

# 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**  
SEC Accession No. **0000101357-94-000003**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### **UNITED MERCHANTS & MANUFACTURERS INC /NEW/**

CIK: **101357** | IRS No.: **131426280** | State of Incorpor.: **DE** | Fiscal Year End: **0630**  
Type: **10-Q** | Act: **34** | File No.: **001-03185** | Film No.: **94527841**  
SIC: **2200** Textile mill products

Mailing Address  
*1650 PALISADE AVENUE  
TEANECK NJ 07666*

Business Address  
*1650 PALISADE AVE  
TEANECK NJ 07666  
2018371700*

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----  
FORM 10-Q

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

For the quarterly period ended March 31, 1994

Commission File # 1-3185

UNITED MERCHANTS AND MANUFACTURERS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-1426280  
(I.R.S. Employer  
Identification No.)

1650 Palisade Avenue, Teaneck, N.J.  
(Address of principal executive offices)

07666  
(Zip Code)

Registrant's telephone number, including area code (201) 837-1700

Indicate by check mark whether the registrant (1) has filed all documents and 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  No

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of May 10, 1994, there were 17,845,000 shares of Common Stock, Par Value \$1 per share, outstanding.

1

UNITED MERCHANTS AND MANUFACTURERS, INC.  
AND SUBSIDIARIES

FORM 10-Q

- I N D E X -

	Page Number
Part I Financial Information	
Consolidated Statement of Operations.....	3
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	4
Consolidated Balance Sheet.....	7
Consolidated Statement of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	9
Part II Other Information	

Items.....	16
Signatures.....	16

PART I - FINANCIAL INFORMATION

UNITED MERCHANTS AND MANUFACTURERS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

(000 omitted)

	----- Three Months Ended March 31 -----		----- Nine Months Ended March 31 -----	
	1994	1993	1994	1993
Net sales.....	\$37,979	\$41,153	\$128,089	\$145,913
Cost of sales.....	30,058	33,735	98,495	112,750
Selling, general and administrative expenses.....	11,120	12,386	34,868	41,944
Loss on termination of certain operations (Note B).....		463		1,596
	-----	-----	-----	-----
Operating Loss	(\$3,199)	(\$5,431)	(\$5,274)	(\$10,377)
Interest expense.....	(3,084)	(2,946)	(9,352)	(9,083)
Gain on sale of division.....	5,103		5,103	
Other income .....	86	4	1,325	299
Minority interest in net losses of subsidiary.....	19	366	405	616
Provision for income taxes.....	(25)	(25)	(75)	(77)

Loss before Change in Accounting Principle	(\$1,100)	(\$8,032)	(\$7,868)	(\$18,622)
Cumulative effect of change in accounting principle for post-retirement benefits other than pensions - no income tax effect (Note C).....			(15,303)	
Net Loss	(\$1,100)	(\$8,032)	(\$23,171)	(\$18,622)
Dividends applicable to preferred stock (Note E).....	1,125	1,125	3,375	3,375
Net Loss Applicable to Common Shares	(\$2,225)	(\$9,157)	(\$26,546)	(\$21,997)
Average common shares outstanding	17,845	17,845	17,845	17,845
Loss per common share:				
Before change in accounting principle.....	(\$0.12)	(\$0.51)	(\$0.63)	(\$1.23)
Change in accounting principle.			(0.86)	
Net Loss per Common Share	(\$0.12)	(\$0.51)	(\$1.49)	(\$1.23)

-----  
The accompanying notes are an integral part of these financial statements.

