FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**
SEC Accession No. 0000820756-95-000045

FILER

DUTY FREE INTERNATIONAL INC
CIK:**820756**| IRS No.: **521292246** | State of Incorp.:**MD** | Fiscal Year End: **0131**
Type: **10-Q** | Act: **34** | File No.: **001-10952** | Film No.: **95546652**
SIC: **5331** Variety stores

Business Address
63 COPPS HILL RD
RIDGEFIELD CT 06877
2034316057

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

Form 10-Q

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

For the quarter ended April 30, 1995 Commission File No. 1-10952

DUTY FREE INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Maryland	52-1292246
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

63 Copps Hill Road, Ridgefield, Connecticut

(Address of principal executive offices)

06877

(Zip Code)

Registrant's telephone number, including area code: 203-431-6057

Indicate by checkmark 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

At March 31, 1995, 27,243,550 shares of $.01 par value common stock of the registrant were outstanding.

DUTY FREE INTERNATIONAL, INC.

April 30, 1995

INDEX

<TABLE>
<CAPTION>
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DUTY FREE INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands)

<S>	<C> April 30, 1995 (unaudited)	<C> January 29, 1995 (note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,988	$ 31,353
Short-term investments (fair value of $16,603 and $13,010, respectively)	16,654	13,086
Receivables:		
Trade receivables, less allowance for doubtful accounts of $862 and $795	20,431	20,183

Other	11,077	11,400
	31,508	31,583
Merchandise inventories	97,281	95,112
Prepaid expenses and other current assets	10,515	9,962
Total current assets	184,946	181,096
Long-term investments (fair value of $8,118 and $9,500, respectively)	8,201	9,653
Property and equipment, net	85,122	82,533
Excess of cost over net assets of subsidiaries acquired, net	64,374	64,682
Other intangible assets, net	24,891	25,571
Other assets, net	22,090	23,607
	$ 389,624	$ 387,142
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 2,611	$ 2,611
Accounts payable, trade	36,484	30,964
Accrued restructuring expenses	2,269	3,941
Other current liabilities	28,422	29,584
Total current liabilities	69,786	67,100
Long-term debt, excluding current maturities	114,737	115,798
Other liabilities	3,242	3,093
Total liabilities	187,765	185,991
Stockholders' equity:		
Common stock, par value $.01 per per share. Authorized 75,000,000 shares; issued and outstanding 27,243,550 shares in both periods	272	272
Additional paid-in capital	80,121	80,121
Foreign currency translation adjustments	--	(603)
Retained earnings	121,466	121,361
Total stockholders' equity	201,859	201,151
	$ 389,624	$ 387,142

See accompanying notes to the consolidated financial statements.
</TABLE>

<TABLE>
<CAPTION>

DUTY FREE INTERNATIONAL, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
(Unaudited)

Quarter Ended

	April 30, 1995	April 30, 1994
<S>	<C>	<C>
	(in thousands, except earnings per share)	
Net Sales	$ 109,348	$ 83,243
Cost of sales	63,187	52,795
Gross profit	46,161	30,448
Advertising, storage and other operating income	1,260	1,432
	47,421	31,880
Selling, general and administrative expenses	43,725	28,532
Operating income	3,696	3,348
Other income (expense):		
Interest income	652	1,271
Interest expense	(2,184)	(2,019)
Other, net	162	845
	(1,370)	97
Earnings before income taxes	2,326	3,445
Income taxes	860	1,275
Net earnings	$ 1,466	$ 2,170
Earnings per share	$ 0.05	$ 0.08
Weighted average number of shares outstanding	27,244	27,239

See accompanying notes to the consolidated financial statements..
</TABLE>

<TABLE>
<CAPTION>

DUTY FREE INTERNATIONAL, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
Quarter Ended April 30, 1995
(in thousands, unaudited)

