

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-04-01**  
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### FILER

#### **TIMBERLAND CO**

CIK: **814361** | IRS No.: **020312554** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-09548** | Film No.: **94528108**  
SIC: **3140** Footwear, (no rubber)

Mailing Address  
11 MERRILL INDUSTRIAL  
DRIVE  
HAMPTON NH 03842

Business Address  
11 MERRILL INDUSTRIAL DR  
HAMPTON NH 03842  
6039261600

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended April 1, 1994  
-----

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 1-9548  
-----

The Timberland Company

-----  
(Exact name of registrant as specified in its charter)

Delaware

02-0312554

-----  
(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

11 Merrill Industrial Drive, Hampton, New Hampshire

03843

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (603) 926-1600  
-----

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 the filing requirements for the past 90  
days.

Yes    X            No  
      -----       -----

On April 29, 1994, 7,619,766 shares of the registrant's Class A Common  
Stock were outstanding and 3,237,121 shares of the registrant's Class  
B Common Stock were outstanding.

<TABLE>

THE TIMBERLAND COMPANY

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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To the Stockholders and Board of Directors of  
The Timberland Company:

We have reviewed the accompanying condensed consolidated balance sheet of The Timberland Company and subsidiaries as of April 1, 1994, and the related condensed consolidated statements of operations and cash flows for the three-month periods ended April 1, 1994 and April 2, 1993. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews 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 reviews, 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 The Timberland Company and subsidiaries as of December 31, 1993, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein), and, in our report dated February 15, 1994, 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 December 31, 1993, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it was derived.

Deloitte & Touche  
Boston, Massachusetts

April 26, 1994

## Part I Financial Information

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&lt;TABLE&gt;

THE TIMBERLAND COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETSASSETS  
(Dollars in Thousands)  
(Unaudited)

&lt;CAPTION&gt;

	April 1, 1994	December 31, 1993
	-----	-----
<S>	<C>	<C>
Current assets		
Cash and equivalents	\$ -	\$ 3,281
Accounts receivable, net	91,429	93,226
Inventories	149,166	111,380
Prepaid expenses	8,632	7,571
Deferred and refundable income taxes	5,625	5,625
	-----	-----
Total current assets	254,852	221,083
	-----	-----
Property, plant and equipment, at cost	84,012	79,145
Less accumulated depreciation and amortization	(36,457)	(33,530)
	-----	-----
Net property, plant and equipment	47,555	45,615
	-----	-----
Excess of cost over fair value of net assets acquired, net	17,963	18,157
Other assets, net	6,283	5,756
	-----	-----
	\$326,653	\$290,611
	=====	=====

&lt;/TABLE&gt;

See accompanying notes to condensed consolidated financial statements.

&lt;TABLE&gt;

THE TIMBERLAND COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETSLIABILITIES AND STOCKHOLDERS' EQUITY  
(Dollars in Thousands)  
(Unaudited)

&lt;CAPTION&gt;

	April 1, 1994	December 31, 1993
	-----	-----
<S>	<C>	<C>
Current liabilities		
Notes payable	\$ 47,346	\$ 10,061
Current maturities of long-term obligations	700	682
Bank overdraft, net	4,236	-
Accounts payable	21,746	32,526
Accrued expenses		
Payroll and related	8,444	8,873
Interest and other	17,918	9,609
Income taxes payable	2,328	3,672
	-----	-----
Total current liabilities	102,718	65,423
	-----	-----
Long-term obligations, less current maturities	90,627	90,809
	-----	-----
Deferred income taxes	6,176	6,016
	-----	-----
Stockholders' equity		
Preferred Stock, \$.01 par value; 2,000,000 shares authorized; none issued	-	-
Class A Common Stock, \$.01 par value; 30,000,000 shares authorized; 7,638,092 shares issued at April 1, 1994 and 7,630,556 shares at December 31, 1993	76	76
Class B Common Stock, \$.01 par value; 15,000,000 shares authorized; 3,237,121 shares issued and outstanding at April 1, 1994 and 3,237,598 shares at December 31, 1993	32	32
Additional paid-in capital	55,897	55,805
Retained earnings	72,487	74,106
Cumulative translation adjustment	(1,240)	(1,536)
Less treasury stock at cost, 18,513 shares at April 1, 1994 and at December 31, 1993	(120)	(120)
	-----	-----
	127,132	128,363
	-----	-----
	\$326,653	\$290,611
	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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<TABLE>

THE TIMBERLAND COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
  
(Amounts in Thousands, Except Per Share Data)  
(Unaudited)

<CAPTION>

	For the	
	Three Months Ended	
	April 1, 1994	April 2, 1993
	-----	-----
<S>	<C>	<C>
Net sales	\$108,093	\$70,606
Cost of goods sold	75,602	43,139
	-----	-----
Gross profit	32,491	27,467
	-----	-----
Operating expenses		
Selling	22,577	15,293
General and administrative	10,232	6,791
Amortization of goodwill	194	194
	-----	-----
Total operating expenses	33,003	22,278

