

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
SEC Accession No. **0000770949-95-000006**

([HTML Version](#) on [secdatabase.com](#))

FILER

REEBOK INTERNATIONAL LTD

CIK: **770949** | IRS No.: **042678061** | State of Incorpor.: **MA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-09340** | Film No.: **95536275**
SIC: **3021** Rubber & plastics footwear

Business Address
100 TECHNOLOGY CTR DR
STOUGHTON MA 02072
6173415000

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended March 31, 1995

Commission file number 1-9340

REEBOK INTERNATIONAL LTD.

(Exact name of registrant as specified in its charter)

Massachusetts

04-2678061

(State or other jurisdiction of
incorporation or organization)

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

100 Technology Center Drive, Stoughton, Massachusetts 02072

(Address of principal executive offices)

(Zip Code)

(617) 341-5000

(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 ()

The number of shares outstanding of registrant's common stock, par value \$.01 per share, at May 8, 1995, was 79,849,576 shares.

REEBOK INTERNATIONAL LTD.

INDEX

PART I. FINANCIAL INFORMATION:

Item 1 Financial Statements (Unaudited)

Consolidated Balance Sheets - March 31, 1995 and
1994, and December 31, 1994 2-3

Consolidated Statements of Income - Three
Months ended March 31, 1995 and 1994. 4

Consolidated Statements of Cash Flows - Three
Months Ended March 31, 1995 and 1994. 5-6

Notes to Consolidated Financial Statements 7-8

Item 2

Management's Discussion and Analysis of Results
Of Operations and Financial Condition 9-12

Part II. OTHER INFORMATION:

Item 1 Legal Proceedings 13

Items 2-3 Not Applicable 13

Item 4 Submission of Matters to a Vote of Security
Holders 14

Item 5 Not Applicable 14

REEBOK INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 1995	1994	December 31, 1994
(Amounts in thousands)			
Current assets:			
Cash and cash equivalents	\$ 64,980	\$ 65,989	\$ 83,936
Accounts receivable, net of allowance for doubtful accounts (1995, \$45,487; March 1994, \$48,938; December 1994, \$44,862)	738,125	615,462	532,475
Inventory	635,920	512,623	624,625
Deferred income taxes	73,660	59,892	66,456
Prepaid expenses	29,352	27,911	29,952
Total current assets	1,542,037	1,281,877	1,337,444
Property and equipment, net	180,745	134,169	164,848
Non-current assets:			
Intangibles, net of amortization	98,639	96,156	96,196
Deferred income taxes	4,256	-	2,910
Other	45,008	32,792	48,063
	147,903	128,948	147,169
	\$1,870,685	\$1,544,994	\$1,649,461
	=====	=====	=====

REEBOK INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

	March 31, 1995	1994	December 31, 1994
	_____	_____	_____
(Amounts in thousands, except share data)			
Current liabilities:			
Notes payable to banks	\$ 87,309	\$ 45,105	\$ 63,837
Commercial paper	65,000	62,000	-
Current portion of long-term debt	5,148	3,263	5,190
Accounts payable	180,097	150,253	170,622
Accrued expenses	189,782	143,590	157,479
Income taxes payable	129,272	109,737	102,392
Dividends payable	6,066	6,197	6,068
	_____	_____	_____
Total current liabilities	662,674	520,145	505,588
	_____	_____	_____
Long-term debt, net of current portion	135,728	133,373	131,799
Deferred income taxes	-	71	-
Minority interest	26,180	16,192	21,569
Commitments and contingencies			
Stockholders' equity:			
Common stock, par value \$.01; authorized 250,000,000 shares; issued 1995, 116,614,838; issued March 31, 1994, 118,894,897; issued December 31,			

1994, 117,155,611	1,166	1,189	1,172
Additional paid-in capital	145,382	232,431	167,953
Retained earnings	1,487,909	1,257,768	1,428,058
Less 36,210,902 shares in treasury at cost	(603,241)	(603,241)	(603,241)
Unearned compensation	(2,898)	(3,128)	(2,598)
Foreign currency translation adjustment	17,785	(9,806)	(839)
	<u>1,046,103</u>	<u>875,213</u>	<u>990,505</u>
	<u>\$1,870,685</u>	<u>\$1,544,994</u>	<u>\$1,649,461</u>
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

-3-

REEBOK INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands except per share data)
(Unaudited)

