

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

REEVES INDUSTRIES INC /DE/

CIK: **799274** | IRS No.: **570735790** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **033-08192** | Film No.: **94529053**
SIC: **2221** Broadwoven fabric mills, man made fiber & silk

Business Address
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P O BOX 1898
SPARTANBURG SC 29304
8035761210*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 3, 1994

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 1-4148

REEVES INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

57-0735790

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

Highway 29 South
Post Office Box 1898
Spartanburg, S. C.

29304

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (803)576-1210

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 No

35,021,666 shares of \$.01 par value common stock of the Registrant were outstanding at the close of business on May 17, 1994.

REEVES INDUSTRIES, INC. AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET
REEVES INDUSTRIES, INC. AND SUBSIDIARY
(in thousands, except share data)

| | December 31, 1993 | April 3, 1994 |
|---|----------------------|------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents of \$7,222 and \$380 | \$ 12,015 | \$ 4,829 |
| Accounts receivable, less allowance for doubtful accounts of \$1,467 and \$1,567 | 45,925 | 49,562 |
| Inventories (Note A) | 33,969 | 38,531 |
| Deferred income taxes | 5,442 | 5,442 |
| Other current assets | 3,300 | 4,463 |
| | ----- | ----- |
| Total current assets | 100,651 | 102,827 |
| | ----- | ----- |
| Property, plant and equipment, at cost less accumulated depreciation | 51,415 | 55,397 |
| Unamortized financing costs, less accumulated amortization of \$1,177 and \$1,340 | 3,946 | 3,783 |
| Goodwill, less accumulated amortization of \$9,431 and \$9,766 | 43,357 | 43,022 |
| Deferred income taxes | 2,153 | 1,806 |
| Other assets | 1,503 | 1,652 |
| | ----- | ----- |
| Total assets | \$203,025 | \$208,487 |
| | ===== | ===== |

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)
 REEVES INDUSTRIES, INC. AND SUBSIDIARY
 (in thousands, except share data)

| | December 31, 1993 | April 3, 1994 |
|---|----------------------|------------------|
| | ----- | ----- |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 22,810 | \$ 21,212 |
| Accrued expenses and other liabilities | 21,197 | 19,129 |
| | ----- | ----- |
| Total current liabilities | 44,007 | 40,341 |
| Long-term debt (Note B) | 132,677 | 138,402 |
| Deferred income taxes | 4,367 | 4,357 |
| Other liabilities | 563 | 522 |
| | ----- | ----- |
| Total liabilities | 181,614 | 183,622 |
| | ----- | ----- |
| Stockholder's equity (Note C) | | |
| Common stock, \$.01 par value, 50,000,000 shares authorized; 35,021,666 shares issued and outstanding | 350 | 350 |
| Capital in excess of par value | 5,099 | 5,099 |
| Retained earnings | 19,964 | 22,201 |
| Equity adjustments from translation | (4,002) | (2,785) |
| | ----- | ----- |
| | 21,411 | 24,865 |
| | ----- | ----- |
| Commitments and contingencies | | |
| | ----- | ----- |
| Total liabilities and stockholder's equity | \$203,025 | \$208,487 |
| | ===== | ===== |

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF INCOME
 REEVES INDUSTRIES, INC. AND SUBSIDIARY
 (in thousands, except per share data)

| | Quarter Ended | |
|---|-------------------|------------------|
| | March 28, 1993 | April 3, 1994 |
| | ----- | ----- |
| Net sales | \$63,780 | \$72,997 |
| Cost of sales | 50,269 | 58,317 |
| | ----- | ----- |
| Gross profit on sales | 13,511 | 14,680 |
| Selling, general and administrative expenses | 7,701 | 7,252 |
| | ----- | ----- |
| Operating income | 5,810 | 7,428 |
| Other income (expense) | | |
| Other income, net | 22 | 18 |
| Interest expense and amortization of financing costs and debt discounts | (4,144) | (4,085) |
| | ----- | ----- |
| | (4,122) | (4,067) |

| | | |
|----------------------------|----------|----------|
| | ----- | ----- |
| Income before income taxes | 1,688 | 3,361 |
| Income taxes | 300 | 1,124 |
| | ----- | ----- |
| Net income | \$ 1,388 | \$ 2,237 |
| | ===== | ===== |

