

Edgar Filing: SHOE PAVILION INC - Form 10-Q

SHOE PAVILION INC
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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 June 30, 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 July 31, 2001 the Registrant had 6,800,000 shares of Common Stock outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of

Edgar Filing: SHOE PAVILION INC - Form 10-Q

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. INDEX TO FORM 10-Q

PART I FINANCIAL INFORMATION

Item 1 - Condensed Consolidated Financial Statements (Unaudited):	Pag

Condensed Consolidated Balance Sheets.....	3
Condensed Consolidated Statements of Income.....	4
Condensed Consolidated Statements of Cash Flows.....	5
Notes to Condensed Consolidated Financial Statements.....	6
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.....	6-8
Item 3 - Quantitative and Qualitative Disclosures About Market Risk.....	8

PART II OTHER INFORMATION

Item 4 - Submission of Matters to a Vote of Security Holders.....	9
Item 6 - Exhibits and Reports on Form 8-K.....	9
Signatures.....	10

2

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)

(In thousands, except share data)

June 30,
2001

Edgar Filing: SHOE PAVILION INC - Form 10-Q

ASSETS	
Current assets	
Cash	\$ 1,066
Accounts receivable	293
Inventories	33,635
Prepaid expenses and other	1,054

Total current assets	36,048
Property and equipment, net	4,796
Other assets	949

Total assets	\$ 41,793
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts payable	\$ 5,843
Accrued expenses	2,362
Current portion of capital lease obligations	54

Total current liabilities	8,259
Long-term debt	10,600
Deferred rent	1,800

Total liabilities	20,659

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	7,160

Total stockholders' equity	21,134

Total liabilities and stockholders' equity	\$ 41,793
	=====

See notes to condensed consolidated financial statements.

3

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

(In thousands, except per share amounts and number of stores)

Thirteen weeks ended

June 30, 2001	July 1, 2000

Edgar Filing: SHOE PAVILION INC - Form 10-Q

Net sales	\$ 23,604	\$ 24,951
Cost of sales and related occupancy expenses	15,760	16,400
	-----	-----
Gross profit	7,844	8,551
Selling, general and administrative expenses	6,078	6,392
	-----	-----
Income from operations	1,766	2,159
Interest expense	207	233
Other expense (Income)	(18)	31
	-----	-----
Income before taxes	1,577	1,895
Income tax provision	631	749
	-----	-----
Net income	\$ 946	\$ 1,146
	=====	=====
Earnings per share:		
Basic	\$ 0.14	\$ 0.17
Diluted	\$ 0.14	\$ 0.17
Weighted average shares outstanding:		
Basic	6,800	6,800
Diluted	6,800	6,801

Stores operated at end of period

See notes to condensed consolidated financial statements.

4

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

(In thousands)

	Twenty-six weeks
	----- June 30, 2001
Operating activities:	
Net income	\$ 917
Adjustments to reconcile net income to net cash provided (used) by operating activities	
Depreciation and amortization	767
Loss on disposal of fixed assets	1
Effect of changes in:	
Inventories	4,552
Accounts receivables	447
Prepaid expenses and other	(113)
Accounts payable	(2,907)
Accrued expenses	251
Deferred rent	0

Net cash provided (used) by operating activities	3,915

Edgar Filing: SHOE PAVILION INC - Form 10-Q

Investing activity-	
Purchase of property and equipment	(280)
Financing activities:	
Proceeds from (payments on) line of credit, net	(3,375)
Principal payments on capital leases	(8)
Net cash provided (used) by financing activities	(3,383)
Net increase (decrease) in cash	252
Cash, beginning of period	814
Cash, end of period	\$ 1,066

See notes to condensed consolidated financial statements.

5

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 thirteen weeks and twenty-six weeks ended June 30, 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

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

Edgar Filing: SHOE PAVILION INC - Form 10-Q

currencies other than United States dollars. At June 30, 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 June 30, 2001, the Company operated 77 retail stores in California, Washington and Oregon 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 Company or Gordmans gives the other party written notice on or before January 1, 2002, that they do not intend to renew the agreement.

6

Results of Operations

Net sales for the thirteen weeks ended June 30, 2001 decreased 5.4% to \$23.6 million, from net sales of \$25.0 million for the same period last year. Net sales for the twenty-six weeks ended June 30, 2001 decreased 2.9% to \$43.0 million, from net sales of \$44.3 million for the same period last year. The decrease in net sales for these periods is principally attributable to the decline in comparable store net sales of 7.5% or \$1.6 million and 5.3% or \$2.0 million for the thirteen weeks and twenty-six ended June 30, 2001, respectively. These decreases were partially offset by the increase in new store net sales.

