

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-04-15** | Period of Report: **1994-03-04**  
SEC Accession No. **0000094887-94-000003**

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### FILER

#### **STRIDE RITE CORP**

CIK: **94887** | IRS No.: **041399290** | State of Incorporation: **MA** | Fiscal Year End: **1130**  
Type: **10-Q** | Act: **34** | File No.: **001-04404** | Film No.: **94522929**  
SIC: **3140** Footwear, (no rubber)

Business Address  
*FIVE CAMBRIDGE CTR  
CAMBRIDGE MA 02142  
6174918800*

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 March 4, 1994

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from to .

Commission File Number: 1-4404

THE STRIDE RITE CORPORATION  
(Exact name of registrant as specified in its charter)

Massachusetts 04-1399290  
(State or other jurisdiction) (I.R.S. Employer Identified No.)

Five Cambridge Center, Cambridge, Massachusetts 02142  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 617-491-8800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.25 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed  
all reports required 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  
report), and (2) has been subject to such filing requirements for  
the past 90 days.

Yes X No

As of April 6, 1994, 50,085,531 shares of the registrant's common stock, \$.25 par value, were outstanding and 6,260,691 of the registrant's Preferred Stock Purchase Rights, which trade with the registrant's common stock, were outstanding.

I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

THE STRIDE RITE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

<TABLE>

<CAPTION>

	March 4, 1994 (Unaudited)	December 3, 1993	February 26, 1993 (Unaudited)
Assets			
Current assets:			
<S>	<C>	<C>	<C>
Cash and cash equivalents	\$ 9,160	\$ 38,763	\$ 31,038
Short-term investments	56,651	65,645	44,697
Accounts and notes receivable, net	105,667	75,184	122,505
Inventories:			
Finished goods	115,196	127,925	100,927
Work in process	2,179	1,670	3,029
Raw materials	3,712	3,130	3,680
	121,087	132,725	107,636
Deferred income taxes and prepaid expenses	31,096	31,403	30,297
Total current assets	323,661	343,720	336,173
Property and equipment, net	45,440	47,737	18,584
Other assets	22,858	20,992	22,184
Total assets	\$391,959	\$412,449	\$376,941

</TABLE>

The accompanying notes are an integral part of the condensed consolidated financial statements.

## PART I - FINANCIAL INFORMATION (Continued)

THE STRIDE RITE CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)  
 (Dollars in Thousands)

<TABLE>  
 <CAPTION>

	March 4, 1994 (Unaudited)	December 3, 1993	February 26, 1993 (Unaudited)
Liabilities and Stockholders' Equity			
Current Liabilities:			
Current maturities of			
<S> <C>   <S>	<C>   <C>	<C>   <C>	<C>   <C>
long-term debt	\$     833	\$     833	\$     833
Accounts payable	18,119	30,495	7,631
Income taxes payable	34,601	31,701	41,640
Accrued expenses and other liabilities	29,781	37,442	37,945
Total current liabilities	83,334	100,471	88,049
Deferred income taxes	7,005	7,005	4,646
Long-term debt	2,500	2,500	3,333
Stockholder's Equity:			
Preferred stock, \$1 par value			
Shares authorized - 1,000,000			
Shares issued - None	-	-	-
Common stock, \$.25 par value			
Shares authorized - 135,000,000			
Shares issued - 56,946,544	14,237	14,237	14,237
Capital in excess of par value	23,588	23,710	23,417
Retained earnings	347,749	347,677	315,887
Less cost of 6,876,280 shares of common stock held in treasury (6,666,690 on December 3, 1993 and 5,983,904 on February 26, 1993)	(86,454)	(83,151)	(72,628)
Total stockholders' equity	299,120	302,473	280,913

Total liabilities and stockholders' equity	\$391,959	\$412,449	\$376,941
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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PART I - FINANCIAL INFORMATION (Continued)

THE STRIDE RITE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

For the periods ended March 4, 1994 and February 26, 1993

(In Thousands Except Per Share Data)

