# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**
**SEC Accession No.** 0000923500-95-000039



## FILER

| | | |
|---|---|---|
| **BAILEY CORP**<br>CIK:**753237**\| IRS No.: **133229215** \| State of Incorp.:**DE** \| Fiscal Year End: **0731**<br>Type: **10-Q** \| Act: **34** \| File No.: **001-09411** \| Film No.: **95546793**<br>SIC: **3714** Motor vehicle parts & accessories | Mailing Address<br>*700 LAFAYETTE RD*<br>*SEABROOK NH 03874* | Business Address<br>*700 LAFAYETTE RD*<br>*P O BOX 307*<br>*SEABROOK NH 03874*<br>*6034743011* |

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 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 1-9411

BAILEY CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 13-3229215 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 700 Lafayette Road, P.O. Box 307, Seabrook, NH | 03874 |
| (Address of principal executive offices) | (Zip Code) |

(603) 474-3011
(Registrant's telephone number, including area code)

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 ____

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APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

As of June 10, 1995, the number of shares of $.10 par value per share common stock outstanding was 5,353,558.

PART 1. - FINANCIAL INFORMATION.

ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated financial statements included herein have been prepared by Bailey Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. While certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, the Company believes that the disclosures made herein are adequate to make the information presented not misleading. It is recommended that these condensed statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 1994.

In the opinion of the Company all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of Bailey Corporation and Subsidiaries as of April 30, 1995, the results of their operations for the three and nine months ended April 30, 1995 and May 1, 1994, and the cash flows for the nine months then ended, have been included.

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BAILEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)
APRIL 30, 1995 and JULY 31, 1994
(in thousands, except share and per share data)

<TABLE>

| | Apr 30 1995 | Jul 31 1994 |
|---|---|---|
| ASSETS | | |
| <S> | <C> | <C> |
| Current assets: | | |
| Cash | $ 810 | $ 201 |
| Restricted cash | 500 | 500 |
| Accounts receivable | 21,344 | 19,809 |
| Inventories: | | |
| Raw materials | 7,640 | 7,433 |
| Work-in-process | 2,314 | 2,480 |
| Finished goods | 4,003 | 3,548 |
| Tooling | 6,951 | 2,039 |
| Total inventories | 20,908 | 15,500 |
| Prepaid expenses and other current assets | 2,078 | 1,419 |
| Deferred income taxes | 1,142 | 1,142 |
| Total current assets | 46,782 | 38,571 |
| Property, plant and equipment, net | 46,671 | 43,240 |
| Other assets, net | 10,599 | 9,910 |
| | $104,052 | $91,721 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Bank overdraft | $ 3,535 | $ 321 |
| Short-term debt | 5,424 | 3,846 |
| Current portion of long-term debt | 2,640 | 1,690 |
| Accounts payable | 25,170 | 18,554 |
| Accrued liabilities and other current liabilities | 4,604 | 6,468 |
| Income taxes payable | 494 | 126 |
| Total current liabilities | 41,867 | 31,005 |
| Long-term debt, less current portion | 34,622 | 35,438 |
| Other long-term liabilities | 2,043 | 2,104 |
| Deferred income taxes | 2,574 | 2,574 |
| Total liabilities | $ 81,106 | $71,121 |
| Stockholders' equity: | | |
| Common stock | 539 | 538 |
| Additional paid-in capital | 13,612 | 13,587 |
| Retained earnings | 9,364 | 6,781 |
| Minimum pension liability adjustment | (306) | (306) |
| Treasury stock | (263) | - |
| Total stockholders' equity | 22,946 | 20,600 |
| | $104,052 | $91,721 |

</TABLE>

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BAILEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
FOR THE THREE AND NINE MONTHS ENDED APRIL 30, 1995 AND MAY 1, 1994
(in thousands, except share and per share data)