Earnings per common share (Exhibit 11)
Primary and fully diluted

| | | |
|------------|--------|--------|
| Net income | \$.04 | \$.06 |
| | ===== | ===== |

Weighted average number of common
shares outstanding

| | | |
|---------------------------|--------|--------|
| Primary and fully diluted | 34,968 | 35,022 |
| | ===== | ===== |

See notes to condensed consolidated financial statements.

<TABLE>
<CAPTION>
CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN STOCKHOLDER'S EQUITY
REEVES INDUSTRIES, INC. AND SUBSIDIARY
(in thousands)

| | Common Stock \$0.01 Par Value | | Capital in Excess of Par Value | Retained Earnings | Equity Adjustments From Translation | Total |
|------------------------------------|----------------------------------|--------------------------|---|----------------------------|--|-------------------------|
| | ----- Shares ----- | ----- Amount ----- | ----- Par Value ----- | ----- Earnings ----- | ----- Translation ----- | ----- Total ----- |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance at December 31, 1993 | 35,022 | \$350 | \$ 5,099 | \$ 19,964 | \$ (4,002) | \$ 21,411 |
| Net income | | | | 2,237 | | 2,237 |
| Translation adjustments | | | | | 1,217 | 1,217 |
| Balance at April 3, 1994 | 35,022 | \$350 | \$ 5,099 | \$ 22,201 | \$ (2,785) | \$ 24,865 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

See notes to condensed consolidated financial statements.

</TABLE>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
REEVES INDUSTRIES, INC. AND SUBSIDIARY
(in thousands)

Quarter Ended

March 28, April 3,
1993 1994

| | | |
|---|----------|----------|
| OPERATING ACTIVITIES | | |
| Net income | \$ 1,388 | \$ 2,237 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,372 | 2,496 |
| Changes in operating assets and liabilities | (7,717) | (12,458) |
| Translation adjustments | (698) | 327 |
| NET CASH USED BY OPERATING ACTIVITIES | (4,655) | (7,398) |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant, and equipment | (2,051) | (5,686) |
| Other | 892 | |
| NET CASH USED BY INVESTING ACTIVITIES | (1,159) | (5,686) |
| FINANCING ACTIVITIES | | |
| Net borrowings on revolving loan | 7,300 | 5,700 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 7,300 | 5,700 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (175) | 198 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,311 | (7,186) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 4,515 | 12,015 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 5,826 | \$ 4,829 |

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
REEVES INDUSTRIES, INC. AND SUBSIDIARY

APRIL 3, 1994

GENERAL

Reeves Industries, Inc., incorporated in Delaware in 1982 ("Reeves"), a wholly-owned subsidiary of Hart Holding Company Incorporated ("Hart Holding"), is a holding company whose principal asset is the common stock of its wholly-owned subsidiary, Reeves Brothers, Inc. ("Reeves Brothers"). Reeves Brothers is a diversified industrial company with operations in two principal business segments, industrial coated fabrics, conducted through its Industrial Coated Fabrics Group ("ICF"), and apparel textiles, conducted through its Apparel Textile Group ("ATG").

