

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-07-08** | Period of Report: **1994-05-27**
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FILER

INTERNATIONAL DAIRY QUEEN INC

CIK: **51207** | IRS No.: **410852869** | State of Incorporation: **DE** | Fiscal Year End: **1130**
Type: **10-Q** | Act: **34** | File No.: **000-06116** | Film No.: **94538337**
SIC: **5140** Groceries & related products

Mailing Address

PO BOX 39286

MINNEAPOLIS MN 55439-0286

Business Address

7505 METRO BLVD

MINNEAPOLIS MN 55439-0286

6128300200

UNITED STATES 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 May 27, 1994

OR

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

For the quarterly period from _____ to _____

Commission file number 0-6116

INTERNATIONAL DAIRY QUEEN, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

41-0852869

(I.R.S. Employer
Identification Number)

7505 Metro Boulevard, Minneapolis, Minnesota

(Address of principal executive offices)

55439

(Zip Code)

Registrant's Telephone Number

612/830-0200

Neither name, address nor fiscal year has been changed since the last report.

(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 reports), and (2) has been subject to
such filing requirements for the past 90 days. Yes X No
--- ---

Number of registrant's Class A Common Shares outstanding at
July 1, 1994: 15,320,494

Number of registrant's Class B Common Shares outstanding at
July 1, 1994: 8,978,079

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INTERNATIONAL DAIRY QUEEN, INC.
Securities and Exchange Commission Form 10-Q
for the Second Quarter Ended May 27, 1994

I N D E X

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Items 1 through 5 have been omitted since such items are inapplicable or the answers are negative

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PART I

INTERNATIONAL DAIRY QUEEN, INC.
CONSOLIDATED BALANCE SHEET
(Condensed and in Thousands)
(Unaudited)

<TABLE>

<CAPTION>

| | May 27, 1994 | November 30, 1993 |
|--|-----------------|----------------------|
| | ----- | ----- |
| ASSETS | | (Restated) |
| <S> | <C> | <C> |
| Current Assets: | | |
| Cash and cash equivalents and marketable securities | \$ 24,667 | \$ 31,178 |
| Receivables--net | 40,713 | 26,659 |
| Inventories | 4,551 | 4,561 |
| Other current assets | 2,709 | 2,562 |
| | ----- | ----- |
| Total current assets | 72,640 | 64,960 |
| Notes receivable and other--net | 20,988 | 23,037 |

| | | |
|--|-----------|-----------|
| Other revenue producing assets--net: | | |
| Rental properties | 3,079 | 3,241 |
| Franchise rights and service contracts | 86,386 | 83,771 |
| Miscellaneous | 31 | 39 |
| | ----- | ----- |
| Total other revenue producing assets | 89,496 | 87,051 |
| Property, plant and equipment--net | 9,749 | 9,350 |
| | ----- | ----- |
| | \$192,873 | \$184,398 |
| | ----- | ----- |
| | ----- | ----- |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|-----------|-----------|
| Current liabilities: | | |
| Drafts and accounts payable | \$ 22,855 | \$ 16,792 |
| Accrued liabilities | 9,428 | 7,779 |
| Committed advertising | (2,283) | 2,093 |
| Current maturities of long-term debt | 484 | 1,913 |
| | ----- | ----- |
| Total current liabilities | 30,484 | 28,577 |
| Deferred income taxes and other | 15,298 | 15,234 |
| Long-term debt | 23,495 | 23,902 |
| Common stock and other stockholders' equity | 123,596 | 116,685 |
| | ----- | ----- |
| | \$192,873 | \$184,398 |
| | ----- | ----- |
| | ----- | ----- |

</TABLE>

See accompanying notes.