<TABLE>

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Apr 30 1995 | May 01 1994 | Apr 30 1995 | May 01 1994 |
| <S> | <C> | <C> | <C> | <C> |

| | | | | |
|---|---|---|---|---|
| Net sales | $47,729 | $30,677 | $133,963 | $84,233 |
| Cost and expenses: | | | | |
| Cost of products sold | 41,931 | 25,843 | 115,946 | 71,383 |
| Selling, general and administrative | 3,834 | 2,736 | 10,921 | 6,823 |
| Operating income | 1,964 | 2,098 | 7,096 | 6,027 |
| Interest expense (net) | 969 | 406 | 2,721 | 1,267 |
| Income before income taxes | 995 | 1,692 | 4,375 | 4,760 |
| Provision for income taxes | 407 | 798 | 1,792 | 2,059 |
| Net income | $ 588 | $ 894 | $ 2,583 | $ 2,701 |
| Net income per common share: | | | | |
| Primary | $ .11 | $ .16 | $ .47 | $ .51 |
| Fully diluted | $ .11 | $ .16 | $ .46 | $ .50 |
| Weighted average shares outstanding: | | | | |
| Primary | 5,443,000 | 5,525,000 | 5,448,000 | 5,344,000 |
| Fully diluted | 6,468,000 | 5,604,000 | 6,473,000 | 5,497,000 |

</TABLE>

BAILEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
FOR THE NINE MONTHS ENDED APRIL 30, 1995 AND MAY 1, 1994

<TABLE>

| | Nine Months Ended Apr 30 1995 | May 01 1994 |
|---|---|---|
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Net income | $2,583 | $ 2,701 |
| Adjustments to reconcile net income to cash used in operating activities: | | |
| Depreciation and amortization | 3,986 | 2,207 |
| Gain on disposal of property, plant and equipment | - | 18 |
| Deferred income taxes | - | 511 |
| Gain on early payment of debt | - | (165) |
| Change in assets and liabilities net of effects of acquisitions: | | |
| Increase in accounts receivable | (1,535) | (3,414) |
| Increase in inventories | (5,408) | (2,724) |
| (Increase) decrease in prepaid expenses and other current assets | (659) | 175 |
| Increase in other assets - net | (756) | (1,002) |
| Increase in accounts payable | 6,616 | 1,824 |
| Decrease in accrued liabilities and other current liabilities | (1,864) | (272) |
| Increase (decrease) in income taxes payable | 368 | (863) |
| Decrease in other liabilities | (61) | (386) |
| Net cash used in operating activities | 3,270 | (1,390) |
| Cash flows from investing activities: | | |
| Capital expenditures | (5,977) | (2,920) |
| Net cash used in investing activities | (5,977) | (2,920) |
| Cash flows from financing activities: | | |
| Increase (decrease) in short-term debt (including bank overdrafts), net | 4,792 | (1,074) |
| Payments on long-term debt and capital leases | (1,239) | (5,168) |
| Purchase of treasury stock | (263) | - |
| Proceeds from issuance of common stock | - | 10,597 |
| Proceeds from exercise of stock options | 26 | 451 |
| Net cash provided by financing activities | 3,316 | 4,806 |
| Net increase in cash | 609 | 496 |

| | | |
|---|---|---|
| Cash, beginning of period | 201 | 256 |
| Cash, end of period | $ 810 | $ 752 |
| Cash paid for: | | |
| Interest | $2,158 | $ 1,182 |
| Income taxes | 1,131 | 2,495 |
| Supplemental disclosures: | | |
| Gain on debt extinguishment | $ - | $ 165 |
| Assets acquired under capitalized leases | 1,373 | 210 |

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

RESULTS OF OPERATIONS:

THIRD QUARTER FISCAL 1995 VS THIRD QUARTER FISCAL 1994

Net sales for the third quarter ended April 30, 1995 increased $17.0 million, or 55.4%, to $47.7 million compared to $30.7 million in the third quarter of fiscal 1994. The increased sales are net of certain planned price decreases that took effect earlier in the fiscal year. Contributing to the sales increase was $14.8 million of sales of the product lines acquired in the July 1994 purchase of assets of Premix/E.M.S. Inc. (the "Premix/EMS Acquisition"), plus $3.8 million of new products introduced since the beginning of the fiscal year and a $1.9 million increase in sales of certain products carried over from the prior year. These increases were offset by a $1.3 million period-to-period sales decrease related to certain other carry-over products, and the elimination of $2.2 million of sales related to the Tempo/Topaz program which phased out during the latter half of fiscal 1994.