	Three Months Ended March 31,	
	1995	1994*
	_____	_____
Net sales	\$ 935,478	\$ 857,366
Other income (expense)	1,138	253
	<u>936,616</u>	<u>857,619</u>
Costs and expenses:		
Cost of sales	557,399	519,844
Selling, general and administrative expenses	265,263	223,719
Amortization of intangibles	1,002	1,136
Minority interest	3,377	2,682
Interest expense	6,561	5,237
Interest income	(2,792)	(1,111)
	<u>830,810</u>	<u>751,507</u>
Income before income taxes	<u>105,806</u>	<u>106,112</u>

Income taxes	39,889	40,323
	_____	_____
Net income	\$ 65,917	\$ 65,789
	=====	=====
Net income per common share	\$ 0.80	\$ 0.77
	=====	=====
Dividends per common share	\$.075	\$.075
	=====	=====
Weighted average common and common equivalent shares outstanding		
	82,602	85,320
	=====	=====

* Certain amounts have been reclassified to permit comparisons.

The accompanying notes are an integral part of the consolidated financial statements.

-4-

REEBOK INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	1995	1994
	_____	_____
	(Amounts in thousands)	
Cash flows from operating activities:		
Net income	\$ 65,917	\$ 65,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,766	7,098
Amortization of intangibles	1,002	1,136
Minority interest, net of dividends paid	3,377	1,902
Amortization of unearned compensation	1,118	148
Deferred income taxes	(8,173)	(3,577)
Changes in operating assets and liabilities, exclusive of those arising from business acquisitions:		

Accounts receivable	(185,572)	(153,609)
Inventory	9,483	3,631
Prepaid expenses	1,337	(6,264)
Other	(12,426)	1,833
Accounts payable	2,241	8,245
Accrued expenses	30,237	(628)
Income taxes payable	26,114	28,012
Total adjustments	<u>(121,496)</u>	<u>(112,073)</u>
Net cash used for operating activities	(55,579)	(46,284)
Cash flows from investing activities:		
Payments to acquire property and equipment	(19,452)	(8,757)
Payments for business acquisitions	(2,305)	-
Net cash used for investing activities	<u>(21,757)</u>	<u>(8,757)</u>

-5-

REEBOK INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	<u>1995</u>	<u>1994</u>
	(amounts in thousands)	
Cash flows from financing activities:		
Net borrowings of notes payable to banks	16,209	20,516
Proceeds from issuance of commercial paper	65,000	62,000
Net borrowings (repayments) of long-term debt	2,146	(1,732)
Proceeds from issuance of common stock to employees	2,246	2,774
Dividends paid	(6,068)	(6,299)
Repurchases of common stock	(26,241)	(37,243)

Net cash provided by financing activities	53,292	40,016
Effect of exchange rate changes on cash and cash equivalents	5,088	1,667
Net decrease in cash and cash equivalents	(18,956)	(13,358)
Cash and cash equivalents at beginning of period	83,936	79,347
Cash and cash equivalents at end of period	\$ 64,980	\$ 65,989

Supplemental disclosures of cash flow information:

	1995	1994
Cash paid during the period for:		
Interest	\$ 8,499	\$ 7,615
Income taxes	13,009	11,826

The accompanying notes are an integral part of the consolidated financial statements.

REEBOK INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals)

considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 1995 are not necessarily indicative of the results that may be expected for the year ended December 31, 1995. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1994.

NOTE 2 - CONTINGENCIES

Reference is made to Item 3. Legal Proceedings in the Company's Annual Report on Form 10-K, dated March 30, 1995 for a description of Byron A. Donzis v. Reebok International Ltd. et al., Stutz Motor Car of America, Inc. v. Reebok International Ltd., and Marshall Verano v. Reebok International Ltd.

The Company and its Rockport subsidiary have entered into consent decrees with both the Federal Trade Commission (FTC) and the National Association of Attorneys General (NAAG), which represents the Attorney General in all fifty states, in order to resolve issues arising from the pricing policies announced in 1992 by Reebok and Rockport. Both policies have since been discontinued. In entering into the agreements, the Company did not admit any past wrongdoing or liability, and agreed not to violate the anti-trust laws in the future; the agreement with NAAG calls for a payment of \$9.5 million, \$1.5 million of which will go towards the cost of administering the settlement, and the balance of \$8 million will be deployed for public works, such as the refurbishment of public athletic facilities and provision of needed athletic equipment to deserving organizations across the country.

-7-

NOTE 2 - CONTINGENCIES (Cont'd)

Although the Company did not believe that the investigation by the FTC and the NAAG established any evidence of wrongdoing by Reebok and Rockport, the Company decided to enter into the consent decrees to avoid the considerable expense of protracted litigation. The costs of the settlement have been fully provided for in the Company's

prior years' financial statements.