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INTERNATIONAL DAIRY QUEEN, INC.
CONSOLIDATED STATEMENT OF INCOME
(Condensed and in Thousands, Except Per Share Amounts)
(Unaudited)

<TABLE>
<CAPTION>

| | Six Months Ended | | Second Quarter Ended | |
|--|------------------|-----------------|----------------------|-----------------|
| | May 27, 1994 | May 28, 1993 | May 27, 1994 | May 28, 1993 |
| | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| Operating Revenues: | | | | |
| Net sales | \$123,990 | \$113,064 | \$ 76,887 | \$ 68,609 |
| Service fees | 24,921 | 23,743 | 14,745 | 13,802 |
| Franchise sales and other fees | 3,917 | 3,609 | 2,477 | 2,293 |
| Real estate finance and rental income | 4,254 | 4,712 | 2,054 | 2,286 |
| Other | 773 | 579 | 515 | 342 |
| | ----- | ----- | ----- | ----- |
| | 157,855 | 145,707 | 96,678 | 87,332 |
| Operating Expenses: | | | | |
| Cost of sales | 111,889 | 101,398 | 69,352 | 61,471 |
| Expenses applicable to real estate | | | | |

| | | | | |
|--|-----------|-----------|----------|----------|
| finance and rental income | 4,015 | 4,441 | 1,933 | 2,142 |
| Selling, general and administrative | 19,710 | 18,801 | 10,414 | 9,833 |
| | ----- | ----- | ----- | ----- |
| | 135,614 | 124,640 | 81,699 | 73,446 |
| | ----- | ----- | ----- | ----- |
| | 22,241 | 21,067 | 14,979 | 13,886 |
| Net interest income | 693 | 518 | 331 | 301 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | 22,934 | 21,585 | 15,310 | 14,187 |
| Provision for income taxes | 9,060 | 8,310 | 6,050 | 5,460 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 13,874 | \$ 13,275 | \$ 9,260 | \$ 8,727 |
| | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- |
| Earnings per common and common equivalent share | \$.57 | \$.52 | \$.38 | \$.35 |
| | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- |
| Average common and common equivalent shares outstanding | 24,531 | 25,351 | 24,473 | 25,217 |
| | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- |

</TABLE>

See accompanying notes.

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INTERNATIONAL DAIRY QUEEN, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Condensed and in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

| | Six Months Ended | |
|--|------------------|-----------------|
| | May 27, 1994 | May 28, 1993 |
| | ----- | ----- |
| | <C> | <C> |
| Net cash provided by operating activities | \$ 6,874 | \$ 4,626 |
| Cash flows from investing activities: | | |
| Marketable securities, net maturities | 2,692 | -- |
| Net advanced to operators for store renovations and equipment | (2,751) | (260) |
| Capital expenditures | (1,136) | (3,974) |
| Purchase of franchise rights and service contracts | (1,090) | (421) |

| | | |
|--|----------|----------|
| Other | 10 | 317 |
| | ----- | ----- |
| Cash flows used in investing activities | (2,275) | (4,338) |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | (1,836) | (1,763) |
| Purchase and retirement of common shares | (6,860) | (9,387) |
| Other | 287 | -- |
| | ----- | ----- |
| Cash flows used in financing activities | (8,409) | (11,150) |
| Effect of exchange rate changes on cash | (8) | 51 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (3,818) | (10,811) |
| Cash and cash equivalents at beginning of year | 21,188 | 31,243 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$17,370 | \$20,432 |
| | ----- | ----- |
| | ----- | ----- |

</TABLE>

See accompanying notes.

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INTERNATIONAL DAIRY QUEEN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The interim financial statements included herein have been prepared by the Company without audit, but include all adjustments which are of a normal recurring nature and which the Company believes are necessary for a fair presentation of its financial position at May 27, 1994, and May 28, 1993, and results of operations and cash flows for the three-month and six-month periods then ended. The condensed financial statements do not include all disclosures required under generally accepted accounting principles since certain footnote information has been omitted. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report and Form 10-K for the year ended November 30, 1993.

