

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**  
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FILER

**FIELDCREST CANNON INC**

CIK: **35469** | IRS No.: **560586036** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-05137** | Film No.: **95535950**  
SIC: **2211** Broadwoven fabric mills, cotton

Business Address  
326 E STADIUM DRIVE  
EDEN NC 27288  
9196273000

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

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 No. 1-5137

FIELDCREST CANNON, INC.

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

56-0586036  
(I.R.S. Employer  
Identification No.)

326 East Stadium Drive  
Eden, N.C.  
(Address of principal  
executive offices)

27288  
(Zip Code)

Registrant's telephone number, including area code (910) 627-3000

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 and  
(2) has been subject to such filing requirements for the past 90  
days. Yes x . No .

Number of shares outstanding April 30, 1995  
Common Stock 8,846,959

Total pages 10

## PART 1. FINANCIAL INFORMATION

&lt;TABLE&gt;

&lt;CAPTION&gt;

FIELDCREST CANNON, INC.

Consolidated statement of financial position

Dollars in thousands	March 31, 1995	December 31, 1994
Assets		
<S>	<C>	<C>
Cash	\$ 4,312	\$ 5,885
Accounts receivable	170,128	170,001
Inventories (note 3)	263,611	213,994
Net assets held for sale	-	24,000
Other prepaid expenses and current assets	3,527	3,793
Total current assets	441,578	417,673
Plant and equipment, net	322,261	314,726
Deferred charges and other assets	61,128	50,266
Total assets	\$824,967	\$782,665
Liabilities and shareowners' equity		
Accounts and drafts payable	\$ 54,989	55,533
Federal and state income taxes	4,018	2,268
Deferred income taxes	19,651	21,988
Accrued liabilities	69,381	53,958
Current portion of long-term debt	1,118	1,465
Total current liabilities	149,157	135,212
Senior long-term debt	132,291	107,744
Subordinated long-term debt	210,000	210,000
Total long-term debt	342,291	317,744
Deferred income taxes	43,471	42,859
Other non-current liabilities	54,896	55,648
Total liabilities	589,815	551,463
Shareowners' equity:		
Preferred Stock, \$.01 par value, 10,000,000 authorized, 1,500,000 issued and outstanding March 31, 1995 and December 31, 1994 (aggregate liquidation preference of \$75,000)	15	15
Common Stock, \$1 par value, 25,000,000 authorized, 12,458,819 issued March 31, 1995 and 12,360,252 December 31, 1994	12,459	12,360
Additional paid in capital	218,185	216,772
Retained earnings	121,718	119,280
Excess purchase price for Common Stock acquired and held in treasury - 3,606,400 shares	(117,225)	(117,225)
Total shareowners' equity	235,152	231,202
Total liabilities and shareowners' equity	\$824,967	\$782,665

/TABLE

See accompanying notes  
(2)

FIELDCREST CANNON, INC.

Consolidated statement of income and retained earnings

<TABLE>

<CAPTION>

Dollars in thousands, except per share data <S>	Three Months ended March 31	
	1995 <C>	1994 <C>
Net sales	\$257,009	\$232,285
Cost of sales	214,025	194,893
Selling, general and administrative	26,702	22,344
Restructuring charges	3,924	-
Total operating costs and expenses	244,651	217,237
Operating income	12,358	15,048
Other deductions (income):		
Interest expense	6,802	5,848
Other, net	(144)	115
Total other deductions	6,658	5,963
Income before income taxes	5,700	9,085
Federal and state income taxes	2,137	3,589
Net Income	3,563	5,496
Preferred dividends	(1,125)	(1,125)
Earnings on common	2,438	4,371
Amount added to retained earnings	2,438	4,371
Retained earnings, beginning of period	119,280	93,035
Retained earnings, end of period	\$121,718	\$ 97,406
Net income per common share	\$ .28	\$ .51
Fully diluted income per common share	\$ .28	\$ .47
Average primary shares outstanding	8,806,975	8,623,723
Average fully diluted shares outstanding	8,807,863	14,015,893

</TABLE>

(3)

FIELDCREST CANNON, INC.  
 Consolidated statement of cash flows  
 <TABLE>  
 <CAPTION>

