GREEN DANIEL CO
Form 10-Q
August 15, 2001

Company Name: DANIEL GREEN COMPANY Ticker Symbol: DAGR

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Quarterly Report under Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the quarter ended June 30, 2001 Commission File No. 0-774

DANIEL GREEN COMPANY
(Name of Small Business Issuer in its Charter)

MASSACHUSETTS	15-0327010
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification No.)
OLD TOWN, MAINE	04468
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (207) 827-4431

Former name, former address and former fiscal year, if changed since last report: None.

Check whether the issuer: (1) filed all reports required to be filed by section 13 or 15(d) of the Exchange Act during the past twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. YES _X_ NO ___

CLASS	OUTSTANDING AT JUNE 30, 2001
Common Stock $2.50 par value	1,889,027

Transitional Small Business Disclosure Format (Check One) Yes __ No _X_

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DANIEL GREEN COMPANY
Consolidated Balance Sheets

ASSETS

	June 30, 2001 (Unaudited)	December 31, 2000 (*)
Current Assets:		
Cash	$ 123,849	$ 1,395
Accounts Receivable, trade less allowances of $1,305,000 in 2001 and $2,249,000 in 1999	6,868,051	14,601,499
Deferred Income Tax Asset	654,491	654,491
Finished Goods Inventories, at lower of cost (FIFO) or market:	16,693,038	14,758,949
Other Current Assets	745,975	193,757
Total Current Assets	25,085,404	30,210,091
Property, plant & equipment:		
Real Estate and Water Power, at cost	1,698,581	1,698,581
Machinery & Equipment at cost	734,330	734,330
	2,432,911	2,432,911
Less: Accumulated Depreciation	479,306	378,333
Property, plant & equipment, net	1,953,605	2,054,578
Other Assets:		
Deferred Income Tax Asset	0	795,038
Prepaid Pension Cost	0	3,610,518
Other Assets, net	2,952,847	1,754,176
Total Other Assets	2,952,847	6,159,732
Total Assets	$29,991,856	$38,424,401

(*) Derived from audited consolidated financial statements.

See notes to consolidated financial statements.

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DANIEL GREEN COMPANY
Consolidated Balance Sheets

LIABILITIES & STOCKHOLDERS' EQUITY

	June 30, 2001 (Unaudited)	December 31, 2000 (*)
Current Liabilities:		
Notes Payable, line of credit	$ 9,577,181	$ 12,500,000
Notes Payable, current	7,715,425	6,416,743
Accounts Payable, trade	3,045,935	9,158,314
Liability to former stockholder	1,805,951	1,805,951
Income Tax Payable	54,197	898,364
Other Accrued Liabilities	431,196	1,038,078
Total Current Liabilities	22,629,885	31,817,450
Deferred Income Taxes	613,064	0
Notes Payable, non-current	1,047,619	9,320
Other Liability	700,000	700,000
Total Other Liabilities	2,360,683	709,320
Total Liabilities	24,990,568	32,526,770
Stockholders' Equity:		
Common Stock	5,071,065	4,245,823
Paid-in-excess of par value	1,837,887	815,940
Retained Earnings	302,838	1,305,759
	7,211,790	6,367,522
Less: Treasury Stock	(2,210,502)	(469,891)
Total Stockholders' Equity	5,001,288	5,897,631
Total Liabilities & Stockholders' Equity	$ 29,991,856	$ 38,424,101

(*) Derived from audited consolidated financial statements.

See notes to consolidated financial statements.

DANIEL GREEN COMPANY
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	
Net Sales	$ 8,399,823	$ 6,398,449	$
Costs and Expenses			
Cost of Goods Sold	5,364,824	4,245,004	
Selling, General & Administrative	2,504,759	2,469,592	
Other Expense-Pension	1,713,710	0	
Interest Expense	517,963	437,282	
Total Costs and Expenses	10,101,256	7,151,878	
Loss before Income Tax Expense	(1,701,433)	(753,429)	
Income Tax Credit	(474,158)	(263,886)	
Net Loss	$ (1,227,275)	$ (489,543)	$
Net Loss per Share:			
Basic	$ (0.78)	$ (0.31)	$
Diluted	$ (0.78)	$ (0.31)	$
Shares Outstanding:			
Basic	1,572,486	1,560,789	
Diluted	1,572,486	1,560,789	

See notes to consolidated financial statements.