The Company calculates its income tax provision for interim periods by estimating its annual effective tax rate and applying this rate to the income of the interim period. The effective tax rate applied was 39.5 percent for the three month and six-month periods ended May 27, 1994, and 38.5 percent for the comparable periods ended May 28, 1993. The Omnibus Budget Reconciliation Act of 1993, which was signed into law on August 10, 1993, increased corporate income tax rates from 34 to 35 percent.

On December 1, 1993, the Company adopted Financial Accounting Standards No. 109, "Accounting for Income Taxes" which requires the Company to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. Deferred tax assets and liabilities are calculated based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

The adoption of FAS 109 resulted in the restatement of the Company's previously issued consolidated financial statements, the principle effect of which was to record a net increase in deferred taxes and a reduction of \$9,860,000 in retained earnings as of December 1, 1992. These changes related principally to the differences in the amortization of franchise rights and service contracts for financial statement and income tax purposes. The adoption of FAS 109 had no impact on previously reported net income.

Earnings per common share amounts are based on the weighted average number of common and common equivalent shares outstanding during each period.

The Company's business is seasonal in nature, and the results of operations for the six months ended May 27, 1994, may not be indicative of the results for the full year.

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INTERNATIONAL DAIRY QUEEN, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

General:

The Company's revenues are derived primarily from service and franchise fees received from franchisees and the sale of perishable and nonperishable supplies and equipment for use by franchised stores. Although the Company does not allocate interest or selling, general and administrative expenses by products sold or services rendered, it believes that a major portion of its operating income results from franchise service fees.

The following table sets forth certain information as to the number of stores in the "Dairy Queen", "Orange Julius", "Karmelkorn", and "Golden Skillet" systems.

<TABLE>

| | Total 11/30/93 ----- <C> | Opened ----- <C> | Closed ----- <C> | Converted to Treat Centers ----- <C> | Ownership Changes ----- <C> | Total 05/27/94 ----- <C> |
|-------------------------------------|-----------------------------------|------------------------|------------------------|--|--------------------------------------|-----------------------------------|
| DAIRY QUEEN SYSTEM | | | | | | |
| United States | | | | | | |
| Franchised by the Company: | | | | | | |
| "Dairy Queen" stores | 3,083 | 18 | (20) | 0 | 57 | 3,138 |
| "Treat Center" units | 93 | 3 | (1) | 3 | | 98 |
| Franchised by territorial operators | 1,683 | 26 | (21) | 0 | (57) | 1,631 |
| Company operated stores | 1 | -- | - | -- | -- | 1 |
| | ----- | --- | --- | --- | --- | ----- |
| | 4,860 | 47 | (42) | _3 | __0 | 4,868 |
| | ----- | --- | --- | --- | --- | ----- |
| Canada | | | | | | |
| Franchised by the Company: | | | | | | |
| "Dairy Queen" stores | 420 | 7 | (1) | | | 426 |
| "Treat Centers" units | 18 | -- | -- | -- | -- | 18 |
| | ----- | --- | --- | --- | --- | ----- |
| | 438 | 7 | (1) | | | 444 |
| | ----- | --- | --- | --- | --- | ----- |
| Other foreign | 173 | 18 | (13) | -- | -- | 178 |
| | ----- | --- | --- | --- | --- | ----- |

| | | | | | | |
|------------------------------|-------|-----|------|-----|-----|-------|
| Total "Dairy Queen" stores | 5,471 | 72 | (56) | 3 | 0 | 5,490 |
| | ----- | --- | --- | --- | --- | ----- |
| "Orange Julius" stores | 480 | 6 | (17) | (3) | -- | 466 |
| "Karmelkorn" shoppes | 95 | 1 | (8) | -- | -- | 88 |
| "Golden Skillet" restaurants | 17 | 2 | -- | -- | -- | 19 |
| | ----- | --- | --- | --- | --- | ----- |
| Total | 6,063 | 81 | (81) | 0 | 0 | 6,063 |
| | ----- | --- | --- | --- | --- | ----- |
| | ----- | --- | --- | --- | --- | ----- |

</TABLE>

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Results of Operations:

The improvement in the Company's results of operations for the second quarter and first six months of 1994, compared to the second quarter and first six months of 1993, reflects an increase in net sales, increased service fees received from stores franchised by the Company and an increase in net interest income. These increases were partially offset by an increase in selling, general and administrative expenses.

