Harold's Stores Inc.

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ABSTRACT

This case presents students the opportunity to combine strategic and financial analysis to assess a firm's strategic direction and operations. The case originates from an actual firm, Harold's Stores Inc., a specialty apparel retailer founded in 1948. After years of significant growth and expansion, by fiscal year 2001, Harold's faced declining sales, an unprofitable catalog business, operating losses, significant debt, and changes in leadership. Students are asked to evaluate the firm's business and merchandising strategies against comparative firms, and summarize their findings using an S-W-O-T matrix. Next, students are invited to analyze Harold's financial results quantitatively, using common-size analysis, trend analysis, and ratio analysis. Finally, students are encouraged to recommend solutions that could improve operational performance and return the firm to profitability. The case is designed for use in upper-divisional managerial accounting or finance courses, or introductory MBA courses in accounting or finance.

Keywords: strategic analysis, SWOT analysis, financial analysis, ratio analysis, common-size statements, trend analysis

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INTRODUCTION

The following case study focuses on the rise and struggles of the clothing retailer, Harold's Stores, Inc. The retail chain had humble beginnings in Norman, Oklahoma selling Ivy League style clothing and experienced evolutionary growth into a national retailer with stores in malls across the United States as well as a mail order and an online presence. After going public in the 1980's, the company focused on a strategy of aggressive expansion into new markets and same store sales growth through the 1990's (Harold's, Annual Report 1998). Harold's began to experience turmoil in the early 2000's as it faced headwinds from various economic and environmental factors such as technology and changes in customer tastes and demands. The company struggled to change strategies as revenue growth slowed and operating profits became operating losses. The discussion will begin with the background of the retailer's roots and company growth into the early 2000's. Next, the case will provide an overview of the economic and environmental factors affecting Harold's stores which include the competition in the clothing industry, and changes in product mix to meet customer tastes. Third, the discussion will address the strategic direction of the company which includes discussion around the expansion and same-store sales growth. Finally, the case will conclude with a situational analysis as of 2001.

COMPANY BACKGROUND

Harold's Stores, Inc. was founded in Norman, Oklahoma in 1948 by Harold Powell. While growing up in Norman, he worked at his parent's drug store which opened in 1927 in a shopping area known as Campus Corner near Oklahoma University until he later joined the Navy. After returning to Norman in 1948, he founded the first Harold's store in Campus Corner. The clothing he sold at the original store featured menswear that reflected styles found at East Coast, Ivy League schools. Harold's store was one of the first stores west of the Mississippi to feature this style of clothing. Powell regarded his clothing niche as conservative and understated. In 1958, Harold's opened a boutique offering women's clothing featuring the same Ivy League style found in their men's clothing. As the retailer continued to experience success in the 1970's, it expanded beyond Norman into high-end shopping centers in the region which included Tulsa, Oklahoma City and Dallas. During the expansion, the company issued store credit cards, maintained its own delivery trucks, and operated a distribution center. In 1987, Harold's launched an IPO in order to fund additional growth. In addition to opening new stores, they began to distribute a successful clothing catalog by 1990 (Bailey 2014).

Throughout the 1990's, Harold's continued to focus on the expansion of both their store locations and catalog circulation. First, the company began opening stores around the country beginning with locations in Texas and Oklahoma. Later, stores were opened in various malls and outlets from California to Virginia (Harold's, Annual Report 1999). By 2001, Harold's had 52 store locations around the country (Weinstein 2003). Second, the company used the catalog business as a tool to both generate sales and expand into new markets. When the catalogs were first distributed in March of 1990, the database contained 100,000 addresses. By 1996, the circulation had risen to 6.5 million with all of the catalogs designed and produced in-house. The company used the catalog to build large customer databases for a specific geographic location. The customer response from the catalogs would allow the company to pinpoint prime, new store locations as well as generate customer demand for store product (Harold's, Preliminary Prospectus 1996).

