

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-01-11** | Period of Report: **1995-11-30**
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FILER

FAMILY DOLLAR STORES INC

CIK: **34408** | IRS No.: **560942963** | State of Incorpor.: **DE** | Fiscal Year End: **0831**
Type: **10-Q** | Act: **34** | File No.: **001-06807** | Film No.: **96502840**
SIC: **5331** Variety stores

Business Address
*P O BOX 1017
10401 OLD MONROE RD
CHARLOTTE NC 28201-1017
7048476961*

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

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

For the quarterly period ended November 30, 1995

OR

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

Commission File Number 1-6807

FAMILY DOLLAR STORES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

56-0942963

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

P. O. Box 1017, 10401 Old Monroe Road
Charlotte, North Carolina
(Address of principal executive offices)

28201-1017
(Zip Code)

Registrant's telephone number, including area code 704-847-6961

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

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 December 31, 1995
Common Stock, \$.10 par value	56,797,522 shares

FAMILY DOLLAR STORES, INC., AND SUBSIDIARIES

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FAMILY DOLLAR STORES, INC., AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

<CAPTION>

	November 30, 1995	August 31, 1995
Assets		
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 9,995,721	\$ 8,852,631
Merchandise inventories	477,722,751	443,445,448
Deferred income taxes	16,698,749	16,415,749
Prepayments and other current assets	10,535,776	6,315,880
Total current assets	514,952,997	475,029,708
Property and equipment, net	161,524,925	156,640,224
Other assets	4,314,193	4,563,835
	\$680,792,115	\$636,233,767

<CAPTION>

Liabilities and Shareholders' Equity

<S>	<C>	<C>
Current liabilities:		
Notes payable (Note 3)	\$ 32,300,000	\$ -
Accounts payable and accrued liabilities	203,726,099	207,970,292
Income taxes payable	9,483,341	2,387,562
Total current liabilities	245,509,440	210,357,854
Deferred income taxes	18,125,325	18,125,325
Contingencies (Note 4)		

Shareholders' equity (Notes 5 and 7):		
Preferred stock, \$1 par; authorized and unissued 500,000 shares		
Common stock, \$.10 par; authorized 120,000,000 shares; issued 60,240,104 shares at November 30, 1995 and 60,196,664 shares at August 31, 1995	6,024,010	6,019,666
Capital in excess of par	16,348,787	15,774,431
Retained earnings	406,133,821	397,305,759
	428,506,618	419,099,856
Less common stock held in treasury, at cost (3,452,822 shares at November 30, 1995 and August 31, 1995 - Note 7)	11,349,268	11,349,268
Total shareholders' equity	417,157,350	407,750,588
	\$680,792,115	\$636,233,767

See notes to consolidated condensed financial statements.

</TABLE>

<TABLE>

FAMILY DOLLAR STORES, INC., AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

<CAPTION>

	Three Months Ended	
	November 30, 1995	November 30, 1994
<S> Net sales	<C> \$396,164,559	<C> \$356,292,199
Costs and expenses:		
Cost of sales	258,953,488	228,941,174
Selling, general and administrative expenses (Note 6)	113,506,302	101,884,637
	372,459,790	330,825,811
Income before provision for taxes on income	23,704,769	25,466,388

Provision for taxes on income	9,197,000	9,880,000
Net income	\$ 14,507,769	\$ 15,586,388
Net income per common share (Note 7)	\$0.26	\$0.28
Dividends per common share	\$0.10	\$0.085
Weighted average number of common shares outstanding (Note 7)	56,766,702	56,599,125

See notes to consolidated condensed financial statements.

