

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-04-11** | Period of Report: **1994-02-26**
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FILER

SEAWAY FOOD TOWN INC

CIK: **88296** | IRS No.: **344471466** | State of Incorporation: **OH** | Fiscal Year End: **0826**
Type: **10-Q** | Act: **34** | File No.: **000-00080** | Film No.: **94522205**
SIC: **5411** Grocery stores

Business Address
1020 FORD ST
MAUMEE OH 43537
4198939401

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

20549

FORM 10 Q

(Mark One)

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

For the quarterly period ended February 26, 1994 Commission File number 0-80.

Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from
to

SEAWAY FOOD TOWN, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-4471466
(I.R.S. Employer
Identification No.)

1020 Ford Street, Maumee, Ohio
(Address of principal executive offices)

43537
(Zip Code)

419/893-9401

(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 No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Outstanding at April 7, 1994

Common stock, without par value (stated value \$2.00 per share)

2,293,532 shares

PART I. FINANCIAL INFORMATION

Summarized Financial Information:

The following consolidated statements of income, condensed consolidated balance sheets, and condensed consolidated statements of cash flows are unaudited, but include all adjustments, consisting only of normal recurring accruals, which the Company considers necessary for a fair presentation of its financial position, results of operations and cash flows for the periods and the dates indicated. Since the unaudited financial statements have been prepared in accordance with instructions to Form 10-Q, they do not contain all disclosures normally provided in annual financial statements; they should be read in conjunction with the consolidated financial statements and notes thereto appearing in the Company's 1993 Annual Report to Shareholders.

<TABLE>

PART I. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Income

(Thousands of Dollars - Except Average Share and Per-share Data)

<CAPTION>

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|----------------------|----------------------|------------------------|----------------------|
| | February 26, 1994 | February 27, 1993 | February 26, 1994 | February 27, 1994 |
| <S> | <C> | <C> | <C> | <C> |
| Net sales | \$139,404 | \$148,446 | \$271,904 | \$288,846 |
| Cost of merchandise sold | 104,960 | 111,934 | 204,893 | 219,091 |
| Gross profit | 34,444 | 36,512 | 67,011 | 69,755 |
| Selling, general and administrative expenses | 32,394 | 33,490 | 67,270 | 65,344 |
| Operating profit | 2,050 | 3,022 | 2,741 | 4,411 |
| Interest expense | (1,159) | (1,188) | (2,338) | (2,339) |
| Other income - net | 522 | 258 | 633 | 572 |
| Income before income taxes and cumulative effect of | | | | |

| | | | | |
|--|-----------|-----------|-----------|-----------|
| change in accounting for income taxes | 1,413 | 2,092 | 1,036 | 2,644 |
| Provision for income taxes | (439) | (827) | (311) | (1,031) |
| Income before cumulative effect of change in accounting for income taxes | 974 | 1,265 | 725 | 1,613 |
| Cumulative effect of change in accounting for income taxes (Note C) | | | (256) | |
| Net income | \$974 | \$1,265 | \$469 | \$1,613 |
| Per common share: | | | | |
| Income before cumulative effect of change in accounting for income taxes | \$0.42 | \$0.54 | \$0.31 | \$0.69 |
| Net income | \$0.42 | \$0.54 | \$0.20 | \$0.69 |
| Dividends paid | \$0.09 | \$0.09 | \$0.18 | \$0.18 |
| Ave. number of shares outstanding | 2,323,631 | 2,339,833 | 2,330,230 | 2,334,910 |

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PART I. FINANCIAL INFORMATION (Continued)

Condensed Consolidated Balance Sheets

(Thousands of Dollars)

<CAPTION>

| | February 26, 1994 | August 28, 1993 |
|--------------------------------------|----------------------|--------------------|
| | <C> | <C> |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$7,608 | \$7,530 |
| Income tax recoverable | --- | 427 |
| Notes and accounts receivable | 6,932 | 6,995 |
| Less allowance for doubtful accounts | (450) | (400) |
| Merchandise inventories (Note B) | 60,292 | 61,913 |
| Less LIFO reserve | (17,652) | (17,594) |

| | | |
|---|-----------|-----------|
| Prepaid expenses, including deferred income taxes | 5,469 | 2,466 |
| | ----- | ----- |
| Total current assets | 62,199 | 61,337 |
| Other assets | 5,627 | 5,781 |
| Property and equipment: | | |
| Cost | 178,282 | 176,291 |
| Less accumulated depreciation and amortization | (94,389) | (90,638) |
| | ----- | ----- |
| Net property and equipment | 83,893 | 85,653 |
| | ----- | ----- |
| | \$151,719 | \$152,771 |
| | ===== | ===== |

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LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|-----------|-----------|
| - - - - - | | |
| <S> | <C> | <C> |
| Current liabilities: | | |
| Accounts payable | \$38,782 | \$35,904 |
| Income taxes | 145 | 377 |
| Accrued liabilities | 13,032 | 14,946 |
| Long-term debt due within one year | 3,281 | 3,555 |
| | ----- | ----- |
| Total current liabilities | 55,240 | 54,782 |
| Long-term debt | 51,927 | 55,705 |
| Deferred income taxes | 4,663 | 1,772 |
| Deferred other | 2,869 | 3,339 |
| Shareholders' equity: | | |
| Common stock | 4,609 | 4,728 |
| Capital in excess of stated value | 450 | 470 |
| Retained earnings | 31,961 | 32,500 |
| Unallocated common shares held by ESOP | --- | (525) |
| | ----- | ----- |
| Total shareholders' equity | 37,020 | 37,173 |
| | ----- | ----- |
| | \$151,719 | \$152,771 |
| | ===== | ===== |

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PART I. FINANCIAL INFORMATION (Continued)

