

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**
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FILER

LECHTERS INC

CIK: **798186** | IRS No.: **132821526** | State of Incorpor.: **NJ** | Fiscal Year End: **0128**
Type: **10-Q** | Act: **34** | File No.: **000-17870** | Film No.: **95546634**
SIC: **5712** Furniture stores

Mailing Address
1 CAPE MAY ST
HARRISON NJ 07029

Business Address
1 CAPE MAY ST
HARRISON NJ 07029
2014811100

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For Quarterly Period Ended April 29, 1995

COMMISSION FILE NO. 0-17870

LECHTERS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEW JERSEY

No. 13-2821526

(STATE OR OTHER JURISDICTION OF INCORPORATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

1 Cape May Street, Harrison, NEW JERSEY

07029

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

Registrant's telephone number, including area code: (201) 481-1100

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

The number of shares of the Registrant's common stock, without par value, outstanding at June 6, 1995: 17,146,286:

LECHTERS, INC. AND SUBSIDIARIES
FORM 10-Q
FOR QUARTER ENDED APRIL 29, 1995
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LECHTERS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share amounts)

<S>	<C> April 29, 1995	<C> January 28, 1995
A S S E T S		
Current Assets:		
Cash and Cash Equivalents	\$ 6,489	\$ 14,774
Available for Sale Securities	38,837	43,339
Accounts Receivable	7,366	6,668
Merchandise Inventories	110,536	97,323
Prepaid Expenses	7,703	4,601
Total Current Assets	170,931	166,705
Property and Equipment - at Cost:		
Fixtures and Equipment	56,464	53,786

Leasehold Improvements	94,429	92,954
	150,893	146,740
Less Accumulated Deprec & Amort	50,779	47,265
	100,114	99,475
Other Assets	4,717	4,530
Total Assets	\$275,762	\$270,710
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Current Portion Long-Term Debt	\$ 3,000	\$ 3,000
Accounts Payable	23,356	15,453
Salaries, Wages and Other Accd Exp	9,822	9,906
Taxes, Other Than Income Taxes	2,496	2,806
Federal and State Income Taxes	532	755
Total Current Liabilities	39,206	31,920
Long-term Debt		
Notes Payable	21,000	21,000
5% Convertible Subordinated Debentures due September 27, 2001 (Net of Unamortized Discount of \$7,983 and \$8,222, respectively)	57,017	56,777
Total Long-term Debt	78,017	77,777
Def Income Taxes and Other Def Credits	16,997	17,472
Shareholders' Equity:		
Preferred Stock, \$100 Par Value Authorized 1,000,000 Shares, Issued and Outstanding - None	--	--
Common Stock, Without Par Value, Authorized 50,000,000 Shares, Issued and Outstanding 17,140,386 and 17,118,646 Shares, Respectively	58	58
Unrealized Holding Loss on Available for Sales Securities	(76)	(210)
Additional Paid-in Capital	62,634	62,423
Retained Earnings	78,926	81,270
Total Shareholders' Equity	141,542	143,541
Total Liabilities and Shareholders' Equity	\$275,762	\$270,710
	=====	=====

See accompanying notes to consolidated financial statements.

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LECHTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except share and per share data)

<S>	<C>	<C>
	Thirteen Weeks Ended	
	April 29, 1995	April 30, 1994
	(unaudited)	
Net Sales	\$ 80,316	\$ 73,692
Cost of Goods Sold (including occupancy and indirect costs)	60,076	53,907
Gross Profit	20,240	19,785
Selling, General and Administrative Expenses	23,288	20,398
Operating Loss	(3,048)	(613)
Other Expenses (Income):		
Interest Expense	1,638	1,900
Interest Income	(713)	(381)
Loss on Sale of Government Securities	--	21
Total Other Expenses	925	1,540
Loss Before Income Taxes	(3,973)	(2,153)
Income Tax Benefit	(1,629)	(883)
Net Loss	(\$ 2,344) =====	(\$ 1,270) =====
Net Loss Per Share	(\$0.13) =====	(\$0.07) =====
Weighted Average Shares Outstanding	17,416,000 =====	17,072,000 =====
See accompanying notes to consolidated financial statements.		

