

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-02-08** | Period of Report: **1995-12-31**
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FILER

VIKING OFFICE PRODUCTS INC

CIK: **859303** | IRS No.: **952082946** | State of Incorpor.: **CA** | Fiscal Year End: **0630**
Type: **10-Q** | Act: **34** | File No.: **000-18237** | Film No.: **96513421**
SIC: **5961** Catalog & mail-order houses

Mailing Address
*13809 SOUTH FIGUEROA
STREET
LOS ANGELES CA 90061*

Business Address
*13809 S FIGUEROA ST
LOS ANGELES CA 90061
2133214493*

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended December 31, 1995

OR

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

For the transition period from _____ to _____

Commission file number: 0-18237

VIKING OFFICE PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

California

95-2082946

(State or other jurisdiction of
incorporation or organization)

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

879 West 190th Street
P. O. Box 61144
Los Angeles, California 90061

(Address of Principal Executive Offices)
(Zip Code)

(310) 225-4500

(Registrant's Telephone Number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

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 FEBRUARY 5, 1996
-----	-----
[S]	[C]
Common Stock	41,265,477

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VIKING OFFICE PRODUCTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS

<TABLE>

<CAPTION>

	December 31, 1995	June 30, 1995
	-----	-----
	(unaudited)	
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents.....	\$ 5,957	\$ 11,080
Short-term investments.....	28,167	36,383
Accounts receivable, net.....	114,178	96,000
Merchandise inventories.....	93,372	64,670
Prepaid catalog costs.....	11,009	16,292
Prepaid expenses and other current assets...	4,255	2,587
	-----	-----
Total current assets.....	256,938	227,012
	-----	-----
Property and equipment, net.....	72,520	49,083
Other assets:		
Deposits and other assets.....	6,479	2,364
Intangible assets, net.....	29,435	29,885
	-----	-----
Total other assets.....	35,914	32,249
	-----	-----
Total assets.....	\$365,372	\$308,344
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses.....	\$ 96,419	\$ 76,312
Sales and value added taxes payable.....	3,769	6,184
Income taxes payable.....	28,975	16,936

Total current liabilities.....	129,163	99,432
Deferred income taxes.....	386	386
Stockholders' equity:		
Common stock.....	94,492	92,036
Retained earnings.....	147,361	121,251
Unamortized value of long-term incentive stock grants.....	(7,445)	(7,768)
Cumulative foreign currency translation adjustment.....	1,415	3,007
Total stockholders' equity.....	235,823	208,526
Total liabilities and stockholders' equity.....	\$365,372	\$308,344

</TABLE>

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VIKING OFFICE PRODUCTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

<TABLE>

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	Three Months Ended December 31,		Six Months Ended December 31,	
	1995	1994	1995	1994
<S>	<C>	<C>	<C>	<C>
Revenues.....	\$250,437	\$189,160	\$480,447	\$371,552
Cost of goods sold, including delivery..	164,991	126,098	314,990	245,816
Gross profit.....	85,446	63,062	165,457	125,736
Selling, general and administrative expenses.....	68,221	50,090	129,536	97,712
Operating income.....	17,225	12,972	35,921	28,024
Other income.....	2,171	1,794	4,195	3,393
Interest expense.....	37	59	108	81
Income before income taxes.....	19,359	14,707	40,008	31,336

Provision for income taxes.....	6,549	5,467	13,896	11,779
	-----	-----	-----	-----
Net income.....	\$ 12,810	\$ 9,240	\$ 26,112	\$ 19,557
	=====	=====	=====	=====
Net income per share.....	\$.30	\$.22	\$.61	\$.46
	=====	=====	=====	=====
Weighted average of common and common equivalent shares outstanding.....	43,400	42,705	43,100	42,590
	=====	=====	=====	=====

</TABLE>

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VIKING OFFICE PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