-8-

REEBOK INTERNATIONAL LTD. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following table shows the percentage which amounts in the Consolidated Statements of Income bear to net sales:

	Percentage of Net Sales	
	Three Months Ended March 31,	
	1995	1994
	_____	_____
Net sales	100.0%	100.0%
Other income (expense)	.1	(.0)
	_____	_____
	100.1	100.0
Costs and expenses:		
Cost of sales	59.6	60.6
Selling, general and administrative expenses	28.4	26.1
Amortization of intangibles	.1	.1
Minority interest	.3	.3
Interest expense	.7	.6
Interest income	(.3)	(.1)
	_____	_____
	88.8	87.6
	_____	_____
Income before income taxes	11.3	12.4
Income taxes	4.3	4.7
	_____	_____
Net income	7.0%	7.7%
	=====	=====

REEBOK INTERNATIONAL LTD. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Operating Results

First Quarter 1995 Compared to First Quarter 1994

Net sales for the quarter ended March 31, 1995 increased by \$78.1 million, 9.1% over the level reported for the first quarter of 1994. The Reebok Division's worldwide sales were \$818.7 million, an increase of 10.0% from \$744.0 million in 1994. The Reebok Division's U.S. footwear sales increased 5.7% to \$388.9 million from \$368.0 million in 1994. This increase is attributed primarily to increases in the children's, classics, baseball and basketball categories, as well as increases in our retail store sales, which were partially offset by decreases in some categories, particularly the performance running category. The Reebok Division's U.S. apparel sales increased by 28.9% to \$44.5 million from \$34.5 million in 1994. The Reebok Division's International sales (including both footwear and apparel) were \$385.4 million in 1995, an increase of 12.8% from \$341.5 million in 1994. Changes in foreign exchange rates had a \$24.9 million positive effect on the Reebok Division's International sales. On a local currency basis, eliminating the impact of foreign currency exchange changes, Germany, Italy, Spain and Canada had increases in sales, whereas France, Japan, Austria and Holland experienced decreased sales.

Rockport sales increased by 18.7% to \$84.6 million from \$71.2 million in 1994. This increase is due to an increase in the number of pairs shipped. Avia sales decreased by 23.6% to \$32.2 million from \$42.1 million in 1994. The decrease in Avia's sales is due to decreases in both domestic and international sales. The decrease in Avia's U.S. sales is attributed primarily to decreases in the aerobics and cross training categories.

The increase in gross margin from 39.4% in 1994 to 40.4% in 1995 is mainly due to lower markdowns in the Reebok Division's U.S. footwear business.

Selling, general and administrative expenses increased as a percentage of sales from 26.1% in 1994 to 28.4% in 1995 partly due to increased spending for sports promotions, the continuing increased investments in information systems, as well as higher distribution costs. The increased investments

in information systems are expected to continue over the next few years. The Company is currently reviewing its spending to reduce its selling, general and administrative expenses as a percentage of sales.

Minority interest represents the minority shareholders' proportionate share of the net income of the Company's Japanese, Spanish, Korean and South African subsidiaries.

The effective tax rate decreased from 38.0% in 1994 to 37.7% in 1995 due to a change in the geographic mix of worldwide income.

Year-to-year earnings per share comparisons benefited from the share repurchase programs. Weighted average common shares outstanding for the quarter ended March 31, 1995 declined to 82.6 million shares, compared to 85.3 million shares for the first quarter of 1994.

Liquidity and Sources of Capital

The Company's financial position remains strong. Working capital increased by \$117.6 million, or 15.4% from the same period a year ago. The current ratio at March 31, 1995 was 2.3 to 1, as compared to 2.6 to 1 at December 31, 1994 and 2.5 to 1 at March 31, 1994.

Accounts receivable increased from March 31, 1994 by \$122.7 million, or 19.9%, well above the sales increase for the first quarter of 1995. Approximately \$38.1 million of this year-to-year increase is due to changes in foreign currency exchange rates. Dating programs in some growth categories such as baseball and golf have caused accounts receivable to increase due to longer collection periods. Inventory increased by \$123.3 million from March 31, 1994, reflecting increases in most divisions. Approximately \$31.3 million of the year-to-year increase is due to changes in foreign currency exchange rates. Approximately \$16.0 million of the increase reflected inventories held by

subsidiaries that the Company acquired since the end of the first quarter of 1994. The increase in inventory can be partly attributed to the growth in the Company's retail business. As more business is done through company-owned factory-direct outlets, inventory will increase relative to sales growth.

