FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-29**
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FILER

WESTERN PUBLISHING GROUP INC
CIK:**790706**| IRS No.: **061104930** | State of Incorp.:**DE** | Fiscal Year End: **0131**
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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 29, 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 0-14399

WESTERN PUBLISHING GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	06-1104930
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
444 Madison Avenue, New York, New York	10022
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (212) 688-4500

N/A
(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 ---

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

Common stock, par value $.01 per share: 21,023,274 shares outstanding as of May 26, 1995.

WESTERN PUBLISHING GROUP, INC. AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS' REPORT

Western Publishing Group, Inc.

New York, New York

We have reviewed the accompanying condensed consolidated balance sheet of Western Publishing Group, Inc. and subsidiaries as of April 29, 1995, and the related condensed consolidated statements of operations and cash flows for the three-month periods ended April 29, 1995 and April 30, 1994. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Western Publishing Group, Inc. and subsidiaries as of January 28, 1995, and the related consolidated statements of operations, common stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated April 21, 1995 (May 6, 1995 as to Note 6), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 28, 1995 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche LLP
Milwaukee, Wisconsin
June 12, 1995

PART I FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

WESTERN PUBLISHING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands Except for Share and Per Share Data)

ASSETS	April 29, 1995 (Unaudited)	January 28, 1995
CURRENT ASSETS:		
Cash and cash equivalents	$ 38,978	$ 85,406
Accounts receivable	79,158	83,251
Inventories	102,846	108,738
Prepublication and prepaid advertising costs	8,360	7,314
Royalty advances	2,365	2,221
Recoverable income taxes	5,940	5,940
Deferred income taxes	10,676	10,676
Net assets held for sale	16,816	17,681
Other current assets	6,783	6,397
Total current assets	271,922	327,624
OTHER ASSETS	14,138	14,044
PROPERTY, PLANT AND EQUIPMENT	124,624	122,990
Less accumulated depreciation and amortization	49,728	47,325
Total property, plant and equipment	74,896	75,665
IDENTIFIED INTANGIBLES AND COST IN EXCESS OF NET ASSETS ACQUIRED (GOODWILL), less accumulated amortization of $19,681 and $19,173, respectively	10,965	11,473
	$371,921	$428,806

See Notes to Condensed Consolidated
Financial Statements

WESTERN PUBLISHING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands Except for Share and Per Share Data)

LIABILITIES AND STOCKHOLDERS' EQUITY	April 29, 1995 (Unaudited)	January 28, 1995
CURRENT LIABILITIES:		
Accounts payable	$ 16,618	$ 18,461
Accrued compensation and fringe benefits	6,047	9,812
Notes payable to banks		32,000
Other current liabilities	32,681	39,111
Total current liabilities	55,346	99,384
NONCURRENT LIABILITIES AND CREDITS:		
Long-term debt	149,832	149,828
Accumulated postretirement benefit obligation	27,217	26,894
Other	1,887	1,921
Total noncurrent liabilities and credits	178,936	178,643
CONVERTIBLE PREFERRED STOCK -Series A, 20,000 shares authorized, no par value, 19,970 shares issued and outstanding; at mandatory redemption amount	9,985	9,985
COMMON STOCKHOLDERS' EQUITY:		
Common Stock, $.01 par value, 30,000,000 shares authorized, 21,232,074 shares issued	212	212
Additional paid-in capital	80,914	80,914
Retained earnings	50,767	64,287
Cumulative translation adjustments	(1,417)	(1,797)
	130,476	143,616
Less cost of Common Stock in treasury - 208,800 shares	2,822	2,822
Total common stockholders' equity	127,654	140,794
	$371,921	$428,806

See Notes to Condensed Consolidated
Financial Statements

WESTERN PUBLISHING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands Except for Per Share Data)