Operating income (loss)	(512)	5,189
Other expense		
Interest	1,885	1,210
Other, net	215	335
Total other expense	2,100	1,545
Income (loss) before income taxes	(2,612)	3,644
Provision (benefit) for income taxes	(993)	1,312
Net income (loss)	\$ (1,619)	\$ 2,332
Earnings (loss) per share	\$ (.14)	\$ .21
Weighted average shares outstanding	11,232	11,081

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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<TABLE>

THE TIMBERLAND COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)  
(Unaudited)

<CAPTION>

	For the	
	Three Months Ended	
	April 1,	April 2,
	1994	1993
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ (1,619)	\$2,332
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Deferred income taxes	160	(415)
Depreciation and amortization	3,339	2,199
Increase (decrease) in cash from changes in working capital items:		
Accounts receivable	1,707	2,823
Inventories	(37,471)	(9,722)
Prepaid expenses	(1,028)	(1,870)
Bank overdraft, net	4,236	-
Accounts payable	(10,805)	7,647
Accrued expenses	7,802	1,600
Income taxes	(1,327)	853
	-----	-----
Net cash provided (used) by operating activities	(35,006)	5,447
	-----	-----
Cash flows from investing activities:		
Additions to property, plant and equipment, net	(4,747)	(3,630)
Other, net	(756)	(172)
	-----	-----
Net cash used in investing activities	(5,503)	(3,802)
	-----	-----
Cash flows from financing activities:		
Net borrowings under short-term credit		

facilities	37,284	936
Payments on long-term debt and capital lease obligations	(164)	(1,823)
Issuance of common stock	92	38
	-----	-----
Net cash provided (used) by financing activities	37,212	(849)
	-----	-----
Effect of exchange rate changes on cash	16	12
	-----	-----
Net increase (decrease) in cash and equivalents	(3,281)	808
Cash and equivalents at beginning of period	3,281	1,220
	-----	-----
Cash and equivalents at end of period	\$ -	\$2,028
	=====	=====
Supplemental disclosures of cash flow information:		
Interest paid	\$ 720	\$ 240
Income taxes paid	191	1,043

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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THE TIMBERLAND COMPANY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

- In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain the adjustments necessary to present fairly the Company's financial position, results of operations and changes in cash flows for the interim periods presented. Such adjustments consisted of normal recurring items. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1993.

Certain prior year amounts have been reclassified for consistent presentation with the current period.

- The results of operations for the three months ended April 1, 1994 are not necessarily indicative of the results to be expected for the full year. Historically, the Company's revenues have been more heavily weighted to the second half of the year.

<TABLE>

- Inventories consist of the following (in thousands):

<CAPTION>

	April 1, 1994	December 31, 1993
	-----	-----
<S>	<C>	<C>
Raw materials	\$ 16,517	\$ 11,108
Work-in-process	11,017	13,060
Finished goods	121,632	87,212
	-----	-----
	\$149,166	\$111,380
	=====	=====

</TABLE>

- Indebtedness

In April 1994, the Company finalized a private placement with a group of lenders for \$65 million of senior unsecured notes (the "Notes") maturing on April 15, 2000. The Notes bear interest at a fixed rate of 7.16% per annum. The proceeds will be used to repay existing short-term debt and for general corporate purposes.

On May 4, 1994, the Company entered into a new unsecured committed revolving credit agreement (the "Agreement"), with a group of banks. The Agreement, which replaced the Company's existing revolving credit facility, extends through May 30, 1996 and provides for revolving credit loans of up to \$125 million, subject to a borrowing base formula. Under the terms of the Agreement, the Company may borrow at interest rates based upon the lender's cost of funds. The Agreement provides for a facility fee of 3/8% per annum on the full commitment and places limitations on the payment of dividends and the incurrence of additional debt, and also contains certain other financial and operating covenants.

5. Distributorship Termination Agreement

In April 1994, the Company entered into a Distributorship Termination Agreement (the "Agreement") with its Italian distributor, which terminates all distribution rights of the distributor on May 31, 1994. In accordance with the Agreement, the Company will also acquire certain assets of the distributor. Net sales to this distributor represented 5% and 4%, respectively, of the Company's consolidated revenues for the first quarter and full year of 1993. The Company recognized no revenue in the first quarter of 1994 related to its Italian distributor. Effective on the termination date, Timberland intends to assume the distribution of its own products in Italy.

<TABLE>

THE TIMBERLAND COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Unaudited)

RESULTS OF OPERATIONS

The following table sets forth selected items in the Company's condensed consolidated statements of operations as percentages of net sales for the periods indicated.