The accompanying unaudited condensed consolidated financial statements of Reeves have been prepared in accordance 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. For such information, refer to the consolidated financial statements and footnotes thereto included in Reeves' annual report on Form 10-K for the year ended December 31, 1993, as filed with the Securities and Exchange Commission on March 31, 1994. The condensed consolidated financial statements so

presented are, in the opinion of management, inclusive of all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of financial position as of April 3, 1994, and the results of operations and cash flows for the quarters ended March 28, 1993 and April 3, 1994.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
REEVES INDUSTRIES, INC. AND SUBSIDIARY

APRIL 3, 1994

NOTE A - INVENTORIES

Inventories at December 31, 1993 and April 3, 1994, were comprised of the following (in thousands):

| | December 31, 1993 | April 3, 1994 |
|---------------------------------|----------------------|------------------|
| | ----- | ----- |
| Raw materials | \$ 6,815 | \$ 7,833 |
| Work in process | 8,792 | 11,925 |
| Manufactured and finished goods | 18,362 | 18,773 |
| | ----- | ----- |
| | \$33,969 | \$38,531 |
| | ===== | ===== |

Approximately 27% and 25% of Reeves' inventories at December 31, 1993 and April 3, 1994, are valued using the last-in, first-out ("LIFO") method. Interim LIFO determinations, including those as of April 3, 1994, are based on management's estimates of expected year end inventory levels and costs.

NOTE B - LONG-TERM DEBT

Long-term debt at December 31, 1993 and April 3, 1994, consisted of the following (in thousands):

| | December 31, 1993 | April 3, 1994 |
|---|----------------------|------------------|
| | ----- | ----- |
| 11% Senior Notes due July 15, 2002, net of unamortized discount of \$747 and \$725 | \$121,753 | \$121,775 |
| 13 3/4% Subordinated Debentures due May 1, 2000, net of unamortized discount of \$76 and \$73 | 10,924 | 10,927 |
| Revolving loan payable to bank | | 5,700 |
| | ----- | ----- |
| | \$132,677 | \$138,402 |
| | ===== | ===== |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
REEVES INDUSTRIES, INC. AND SUBSIDIARY

APRIL 3, 1994

In June 1992, Reeves completed a public offering of \$122,500,000 of 11% Senior Notes due 2002 (the "Senior Notes"). Proceeds of the offering were used to redeem all of Reeves' then

outstanding 12 1/2% Senior Notes and 13% Senior Subordinated Debentures and to pay and terminate the revolving loan outstanding under a prior loan agreement.

Reeves is required to make sinking fund payments with respect to the remaining 13 3/4% Subordinated Debentures of \$6,000,000 on May 1, 1999 and \$5,000,000 on May 1, 2000.

On August 7, 1992, Reeves and Reeves Brothers entered into a credit agreement with a group of banks, which was amended in 1993, and which provides Reeves and Reeves Brothers with an aggregate \$35,000,000 revolving line of credit (the "Revolving Loan") and letter of credit facility. The Revolving Loan bears interest at the Alternative Base Rate (defined below) plus 1 1/2% or Eurodollar Rate plus 2 1/2%, at the election of the borrower. The Alternative Base Rate is defined as the higher of the Prime Rate (6 1/4% at April 3, 1994), Base CD Rate plus 1%, or the Federal Funds Effective Rate plus 1/2%. The applicable rates above the Alternative Base Rate and Eurodollar Rate decline based on a ratio of earnings to fixed charges, as defined. The Revolving Loan is due December 31, 1995. The Revolving Loan is secured by Reeves Brothers' accounts receivable and inventories. As of April 3, 1994, Reeves had available borrowings, net of \$1,389,000 of outstanding letters of credit, of \$27,911,000. A commitment fee of 1/2% per annum is required on the unused portion of the Revolving Loan.

The Senior Notes, Revolving Loan, and 13 3/4% Subordinated Debentures contain certain restrictive covenants with respect to Reeves and Reeves Brothers including, among other things, maintenance of working capital, limitations on the payment of dividends, the incurrence of additional indebtedness and certain liens, restrictions on capital expenditures, mergers or acquisitions, investments and transactions with affiliates, and compliance with certain financial tests and limitations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
REEVES INDUSTRIES, INC. AND SUBSIDIARY

APRIL 3, 1994

Refer to Reeves' Annual Report on Form 10-K for the year ended December 31, 1993, as filed with the Securities and Exchange Commission on March 31, 1994, for a more complete description of the Senior Notes, the Revolving Loan and the 13 3/4% Subordinated Debentures.