	Three Months Ended	
	April 29, 1995	April 30, 1994
	(Unaudited)	
REVENUES:	$85,945	$68,083
COSTS AND EXPENSES:		
Cost of sales	65,598	56,679
Selling, general and administrative	30,100	30,209
Total costs and expenses	95,698	86,888
LOSS BEFORE INTEREST EXPENSE AND INCOME TAX PROVISION (BENEFIT)	(9,753)	(18,805)
INTEREST EXPENSE	3,542	4,098
LOSS BEFORE INCOME TAX PROVISION (BENEFIT)	(13,295)	(22,903)
PROVISION (BENEFIT) FOR INCOME TAXES	13	(8,886)
NET LOSS	$(13,308)	$(14,017)
LOSS PER COMMON SHARE	$ (0.64)	$ (0.68)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	21,023	20,959

See Notes to Condensed Consolidated
Financial Statements

WESTERN PUBLISHING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Three Months Ended	
	April 29, 1995	April 30, 1994
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(13,308)	$(14,017)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on disposition of plant and equipment	(361)	
Depreciation	3,116	3,254
Amortization of intangibles	658	1,201
Provision for losses on accounts receivable	182	1,466
Other	642	410
Changes in assets and liabilities:		
Accounts receivable	4,311	40,571
Inventories	6,100	482
Prepublication, prepaid advertising costs and royalty advances	(1,209)	(2,253)
Net assets held for sale		(6,187)
Other current assets	(820)	2,533
Accounts payable	(1,840)	(22,111)
Accrued compensation and fringe benefits	(3,771)	(2,664)
Income taxes	(175)	(11,346)
Other current liabilities	(6,820)	(7,962)
Net cash used in operating activities	(13,295)	(16,623)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of plant and equipment	(2,311)	(4,817)
Proceeds from streamlining plan	865	
Proceeds from disposition of plant and equipment	517	
Net cash used in investing activities	(929)	(4,817)

(In Thousands)

	Three Months Ended	
	April 29, 1995	April 30, 1994
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayments) borrowings under Credit Agreement	$(32,000)	$20,000
Dividends paid on Preferred Stock	(212)	(212)
Other		(19)
Net cash (used in) provided by financing activities	(32,212)	19,769
EFFECT OF EXCHANGE RATE CHANGES ON CASH	8	5
NET DECREASE IN CASH AND CASH EQUIVALENTS	(46,428)	(1,666)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	85,406	9,513
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 38,978	$ 7,847
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 6,091	$ 6,846
Income taxes	151	129

See Notes to Condensed Consolidated Financial Statements

WESTERN PUBLISHING GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A - Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position as of April 29, 1995 and the results of operations and cash flows for the three month periods ended April 29, 1995 and April 30, 1994.

The results of operations for any interim period are not necessarily indicative of the results to be expected for the full fiscal year.

These financial statements should be read in conjunction with the consolidated financial statements of the Company contained in the Company's Form 10-K for the year ended January 28, 1995.

NOTE B - Inventories

Inventories consisted of the following:

	April 29, 1995	January 28, 1995
	(In Thousands)	
Raw materials	$ 11,802	$ 9,934
Work in process	18,963	19,900
Finished goods	72,081	78,904
	$102,846	$108,738

NOTE C - Net Assets Held for Sale

During Fiscal 1995, the Company adopted a plan (the "streamlining plan") designed to improve its competitive position and reduce its cost structure through the sale, divestiture, consolidation or phase out of certain operations, properties and products, and a workforce reduction. As of April 29, 1995, the remaining net assets held for sale primarily relate to the Company's Fayetteville facility, which was closed in conjunction with the sale of its game and puzzle business.

Net assets held for sale consisted of the following:

	April 29, 1995	January 28, 1995
	(In Thousands)	
Current assets	$ 1,316	$ 2,181
Property, plant and equipment, net	17,500	17,500

	18,816	19,681
Less:		
Current liabilities	(2,000)	(2,000)
	---------	---------
Net assets held for sale	$ 16,816	$ 17,681
	=========	=========

NOTE D - Loss Per Common Share

Loss per common share was computed as follows:

	Three Months Ended	
	April 29, 1995	April 30, 1994
	(In Thousands except for per share data)	
Net loss	$(13,308)	$(14,017)
Preferred dividend requirements	(212)	(212)
	---------	---------
Loss applicable to common stock	$(13,520)	$(14,229)
	=========	=========
Weighted average common shares outstanding	21,023	20,959
	=========	=========
Loss per common share	$ (0.64)	$ (0.68)
	=========	=========

