FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-06-30**
SEC Accession No. 0000718449-99-000008

FILER

TBC CORP
CIK:**718449**| IRS No.: **310600670** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-11579** | Film No.: **99671113**
SIC: **5010** Motor vehicles & motor vehicle parts & supplies

Mailing Address
4770 HICKORY HILL RD
MEMPHIS TN 38141

Business Address
4770 HICKORY HILL RD
MEMPHIS TN 38141
9013638030

CONFORMED

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 JUNE 30, 1999

OR

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

COMMISSION FILE NUMBER 0-11579

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

DELAWARE	31-0600670
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4770 Hickory Hill Road Memphis, Tennessee	38141
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (901) 363-8030

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

21,175,842 Shares of Common Stock were outstanding as of June 30, 1999.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

TBC CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS

	June 30, 1999 (Unaudited)	December 31, 1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,081	$ 1,699
Accounts and notes receivable, less allowance for doubtful accounts of $9,630 on June 30, 1999 and $9,298 on December 31, 1998:		
Related parties	12,900	8,472
Other	82,418	77,632
Total accounts and notes receivable	95,318	86,104
Inventories	122,119	124,720
Refundable federal and state income taxes	3,107	1,477
Deferred income taxes	8,174	7,653
Other current assets	13,588	10,072
Total current assets	243,387	231,725
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land and improvements	10,012	8,453
Buildings and leasehold improvements	31,677	29,954
Furniture and equipment	36,067	30,821
	77,756	69,228
Less accumulated depreciation	28,287	25,146
Total property, plant and equipment	49,469	44,082
TRADEMARKS, NET	16,662	16,887
GOODWILL, NET	20,565	20,747
OTHER ASSETS	17,784	20,349
TOTAL ASSETS	$ 347,867	$ 333,790

See accompanying notes to consolidated financial statements.

TBC CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 1999 (Unaudited)	December 31, 1998
CURRENT LIABILITIES:		
Outstanding checks, net	$ 9,970	$ 5,677
Notes payable to banks	59,074	49,952
Current portion of long-term debt	7,861	7,860
Accounts payable, trade	39,667	43,731
Other current liabilities	17,651	18,689
Total current liabilities	134,223	125,909
LONG-TERM DEBT, LESS CURRENT PORTION	58,833	59,653
NONCURRENT LIABILITIES	3,350	2,612
DEFERRED INCOME TAXES	6,893	7,185
STOCKHOLDERS' EQUITY:		
Common stock, $.10 par value, shares issued and outstanding - 21,176 on June 30, 1999 and 21,172 on December 31, 1998	2,118	2,117
Additional paid-in capital	9,597	9,540
Retained earnings	132,853	126,774
Total stockholders' equity	144,568	138,431
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 347,867	$ 333,790

See accompanying notes to consolidated financial statements.

TBC CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

<TABLE>

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	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
NET SALES *	$187,664	$161,923	$349,866	$302,658
COSTS AND EXPENSES:				
Cost of sales	154,553	137,148	288,932	255,549
Distribution	10,991	8,186	20,615	15,931
Selling and administrative	11,682	8,877	22,014	17,349
Provision for doubtful accounts and notes	4,821	172	5,179	314
Interest expense	1,645	1,552	3,487	2,992
Other (income) expense - net	(8)	(171)	(604)	(753)
Total costs and expenses	183,684	155,764	339,623	291,382
INCOME BEFORE INCOME TAXES	3,980	6,159	10,243	11,276
PROVISION FOR INCOME TAXES	1,670	2,440	4,127	4,407
NET INCOME	$ 2,310	$ 3,719	$ 6,116	$ 6,869
EARNINGS PER SHARE - Basic and diluted	$ .11	$ .16	$ .29	$ .30

*Including sales to related parties of $19,647 and $35,784 in the three months ended June 30, 1999 and 1998, respectively and $36,122 and $69,800 in the six months ended June 30, 1999 and 1998, respectively.

See accompanying notes to consolidated financial statements.