DANIEL GREEN COMPANY
Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30, 2001	June 30, 2000
Operating Activities:		
Net Loss	$(1,002,921)	$ (2,031,771)
Adjustments to reconcile net income (loss) to net provided by operating activities:		
Depreciation and amortization	408,638	122,758
Changes in assets & liabilities:		
(Increases) decreases in:		
Accounts Receivable, trade	7,733,448	3,373,461
Finished Goods Inventories	(1,934,089)	(729,313)
Other Current Assets	(552,218)	(41,757)
Other Assets	0	(434,515)
Increases (decreases) in:		
Accounts Payable, trade	(6,112,379)	(198,237)
Accrued Salaries & Commissions	0	(34,702)
Other Accrued Liabilities	(557,927)	264,664
Income Taxes Payable	(844,167)	0
Prepaid Pension	3,610,518	0
Net cash provided by Operating Activities	748,903	290,588
Investing Activities:		
Acquisition of business less cash acquired	0	(11,485,900)
Sale of Marketable Securities	0	718,000
Purchase of property & equipment	0	(204,199)
Net cash used in Investing Activities	0	(10,972,099)
Financing Activities:		
Net Borrowing/(Payment) on Line of Credit	(2,922,819)	5,716,152
Net Borrowing of Notes Payable	2,336,981	5,242,378
Purchase of Treasury Stock	(40,611)	(25,183)
Other Refinancing Expenses	0	(52,727)
Net Cash Provided/(Used) in Financing Activities	(626,449)	10,880,620
Net Increase in Cash	122,454	199,109
Cash at Beginning of Period	1,395	225,079
Cash at End of Period	$ 123,849	$ 424,188

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DANIEL GREEN COMPANY
Notes to Consolidated Financial Statements

Note 1.

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain adjustments, all of which are of a normal and recurring nature, necessary to present fairly the financial position as of June 30, 2001 and the results of operations and cash flows for the three and six months then ended. The results of operations for the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

Note 2.

The accounting policies used in preparing these statements are the same as those used in preparing the Company's consolidated financial statements for the year ended December 31, 2000. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report to stockholders for the year ended December 31, 2000.

Note 3.

Due to severe global competition, the Company ceased domestic manufacturing and transitioned to a fully sourced importer during 1999. At the same time, several acquisition opportunities were aggressively evaluated and pursued. This activity resulted in acquiring certain assets of one of the Company's largest competitors, L. B. Evans and Son Company Limited Partnership ("Evans") on February 3, 2000. In addition, the Company purchased all of the outstanding shares of Penobscot Shoe Company ("Penobscot") from Riedman Corporation on March 30, 2000. Penobscot Shoe Company has been making women's footwear for over 60 years and is based in Old Town, Maine. Since a significantly more modern distribution facility, with excess capacity came with the Penobscot acquisition, it was decided that relocating the Daniel Green operation to Maine would provide the most efficient and effective platform for optimizing the synergies from the three businesses. During May 2000, and pursuant to a public announcement made by the Company on March 30, 2000, the Company's headquarters and distribution operation previously located in Dolgeville, New York were relocated to, and consolidated with, the newly acquired operations in Old Town, Maine.

The acquisition of Penobscot has been accounted for under the purchase method of accounting and, accordingly, the operation results of Penobscot have been included in the Company's consolidated financial statements since the date of acquisition.

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The following summary presents unaudited proforma consolidated results of operations as if the acquisition had occurred at the beginning of 2000, and include adjustments for estimated amounts of goodwill amortization, depreciation of fixed assets acquired based on their estimated fair values, increased interest expense assuming the purchase consideration had resulted in additional borrowing during the periods presented. The pro forma results are for illustrative purposes only, and do not purport to be indicative of the actual results which would have occurred had the transaction been consummated as of the earlier dates, nor are they indicative of results of operations which may occur in the future. The results do not reflect synergies.

