

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**
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FILER

HANCOCK FABRICS INC

CIK: **812906** | IRS No.: **640740905** | State of Incorpor.: **DE** | Fiscal Year End: **0129**
Type: **10-Q** | Act: **34** | File No.: **001-09482** | Film No.: **95546651**
SIC: **5940** Miscellaneous shopping goods stores

Mailing Address
P O BOX 2400
TUPELO MS 38803-2400

Business Address
3406 W MAIN ST
TUPELO MS 38803
6018422834

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(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 1-9482

Hancock Fabrics, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE 64-0740905
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3406 WEST MAIN ST., TUPELO, MS 38803
(Address of principal executive offices)
(Zip Code)

(601) 842-2834
(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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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of April 30, 1995, the registrant had outstanding an aggregate of 21,523,509 shares of common stock, \$.01 par value.

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HANCOCK FABRICS, INC.

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PART I. FINANCIAL INFORMATION

HANCOCK FABRICS, INC.
CONSOLIDATED BALANCE SHEET
(unaudited)
<TABLE>

<CAPTION> (in thousands, except for par value and numbers of shares)	April 30, 1995	January 29, 1995
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,597	\$ 3,855
Receivables, less allowance for doubtful accounts	1,852	1,842
Inventories	167,341	169,128
Deferred tax asset	2,810	2,629
Prepaid expenses	2,244	2,382
Total current assets	177,844	179,836
Property and equipment, at depreciated cost	21,320	21,673
Deferred tax asset	6,635	6,753
Other assets	50	360
Total assets	\$205,849	\$208,622
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 36,012	\$ 35,305
Accrued liabilities	15,379	15,935
Income taxes	2,777	4,801
Total current liabilities	54,168	56,041
Long-term debt obligations	36,000	37,000
Postretirement benefit liability other than pensions	16,920	16,572
Other deferred liabilities	1,975	1,920
Total liabilities	109,063	111,533
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.01 par value; 80,000,000 shares authorized; 26,952,864 issued and outstanding; (26,794,064 at 1/29/95)	270	268
Paid-in capital	18,071	16,425
Retained earnings	162,915	163,339
Less - Treasury stock, at cost, 5,429,355 shares held; (5,413,941 at 1/29/95)	(79,052)	(78,883)
Less - Deferred compensation on restricted stock incentive plan	(5,418)	(4,060)
Total shareholders' equity	96,786	97,089
Total liabilities and shareholders' equity	\$205,849	\$208,622

See accompanying notes to consolidated financial statements.

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HANCOCK FABRICS, INC.
CONSOLIDATED STATEMENT OF EARNINGS
(unaudited)

<TABLE>

<CAPTION>

(in thousands, except
per share amounts)

	Thirteen Weeks Ended	
	April 30, 1995	May 1, 1994
<S>	<C>	<C>
Sales	\$90,067	\$92,894
Cost of goods sold	49,109	52,729
Gross margin	40,958	40,165
Expenses (income)		
Selling, general and administrative	37,354	36,971
Depreciation and amortization	998	1,060
Interest expense	516	525
Interest income	(95)	(27)
Total operating and interest expenses	38,773	38,529
Earnings before taxes	2,185	1,636
Income taxes	887	612
Net earnings	\$ 1,298	\$ 1,024
Weighted average number of common shares and common equivalent shares outstanding	21,172	21,148
Net earnings per share	\$ 0.06	\$ 0.05
Dividends per share	\$ 0.08	\$ 0.08

</TABLE>

See accompanying notes to consolidated financial statements.

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HANCOCK FABRICS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

<TABLE>

<CAPTION>

(in thousands, except for
numbers of shares)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Deferred Com- pensation	Total Shareholders' Equity
	Shares	Amount			Shares	Amount		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Thirteen weeks								
Balance January 29, 1995	26,794,064	\$268	\$16,425	\$163,339	(5,413,941)	(\$78,883)	(\$4,060)	\$97,089
Net earnings				1,298				1,298
Cash dividend - \$.08 per share on a quarterly basis				(1,722)				(1,722)
Exercise of stock options	10,000		62					62
Issuance of restricted stock	148,800	2	1,654			(1,656)		0

Amortization and vesting of deferred compensation on restricted stock incentive plan	(70)					298	228
Purchase of treasury stock		(15,414)	(169)				(169)

Balance April 30, 1995	26,952,864	\$270	\$18,071	\$162,915	(5,429,355)	(\$79,052)	(\$5,418)	\$96,786
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</TABLE>

See accompanying notes to consolidated financial statements.