</TABLE>

TBC CORPORATION

CONSOLIDATED STATEMENTS OF

STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

<TABLE>
<CAPTION>

	Common Stock Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total
Six Months Ended June 30, 1998					
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 1, 1998	23,163	$2,316	$ 9,788	$122,083	$134,187
Net income for period				6,869	6,869
Issuance of common stock under stock option and incentive plan	84	8	626	-	634
Repurchase and retirement of common stock	(164)	(16)	(70)	(1,383)	(1,469)
Tax benefit from exercise of stock options	-	-	57	-	57
BALANCE, JUNE 30, 1998	23,083	$2,308	$10,401	$127,569	$140,278
Six Months Ended June 30, 1999					
BALANCE, JANUARY 1, 1999	21,172	$2,117	$ 9,540	$126,774	$138,431
Net income for period				6,116	6,116
Issuance of common stock under stock option and incentive plan	9	1	55	-	56
Repurchase and retirement of common stock	(5)	-	(3)	(37)	(40)
Tax benefit from exercise of stock options	-	-	5	-	5
BALANCE, JUNE 30, 1999	21,176	$2,118	$ 9,597	$132,853	$144,568

See accompanying notes to consolidated financial statements.

</TABLE>

TBC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
Operating Activities:		
Net income	$ 6,116	$ 6,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,353	3,302
Amortization	530	486
Provision for doubtful accounts and notes	5,179	314
Deferred income taxes	(813)	140
Equity in earnings from joint ventures	368	102
Changes in operating assets and liabilities:		
Receivables	(12,477)	(12,973)
Inventories	2,601	(4,927)
Other current assets	(3,486)	1,386
Other assets	194	219
Accounts payable, trade	(4,064)	21,432
Federal and state income taxes refundable or payable	(1,625)	299
Other current liabilities	(1,038)	(1,534)
Noncurrent liabilities	738	(501)
Net cash provided by (used in) operating activities	(4,424)	14,614
Investing Activities:		
Purchase of property, plant and equipment	(9,055)	(4,764)
Investments in joint ventures	-	(395)
Other	279	213
Net cash used in investing activities	(8,776)	(4,946)
Financing Activities:		
Net bank borrowings (repayments) under short-term borrowing arrangements	9,122	(10,819)
Increase (decrease) in outstanding checks, net	4,293	2,665
Payments on long-term debt	(819)	(145)
Issuance of common stock under stock option and incentive plans	26	318
Repurchase and retirement of common stock	(40)	(1,469)
Net cash provided by (used in) financing activities	12,582	(9,450)

Change in cash and cash equivalents	(618)	218
Cash and cash equivalents:		
Balance - Beginning of year	1,699	917
Balance - End of period	$ 1,081	$ 1,135
Supplemental Disclosures of Cash Flow Information:		
Cash paid for - Interest	$ 3,670	$ 3,199
- Income Taxes	6,565	3,968
Supplemental Disclosure of Non-Cash Financing Activity:		
Tax benefit from exercise of stock options	$ 5	$ 57
Issuance of restricted stock under stock incentive plan	30	316

See accompanying notes to consolidated financial statements.

TBC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Financial Statement Presentation

The December 31, 1998 balance sheet was derived from audited financial statements. The consolidated balance sheet as of June 30, 1999, and the consolidated statements of income, stockholders' equity and cash flows for the periods ended June 30, 1999 and 1998, have been prepared by the Company, without audit. It is Management's opinion that these statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows as of June 30, 1999 and for all periods presented. The results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's 1998 Annual Report.

Certain reclassifications have been made in the statements of income and statements of cash flows for the periods ended June 30, 1998, to conform to the current presentation, with no effect on previously reported net income.

2. Earnings Per Share

Basic earnings per share have been computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share have been computed by dividing net income by the weighted average number of common shares and equivalents outstanding. Common share equivalents represent shares issuable upon assumed exercise of stock options. The weighted average number of common shares and equivalents outstanding were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Weighted average common shares outstanding	21,175	23,082	21,173	23,095
Common share equivalents	17	71	14	93
Weighted average common shares and equivalents outstanding	21,192	23,153	21,187	23,188

3. Other Assets

Other assets consist of the following (in thousands):

	June 30, 1999	December 31, 1998
Notes receivable	$ 7,147	$ 9,063
Investments in joint ventures	7,010	7,436
Other intangible assets, net	640	651
Other	2,987	3,199
	$17,784	$20,349