INDUSTRY BACKGROUND

The distribution channels in the clothing retail industry landscape evolved significantly from the 1940's up through the 1990's. Until the 1960's, customers preferred to do a significant amount of their shopping at stores located downtown in their local towns and cities. The 1970's saw massive growth of in-door malls located near suburban neighborhoods typically with multiple chain stores and several anchor department stores. During the 1980's, the retail industry saw growth in manufacturer outlet stores and discount stores offering reduced cost or low-cost merchandise. By the late 1990's, the retail industry began to see a rise in the popularity of high-end retailers in down town districts (Zachman and Folker 2009). Many of these high-end retailers were independent clothing stores. Customer demand for these clothing stores, often specializing in upscale apparel, rose as a result of a desire for more personalized and friendly experiences rather than the cookie-cutter similarities of chain stores (Schofield 1997). In addition to physical store locations, the 1990's saw a growth in the distribution of mail order catalogs and the beginning of internet web site sales. For example, in 1998, American Eagle Outfitters began selling on www.ae-outfitters.com and mailed over 400,000 in-house magazines/catalogs to customers during the Christmas season (Hanover 1999). Likewise, in 2001, Eddie Bauer produced and distributed multiple catalogs on recipient lists ranging from 3 million to 10 million customers. The company used these direct mailing list databases as a major component of their customer relationship management or CRM systems which were critical for developing customer relationships (Fraone 2001). The Vice President for branding at Eddie Bauer described the clothing retail industry as being in the same position as packaged goods. In order for clothing retailers to remain profitable, they needed focus on developing an emotional relationship with the customer (Cuneo 1997).

In addition to changes in distribution channels, the clothing retail industry exhibited several significant changing trends throughout the late 1990's into the early 2000's. Some of those trends included demand for casual wear due to the relaxed dress codes in the work place, customer demand for clothing stores with more narrow product lines signaling a move away from commoditized brands sold at multiple retailers, and an increase in the value-conscious clothing shopper.

First, business wear experienced a move from formal wear, such as suits and ties, to less formal attire such as khaki pants and polo shirts as a direct result of the casual Friday trends in the work place (Schofield 1997). The relaxed dress code in the office moved various clothing retailers to shift their merchandise mix to more casual wear. In 1998, casual clothing accounted for the largest portion of total apparel sales for the industry. Retail clothing chains such as Gap, Abercrombie & Fitch, and American Eagle Outfitters had seen significant sales increases from dress-down apparel (Andersen 1999).

Second, the clothing industry saw a move toward clothing stores with narrower product lines and specialty brands and away from commoditized brands sold through multiple retailers. Department stores experienced steady declines in sales due to over-distribution of many national brands (Hanover 1999). Retailers watched their profit margins decrease as they continued to slash their prices on these brands in order to pull value seeking customers away from the competition. As a result of over-commoditization of brands, customers gravitated to clothing stores with more friendly environments that often provided more unique, upscale clothing labels (Schofield 1997). In the late 90's for example, American Eagle Outfitters was able to effectively re-invent itself by narrowing its customer focus. The company targeted 21 year old, active, outdoor oriented middle income individuals with an in-house private label. The product was hugely successful with a much larger audience of 13 to 34 year olds buying the brand (Hanover 1999). During the same time period, L. L. Bean rolled out a catalog featuring their own private label, Freeport Studio, of new casual-clothing targeting baby-boomer women offering dresses, skirts, and jewelry in order reverse a declining sales trend (Symonds 1998).

Finally, the rise of the value-conscious shopper forced retailers to provide better quality at a more affordable price. As a result of tighter economic conditions in the late 1990's, consumers became increasingly value-conscious when shopping for clothes. These shoppers continued to have more purchasing options available for finding the best value within the growing internet market. Not only did traditional retail brick and mortar stores begin to offer an on-line presence, but manufacturers started to offer their own internet sales as well. Stores such as Gap and Old Navy effectively attracted value-conscious shoppers by offering casual-attire at affordable prices (Andersen 1999). Consumer Reports published a 1997 survey indicating that the best predictor of customer satisfaction related to how they perceived the quality of a stores clothing. Specialty chains such as Talbots, Brooks Brothers, and Eddie Bauer were perceived to provide the best quality merchandise. In addition to quality, the endless sales offered by most clothing stores had trained consumers to shy away from full prices. However, specialty stores were able to get away with less discounting as a result of the better quality of merchandise (*Consumer Reports* 1998).