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HANCOCK FABRICS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

<TABLE>

<CAPTION>

(in thousands)

	Thirteen Weeks Ended	
	April 30, 1995	May 1, 1994
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	\$1,298	\$1,024
Adjustments to reconcile net earnings to cash provided by operating activities		
Depreciation and amortization	998	1,060
LIFO charge	750	1,500
Deferred income taxes	(62)	(261)
Amortization of deferred compensation on restricted stock incentive plan	298	270
(Increase) decrease in assets		
Receivables and prepaid expenses	128	(665)
Inventory reduction (growth) at current cost	1,037	1,391
Other noncurrent assets	310	(14)
Increase (decrease) in liabilities		
Accounts payable	707	1,602
Accrued liabilities	(556)	429
Current income tax obligations	(2,094)	602
Postretirement benefit liability other than pensions	348	361
Other deferred liabilities	55	(397)
Net cash provided by operating activities	3,217	6,902
Cash flows from investing activities:		
Additions to property and equipment	(646)	(729)
Net cash used in investing activities	(646)	(729)
Cash flows from financing activities:		
Repayment of long-term borrowings	(1,000)	(5,000)
Purchase of treasury stock	(169)	(354)
Proceeds from exercise of stock options	62	4
Cash dividends paid	(1,722)	(1,719)
Net cash used in financing activities	(2,829)	(7,069)
Decrease in cash and cash equivalents	(258)	(896)
Beginning of period cash and cash equivalents	3,855	4,327
End of period cash and cash equivalents	\$3,597	\$3,431

Supplemental disclosures of cash flow information:

Cash paid during the period for:		
Interest	161	271
Income taxes	3,051	166

</TABLE>

See accompanying notes to consolidated financial statements.

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HANCOCK FABRICS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

 NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. The statements do reflect all adjustments (consisting of only normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of financial position in conformity with generally accepted accounting principles. The statements should be read in conjunction with the Notes to the Consolidated Financial Statements for the fiscal year ended January 29, 1995 incorporated into the Company's Annual Report on Form 10-K.

The results of operations for the thirteen week periods are not necessarily indicative of the results to be expected for the full fiscal year.

 NOTE 2: EARNINGS PER SHARE

Earnings per share are based on the weighted average number of common shares and common equivalent shares outstanding. Common equivalent shares represent dilutive stock options and restricted stock shares, reduced by the number of shares which could be repurchased at the average fair market value during the periods indicated with the proceeds of the options and the income tax savings available from recognizing compensation expense as a tax deduction.

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HANCOCK FABRICS, INC.
 ITEM 2.
 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
 CONDITION AND RESULTS OF OPERATIONS

 FINANCIAL CONDITION

Historically, cash flow from operations has been sufficient to finance the expansion and operation of Hancock's business. Hancock's principal capital requirements are for the financing of inventories and to a lesser extent for capital expenditures relating to store locations and its warehouse and distribution facility. Hancock has also purchased treasury stock and paid dividends to shareholders. Funds for such purposes are generated from Hancock's operations and, if necessary, supplemented by borrowings from commercial lenders. During 1995, Hancock plans to open approximately 20 units and close or relocate a similar number resulting in no net increase in retail fabric stores. Inventories and other assets from less productive locations will be redeployed to new openings for more effective utilization of investment. During the thirteen weeks ended April 30, 1995, Hancock opened 6 stores and closed 6 stores, which resulted in a total of 500 stores at period end.

During the thirteen weeks ended April 30, 1995, accounts payable increased due to the timing of payments to vendors. Inventories decreased due to changes in the product mix with less inventory in apparel goods.