<S> <C> <C> <C> <C> <C> <C>

	Common stock Shares	Common stock Amount	Additional paid-in capital	Foreign currency translation adjustments	Retained earnings	Total stockholder's equity
Balance at January 29, 1995	27,244	$272	$80,121	$(603)	$121,361	$201,151
Dividends ($0.05 per share)	--	--	--	--	(1,361)	(1,361)
Change in foreign currency translation adjustment (note 5)	--	--	--	603	--	603
Net earnings	--	--	--	--	1,466	1,466
Balance at April 30, 1995	27,244	$272	$80,121	$ 0	$121,466	$201,859

See accompanying notes to the consolidated financial statements.

</TABLE>

<TABLE>
<CAPTION>

DUTY FREE INTERNATIONAL, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

<S>	<C> Quarter Ended April 30, 1995	<C> 1994
	(in thousands)	
Cash flows from operating activities:		
Net earnings	$ 1,466	$ 2,170
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,970	1,420
Other amortization	1,422	1,592
Provision for deferred income taxes	1,169	---
Changes in operating assets and liabilities:		
Accounts receivable	76	(952)
Merchandise inventories	(1,926)	(1,595)
Prepaid expenses and other current assets	(1,581)	226
Accrued restructuring expenses	(1,266)	---
Accounts payable, trade	5,523	6,301
Other current liabilities	(1,095)	1,409
Other	(10)	(832)
Net cash provided by operating		

activities	5,748	9,739
Cash flows from investing activities:		
Purchases of investments	(3,750)	(23,575)
Maturities of investments	1,554	12,860
Additions to property and equipment	(2,800)	(4,331)
Investments in and advances to affiliates	(342)	(2,253)
Other	(609)	303
Net cash used in investing activities	(5,947)	(16,996)
Cash flows from financing activities:		
Payment of borrowings	(1,138)	(1,022)
Dividends paid	(1,362)	(1,361)
Other	334	(328)
Net cash used in financing activities	(2,166)	(2,711)
Net decrease in cash and cash equivalents	(2,365)	(9,968)
Cash and cash equivalents at beginning of period	31,353	99,669
Cash and cash equivalents at end of period	$28,988	$89,701

See accompanying notes to the consolidated financial statements.
</TABLE>

DUTY FREE INTERNATIONAL, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(1) Consolidated Financial Statements

The consolidated financial statements included herein do not include all information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles. For further information, such as the significant accounting policies followed by the Company, refer to the notes to consolidated financial statements set forth in the Company's annual report for the year ended January 29, 1995.

In the opinion of management, the consolidated financial statements include all necessary adjustments (consisting of normal recurring accruals) for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented.

The results of operations for the quarter ended April 30, 1995 are not necessarily indicative of the operating results to be expected for the full year.

The balance sheet at January 29, 1995 has been derived from the audited financial statements of the Company at that date.

(2) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Long-term investments in affiliates in which the Company does not have a majority interest or control are accounted for by the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

(3) Earnings Per Share

Earnings per share are based on the weighted average number of shares of common stock outstanding during each period.

(4) Foreign Exchange Forward Contracts

The only financial derivatives used by the Company are foreign exchange forward contracts. The Company had approximately $11,140,000 of foreign exchange forward contracts outstanding at April 30, 1995 to purchase British pounds, French francs, deutschmarks and Swiss francs. The contracts outstanding at April 30, 1995 mature at various dates in fiscal 1996. The fair values of these contracts were $11,478,000 as of April 30, 1995. Fair values were estimated by obtaining quotes from banks assuming all contracts were purchased on April 30, 1995.

(5) Restructuring

During the first quarter of fiscal 1996, the Company closed all five of its Airport Division retail locations in Toronto, Canada, two small speciality stores at airports in Bangor, Maine and Burlington, Vermont, and sold its wholesale operations in Carson, California. The Company's wholesale operations in Seattle, Washington, the only location scheduled to be closed under the restructuring plan that has not been closed as of April 30, 1995, will be closed in the second or third quarter of the current year. There were no adjustments to restructuring costs during the quarter ended April 30, 1995.