Dollars in thousands <S>	Three Months ended March 31	
	1995 <C>	1994 <C>
Increase (decrease) in cash		
Cash flows from operating activities:		
Net income	\$ 3,563	\$ 5,496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,753	7,588
Deferred income taxes	612	2,429
Other	1,277	1,028
Change in current assets and liabilities, excluding effects of acquisition of Sure Fit:		
Accounts receivable	8,563	17,821
Inventories	(32,319)	(33,594)
Other prepaid expenses and current assets	501	(720)
Accounts payable and accrued liabilities	7,361	(8,877)
Federal and state income taxes	1,750	2,699
Deferred income taxes	(2,337)	(1,444)
Net cash used in operating activities	(3,276)	(7,574)
Cash flows from investing activities:		
Additions to plant and equipment	(14,712)	(3,339)
Proceeds from disposal of plant and equipment	460	178
Proceeds from net assets held for sale	20,184	-
Purchase of Sure Fit, net of cash acquired	(27,300)	-
Net cash used in investing activities	(21,368)	(3,161)
Cash flows from financing activities:		
Increase in revolving debt	24,947	18,840
Payments on long-term debt	(751)	(6,132)
Dividends paid on preferred stock	(1,125)	(1,125)
Net cash provided by financing activities	23,071	11,583
Increase (decrease) in cash	(1,573)	848
Cash at beginning of year	5,885	3,865
Cash at end of period	\$ 4,312	\$ 4,713

&lt;/TABLE&gt;

## FIELDCREST CANNON, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1995

## 1. Basis of Presentation

The consolidated financial statements are unaudited. In the opinion of management all adjustments, consisting only of normal recurring items, have been made which are necessary to show a fair presentation of the financial position of the Company at March 31, 1995 and the related results of operations for the three months ended March 31, 1995 and 1994. The unaudited consolidated financial statements should be read in conjunction with the Company's Form 10-K for the year ended December 31, 1994.

## 2. Income Per Common Share

Reference is made to Exhibit 11 to this Form 10-Q for a computation of primary and fully-diluted net income per Common share.

## 3. Inventories

Inventories are classified as follows:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	March 31, 1995	December 31, 1994
(In thousands)		
<S>	<C>	<C>
Finished goods	\$139,133	\$109,423
Work in process	74,017	65,375
Raw materials and supplies	50,461	39,196
	\$263,611	\$213,994

&lt;/TABLE&gt;

At March 31, 1995 approximately 69% of the inventories were valued on the last-in, first-out method (LIFO).

## 4. Sale of Bangor and Aroostook Railroad

In March 1995 the Company sold the Bangor and Aroostook Railroad for \$20 million of cash and \$8 million of notes receivable. Cash proceeds were used to reduce borrowings under the Company's revolving credit facility.

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

Changes in Financial Condition

The Company's debt (including the current portion of long-term debt) increased \$24.2 million during the first quarter of 1995. Debt was reduced by \$20 million from cash proceeds from the sale of the Bangor and Aroostook Railroad and increased by \$27 million from the acquisition of the Sure Fit furniture coverings business of UTC Holdings. After excluding the effects of the acquisition of Sure Fit, inventories increased \$32.3 million due to normal seasonal inventory build-up during the quarter. Capital expenditures totaled \$14.7 million for the quarter compared to \$3.3 million for the first quarter of 1994. Included in the 1995 capital expenditures is \$9.1 million for the \$90 million capital project for the new weaving plant at the Company's Columbus, GA/Phoenix City, Ala. towel mill. Capital expenditures for 1995 are expected to be in the \$50-\$55 million range. At March 31, 1995, approximately \$75.8 million of the Company's \$195 million revolving credit facility was available and unused. It is anticipated that financing of future capital expenditures will be provided by cash flows from operations, borrowings under the Company's revolving credit facility, and, possibly, the sale of long-term debt or equity securities.

Changes in Results of Operations

Quarter Ended March 31, 1995 vs. Quarter Ended March 31, 1994

Net sales for the first quarter of 1995 were \$257.0 million compared to \$232.3 million in the first quarter of 1994, an increase of 11%. The \$24.7 million increase includes \$13.4 million of furniture coverings from the Sure Fit business acquired in January 1995. The increase in revenues, after adjusting for the Sure Fit acquisition, was due approximately equally to volume increases and price increases implemented during the last half of 1994.

Gross profit margins increased from 16.1% to 16.7% in the first quarter 1995. The increase was less than the sales price increases due to higher raw material and labor costs and lower mill activity. Additional cost increases in cotton and other raw materials have caused the Company to implement further price increases on its products beginning in the second quarter of 1995.

Selling, general and administrative expenses increased as a percentage of sales from 9.6% to 10.4% in the first quarter of 1995 compared to the same quarter of 1994. The increase was due primarily to increased advertising and other selling expenses.

