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. 0000950133-95-000333

FILER

HECHINGER CO

CIK:**46517**| IRS No.: **521001530** | State of Incorp.:**DE** | Fiscal Year End: **0130**
Type: **10-Q** | Act: **34** | File No.: **000-07214** | Film No.: **95546703**
SIC: **5211** Lumber & other building materials dealers

Business Address
3500 PENNSY DRIVE
LANDOVER MD 20785
3013410443

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

CHECK ONE

x Quarterly report pursuant to Section 13 or 15(d) of the Securities
- ----- Exchange Act of 1934 for the thirteen weeks ended April 29, 1995 or

Transition report pursuant to Section 13 or 15(d) of the Securities
- ----- Exchange Act of 1934

COMMISSION FILE NUMBER 0-7214

HECHINGER COMPANY
(Exact name of Registrant as specified in its charter)

<TABLE>
<S> <C>

DELAWARE	52-1001530
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
3500 PENNSY DRIVE, LANDOVER, MARYLAND	20785
(Address of principal executive offices)	(Zip Code)

</TABLE>

Registrant's telephone number, including area code: (301) 341-1000

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 registrant's classes of Common Stock, as of June 1, 1995.

30,834,707 shares of Class A Common Stock, $.10 par value
11,489,803 shares of Class B Common Stock, $.10 par value

HECHINGER COMPANY

INDEX TO FORM 10-Q
THIRTEEN WEEKS ENDED APRIL 29, 1995

<TABLE>
<CAPTION>

DESCRIPTION	PAGE
- -----------	----

<S> <C> <C>

</TABLE>

PART I

ITEM 1. FINANCIAL STATEMENTS

The information called for by this item is hereby incorporated by reference from Exhibits 99(a) - 99(e) of this report.

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

The following table sets forth the sales reported by the Company (in millions):

<TABLE>
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PERIOD	TOTAL SALES APR. 29, 1995	TOTAL SALES APR. 30, 1994	TOTAL SALES CHANGE	COMPARABLE STORE SALES CHANGE
<S>	<C>	<C>	<C>	<C>
Thirteen weeks	$553.2	$574.3	(4)%	(2)%

</TABLE>

The sales decrease for the thirteen weeks ended April 29, 1995 was due to 14 Home Quarters stores and two Hechinger stores closed during the first quarter of 1995 as a part of the store closing charge recorded in the fourth quarter of 1994. In addition, weak sales of existing homes and unseasonable weather in the Company's markets adversely impacted sales during the quarter.

The following table sets forth the number of stores operated by the Company:

<TABLE>
<CAPTION>

	HECHINGER STORES	HOME QUARTERS	TOTAL
<S>	<C>	<C>	<C>
As of April 30, 1994	72	56	128
Second quarter 1994 openings	1	2	3
Second quarter 1994 closings	(1)	-	(1)
As of July 30, 1994	72	58	130
Third quarter 1994 openings	-	5	5
Third quarter 1994 closings	-	(2)	(2)
As of October 29, 1994	72	61	133
Fourth quarter 1994 openings	-	-	-
Fourth quarter 1994 closings	-	-	-
As of January 28, 1995	72	61	133
First quarter 1995 openings	-	3	3
First quarter 1995 closings	(2)	(15)	(17)
As of April 29, 1995	70	49	119

==== ==== ====

</TABLE>

For the thirteen weeks ended April 29, 1995, other income, which consists primarily of interest income, was $1.0 million, .2% of sales, compared to $0.4 million, .1% of sales, for the corresponding period last year. The increase was primarily the result of a loss of $0.6 million on the sale of an excess parcel of land during the first quarter of last year.

For the thirteen weeks ended April 29, 1995, cost of sales was 78.4% of sales compared to 78.0% of sales for the corresponding period last year. Distribution, buying and occupancy expenses are included in cost of sales and are comprised substantially of fixed costs. The increase in cost of sales is due primarily to higher distribution, buying

and occupancy expenses as a percent to sales, which was caused by lower sales this year compared to last year.

For the thirteen weeks ended April 29, 1995, selling, general and administrative expenses were 20.1% of sales compared to 19.6% of sales for the corresponding period last year. These figures include preopening expenses of $2.7 million for the thirteen weeks ended April 29, 1995 and $3.0 million for the corresponding period last year. Excluding these expenses, selling, general and administrative expenses for the thirteen weeks ended April 29, 1995 were 19.6% of sales, as compared to 19.0% of sales for the corresponding period last year. This increase is due primarily to lower sales this year compared to last year.