UNITED MERCHANTS AND MANUFACTURERS, INC. AND SUBSIDIARIES

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

RESULTS OF OPERATIONS

Consolidated net sales of United Merchants and Manufacturers, Inc. ("UM&M" or the "Company") decreased by \$3,174,000 and \$17,824,000 in the quarter and nine months ended March 31, 1994, respectively, as compared to last year's third fiscal quarter and first nine months. These decreases were primarily attributable to the sale or termination of certain of the

Company's operations during or subsequent to the end of last year's third fiscal quarter. On a comparable basis, excluding the sales of operations sold or terminated from the current and prior years' sales, net sales for the quarter ended March 31, 1994 decreased by \$626,000 as compared to the same quarter last year and net sales for this year's nine-month period decreased by \$2,456,000 over the same period last year. On a comparable basis, the Company's apparel textiles segment reported decreased sales in the current year's third quarter and nine months as compared to the same periods last year reflecting decreased unit sales for all product lines, offset to some extent, by higher average selling prices. On a comparable basis, net sales of the Company's home furnishings segment were approximately the same in the current year's quarter as in last year's quarter and increased in this year's nine-month period as compared to the same period last year, primarily reflecting certain new programs as well as sales to new customers. The apparel segment, consisting of the Company's retail outlet store operation, experienced decreased sales in the current year's quarter and nine months as compared to last year's comparable periods, as the result of continued depressed consumer spending. Net sales of the Company's accessories segment increased for the three and nine months ended March 31, 1994 as compared to the same periods last year reflecting increased consumer interest in the segment's branded merchandise as well as continued increased sales of private label merchandise.

For the quarter and nine months ended March 31, 1994, the Company reported operating losses of \$3,199,000 and \$5,274,000, respectively, as compared to operating losses of \$5,431,000 and \$10,377,000, respectively, for the same periods last year. Operating results for last year's quarter and nine-month period include losses of \$463,000 and \$1,596,000, respectively, from the termination of certain operations. The apparel textiles segment's greige fabrics operation reported an operating loss in the current year's quarter which was approximately the same as in the same quarter last year despite decreased sales, reflecting improved margins and manufacturing performance. Despite the loss for the current year's quarter, that operation reported an operating profit for the current nine-month period as compared to an operating loss in last year's comparable period, primarily as the result of higher margins and improved manufacturing performance. Despite a decrease in net sales in the current year's quarter as compared to last year's quarter, the Company's apparel segment reported decreased operating losses this year, primarily reflecting improved profit margins. For the current year's nine months,

that segment reported increased operating losses as compared to the same period last year as the benefit of improved margins in this year's third

quarter was more than offset by the impact of the decreased sales in this year's nine-month period discussed above. The accessories segment reported improved operating results in the current year periods, primarily as the result of the increase in volume referred to above, improved gross profit margins resulting from increased sales of designer merchandise in the current quarter, which carries a higher gross margin than private label merchandise, and management's efforts to control selling, general and administrative expenses. Results for the current year's nine months were also positively impacted by the disposition of the home furnishings segment's cut and sew operation and the apparel segment's swimwear operation during last year's second quarter.

Interest expense increased slightly in the current year's quarter and nine months over the same periods last year as the result of slightly increased average borrowings under the Company's revolving loan agreements with its factor.

The net results for the current year's quarter and nine months includes a gain of \$5,103,000 on the sale by the Company of the Uniblend yarn division of its apparel textiles segment.

The net results for the nine months ended March 31, 1994 include a non-recurring, non-cash charge of \$15,303,000 representing the cumulative effect of a change in accounting principle for postretirement benefits other than pensions. See Note C of Notes to Consolidated Financial Statements for further discussion of this change.

#### LIQUIDITY AND CAPITAL RESOURCES

During recent years and for the nine months ended March 31, 1994, the Company has incurred significant losses from operations and as of March 31, 1994 has a stockholders' equity deficit. As of June 30, 1994, the Company's independent auditors' report stated that recurring losses from operations, the stockholders' equity deficit and the significant debt owed by the Company to its factor raise substantial doubt as to the Company's ability to continue as a going concern. The Company's financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

During the first nine months of fiscal 1994, the Company depended primarily on borrowings to finance its operations. In March 1994, it reduced its borrowings from its factor with the proceeds from the sale of a division. The amounts which the Company borrows from its factor fluctuate based on the Company's cash availability or requirements. On November 18, 1993, the Company reached certain agreements with its factor. Under the agreements, the Company agreed to reduce its indebtedness to the factor to certain targeted amounts over periods of time ending on March 31, 1994 (which targets were met) and June 30, 1994, respectively. The factor has agreed that if the Company meets those

targets and satisfies certain other requirements, it will accept in full satisfaction of the balance of the Company's indebtedness to it a long-term subordinated note as detailed in the agreement. At March 31, 1994, the Company's indebtedness to its factor aggregated approximately \$102,000,000. Although the Company will endeavor to meet the requirements set out in the agreements, it can provide no assurance it will be able to do so.

