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A C MOORE ARTS & CRAFTS INC
Form 10-Q
May 07, 2001

UNITED STATES
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 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: 000-23157

A.C. MOORE ARTS & CRAFTS, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of
incorporation or organization)

22-3527763

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

500 University Court, Blackwood, NJ 08012

(Address of principal executive offices)
(Zip Code)

(856) 228-6700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) 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 X No
----- -----

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

| Class ----- | Outstanding at May 4, 2001 ----- |
|----------------------------|-------------------------------------|
| Common Stock, no par value | 7,425,833 |

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A.C. MOORE ARTS & CRAFTS, INC.

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A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

March 31,
2001

Dece

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| | ----- | ----- |
|---|-------------|-------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,918 | \$ |
| Inventories | 76,233 | |
| Prepaid expenses and other current assets | 1,984 | |
| | ----- | |
| | 80,135 | |
| Property and equipment, net | 23,202 | |
| Other assets | 743 | |
| | ----- | |
| | \$ 104,080 | \$ |
| | ===== | ===== |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term debt | \$ 4,750 | \$ |
| Current portion of capital leases | 389 | |
| Accounts payable to trade and others | 22,814 | |
| Accrued payroll and payroll taxes | 2,367 | |
| Accrued expenses | 4,023 | |
| Income taxes payable | 308 | |
| | ----- | |
| | 34,651 | |
| | ----- | |
| Long-term liabilities: | | |
| Capital leases | 717 | |
| Deferred taxes | 2,320 | |
| Other long-term liabilities | 2,725 | |
| | ----- | |
| | 5,762 | |
| | ----- | |
| | 40,413 | |
| | ----- | |
| | | |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock, no par value, 5,000,000 shares authorized, none issued | -- | |
| Common stock, no par value, 20,000,000 shares authorized, 7,425,500 shares outstanding at March 31, 2001 and 7,415,333 outstanding at December 31, 2000 | 43,316 | |
| Retained earnings | 20,351 | |
| | ----- | |
| | 63,667 | |
| | ----- | |
| | \$ 104,080 | \$ |
| | ===== | ===== |

See accompanying notes to financial statements

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A.C. MOORE ARTS & CRAFTS, INC.
 CONSOLIDATED STATEMENTS OF INCOME
 (dollars in thousands, except per share data)
 (unaudited)

| | Three months ended March 31, | |
|---|---------------------------------|-----------|
| | 2001 | 2000 |
| Net sales | \$ 66,423 | \$ 52,439 |
| Cost of sales (including buying and distribution costs) | 41,978 | 33,439 |
| Gross Margin | 24,445 | 19,000 |
| Selling, general and administrative expenses | 23,439 | 18,439 |
| Store pre-opening expenses | 1,075 | |
| Income (loss) from operations | (69) | |
| Net interest expense (income) | 32 | |
| Income (loss) before income taxes | (101) | |
| Income tax expense (benefit) | (39) | |
| Net income (loss) | \$ (62) | \$ 1,000 |
| Basic net income (loss) per share | \$ (0.01) | \$ 0.14 |
| Weighted average shares outstanding | 7,422,958 | 7,405,000 |
| Diluted net income (loss) per share | \$ (0.01) | \$ 0.14 |
| Weighted average shares outstanding plus impact of stock options | 7,505,850 | 7,411,000 |

See accompanying notes to financial statements

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(dollars in thousands)
(unaudited)