<TABLE>

<CAPTION>

	Six Months Ended December 31,	
	1995	1994
	-----	-----
	<C>	<C>
Cash flows from operating activities:		
Cash received from customers.....	\$ 457,152	\$ 354,431
Cash paid to suppliers and employees..	(437,678)	(338,383)
Interest received.....	1,116	1,002
Interest paid.....	(109)	(76)
Income taxes paid.....	(1,155)	(4,158)
	-----	-----
Net cash provided by operating activities.....	19,326	12,816
	-----	-----
Cash flows from investing activities:		
Capital expenditures.....	(30,292)	(14,634)
Short-term investments.....	8,216	(8,200)
Proceeds from sale of property and equipment.....	196	--
Issuance of notes receivable and other	(4,140)	(229)
	-----	-----
Net cash used in investing activities.....	(26,020)	(23,063)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,456	3,220
	-----	-----
Net cash provided by financing activities.....	2,456	3,220

Effect of exchange rate changes on cash.	(885)	530
	-----	-----
Net decrease in cash and cash equivalents.....	(5,123)	(6,497)
Cash and cash equivalents, beginning of period.....	11,080	25,609
	-----	-----
Cash and cash equivalents, end of period	\$ 5,957	\$ 19,112
	=====	=====
Reconciliation of net income to net cash provided by operating activities:		
Net income.....	\$ 26,112	\$ 19,557
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	6,240	3,488
Loss on sale of fixed assets.....	111	30
Provision for doubtful accounts and customer returns.....	4,886	5,102
Increase in accounts receivable.....	(23,458)	(18,046)
Increase in inventories.....	(29,438)	(12,249)
Decrease in prepaid expenses and other current assets.....	4,292	3,119
Increase in accounts payable and accrued expenses.....	30,581	11,815
	-----	-----
Total adjustments.....	(6,786)	(6,741)
	-----	-----
Net cash provided by operating activities.....	\$ 19,326	\$ 12,816
	=====	=====

</TABLE>

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VIKING OFFICE PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

1. FINANCIAL STATEMENTS

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange commission and reflect all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although

the Company believes that disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report to shareholders for the year ended June 30, 1995.

The June 30, 1995 condensed consolidated Balance sheet was derived from the audited consolidated balance sheet at June 30, 1995, which was incorporated by reference in the Company's annual report on Form 10-K.

In October 1995, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 is effective for fiscal years beginning after December 15, 1995; however early application is permitted. SFAS No. 123 encourages but does not require the adoption of a fair value method of accounting for employee stock-based compensation. The Company has not yet determined whether it will adopt the recognition provisions of SFAS No. 123 and, if adopted, the effect of those provisions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

 OF OPERATIONS

The following table shows, for the periods indicated, the percentage relationships to revenues of items included in the Condensed Consolidated Statements of Income and the percentage changes in the dollar amounts of such items from period to period.

<TABLE>

<CAPTION>

	Three Months Ended		Six Months Ended		Percent Increase	
	December 31,		December 31,		3 Months	6 Months
	1995	1994	1995	1994	1995 vs. 1994	1995 vs. 1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues.....	100.0%	100.0%	100.0%	100.0%	32.4%	29.3%
Cost of goods sold, including delivery....	65.9	66.7	65.6	66.2	30.8	28.1
Gross profit.....	34.1	33.3	34.4	33.8	35.5	31.6
Selling, general and administrative expenses.....	27.2	26.4	26.9	26.3	36.2	32.6
Operating Income.....	6.9	6.9	7.5	7.5	32.8	28.2
Other Income.....	0.8	0.9	0.8	0.9	21.0	23.6
Interest Expense.....	0.0	0.0	0.0	0.0	--	--

Income before taxes						
on income.....	7.7	7.8	8.3	8.4	31.6	27.7
Taxes on income.....	2.6	2.9	2.9	3.2	19.8	18.0
	-----	-----	-----	-----		
Net Income.....	5.1%	4.9%	5.4%	5.2%	38.6	33.5
	=====	=====	=====	=====		

</TABLE>

THREE MONTHS ENDED DECEMBER 31, 1995 COMPARED TO THE THREE MONTHS ENDED DECEMBER

31, 1994.