On May 9, 1994, the Company sold substantially all of the assets, other than accounts receivable, and business, as a going concern, of its Clarkesville Mill division. The proceeds from the transaction were, and the collection of accounts receivable will be, used to reduce the Company's indebtedness to its factor. See Note J of Notes to Financial Statements for further information regarding this sale.

The Company has not declared or paid any cash dividends on its 10% Cumulative Preferred Stock in order to retain its available cash for use in its operations.

See Note I of Notes to Consolidated Financial Statements for the current status of the Company's litigation with the ILGWU National Retirement Fund.

UNITED MERCHANTS AND MANUFACTURERS, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET

	(000 omitted)	
	March 31	June 30
	1994	1993
ASSETS		
Current Assets:		
Cash.....	\$794	\$1,057
Receivables, net of allowances of \$2,348,000 at March 31, 1994 and \$2,707,000 at June 30, 1993.....	21,109	26,186
Inventories (Note H).....	29,773	34,714
Prepaid expenses and other current assets.....	2,163	2,272
	-----	-----
Total Current Assets	\$53,839	\$64,229
Property, Plant and Equipment.....	\$49,202	\$70,492
Less accumulated depreciation and amortization.....	34,226	46,156
	-----	-----
	\$14,976	\$24,336
Goodwill.....	21,563	22,103
Other Assets and Deferred Charges (Note H).....	16,607	17,310
	-----	-----
	\$106,985	\$127,978
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Loans payable to factor (Note F).....	\$101,725	\$110,904
Current maturities of long-term debt (Note G).....		959

Trade payables.....	6,346	6,542
Accrued expenses and sundry liabilities (Note H).....	10,380	10,479
	-----	-----
Total Current Liabilities	\$118,451	\$128,884
Long-Term Debt, net of current maturities (Note G).....	21,110	21,702
Other Long-Term Liabilities (Note H).....	18,391	4,783
Minority Interest.....	1,904	2,309
Stockholders' Equity (Deficit):		
Preferred stock, par value \$1 per share; 10,000,000 shares authorized; 450,000 shares outstanding.....	\$450	\$450
Common stock, par value \$1 per share: 40,000,000 shares authorized; 17,845,000 shares outstanding (excluding 22,800 shares held in treasury).....	17,845	17,845
Capital in excess of par value.....	64,674	64,674
Retained earnings (deficit).....	(130,893)	(107,722)
Unrealized pension liability adjustment.....	(947)	(947)
Notes receivable arising from stock purchase agreement	(4,000)	(4,000)
	-----	-----
Total Stockholders' Equity (Deficit)	(\$52,871)	(\$29,700)
	-----	-----
	\$106,985	\$127,978
	=====	=====

-----  
The accompanying notes are an integral part of these financial statements.

UNITED MERCHANTS AND MANUFACTURERS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

(000 omitted)

	-----	
	Nine Months Ended	
	March 31	
	-----	-----
	1994	1993
	-----	-----
Cash Flows from Operating Activities:		
Net loss.....	(\$23,171)	(\$18,622)
Adjustments to reconcile net loss to net cash used for operating activities:		
Change in accounting principle for post-retirement benefits other than pensions.....	15,303	
Depreciation and amortization.....	4,304	4,808