For the thirteen weeks ended April 29, 1995, interest expense was $7.3 million, 1.3% of sales, compared to $7.2 million, 1.3% of sales, for the corresponding period last year.

For the thirteen weeks ended April 29, 1995, the effective tax rate was 37.0% compared to 34.0% for the corresponding period last year. The effective tax rate increase was due primarily to the increase in state taxes and expiration of the Targeted Jobs Tax Credit program as of December 1994. The effective tax rates differ from the statutory Federal tax rate due primarily to the effect of tax credits, tax-free earnings on funds available for investment and state taxes.

For the thirteen weeks ended April 29, 1995, net earnings were $1.2 million, $.03 per share, compared to $4.6 million, $.11 per share, for the corresponding period last year.

As of April 29, 1995, 14 Home Quarters stores and two Hechinger stores have been closed as a part of the store closing plan announced in the fourth quarter of 1994. As of April 29, 1995, $23.2 million has been recorded against the $61.9 million store closing reserve. The main components of the charges were as follows:

1) losses on liquidation of inventories totaling $9.5 million;

2) losses on disposal of furniture, fixtures, equipment and other assets totaling $10.7 million;

3) cash expenditures for carrying costs of the stores vacated, including rents, utilities and other expenses subsequent to the store closing of $1.5 million; and

4) cash expenditures for employee termination costs of $1.5 million, including severance pay and related benefits.

In accordance with the Company's original plan, the remaining six Hechinger stores are scheduled to close during the second and third quarters of 1995. Management believes that the remaining reserve is adequate to cover future losses and cash expenditures in completing this store closing plan. Of the total remaining accrual of $38.7 million, $30.5 million has been recorded as a current liability as of April 29, 1995.

Cash and cash equivalents and marketable securities were $127.4 million as of April 29, 1995 compared to $95.2 million as of January 28, 1995. The increase in cash provided from operations was due primarily to the increase in accounts payable and accrued expenses, net of the increase in inventory, compared to the corresponding period last year. The increase in merchandise inventories is primarily due to the normal inventory build-up that occurs during the spring selling season and increased inventory levels at existing stores as a result of lower than planned sales in the first quarter of this year. The increase in inventories was not as large as compared to prior periods due to the liquidation of inventories in the stores closed in the first quarter of 1995. The increase in accounts payable and accrued expenses was due to a combination of an unusually low accounts payable balance at January 28, 1995 and the increase in inventory levels at April 29, 1995. Net expenditures for property, furniture and equipment and other assets were $29.7 million and $34.7 million for the thirteen weeks ended April 29, 1995 and April 30, 1994, respectively. These expenditures are related primarily to the Company's ongoing store expansion and remodeling programs.

The Company is a party to numerous legal proceedings and claims arising in the ordinary course of business, including several suits alleging wrongful employment practices. Although the outcome of such proceedings and claims cannot be determined with certainty, based upon evaluation by legal counsel, management believes that the outcome of such proceedings and claims will not have a material adverse effect on the Company's consolidated financial position.

PART II

ITEM 1. LEGAL PROCEEDINGS

On March 17, 1995, an action was filed against the Company and one of its senior vice-presidents by a former employee (Circuit Court for Prince George's County, Maryland, Case No. CAL 95-04532). In this case, plaintiff asserts harassment-related claims against such senior vice-president. Plaintiff also asserts that the Company was negligent in hiring and retaining such senior vice-president, and that it interfered with plaintiff's subsequent employment. Plaintiff seeks $20 million in compensatory and punitive damages, among other relief. The Company and such senior vice-president believe they have meritorious defenses, and will defend this lawsuit vigorously. They filed a motion to dismiss all counts in the Complaint on May 18, 1995.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

EXHIBIT NUMBER	DOCUMENT
11	Statement Regarding Computation of Earnings Per Share
27	Financial Data Schedule
99(a)	Consolidated Statements of Operations
99(b)	Consolidated Balance Sheets
99(c)	Consolidated Statements of Cash Flows
99(d)	Consolidated Statement of Stockholders' Equity
99(e)	Notes to Consolidated Financial Statements

(b) REPORTS ON FORM 8-K

None.