Condensed Consolidated Statements of Cash Flows

(Thousands of Dollars)

<CAPTION>

| | Twenty-Six Weeks Ended | |
|--|------------------------|----------------------|
| | February 26, 1994 | February 27, 1993 |
| | ----- | ----- |
| <S> | <C> | <C> |
| OPERATING ACTIVITIES | | |
| Net cash provided | \$9,978 | \$8,895 |
| INVESTING ACTIVITIES | | |
| Expenditures for property and equipment | (4,663) | (7,879) |
| Proceeds from sale of property and other assets | 123 | 123 |
| Other | 167 | (798) |
| | ----- | ----- |
| Net cash used in investing activities | (4,373) | (8,554) |
| FINANCING ACTIVITIES | | |
| Proceeds from issuance of long-term debt | 7,885 | 4,000 |
| Payments of long term debt | (11,791) | (1,801) |
| Payments for acquisition of common shares | (729) | (149) |
| Dividends paid | (422) | (420) |
| Contributions to ESOP | --- | (7) |
| Decrease in deferred other | (470) | (517) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | (5,527) | 1,106 |
| | ----- | ----- |
| Increase in cash and cash equivalents | 78 | 1,447 |
| Cash & cash equivalents at beginning of period | 7,530 | 7,403 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$7,608 | \$8,850 |
| | ===== | ===== |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$2,412 | \$2,377 |
| | ===== | ===== |
| Income Taxes | \$161 | \$214 |
| | ===== | ===== |

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Notes to Summarized Financial Information

Note A.

Net income per common share is based on the weighted average number of shares outstanding during the periods adjusted for unallocated shares of the ESOP. Shares issuable under outstanding stock options were not included in the per-share computations since inclusion would not result in any significant dilution or would be anti-dilutive.

Note B.

Meat, produce and pharmacy inventories are valued at the lower of cost using the first-in, first-out (FIFO) method, or market. All other merchandise inventories (including store inventories which are determined by the retail inventory method) are valued at the lower of cost using, the last-in, first-out (LIFO) method, or market.

Note C.

Effective August 29, 1993, the Company adopted the provisions of the Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes" (Statement 109). As permitted by Statement 109, prior year financial statements have not been restated to reflect the change in accounting method. The cumulative effect as of August 29, 1993 of adopting Statement 109 decreased net income by \$256,000 or \$.11 per share.

PART I. FINANCIAL INFORMATION (continued)

Management's Discussion and Analysis of Financial Condition
and Results of Operations

Results of Operations

Net sales for the second fiscal quarter of 1994 were \$139,404,000 or 6.1% lower than the same quarter of 1993. On a year to date basis, net sales were \$271,904,000 or 5.9% lower than 1993. Most of this net decrease was attributable to decreased supermarket sales resulting from three less supermarkets in operation as of the end of the quarter as compared to the same quarter of the prior year along with increased competition in our market area. There was also a small drop in drug-store sales attributable to increased market competition. Sales from stores in operation both this past quarter as well as the same quarter a year ago were 3.71% less in the current year.

Gross margins, as a percent of sales, increased .11% in the second quarter of fiscal 1994 compared to the same quarter in fiscal 1993. On a year to date basis, these margins increased .50% between 1994 and 1993. Gross margins have rebounded this year after a period of reduced

margins resulting from promotions associated with expansion of drugstores into new markets and planned promotional activity in the supermarket area in the first quarter of 1993.

As a percent of sales, selling, general and administrative expenses increased .68% in the second quarter and 1.02% on a year to date basis as compared to 1993. This percentage increase is attributable to lower sales levels offset somewhat by lower administrative, advertising, and store expenses, including labor, rents, taxes, supplies and utilities.

Interest expense decreased \$29,000 compared to the second quarter of 1993, and \$1,000 on a year to date basis. This decrease is due primarily to lower interest rates on outstanding borrowings.

Other income - net increased 102.3% over to the same quarter in 1993 and 10.7% on a year to date basis. These increases are due primarily to current year gains on disposals of assets.

Income taxes as a percent of pre-tax income are slightly less than the statutory tax rates in effect due to utilization of tax credits. The company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" in the first quarter. The cumulative effect of this standard decreased income for the twenty-six weeks ended February 26, 1994 by \$256,000 or \$.11 per share.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources

During the first twenty-six weeks of fiscal 1994, the Company's working capital increased \$404,000 as compared to August 28, 1993. The working capital ratio was 1.13 to 1 at the end of this quarter compared to 1.12 to 1 at August 28, 1993 and 1.21 to 1 at February 27, 1993. During the first twenty-six weeks of fiscal 1994, the company generated \$9,978,000 which was used primarily to finance capital expenditures and reduce outstanding borrowings.

The funds required by the Company on a continuing basis for both working capital, capital expenditures, and other needs are generated principally through operations, long-term borrowings and capital leases, supplemented by borrowings under revolving credit note agreements which have been arranged primarily through institutional lenders. During the second quarter of 1994 the company borrowed against revolving credit agreements with the maximum amount outstanding under such agreements amounting to \$30,800,000.

Subsequent to the end of this quarter, the company renewed its existing revolving credit agreements and obtained an additional revolving credit

agreement, which together, provide \$40,000,000 in available borrowings through October 1, 1996, at which time any outstanding borrowings will convert to term notes payable over four years.

Item 6. - Exhibits and Reports on Form 8 K.

6(b) Reports on Form 8K.

There were no Form 8 K reports required to be filed by the Company during any of the months included in the most recently completed fiscal quarter.

Signature

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEAWAY FOOD TOWN, INC.,
Registrant

Date April 11, 1994

By Richard B. Iott
Richard B. Iott, President

Date April 11, 1994

By Waldo E. Yeager
Waldo E. Yeager,
Chief Financial Officer,
Treasurer