

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-29**
SEC Accession No. **0000950130-95-001111**

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FILER

FAYS INC

CIK: **34768** | IRS No.: **160919350** | State of Incorporation: **NY** | Fiscal Year End: **0127**
Type: **10-Q** | Act: **34** | File No.: **001-07527** | Film No.: **95546692**
SIC: **5912** Drug stores and proprietary stores

Business Address
7245 HENRY CLAY BLVD
LIVERPOOL NY 13088
3154518000

FAY'S INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands of dollars)

<TABLE>
<CAPTION>

	April 29, 1995 (Unaudited)	January 28, 1995
	----- <C>	----- <C>
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ASSETS		
Current Assets:		
Cash	\$ 1,284	\$ 1,941
Accounts receivable	32,484	35,992
Merchandise inventories	173,249	166,956
Prepaid expenses	7,306	8,457
Refundable income taxes	725	-
	-----	-----
Total Current Assets	215,048	213,346
Deferred Income Taxes	1,572	1,572
Property and Equipment, net	69,771	70,395
Intangible and Other Assets, net	31,317	28,815
	-----	-----
Total Assets	\$ 317,708	\$ 314,128
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable, bank	\$ 13,300	\$ 13,100
Accounts payable, trade	63,823	57,411
Accrued payroll and related taxes	7,912	9,423
Other current liabilities	21,289	20,176
Federal and state income taxes payable	-	1,866
Current portion of long-term debt and obligation under leases	10,259	10,294
	-----	-----
Total Current Liabilities	116,583	112,270
Long-Term Debt	81,487	81,656
Obligation Under Leases	1,486	1,587
Deferred Gain and Other Liabilities	3,955	4,229
Accrued Postretirement Benefit Obligation	7,428	7,405
Commitments		
Stockholders' Equity:		
Common stock, par value \$.10 per share	2,058	2,055
Additional paid-in capital	61,093	61,050
Retained earnings	43,719	43,977
Common stock held in treasury, at cost	(101)	(101)
	-----	-----
Total Stockholders' Equity	106,769	106,981
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 317,708	\$ 314,128
	=====	=====

</TABLE>

See notes to consolidated condensed financial statements.

FAY'S INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF NET EARNINGS
(Unaudited)
(In thousands of dollars except per share data)

<TABLE>
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	Thirteen Weeks Ended	
	April 29, 1995	April 30, 1994
	----- <C>	----- <C>
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Net Sales	\$ 266,404	\$ 239,061
Cost and Expenses:		
Cost of merchandise sold	190,019	170,138
Selling, general and administrative expenses	68,429	59,286

Depreciation and amortization expenses	4,351	4,196
Interest expense, net	2,268	2,005
	-----	-----
Total cost and expenses	265,067	235,625
	-----	-----
Earnings before income taxes	1,337	3,436
Provision for income taxes	565	1,463
	-----	-----
Net earnings	\$ 772	\$ 1,973
	=====	=====
Earnings per share	\$ 0.04	\$ 0.10
	=====	=====
Cash dividends paid per share	\$ 0.05	\$ 0.05
	=====	=====

Stores in operation at end of period 381 325
</TABLE>

See notes to consolidated condensed financial statements.

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FAY'S INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands of dollars)

<TABLE>
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	Thirteen Weeks Ended	
	April 29, 1995	April 30, 1994
	-----	-----
<S>	<C>	<C>
CASH FLOW FROM OPERATING ACTIVITIES:		
Net earnings	\$ 772	\$ 1,973
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation and amortization	4,351	4,196
(Increase) decrease in current assets	(2,359)	266
Increase in current liabilities	4,148	1,249
(Decrease) increase in other long-term liabilities	(251)	41
	-----	-----
Net cash provided from operating activities	6,661	7,725
	-----	-----
CASH FLOW FOR INVESTING ACTIVITIES:		
Expenditures for property and equipment	(2,907)	(3,185)
Increase in intangibles and other assets	(3,322)	(5,686)
	-----	-----
Net cash used for investing activities	(6,229)	(8,871)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES:		
Increase in notes payable, bank	200	3,590
Repayment of long-term debt and reduction of obligation under leases	(305)	(1,443)
Cash dividends paid	(1,027)	(1,014)
Other	43	128
	-----	-----
Net cash from (for) financing activities	(1,089)	1,261
	-----	-----
Net increase (decrease) in cash	(657)	115
Cash balance, beginning of period	1,941	1,006
	-----	-----
Cash balance, end of period	\$ 1,284	\$ 1,121
	=====	=====

</TABLE>

See notes to consolidated condensed financial statements.

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(1) STATEMENT OF MANAGEMENT

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. In the opinion of Management, the information contained herein reflects all normal and recurring adjustments necessary for a fair presentation of the results of operations for the periods. The consolidated financial statements and notes thereto should be read with the financial statements and notes included in the Company's latest Annual Report on Form 10-K. The January 28, 1995 balance sheet data is derived from audited financial statements.

(2) COMMON STOCK AND EARNINGS PER SHARE

Earnings per share data are based on the weighted average number of shares of common stock and common stock equivalents (stock options) with a dilutive effect outstanding during the period. The average number of shares of common stock and dilutive common stock equivalents used to calculate earnings per share were 20,728,787 and 20,337,158 for the thirteen weeks ended April 29, 1995 and April 30, 1994, respectively.