| | Three months ended March 31, | |
|--|---------------------------------|----------|
| | 2001 | 2000 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (62) | \$ 144 |
| Adjustments to reconcile net income (loss) to net cash (used in) operating activities: | | |
| Depreciation and amortization | 1,134 | 834 |
| Compensation expense related to stock options | -- | 34 |
| Changes in assets and liabilities: | | |
| Inventories | (3,447) | (2,153) |
| Prepaid expenses and other current assets | 68 | (94) |
| Accounts payable, accrued payroll payroll taxes and accrued expenses | (7,326) | (6,256) |
| Income taxes payable | (2,950) | (1,810) |
| Other long-term liabilities | 126 | 111 |
| Other | (23) | 3 |
| | ----- | ----- |
| Net cash (used in) operating activities | (12,480) | (9,187) |
| | ----- | ----- |
| Cash flows (used in) investing activities: Capital expenditures | (2,812) | (2,757) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds from bank overdraft | 2,197 | 223 |
| Proceeds from line of credit | 4,750 | -- |
| Exercise of stock options | 48 | -- |
| Repayment of capital leases | (95) | (89) |
| | ----- | ----- |
| Net cash provided by financing activities | 6,900 | 134 |
| | ----- | ----- |
| Net (decrease) in cash | (8,392) | (11,810) |
| Cash and cash equivalents at beginning of period | 10,310 | 14,553 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 1,918 | \$ 2,743 |
| | ===== | ===== |

See accompanying notes to financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Basis of Presentation

The consolidated financial statements included herein include the accounts of A.C. Moore Arts & Crafts, Inc. and its wholly owned subsidiaries (collectively the "Company"). The Company is a chain of 54 retail superstores selling arts and crafts merchandise. The stores are located throughout the Eastern United States.

These financial statements have been prepared by management without audit and 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, 2000. Due to the seasonality of the Company's business, the results for the interim periods are not necessarily indicative of the results for the year. The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. In the opinion of management, all such adjustments are of a normal and recurring nature.

(2) Management Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reported period and related disclosures. Significant estimates made as of and for the three month periods ended March 31, 2001 and 2000 include provisions for shrinkage, capitalized buying, warehousing and distribution costs related to inventory and markdowns of merchandise inventories. Actual results could differ from those estimates.

(3) New Accounting Standard

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet. SFAS No. 133, which was effective for the Company's first quarter of 2001, has not had a material impact on the Company's consolidated results of operation, financial position or cash flows.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains certain forward-looking statements. These forward-looking statements do not constitute historical facts and involve risks and uncertainties. Actual results could differ materially from those referred to in the forward-looking statements due to a number of factors, including, but not limited to, the following: customer demand, the effect of economic conditions, the impact of competitors' locations or pricing, the availability of acceptable real estate locations for new stores, difficulties with respect to new information system technologies, supply constraints or difficulties, the effectiveness of advertising strategies and the ability to meet capital needs. For additional information concerning factors that could cause actual results to differ materially from the information contained herein,

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reference is made to the information under the heading "Cautionary Statement Relating to Forward Looking Statements" in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Due to the importance of the fall selling season, the fourth quarter has historically contributed, and the Company expects it will continue to contribute, disproportionately to the Company's profitability for the entire year. As a result, the Company's quarterly results of operations may fluctuate. In addition, results of a period shorter than a full year may not be indicative of results expected for the entire year.

Results of Operations

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of net sales and the number of stores open at the end of each such period:

| | Three months ended March 31, | |
|---|---------------------------------|---------|
| | 2001 | 2000 |
| Net sales | 100.0 % | 100.0 % |
| Cost of sales | 63.2 % | 63.2 % |
| Gross margin | 36.8 % | 36.8 % |
| Selling, general and administrative expenses | 35.3 % | 35.2 % |
| Store pre-opening expenses | 1.6 % | 1.3 % |
| Income (loss) from operations | (0.1) % | 0.3 % |
| Net interest expense (income) | 0.1 % | (0.1) % |
| Income (loss) before income taxes | (0.2) % | 0.4 % |
| Income tax expense (benefit) | (0.1) % | 0.1 % |
| Net income (loss) | (0.1) % | 0.3 % |
| Number of stores open at end of period | 53 | 42 |

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Net Sales. Net sales increased \$13.6 million, or 25.8%, to \$66.4 million in the three months ended March 31, 2001 from \$52.8 million in the comparable 2000 period. This increase resulted from (i) net sales of \$2.2 million from three new stores opened during the period, (ii) net sales of \$9.6 million from superstores opened in 2000 not included in the comparable store base, and (iii) a comparable store sales increase of \$1.8 million, or 4%. Stores are added to the comparable store base at the beginning of the fourteenth full month of

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operation.