Minority interest.....	(405)	(197)
Amortization of bond discount.....	585	505
Loss on termination of certain operations.....		2,725
Less cash on termination of certain operations.....		(1,653)
(Gain) on sale of division.....	(5,103)	
Decrease (increase) in assets:		
Receivables.....	5,077	3,083
Inventories.....	(166)	(1,261)
Prepaid expenses and other current items.....	(306)	(230)
Other assets.....	616	1,260
Increase (decrease) in liabilities:		
Trade payables .....	(196)	(3,242)
Accrued expenses and sundry liabilities.....	695	(2,227)
Other long-term liabilities.....	(1,695)	(2,269)
	-----	-----
Net Cash Used for Operating Activities	(\$4,462)	(\$17,320)
Cash Flows from Investing Activities:		
Additions to property, plant and equipment.....	(\$2,651)	(\$1,954)
Dispositions of property, plant and equipment.....	32	242
Sales of divisions:		
Proceeds from sale of divisions.....	17,881	13,982
Non-cash proceeds - receivables.....	252	(5,545)
	-----	-----
Net Cash Provided by Investing Activities	\$15,514	\$6,725
Cash Flows from Financing Activities:		
Increase (decrease) in loans payable to factor.....	(\$9,179)	\$10,439
Decrease in long-term debt.....	(2,136)	(1,338)
Proceeds from sale of stock by subsidiary.....		38
	-----	-----
Net Cash Provided by (Used for) Financing Activities	(\$11,315)	\$9,139
	-----	-----
Decrease in Cash	(\$263)	(\$1,456)
Cash at beginning of period.....	1,057	2,478
	-----	-----
Cash at end of period	\$794	\$1,022
	=====	=====
Supplemental disclosures of cash flow information:		
Interest.....	\$9,430	\$9,277
Income Taxes.....	75	77

The accompanying notes are an integral part of these financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE A - BASIS OF PRESENTATION AND LIQUIDITY

Basis of Presentation - The accompanying consolidated financial statements of United Merchants and Manufacturers, Inc. ("UM&M" or the "Company") and its subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of 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 have been included. The results of operations of interim periods are subject to year-end audit and adjustments and are not necessarily indicative of the results of operations of the fiscal year. For further information, refer to the consolidated financial statements and footnotes included thereto in the Company's Annual Report on Form 10-K for the year ended June 30, 1993.

Liquidity - During each of the three years ended June 30, 1993 and for the current nine months, the Company has incurred significant losses from operations and as of March 31, 1994 has a stockholders' equity deficit. As of June 30, 1993, the Company's independent auditors' report stated that the recurring losses from operations, stockholders' equity deficit and the significant debt owed by the Company to its factor (see Note F - Loans Payable to Factor - regarding the agreements reached on November 18, 1993 by the Company with its factor) raise substantial doubt as to the Company's ability to continue as a going concern. The consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

## NOTE B - DISPOSITIONS AND TERMINATIONS OF CERTAIN OPERATIONS

During the quarter ended March 31, 1994, the Company sold substantially all of the assets (other than accounts receivable) and business, as a going concern, of the Uniblend operation of its apparel textiles segment. The sale resulted in a gain of approximately \$5.1 million. The proceeds from the transaction, along with the collection of the accounts receivable of the operation, were used to reduce the Company's indebtedness to its factor.

During the quarter ended December 31, 1992, the Company sold certain assets of and discontinued a converting operation of its Home Furnishings segment. The discontinuance resulted in a loss, after adjustment of \$1.5 million during the six months ended June 30, 1993, of \$3.8 million. This loss was partially offset by sale of assets of a business previously discontinued for \$1.1 million more than the Company's carrying value of

these assets. Also during the quarter ended December 31, 1992, the Company consummated the sale of the swimwear and the children's slip and sleepwear operations of its Apparel segment. The Company recognized no gain or loss on the sale of these two operations.

Net sales and operating losses include net sales of the above mentioned operations sold or closed prior to disposition of \$11.6 million and \$14.2 million for the three months and \$38.2 million and \$53.6 million for the nine months ended March 31, 1994 and 1993 and operating income of \$0.5 million and \$0.7 million for the three months and operating income of \$2.0 million and operating losses of \$1.2 million for the nine months ended March 31, 1994 and 1993, respectively.