Six Months Ended June 30,	2000
In thousands, except per share amounts (unaudited)	
Net Sales	$ 14,068
Net Earnings (Loss)	(1,244)
Net Earnings (Loss) per Common Share	(0.80)

Note 4

Effective January 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities." These standards require the Company to recognize all derivatives as either assets or liabilities at fair value in its balance sheet. The accounting changes in the fair value of a derivative depends on the use of the derivative. To the extent that a derivative is effective as a hedge of a future exposure to changes in value, the fair value of the derivative is deferred in other comprehensive income. Any portion considered to be ineffective is reported in the statement of operations immediately.

The adoption of these standards did not have a material impact on the Company's financial statements and therefore, a transition adjustment is not separately presented.

The Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". These statements make significant changes to the accounting for business combinations, goodwill and intangible assets. SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations with limited exceptions for combinations initiated prior to July 1, 2001. In addition, it further clarifies the criteria for recognition of intangible assets separately from goodwill. This statement is effective for business combinations completed after June 30, 2001.

SFAS No. 142 discontinues the practice of amortizing goodwill and indefinite-lived intangible assets and initiates an annual review for impairment. Impairment would be examined more frequently if certain indicators are encountered. Intangible assets with a determinable useful life will continue to be amortized over their useful lives. SFAS No. 142 applies to goodwill and intangible assets acquired after June 30, 2001. Goodwill and intangible assets existing prior to July 1, 2001 will be affected when the Company adopts the statement. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Company is evaluating the impact of the adoption of these standards and has not yet determined the effect of adoption on its financial position and results of operations.

Note 5.

During the quarter ended June 30, 2001, the Company completed the termination of its defined benefit pension plan. On the date of the termination, the Company received cash totaling $2,377,600, which was less than the carrying value of the prepaid pension cost asset of $3,734,670, resulting in a loss of $1,357,070. This loss was increased by an excise tax totaling $356,640, which resulted in a total loss on this transaction totaling $1,713,710. This amount is included in other expense in the 2001 statement of operations.

During the second quarter ended June 30, 2001, following the termination of its defined benefit pension plan, the Company contributed cash of $1,700,000 to the Company's 401(k) savings plan ("the Plan"). Subsequently, in June 2001 the Plan acquired 330,097 shares of the Company's common stock at a price per share of $5.15, which was based on an independent appraisal. There were no allocated shares as of June 30, 2001. The unallocated shares in the Plan have been classified as treasury stock in stockholders equity. Compensation expense will be recognized as the shares are allocated to the participants, which is expected to occur over a seven-year period.

DANIEL GREEN COMPANY
Management Discussion & Analysis of Financial Condition and
Results of Operations

1. Liquidity and Capital Resources

At June 30, 2001 the Daniel Green Company had working capital of $2,455,519 vs. a working capital deficiency of ($1,607,359) at December 31, 2000.

The consolidated statement of cash flows for the six months ended June 30, 2001 shows an increase of cash of approximately $123,000 since December 31, 2000. Net cash provided from operations was $748,903, primarily due to the reduction in accounts receivable from December 31, 2000. During the six months ended June 30, 2001 accounts payable trade was reduced by $6,112,379.

At the end of the second quarter of 2001, total indebtedness was $20,146,176 which consisted of: line of credit balance, current of $9,577,181, notes payable, current, of $7,715,425 (which includes $750,000 due to a major stockholder), notes payable, noncurrent, of $1,047,619, and a liability related to the dissenting shareholders of Penobscot of $1,805,951.

