

MCRAE INDUSTRIES INC

Form 10-Q

December 16, 2003

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

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarter Ended November 1, 2003

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 1-8578

McRae Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

56-0706710

(I.R.S. Employer Identification No.)

**400 North Main Street
Mt. Gilead, North Carolina 27306**
(Address of principal executive offices)

Telephone Number (910) 439-6147
(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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

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

Common Stock, \$1 Par Value Class A 1,919,972 shares as of December 10, 2003. Common Stock, \$1 Par Value Class B 848,527 shares as of December 10, 2003.

McRae Industries, Inc. and Subsidiaries

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

McRae Industries, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	<u>November 1, 2003</u>	<u>August 2, 2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,808	\$ 6,192
Accounts and notes receivable, net	12,529	10,334
Inventories (See Note B)	16,031	17,559
Net investment in capitalized leases	146	146
Prepaid income tax	702	314
Prepaid expenses and other current assets	358	242
	<u> </u>	<u> </u>
Total current assets	33,574	34,787
	<u> </u>	<u> </u>
Property and equipment, net	4,852	4,541
Other assets:		
Net investment in capitalized leases	1,634	1,716
Notes receivable	56	71
Real estate held for investment	1,399	1,390
Goodwill	362	362
Cash surrender value of life insurance	2,220	2,220
Trademarks	1,049	1,049
Other	13	13
	<u> </u>	<u> </u>
Total other assets	6,733	6,821
	<u> </u>	<u> </u>
	\$45,159	\$46,149
	<u> </u>	<u> </u>

See notes to condensed consolidated financial statements

McRae Industries, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

See notes to condensed consolidated financial statements

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Liabilities and Shareholders' Equity	<u>November 1, 2003</u>	<u>August 2, 2003</u>
Current liabilities:		
Notes payable, banks - current portion	\$ 577	\$ 577
Accounts payable	3,974	5,211
Accrued employee benefits	552	427
Deferred revenues	872	1,012
Accrued payroll and payroll taxes	885	913
Contract contingencies	400	400
Other	1,059	1,044
	<u>8,319</u>	<u>9,584</u>
Notes payable, banks, net of current portion	3,165	3,307
Lease guarantees	1,538	1,568
Minority interest	86	88
Shareholders' equity:		
Common stock:		
Class A, \$1 par; Authorized 5,000,000 shares; Issued and outstanding, 1,919,972 and 1,914,972 shares, respectively	1,920	1,915
Class B, \$1 par; Authorized 2,500,000 shares; Issued and outstanding, 848,527 and 853,527 shares, respectively	849	853
Additional paid-in capital	791	791
Retained earnings	28,491	28,043
	<u>32,051</u>	<u>31,602</u>
Total shareholders' equity	<u>32,051</u>	<u>31,602</u>
	<u>\$45,159</u>	<u>\$46,149</u>

McRae Industries, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended	
	November 1, 2003	November 2, 2002
Net revenues	\$ 21,396	\$ 19,797
Costs and expenses:		
Cost of revenues	16,295	15,062
Research & development	354	160
Selling, general and administrative	3,862	3,674
Other expense (income), net	(14)	(28)
Interest expense	37	49
Total costs and expenses	20,534	18,917
Earnings from operations before income taxes and minority interest	862	880
Provision for income taxes	302	342
Minority shareholder's interest in loss of subsidiary	(2)	(1)
Net earnings	\$ 562	\$ 539
Net earnings per common share	\$.20	\$.19
Weighted average number of common shares outstanding	2,768,499	2,768,499

See notes to condensed consolidated financial statements

McRae Industries, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	November 1, 2003	November 2, 2002
Net cash used in operating activities	\$(2,083)	\$(3,238)
Cash flows from investing activities:		
Proceeds from sales of assets	5	1
Purchase of trade names and other assets	(9)	(150)
Capital expenditures	(55)	(125)
Net collections of long-term receivables	15	26
Net cash used in investing activities	(44)	(248)
Cash flows from financing activities:		
Principal repayments of notes payable	(142)	(129)
Dividends paid	(115)	(113)
Net cash used in financing activities	(257)	(242)
Net decrease in cash and cash equivalents	(2,384)	(3,728)
Cash and cash equivalents at beginning of period	6,192	5,822
Cash and cash equivalents at end of period	\$ 3,808	\$ 2,094

NOTE: Non-cash operating and investing activities excluded from this statement of cash flows relate to the transfer of office equipment from inventory to property and equipment amounted to \$554,000 and \$306,000 for the first quarters of fiscal 2004 and 2003, respectively.

See notes to condensed consolidated financial statements

McRae Industries, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulation of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by the accounting principles generally accepted in the United States for complete financial statements. In addition, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended November 1, 2003 are not necessarily indicative of the results that may be expected for the year ending July 31, 2004. The interim condensed consolidated financial information should be read in conjunction with the Company's August 2, 2003 audited consolidated financial statements and footnotes thereto included in the McRae Industries, Inc. Annual Report on Form 10-K filed with the SEC.

Certain reclassifications have been made to the prior year's financial statements to conform with the current year's presentation.

NOTE B INVENTORIES

The components of inventory consist of the following (in thousands):

	November 1, 2003	August 2, 2003
Raw materials	\$ 2,509	\$ 3,293
Work-in-process	1,084	1,081
Finished goods	12,438	13,185
	\$16,031	\$17,559

NOTE C SUBSEQUENT EVENTS

On November 25, 2003, the Company declared a cash dividend of \$.06 cents per share on its Class A Common Stock payable on December 26, 2003 to shareholders of record on December 12, 2003.

NOTE E SUMMARY OF BUSINESS SEGMENTS

	Three Months Ended	
	November 1, 2003	November 2, 2002
(Dollars in thousands)		
Net revenues		
Bar Code	\$ 2,256	\$ 2,921
Office Products	5,373	4,841
Military Boots	8,321	5,198
Western/Work Boots	5,879	6,760
Eliminations/Other	(433)	77
	<u>21,396</u>	<u>19,797</u>
Net earnings (loss) from operations		
Bar Code	(363)	(218)
Office Products	(421)	(338)
Military Boots	1,484	829
Western/Work Boots	13	481
Eliminations/Other	149	126
	<u>862</u>	<u>880</u>
Provision for income taxes	302	342
Minority shareholder's interest	(2)	(1)
Net earnings	<u>\$ 562</u>	<u>\$ 539</u>
	November 1, 2003	August 2, 2003
Assets		
Bar Code	\$ 4,933	\$ 4,987
Office Products	12,288	13,074
Military Boots	6,491	6,328
Western/Work Boots	13,440	14,214
Eliminations/Other	8,007	