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.

Date: June 13, 1995	HECHINGER COMPANY ----------------- Registrant
	/S/W. CLARK McCLELLAND ---------------------- W. Clark McClelland Executive Vice President and Chief Financial Officer (Principal Financial Officer)

HECHINGER COMPANY

INDEX TO EXHIBITS
FORM 10-Q FOR THIRTEEN WEEKS ENDED APRIL 29, 1995

EXHIBIT 11

HECHINGER COMPANY
STATEMENT REGARDING COMPUTATION OF EARNINGS PER SHARE
(unaudited)

<TABLE>
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	13 WEEKS ENDED	
	APR. 29, 1995	APR. 30, 1994
<S>	<C>	<C>
Net earnings	$ 1,167,000	$ 4,645,000
Interest on 5-1/2% convertible debentures, net of tax benefit (1)	-	-
Net earnings for primary and fully diluted earnings per share	$ 1,167,000	$ 4,645,000
Weighted average shares outstanding	42,100,876	41,865,193
Dilutive effect of stock options and restricted stock and performance share awards after application of the treasury stock method	208,907	378,092
Additional shares issuable assuming full conversion of the 5-1/2% debentures into Class A common stock (1)	-	-
Common and common equivalent shares outstanding for primary earnings per share	42,309,783	42,243,285
Additional dilution from stock options and restricted stock and performance share awards after application of the treasury stock method (1)	-	185,916
Common and common equivalent shares outstanding for fully diluted earnings per share	42,309,783	42,429,201
Primary earnings per common share	$0.03	$0.11
Fully diluted earnings per common share	$0.03	$0.11

</TABLE>

(1) The 5-1/2% Convertible Subordinated Debentures, stock options, restricted stock and performance share awards were antidilutive for the 13 weeks ended April 29, 1995 and the 5 1/2% Convertible Subordinated Debentures were antidilutive for the 13 weeks ended April 30, 1994.

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EXHIBIT 99(a)

HECHINGER COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands except per share data)

<TABLE>
<CAPTION>

	13 WEEKS ENDED APR. 29, 1995	13 WEEKS ENDED APR. 30, 1994
<S>	<C>	<C>
REVENUES		
Net sales	$ 553,174	$ 574,301
Other (principally interest)	1,000	420
Total Revenues	554,174	574,721
COSTS AND EXPENSES		
Cost of sales	433,626	448,151
Selling, general and administrative expenses	111,359	112,336
Interest expense	7,336	7,197
Total Costs and Expenses	552,321	567,684
EARNINGS BEFORE INCOME TAXES	1,853	7,037
INCOME TAX EXPENSE	686	2,392
NET EARNINGS	$ 1,167	$ 4,645
PRIMARY AND FULLY DILUTED EARNINGS PER COMMON SHARE	$0.03	$0.11
AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:		
Primary	42,310	42,243
Fully diluted	42,310	42,429
DIVIDENDS PER SHARE:		
Class A common stock	$0.04	$0.04
Class B common stock	$0.02	$0.02

</TABLE>

See notes to consolidated financial statements.

EXHIBIT 99(b)

HECHINGER COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands except share data)

	(unaudited) APR. 29, 1995	JAN. 28, 1995
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 41,370	$ 26,252
Marketable securities at fair value	85,980	68,911
Merchandise inventories	501,554	453,529
Other current assets	63,696	66,742
Total Current Assets	692,600	615,434
PROPERTY, FURNITURE AND EQUIPMENT, NET	510,712	504,132
COST IN EXCESS OF NET ASSETS ACQUIRED, NET	55,001	55,421
LEASEHOLD ACQUISITION COSTS, NET	50,774	52,541
OTHER ASSETS	33,271	33,701
TOTAL ASSETS	$ 1,342,358	$ 1,261,229
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 409,320	$ 327,587
Income taxes payable	9,698	10,493
Current portion of long-term debt and capital lease obligations	3,524	3,453
Total Current Liabilities	422,542	341,533
LONG-TERM DEBT	384,866	384,969
CAPITAL LEASE OBLIGATIONS	17,761	18,408
DEFERRED RENT	27,618	26,846
OTHER LONG-TERM LIABILITIES	8,200	8,200
STOCKHOLDERS' EQUITY		
Class A common stock, $.10 par value; authorized 50,000,000 shares; issued 30,827,095 and 30,797,512	3,083	3,080