Although sales increased in the third quarter of fiscal 1995 compared to fiscal 1994, third quarter sales nevertheless reflected a softening of customer product schedules and delayed new product launches during the period. As a result, net sales in the fiscal quarter ended April 30, 1995 were approximately seven percent lower than the sales volume planned and expected for the period.

Gross profit in the third quarter ended April 30, 1995 increased $964,000, or 19.9%, to $5.79 million compared to $4.83 million in the third quarter of fiscal 1994. The increase was primarily due to higher sales volume compared to the same period of the prior year. As a percentage of net sales, however, gross profit for the third quarter declined to 12.1% from 15.8% in the third quarter of the prior year. Contributing to the contraction of gross margin were the aforementioned price decreases, changes in the product mix toward components with lower gross margins including the product lines acquired in the Premix/EMS Acquisition, certain raw material cost increases that took effect during the quarter and costs associated with product launches that were subject to customer delays.

Selling, general and administrative expenses in the third quarter ended April 30, 1995 increased $1.1 million, or 40.1%, to $3.8 million compared to $2.7 million in the third quarter of fiscal 1994. The increase was attributable to planned increases in engineering, design and program management activities and the inclusion this year of the operations acquired in the Premix/EMS Acquisition. As a percentage of net sales, selling, general and administrative expenses were 8.0% in the third quarter compared to 8.9% in the third quarter of fiscal 1994. The higher percentage in the prior year third quarter was due to a one-time charge of $300,000 taken in the period related to settlement of alleged non-compliance with hazardous waste handling regulations.

Interest expense for the third quarter ended April 30, 1995 increased $563,000, or 139%, to $969,000 compared to $406,000 in the third quarter of fiscal 1994. The increase was attributable to the inclusion this year of interest on additional debt that resulted from the Premix/EMS Acquisition and a higher average level of borrowing under the Company's revolving line-of-credit.

The Company's effective tax rate was 41% in the third fiscal quarter of 1995 compared to 47% in the third fiscal quarter of 1994. The higher effective tax rate in the prior year third fiscal quarter was due to the aforementioned one-time charge that was non-deductible for tax purposes resulting in a substantial increase in the effective tax rate for the period.

Net income in the third quarter ended April 30, 1995 declined $306,000, or 34.2%, to $588,000 compared to $894,000 in the third quarter of the prior year. As a percentage of net sales, net income in the third quarter of fiscal 1995 decreased to 1.2% compared to 2.9% in the third quarter of fiscal 1994.

Net income per fully diluted share declined $.05, or 31.3%, to $.11 in the third quarter of fiscal 1995. Fully diluted share amounts reflect a 15.4% increase in shares outstanding calculated on a weighted average of 6,468,000 shares outstanding in the fiscal 1995 period compared to 5,604,000 in the same period of the prior year. The increase in weighted average shares is primarily due to shares related to the conversion feature of the Company's 8% Convertible Debenture issued as partial consideration for the Premix/EMS Acquisition.

FIRST NINE MONTHS FISCAL 1995 VS FIRST NINE MONTHS FISCAL 1994

Net sales in the nine months ended April 30, 1995 increased $49.7 million, or 59.0%, to $133.9 million compared to $84.2 million in the first nine months of fiscal 1994. The increased sales are net of planned price decreases that were effected during the period. The sales increase was made up of $43.3 million of sales of the product lines acquired in the Premix/EMS Acquisition, plus $5.7 million of new products introduced since the beginning of the fiscal year, and a $9.0 million increase in sales of certain products carried over from the prior year. These increases were offset by a $1.0 million period-to-period sales decrease related to certain other carry-over products and the elimination of $7.3 million of sales related to the Tempo/Topaz program which phased out during the latter half of the prior fiscal year.

Gross profit for the nine months ended April 30, 1995 increased $5.2 million, or 40.2%, to $18.0 million compared to $12.8 million in the fiscal 1994 nine months. The increase was due in most part to the higher sales volume this year compared to the corresponding period last year. Gross profit as a percentage of net sales in the first nine months of fiscal 1995 declined to 13.4% from 15.3% in the same period of the prior year. This contraction of gross margin is attributable to price decreases that took effect during the first nine months, changes in product mix toward components with lower gross margins including the product line acquired in the Premix/EMS Acquisition, raw material cost increases that took effect during the period and the stretching out of certain product launch costs caused by customer production delays.

