investing activities was $8.0 million in the first quarter of 1994. Total capital expenditures totalled $15.5 million during the quarter and were composed of $12.4 million in acquisitions of property, plant and equipment and $3.1 million in a non-cash capital lease addition. In January 1994, the Company opened a new supermarket in Saratoga Springs, New York, with approximately 48,000 square feet of retail selling space. In February 1994, the Company opened a new supermarket in Rotterdam, New York, with approximately 47,000 square feet of retail selling space. During the next three quarters, the Company expects to open seven new supermarkets. In addition, the Company expects to close five outdated facilities.

Cash used for financing activities was $5.0 million in the first quarter of 1994 as compared to $3.7 million in the first quarter of 1993. The Company continues to maintain a strong capital structure. Management believes that maintaining such financial flexibility provides a significant competitive advantage and allows the Company to be opportunistic in terms of acquisitions and expansions.

The Company is negotiating the purchase of certain supermarkets in an area outside of, and not contiguous to, the Company's present marketing territories of northern New England and upstate New York. However, the Company has not yet executed a purchase and sale agreement, and consummation of the transaction would in any event be subject to various contingencies. The potential acquisition would be financed by cash and cash items, short-term investments and existing lines of credit, with no adverse impact on the Company's ability to fund other planned capital expenditures. The acquired supermarkets would increase the Company's anticipated sales and other revenues by approximately 10%. The Company does not expect that the acquisition would have a material impact on fiscal 1994 earnings. In addition to this potential acquisition, the Company has been negotiating options to control other possible supermarket sites in the same general geographic region.

Excluding this potential geographic expansion, the Company expects to spend in the range of $90 million in 1994 for capital expenditures. This program, which is subject to continuing change and review, is primarily made up of new supermarket construction and the expansion or relocation of currently existing supermarkets. Net square footage of retail selling space is expected to increase by approximately 10% by year-end 1994 as a result of this program. The 1994 capital program is expected to be financed by cash and cash items, short-term investments, internally generated funds, lines of credit and leases.

PART II

Item 5: Other Information

A limited review was made of the results of the three-month period ended April 2, 1994, by Coopers & Lybrand. No adjustments were proposed by Coopers & Lybrand during the course of their review.

Item 6: Exhibits and Reports on Form 8-K

A letter from Coopers & Lybrand furnished pursuant to Regulation S-X is filed as Exhibit 15.

A letter from Coopers & Lybrand furnished pursuant to Rule 436(c) under the Securities Act of 1933 is filed as Exhibit 23.

There were no reports on Form 8-K filed during the first quarter.

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.

HANNAFORD BROS. CO.

Date May 17, 1994

s/Norman E. Brackett
Norman E. Brackett

Senior Vice President
(Chief Financial Officer)

Date May 17, 1994

s/Charles H. Crockett
Charles H. Crockett
Assistant Secretary

Exhibit 15

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Hannaford Bros. Co.:

We have reviewed the accompanying consolidated balance sheet of Hannaford Bros. Co. and subsidiaries as of April 2, 1994, and the related consolidated statements of earnings and cash flows for the three month periods ended April 2, 1994 and April 3, 1993. 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 review 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 financial statements for them to be in conformity with generally accepted accounting principles.

Portland, Maine s/Coopers & Lybrand
April 19, 1994

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

RE: Hannaford Bros. Co.
Registrations on Form S-8

We are aware that our report dated April 19, 1994, on our review of interim financial information of Hannaford Bros. Co. and subsidiaries for the three month period ended April 2, 1994 and included in the Company's quarterly report on Form 10-Q for the quarter then ended is incorporated by reference in the Registration Statements on Form S-8 (Numbers 2-77902, 2-77903, 2-98387, 33-1281, 33-22666, 33-31624 and 33-45273). Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of the Registration Statements prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

Portland, Maine s/Coopers & Lybrand
May 13, 1994