NOTE C - CHANGE IN ACCOUNTING PRINCIPLE FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In addition to pension plans, the Company provides certain health care and life insurance benefits for some retired employees. Only employees of its Apparel Textiles and its Home Furnishings Segments who joined the Company prior to January 1, 1988 are eligible for these postretirement benefits. Salaried employees of these segments become eligible for the health care and life insurance benefits as they retire from active employment; hourly employees of these segments become eligible for life insurance benefits as they retire. The health care benefits are provided under an unfunded Company-sponsored plan which contains cost sharing features such as deductibles and coinsurance. Employees who retire prior to age 65 but are otherwise eligible for health care benefits may elect coverage under the plan by paying "premiums" which approximate the Company's average cost for these health care benefits. The retiree life insurance plan is noncontributory; the Company pays premiums on an annual basis for the coverage. The Company may amend or change these plans periodically.

Effective July 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The statement requires accrual of the cost of providing postretirement benefits, including medical and life insurance coverage, during the active service period of the employee rather than the pay-as-you-go (cash) basis which the company used prior to adoption. The company elected to immediately recognize the accumulated postretirement benefit obligation (the "APBO") equal to the discounted present value of expected future benefit payments attributed to employees service rendered prior to July 1, 1993. This resulted in a one-time, non-cash charge against earnings of \$15.3 million. The discount rate used in determining the APBO was 7.5%. The adoption of the new accounting principle will not effect the Company's cash outlay for retiree benefits. The Company will continue to evaluate ways in which it can better manage these benefits and

control the costs.

The details of the APBO at July 1, 1993 were as follows:

	(000 omitted)
	July 1 1993
	-----
Retirees.....	\$ 13,941
Fully eligible active plan participants.....	411
Other active plan participants.....	951
	-----
Total APBO	\$ 15,303
	=====

10

The net periodic postretirement benefit cost for the first nine months of fiscal 1994 is as follows:

	(000 omitted)
	Nine Months Ended March 31 1994
	-----
Service cost.....	\$ 42
Interest cost on APBO.....	790
	-----
Net periodic postretirement benefit cost	\$ 832
	=====

Postretirement benefit cost on a pay-as-you-go basis totaled \$ 876,000 for the nine months ended March 31, 1993 and has not been restated.

The health care cost trend rates used in developing the above amounts assume such costs increase by an average of 9% in each of the 1994 and 1995 fiscal years, then by 8.6% a year to the year 2000 and then by 7.3% a year to the year 2010. A one percent increase in the health care cost trend rates assumed would have increased the APBO at July 1, 1993 and the net periodic postretirement benefit cost by 8%.

#### NOTE D - INCOME TAXES

The provisions for income taxes for the three and nine months ended March 31, 1994 and 1993 varied from the expected relationship to loss before income taxes since the operating losses did not result in income tax benefits. The provisions consist of amounts for state and local income taxes.

NOTE E - DIVIDENDS APPLICABLE TO PREFERRED STOCK

The Company has not declared nor paid any cash dividends on its 10% Cumulative Preferred Stock in order to retain its available cash for use in its operations. For financial statement purposes, cumulative preferred dividends are deducted from the results of operations in determining earnings applicable to common shares whether or not such dividends are declared or paid.

NOTE F - LOANS PAYABLE TO FACTOR

The amounts borrowed from the factor fluctuate based on the Company's cash availability or requirements. The loans are secured by substantially all of the Company's assets.

At March 31, 1994, \$60.0 million of the loans bear interest at 8 1/2% a year and the balance of the loans bear interest at 2% over a bank's reference rate. The loans are due on demand; however, effective July 1, 1992, as a condition to continuing the financing arrangements, the factor required the Company to enter into an agreement under which a mandatory payment of \$20 million was due on or before December 31, 1992, an additional \$20 million was due on or before March 31, 1993 and an additional \$20 million was due on or before September 30, 1993. The Company was unable to make the payments required. Notwithstanding the

11

non-payments, the factor continued to make advances to the Company in order for the Company to meet its ordinary and necessary business expenses and subsequently waived the defaults.