</TABLE>

<TABLE>

FAMILY DOLLAR STORES, INC., AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

<CAPTION>

	Three Months Ended	
	November 30, 1995	November 30, 1994
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$14,507,769	\$15,586,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,862,288	5,377,728
Deferred income taxes	(283,000)	(321,000)
Gain on disposition of property and equipment	(93,805)	(3,546)
Changes in operating assets and liabilities:		

Inventories	(34,277,303)	(10,031,816)
Income tax refund receivable	-	4,569,686
Prepayments and other current assets	(4,219,896)	(4,770,804)
Other assets	249,642	(67,915)
Accounts payable and accrued liabilities	(4,249,323)	(4,686,594)
Income taxes payable	7,095,779	4,389,677
	(15,407,849)	10,041,804
Cash flows from investing activities:		
Capital expenditures	(11,315,129)	(6,296,523)
Proceeds from dispositions of property and equipment	661,945	307,979
	(10,653,184)	(5,988,544)
Cash flows from financing activities:		
Net notes payable borrowings	32,300,000	2,000,000
Exercise of employee stock options	578,700	284,934
Payment of dividends	(5,674,577)	(4,809,944)
	27,204,123	(2,525,010)
Net change in cash and cash equivalents	1,143,090	1,528,250
Cash and cash equivalents at beginning of period	8,852,631	9,882,533
Cash and cash equivalents at end of period	\$ 9,995,721	\$11,410,783
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 397,235	\$ 508,873
Income taxes	2,261,307	1,155,627

See notes to consolidated condensed financial statements.
</TABLE>

FAMILY DOLLAR STORES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. In the opinion of the Company, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary

to present fairly the financial position as of November 30, 1995, and the results of operations and the cash flows for the three months ended November 30, 1995, and 1994.

The results of operations for the three month period ended November 30, 1995, are not necessarily indicative of the results to be expected for the full year.

2. The Company considers all highly liquid investments with a maturity of three months or less to be "cash equivalents."
3. The Company has two unsecured bank lines of credit for short-term revolving borrowings of up to \$50,000,000 each, or \$100,000,000 of total borrowing capacity. The lines of credit expire on February 28, 1996 and February 13, 1996, respectively, and the Company expects that both lines of credit will be renewed. Borrowings under these lines of credit are at a variable interest rate equal to the lower of the bank's prime interest rate minus one-half percent or a rate based on short-term market interest rates. The Company may convert up to \$50,000,000 of the line of credit expiring February 28, 1996, into either a five, seven, or nine year term loan, at the bank's variable prime rate.
4. During October 1995, the Company reached a final settlement with the Internal Revenue Service (IRS) for assessments resulting from examination of the Company's consolidated 1991 and 1992 federal income tax returns, and the Company incurred no material adverse impact on its financial statements. The IRS is currently examining the Company's consolidated 1993 and 1994 federal income tax returns but has not rendered a final report of their findings.
5. The Company's non-qualified stock option plans provide for the granting of options to key employees to purchase shares of common stock at prices not less than the fair market value on the date of grant. Options expire five years from the date of grant and are exercisable to the extent of 40% after the second anniversary of the grant and an additional 30% at each of the following two anniversary dates on a cumulative basis. All shares available for option as of November 30, 1995, were issuable under the current plan which expires in November 1998, covering a maximum of 2,200,000 shares.

<TABLE>

The following is a summary of transactions under the plans during the three months ended November 30, 1995 and 1994.

<CAPTION>

	Three Months Ended			
	November 30, 1995		November 30, 1994	
	Number of shares under option	Option price per share	Number of shares under option	Option price per share
<S>	<C>	<C>	<C>	<C>
Outstanding-beginning	1,114,960	\$ 5.88-\$21.25	951,290	\$ 5.13-\$21.25
Granted	6,000	\$15.25-\$18.75	74,200	\$10.25-\$11.50
Exercised	(43,440)	\$ 5.88-\$17.25	(37,970)	\$ 5.13-\$ 5.88
Cancelled	(26,900)		(9,540)	
Outstanding-ending	1,050,620	\$ 5.88-\$21.25	977,980	\$ 5.13-\$21.25

At November 30, 1995, options to purchase 320,125 shares were exercisable at prices ranging from \$5.88 to \$21.25 per share, and at November 30, 1994, options to purchase 295,680 shares were exercisable at prices ranging from \$5.13 to \$20.50 per share.