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LECHTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

<S>	<C>	<C>
	Thirteen Weeks Ended	

	April 29, 1995	April 30, 1994 (unaudited)
Cash Flows From Operating Activities:		
Net Loss	(\$2,344)	(\$1,270)
Adjustments to Reconcile Net Loss to Net Cash (Used In) Provided By Operating Activities:		
Depreciation and Amortization	3,819	3,357
Other	(89)	247
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(698)	(167)
Increase in Merchandise Inventories	(13,528)	(3,264)
Increase in Prepaid Expenses	(3,102)	(2,038)
Increase in Accounts Payable, Accrued Expenses and Taxes Other Than Income Taxes	8,227	4,163
Decrease in Income Taxes Payable	(223)	(93)
Increase in Other Assets	(232)	(624)
Net Cash (Used In) Provided By Operating Activities	(8,170)	311
Cash Flows From Investing Activities:		
Capital Expenditures	(4,700)	(4,491)
Decrease (Increase) in Available for Sale Securities	4,374	(790)
Net Cash Used In Investing Activities	(326)	(5,281)
Cash Flows From Financing Activities:		
Exercise of Stock Options	211	31
Net Cash Provided by Financing Activities	211	31
Net Decrease in Cash and Cash Equivalents	(8,285)	(4,939)
Cash and Cash Equivalents, Beginning of Period	14,774	8,963
Cash and Cash Equivalents, End of Period	\$ 6,489 =====	\$ 4,024 =====
Supplemental Disclosure of Cash Flows Information:		
Non Cash Investing Activities:		
Unrealized Holding Loss Adjustment on Available for Sale Securities	\$ 227 =====	\$ (476) =====

Cash Paid During the Period for:

Interest	\$ 481	\$ 893
	=====	=====
Taxes	\$ 43	\$ 94
	=====	=====

See accompanying notes to consolidated financial statements.

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LECHTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

<S>	(Amounts in thousands)				
	<C> Common Stock Issued	<C> Additional Paid-In Capital	<C> Retained Earnings	<C> Unrealized Holding Gain (Loss)	<C> Total
Balance, January 28, 1995	\$58	\$62,423	\$81,270	(210)	\$143,541
Net Loss Thirteen Weeks Ended April 29, 1995	--	--	(2,344)	--	(2,344)
Unrealized Holding Loss Adjustment	--	--	--	134	134
Exercise of Stock Options		211	--	--	211
Balance, April 29, 1995 (unaudited)	\$58	\$62,634	\$78,926	(\$76)	\$141,542
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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LECHTERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. General

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions for Form 10-Q and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation for interim periods have been included.

The Company's results of operations for the thirteen weeks ended April 29, 1995 are not necessarily indicative of the operating results for the full year.

Certain reclassifications have been made to the financial statements of the prior year to conform with the classification used for fiscal 1995.

2. Net Loss Per Share

Net loss per share data was computed by dividing net loss by the weighted average number of common shares and common share equivalents outstanding during the thirteen weeks ended April 29, 1995 and April 30, 1994. Common stock equivalents include outstanding stock options. The Company's 5% Convertible

Subordinated Debentures issued in September 1991 did not qualify as a common stock equivalent at the time of issue and were not included in the calculation of primary net loss per share for the periods ended April 29, 1995 and April 30, 1994. For the purpose of computing fully diluted net loss per share, the assumed conversion of such debentures would have an anti-dilutive effect on the thirteen weeks ended April 29, 1995 and April 30, 1994.

3. Restructuring Charge

During June 1994, the Company recorded a pretax restructuring charge of approximately \$11,000,000 (approximately \$6,500,000 after tax or \$0.38 per share) related to its initial plan to close 15 unprofitable stores and discontinue various unprofitable merchandise lines. The plan called for the termination of the

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employment of approximately 19 associates from store operations, the service office and distribution centers. During the fourth quarter of Fiscal 1994, the Company revised its estimate of the number of store closings to 10 stores and reduced the related store closing provision by \$3,000,000. However, the Company also increased its estimate of the provision to markdown discontinued merchandise by a similar amount. The revised estimated restructuring charge includes the following:

Inventory writedown	\$ 7,400,000
Store closing:	
Property and equipment writeoffs	1,800,000
Store closing and lease termination costs	1,200,000
Severance costs	600,000
	\$11,000,000
	=====

During Fiscal 1994, the Company used approximately \$6,800,000 to markdown discontinued merchandise lines, approximately \$1,500,000 to close five of the 10 stores, and approximately \$300,000 to pay related severance costs.