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FAY'S INCORPORATED AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

The Company's principal business is the operation of a chain of super drug stores under the name "Fay's Drugs." As of April 29, 1995, the Company was operating 214 Fay's Drug stores, 62 traditional drug stores, 74 discount auto supply stores under the name "Wheels Discount Auto Supply," and 31 discount office supply, party supply, book and greeting card stores under the name "The Paper Cutter."

The total number of stores being operated has increased from 325 at the end of the first quarter of fiscal 1995 to 381. This increase includes the acquisition of 30 National Auto Supply stores in June 1994, the acquisition of the 12 store Peterson Drug chain in July 1994, and the opening of 4 new super drug stores and 11 Wheels Discount Auto Supply stores.

Net earnings for the first quarter of fiscal 1996 were \$772,000 compared to \$1,973,000 in the first quarter of the previous year. Earnings were impacted by lower than anticipated sales in all three of the Company's retail divisions and lower pharmacy gross margins.

Sales for the first quarter of fiscal 1996 were \$266.4 million representing an increase of 11.4% over the first quarter of last year. Sales increases reflected growth in the number of stores from last year as well as a 17% increase in pharmacy sales. Sales from comparable stores (those open one year or more as of April 29, 1995) increased 1.8% including an 8.6% increase in pharmacy sales.

The gross profit rate on sales was 28.67% compared to 28.83% for the same period last year. The decline in gross profit is largely attributable to continued pressures on third party pharmacy margins, combined with the trend of third party prescription sales accounting for a greater portion of total pharmacy revenues. Third party pharmacy sales were over 78% of total pharmacy sales in the first quarter compared to 71% in the previous year.

Selling, general and administrative expenses were 25.7% of sales and increased from 24.8% last year largely due to the lower than anticipated sales volume. Interest costs were higher than last year due to increases in debt required to finance acquisitions made during fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

At April 29, 1995, the Company had cash of \$1.3 million and total working capital of \$98.5 million. Cash flow from operations totaled \$6.7 million and was used primarily for expenditures on property and equipment, the payment of cash dividends, and reductions in long-term obligations. On May 12, 1995, the Company announced that it had begun exploring the possible divestiture of some or all of its interests in its two non-drugstore retail businesses, Wheels Discount Auto Supply and The Paper Cutter. The proceeds from such transactions, if they were to occur, would be used to reduce outstanding debt obligations and for other general corporate purposes.

The Company continues to maintain a sound financial position and believes that its operations and capital resources will provide sufficient cash availability to meet its liquidity needs and to finance planned growth.

FAY'S INCORPORATED AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

 On May 29, 1995, the Company was served with a summons and complaint in an action filed in U.S. District Court for the Northern District of New York entitled David Rowitt vs. Fay's

 Incorporated, Henry A. Panasci, Jr. and David H. Panasci. The

 complaint alleges violations by the Company of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5. The suit is brought as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b) (3) on behalf of certain persons who purchased the Company's common stock from January 30, 1995 through May 12, 1995. Henry A. Panasci, Jr. and David H. Panasci are alleged to be "controlling persons" within the meaning of Section 20(a) of the Exchange Act with the power and influence to cause the Company to engage in the conduct complained of.

The factual basis alleged to underlie the proceedings involves certain public disclosures made by the Company between May 1994 and April 29, 1995 that the plaintiff alleges were materially false and misleading. The plaintiff further alleges that the Company failed to disclose material adverse facts about the Company's business operations and presented an unduly optimistic presentation of the Company's current operating condition and future business prospects.

The Company plans to interpose an answer denying all of plaintiffs allegations of violations of law. The Company believes the lawsuit to be wholly without merit, and the Company plans to vigorously defend same.

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Item 6. Exhibits and Reports on Form 8-K

 [TYPE] - - 27
 [DESCRIPTION] - - Article 5 Financial Data Schedule for the quarter ended April 29, 1995.

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[RECEIVABLES]	32,484
[ALLOWANCES]	0
[INVENTORY]	173,249
[CURRENT-ASSETS]	215,048
[PP&E]	192,619
[DEPRECIATION]	122,848
[TOTAL-ASSETS]	317,708
[CURRENT-LIABILITIES]	116,583
[BONDS]	81,487
[PREFERRED-MANDATORY]	0
[PREFERRED]	0
[COMMON]	2,058
[OTHER-SE]	104,711
[TOTAL-LIABILITY-AND-EQUITY]	317,708
[SALES]	266,404
[TOTAL-REVENUES]	266,404
[CGS]	190,019
[TOTAL-COSTS]	265,067
[OTHER-EXPENSES]	0
[LOSS-PROVISION]	0
[INTEREST-EXPENSE]	2,268
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[CHANGES]	0
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[EPS-DILUTED]

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0.04

(b) Reports on Form 8-K: There were no reports on Form 8-K filed during the fiscal quarter ended April 29, 1995.

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SIGNATURES

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.

FAY'S INCORPORATED

(Registrant)

Dated: June 8, 1995

/s/ James F. Poole, Jr.

James F. Poole, Jr.
Senior Vice President - Finance
and Chief Financial Officer

Dated: June 8, 1995

/s/ Warren D. Wolfson

Warren D. Wolfson
Senior Vice President

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