NOTE C - STOCKHOLDER'S EQUITY

On January 26, 1994, the Board of Directors approved a non-qualified stock option agreement between Reeves and the Chairman of the Board of Directors. The agreement grants an option to purchase up to 3,800,000 shares of common stock of Reeves, par value \$.01 per share, and has an expiration date of December 31, 2023. The option is exercisable at \$.56 per share for 1,400,000 shares (exercisable immediately), \$.75 per share for 1,400,000 shares (exercisable one year from grant date) and \$1.00 per share for 1,000,000 shares (exercisable two years from grant date).

On March 9, 1994, Hart Holding organized Reeves Holdings, Inc. as a wholly-owned subsidiary (the "Issuer") through a capital contribution of \$1,000. The Issuer was formed for the purpose of holding all of the outstanding common stock of Reeves. On March 31, 1994, the Issuer filed a Registration Statement on Form S-1 under the Securities Act of 1933, as amended, for the purpose of offering Senior Discount Debentures due 2006 anticipated to yield proceeds of \$100,000,000. As of May 17, 1994 Reeves' common stock has not

been contributed to the Issuer.

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

The following table and the discussion which follows presents Reeves' sales and operating income by segment for the quarters ended March 28, 1993 and April 3, 1994 (in thousands):

| | Quarter Ended | |
|---|-------------------|------------------|
| | March 28, 1993 | April 3, 1994 |
| Net Sales: | | |
| Industrial Coated Fabrics Group | \$31,066 | \$37,264 |
| Apparel Textile Group | 32,714 | 35,733 |
| | ----- | ----- |
| Total Net Sales | \$63,780 | \$72,997 |
| | ===== | ===== |
| Operating Income: | | |
| Industrial Coated Fabrics Group | \$ 6,641 | \$ 6,651 |
| Apparel Textile Group | 1,841 | 3,004 |
| Corporate Expenses | (2,672) | (2,227) |
| | ----- | ----- |
| Total Operating Income | \$ 5,810 | \$ 7,428 |
| | ===== | ===== |
| Operating Income as a Percent of Net Sales | 9.1% | 10.2% |
| | ===== | ===== |

THREE MONTHS ENDED MARCH 28, 1993 COMPARED WITH
THREE MONTHS ENDED APRIL 3, 1994

NET SALES
- - - - -

Reeves' total net sales increased 14.5% for the first quarter of 1994 compared to the first quarter of 1993. ICF's net sales represented 51.0% of Reeves' total net sales for the first quarter of 1994 compared to 48.7% for the comparable period in 1993. ATG net sales represented 49.0% of Reeves' total net sales for the first quarter of 1994 compared to 51.3% for the comparable period in 1993.

ICF's net sales increased 20.0% during the first quarter of 1994 compared to the first quarter of 1993. ICF's net sales increased primarily due to higher unit volume in the coated automotive airbag material product line. This increase was offset by a decrease in other coated fabrics product lines, primarily less military business.

ATG's net sales increased 9.2% during the first quarter of 1994 compared to the first quarter of 1993. ATG's net sales increase reflects growth in unit volume in the finished goods division.

OPERATING INCOME
- - - - -

Operating income for the first quarter of 1994 was \$7.4 million compared to \$5.8 million for the first quarter of 1993. As a percentage of net sales, operating income increased to 10.2% of net sales for the first quarter of 1994 compared to 9.1% in the same period of 1993.

ICF's operating income for the first quarter of 1994 was above the operating income for the first quarter of 1993. Increases in operating income generated by the coated automotive airbag material product line were offset by: (i) lower volume in the other coated fabrics product lines, (ii) foreign currency exchange losses resulting from the strengthening of the Italian Lira against most other currencies, and (iii) start-up costs associated with the introduction of a new generation of printing blankets and new coated fabrics product lines.

