

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

HARRIS PAUL STORES INC

CIK: **45791** | IRS No.: **350907402** | State of Incorporation: **IN** | Fiscal Year End: **0131**
Type: **10-Q** | Act: **34** | File No.: **000-07264** | Film No.: **95546661**
SIC: **5621** Women's clothing stores

Mailing Address
6003 GUION ROAD
INDIANAPOLIS IN 46254

Business Address
6003 GUION RD
INDIANAPOLIS IN 46268
3172933900

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 - Q

X Quarterly report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934. For the quarterly period ended April 29, 1995

or

Transition report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934. For the transition period from _____ to _____

Commission File Number 0-7264

PAUL HARRIS STORES, INC.

Indiana

35-0907402

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

6003 Guion Rd., Indianapolis, IN

46254

(Address of principal executive offices)

(Zip Code)

(317) 293-3900

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last
report)

Indicate by check mark 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 periods 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 by check mark whether the registrant has filed all documents and
reports required to be filed by Sections 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 X No
----- -----

As of June 2, 1995, 9,997,616 common shares were outstanding (including
2,850,912 shares of non-voting common stock).

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PAUL HARRIS STORES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
UNAUDITED
(in thousands)

	April 29, 1995	January 28, 1995	April 30, 1994
<S>	<C>	<C>	<C>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 16,039	\$ 21,349	\$ 12,186
Merchandise inventories	22,335	19,567	22,179
Other receivables	927	949	1,100
Prepaid expenses	992	1,016	965
Income tax recoverable	629	-	-
	-----	-----	-----
Total current assets	40,922	42,881	36,430
	-----	-----	-----
Property, fixtures and equipment			
Land, building and improvements	5,715	5,693	5,665
Store fixtures and equipment	10,958	10,617	9,058
Leasehold improvements and other	10,857	10,524	9,793
	-----	-----	-----
	27,530	26,834	24,516
Less accumulated depreciation and amortization	(8,375)	(7,507)	(4,958)
	-----	-----	-----
Other assets	19,155	19,327	19,558
	1,115	1,246	1,042
	-----	-----	-----
	\$ 61,192	\$ 63,454	\$ 57,030
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 8,071	\$ 7,607	\$ 6,913

Compensation and related taxes	731	1,382	694
Income taxes payable	275	416	339
Other accrued expenses	3,569	4,225	3,378
Current maturities of long-term debt	4,320	4,320	120
Accrued reorganization expenses and settlements	481	485	821
	-----	-----	-----
Total current liabilities	17,447	18,435	12,265
	-----	-----	-----
Long-term debt	21,940	21,970	26,265
Other non-current liabilities	3,130	3,159	3,176
Shareholders' equity			
Preferred stock (no par value)			
Authorized 1,000 shares; non issued			
Common stock (no par value)			
Authorized 20,000 shares; issued			
9,998, 9,998 and 9,975	1,576	1,576	1,576
Additional paid in capital	3,745	3,745	2,131
Retained earnings	13,354	14,569	11,617
	-----	-----	-----
Total shareholders' equity	18,675	19,890	15,324
	-----	-----	-----
	\$ 61,192	\$ 63,454	\$ 57,030
	=====	=====	=====

See accompanying "Notes To Consolidated Financial Statements"

</TABLE>

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<TABLE><CAPTION>

PAUL HARRIS STORES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED
(in thousands, except per share data)

	For the thirteen weeks ended April 29, 1995	For the thirteen weeks ended April 30, 1994
	-----	-----
<S>	<C>	<C>
Net sales	\$ 34,801	\$ 34,083
Cost of sales, including occupancy expenses exclusive of depreciation	24,617	22,375
	-----	-----
Gross Income	10,184	11,708
Selling, general and administrative expenses	10,758	10,014
Depreciation and amortization	895	843
Interest expense, net	513	649
	-----	-----
Income (loss) before income taxes	(1,982)	202
Provision (credit) for income taxes	(767)	77
	-----	-----
Net income (loss)	(1,215)	\$ 125
	=====	=====
Net income (loss) per common share	\$ (0.12)	\$ 0.01
	=====	=====

Weighted average number of shares and
share equivalents outstanding

9,998

10,181

See accompanying "Notes To Consolidated Financial Statements"

</TABLE>

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PAUL HARRIS STORES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
(in thousands)