At December 31, 1998, the notes receivable total included a note for $4,897,000 from a former distributor, Wall Tire Distributors, Inc. The Company held written guarantees from the distributor's former owners, Gene and Geraldine Wall and Joe and Helen Wall, and filed suit in the Chancery Court of Shelby County, Tennessee in 1989 to recover under the guarantees. The lawsuit was tried and a decision was reached on July 1, 1999 in favor of the Walls. As a result, the Company recorded a charge to earnings in the second quarter of 1999 of $4,589,000, which equaled the balance of the note less $308,000 previously received under a related bankruptcy proceeding.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

The Company's financial position and liquidity remain strong. Working capital totaled $109.2 million at June 30, 1999 compared to $105.8 million at December 31, 1998. Current accounts and notes receivable increased by $9.2 million during the first half of 1999, due primarily to seasonal fluctuations. Inventories decreased by $2.6 million during the first six months of 1999, due principally to improved efforts to minimize inventory levels while maintaining high service levels. As discussed in Note 3 to the consolidated financial statements, other assets were $2.6 million lower at June 30, 1999 than at December 31, 1998 due primarily to the write-off of a $4.9 million note from a former distributor, for which the Company recorded a charge to earnings during the current quarter. Partially offsetting the effect on other assets of this write-off was the conversion of amounts due from one customer from an account receivable to a note receivable, of which $3.1 million was classified as noncurrent at June 30, 1999.

The net total owed to banks and vendors, consisting of the combined balances of cash and cash equivalents, outstanding checks, notes payable to banks and accounts payable, increased by $10.0 million from December 31, 1998 to June 30, 1999. This increase was principally related to the previously-noted increase in current receivables as well as capital expenditures totaling $9.1 million during the first six months of 1999. These amounts outweighed the effects of positive cash generated from operations during the first half of 1999 and the above-noted reduction in inventory levels.

Results of Operations

As a result of the Company's acquisition of Carroll's, Inc. (Carroll's) on November 19, 1998, there are a number of significant changes in income statement items between the periods ended June 30, 1999 and the year-earlier periods. Carroll's, a wholesale distributor of tires and automotive products in the Southeast, was the Company's largest customer and was classified as a related party in the consolidated financial statements prior to the acquisition.

Net sales increased 15.9% during the second quarter and 15.6% during the first six months of 1999 compared to the year-earlier levels. Sales of tires accounted for approximately 93% of total sales during the current quarter and first half of 1999 versus 94% in the second quarter of 1998 and 95% in the first six months of 1998. Unit tire shipments increased approximately 10.2% in the second quarter and 8.3% in the first six months, compared to the year-earlier results. The average tire sales price increased by approximately 3.8% in the current quarter and 5.5% in the year-to-date period, compared to the levels in the same periods of 1998. Both the increased unit tire volume and higher average tire sales prices were due principally to the positive impact of the Carroll's acquisition. Excluding the net impact of the Carroll's acquisition on 1999 results, net sales increased 2.5% in the current quarter and 1.8% in the year-to-date period. Excluding the Carroll's impact, unit tire volume increased 1.3% in the second quarter and 1.2% in the first half of 1999, while the average tire sales price declined 0.5% in the current quarter and 0.8% in the year-to-date period. Industrywide pricing pressures, prevalent throughout most of the last three years, have continued into the current year.

Cost of sales as a percentage of net sales decreased from 84.7% in the second quarter of 1998 to 82.4% in the current quarter. For the year-to-date period, cost of sales declined from 84.4% in 1998 to 82.6% in 1999. The reduction was due largely to the positive impact of the Carroll's acquisition. In addition, an increased percentage of shipments to franchised retail dealers favorably affected margins and caused cost of sales as a percentage of net sales, excluding the Carroll's impact, to be lower than in the same periods of the prior year. Gross margin percentages on sales to franchised retailers are generally higher than on shipments to the Company's other customers.

Distribution expenses as a percentage of net sales increased from 5.1% in the second quarter of 1998 to 5.9% in the current quarter, and from 5.3% in the first six months of 1998 to 5.9% in the first half of 1999. The increase was largely due to the greater costs for labor and other warehousing items associated with servicing the customers of Carroll's compared to much of the Company's other customer base. Excluding the effects of the Carroll's acquisition, distribution expenses were 5.2% of net sales in the current period and 5.3% in the first half of 1999.