<TABLE>  
<CAPTION>

	1994	1993
<S>	<C>	<C>
Net sales	\$122,058	\$140,792
Cost of sales	76,921	81,441
Selling and administrative expenses	36,989	35,507
Operating income	8,184	23,844
Other income (expense):		
Interest income	510	710
Interest expense	(77)	(120)
Other, net	(556)	65
	(123)	655
Income before income taxes and cumulative effect of change in accounting principle	8,025	24,499
Provision for income taxes	3,176	9,318
Income before cumulative effect of change in accounting principle	4,849	15,181
Cumulative effect of change in accounting principle	-	(2,034)
Net income	\$ 4,849	\$ 13,147
Per share of common stock:		
Income before cumulative effect of		

change in accounting principle	\$ .10	\$ .30
Cumulative effect of change in accounting principle	-	(.04)
Net income	\$ .10	\$ .26
Dividends	\$ .095	\$ .085
Average common shares and common equivalents outstanding during the period	50,419	51,185

The accompanying notes are an integral part of the condensed consolidated financial statements.

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PART I - FINANCIAL INFORMATION (Continued)

THE STRIDE RITE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended March 4, 1994 and February 26, 1993  
(Dollars in Thousands)

<TABLE>  
<CAPTION>

	1994	1993
Cash was provided from (used for) Operations:		
<S>	<C>	<C>
Net income	\$ 4,849	\$13,147
Adjustments to reconcile to net cash provided from (used for) operations:		
Depreciation and amortization	2,047	1,568
Equity in earnings of affiliate	(264)	(185)
Loss on disposal of property and equipment	1,404	-
Cumulative effect of change in accounting principle	-	2,034
Changes in:		
Accounts and notes receivable	(30,483)	(38,920)
Inventories	11,638	23,182
Prepaid expenses	306	(528)
Accounts payable, income taxes, accrued expenses and other current liabilities	(16,984)	(14,958)
Net cash used for operations	(27,487)	(14,660)
Investments:		
Short-term investments	8,994	(1,519)
Additions to property and equipment	(544)	(1,636)

Increase in other assets	(2,211)	(1,856)
Net cash provided from (used for) investments	6,239	(5,011)
Financing:		
Proceeds from sale of stock under stock plans	5	10
Cash dividends paid	(4,776)	(4,327)
Repurchase of common stock	(3,584)	-
Net cash used for financing	(8,355)	(4,317)
Net decrease in cash and cash equivalents	(29,603)	(23,988)
Cash and cash equivalents at beginning of the period	38,763	55,026
Cash and cash equivalents at end of the period	\$ 9,160	\$31,038

</TABLE>

The accompanying notes are an integral part of the condensed consolidated financial statements

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PART I - FINANCIAL INFORMATION (Continued)

THE STRIDE RITE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

The financial information included in this Form 10-Q of The Stride Rite Corporation (the "Company") for the periods ended March 4, 1994 and February 26, 1993 is unaudited and subject to year-end audit adjustments. However, such information includes all adjustments (including all normal recurring adjustments) which, in the opinion of management, are considered necessary for a fair presentation of the consolidated results for those periods. The results of operations for the period ended March 4, 1994 are not necessarily indicative of the results of operations that may be expected for the complete fiscal year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Certain reclassifications have been made to the 1993 condensed consolidated financial statements to conform to the fiscal 1994 presentation.

NOTE 2

During the third quarter of fiscal 1993, the Company adopted, effective November 28, 1992, Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Results for the first quarter of 1993 were restated to reflect the change in accounting

principle. The cumulative effect of adopting this Statement was to decrease net income by \$2,034,000 or \$.04 per share.

#### NOTE 3

During the first three months of fiscal 1994, interest payments amounted to \$4,000 (\$2,000 in 1993). For the first quarter of 1994, payments for income taxes totaled, \$275,000 (\$3,562,000 in 1993).

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#### PART I - FINANCIAL INFORMATION (Continued)