<TABLE><CAPTION>

	For the thirteen weeks ended April 29, 1995	For the thirteen weeks ended April 30, 1994
	-----	-----
<S>	<C>	<C>
Cash flow from operating activities:		
Net income (loss)	\$ (1,215)	\$ 125
Adjustments to reconcile earnings to cash provided:		
Depreciation and amortization	895	843
Utilization of net operating loss carryforward	-	65
(Increase) decrease in current assets:		
Merchandise inventories	(2,768)	(3,142)
Other receivables	22	199
Prepaid expenses	24	10
Income taxes recoverable	629	-
Increase (decrease) in current liabilities:		
Accounts payable	464	959
Accrued compensation and expenses	(625)	(1,149)
Accrued interest	(683)	(682)
Accrued income taxes payable	(141)	(52)
(Increase) decrease in other assets	66	(194)
Increase (decrease) in other non-current liabilities	(29)	41
	-----	-----
Net cash flow from operating activities	(4,618)	(2,977)
	-----	-----
Net cash flow from investing activities:		
Additions to fixed assets	(658)	(1,309)
	-----	-----
Cash flow from financing activities:		
Repayment of long-term debt	(30)	(664)
Sale of common stock under stock option plan	--	38
	-----	-----
Net cash flow from financing activities	(30)	(626)
	-----	-----
Cash flow effect of reorganization activities:		
Payment of accrued reorganization expense	(4)	(115)
	-----	-----
	\$ (5,310)	\$ (5,027)
	=====	=====
Cash and cash equivalents		
At beginning of period	\$ 21,349	\$ 17,213
At end of period	\$ 16,039	\$ 12,186
	-----	-----
	\$ (5,310)	\$ (5,027)

Supplemental disclosures of cash flow information:

Cash paid during the period for interest

\$	1,455	\$	1,471
----	-------	----	-------

Cash paid during the period for income taxes

\$	2	\$	48
----	---	----	----

See accompanying "Notes to Consolidated Financial Statements"

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PAUL HARRIS STORES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
UNAUDITED
(in thousands)

For the thirteen weeks ended

	April 29, 1995		April 30, 1994	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
PREFERRED STOCK (1,000 AUTHORIZED):				
COMMON STOCK (20,000 AUTHORIZED):				
(16,500 voting shares; 3,500 non-voting shares)				
Beginning balance	9,998	\$ 1,576	9,662	\$ 1,576
Issuance of Common Stock	--	--	313	--
Ending balance	9,998	1,576	9,975	1,576
ADDITIONAL PAID IN CAPITAL:				
Beginning balance		\$ 3,745		\$ 2,028
Benefit of the net operating loss carryforward		--		65
Exercise of stock options		--		38
Ending balance		\$ 3,745		\$ 2,131
RETAINED EARNINGS:				
Beginning balance		\$ 14,569		\$ 11,492
Net income (loss)		(1,215)		125
Ending balance		\$ 13,354		\$ 11,617

See accompanying "Notes to Consolidated Financial Statements"

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PAUL HARRIS STORES, INC., AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited financial statements of the Company have been

prepared in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X and accordingly certain information and footnote disclosures have been condensed or omitted. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's January 28, 1995 Annual Report on Form 10-K.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at April 29, 1995 and for all other periods presented have been made.

The results of operations for the first quarter of fiscal year 1995 are not necessarily indicative of the results to be expected for the entire fiscal year 1995. The Company historically produces a majority of its net income in the fourth quarter of the fiscal year due to the stronger sales experienced during the December holiday season.

Certain amounts in the prior periods have been reclassified to conform with the current period presentation.

2. Income Tax Recoverable

The Company has provided for tax credits based upon statutory rates for the first quarter of 1995 based on the expectation of a net profit for the entire fiscal year 1995.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of operations

The Company's net sales increased to \$34,801,000 in the first quarter of fiscal year 1995 (the thirteen weeks ended April 29, 1995) from \$34,083,000 in the first quarter of fiscal year 1994 (the thirteen weeks ended April 30, 1994), an increase of \$718,000, or 2%. The increase in net sales was attributable to a net increase in the number of stores open at the end of the first quarter of the fiscal year 1995 compared to the end of the first quarter of fiscal year 1994 which was partially offset by a 9% decrease in comparable store sales. The Company operated 249 stores on April 29, 1995 compared to 216 stores on April 30, 1994. The 9% comparable store sales decline was due to a general weakness in consumer demand for women's apparel which resulted in a decline in the number of customer transactions per store and a slight decline in the average price per unit.