Selling, general and administrative expenses in the nine months ended April 30, 1995 increased $4.1 million, or 60.1%, to $10.9 million compared to $6.8 million in the fiscal 1994 nine months. The increase reflects planned additions to engineering, design and program management activities and additions resulting from the Premix/EMS Acquisition. As a percentage of net sales, selling, general and administrative expenses were 8.2% in the first nine months compared to 8.1% in the same period of the prior year.

Interest expense in the nine months ended April 30, 1995 increased $1.45 million or 115%, to $2.72 million compared to $1.27 million in the 1994 fiscal nine months. The increase was attributable to the addition of the Premix/EMS Acquisition debt and a higher average level of borrowing under the Company's revolving line-of-credit.

The Company's effective tax rate was 41% in the first nine months of fiscal 1995 compared to 43% in the first nine months of the period year. The higher rate for the period last year was due to the aforementioned one-time charge in the third quarter that was non-deductible for tax purposes.

Net income for the nine months ended April 30, 1995 decreased $118,000, or 4.4% to $2.6 million ($.46 per fully diluted share) compared to $2.7 million ($.50 per fully diluted share) in the same period of the prior year. Fully diluted per share amounts reflect a 17.8% increase in shares outstanding calculated on a weighted average of 6,473,000 shares outstanding in the fiscal 1995 nine months compared to 5,497,000 shares outstanding in the same period of fiscal 1994. The increased shares are related to the aforementioned 8% Convertible Debenture.

LIQUIDITY AND CAPITAL RESOURCES

During the first nine months of fiscal 1995 ended April 30, 1995 cash flow - - defined as the sum of net income plus depreciation and amortization - totaled $6.6 million while capital expenditures, including assets acquired under capitalized leases, totaled $7.4 million.

Also, during the first nine months, increased levels of operating activities resulted in increased investments in working capital assets, primarily accounts receivable and tooling inventories. The tooling inventory increase was associated with development of molds and secondary equipment for new product programs to be launched later in the fiscal year.

These investments were funded primarily by utilization of the line-of-credit available under the Company's bank credit agreement, increases in accounts payable, and lease financing.

During the first nine months, in accordance with a previously announced share re-purchase plan, the Company bought back 40,000 shares of its $.10 par value common stock at an average purchase price of $6.574 per share. Additional purchases may be made from time to time in the future consistent with the judgment of the Company as to market conditions and the availability of funds for this purpose.

Considering funds currently available, expected cash flow from operations and the availability of credit under bank credit and leasing facilities, the Company anticipates sufficient financial resources to meet its requirements for at least the next twelve months.

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## PART II. - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On November 15, 1994, Judge Stephen McAuliffe of the United States District Court for the District of New Hampshire entered a judgment in favor of the Company in VICKI MATCH SUNA AND LORI ROSEN V. BAILEY CORPORATION, granting the Company's motion to dismiss the action. The plaintiffs have since filed a motion to vacate the judgment, reopen the case, amend the complaint and add additional defendants. The Company has opposed this motion, and the court has not issued a decision.

With respect to other legal proceedings, reference is made to the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 1994, filed with the Securities and Exchange Commission on October 31, 1994.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Index is set forth below.

(b) None.

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<TABLE>

EXHIBIT INDEX

<CAPTION>

| EXHIBIT No. | TITLE | METHOD OF FILING |
|---|---|---|
| 11.1 | Computation of Net Income Per Share | Filed herewith (included in Condensed Consolidated Statements of Operations for the three months ended April 30, 1995 and May 1, 1994) |
| 27.1 | Financial Data Schedule | Filed herewith |

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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 thereto duly authorized.

BAILEY CORPORATION
Registrant

Date: June 13, 1995

Leonard J. Heilman
Executive Vice President--
Finance and Administration,
Treasurer and Assistant
Secretary (principal financial
and accounting officer)

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This schedule contains summary financial information extracted from S.E.C. Form
10-Q for the quarterly period ended April 30, 1995 and is qualified in its
entirety by reference to such financial statements.
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