Selling and administrative expenses increased $2.8 million in the second quarter of 1999 and $4.7 million in the first six months of 1999 compared to the year-earlier levels, due principally to the effects of the Carroll's acquisition. Excluding the expenses of Carroll's, which totaled $2.0 million in the current period and $3.6 million in the first six months of 1999, selling and administrative expenses increased compared to the 1998 levels due primarily to increases in salaries and other compensation-related expenses.

The provision for doubtful accounts and notes in the second quarter and first six months of 1999 was greater than in the year-earlier periods, due to the $4.6 million charge recorded in the current period in conjunction with a note receivable from a former distributor. See Note 3 to the consolidated financial statements.

Interest expense increased $93,000 in the second quarter and $495,000 in the year-to-date period compared to the year-earlier levels, due to higher short-term borrowing levels which more than offset a reduction in short-term borrowing rates. Short-term borrowings of $28.2 million were used to fund the November 1998 acquisition of Carroll's and were thus higher in the second quarter and first half of 1999 than in the year-earlier periods.

The Company's effective tax rate was 42.0% in the current quarter compared to 39.6% in the second quarter of 1998. For the first six months, the effective tax rate was 40.3% in 1999 compared to 39.1% in 1998. The increases were related primarily to state income taxes, due in part to the effects of the Carroll's acquisition.

Earnings per share in the second quarter and first six months of 1999 included the net impact of the above-mentioned $4.6 million charge associated with a note receivable which had been the subject of litigation since 1989. The net impact of this charge on earnings per share was $0.13. Excluding the effect of this charge, earnings per share increased 50% in the second quarter and 40% in the first six months of 1999, compared to the year-earlier levels.

Year 2000 Readiness

The Company has addressed all significant year 2000 issues, including its business systems, processes and essential equipment, and estimates that it has completed approximately 95% of the work that will be required. The Company believes that all necessary work will be completed before December 31, 1999. The overall costs to prepare the Company for the year 2000 are not considered material to the Company's financial position or results of operation.

The Company believes the risk of business disruption presented by potentially unresolved year 2000 issues is minimal. All internal systems have been subjected to review and those presenting possible year 2000 issues are being replaced or corrected. The Company's customers and significant suppliers have been contacted and are aware of their obligations to address their own year 2000 issues. The Company believes that both its major customers and suppliers have adequate resources to properly address their own year 2000 concerns. No significant impact on customer demand is anticipated, especially considering the relatively straightforward nature of the business of the Company and its customers. The Company does not anticipate any difficulty in continuing to purchase products from its major suppliers in sufficient quantities to meet customer demand.

The nature of the Company's principal business of wholesale distribution creates an environment of relatively low transaction volumes that can be conducted on a temporary basis with manual contingency systems. In the event of an unforseen internal year 2000 problem, contingency plans currently in place for temporary computer system problems or outages would be utilized. The Company's inventories typically include reserve stock that would allow it to provide product to its customers in the event of a temporary disruption in product supply. Alternate suppliers exist and could potentially be utilized if necessary.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not consider its exposure to market risk to be material.

PART II.OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item 1 is set forth in Note 3 to the consolidated financial statements and is incorporated herein by this reference.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Stockholders held on April 28, 1999, Messrs. Richard A. McStay and Robert R. Schoeberl were elected as directors of the Company for a term expiring at the 2002 Annual Meeting of Stockholders.

The number of shares of Common Stock voted for each director elected at the Annual Meeting and the number of shares with respect to which authority to vote for each such director was withheld are as follows: 16,634,071 shares were voted for Mr. McStay and authority to vote 1,965,749 shares for Mr. McStay was withheld; 16,637,173 shares were voted for Mr. Schoeberl and authority to vote 1,962,647 shares for Mr. Schoeberl was withheld.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -

None

(b) During the quarter ended June 30, 1999, the Company filed a Current Report on Form 8-K dated July 1, 1999, providing under Item 5, _Other Events_, information relative to a charge recorded in the second quarter of 1999 associated with litigation involving a note receivable from a former distributor. See Note 3 of this Form 10-Q for additional information.

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.

TBC CORPORATION

July 27, 1999

By /s/ Ronald E. McCollough
Ronald E. McCollough
Executive Vice President,
Chief Financial Officer
and Treasurer

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</FN>

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