Gross profit for the thirteen weeks ended June 30, 2001 decreased 8.3% to \$7.8 million from gross profit of \$8.6 million for the same period last year. Gross profit as a percentage of net sales decreased to 33.2% for the thirteen weeks ended June 30, 2001 from 34.3% for the same period last year. For the twenty-six weeks ended June 30, 2001 gross profit decreased 7.8% to \$13.5 million, from gross profit of \$14.6 million for the comparable period last year. Gross profit as a percentage of net sales decreased to 31.4% for the twenty-six weeks ended June 30, 2001 from 33.1% for the comparable period last year. The decrease in gross profit as a percentage of net sales for the thirteen weeks and twenty-six weeks ended June 30, 2001 is principally attributable to the increase in occupancy costs coupled with the decrease in net sales.

Selling, general and administrative expenses for the thirteen weeks ended June 30, 2001 decreased by \$314,000 or 4.9% compared to the same period last year, but remained relatively unchanged as a percentage of net sales at 25.7% from 25.6%. For the twenty-six weeks ended June 30, 2001, selling, general and administrative expenses decreased by \$420,000 or 3.5% compared to the same period last year, but remained relatively unchanged as a percentage of net sales at 26.7% from 26.9%. The decrease in selling, general and administrative expenses for the thirteen weeks and twenty-six weeks ended June 30, 2001 is principally due to the reduction in advertising expense and freight, as well as an overall reduction in selling, general and administrative expenses. During the twenty-six weeks ended June 30, 2001 these decreases were partially offset by an increase in sales payroll.

Edgar Filing: SHOE PAVILION INC - Form 10-Q

Interest expense decreased 11.1% to \$207,000 for the thirteen weeks ended June 30, 2001 from \$233,000 for the comparable period in 2000. This decrease was attributable to a lower average interest rate on the Company's revolving line of credit. For the twenty-six weeks ended June 30, 2001 interest expense increased 18.7% to \$502,000 from \$423,000 for the comparable period in 2000. The increase was attributable to higher average borrowings on the Company's revolving line of credit.

Liquidity and Capital Resources

The Company has historically funded its cash requirements primarily through cash flows from operations and borrowings under its credit facility. Net cash provided by operating activities during the twenty-six weeks ended June 30, 2001 totaled \$3.9 million and was primarily generated from a reduction in inventory. Merchandise inventory decreased \$4.6 million to \$33.6 million at June 30, 2001 from \$38.2 million at December 30, 2000. This decrease in inventory is the result of the Company's efforts to improve liquidity. Net cash used by financing activities for the twenty-six weeks ended June 30, 2001 totaled \$3.4 million consisting principally of net payments on the Company's line of credit. Working capital decreased to \$27.8 million at June 30, 2001 from \$29.9 million at December 30, 2000.

7

Capital expenditures for the twenty-six weeks ended June 30, 2001 were \$280,000. These expenditures were principally related to the purchase of fixtures and the remodeling of existing stores. During the remainder of the Company's fiscal year 2001, the Company anticipates that cash will be used primarily to acquire 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. On June 1, 2001 the Commercial bank extended the maturity date of the revolver to June 1, 2003. As of June 30, 2001, the unused and available portion of the credit facility was approximately \$5.6 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.

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.

8

PART II OTHER INFORMATION

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

In April 2001, the Company submitted to shareholders two matters both of which were approved at the annual meeting held on May 30, 2001. The matters were: (1) to elect four directors to serve on the board of directors until the next annual meeting of stockholders and until their successors shall have been elected; and (2) to ratify the selection of Deloitte & Touche LLP as independent auditors for the Company.

Edgar Filing: SHOE PAVILION INC - Form 10-Q

At the annual meeting, the following directors received the following votes:

	FOR -----	WITHHELD -----
Dmitry Beinus	5,300,133	169,800
Denise Ellwood	5,300,133	169,800
David H. Folkman	5,300,133	169,800
Peter G. Hanelt	5,300,133	169,800

The shareholders ratified the selection of Deloitte & Touche LLP as independent auditors for the Company for the fiscal year ending December 29, 2001 with voting as follows: 5,464,033 For, 4,700 Against, and 1,200 Abstain.

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 June 30, 2001:

None.

9

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 thereunto duly authorized on the 10th day of August 2001.

SHOE PAVILION, INC., as Registrant

By /s/ Dmitry Beinus

Dmitry Beinus
Chairman and Chief Executive Officer

By /s/ John D. Hellmann

John D. Hellmann
Vice President and Chief Financial Officer

10