Revenues for the three months ended December 31, 1995, increased by \$61.3 million, or 32.4%, over the comparable period of the prior year. Of this increase, \$22.0 million was attributable to United States operations, \$36.4 million European operations and \$2.9 million to the Australian division. The European operations include cross-border sales into Belgium beginning in May 1994, Luxembourg and the Republic of Ireland beginning in September 1994, the Netherlands beginning in November 1994, and since opening in early November 1995, Germany. Revenues generated by the new German business were \$7.7 million during the first two months of operation. On a company-wide basis, during the three months ended December 31, 1995, the number of catalogs mailed increased 5.3%, the number of customers who purchased products increased 17.5% and the average revenue per customer increased by 12.7% compared to the comparable period of the prior year.

Gross profit for the three months ended December 31, 1995 increased by \$22.4 million, or 35.5% over the comparable period of the prior year. As a percentage of revenues, gross profit increased from 33.3% in the three months ended December 31, 1994 to 34.1% in the three months ended December 31, 1995. The increase in gross profit is primarily attributable to sale price adjustments on paper products that have offset earlier price increases, and higher gross profit in the newer markets in Europe and Australia.

Selling, general, and administrative expenses for the three months ended December 31, 1995, increased by \$18.1 million, or 36.2% over the comparable period of the prior year. As a percentage of revenues, these expenses increased from 26.4% in the three months ended December 31, 1994 to 27.2% in the three months ended December 31, 1995. This percentage increase was primarily due to start-up and early operating expenses in The Netherlands and Germany.

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Other income for the three months ended December 31, 1995 increased by \$377,000, or 21.0% over the comparable period of the prior year. The increase was attributable to cash discounts received on higher inventory purchases.

Income taxes for the three months ended December 31, 1995 increased by \$1.1 million due to higher pretax earnings. The estimated effective tax rate decreased from 37.2% for the three months ended December 31, 1994 to 33.8% for the current period. This decrease was primarily attributable to the utilization of available French operating loss carryforwards, and the use of foreign losses

to offset domestic taxable income.

SIX MONTHS ENDED DECEMBER 31, 1995 COMPARED TO THE SIX MONTHS ENDED DECEMBER 31,

1994

Revenues for the six months ended December 31, 1995, increased by \$108.9 million, or 29.3% over the comparable period of the prior year. Of this increase, \$35.3 million was attributable to United States operations, \$68.5 million related to European operations and \$5.1 million was attributable to Viking's Australian division. On a company-wide basis, during the six months ended December 31, 1995, the number of catalogs mailed increased 8.2%, the number of customers who purchased products increased 19.2% and the average revenue per customer increased 8.5% versus the comparable period of the prior year.

Gross profit for the six months ended December 31, 1995 increased by \$39.7 million or 31.6% over the comparable period of the prior year. As a percentage of revenues, gross profit increased from 33.8% in the six months ended December 31, 1994 to 34.4% in the six months ended December 31, 1995. The increase in gross profit is primarily attributable to sales price adjustments on paper products that have offset earlier price increases, and higher gross profit in the newer markets in Europe and Australia.

Selling, general, and administrative expenses for the six months ended December 31, 1995, increased by \$31.8 million, or 32.6% over the comparable period of the prior year. As a percentage of revenues, these expenses increased from 26.3% in the six months ended December 31, 1994 to 26.9% in the six months ended December 31, 1995. This percentage increase was primarily due to start-up and early operating expenses in The Netherlands and Germany.

Other income for the six months ended December 31, 1995 increased by \$802,000 or 23.6% over the comparable period of the prior year. The increase was attributable to cash discounts received on higher inventory purchases.

Taxes on income for the six months ended December 31, 1995 increased by \$2.1 million due to higher pretax earnings. The estimated effective tax rate decreased from 37.6% for the six months ended December 31, 1994 to 34.7% for the current period. This decrease was primarily attributable to the utilization of available French operating loss carryforwards, and the use of foreign losses to offset domestic taxable income.

