

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-07-08** | Period of Report: **1994-05-31**
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FILER

CHERRY CORP

CIK: [19704](#) | IRS No.: [362977756](#) | State of Incorporation: **DE** | Fiscal Year End: **0228**
Type: **10-Q** | Act: **34** | File No.: [000-08955](#) | Film No.: [94538345](#)
SIC: **3577** Computer peripheral equipment, nec

Mailing Address
3600 SUNSET AVENUE
WAUKEGAN IL 60087

Business Address
3600 SUNSET AVE
WAUKEGAN IL 60087
7086629200

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

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

For the quarterly period ended May 31, 1994

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15
(d) OF THE EXCHANGE ACT OF 1934 (No Fee
Required)

For the transition period from () to ()

Commission File No. 0-8955

THE CHERRY CORPORATION

DELAWARE

(State of other jurisdiction of
incorporation or organization)

36-2977756

(I.R.S. Employer
Identification Number)

3600 Sunset Avenue, Waukegan, IL
(Address of principal executive
offices)

60087
(Zip Code)

Registrant's telephone number, including area code:
(708) 662-9200

Not Applicable

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

Indicate by check mark whether the registrant:

(1) has filed all reports required to be filed by Section 13 or 15
(d) of the Securities Exchange Act of 1934 during the preceding 12
months (or for such shorter period that the registrant was required
to file such report), and (2) has been subject to such filing
requirements for the past 90 days.

(X) Yes () No

4,665,765 Common Shares were outstanding as of May 31, 1994.

<TABLE>

THE CHERRY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

<CAPTION>

	May 31, 1994 (Unaudited)	February 28, 1994 (Note 1)
<S>	<C>	<C>
ASSETS:		
Cash and equivalents	\$ 5,093	\$ 2,697
Receivables, net of allowances	46,306	45,016
Inventories (Note 2)	35,988	34,481
Income taxes, net	1,058	1,154
Prepaid expenses	1,762	931
	-----	-----
Total Current Assets	90,207	84,279
Land, buildings and equipment, net	103,318	97,676
Investment in affiliates and other, net	11,994	11,593
	-----	-----
TOTAL ASSETS	\$205,519 =====	\$193,548 =====
LIABILITIES AND STOCKHOLDERS' INVESTMENT:		
Short-term debt	\$ 2,899	\$ 5,736
Accounts payable	15,292	14,243
Payroll related accruals	10,332	8,452
Other accruals	11,774	11,527
Current maturities of long-term debt	13,761	4,926
	-----	-----
Total Current Liabilities	54,058	44,884
Long-term debt	39,551	42,970
Deferred income taxes, net and deferred credits	13,317	12,218
Stockholders' Investment (Note 4):		
Common stock	4,666	4,661
Additional paid-in capital	10,242	10,200
Retained earnings	76,959	73,042
Cumulative translation adjustments	6,726	5,573
	-----	-----
Total Stockholders' Investment	98,593	93,476
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS'		

INVESTMENT

\$205,519

\$193,548

=====

=====

<FN>

The accompanying notes are an integral part of the consolidated financial statements.

</TABLE>

<TABLE>

THE CHERRY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(Dollars in Thousands Except Share Data)

<CAPTION>

	Three Months Ended May 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
Net Sales	\$ 79,647	\$ 69,631
Cost of Products Sold	54,744	49,528
	-----	-----
Gross Margin	24,903	20,103
Engineering, Distribution and Administrative Expenses	18,077	15,867
	-----	-----
Operating Income	6,826	4,236
Interest Expense	(875)	(1,031)
Other Income, Net	418	310
	-----	-----
Earnings Before Income Taxes and Cumulative Effect of Change in Accounting Principle	6,369	3,515
Income Tax Provision	2,452	1,280
	-----	-----
Earnings Before Cumulative Effect of Change in Accounting Principle	3,917	2,235
Cumulative Effect of Change in Method of Accounting for Income Taxes (Note 3)	-	1,542
	-----	-----
Net Earnings	\$ 3,917	\$ 3,777
	=====	=====
Earnings per Share (Note 4):		
Before Cumulative Effect of Change in Accounting Principle	\$.84	\$.48
Cumulative Effect of Change in Accounting Principle	-	.33

Net Earnings	\$.84	\$.81
	=====	=====
Average Shares Outstanding (Note 4)	4,662,876	4,644,602
	=====	=====

<FN>

The accompanying notes are an integral part of the consolidated financial statements.