Class B common stock, $.10 par value, authorized 30,000,000 shares; issued 11,494,503 and 11,518,729	1,149	1,152
Additional paid-in capital	238,229	238,182
Retained earnings	240,940	240,919
Unearned compensation	(1,339)	(1,553)
Less treasury stock at cost, 34,528 and 17,213 Class A common shares and 14,497 and 14,497 Class B common shares	(691)	(507)
TOTAL STOCKHOLDERS' EQUITY	481,371	481,273
TOTAL LIABILITIES and STOCKHOLDERS' EQUITY	$ 1,342,358	$ 1,261,229

</TABLE>

See notes to consolidated financial statements.

EXHIBIT 99(c)

HECHINGER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	13 WEEKS ENDED APR. 29, 1995	13 WEEKS ENDED APR. 30, 1994
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 1,167	$ 4,645
Adjustments to reconcile earnings to net cash provided by operating activities:		
Unusual charges	(12,972)	(1,698)
Depreciation and amortization	14,431	12,277
Deferred income taxes	348	639
Deferred rent expense	772	(472)
	3,746	15,391
CHANGE IN OPERATING ASSETS AND LIABILITIES		
Merchandise inventories	(48,102)	(89,224)
Other current assets	3,046	(6,932)
Accounts payable and accrued expenses	105,458	111,424
Income taxes payable	(795)	1,447
	59,607	16,715
NET CASH FLOWS PROVIDED FROM OPERATIONS	63,353	32,106
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Expenditures for property, furniture, equipment and other assets, net of disposals	(29,668)	(34,713)
Marketable securities:		
Purchases	(46,218)	(60,783)
Proceeds from sales	29,149	92,584
NET CASH USED IN INVESTING ACTIVITIES	(46,737)	(2,912)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Dividends paid to stockholders	(1,416)	(1,391)
Stock options exercised	47	1,422
Other	(129)	(106)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(1,498)	(75)
INCREASE IN CASH AND CASH EQUIVALENTS	15,118	29,119
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	26,252	19,675
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 41,370	$ 48,794
SUPPLEMENTAL INFORMATION		
Cash payments for income taxes	$ 1,250	$ 290
Cash payments for interest, net of amount capitalized	$ 9,140	$ 6,984

See notes to consolidated financial statements.

EXHIBIT 99(d)

HECHINGER COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands except share data)

	CLASS A COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
BALANCE, JAN. 29, 1994	$2,881	$1,331	$236,543	$256,836
Restricted stock awards earned	-	-	-	-
Performance stock awards earnined and issued	5	-	577	-
Exercise of stock options including income tax benefit (92,670 Class A common shares were issued from the treasury)	15	-	1,037	-
Conversions from Class B to Class A common stock	179	(179)	-	-
Conversion of 5 1/2% Convertible Subordinated Debentures into shares of Class a common stock)	-	-	25	-
Purchase of treasury stock (17,114 Class A common shares)	-	-	-	-
Adjustment to fair value of marketable securities	-	-	-	(371)
Cash dividends, Class A common stock ($.16 per share)	-	-	-	(4,883)
Cash dividends, Class B common stock ($.06 per share)	-	-	-	(752)
Net earnings	-	-	-	(9,911)
BALANCE, JAN. 28, 1995	3,080	1,152	238,182	240,919
Restricted stock awards earned	-	-	-	-
Exercise of stock options including income tax benefit	-	-	47	-
Conversions from Class B to Class A common stock	3	(3)	-	-
Purchase of treasury stock (17,315 Class A common shares)	-	-	-	-
Adjustment to fair value of marketable securities	-	-	-	270
Cash dividends, Class A common stock ($.04 per share)	-	-	-	(1,232)
Cash dividends, Class B common stock ($.02 per share)	-	-	-	(184)
Net earnings	-	-	-	1,167
BALANCE, APRIL 29, 1995 (UNAUDITED)	$3,083	$1,149	$238,229	$240,940

