

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
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### FILER

#### ACE HARDWARE CORP

CIK: **2024** | IRS No.: **360700810** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **002-55860** | Film No.: **94528116**  
SIC: **5070** Hardware & plumbing & heating equipment & supplies

Business Address  
2200 KENSINGTON COURT  
OAK BROOK IL 60521  
7089906600

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter ended March 31, 1994 Commission File Number 2-63880

ACE HARDWARE CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

36-0700810  
(I.R.S. Employer  
Identification No.)

2200 Kensington Court, Oak Brook, IL  
(Address of principal executive offices)

60521  
(Zip code)

Registrant's telephone number, including area code (708) 990-6600

NONE  
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 XX NO

Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the close of the period covered by this report.

Class	Outstanding at March 31, 1994
Class A Voting Stock - \$1,000 par value	3,949 shares
Class B Stock - \$1,000 par value	3,380 shares
Class C Stock - \$ 100 par value	1,519,517 shares

ACE HARDWARE CORPORATION

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PART I FINANCIAL INFORMATION  
ACE HARDWARE CORPORATION  
BALANCE SHEET

&lt;CAPTION&gt;

	MARCH 31, 1994	DECEMBER 31, 1993
	(000'S OMITTED)	
	<C>	<C>
ASSETS		
Current assets:		
Cash	\$ --	\$ 4,142
Accounts receivable, net	265,472	212,604
Merchandise inventory	277,539	263,576
Prepaid expenses and other current assets	5,811	6,869
Total current assets	548,822	487,191
Property and equipment, net	167,784	166,137
Other assets	14,784	14,160
Total assets	\$ 731,390	\$ 667,488
LIABILITIES AND MEMBER DEALERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	\$ 3,937	\$ 10,707
Short-term borrowings	108,000	38,500
Accounts payable	242,978	234,190
Patronage dividends payable in cash	32,091	25,766
Patronage refund certificates payable	1,350	11,059
Accrued expenses	27,364	33,682
Total current liabilities	415,720	353,904
Long-term debt:		
Notes Payable	68,007	69,552
Industrial development revenue bonds	840	1,000
Capitalized leases	610	734
Total long-term debt	69,457	71,286
Patronage refund certificates payable	57,791	56,270
Member dealers' equity:		
Class A stock of \$1,000 par value	4,005	3,946
Class B stock of \$1,000 par value	6,499	6,499
Class C stock of \$100 par value - CR	153,457	153,155
Class C stock of \$100 par value, issuable to dealers for patronage dividends	23,463	19,064
Additional stock subscribed, net of unpaid portion	492	613
Retained Earnings	5,014	5,622
Contributed Capital	3,295	3,295
	196,225	192,194
Less: Treasury stock, at cost	7,803	6,166
	188,422	186,028
Total liabilities and member dealers' equity	\$ 731,390	\$ 667,488

&lt;/TABLE&gt;

See accompanying notes to financial statements.

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&lt;TABLE&gt;

ACE HARDWARE CORPORATION  
STATEMENT OF EARNINGS

&lt;CAPTION&gt;

THREE MONTHS ENDED  
MARCH 31,

	1994	1993
	(000's omitted)	
<S>	<C>	<C>
Net Sales	\$ 515,830	\$ 443,104
Cost of Sales	477,718	409,060
Gross Profit	38,112	34,044
Operating expenses:		
Warehouse and distribution	6,702	8,971
Selling, general and administrative	14,911	11,982
Total operating expenses	21,613	20,953
Operating income	16,499	13,091
Interest expense	(2,975)	(2,241)
Other income, net	342	523
Earnings before patronage dividends	13,866	11,373
Patronage dividends (Note 2)	14,474	11,988
Net earnings	\$ (608)	\$ (615)

See accompanying notes to financial statements.

