

Edgar Filing: SHOE PAVILION INC - Form 10-Q

SHOE PAVILION INC  
Form 10-Q  
May 11, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2001

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 0-23669

SHOE PAVILION, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation  
or Organization)

94-3289691  
(IRS Employer  
Identification Number)

3200-F Regatta Boulevard, Richmond, California 94804  
(Address of principal executive offices) (Zip Code)

(510) 970-9775  
(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 . No .

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, 2001 the Registrant had 6,800,000 shares of Common Stock outstanding.

FORWARD-LOOKING STATEMENTS

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This Quarterly Report on Form 10-Q contains certain "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 which provides a "safe harbor" for these types of statements. These forward-looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from management's current expectations. These factors include, without limitation, change in the trend of same store sales, competitive pressures in the footwear industry, changes in the level of consumer spending on or preferences in footwear merchandise, the Company's ability to purchase attractive name brand merchandise at desirable discounts and the availability of desirable store locations and management's ability to negotiate acceptable lease terms and open new stores in a timely manner. Other risk factors are detailed in the Company's filings with the Securities and Exchange Commission. The Company assumes no obligation to update forward-looking statements.

SHOE PAVILION, INC.  
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PART I  
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

The following financial statements and related financial information are filed as part of this report:

Shoe Pavilion, Inc.  
Condensed Consolidated Balance Sheets  
(Unaudited)

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(In thousands, except share data)	March 31, 2001
	-----
ASSETS	
Current assets	
Cash	\$ 779
Accounts receivable	622
Inventories, net	38,845
Prepaid expenses and other	1,268
	-----
Total current assets	41,514
Property and equipment, net	5,149
Other assets	949
	-----
Total assets	\$47,612
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts payable	\$ 9,069
Accrued expenses	1,721
Current portion of capital lease obligations	15
	-----
Total current liabilities	10,805
Long-term debt	14,695
Deferred rent	1,881
Capital lease obligations, less current portion	43
	-----
Total liabilities	27,424
	-----
Stockholders' equity	
Preferred stock - \$.001 par value; 1,000,000 shares authorized; no shares issued or outstanding	-
Common stock - \$.001 par value; 15,000,000 shares authorized; 6,800,000 issued and outstanding	7
Additional paid-in capital	13,967
Retained earnings	6,214
	-----
Total stockholders' equity	20,188
	-----
Total liabilities and stockholders' equity	\$47,612
	=====

See notes to condensed consolidated financial statements.

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	First Quarter Ended	
	March 31, 2001	Apr 2001
Net sales	\$19,363	\$19,363
Cost of sales and related occupancy expenses	13,708	13,708
Gross profit	5,655	5,655
Selling, general and administrative expenses	5,415	5,415
Income from operations	240	240
Interest expense	295	295
Other (income) expense, net	(6)	(6)
Income (loss) before taxes	(49)	(49)
Income tax provision (benefit)	(20)	(20)
Net income (loss)	\$ (29)	\$ (29)
Earnings (loss) per share:		
Basic	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.00
Weighted average shares outstanding:		
Basic	6,800	6,800
Diluted	6,800	6,800
Stores operated at end of period	118	118

See notes to condensed consolidated financial statements.

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Shoe Pavilion, Inc.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(In thousands)

	First Quarter E	
	March 31, 2001	Apr 2001
Operating activities:		
Net income (loss)	\$ (29)	\$ (29)
Adjustments to reconcile net income (loss) to net cash used by operating activities		
Depreciation and amortization	385	385

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Effect of changes in:	
Inventories	(658)
Accounts receivables	118
Prepaid expenses and other	(327)
Accounts payable	319
Accrued expenses and deferred rent	(309)
	-----
Net cash used by operating activities	(501)
	-----
Investing activity:	
Purchase of property and equipment	(250)
	-----
Financing activities:	
Borrowings on credit facility, net	720
Principal payments on capital leases	(4)
	-----
Net cash provided by financing activities	716
	-----
Net decrease in cash	(35)
Cash, beginning of period	814
	-----
Cash, end of period	\$ 779
	=====

See notes to condensed consolidated financial statements.

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### Shoe Pavilion, Inc. Notes to Condensed Consolidated Financial Statements

#### 1. Basis of Presentation

General - The accompanying unaudited condensed consolidated financial statements have been prepared from the records of Shoe Pavilion, Inc. (the "Company") without audit, and in the opinion of management, include all adjustments necessary to present fairly the financial position of the Company and the results of its operations and its cash flows for the periods presented. The balance sheet as of December 30, 2000 presented herein has been derived from the audited financial statements of the Company as of December 30, 2000.