The Company has a revolving line of credit ("revolver"), an additional term loan facility in the amount of $6,000,000, a supplemental loan facility in the amount of $2,800,000, and an additional bridge loan (amendment to the revolver) of $2,000,000. The borrowing base for the revolver is based on certain balances of accounts receivable and inventory, as defined in the agreement. The maximum credit amount under the revolver is $12,500,000, the interest rate is prime plus .75% (the prime rate was 6.75% at June 30) and the revolver expires on April 1, 2003. The revolver is secured by accounts receivable, inventory, and equipment. The term loan is payable through April 1, 2003 and is also secured by accounts receivable, inventory, and equipment. The supplemental loan facility is available through April 1, 2003. The bridge loan has an expiration date of May 30, 2002. A major stockholder of the Company guarantees these facilities. In addition, the Company has a loan in the amount of $750,000 outstanding to the same major stockholder.

The revolver and the term loan agreements contain covenants relative to average borrowed funds to earnings ratio, net income, current ratio, and cash flow coverage. In addition, the payment or declaration of dividends and distributions is prohibited unless a written consent form from the lender is received. On May 31, 2001, the bridge loan was executed, and upon the effective date of this amendment to the revolver, the Bank waived the Company's failure to comply with certain covenants, subject to complying with newly stated covenants.

Management is not aware of any known demands, commitments or events that would materially effect its liquidity. There are no material expenditures or commitments, which would affect capital resources in a significant way. Cash generated by operations, supplemented by borrowings, should cover planned requirements.

2. Results of Operations

Net Sales for the second quarter of 2001 were $8.4 million compared to $6.4 million for the same period in the prior year. This year's results represent a 31.2% increase over the results for last year. The net sales increase is primarily attributable to the Trotters and Softwalk brands, which were part of the Penobscot Shoe Company acquisition which took place in 2000.

The gross margin in the current quarter was approximately 36.1% compared to 33.7% in the same quarter last year. The increase in gross profit is primarily due to the positive performance in the Trotters and Softwalk brands.

Selling, general and administrative expenses as a percentage of net sales were 29.8% or $2.5 million for the second quarter of 2001 as compared to 38.6% or $2.5 million for the same quarter in 2000. The results in 2000 include amounts associated with closing and securing the Company's Dolgeville location and terminated employees' severance packages.

Included in other expenses for the second quarter of 2001 are costs associated with the termination of the Penobscot Shoe Company Retirement plan, totaling $1,713,710. During the quarter ended June 30, 2001, the Company completed the termination of its defined benefit pension plan. On the date of the termination, the Company received cash totaling $2,377,600, which was less than the carrying value of the prepaid pension cost asset of $3,734,670, resulting in a loss of $1,357,070. This loss was increased by an excise tax totaling $356,640, which resulted in a total loss on this transaction totaling $1,713,710.

During the second quarter of 2001, interest expense amounted to $517,963 as compared to $437,282 in the second quarter of 2000. For the six months ended June 30, 2001 interest expense amounted to $1,009,734 compared to $69,282 for the same period last year. The reason for the increase is the increase in outstanding debt vs. last year.

A majority of our products continue to be made of leather. As a result of the Mad Cow disease epidemics in Europe, the footwear industry continues to be concerned about rising leather prices in the future and what impact on gross profits this could have. Year to date we have begun to experience limited price increases for our cost of goods sold.

During what has been described as a "very tough" Spring season by the industry, both the Trotters and Softwalk brands of the Company have continued to perform well at retail. This is a result of our brands maintaining a clean channel of distribution with a focus on growing the business with non-promotional retailers. Our order backlog position is currently running ahead of last year's results.

Part II - Other Information

1. Legal Proceedings - None.

2. Changes in Securities - None.

3. Default upon Senior Securities - None.

4. Submission of matters to a vote of security holders - None.

5. Other Information - The annual meeting of the stockholders has been scheduled for Thursday, September 6, 2001 at 10:00 am at the Strathalan Hotel, 550 East Avenue, Rochester, New York, 14607. Stockholders of record on June 24, 2001 will receive notice of the meeting.

6. Exhibits and Reports on Form 8K - Exhibit index appearing after signature page is hereby incorporated by reference.

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.

DANIEL GREEN COMPANY
Registrant

Date:

Robert M. Weedon
Chief Financial Officer

/s/ James R. Riedman

James R. Reidman
Chief Executive Office