PRODUCT MIX

Harold's product mix attempted to address customer demands for both narrower product lines with private labels as well as the trend toward business casual in the work place. As of 1998, ladies' apparel represented 77% of annual sales while men's apparel approximated 23%. While the company offered popular national designer brands such as Polo, Corbin, and Kenneth Gordon, the private label accounted for more than 90% of men's and 95% of women's total sales. Harold's viewed the development of original exclusive and semi-exclusive apparel items as a fundamental feature of the company's marketing strategy.

The apparel stores for women offered updated classic style coordinated sportswear, dresses, coats, outerwear, shoes and accessories. For men, stores offered tailored clothing, suits, sport coats, sportswear, and shoes offered in a classical style with a contemporary influence known as "updated traditional." The company's private label, "Old School", focused on casual clothing and sportswear. The label included pre-washed denim, khaki, twills, corduroy, and poplin pants, sportswear tops and accessories. The clothing line also included sweaters, outerwear, footwear, and knit shirts (Harold's, Annual Report 1998).

STRATEGIC DIRECTION

Beginning in the 1990s, Harold's Stores Inc. adopted an aggressive growth plan built on three primary strategies: company expansion; sustained, same-store sales growth; and increased catalog sales. The company's strategic intent was emphasized in the company's 1996 registration statement (Harold's, Preliminary Prospectus 1996, 3):

> The Company believes that its future success will be achieved by expanding the number of its women's and men's apparel stores, maintaining sales momentum at

existing stores, and increasing circulation of its direct response catalog. The Company recently embarked on an aggressive expansion program, adding in the aggregate eight retail stores during fiscal 1995 and fiscal 1996 and thereby increasing the chain store count by approximately 40%.

The Company's expansion plan has focused and will continue to focus primarily on markets currently served by the Company and in new markets that represent a geographical progression from existing markets.

Expansion

Since its founding, Harold's Stores Inc. was a regional clothier; the majority of its stores were located in Texas and Oklahoma. In fiscal 1994, 62% of its locations were in either Texas or Oklahoma, and 76% of its locations were within 500 miles of its flagship store in Norman, OK. By fiscal 2001, the geographic profile of the company had changed dramatically with stores in 22 states, stretching as far west as Palo Alto, California, and as far east as Williamsburg, Virginia. Stores in Skokie, Illinois and Tampa, Florida represented extreme north-south markets. The company justified its coast-to-coast expansion, saying that the new markets represented "geographical progression from existing markets (Harold's, Annual Report 1997, part I, para. 5)."

Although its expansions plans were aggressive for a company its size, executives at the company believed their approach was methodical (Jones 1998). Said one marketing executive:

> We're pretty conservative in our growth pattern. We open five to six stores a year. We're not out there opening a store a day like a lot of other retailers are. (Jones 1998, para. 8)

Over a seven year period beginning in fiscal 1994, the number of store locations grew from 21 to 52. The company's expansion efforts resulted in double-digit revenue growth. From FY1994 to FY2000, Harold's total revenues more than doubled and its compound annual revenue growth rate over this same period was approximately 14 percent. As part of its aggressive growth plan, the company tailored its product offerings, store size, and store locations, justified by strong analytics and data. For example, when the company opened its Salt Lake City, UT location in 1998, it focused strictly on ladies apparel due to buying trends that were logged through its catalog sales business (Jones 1998).

Yet, company management frequently made paradoxical decisions. For example, distribution infrastructure to support a nationwide expansion was not enhanced; the company maintained only one distribution center in Norman, OK (Harold's, Annual Report 2001). Although the center had capacity to support over 70 store locations, the site was pragmatically too far away from some store locations like those in Arizona, California, Ohio, Florida, or Virginia, which drove up distribution and administration costs.

Another enigmatic tactical choice was the company's decision to move away from its traditional-sized store. The company seemed enamored with the outlet store format; for perspective, in fiscal 1994, the company had an outlet to total store ratio of 1:10; by fiscal 2001, that ratio dropped to 1:7. Outlet stores typically exceeded 10,000 square feet while the average Harold's store was half that size. Originally, outlet stores were used to simply clear markdowns and slow-moving merchandise (Harold's, Annual Report 1997), but by fiscal 2001, the locations also carried merchandise specifically produced for the outlet (Harold's, Annual Report 2001). A direct result of the company's tactical decision to pursue larger square footage locations meant that companywide revenue per square foot dropped 31 percent from fiscal 1996 to fiscal 2001 while rent cost per square foot increased 38 percent over the same period.