The Company currently has \$36 million in outstanding borrowings, or about 27% of total capitalization, which is \$4 million lower than the same period last year.

RESULTS OF OPERATIONS

Thirteen weeks ended April 30, 1995 compared to thirteen weeks ended May 1, 1994

Sales decreased to \$90.1 million from \$92.9 million in the same period of the prior year. A decrease of 1.6% in comparable store sales contributed to the decline in sales. In addition sales in new stores opened less than one year have not reached the sales maturity to offset the sales of the stores that were replaced.

Net earnings were \$1.3 million, or \$.06 per share, compared with \$1.0 million, or \$.05 per share, for the comparable period of the prior year. The increase in earnings resulted from higher gross margins and a reduction in net interest expense.

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Gross margin, as a percent of sales, increased to 45.5% from 43.2% in the first quarter of 1994. Gross margins improved due to changes in the product mix which required fewer close outs of apparel goods. The effect of LIFO for the thirteen weeks ended April 30, 1995 and May 1, 1994 decreased gross margin by \$750 thousand and \$1.5 million, respectively.

Total operating and interest expenses as a percentage of sales increased to 43.1% from 41.5% in the first quarter of 1994 primarily due to the lower sales volume. Operating expense dollars increased slightly; however, interest expense was less as the lower debt level served to offset the effect of interest rate increases from a year ago.

EFFECT OF INFLATION

The impact of inflation on labor and occupancy costs can significantly affect Hancock's operations. Many of Hancock's employees are paid hourly rates related to the Federal minimum wage; accordingly, any increases affect Hancock. Proposed Federal minimum wage hikes would have an adverse effect on earnings although the impact cannot be readily quantified. In addition, payroll taxes, employee benefits and other employee related costs continue to increase. Costs of leases for new store locations remained stable, but the renewal costs of older leases continue to increase. Taxes, maintenance and insurance costs have also risen. Hancock believes that the practice of maintaining adequate operating margins through a combination of price adjustments and cost controls, careful evaluation of occupancy needs and efficient purchasing practices are the most effective tools for coping with increasing costs and expenses.

SEASONALITY

The Company's business is slightly seasonal. Peak sales periods occur during the fall and pre-Easter weeks, while the lowest sales periods occur during pre-Christmas and mid-summer.

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PART II. OTHER INFORMATION

HANCOCK FABRICS, INC.

Item 6. Exhibits and Reports of Form 8-K

(a) Exhibits -

11 Statement regarding computation of earnings per share

27 Financial Data Schedule (for SEC use only)

(b) Reports on Form 8-K

None

SIGNATURE

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.

HANCOCK FABRICS, INC.
(Registrant)

By: /s/ Larry G. Kirk

Larry G. Kirk
President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Date: June 13, 1995

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HANCOCK FABRICS, INC.
 COMPUTATION OF EARNINGS PER SHARE
 (unaudited)

EXHIBIT 11

<TABLE>

<CAPTION>

(dollars in thousands, except for
 per share amounts)

	Thirteen Weeks Ended	
	April 30, 1995	May 1, 1994
<S>	<C>	<C>
Primary earnings per share		
Net earnings	\$ 1,298 =====	\$ 1,024 =====
Weighted average number of common shares outstanding during period	21,452,225	21,443,139
Additional shares attributable to common stock equivalents	159,612	91,195
Shares attributable to tax effect of restricted stock and related deferred compensation	(439,879) -----	(386,543) -----
	21,171,958 =====	21,147,791 =====
Earnings per share	\$ 0.06 =====	\$ 0.05 =====
Fully diluted earnings per share		
Net earnings	\$ 1,298 =====	\$ 1,024 =====
Weighted average number of common shares outstanding during period	21,452,225	21,443,139
Additional shares attributable to common stock equivalents	159,590	91,211
Shares attributable to tax effect of restricted stock and related deferred compensation	(439,879) -----	(386,543) -----

	21,171,936	21,147,807
	=====	=====
Earnings per share	\$ 0.06	\$ 0.05
	=====	=====

</TABLE>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEET P. 3, CONSOLIDATED STATEMENT OF EARNINGS P. 4 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q.

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