##### THE STRIDE RITE CORPORATION

#### ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

##### Liquidity and Capital Resources

At March 4, 1994, the Company's balance sheet continues to reflect favorable trends with a current ratio of 3.9 to 1 and a debt-to-equity relationship of 0.8%. The Company's cash and short-term investments totaled \$65.8 million at the end of the latest quarter, down from the year-end 1993 level of \$104.4 million and below the cash and investments balance of \$75.7 million as of February 26, 1993. The Company's normal seasonal shipping and cash flow patterns generally require the use of funds in the first quarter of the fiscal year. During the first quarter of 1994, the Company used \$27.5 million of cash to fund operating needs. This negative cash flow amount was up significantly from the \$14.7 million use of cash to fund operations during the first quarter of fiscal 1993. Lower profitability during the first quarter, which was primarily caused by start-up difficulties at the Company's new distribution center in Kentucky, accounted for approximately 65% of the increased cash needs. At March 4, 1994, receivable and inventory levels totaled \$226.8 million, down slightly from the \$230.1 million amount at the end of the first quarter of 1993. Because of the shipping delays related to the Keds division, the 1994 first quarter receivable levels were below 1993 by \$16.8 million (13.7%), while inventories were above last year by \$13.4 million (12.5%). In 1994, inventories decreased \$11.6 million from the year-end level compared to the decrease of \$23.2 million in the 1993 quarter.

The Company expects the start-up difficulties at the new distribution center to continue to impact Keds results in the second quarter. At the end of the first quarter of 1994, Keds order backlog was above the 1993 level by 39%. However, because of the shipping delays, approximately one-third of the Keds backlog is overdue for shipment. Consequently, the Company expects heavy order cancellations from customers during the second quarter of 1994. While improvements are expected in the second quarter, the delivery of future orders will continue to run behind schedule through



May. The complete reorder and electronic data interchange (EDI) features of the new facility are expected to begin functioning on a limited basis in mid-May. With the operating improvements expected during the second quarter and the addition of alternative distribution facilities to supplement the Kentucky facility's capabilities, the Company is committed to shipping Keds orders on time during the Fall selling season.

During the first quarter of 1994, the Company repurchased 232,000 shares of its common stock at a cost of \$3.6 million. The latest transactions brought the cumulative shares repurchased under the Board's 16 million share authorization to 13,180,000 shares or 82% of the authorized total.

PART I - FINANCIAL INFORMATION (Continued)

THE STRIDE RITE CORPORATION

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following table summarizes the Company's performance for the first quarter:

Increase (Decrease) Percent vs. 1993 Results:

<TABLE>

<CAPTION>

First Quarter

<S>	<C>
Net sales	(13.3%)
Gross profit	(23.9%)
Selling and administrative expenses	4.2%
Operating income	(65.8%)
Income before income taxes and cumulative effect of change in accounting principle	(67.2%)
Income before cumulative effect of change in accounting principle	(68.1%)
Net income	(63.1%)

</TABLE>

Operating Ratios as a Percent to Net Sales:

<TABLE>

<CAPTION>

First Quarter

1994      1993

<S>	<C>	<C>
Gross profit	37.0%	42.2%
Selling and administrative expenses	30.3%	25.2%
Operating income	6.7%	16.9%
Income before income taxes and cumulative effect of change in accounting principle	6.6%	17.4%
Income before cumulative effect of change in accounting principle	4.0%	10.8%
Net income	4.0%	9.3%

</TABLE>

Net sales decreased \$18.7 million (13.3%) in the first quarter of 1994 from the sales level achieved in the 1993 period. Start-up difficulties at the Company's new distribution center had a severe impact on Keds division revenue as first quarter sales finished 22% below 1993. Keds order backlog at the end of the quarter included approximately \$48 million of sales value which the Company had intended to ship in the first three months. The Keds shipping problems offset higher sales of Stride Rite and Sperry Top-Sider products. Higher average selling prices, primarily due to product mix changes, and increased retail sales partially offset the 18.7% decline in unit shipments of current line merchandise during the first quarter of 1994. Excluding the impact of product mix changes, net sales in the first quarter of 1994 was reduced by approximately \$2.3 million due to selling price deflation.

PART I - FINANCIAL INFORMATION (Continued)

THE STRIDE RITE CORPORATION

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Results of Operations (cont'd)

Sales of the Stride Rite Children's Group in 1994 were 10% higher than last year as both the wholesale and retail portions of the Group posted sales increases. Retail sales increased 18% during the quarter as a higher store count, up 10% from 1993, and improved sales performance at existing stores combined to produce the increase. Sales of the Sperry Top-Sider division increased 3% during the first quarter. While this increase was relatively small, it represented only the second quarterly period since fiscal 1990 that Sperry achieved a year-over-year sales gain. During the first three months of 1994, sales of the Company's International division declined 36% due to reduced demand for Keds Spring products in international markets.