ATG's operating income for the first quarter of 1994 increased by 63.2% as compared to the first quarter of 1993, primarily as a result of increased sales volume in the finished goods division and manufacturing cost reductions. The manufacturing cost reductions resulted principally from prior capital investments.

Corporate expenses decreased 16.7% during the first quarter of 1994 compared to the first quarter of 1993. The decrease resulted primarily from a gain related to the settlement of a pension obligation of a previously discontinued operation.

LIQUIDITY AND CAPITAL RESOURCES

In June 1992, Reeves completed a public offering of \$122,500,000 of 11% Senior Notes due 2002 (the "Senior Notes"). Proceeds of the offering were used to redeem all of Reeves' then outstanding 12 1/2% Senior Notes and 13% Senior Subordinated Debentures and to pay and terminate the revolving loan outstanding under a prior loan agreement.

Reeves is required to make sinking fund payments with respect to the remaining 13 3/4% Subordinated Debentures of \$6,000,000 on May 1, 1999 and \$5,000,000 on May 1, 2000.

On August 7, 1992, Reeves and Reeves Brothers entered into a credit agreement with a group of banks, which was amended in 1993, and which provides Reeves and Reeves Brothers with an aggregate \$35,000,000 revolving line of credit (the "Revolving Loan") and letter of credit facility. The Revolving Loan bears interest at the Alternative Base Rate (defined below) plus 1 1/2% or Eurodollar Rate plus 2 1/2%, at the election of the borrower. The Alternative Base Rate is defined as the higher of the Prime Rate (6 1/4% at April 3, 1994), Base CD Rate plus 1%, or the Federal Funds Effective Rate plus 1/2%. The applicable rates above the Alternative Base Rate and Eurodollar Rate decline based on a ratio of earnings to fixed charges, as defined. The Revolving Loan is due December 31, 1995. The Revolving Loan is secured by Reeves Brothers' accounts receivable and inventories. As of April 3, 1994, Reeves had available borrowings, net of \$1,389,000 of outstanding letters of credit, of \$27,911,000. A commitment fee of 1/2% per annum is required on the unused portion of the Revolving Loan.

The Senior Notes, Revolving Loan, and 13 3/4% Subordinated Debentures contain certain restrictive covenants with respect to Reeves and Reeves Brothers including, among other things, maintenance of working capital, limitations on the payment of dividends, the incurrence of additional indebtedness and certain liens, restrictions on capital expenditures, mergers or acquisitions, investments and transactions with affiliates, and compliance with certain financial tests and limitations.

Reeves believes that its cash flow from operations, available leasing capacity and funds available under the Revolving Loan will be sufficient to fund working capital needs, capital expenditure requirements, and debt service obligations in future years.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

| (a) | Exhibits | Description | Page |
|-----|------------|---|------|
| | ----- | ----- | ---- |
| | Exhibit 11 | Computation of Earnings Per Common Share | 17 |

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the three months ended April 3, 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.

REEVES INDUSTRIES, INC.

DATE: May 17, 1994

By: \s\ Steven W. Hart

Steven W. Hart
Chief Financial Officer

EXHIBIT 11.

CALCULATION OF PRIMARY AND FULLY DILUTED
 EARNINGS PER COMMON SHARE
 REEVES INDUSTRIES, INC. AND SUBSIDIARY
 (in thousands, except per share data)

| | Quarter Ended | |
|---|-------------------|-------------------|
| | March 28, 1993 | April 3, 1994 |
| | ----- | ----- |
| Net income | \$ 1,388 ===== | \$ 2,237 ===== |
| Earnings per common share | | |
| Primary and fully diluted: | | |
| Net income | \$.04 ===== | \$.06 ===== |
| Weighted average number of common shares outstanding | | |
| Primary and fully diluted | 34,968 ===== | 35,022 ===== |