The following table indicates as a percentage of revenue, line items from the income statement, and the percentage increase/decrease of such items when comparing the first six months of 1994 with the first six months of 1993.

<TABLE>

| | Percentage of Revenue Six Months Ended | | Percentage Increase (Decrease) |
|---|---|-----------------|--------------------------------------|
| | May 27, 1994 | May 28, 1993 | |
| <S> | <C> | <C> | <C> |
| Operating Revenues: | | | |
| Net sales | 78.5 | 77.6 | 9.7 |
| Service fees | 15.8 | 16.3 | 5.0 |
| Franchise sales & other fees | 2.5 | 2.5 | 8.5 |
| Real estate finance & rental income | 2.7 | 3.2 | (9.7) |
| Other | .5 | .4 | 33.6 |
| | ----- | ----- | |
| Total Revenues | 100.0 | 100.0 | 8.3 |
| | ----- | ----- | |
| Operating Expenses: | | | |
| Cost of Sales | 70.9 | 69.6 | 10.3 |
| Expenses applicable to real estate finance & rental income | 2.5 | 3.0 | (9.6) |
| Selling, general & administrative | 12.5 | 12.9 | 4.8 |
| | ----- | ----- | |
| Total Operating Expenses | 85.9 | 85.5 | 8.8 |
| | ----- | ----- | |
| Net interest income | .4 | .3 | 33.7 |
| Income before income taxes | 14.5 | 14.8 | 6.3 |
| Provision for income taxes | 5.7 | 5.7 | 9.0 |
| | ----- | ----- | |
| Net income | 8.8 | 9.1 | 4.5 |
| | ----- | ----- | |
| | ----- | ----- | |

</TABLE>

The increase of \$10,926,254 in net sales resulted primarily from an increase of \$6,853,331 in unit sales of perishable (frozen and non-frozen foods) to authorized warehouses (who in turn sell to franchisees), an increase of \$1,947,942 in sales promotional items sold to "Dairy Queen" stores, and an increase of \$1,601,146 in permanent and temporary placement fees by Firststaff, Inc.

During the second quarter, the Company introduced its newly-designed menu boards to the "Dairy Queen" system. These boards are being offered to stores at discounted prices during the introduction period to encourage system-wide utilization of this product and resulted in net sales of \$1,571,842 in the first six months of 1994.

The increase in net interest income is primarily the result of reduced borrowings (\$12 million in long-term debt has been retired since the second quarter of 1993).

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The increase in net income per share when comparing the 1994 periods with the 1993 periods was due to an increase in the Company's net income and to a decrease in the average number of common and common equivalent shares outstanding.

Liquidity and Capital Resources:

Available liquid resources at May 27, 1994, include \$24.7 million in cash, cash equivalents and marketable securities. The Company's business is highly seasonal with its working capital requirements generally being the greatest during the first six months of its fiscal year. The Company believes it has sufficient capital to meet existing and presently anticipated needs.

PART II

Item 6. The Company filed with the Commission a current report - Form 8-K, dated March 9, 1994, reporting matters under item 1, thereof.

All other items required under Part II have been omitted since they are inapplicable or the answers negative.

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.

International Dairy Queen, Inc.

(Registrant)

July 8, 1994

/s/ Charles W. Mooty

Date

Charles W. Mooty
Chief Financial Officer,
Vice President and Treasurer

July 8, 1994

/s/ David M. Bond

Date

David M. Bond
Secretary/Assistant Treasurer
and Controller