On November 18, 1993, the Company reached certain agreements with its factor. Under the agreements, the Company agreed to reduce its indebtedness to the factor to certain targeted amounts over periods of time ending on March 31, 1994 (which targets were met) and June 30, 1994, respectively. The factor has agreed that if the Company meets those targets and satisfies certain other requirements, it will accept in full satisfaction of the balance of the Company's indebtedness to it a long-term subordinated note as detailed in the agreement. At March 31, 1994, the Company's indebtedness to its factor aggregated approximately \$101.7 million. Although the Company will endeavor to meet the balance of the requirements set out in the agreements, it can provide no assurance it will be able to do so. For further information, see the agreement filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 1993.

NOTE G - LONG-TERM DEBT

Long-term debt consists of the following:

	(000 omitted)	
	March 31	June 30
	1994	1993
3 1/2% Senior Subordinated Secured Debentures due 2009 (net of unamortized discount of \$48,032,000 and \$48,617,000 at March 31, 1994 and June 30, 1993, respectively).....	\$ 21,110	\$ 20,525
Capitalized leases.....	0	2,136
Total Long-Term Debt	\$ 21,110	\$ 22,661
Less current maturities.....	0	959
	\$ 21,110	\$ 21,702
	=====	=====

NOTE H - SUPPLEMENTAL BALANCE SHEET INFORMATION

Supplemental information regarding certain balance sheet captions is as follows:

	(000 omitted)	
	March 31	June 30
	1994	1993
Inventories:		
Raw materials.....	\$ 6,964	\$ 9,030
Work in process.....	4,726	5,795
Finished goods.....	18,083	19,889
	\$ 29,773	\$ 34,714
	=====	=====

	(000 omitted)	
	March 31	June 30
	1994	1993
Other assets and deferred charges:		
Long-term assets held for sale.....	\$ 5,206	\$ 5,938
Note receivable from sale of divisions.....	5,050	5,050
Deferred pension cost.....	3,434	3,374
Interest receivable - sale of stock.....	1,680	1,606
Deposits.....	501	505

Other.....	736	837
	-----	-----
	\$ 16,607	\$ 17,310
	=====	=====
Accrued expenses and sundry liabilities:		
Accrued compensation expenses.....	\$ 1,819	\$ 2,019
Accrued insurance.....	326	1,345
Accrued workers compensation.....	1,338	2,173
Accrued taxes other than payroll.....	1,448	1,375
Accrued interest.....	605	
Accrued shutdown costs.....	692	674
Accrued pension liability.....	1,222	822
Postretirement benefits other than pension.....	1,108	
Other.....	1,822	2,071
	-----	-----
	\$ 10,380	\$ 10,479
	=====	=====
Other long-term liabilities:		
Postretirement benefits other than pension.....	\$ 14,195	
Deferred pension liability.....	3,667	\$ 3,888
Deferred shutdown costs.....	260	562
Other.....	269	333
	-----	-----
	\$ 18,391	\$ 4,783
	=====	=====

NOTE I - LEGAL PROCEEDINGS

On November 2, 1990, the Company and two of its subsidiaries ("Debtors") filed petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On May 9, 1991, the Debtors filed a Reorganization Plan (the "Plan") and related Disclosure Statement with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The Plan became effective August 26, 1991 (the "Effective Date").

In an ongoing proceeding in its bankruptcy case, the Company asserted that, to the extent valid, the contingent "withdrawal liability" under the Multi-Employer Pension Plan Amendments Act of 1980 (the "Act") constituted a claim of the ILGWU National Retirement Fund (the "Fund") against the Company's Chapter 11 estate which was subject to discharge pursuant to the confirmation order and thus payable from a disputed claims reserve established under the Company's Plan. The Fund asserted that its claim

was not subject to discharge and asserted that any "withdrawal" (as

defined in the Act) from the Fund subsequent to the Plan's Effective Date would trigger a withdrawal liability of the reorganized Company. The Fund also asserted that the Company's proposed (as of the Effective Date) sale in 1992 of certain of its divisions would trigger a withdrawal liability. The Company disagreed and consummated the sale of the divisions during December 1992 (see Note B above). In a letter dated February 5, 1993, the Fund informed the Company that it believed that the sale of the divisions triggered a withdrawal liability of \$22.5 million. The Company disputed this assertion, reasoning that, pursuant to federal law, it remained only secondarily liable for any withdrawal liability that the purchasers of those operations may trigger during the subsequent five-year period. The Company also disputed the amount of the asserted withdrawal liability.