During the first quarter, gross profit declined 23.9% from 1993 compared to the sales decrease of 13.3%. The consolidated gross profit percent in the first quarter decreased to 37% in 1994 from the 42.2% rate recorded in the first quarter of 1993. The gross profit rate in the first

quarter was negatively impacted by a higher obsolescence provision primarily caused by anticipated markdowns of seasonal merchandise due to the shipping problems at Keds. Keds gross profit performance was also hurt by increased sales allowances because of late product deliveries. The LIFO provision reduced gross profit by \$0.1 million (0.1% of net sales) in 1994 compared to a provision of \$0.4 million (0.3% of net sales) in the first quarter of 1993.

Despite the sales decline during the first quarter, selling and administrative expenses increased \$1.5 million or 4.2% from the 1993 period. The growth of the Stride Rite Children's Group's retail operations, where selling and administrative costs are high as a percentage of net sales, contributed to the increase as store expenses increased 12.4% from 1993. Approximately 60% of the increased retail costs was due to new stores. Advertising expenses in the first quarter of 1994 totaled \$8.9 million, up 6% from the 1993 expense amount. Keds media spending was not reduced as a result of the sales shortfall in an effort to help the retail sell-through performance of Keds products. Advertising costs represented 7.3% of net sales in 1994 compared to the 6% spending rate in 1993. Selling and administrative expenses for the first quarter of 1994 represented 30.3% of net sales compared to 25.2% in 1993 due to the increased costs discussed above as well as the fact that fixed administrative costs are being absorbed by 1994's lower sales level.

Other income (expense) decreased pre-tax income by \$0.1 million in 1994 compared to an increase of \$0.7 million in the first quarter of 1993. Interest income during the first quarter of 1994 was below last year by \$0.2 million due to lower short-term investment yields and a 4% reduction in funds available for investment. Other expenses were higher in 1994 primarily due to costs related to a company-owned life insurance program which was initiated during fiscal 1993. The provision for income taxes in the first quarter of 1994 was below last year because of the lower pre-tax earnings. The 1994 effective income tax rate of 39.6% was above the 1993 rate of 38% because of the higher federal tax rates which were enacted during the third quarter of 1993 and increased state income taxes.

## PART II - OTHER INFORMATION

### THE STRIDE RITE CORPORATION

#### ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

During the first quarter of 1994, income before cumulative effect of change in accounting principle decreased \$10.3 million (68.1%) from the earnings level achieved in 1993. Net income for the first quarter decreased \$8.3 million or 63.1% because of the lower sales level, unfavorable gross profit performance and increased selling and administrative expenses mentioned above. As a percent to sales, net income was 4% of sales in 1994 compared to the 9.3% return on sales achieved in

the 1993 period.

ITEM 6. Exhibit and Reports on Form 8-K

(a) Exhibits. The following Exhibits are contained in this report:

<TABLE>

<S>	<C>	<S>
Exhibit No.		Description of Exhibit
11		Computation of Per Share Earnings

(b) Reports on Form 8-K None

</TABLE>

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PART II - OTHER INFORMATION (Continued)

THE STRIDE RITE CORPORATION

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 duly authorized.

THE STRIDE RITE CORPORATION  
(Registrant)

Date: April 13, 1994

By: S/D John M. Kelliher  
John M. Kelliher  
Vice President, Finance,  
Treasurer and Corporate  
Controller

THE STRIDE RITE CORPORATION

INDEX TO EXHIBITS

Exhibit No.	Sequential Page No.
11	Computation of Per Share Earnings 13

THE STRIDE RITE CORPORATION  
 COMPUTATION OF PER SHARE EARNINGS  
 (In Thousands except Per Share Data)

<TABLE>  
 <CAPTION>

	Three Months Ended	
	March 4, 1994	February 26, 1993
<S>	<C>	<C>
Net income applicable to common shares	\$ 4,849	\$13,147
Calculation of shares:		
Weighted average number of common shares outstanding	50,242	50,921
Common shares attributable to assumed exercise of dilutive stock options and stock purchase rights using the treasury stock method	177	264
Average common shares and common equivalents outstanding during the period	50,419	51,185
Net income per common share	\$.10	\$.26

</TABLE>