-11-

During the twelve months ended March 31, 1995, cash and cash equivalents decreased by \$1.0 million, and outstanding borrowings increased by \$49.4 million, while \$26.2 million of common stock was repurchased. Cash used for operations during 1995's first three months was \$55.6 million. Cash generated from operations, together with the Company's presently available financing sources, is expected to adequately finance the Company's current and planned cash requirements, including the remaining \$197.4 million in share repurchases authorized by the Board of Directors. By March 31, 1995, the Company had repurchased 12,556,600 shares at an average price of \$32.06 since the share repurchase programs began in July 1992.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Reference is made to Item 3. Legal Proceedings in the Company's Annual Report on Form 10-K, dated March 30, 1995 for a description of Byron A. Donzis v. Reebok International Ltd. et al., Stutz Motor Car of America, Inc. v. Reebok International Ltd., and Marshall Verano v. Reebok International Ltd.

The Company and its Rockport subsidiary have entered into consent decrees with both the Federal Trade Commission (FTC) and the National Association of Attorneys General (NAAG), which represents the Attorney General in all fifty states, in order to resolve issues arising from the pricing policies announced in 1992 by Reebok and Rockport. Both policies have since been discontinued. In entering into the agreements, the Company did not admit any past wrongdoing or liability, and agreed not to violate the anti-trust laws in the future; the agreement with NAAG calls for a payment of \$9.5 million, \$1.5 million of which will go towards the cost of administering the settlement, and the balance of \$8 million will be deployed for public works, such as the refurbishment of public athletic facilities and provision of needed athletic equipment to deserving organizations across the country.

Although the Company did not believe that the investigation by the FTC and the NAAG established any evidence of wrongdoing by Reebok and Rockport, the Company decided to enter into the consent decrees to avoid the considerable expense of protracted litigation. The costs of the settlement have been fully provided for in the Company's prior years' financial statements.

Not applicable

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

The Company held its Annual Meeting of Shareholders on May 2, 1995. At the Annual Meeting, the following proposals were approved:

1. Four Class II members of the Board of Directors were elected by shareholders as follows (there were no abstentions nor broker non-votes):

Name of Director	Number of Votes Cast FOR	Number of Votes WITHHELD
_____	_____	_____
Paul R. Duncan	71,747,814	465,380
William F. Glavin	72,031,119	182,075
Richard G. Lesser	72,042,252	170,942
William M. Marcus	72,040,764	172,430

Item 5

Not applicable

Item 6

(a) Exhibits:

11. Statement Re Computation of Per Share Earnings

27. Financial Data Schedule

- (b) Reports on Form 8-K: There were no reports on Form 8-K filed during the quarter ended March 31, 1995.

-14-

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.

Dated: May 10, 1995

REEBOK INTERNATIONAL LTD.

BY: /s/ PAUL R. DUNCAN

Paul R. Duncan
Executive Vice President and
Chief Financial Officer

REEBOK INTERNATIONAL LTD.
(Amounts in Thousands, Except Per Share Data)

Exhibit 11 - Statement RE: Computation of Per Share Earnings

	Three Months Ended March 31,	
	1995	1994
Primary		
<hr/>		
Average shares outstanding	80,693	83,288
Net effect of dilutive stock options	1,909	2,032
	82,602	85,320
	=====	=====
Net income	\$65,917	\$65,789
	=====	=====
Per share amount	\$ 0.80	\$ 0.77
	=====	=====
Fully Diluted		
<hr/>		
Average shares outstanding	80,693	83,288
Net effect of dilutive stock options	1,909	2,155
	82,602	85,443
	=====	=====
Net income	\$65,917	\$65,789
	=====	=====

Per share amount

\$ 0.80

\$ 0.77

=====

=====

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MARCH 31, 1995 CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<CIK> 0000770949

<NAME> REEBOK INTERNATIONAL LTD.

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	DEC-31-1995
<PERIOD-START>	JAN-01-1995
<PERIOD-END>	MAR-31-1995
<CASH>	64,980
<SECURITIES>	0
<RECEIVABLES>	783,612
<ALLOWANCES>	45,487
<INVENTORY>	635,920
<CURRENT-ASSETS>	1,542,037
<PP&E>	306,338
<DEPRECIATION>	125,593
<TOTAL-ASSETS>	1,870,685
<CURRENT-LIABILITIES>	662,674
<BONDS>	135,728
<COMMON>	1,166
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<OTHER-SE>	1,044,937
<TOTAL-LIABILITY-AND-EQUITY>	1,870,685
<SALES>	935,478
<TOTAL-REVENUES>	935,478
<CGS>	557,399
<TOTAL-COSTS>	557,399
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	6,561
<INCOME-PRETAX>	105,806
<INCOME-TAX>	39,889
<INCOME-CONTINUING>	65,917
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	65,917
<EPS-PRIMARY>	.80

<EPS-DILUTED>

.80

</TABLE>