While representatives of the Company and the Fund conducted settlement discussions in the summer and early fall of 1992 and in April 1993, no such discussions are currently ongoing. On September 29, 1992, the Bankruptcy Court advised the parties that it would proceed to a decision on the issue of whether the Fund's claim was subject to discharge pursuant to the confirmation order. That court also indicated that, pending this determination, further proceedings on the Fund's claim and the Company's objection thereto would be held in abeyance. On April 21, 1993, the Bankruptcy Court also entered a stipulated order preventing the Fund from pursuing any proceedings in connection with the alleged withdrawal liability of the Company until that court or the United States District Court for the District of Delaware (the "District Court") entered an order deciding the issue of whether the Fund's claim was subject to discharge pursuant to the confirmation order.

On February 24, 1994, the Fund notified Victoria Creations, Inc. ("VCI), the Company's 79% owned subsidiary, that the Fund believes that VCI is also liable for the withdrawal liability asserted by the Fund (see above) against the Company (which the Company disputes) and demanded payment by VCI. In seeking withdrawal liability from VCI, the Fund has asserted that VCI should be treated under terms of the Act as subject to the "common control" of its parent, the Company, and hence jointly and severally liable for whatever withdrawal liability can be asserted against the Company. Both the Company and VCI disagree with the Fund's assertion and implication. On March 14, 1994, the Company filed a motion in the Bankruptcy Court to prevent the Fund from taking any steps to assess or collect any withdrawal liability of the Company against VCI; that matter is presently scheduled to be heard by the Bankruptcy Court on May 13, 1994.

On April 18, 1994, the Bankruptcy Court held that the Fund's contingent withdrawal liability claim was not discharged under the confirmation order. If that decision is not reversed or modified on appeal, the disputed claim of the Fund for withdrawal liability will, if valid, constitute a liability of the reorganized Company. The Bankruptcy Court did not rule on the merits of the Fund's asserted withdrawal liability claim. On April 22, 1994, the Company filed an appeal from the Bankruptcy Court's April 18, 1994 ruling to the District Court. Also, on April 25,

1994, the Bankruptcy Court granted the Company's motion for a stay pending the appeal from the April 18, 1994 ruling, which stay will expire ten days after the appeal has been docketed unless the stay is further extended by the District Court. The Company intends to seek a further stay in the District Court.

The Company is a defendant in various other lawsuits. It is not expected that these suits will result in judgements which in the aggregate would have a material adverse effect on the Company's financial position.

NOTE J - SUBSEQUENT EVENT

On May 9, 1994, the Company sold, to an unrelated company, substantially all of the assets (other than accounts receivable) and business, as a going concern, of its Clarkesville Mill division. The value of this transaction is estimated to be approximately \$16.3 million in cash to the Company, including collection of the accounts receivable retained by the Company and the assumption by the purchaser of certain liabilities of the operation. The Clarkesville Mill operations had net sales of approximately \$22 million for the year ended June 30, 1993 and \$14 million for the nine months ended March 31, 1994. At March 31, 1994, these operations had net assets of approximately \$12.9 million.

UNITED MERCHANTS AND MANUFACTURERS, INC.  
AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 2. Changes in Securities

Information required under this item is contained in Part I, Notes F and G of Notes to Consolidated Financial Statements, which are incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

(A) Reports on Form 8-K:

None

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.

UNITED MERCHANTS AND MANUFACTURERS, INC.  
(Registrant)

Date: May 12, 1994

By /s/ Norman R. Forson  
Norman R. Forson  
Senior Vice President and  
Corporate Comptroller