In the first quarter of 1995 the Company announced a

reorganization of its New York operations and the relocation of

sales, marketing and design personnel to Kannapolis, N.C. In conjunction with the

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reorganization, the Company will offer a voluntary early retirement program for all of its eligible salaried employees. The Company expects to incur pre-tax costs in the range of \$10 to \$12 million, or \$.71 to \$.85 per share after tax, as a result of these actions. Annual pre-tax savings of \$6 to \$8 million, or \$.42 to \$.57 per share after tax, are anticipated. A pre-tax charge of \$3.9 million, or \$.28 per share after tax, was accrued in the first quarter of 1995 for employee severance and termination benefits related to the reorganization. The remaining costs for relocation and the voluntary early retirement program will be incurred later in the year.

Operating income as a percentage of sales decreased to 4.8% in the first quarter of 1995 from 6.5% in the first quarter of 1994. The decrease was due to the \$3.9 million of restructuring charges described above and the increase in selling, general and administrative expenses.

Interest expense increased \$1.0 million in the first quarter of 1995 as compared to the first quarter of 1994 due primarily to an increase in average debt outstanding.

The effective income tax rate was 37.5% for the first quarter of 1995 compared to 39.5% for the first quarter of 1994. The annual effective income tax rate for 1994 was 37.3% before favorable prior years tax settlements which reduced the 1994 annual rate to 33.6%.

Net income for the first quarter of 1995 was \$3.6 million, or \$.28 per common share, compared to \$5.5 million, or \$.51 per common share, in the first quarter of 1994.

PART II. OTHER INFORMATION  
FIELDCREST CANNON, INC.

Item 6. Exhibits and Reports on Form 8-K

(a). Exhibits

11. Computation of Primary and Fully Diluted Net Income Per Share.

(b). Reports on Form 8-K



The Registrant did not file any reports to the Commission on Form 8-K for the quarter ended March 31, 1995.

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S I G N A T U R E S

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.

FIELDCREST CANNON, INC.  
(Registrant)

BY: (signed) T. R. Staab  
T. R. Staab  
Vice President and  
Chief Financial Officer

Date: May 10, 1995

(8)

<TABLE>  
<CAPTION>

EXHIBIT INDEX TO  
QUARTERLY REPORT ON FORM 10-Q FOR  
FIELDCREST CANNON, INC.  
FOR THE QUARTER ENDED MARCH 31, 1995

Exhibit Number	Description	Page Number
<S> (11)	<C> Computation of Primary and Fully Diluted Net Income Per Share	<C> 10

/TABLE

(9)

<TABLE>  
<CAPTION>

Exhibit 11

Computation of Primary and Fully Diluted Net Income Per Share

	For the three months ended March 31	
	1995	1994
<S> Average shares outstanding	<C> 8,794,159	<C> 8,603,330
Add shares assuming exercise of options reduced by the number of shares which could have been purchased with the proceeds from exercise of such options	12,816	20,393
Average shares and equivalents outstanding, primary	8,806,975	8,623,723
Average shares outstanding	8,794,159	8,603,330

Add shares giving effect to the conversion of the convertible subordinated debentures	(1)	2,824,859
Add shares giving effect to the conversion of the convertible preferred stock	(1)	2,564,103
Add shares assuming exercise of options reduced by the number of shares which could have been purchased with the proceeds from exercise of such options	13,704	23,601
Average shares and equivalents outstanding, assuming full dilution	8,807,863	14,015,893
Primary Earnings		
Net income	\$3,563,000	\$ 5,496,000
Preferred dividends	(1,125,000)	(1,125,000)
Earnings on Common	\$2,438,000	\$ 4,371,000
Primary earnings per common share	\$ .28	\$ .51
Fully Diluted Earnings		
Earnings on Common	\$2,438,000	\$ 4,371,000
Add convertible subordinated debenture interest, net of taxes	(1)	1,144,000
Add convertible preferred dividends	(1)	1,125,000
Net income	\$2,438,000	\$ 6,640,000
Fully diluted earnings per Common share	\$ .28	\$ .47

(1) The assumed conversion of the Registrant's Convertible Subordinated Debentures and Convertible Preferred Stock for the three months ended March 31, 1995 would have an anti-dilutive effect for the computation of earnings per share; therefore, conversion has not been assumed for this period.

<TABLE> <S> <C>

<ARTICLE> 5

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