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<TABLE>

ACE HARDWARE CORPORATION  
STATEMENT OF CASH FLOWS

<CAPTION>

THREE MONTHS ENDED  
MARCH 31,

(000's OMITTED)

	1994	1993
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Earnings before patronage dividends	\$ 13,866	\$ 11,373
Patronage dividends	(14,474)	(11,988)
Net earnings	(608)	(615)

Adjustments to reconcile net earnings to net

cash used in operating activities:		
Depreciation	4,087	3,932
Loss on sale of property & equipment	118	8
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(52,868)	(27,088)
Increase in inventories	(13,963)	(17,551)
Increase in prepaids and other current assets	1,058	1,048
Increase in accounts payable and accrued expenses	2,470	36,593
NET CASH USED IN OPERATING ACTIVITIES	(59,706)	(3,673)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,850)	(3,601)
Increase in other assets	(624)	(1,487)
NET CASH USED IN INVESTING ACTIVITIES	(6,474)	(5,088)
FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	69,500	14,500
Principal payments on long-term debt and patronage refund certificates	(19,810)	(17,546)
Patronage dividends payable in cash	6,325	5,174
Patronage refund certificates	3,021	2,705
Class C stock issuable to dealers for patronage dividends	4,399	3,883
Proceeds from sale of common stock	240	233
Repurchase of common stock	(1,637)	(2,332)
NET CASH PROVIDED BY FINANCING ACTIVITIES	62,038	6,617
Decrease in Cash and Cash Equivalents	(4,142)	(2,144)
Cash and Cash Equivalents at Beginning of Period	4,142	2,144
Cash and Cash Equivalents at End of Period	\$ --	\$ --

See accompanying notes to financial statements.

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ACE HARDWARE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1) General

The accompanying financial statements have not been examined by independent public accountants except for the December 31, 1993 balance sheet but in the opinion of the Company reflect all adjustments necessary to present fairly the financial position as of March 31, 1994 and 1993 and the results of operations and cash flows for the three months then ended. These interim figures are not necessarily indicative of the results to be expected for the full year.

2) Patronage Dividends

The Company operates as a cooperative organization and will pay patronage dividends to consenting dealers on the earnings derived from business done with such dealers. It has been the practice of the Company to distribute substantially all earnings in the form of patronage dividends. Approximately 99% of the Company's patronage sourced earnings (before patronage dividends and taxes) are paid to consenting member dealers. International dealers signed under the International Retail Merchant Agreement are not eligible for patronage dividends and

related earnings are not included in patronage sourced earnings.

3) Statement of Cash Flows

The Company considers all highly liquid investments with an original maturity of one month or less when purchased to be cash equivalents.

A portion of the patronage refund certificates payable on January 1, 1995 were paid on January 1, 1994 and accordingly, were classified as current liabilities in the December 31, 1993 financial statements.

4) Reclassifications

Certain financial statement reclassifications have been made to prior year amounts to conform to comparable classifications followed in 1994.

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ACE HARDWARE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three Months Ended March 31, 1994 compared to Three Months Ended March 31, 1993.

Results of Operations

Net sales increased 16.4% as a result of an increase in the volume to existing members and increased International sales. Gross profit, as a percent of sales, decreased as a result of reduced handling charges due to a shift in sales mix, increased net merchandise markdowns and increases in inventoriable distribution costs, primarily receiving and storage costs, being absorbed into cost of sales.

Warehouse and distribution expenses decreased vs. 1993 and as a percent of sales due to increased traffic revenues, reduced building costs due to the closing of a facility in 1993 and increased distribution costs absorbed into cost of sales.

Selling, general and administrative expenses increased vs. 1993 and as a percent of sales due to reduced net advertising income and higher personnel costs.

Interest expense increased as a result of increased borrowing levels to meet sales growth demands.

Other income, net decreased vs. 1993 due to reduced domestic dealer penalty charges partially offset by increased interest income related to member financing programs.

Liquidity and Capital Resources

The Company expects that internally generated funds, along with new and established lines of credit and long-term financing, will be the primary financing sources for capital expenditures in the future.

PART II. OTHER INFORMATION

ACE HARDWARE CORPORATION

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

(b) There were no reports on Form 8-K filed for the three month period ended March 31, 1994.

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.

ACE HARDWARE CORPORATION

RITA D. KAHLE

DATE

MAY 12, 1994

Rita D. Kahle

Vice President, Finance

(Principal Financial Officer, and duly  
authorized Officer of the registrant)