</TABLE>

6. Interest expense for the three months ended November 30, 1995, was \$407,503 and for the three months ended November 30, 1994, was \$461,285.
7. Net income per common share is based on the weighted average number of shares outstanding during each reporting period. Exercise of outstanding stock options would have no material dilutive effect on net income per common share.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

The Company's working capital increased by \$4,771,703, from \$264,671,854 at August 31, 1995 to \$269,443,557 at November 30, 1995. The principal source of new working capital continued to be the reinvestment of a significant portion of the earnings of the Company. Changes in working capital components during the first quarter of fiscal 1996 and 1995 were primarily the result of seasonal increases in merchandise inventories, which were financed primarily by reinvestment of earnings (net of dividends) and by increases in short-term notes payable. The seasonal increase in merchandise inventories during the first quarter of fiscal 1996 was greater than the increase during the first quarter of fiscal 1995. The increase in the first quarter of fiscal 1995 was unusually small due to the purchase of less apparel merchandise in anticipation of apparel sales weakness, as well as the purchase of lower price point apparel as part of an overall price reduction program that began in the second quarter of fiscal 1994 as the Company moved toward an everyday low price strategy.

Capital expenditures for the quarter ended November 30, 1995, were approximately \$11,315,000, and are currently planned to be approximately \$45 million for fiscal 1996. The majority of capital expenditures for fiscal 1996 is related to the Company's retail store expansion program and to the expansion of the West Memphis, Arkansas distribution center which is planned to be completed in the fourth quarter of fiscal 1996. In fiscal 1996, the Company plans to open approximately 235 stores and close approximately 35 stores for a net addition of approximately 200 stores, compared with the opening of 213 stores and closing of 12 stores for a net addition of 201 stores in fiscal 1995. All stores opening in fiscal 1996 have a new interior layout featuring wider aisles, lower fixtures and updated signage. The Company expects to remodel selected existing stores to the new prototype in the second half of fiscal 1996, and will evaluate the results to determine longer-term remodeling plans. The Company occupies most of its stores under operating leases. New store opening, closing and remodeling plans, as well as overall capital expenditure plans, are continuously reviewed and are subject to change depending on developments in the economy and other factors.

RESULTS OF OPERATIONS

NET SALES

Net sales increased 11.2% in the quarter ended November 30, 1995, as compared with the quarter ended November 30, 1994. The increase was attributable to increased sales in existing stores and sales from new stores opened as part of the Company's store expansion program. Sales in existing stores increased 3.3% in the quarter ended November 30,

1995, as compared with the same period ended November 30, 1994. Sales increases in hardlines departments more than offset sales decreases in softlines in existing stores. The hardlines increases reflect positive customer response to the Company's price reduction program. The Company's lower price point apparel has not generated planned unit movement increases, contributing to the sales decline in softlines departments.

The average number of stores open during the first quarter of fiscal 1996 was 8.8% more than during the first quarter of fiscal 1995. The Company had 2,469 stores in operation at November 30, 1995, as compared with 2,275 stores in operation at November 30, 1994, representing an increase of approximately 8.5%.

COST OF SALES

Cost of sales increased 13.1% in the quarter ended November 30, 1995, as compared with the quarter ended November 30, 1994. This increase primarily reflected the additional sales volume between years. Cost of sales, as a percentage of net sales, was 65.4% in the quarter ended November 30, 1995, compared with 64.3% in the quarter ended November 30, 1994. The increase in the cost of sales percentage for the quarter ended November 30, 1995, was due primarily to the continuing effect of the merchandise price reductions that were taken as part of the expansion of the price reduction program and shift toward an everyday low price strategy. The ongoing weakness in the sales of higher margin apparel also contributed to the increase. The Company expects that the effect of the price reduction program on the comparability of the cost of sales percentages will be less in the second half of fiscal 1996 as by the second half of fiscal 1996 the Company will have passed the one-year anniversary of the substantial implementation of the program. The cost of sales percentages also are affected by other changes in the effectiveness of the merchandise procurement programs and product mix, and also by merchandise shrinkage losses and freight costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 11.4% in the quarter ended November 30, 1995, as compared with the quarter ended November 30, 1994. The increase in these expenses was due primarily to additional costs arising from the continued growth in the number of stores in operation. Selling, general and administrative expenses, as a percentage of net sales, were 28.7% in the quarter ended November 30, 1995, as compared with 28.6% in the quarter ended November 30, 1994. The increase in the percentage for the quarter ended November 30, 1995, was due primarily to an increase in distribution facility expenses as