The Company paid approximately $1,266,000 relating to restructuring obligations during the quarter ended April 30, 1995 which consisted of $568,000 for employee severance and other arrangements, $634,000 to terminate property leases and rent for closed stores, and $64,000 for miscellaneous other expenses. As of April 30, 1995, remaining payments of $3,300,000 are expected to be paid for obligations incurred pursuant to the restructuring plan. As of April 30, 1995, 187 store and administrative employees have been terminated under the restructuring plan. Approximately 210 store and administrative employees in total will have been terminated when the restructuring is completed in the current year.

Net sales of the stores and business locations closed or scheduled to be closed under the restructuring plan were $1,315,000 and $2,959,000 for the quarters ended April 30, 1995 and 1994, respectively. Operating losses of the stores and business locations closed or scheduled to be closed under the restructuring plan were $114,000 and $778,000 for the quarters ended April 30, 1995 and 1994, respectively.

PART I. FINANCIAL INFORMATION (CONTINUED)

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

RESULTS OF OPERATIONS
- - ---------------------

Operating income was $3,696,000 for the quarter ended April 30, 1995, an increase of $348,000 or 10.4% from $3,348,000 for the quarter ended April 30, 1994. The increase was due primarily to operating income from the Inflight Division (purchased May 1, 1994), and significant increases in the Northern Border and Airport Division's operating income as a result of expense reductions resulting from the restructuring plan and a decrease in amortization expense resulting from the intangible revaluation in fiscal 1995. The above was partially offset by a substantial decrease in the Southern Border Division's operating income as a result of the significant drop in the value of the Mexican peso versus the U.S. dollar in December 1994. The drop in the value of the peso increased the cost of the Company's products for Mexican customers and destabilized the Mexican economy. A $11,919,000 or 37.0% decrease in the Southern Border Division's sales more than offset a $1,250,000 decrease in the Division's selling, general and administrative expenses when compared to the prior year. The expense reductions related primarily to lower employee and other operating expenses resulting from a decrease in the number of hours stores are open and reductions of advertising and promotional expenses. The decrease in advertising and promotional expenses is not expected to impact sales due to the significant reduction in customer counts in the Southern Border market resulting from the peso devaluation. The devaluation is expected to have a continuing, significant negative impact on the Division's sales and earnings during the remainder of fiscal 1996. The Company will consider closing stores and further reductions of store hours if current sales trends continue during the remainder of fiscal 1996.

Net earnings for the quarter ended April 30, 1995 were $1,466,000, or $0.05 per share, a decrease of $704,000 or 32.4% from $2,170,000, or $0.08 per share, for the quarter ended April 30, 1994. As discussed above, operating income increased by $348,000 when compared to the prior year. Non-operating income decreased by $1,467,000 due primarily to a $900,000 gain on the sale of the Company's 15% interest in Natural Energy Unlimited during the quarter ended April 30, 1994, and a $619,000 decrease in interest income due to the purchase of Inflight Sales Group Limited on May 1, 1994 (the purchase price was approximately $73,300,000).

Net Sales

The following table sets forth, for the periods indicated, the net sales and the percentage of total net sales for each of the Company's divisions and the period to period change in such sales:

<TABLE>
<CAPTION>

Quarter Ended April 30, (in thousands, except for percentages)

Divisional Net Sales	1995		1994		Increase/(Decrease) Quarter Ended April 30, 1995 vs. 1994	
Border:						
Southern	$ 20,269	18.5%	$ 32,188	38.7%	$(11,919)	(37.0)%
Northern	14,424	13.2	14,870	17.9	(446)	(3.0)%
Airport	23,283	21.3	20,364	24.4	2,919	14.3 %
Diplomatic and Wholesale	13,557	12.4	15,821	19.0	(2,264)	(14.3)%