During the thirteen weeks ended April 29, 1995 the Company used approximately \$600,000 to markdown discontinued merchandise lines, approximately \$80,000 to pay costs related to the five stores planned to close and approximately \$20,000 to pay related severance costs. The remaining restructuring reserve as of April 29, 1995 was approximately \$1,700,000, and it is estimated by management to be sufficient to complete the revised restructuring plan by June 1995.

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

Results of Operations

Thirteen Weeks Ended April 29, 1995 in Comparison with Thirteen Weeks
Ended April 30, 1994

Net sales of \$80,316,000 for the thirteen weeks ended April 29, 1995 increased by \$6,624,000 (9.0%) over net sales of \$73,692,000 for the thirteen weeks ended April 30, 1994. This increase was primarily attributable to an increase in the number of stores open during the period and partially attributable to the Company's remodeling program. During the thirteen weeks ended April 29, 1995, the Company's comparable store sales decreased 0.3%, as compared to prior year's comparable period. There were 609 stores open on April 29, 1995 compared with 571 stores open at the end of the comparable period of the prior year, an increase of 38 stores (6.7%). During the thirteen weeks ended April 29, 1995, the Company opened seven new stores, closed three stores, and remodeled an additional five stores.

Gross profit for the thirteen weeks ended April 29, 1995 was \$20,240,000, or 25.2% of net sales, compared with \$19,785,000, or 26.8% of net sales, during the prior year's comparable period. The decrease in gross profit as a percentage of sales is primarily due to lower markups on 1995 purchases, the amount of markdowns taken in the current period in excess of the amount of markdowns taken in the comparable period of the prior year, higher freight rates and an increase in other occupancy costs as a percentage of sales.

Selling, general and administrative expenses increased as a percentage of net sales to 29.0% during the thirteen weeks ended April 29, 1995 from 27.7% during the thirteen weeks ended April 30, 1994. This increase was primarily attributable to an increase in general administrative expenses associated with the additional 38 stores in operation during the thirteen week period ended April 29, 1995, together with additional advertising expenses.

Other expenses decreased by \$615,000 to \$925,000 for the thirteen weeks ended April 29, 1995. This decrease was primarily attributable to a decrease in interest expense of \$262,000 resulting from the Company reducing its debt by repaying \$6,000,000 of 10.5% Notes during the third quarter of 1994.

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Liquidity and Capital Resources

Cash and cash equivalents and available for sale securities decreased by \$12,787,000 and \$4,625,000 respectively for the thirteen weeks ended April 29, 1995 and April 30, 1994.

Net cash used in operating activities was \$8,170,000 for the thirteen weeks ended April 29, 1995 versus net cash provided by operating activities of \$311,000 for the thirteen weeks ended April 30, 1994. The decrease in net cash used in operating activities of \$8,481,000 was mainly attributable to an increase in the growth of merchandise inventory of \$10,264,000, an increase in the growth of accounts payable and accrued expenses of \$4,064,000, an increase in the growth of prepaid expenses of \$1,064,000 and an increase in net loss of \$1,074,000.

Capital expenditures of \$4,700,000 primarily consisted of the costs of construction and fixtures for seven new stores, and the remodeling of five existing stores. Capital expenditures were funded by available cash. Capital expenditures for the comparable 1994 period were \$4,491,000.

LECHTERS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

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

10.8 Amendment to Employment Agreement dated as of January 11, 1994 between the Company and Steen Kanter (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended January 28, 1995)

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.

LECHTERS, INC.

By: _____
John W. Smolak
Vice President and
Chief Financial Officer

Date: June 12, 1995

April 20, 1995

Mr. Steen Kanter
5 Beth Drive
Lower Gwynedd, PA 19002

Dear Steen:

Reference is made to Employment Agreement dated January 11, 1994 between you, as Employee, and us, as the Company (the "Agreement").

It is hereby agreed that the Agreement shall be, and hereby is, amended as follows:

1. Your salary set forth in paragraph 3(a) shall be increased, effective February 1, 1995, from an annual rate of \$350,000 to an annual rate of \$400,000.
2. On or before May 1, 1995, we shall pay to you a bonus in the amount of \$50,000 for services rendered by you to us during fiscal year 1994, as contemplated by paragraph 3(a).
3. On or before May 1, 1996, we shall pay to you a bonus for services rendered and to be rendered during fiscal year 1995 based upon the earnings per share attained by the Company during said fiscal year, as determined by the Company's auditors. The earnings per share attained during said fiscal year, and the corresponding bonus payable to you upon attainment of such earnings per share shall be as follows:

Earnings per Share	Amount of Bonus
\$.87	\$ 50,000
\$.88	\$ 75,000
\$.89	\$100,000
\$.90	\$125,000
\$.91	\$150,000
\$.92	\$175,000
\$.93 or more	\$200,000

April 20, 1995

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4. As set forth in paragraph 3(b) of the Agreement, you were granted an option to purchase 100,000 shares of the Company's Common Stock pursuant to a Stock Option Agreement, the form of which is

attached to the Agreement as Exhibit A. In accordance with Stock Option Agreement dated April 13, 1995, you have been granted the option to purchase an additional 75,000 shares of the Company's Common Stock.