Accounting policies followed by the Company are described in Note 2 to the audited consolidated financial statements for the year ended December 30, 2000. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted for purposes of the condensed consolidated interim financial statements. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, for the year ended December 30, 2000 on Form 10-K.

The results of operations for the first quarter ended March 31, 2001 presented herein are not necessarily indicative of the results to be expected for the full year.

Comprehensive Income and net income are the same.

#### 2. Recently Issued Accounting Standards

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On December 31, 2000 the Company adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 137 and SFAS 138. SFAS 133 requires all derivative financial instruments to be recognized on the balance sheet at fair value. The effect of adopting SFAS 133 was immaterial. The Company periodically enters into forward contracts to hedge specific purchases denominated in currencies other than United States dollars. At March 31, 2001 the Company had no such contracts outstanding.

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

### Overview

Shoe Pavilion is the largest independent off-price footwear retailer on the West Coast that offers a broad selection of women's and men's designer label and name brand merchandise. As of March 31, 2001, the Company operated 80 retail stores in California, Washington, Oregon and Oklahoma and 38 licensed shoe departments in Colorado, Illinois, Iowa, Kansas, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota.

The Company operates and manages the 38 shoe departments pursuant to a licensing agreement entered into in July 1999 with Gordmans, Inc., a Midwestern department store chain. The initial term of the agreement shall expire, unless terminated sooner as provided by the agreement, on June 29, 2002. Upon the expiration of the initial term, the agreement shall automatically renew for an additional term of three years, expiring on July 2, 2005 unless either the

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Company or Gordmans gives the other party written notice on or before January 1, 2002, that they do not intend to renew the agreement.

### Results of Operations

Net sales increased 0.2% to \$19.4 million for the quarter ended March 31, 2001 from \$19.3 million for the comparable period in 2000. This increase in net sales is attributable to the increase in new store net sales of \$1.1 million which was substantially offset by the decrease in comparable store net sales of 2.4% and store closings.

Gross profit decreased 7.1% to \$5.7 million for the quarter ended March 31, 2001 from \$6.1 million for the same period in 2000 and decreased as a percentage of net sales to 29.2% from 31.5%. The decrease in gross profit as a percentage of net sales was primarily attributable to an increase in inventory reserves, and higher merchandise costs and base rent expense as a percentage of net sales.

Selling, general and administrative expenses decreased 1.9% to \$5.4 million for the quarter ended March 31, 2001 from \$5.5 million for the comparable period in 2000 and decreased as a percentage of net sales to 28.0% from 28.6%. The decrease in selling, general and administrative expenses is principally due to a reduction in advertising expense as well as an overall reduction in selling, general and administrative expenses, offset slightly by an increase in sales payroll. Sales payroll increased during the quarter principally due to the increase in the number of new stores.

Interest expense increased 55.3% to \$295,000 for the quarter ended March 31,

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2001 from \$190,000 for the comparable period in 2000. The increase was attributable to higher average borrowings on the Company's revolving line of credit to support increased inventory levels.

### Liquidity and Capital Resources

The Company has historically funded its cash requirements primarily through cash flow from operations and borrowings under its credit facility. Net cash used by operating activities during the quarter ended March 31, 2001 totaled \$501,000 and was primarily used to fund increased inventory levels. Net cash, provided by financing activities, for the quarter ended March 31, 2001 totaled \$716,000 consisting principally of net borrowings on the Company's line of credit.

Capital expenditures for the quarter ended March 31, 2001 were \$250,000. These expenditures were principally related to the build-out of two new stores and two leased departments and the remodeling of three stores. During the remainder of the Company's fiscal year 2001, the Company anticipates that cash will be used primarily for merchandise inventory and to a lesser degree for capital expenditures.

The Company has a credit facility agreement with a commercial bank, which includes a revolving line of credit for \$20.0 million expiring on June 1, 2002. As of March 31, 2001, the unused and available portion of the credit facility was approximately \$4.1 million. The Company believes that operating cash flow and borrowings under its credit facility will satisfy its cash requirements for at least the next 12 months.

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes from the information reported in the Company's Form 10-K for the year ended December 30, 2000.

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## PART II OTHER INFORMATION

### Item 4. Submission of Matters to a Vote of Security Holders.

None.

### Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits required to be filed by Item 601 of Regulation S-K:

None.

(b) Reports on Form 8-K filed during the quarter ended March 31, 2001:

None.

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## 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 on the 11th day of May 2001.

SHOE PAVILION, INC., as Registrant

By /s/ Dmitry Beinus

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Dmitry Beinus  
Chairman and Chief Executive Officer

By /s/ John D. Hellmann

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John D. Hellmann  
Vice President and Chief Financial Officer