Inflight	37,815	34.6	-0	N/A	37,815	N/A
	$109,348	100.0%	$ 83,243	100.0%	$ 26,105	31.4%

</TABLE>

The Company's net sales for the quarter ended April 30, 1995 decreased by 14.3% versus the quarter ended April 30, 1994 when the sales of the Inflight Division (purchased May 1, 1994) and the stores closed under the restructuring plan are excluded in both periods. The decrease was due primarily to a $11,919,000 or 37.0% decrease in the Southern Border Division's sales. The decrease in the Southern Border Division's sales was due to a significant drop in the value of the Mexican peso versus the U.S. dollar in December 1994 which increased the costs of the Company's products for Mexican customers and destabilized the Mexican economy. The devaluation is expected to have a continuing, significant negative impact on the Division's sales and earnings during the remainder of fiscal 1996. The Northern Border Division's sales for the quarter ended April 30, 1995 were virtually unchanged from the quarter ended April 30, 1994 when the sales of the stores closed under the restructuring plan are excluded from the prior year. The improvement in sales trends for the Northern Border Division from fiscal 1995 is due primarily to the anniversary of the decrease in Canadian tobacco taxes which occurred in the first quarter of fiscal 1995, and increases in average transaction spend amounts by customers resulting from the

Division's marketing and promotion programs. Airport Division sales for the quarter ended April 30, 1995 were $23,283,000, an increase of 14.3% from $20,364,000 in the first quarter of last year. Airport Division sales at stores open during both periods increased by 8.5%. Management believes the increase in sales at stores open during both periods was due primarily to more favorable U.S. dollar exchange rates during the first quarter of fiscal 1996 which resulted in an increase in the number of foreign tourists traveling to the United States. This year's first quarter sales include 12 stores opened in February 1995 in the new Denver International Airport and two duty free shops opened in March 1995 in Boston's Logan International Airport. The Diplomatic and Wholesale Division's sales decreased by 14.3% when compared to the prior year due primarily to the Company continuing to de-emphasize what would have been relatively low gross margin sales in this Division. Net sales of the stores and businesses closed or scheduled to be closed under the restructuring plan were $1,315,000 and $2,959,000 for the quarters ended April 30, 1995 and 1994, respectively.

Cost of Sales and Gross Profit

Cost of sales includes the cost of merchandise purchased from suppliers and the cost of distribution to store locations. Gross profit, as a percentage of net sales, increased to 42.2% in the first quarter of fiscal 1996 from 36.6% for the same period in the prior year. The increase was due primarily to the Inflight Division (purchased May 1, 1994) having gross profit margins higher than the Company's average gross profit margin.

The restructuring plan did not and will not have a material effect on the Company's gross profit.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses, as a percentage of net sales, increased to 40.0% in the first quarter of fiscal 1996 from 34.3% in the first quarter of fiscal 1995. The increase was due primarily to the following factors:

* A 37.0% decrease in the Southern Border Division's net sales which has selling, general and administrative expenses, as a percentage of net sales, significantly lower than the Company average. The Company reduced the Southern Border Division's selling, general and administrative expenses by approximately $1,250,000 during the first quarter of fiscal 1995 when compared to the same period in the prior year; however, these expense reductions were more than offset by the $11,919,000 or 37.0% decrease in the Division's net sales. The expense reductions related primarily to lower employee and other operating expenses resulting from a reduction in the number of hours stores are open and reductions of advertising and promotion expenses. The decrease in advertising and promotion expenses is not expected to impact sales in view of the significant reduction in customer counts in the Southern Border market. The Company will consider closing stores and further reductions of store hours if current sales trends continue during the remainder of fiscal 1996.

* The Inflight Division (purchased May 1, 1994) having selling, general and administrative expenses, as a percentage of net sales, higher than the Company average due primarily to commission expenses paid to airlines and the amortization of intangible assets related to the purchase.