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

Revenues for the quarter ended April 29, 1995 increased $17.9 million (26.2%) to $85.9 million as compared to $68.1 million for the quarter ended April 30, 1994. Consumer Products Segment revenues increased $13.5 million (23.5%) for the quarter ended April 29, 1995. The increase was primarily due to the Company's strategy to focus on its core competencies which led to an overall increase in its core consumer products categories. This increase was further enhanced by increased sales from category management programs and the expanded distribution of decorated paper tableware and party goods products. Commercial Product Segment revenues which are comprised of printing services, increased $4.3 million (41.2%) for the quarter ended April 29, 1995. The increase for the quarter was due to significant growth in the Company's educational kit business and increased custom publishing sales.

Price increases in the Consumer Products Segment were approximately 2%. Sales of printing services are the result of individual agreements entered into with customers as to price and services performed. Accordingly, the effects on inflation cannot be determined on the sales of printing services.

The loss before interest expense and the provision (benefit) for income taxes for the quarter ended April 29, 1995 was $9.8 million as compared to a loss of $18.8 million for the quarter ended April 30, 1994. The $9.0 million improvement was the result of a $8.9 million increase in gross profit and a $.1 million decrease in selling, general and administrative expenses.

Gross profit increased $8.9 million (78.4%) to $20.3 million for the quarter ended April 29, 1995 as compared to $11.4 million for the quarter ended April 30, 1994. As a percentage of revenues, the gross profit margin increased to 23.7% for the quarter ended April 29, 1995 from 16.8% for the quarter ended April 30, 1994. In the Consumer Products Segment, gross profit increased $7.3 million (67.9%) to $18.1 million for the quarter ended April 29, 1995 as compared to the quarter ended April 30, 1994. As a percentage of revenues, the Consumer Products Segment gross profit margin increased to 25.5% for the Fiscal 1996 period as compared to 18.7% for the Fiscal 1995 period. The

increase in gross profit margin resulted from a reduction in unfavorable manufacturing variances due to incremental production in response to increased demand for the Company's products, manufacturing efficiencies realized and product specification changes, partially offset by increased raw material prices for certain grades of paper. Additionally, the increase in gross profit margin was attributable to a favorable change in product mix, which caused a decrease in royalty costs. In the Commercial Products Segment, the gross profit margin of printing services increased to 15.1% for the quarter ended April 29, 1995 from 5.9% for the quarter ended April 30, 1994. The increase was due to a favorable shift in product mix to higher margin products, lower unfavorable manufacturing variances and effective sourcing of educational kit components.

Selling, general and administrative expenses for the quarter ended April 29, 1995 decreased $.1 million (.4%) to $30.1 million as compared to $30.2 million for the quarter ended April 30, 1994. This decrease is primarily the result of lower selling expenses resulting from the restructuring of the sales and merchandising forces, partially offset by general increases in other administrative categories.

Interest expense for the quarter decreased $.6 million to $3.5 million as compared to $4.1 million in Fiscal 1995. The decrease was due to lower average debt outstanding as the Company repaid all outstanding notes under its Revolving Credit Agreement, offset by higher interest rates. Total average outstanding debt decreased to $164.9 million for the Fiscal 1996 period from $240.0 million for the Fiscal 1995 period (see Financial Condition, Liquidity and Capital Resources), while average interest rates increased to 8.5% for the Fiscal 1996 period as compared to 6.9% for the Fiscal 1995 period. The increase in average interest rates resulted primarily from the increase in short term rates.

Presently, the Company does not anticipate any significant provision or benefit for income taxes in Fiscal 1996; therefore, for the quarter ended April 29, 1995, there was no income tax benefit from operations as no tax benefit was recognized on operating losses. Profitable operating results in subsequent periods will benefit from an income tax rate which will be lower than the statutory rate due to the reinstatement of deferred tax assets for which a valuation allowance was established in prior periods. For the quarter ended April 30, 1994, the income tax benefit rate was 38.8%.