<CAPTION>

	For the	
	Three Months Ended	
	April 1, 1994	April 2, 1993
	-----	-----
<S>	<C>	<C>
Net sales	100.0%	100.0%
Cost of goods sold	69.9	61.1
	-----	-----
Gross profit	30.1	38.9
	-----	-----
Operating expenses		
Selling	20.9	21.6
General and administrative	9.5	9.6
Amortization of goodwill	.2	.3
	-----	-----
Total operating expenses	30.5	31.6
	-----	-----
Operating income (loss)	(.5)	7.4
	-----	-----
Other expense		
Interest	1.7	1.7
Other, net	.2	.5
	-----	-----
Total other expense	1.9	2.2
	-----	-----
Income (loss) before income taxes	(2.4)	5.2
Provision (benefit) for income taxes	(.9)	1.9
	-----	-----
Net income (loss)	(1.5)%	3.3%



Note: Percentages may not add due to rounding.

</TABLE>

First Quarter 1994 Compared to First Quarter 1993

-----  
Net sales for the first quarter of 1994 were \$108.1 million, an increase of 53% over the \$70.6 million reported in the same quarter of 1993. This increase was attributable to an overall increase in the number of footwear, apparel and accessory units sold. Net sales in 1994 reflect a price reduction on certain products designed to improve the price/value proposition for the consumer.

First Quarter 1994 Compared to First Quarter 1993 (continued)

-----  
Gross profit as a percentage of net sales was 30.1% in 1994 as compared to 38.9% in 1993. This decline is primarily attributed to the effect of a price reduction for certain footwear and apparel lines, not fully offset by anticipated product cost reductions.

While overall operating expenses increased to \$33.0 million in the first quarter of 1994 from \$22.3 million in the first quarter of 1993, total operating expenses as a percentage of net sales in 1994 decreased to 30.5% from 31.6% in 1993. The comparative dollar increase in spending was principally attributable to increased sales and marketing expenditures and the Company's investment in worldwide infrastructure to support sales growth.

Interest expense in the first quarter of 1994 increased by \$.7 million over the comparable period in 1993, primarily as a result of increased borrowings in support of sales growth.

LIQUIDITY AND CAPITAL RESOURCES

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The Company uses unsecured revolving and committed lines of credit as the primary sources of financing for its seasonal and other working capital requirements. In anticipation of increased financing requirements to support planned near-term growth, the Company completed a private placement in April 1994 for \$65 million of senior unsecured notes and entered into a new revolving credit agreement on May 4, 1994, which provides for revolving credit loans of up to \$125 million. (See notes to condensed consolidated financial statements.) Management believes that such facilities, and the ability to obtain additional financing, together with cash flow from operations, will provide the funds necessary to support the Company's business.

At April 1, 1994, the Company had working capital of \$152.1 million versus \$155.7 million at December 31, 1993 and \$94.8 million at April 2, 1993. As a result of increased sales, accounts receivable have grown to \$91.4 million at April 1, 1994 compared to \$51.0 million at April 2, 1993. Days sales outstanding at April 1, 1994 were 79 days compared to 70 days at April 2, 1993. Inventories have increased by \$37.8 million and \$68.8 million since year end 1993 and April 2, 1993, respectively, in support of anticipated sales. Inventory turns were 2.2 times for the three months ended April 1, 1994 and April 2, 1993. Short-term borrowings have increased by \$37.3 million since December 31, 1993, due primarily to the inventory level at quarter end. As a result of the increase in overall borrowings, the Company's debt to capital ratio rose to 52% at April 1, 1994 compared to 44% and 32% at December 31, 1993 and April 2, 1993, respectively. The Company's short-term financing requirements have historically reached a peak during the third quarter in response to the seasonal pattern of demand.

In April 1994, the Company entered into a Distributorship Termination Agreement (the "Agreement") with its Italian distributor, which terminates all distribution rights of the distributor on May 31, 1994. In accordance with the Agreement, the Company will also acquire certain assets of the distributor. Net sales to this distributor represented 5%

and 4%, respectively, of the Company's consolidated revenues for the first quarter and full year of 1993. The Company recognized no revenue in the first quarter of 1994 related to its Italian distributor. Effective on the termination date, Timberland intends to assume the distribution of its own products in Italy.

Capital expenditures were \$4.7 million and \$3.6 million for the three months ended April 1, 1994 and April 2, 1993, respectively.

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Part II Other Information  
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Item 6. Exhibits and Reports on Form 8-K.  
(a) Exhibits -- None  
(b) Reports on Form 8-K -- None

Signatures  
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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.

The Timberland Company  
-----  
(Registrant)

Date: May 12, 1994  
-----

Jeffrey B. Swartz  
-----  
Jeffrey B. Swartz  
Executive Vice President,  
Chief Operating Officer  
and Director

Date: May 12, 1994  
-----

Edward J. Suleski, Jr.  
-----  
Edward J. Suleski, Jr.  
Corporate Controller and  
Chief Accounting Officer  
(Principal Accounting Officer)