The restructuring plan and the revaluation of intangible assets in the third quarter of fiscal 1995 reduced the Company's selling, general and administrative expenses by approximately $2,200,000 in the first quarter of fiscal 1996 when compared to the same period in the prior year.

Other Income (Expense)

Other income decreased by $1,467,000 in the first quarter of fiscal 1996 from the same period in the prior year. The decrease was due primarily to a $900,000 gain on the sale of the Company's 15% interest in Natural Energy Unlimited in the first quarter of fiscal 1995, and a decrease in interest income resulting from the purchase of Inflight in fiscal 1995 (the purchase price was approximately $73,300,000).

Income Taxes

Income taxes, as a percentage of earnings before income taxes, was unchanged from the first quarter of last year.

RESTRUCTURING

During the first quarter of fiscal 1996, the Company closed all five of its Airport Division retail locations in Toronto, Canada, two small speciality stores at airports in Bangor, Maine and Burlington, Vermont, and sold its wholesale operations in Carson, California. The Company's wholesale operations in Seattle, Washington, the only location scheduled to be closed under the restructuring plan that has not been closed as of April 30, 1995, will be closed in the second or third quarter of fiscal 1996. There were no adjustments to restructuring costs during the quarter ended April 30, 1995.

The Company paid approximately $1,266,000 relating to restructuring obligations during the quarter ended April 30, 1995 which consisted of $568,000 for employee severance and other arrangements, $634,000 to terminate property leases and rent for closed stores, and

$64,000 for miscellaneous other expenses. As of April 30, 1995, remaining payments of $3,300,000 are expected to be paid for obligations incurred pursuant to the restructuring plan. As of April 30, 1995, 187 store and administrative employees have been terminated under the restructuring plan. Approximately 210 store and administrative employees in total will have been terminated when the restructuring is completed.

Net sales of the stores and business locations closed or scheduled to be closed under the restructuring plan were $1,315,000 and $2,959,000 for the quarters ended April 30, 1995 and 1994, respectively. Operating losses of the stores and business locations closed or scheduled to be closed under the restructuring plan were $114,000 and $778,000 for the quarters ended April 30, 1995 and 1994, respectively.

LIQUIDITY AND CAPITAL RESOURCES
- - -------------------------------

On May 26, 1995, the Company signed a fully committed $75,000,000 revolving line of credit and letter of credit facility expiring in May 1998. Borrowings under the agreement bear interest at a rate selected by the Company based on the prime rate, federal funds rate or the London Interbank Offered Rate. The credit facility contains covenants which require, among other things, maintenance of minimum tangible net worth, as defined, and certain financial ratios. Currently, the Company has no plans to make any borrowings under the facility.

In March 1995, Standard and Poor's downgraded its rating of the Company's $115,000,000 senior notes from BBB to BBB-, and in April 1995, Moody's Investor Services downgraded its rating of the Company's $115,000,000 senior notes from Bal to Ba2, primarily in response to the devaluation of the Mexican peso. The downgrades will not affect the Company's current borrowing costs under the senior notes, and the Company's senior notes remain investment grade according to Standard and Poor's. However, the downgrades will increase the costs of any borrowings in the future under the $75,000,000 revolving line of credit and letter of credit facility.

Net cash provided by operating activities was $5,748,000 for the quarter ended April 30, 1995. Working capital was $115,160,000 as of April 30, 1995, an increase of $1,164,000 from $113,996,000 as of January 29, 1995. The Company believes its existing funds, cash provided by operating activities and available borrowings will be sufficient to meet its current liquidity and capital requirements.