</TABLE>

<TABLE>

THE CHERRY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(Dollars in Thousands)

<CAPTION>

	Three Months Ended May 31,	
	----- 1994 -----	----- 1993 -----
	<C>	<C>
Net Cash Provided by Operating Activities	\$ 8,524	\$ 5,843
Cash Flows from Investing Activities:		
Expenditures for Land, Building and Equipment	(8,046)	(4,063)
Other, net	(278)	(40)
Net Cash Used by Investing Activities	(8,324)	(4,103)
Cash Flows from Financing Activities:		
(Decrease) Increase in Short-term Debt	(2,991)	1,531
Increase in Domestic Revolver and Uncommitted Credit Facilities	5,200	1,051
Principal Payments on Long-term Debt	(823)	(2,113)
Equity and Other Transactions	49	4
Net Cash Provided by Financing Activities	1,435	473
Effect of Exchange Rate Changes on Cash Flows	761	102
Net Increase in Cash and Equivalents	2,396	2,315
Cash and Equivalents, at Beginning of Year	2,697	1,331
Cash and Equivalents, at End of Period	\$ 5,093	\$ 3,646
	=====	=====

<FN>

The accompanying notes are an integral part of the consolidated financial statements.

</TABLE>

THE CHERRY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated balance sheet as of May 31, 1994 and the condensed consolidated statements of earnings and the condensed consolidated statements of cash flows for the three months ended May 31, 1994 and 1993, have been prepared by the Company without audit. 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 May 31, 1994, and for all periods presented, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's February 28, 1994 Annual Report to Stockholders. The results of operations for the three months ended May 31, 1994 are not necessarily indicative of the operating results for a full year.

2. INVENTORIES

Inventory values were as follows:

<TABLE>

<CAPTION>

	May 31, 1994	Feb. 28, 1994
	-----	-----
<S>	<C>	<C>
Finished Goods	\$10,511	\$11,470
Work-in-Process	13,148	12,114
Component Parts	8,748	7,627
Raw Materials	3,581	3,270
	-----	-----
	\$35,988	\$34,481
	=====	=====

</TABLE>

3. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAXES

Effective March 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109") Accounting for Income Taxes.

Under this statement, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are to be recognized for temporary differences that will result in deductible amounts in future years, if in the opinion of management, it is more likely than not that the deferred tax assets will be realized.

The result of adopting SFAS No. 109 was a one time increase to net income of \$1.5 million reported as the cumulative effect of a change in accounting principle in the first quarter of fiscal 1994.

4. PROPOSED AMENDMENT TO CERTIFICATE OF INCORPORATION

On May 3, 1994, the Board of Directors authorized adoption of a proposed amendment to the Company's certificate of incorporation which would among other things (i) reclassify the existing Common Stock ("Existing Common Stock") of the Company as Class B Common Stock and (ii) authorize a new class of non-voting common stock, designated as Class A Common Stock. The stockholders of the Company are being asked to approve the amendment at the Annual Meeting of stockholders on July 11, 1994.

The Board of Directors authorized a stock dividend of one share of Class A Common Stock for each share of Existing Common Stock outstanding subject to the stockholders approval of the above amendment. This stock dividend will have the same effect on the total number of shares of Common Stock outstanding as a two-for-one stock split. Because this has not yet been approved by the Company's stockholders, the financial statements have not been restated to reflect the results of the proposed amendment and stock dividend. The pro-forma capitalization and earnings per share of the Company reflecting the proposed amendment and stock dividend is as follows:

<TABLE>

<CAPTION>

	May 31, 1994 -----
<S>	<C>
Pro-Forma Stockholders' Investment:	
Class A Common Stock, par value \$1.00 per share; 20,000,000 shares authorized; 4,665,765 shares issued and outstanding	\$ 4,666
Class B Common Stock, par value \$1.00 per share; 10,000,000 shares authorized; 4,665,765 shares issued and outstanding	4,666
Additional paid-in capital	10,242
Retained earnings	72,293
Cumulative translation adjustment	6,726 -----

Total Stockholders' Investment \$98,593
=====

<CAPTION>

	May 31, 1994 -----	May 31, 1993 -----
<S>	<C>	<C>
Pro-forma Earnings per share:		
Before Cumulative Effect of		
Change in Accounting Principle	\$.42	\$.24
Cumulative Effect of Change in		
Accounting Principle	--	.17
	-----	-----
Net Earnings	\$.42	\$.41
	=====	=====
 Average Shares Outstanding	 9,325,752	 9,289,204

</TABLE>

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

Results of Operations

First quarter sales of \$79.6 million exceeded last year's first quarter sales by 14% and the previous quarterly sales record by 9%. First quarter net earnings of \$3.9 million or \$.84 per share, also a record, exceeded last year's first quarter comparable earnings, before the effects of an accounting change, of \$2.2 million or \$.48 per share by 75% and last year's first quarter net earnings of \$3.8 million or \$.81 per share by 4%. The first quarter of last year included a \$1.5 million or \$.33 per share increase to net earnings for the cumulative effect of the change to the SFAS 109 method of accounting for income taxes.