	UNEARNED COMPENSATION	TREASURY STOCK	TOTAL
BALANCE, JAN. 29, 1994	($2,201)	($1,523)	$493,867
Restricted stock awards earned	648	-	648
Performance stock awards earnined and issued	-	-	582
Exercise of stock options including income tax benefit (92,670 Class A common shares were issued from the treasury)	-	1,260	2,312
Conversions from Class B to Class A common stock	-	-	-
Conversion of 5 1/2% Convertible Subordinated Debentures into shares of Class a common stock)	-	-	25
Purchase of treasury stock (17,114 Class A common shares)	-	(244)	(244)
Adjustment to fair value of marketable securities	-	-	(371)
Cash dividends, Class A common stock ($.16 per share)	-	-	(4,883)
Cash dividends, Class B common stock ($.06 per share)	-	-	(752)
Net earnings	-	-	(9,911)
BALANCE, JAN. 28, 1995	(1,553)	(507)	481,273
Restricted stock awards earned	214	-	214
Exercise of stock options including income tax benefit	-	-	47
Conversions from Class B to Class A common stock	-	-	-
Purchase of treasury stock (17,315 Class A common shares)	-	(184)	(184)
Adjustment to fair value of marketable securities	-	-	270
Cash dividends, Class A common stock ($.04 per share)	-	-	(1,232)
Cash dividends, Class B common stock ($.02 per share)	-	-	(184)
Net earnings	-	-	1,167
BALANCE, APRIL 29, 1995 (UNAUDITED)	($1,339)	($691)	$481,371

</TABLE>
See notes to consolidated financial statements.

EXHIBIT 99(e)

HECHINGER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRTEEN WEEKS ENDED APRIL 29, 1995
(unaudited)

A. BASIS OF PRESENTATION

In the opinion of management of Hechinger Company (the "Company"), the accompanying unaudited consolidated financial statements include all adjustments (which consist of normal recurring accruals) considered necessary for a fair statement of the results for the interim periods presented. The operating results for the thirteen weeks ended April 29, 1995 are not necessarily indicative of the results to be expected for the fiscal year ending February 3, 1996.

The financial statements presented herein should be read in conjunction with the financial statements incorporated by reference in the Company's Annual Report on Form 10-K for the year ended January 28, 1995.

B. MERCHANDISE INVENTORY

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Interim results are subject to the final year-end LIFO inventory valuation.

All inventories reported at April 29, 1995 and January 28, 1995 were valued using the LIFO inventory valuation method. If all inventories had been valued under the FIFO method, which approximates replacement cost, inventories would have been $20.4 million and $18.9 million higher than reported at April 29, 1995 and January 28, 1995, respectively.

C. TAXES ON INCOME

For the thirteen weeks ended April 29, 1995, the effective tax rate was 37.0% compared to 34.0% for the corresponding periods last year. The effective tax rate increase was due primarily to the increase in the state taxes and expiration of the Targeted Jobs Tax Credit program as of December 1994. The effective tax rates differ from the statutory Federal tax rate primarily due to the effect of tax credits, tax-free earnings on funds available for investment and state taxes.

D. UNUSUAL CHARGE

As of April 29, 1995, 14 Home Quarters stores and two Hechinger stores have been closed as a part of the store closing plan announced in the fourth quarter of 1994. As of April 29, 1995, $23.2 million has been recorded against the $61.9 million store closing reserve. The main components of the charges were as follows:

1) losses on liquidation of inventories totaling $9.5 million;

2) losses on disposal of furniture, fixtures, equipment and other assets totaling $10.7 million;

3) cash expenditures for carrying costs of the stores vacated, including rents, utilities and other expenses subsequent to the store closing of $1.5 million; and

4) cash expenditures for employee termination costs of $1.5 million, including severance pay and related benefits.

In accordance with the Company's original plan, the remaining six Hechinger stores are scheduled to close during the second and third quarters of 1995. Management believes that the remaining reserve is adequate to cover future

losses and cash expenditures in completing this store closing plan. Of the total remaining accrual of $38.7 million, $30.5 million has been recorded as a current liability as of April 29, 1995.

D. CONTINGENCIES

The Company is a party to numerous legal proceedings and claims arising in the ordinary course of business, including several suits alleging wrongful employment practices. Although the outcome of such proceedings and claims cannot be determined with certainty, based upon evaluation by legal counsel, management believes that the outcome of such proceedings and claims will not have a material adverse effect on the Company's consolidated financial position.