REGULATION AND ECONOMIC FACTORS AFFECTING THE DUTY FREE INDUSTRY
- - ---

The Company's sales and gross profit margins are affected by factors specifically related to the duty free industry. Most countries have allowances on the import of duty free goods. Decreases in the duty free allowances of foreign countries or stricter eligibility requirements for duty free purchases, as well as decreases in tax and duty rates imposed by foreign jurisdictions could have a negative effect on the Company's sales and gross profit margins (particularly Canada and Mexico). Conversely, increases could have a positive effect on the Company's sales and gross profit.

The principal customers of the Company are residents of foreign countries whose purchases of duty free merchandise may be affected by trends in the economies of foreign countries and changes in the value of the U.S. dollar relative to their own currencies. Any significant increase in the value of the U.S. dollar relative to the currencies of foreign countries, particularly Canada, Mexico and Japan, could have an adverse impact on the number of travelers visiting the United States and the dollar amount of duty free purchases made by them from the Company. A significant increase in gasoline prices or a shortage of fuel may also reduce the number of international travelers and thereby adversely affect the Company's sales. In addition, the Company imports a significant portion of its products from Western Europe and Canada at prices negotiated either in U.S. dollars or foreign currencies. As a result, the Company's costs are affected by fluctuations in the value of the U.S. dollar in relation to major Western European and Canadian currencies. A decrease in the purchasing power of the U.S. dollar relative to other currencies causes a corresponding increase in the purchase price of products. The Company enters into foreign exchange forward contracts as a hedge against a portion of its exposure to currency fluctuations on commitments to purchase merchandise.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In addition to the notices of liquidated damages issued by the U.S. Customs Service that were referred to in the Registrant's Annual Report on Form 10-K for the fiscal year ended January 29, 1995 (Item 3. Legal Proceedings), the Customs Service has also issued a pre-penalty notice in the amount of $200,000 which relates as well to alleged violations of customs rules governing the handling and sale of bonded merchandise at a subsidiary's bonded warehouse in Seattle, Washington.

The action purportedly commenced by certain former stockholders of UETA, Inc. (by the filing of a complaint on or about April 20, 1995) in the District Court, 285th Judicial District, Bexar County, Texas was removed by the defendants (who are directors and officers of the Registrant) to the U.S. District Court for the Western District of Texas (San Antonio Division) on May 19, 1995. Subsequently, the plaintiffs discontinued this action without prejudice.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

27.1 Financial Data Schedule.

(b) A Current Report on Form 8-K dated February 28, 1995 was filed relating to the Company's fiscal 1995 financial results.

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.

DUTY FREE INTERNATIONAL,INC.

Date: 6/9/95 /s/ Gerald F. Egan

Gerald F. Egan
Vice President-Finance and
Chief Financial Officer

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

<S> <C>
<PERIOD-TYPE> 3-MOS
<FISCAL-YEAR-END> JAN-28-1996
<PERIOD-END> APR-30-1995
<CASH> 28,988
<SECURITIES> 16,654
<RECEIVABLES> 21,293
<ALLOWANCES> 862
<INVENTORY> 97,281
<CURRENT-ASSETS> 184,946
<PP&E> 119,987
<DEPRECIATION> 34,865
<TOTAL-ASSETS> 389,624
<CURRENT-LIABILITIES> 69,786
<BONDS> 114,737
<COMMON> 272
<PREFERRED-MANDATORY> 0
<PREFERRED> 0
<OTHER-SE> 201,587
<TOTAL-LIABILITY-AND-EQUITY> 389,624
<SALES> 109,348
<TOTAL-REVENUES> 110,608
<CGS> 63,187
<TOTAL-COSTS> 63,187
<OTHER-EXPENSES> 0
<LOSS-PROVISION> 133
<INTEREST-EXPENSE> 2,184
<INCOME-PRETAX> 2,326
<INCOME-TAX> 860
<INCOME-CONTINUING> 1,466
<DISCONTINUED> 0
<EXTRAORDINARY> 0
<CHANGES> 0
<NET-INCOME> 1,466
<EPS-PRIMARY> 0.05
<EPS-DILUTED> 0.05

</TABLE>