Gross Margin. Cost of sales includes the cost of merchandise, plus certain distribution and purchasing costs. Cost of sales increased \$8.6 million, or 25.8%, to \$42.0 million in the three months ended March 31, 2001 from \$33.4 million in the three months ended March 31, 2000. The gross margin increased \$5.0 million, or 26.0%, to \$24.4 million in the three months ended March 31, 2001 from \$19.4 million in the three months ended March 31, 2000. The gross margin was 36.8% of net sales in both the three months periods ended March 31, 2001 and March 31, 2000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include (a) direct store level expenses, including rent and related operating costs, payroll, advertising, depreciation and other direct costs, and (b) corporate level costs not directly associated with or allocable to cost of sales including executive salaries, accounting and finance, corporate information systems, office facilities and other corporate expenses. Selling, general and administrative expenses increased \$4.8 million, or 26.0%, in the three months ended March 31, 2001 to \$23.4 million from \$18.6 million in the three months ended March 31, 2000. Of the increase, \$4.0 million was attributable to the superstores open in 2001 which were not open during 2000 and the superstores opened in 2000 not in the comparable store base. Of the remainder, \$400,000 is due to increases in the comparable superstores (2.6%) and \$400,000 is attributable to the increase in corporate costs to support the growth of the Company. As a percentage of sales, selling, general and administrative costs increased to 35.3% of net sales in the three months ended March 31, 2001 from 35.2% of net sales in the three months ended March 31, 2000. This increase is primarily due to the newer stores, which, on average, have higher operating costs as a percent of sales than older stores.

Store pre-opening Expense. The Company expenses store pre-opening expense as incurred. Pre-opening expense for the three new superstores opened in the first quarter of 2001, the two new stores which opened in April and one store which was relocated amounted to \$1.1 million. In the first quarter of 2000, the Company incurred store pre-opening costs of \$645,000 related to the two stores opened in that quarter and two stores which opened in the second quarter.

Net Interest Expense (Income). In the first quarter of 2001 the Company had net interest expense of \$32,000 compared with interest income of \$66,000 in 2000. The change is due to the use of short-term borrowing to fund the new stores added in 2000 and 2001.

Income Taxes. The Company's effective income tax rate was 38.6% for the first quarter ended March 31, 2001 and 38.2% for the first quarter ended March 31, 2000.

Liquidity and Capital Resources.

The Company's cash needs are primarily for working capital to support its inventory requirements and capital expenditures, pre-opening costs and beginning inventory for new superstores.

At March 31, 2001 and December 31, 2000 the Company's working capital was \$45.5 million and \$47.2 million, respectively. Cash used in operations was

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\$12.5 million for the three months ended March 31, 2001 as a result of the seasonal reduction of accounts payable and accrued payroll in the amount of \$7.3 million and an increase in inventory of \$3.4 million to support the new superstores.

Net cash used in investing activities during the three months ended March 31, 2001 was \$2.8 million. This use of cash was for capital expenditures, primarily related to new stores. In 2001, the Company expects to spend approximately \$11.0 million on capital expenditures, which includes approximately \$9.0 million for new store openings, and the remainder for remodeling and systems in existing stores, warehouse equipment and systems development. There are no other material commitments for capital expenditures other than new store openings in the next 12 months.

Net cash provided by financing activities includes \$4.8 million in borrowings under the Company's \$25 million revolving credit facility and \$2.2 million of proceeds from bank overdrafts. The overdrafts represented outstanding checks at certain banks in excess of funds on deposit at those banks. These accounts are maintained as zero balance accounts and are covered as required from funds available at other banks.

The Company believes the cash generated from operations during the year and available borrowings under the financing agreement will be sufficient to finance its working capital and capital expenditure requirements for at least the next 12 months.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not Applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON 8-K

(a) Exhibits:

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None

- (b) There were no reports on Form 8-K filed during the quarter ended March 31, 2001.

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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.

A.C. MOORE ARTS & CRAFTS, INC.

Date: May 7, 2001

By: /s/ Leslie H. Gordon

Executive Vice President
and Chief Financial Officer
(duly authorized officer
and principal financial
officer)

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