During the first quarter of fiscal year 1995, the fashion division and The \$5-\$10-\$15-\$20 Place division ("\$5-20") accounted for approximately 86% and 14%, respectively, of the Company's revenue, and approximately 96% and 4%, respectively, of the Company's operating profit before home office overhead.

Cost of sales, including occupancy expenses exclusive of depreciation, increased to 71% of net sales during the first quarter of fiscal year 1995 from 66% of net sales during the first quarter of fiscal year 1994. This increase was due to greater than planned promotional markdowns aimed at stimulating consumer demand which was brought about by lower than expected sales in the first quarter of fiscal year 1995.

Selling, general and administrative expenses were \$10,768,000, or 31% of net sales, for the first quarter of fiscal year 1995 compared to \$10,014,000, or 29% of net sales, for the first quarter of fiscal year 1994. The dollar increase primarily resulted from increases in selling payroll due to the net increase in stores open. Selling, general and

administrative expenses declined by 7% on a store by store basis from the first quarter of fiscal 1994 to the first quarter of fiscal 1995. The increase in selling, general and administrative expenses expressed as a percentage of net sales was primarily due to the decline in comparable store sales.

Depreciation and amortization expenses increased from \$843,000 in the first quarter of fiscal 1994 to \$895,000 for the first quarter of fiscal 1995 as a result of increased capital expenditures over the last two years related mainly to the opening of new stores.

Net interest expense for the first quarter of fiscal year 1995 decreased to \$513,000 from \$649,000 for the first quarter of fiscal year 1994. This decrease in net interest expense reflects an increase in the interest rate earned on short-term investments as well as the maintenance of higher cash balances compared to the first quarter of fiscal year 1994.

The Company has provided for tax credits based on statutory rates of \$767,000 for the first quarter of fiscal year 1995 based on the expectation of a net profit for the entire fiscal year 1995.

As a result of all the above factors, the Company had a net loss of \$1,215,000 for the first quarter of fiscal year 1995 compared to net income of \$125,000 for the first quarter fiscal year 1994. The Company historically produces a majority of its net income in the fourth quarter of the fiscal year due

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to the stronger sales experienced during the December holiday season.

Liquidity and Capital Resources

Cash and cash equivalents totaled \$16,039,000 at the end of the first quarter of fiscal year 1995, a 32% increase from the first quarter of fiscal 1994 total of \$12,186,000. During the first quarter of fiscal year 1995, the Company used \$5,310,000 of cash compared to the \$5,027,000 of cash used during the first quarter of fiscal 1994.

While merchandise inventories increased slightly from \$22,179,000 at the end of the first quarter of fiscal year 1994, as compared to \$22,335,000 at the end of the first quarter of fiscal year 1995, inventory on a store for store basis was 13% lower. The Company's inventory turnover increased slightly for the first quarter of fiscal year 1995 when compared to the first quarter of fiscal year 1994.

The Company has a \$13.5 million revolving bank line of credit facility which is principally intended for the funding of letters of credit for merchandise from overseas. The Company may make direct borrowings of up to \$3.5 million of this revolving bank line of credit facility.

Capital spending by the Company for the first quarter of fiscal year 1995 was \$696,000, primarily for new stores' fixtures and leasehold improvements. The Company was operating 249 stores at the end of the first quarter of fiscal year 1995. During the first quarter of fiscal year 1995 the Company opened 12 fashion division stores, closed two \$5-20 stores and converted one store from \$5-20 to a fashion store. The Company plans to open approximately seven more fashion division stores and convert two more \$5-20 stores to fashion stores during the remainder of fiscal year 1995. The Company plans to close approximately 15 to 20 stores which would include a minimum of eight of \$5-20 division stores. The majority of these planned closings are expected to take place in the later part of the fourth

quarter of fiscal year 1995.

Sales since the end of the first quarter of fiscal year 1995 continue to be disappointing.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) 27 Financial Data Schedule

(b) Reports on Form 8-K : None

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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.

PAUL HARRIS STORES, INC.

(Registrant)

Date: June 9, 1995

/s/ John H. Boyers

John H. Boyers

Senior Vice President - Finance and Treasurer

Signing on behalf of the Registrant and as

Chief Financial Officer

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