LIQUIDITY AND CAPITAL RESOURCES

Viking's primary source of liquidity has been cash flow from operations. Viking believes that its existing cash and short-term investments, funds generated from operations and available credit under its revolving credit facility will be sufficient to finance its working capital and capital expenditure requirements for the foreseeable future. At December 31, 1995, the Company had working capital of \$127.8 million compared to \$107.5 million at December 31, 1994. The improved working capital position primarily reflects cash provided by operating activities. Cash provided by operating and financing activities that exceeded current working capital and capital expenditures requirements was invested in short-term marketable securities.

Capital expenditures amounted to \$30.3 million for first six months of fiscal 1996 as Viking continued to invest in domestic and international operations, particularly in Europe. Viking believes there are substantial opportunities throughout Europe to expand its business. During the current quarter, the company opened its German division, as well as a satellite distribution centers in Dublin, Ireland and Baltimore, Maryland. Another distribution center will open in Melbourne, Australia in January. Capital expenditures related to expansion have been funded by cash from operations. Management believes that future expansion plans, and the capital requirements for such expansion, will be provided from existing cash and short term investments, and cash flows from operations. Capital expenditures in fiscal 1996 are expected to be between \$50 and \$60 million.

Viking has a revolving credit agreement with Citibank, N.A. which provides for an unsecured revolving credit facility of up to \$30.0 million through June 1996. Advances under this credit facility bear interest at the bank's base rate or at the bank's base rate less 1/4% depending on certain of Viking's financial ratios. At the option of Viking, the rate of interest may be determined by reference to LIBOR or domestic certificate of deposit rates. In addition, Viking is required to pay a commitment fee varying from 1/4% to 1/2% on the unused amount of the revolving credit facility. Such commitment fee rates are dependent on certain of Viking's financial ratios. At December 31, 1995, no amounts were outstanding under this credit facility and the entire \$30.0 million was available for borrowing.

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of shareholders for Viking Office Products, Inc. was held on November 16, 1995. At the meeting, the shareholders elected a Board of Directors pursuant to management's nomination in the proxy statement dated October 11, 1995.

At the meeting, the shareholders also voted to approve an amendment to the 1992 Directors' Stock Option Plan, to approve an amendment to the Chief Executive Officer Performance Based Bonus Plan and to ratify the selection of Deloitte & Touche as independent auditors. The shareholders did not approve by the requisite majority an amendment to the Amended and Restated Bylaws to classify the Board of Directors for purposes of election and other related changes.

The vote on the proposal to amend the 1992 Directors' Stock Option Plan was as follows:

<TABLE>
<CAPTION>

VOTES FOR	AGAINST	ABSTENTIONS
-----	-----	-----
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24,033,582 8,787,149 121,342

</TABLE>

The vote on the proposal to amend the Chief Executive Officer Performance Based Bonus Plan was as follows:

<TABLE>

<CAPTION>

VOTES FOR	AGAINST	ABSTENTIONS
-----	-----	-----
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30,795,106	1,682,217	269,794

</TABLE>

The vote on the proposal to ratify the selection of auditors was as follows:

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<CAPTION>

VOTES FOR	AGAINST	ABSTENTIONS
-----	-----	-----
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34,804,171	28,767	7,951

</TABLE>

The vote on the proposal to amend Viking's Amended and Restated Bylaws to classify the Board of Directors for purposes of election and to make other related changes was as follows:

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<CAPTION>

VOTES FOR	AGAINST	ABSTENTIONS
-----	-----	-----
<S>	<C>	<C>
18,827,534	13,719,923	34,216

</TABLE>

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) THE FOLLOWING EXHIBIT IS FILED AS PART OF THIS REPORT:

27 Financial Data Schedule

(b) REPORTS ON FORM 8-K.

There were no reports filed on Form 8-K during the three months ended December 31, 1995.

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.

VIKING OFFICE PRODUCTS, INC.

DATE: February 6, 1996

BY: /s/ Lisa Y. Billig

Lisa Y. Billig
Vice President, Finance
Chief Financial Officer

BY: /s/ Keith Bjelajac

Keith Bjelajac
Corporate Controller

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