5. As set forth in paragraph 3(b) of the Agreement, you were granted an option to purchase 100,000 shares of the Company's Common Stock pursuant to a Stock Option Agreement, the form of which is attached to the Agreement as Exhibit B, subject to the attainment by the Company of minimum earnings per share as set forth in said Exhibit B. Exhibit B attached to the Agreement shall be, and hereby is, deleted, and amended Exhibit B attached hereto shall be, and hereby is, substituted therefor.
6. Except as herein specifically amended, all the terms and conditions of the Agreement shall remain in full force and effect.

Kindly countersign and return to us the enclosed copy of this letter evidencing your Agreement to the foregoing.

LECHTERS, INC.

By: /s/ Donald Jonas
Donald Jonas
Chairman of the Board

AGREED:

/s/ Steen Kanter
Steen Kanter

AMENDED EXHIBIT B

LECHTERS, INC.

STOCK OPTION AGREEMENT PURSUANT TO THE
1989 INCENTIVE AND NON-QUALIFIED
STOCK OPTION PLAN

THIS CERTIFIES that, pursuant to the Lechters, Inc. 1989 Incentive and Non-Qualified Stock Option Plan annexed hereto as Exhibit A (the "Plan"), Steen Kanter (the "Optionee") was granted a non-qualified stock option (the "Option") to purchase 100,000 shares of Common Stock, without par value ("Common Stock"), of Lechters, Inc. (the "Company") at a price of \$11.50 per share, and 75,000 shares of

Common Stock at a price of \$17.25 per share, subject to and under the terms and conditions set forth herein and in the Plan. Subject to the earlier termination of this Option in accordance with the terms and conditions of this Agreement and of the Plan, this Option will terminate on January 11, 2004 and thereafter will be of no further force or effect. Subject to the terms hereof and of the Plan, the following table indicates the date upon which the Optionee shall be entitled to exercise the indicated installments of this Option (the "Vesting Date"), and the number of share of Common Stock thereupon issuable upon such exercise:

Vesting Date	Number of Shares of Common Stock Issuable Upon Exercise of the Vested Installment of this Option	
	@\$11.50	@\$17.25
May 1, 1996	20,000	15,000
May 1, 1997	20,000	15,000
May 1, 1998	20,000	15,000
May 1, 1999	20,000	15,000
May 1, 2000	20,000	15,000

provided, however, that the vesting of each of the foregoing installments will be subject to the achievement by the Company for the immediately preceding fiscal year of minimum earnings per share of Common Stock outstanding (adjusted for stock splits, stock dividends, reverse stock splits, and other similar recapitalizations). The amount of such minimum earnings per share for each fiscal year so to be achieved will be specified by the Stock Option Committee prior to

the end of the first quarter of such fiscal year. For fiscal year ending January 27, 1996 the minimum earnings per share shall be \$.90.

Earnings per share will be determined conclusively by the Company's accountants and will be based on the weighted average number of shares outstanding during the fiscal year in question. Any installments which do not so vest will terminate and thereafter be null and void.

If the employment of the Optionee is terminated (a) subsequent to the end of a fiscal year in respect of which the Optionee may be entitled to have vested an installment (as provided in the preceding paragraph) but (b) prior to the determination of whether or not such installment has vested (as provided in the preceding paragraph), then such installment of the option will not terminate until the earlier to occur of (y) the date of determination that such installment has not vested (as provided in the preceding paragraph) and (z) 60 days after the date of determination that such installment has vested (as provided in the preceding paragraph).

LECHTERS, INC.

By: \s\ Donald Jonas
Donald Jonas
Chairman of the Board

AGREED TO:

\s\ Steen Kanter
Steen Kanter - Optionee

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This schedule contains summary financial information extracted from SEC Form 10-Q and is qualified in its entirety by reference to such financial statements.

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