The loss for the quarter ended April 29, 1995 was $13.3 million or $0.64 per share, compared to a loss of $14.0 million or $0.68 per share for the quarter ended April 30, 1994. The loss results from the normal seasonality of the Company's business, which historically incurs an operating loss in the first quarter. As the Consumer Products Segment ships product to its retailing customers in anticipation of the holiday selling season, the Company experiences a greater portion of its total revenues in the second half of the fiscal year.

Financial Condition, Liquidity and Capital Resources

Operations for the quarter ended April 29, 1995, excluding non-cash charges for depreciation, amortization and the provision for losses on accounts receivable utilized cash of approximately $9.4 million as compared to $8.1 million during the quarter ended April 30, 1994. During the quarters ended April 29, 1995 and April 30, 1994, other changes in assets and liabilities, resulting from operating activities, used cash of $3.9 million and $8.5 million, respectively, resulting in net cash used in operating activities of $13.3 million and $16.6 million, respectively.

Acquisitions of property, plant and equipment were $2.3 million during the quarter ended April 29, 1995 as compared to $4.8 million during the quarter ended April 30, 1994. Capital expenditures include costs associated with the Company's new order processing, customer service and inventory management system, retail fixtures utilized in its category management programs and the installation of emission control equipment in one of its manufacturing facilities. The Company is finalizing its previously announced plans to undertake a facility expansion of its paper tableware and party goods operations in Kalamazoo, Michigan. During the second quarter of Fiscal 1996, the Company expects to complete an agreement for the construction of this facility expansion.

During the quarter ended April 29, 1995, the Company utilized cash for financing activities by repaying $32.0 million of outstanding borrowings under its Revolving Credit Agreement and the Agreement was terminated. Cash provided by financing activities during the quarter ended April 30, 1994 was primarily from borrowings of $20.0 million under the Company's Revolving Credit Agreement.

Working capital decreased to $216.6 million from $228.2 million at January 28, 1995. This decrease results from the Company's investment in property, plant and equipment and the funds required for its operations during the first quarter of Fiscal 1996. While the Company does not anticipate any interruption in its business because of the reduced availability of certain grades of paper, manufacturing costs in Fiscal 1996 will be impacted by the resulting cost increases.

Following the repayment of all outstanding notes and the termination of its Revolving Credit Agreement, the Company has been negotiating with a number of financial institutions to arrange financing for its seasonal borrowing requirements, which are projected to be significantly reduced from historical levels. In the opinion of management, the Company will be able to negotiate an acceptable financing arrangement to meet these requirements. However, if the Company is unable to successfully negotiate an acceptable financing arrangement, management has developed alternative plans which could include the deferral of capital expenditures, the implementation of working capital management programs, and/or the sale of assets, resulting in a reduction in its peak seasonal needs. Accordingly, in the opinion of management, the implementation of the alternative plans, if necessary, will not materially

impact planned operating levels.

PART II OTHER INFORMATION
ITEM 3. EXHIBITS AND REPORTS ON FORM 8-K:

a. Exhibit 15 - Letter re: unaudited interim financial information.

b. No reports were filed on Form 8-K during the quarter for which this report is filed.

Signatures

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

WESTERN PUBLISHING GROUP, INC.

June 12, 1995 /s/ Richard A. Bernstein

Richard A. Bernstein
Chairman

June 12, 1995

/s/ Steven M. Grossman

Steven M. Grossman
Chief Financial Officer

EXHIBIT 15

Western Publishing Group, Inc.
New York, New York

We have reviewed, in accordance with standards established by the American Institute of Certified Public Accountants, the unaudited interim financial information of Western Publishing Group, Inc. and subsidiaries for the periods ended April 29, 1995 and April 30, 1994, as indicated in our report dated June 12, 1995; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended April 29, 1995, is incorporated by reference in the following Registration Statements:

Form S-8:
- File No. 33-18430
- File No. 33-18692
- File No. 33-18693
- File No. 33-28019

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Deloitte & Touche LLP
Milwaukee, Wisconsin
June 12, 1995

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