Domestic sales increased 22% over last year's first quarter, paced by sales to the automotive industry. European operations continued the improvement which began late last year with a 5% sales increase over last year's first quarter in dollars and a 10% increase over last year in the applicable local currency.

Consolidated gross margins increased from 28.9% to 31.3% of sales. Domestic gross margins increased from 32.2% to 34.5% of sales. Foreign gross margins increased from 24.8% to 26.6% of sales. These improvements are the result of increased volume, cost reduction programs, and improved production efficiencies. The Company's semiconductor operation went to a continuous seven day work week in the second half of last year. Cost reductions have been successfully implemented, especially in the Company's keyboard product line.

Consolidated operating expenses increased 14% which is in line with the Company's increase in sales. Domestic and foreign operating expenses increased 20% and 5%, respectively, which is also in line with the applicable sales increases. Any anticipated economies of scale from the increase in sales were partially offset by the need to staff for increasing business.

Consolidated operating profit, as a result of the above factors, improved from 6.1% to 8.6% of sales. Domestic operating profit improved from 8.0% to 10.7% of sales while foreign operating profit increased from 3.7% to 5.5% of sales.

Consolidated interest expense decreased \$156 thousand or 15% as the result of reduced borrowings and improved financing rates.

Consolidated other income increased by \$108 thousand primarily because of higher income from an unconsolidated affiliate.

The consolidated effective income tax rate increased from 36.5% to 38.5%. A combination of higher state income taxes and increased foreign profitability resulted in the increase to the effective rate.

In the first quarter of last year, the Company implemented SFAS 109. In accordance with the provisions of SFAS 109, the Company recognized tax assets principally related to the expected benefit of future tax deductions for expenses previously recorded for financial reporting purposes. The resulting \$1.5 million benefit (\$.33 per share) was recorded in the income statement and is reported as a cumulative effect of a change in accounting principle.

A normal seasonal slowdown in sales is expected in the upcoming second quarter as the result of automotive and appliance model changeovers and summer vacations. The slowdown, however, is expected to be less pronounced than the prior year since the prior year's second quarter was also affected by the height of the European recession.

Since a significant portion of the Company's sales and manufacturing are overseas, foreign currency translation could have an impact on future sales, earnings, and financial position of the Company as denominated in U.S. dollars. The Company engages in insignificant amounts of hedging contracts with regard to foreign currency transactions and therefore does not have a material derivative exposure.

Liquidity and Capital Resources

In the first quarter of fiscal 1995, the Company modestly improved its financial condition further in spite of significant first quarter capital expenditure increases. The consolidated debt to capital ratio declined to 36.3% from 36.5% at February 28, 1994. First quarter capital expenditures were \$8 million versus \$4.1 million in the first quarter of last year.

In the first quarter of fiscal 1995, domestic capital expenditures were \$6.2 million while foreign capital expenditures were \$1.8 million. The higher domestic capital expenditures are consistent with the recent significant domestic growth versus the slowly recovering European economy. Funds were needed domestically for capacity increases and working capital; \$5.2 million of the funding came from increased borrowings under the domestic revolver and the balance from operating activities. Foreign operating activities generated sufficient funds to repay \$3.8 million of foreign debt and also fund their capital expenditures.

The Company intends to spend approximately \$35 million on capital expenditures in fiscal 1995 and to average a capital expenditure level of 10% of sales over fiscal 1995, 1996 and 1997. To accommodate the Company's increased production needs, building and capacity expansion programs are currently underway at both domestic locations.

Although the debt to capital ratio improved, debt increased to \$56.2 million from \$53.6 million. Debt is expected to increase further as the result of the needed production capacity increases. The Company has sufficient debt funding to finance its operations in the foreseeable future. An equity offering is presently under consideration as a means to increase the Company's financial flexibility. Any decision regarding an equity offering is subject to further analysis and stock market conditions.

THE CHERRY CORPORATION AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits - none
- (b) Reports on Form 8-K

During the quarter, the following Form 8-K Report was filed:

1. Form 8-K dated May 18, 1994 (Item 7)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CHERRY CORPORATION
Registrant

DATE: July 8, 1994

By: Dan A. King

Dan A. King
Treasurer, Secretary and
Corporate Controller