the increased item sales movement resulting from the merchandise price reduction program required the Company to handle additional units of lower priced merchandise.

PROVISION FOR TAXES ON INCOME

The provision for taxes on income for the quarter ended November 30, 1995, decreased 6.9% as compared with the quarter ended November 30, 1994. The variance between the periods is primarily due to the decrease in income before the provision for income taxes. The effective tax rate was 38.8% for both the quarters ended November 30, 1995, and November 30, 1994.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Documents filed as exhibits to this Form 10-Q:
 - 11 Statement Re: Computations of Per Share Earnings
 - 27 Financial Data Schedule

- (b) Reports on Form 8-K - None

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.

FAMILY DOLLAR STORES, INC.
(Registrant)

Date: January 8, 1996

JOHN D. REIER
JOHN D. REIER
(President)

Date: January 8, 1996

C. MARTIN SOWERS
C. MARTIN SOWERS
(Senior Vice President-Finance)

Date: January 8, 1996

KENNETH T. SMITH
KENNETH T. SMITH
(Vice President-Controller
Principal Accounting Officer)

<TABLE>
<CAPTION>

FAMILY DOLLAR STORES, INC.
STATEMENT RE COMPUTATIONS OF PER SHARE EARNINGS

EXHIBIT 11

AS PRESENTED	THREE MONTHS ENDED NOVEMBER 30, 1995		THREE MONTHS ENDED NOVEMBER 30, 1994	
	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED
<S>	<C>	<C>	<C>	<C>
AVERAGE SHARES OUTSTANDING FOR THE THREE MONTHS ENDED	56,766,702	56,766,702	56,599,125	56,599,125
NET INCOME	\$14,507,769	\$14,507,769	\$15,586,388	\$15,586,388
EARNINGS PER SHARE	\$.26	\$.26	\$.28	\$.28
PRO FORMA DILUTION IMPACT OF COMMON STOCK EQUIVALENTS				
ADDITIONAL WEIGHTED AVERAGE SHARES FROM ASSUMED EXERCISE AT THE BEGINNING OF THE YEAR OF DILUTIVE STOCK OPTIONS	460,796	460,796	231,437	234,603
WEIGHTED AVERAGE SHARES ASSUMED REPURCHASED FROM ASSUMED PROCEEDS OF EXERCISES USING TREASURY STOCK METHOD (AVERAGE MARKET PRICE FOR PRIMARY AND, IF GREATER, ENDING MARKET PRICE FOR FULLY DILUTED)	(368,245)	(368,245)	(163,175)	(165,051)
NET PRO FORMA COMMON STOCK EQUIVALENT INCREMENTAL SHARES	92,551	92,551	68,262	69,552
PERCENTAGE DILUTION FROM PRO FORMA COMMON STOCK EQUIVALENT INCREMENTAL SHARES	0.16%	0.16%	0.12%	0.12%
TOTAL COMMON STOCK AND COMMON STOCK EQUIVALENTS	56,859,253	56,859,253	56,667,387	56,668,677
NET INCOME	\$14,507,769	\$14,507,769	\$15,586,388	\$15,586,388
PRO FORMA EARNINGS PER SHARE (INCLUDING DILUTIVE COMMON STOCK EQUIVALENTS)	\$.26	\$.26	\$.28	\$.28

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS OF FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES FOR THE QUARTER ENDED NOVEMBER 30, 1995, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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