Same-Store Sales Growth

A key metric for any retail firm is comparable store sales, which is a measure of year-on-year revenue growth for locations open more than one year. In the early 1990s, Harold's Stores Inc. experienced phenomenal same store sales growth; as example, growth in comparable same store sales was 7 percent, 11 percent, and 9 percent for fiscal years 1994, 1995, and 1996, respectively. As such, a strategic focus for the company was to maintain this sales momentum (Harold's, Annual Report 1997).

To ensure success, the company invested heavily in updating and sometimes even moving its store locations to guarantee strong sales growth. For example, by fiscal 1997, many of its locations were approaching their 10- to 12-year anniversaries; the company remodeled these locations (Rodda, 1997) to mirror current trends and to keep their brand image fresh. The company even dabbled in innovative store designs. For instance, in 1996, the company tested an in-house restaurant in its flagship store in Norman; called Café Plaid, the 80-seat bistro offered breakfast, lunch, and dinner featuring French and Italian cuisine (*Nation's Restaurant News* 1996).

At times however, other tactical decisions seem to undermine this key strategic objective. Most notable was the puzzling decision to adopt trendy, youth-oriented merchandise and abandon its core customer (Bailey 2014). Harold's longstanding position as a specialty retailer was:

> Harold's Stores, Inc., through a 31-location store chain of women's and men's specialty apparel stores in 15 states, offers high-quality, classically inspired apparel to the upscale, quality-conscious consumer primarily in the 20 to 50 year old age group. (Harold's, Preliminary Prospectus 1996)

Yet overtime, the company moved away from its target demographic; the company failed to recognize that 40-something consumers did not want chic merchandise. In the end, comparable store sales started to fall, turning negative in the late 1990s.

Increased Catalog Sales

In March 1990, Harold's Stores Inc. mailed its first direct response catalog to over 100,000 addresses (Harold's, Preliminary Prospectus 1996). By fiscal 1994, circulation was up to 3.1 million and catalog sales were $5.4 million, almost 9 percent of company revenues. *Catalog Age* (1994) trumpeted:

> Harold's has steadily built its three-year-old mail order catalog, proving that at least this retailer can run a catalog business correctly. (18)

The catalog generated very high response rates (*Catalog Age* 1994) and by fiscal 1998, circulation peaked at approximately 7.8 million copies (Harold's, Annual Report 1998) from six catalog mailings (Jones 1998); the segment continued to contribute to overall revenue growth, with FY1998 sales growing 1.8% to $9 million. The catalogs were designed and produced in-house; printing services were outsourced (Harold's, Preliminary Prospectus 1996). To support the catalog segment, the company built a full-time fulfillment center in Norman, OK with a telephone call center and computerized inventory system. (Harold's, Preliminary Prospectus 1996). In fiscal 1999, the company began to migrate its catalog business to the web through www.harolds.com.

Strategically, Harold's catalog business was seen as a profit center, an advertising instrument to stimulate traffic at brick-and-mortar locations and as a way to build a distinctive brand image (Colacecchi 1992; Harold's, Preliminary Prospectus 1996). More so, the catalog business was viewed as a research and development tool to assess new market expansions (Harold's, Preliminary Prospectus 1996). As such, the company invested heavily into the division. As evidence, during the fiscal periods 1996 to 2000, approximately 50-60 percent of the company's annual advertising budget related to the mail order catalogs.

Yet, despite its strategic importance, the catalog business struggled financially as a stand-alone venture; apart from fiscal 1999, the segment was not profitable. Harold's management cited two overriding reasons: (a) the catalog's primary purpose was advertising, and (b) unsold merchandise associated with a given catalog was acquired by the company's retail stores at marked down prices to allow such merchandise to be sold with customary margins (Harold's, Annual Report 1999). As such, margins were essentially transferred from the catalog segment to the retail store segment.

SITUATIONAL ANALYSIS (AS OF FY2001)

By fiscal year 2001, the halcyon 1990s were over. The company's FY2001 total revenues had fallen 6 percent; comparable store sales had fallen 12 percent; and the company reported an operating loss of $6.4 million. Costs and other operational constraints associated with ongoing expansion had taken its toll on the company. As such, the company ceased new store openings. In its 2001 annual report, the company noted:

> The Company has slowed its store growth to focus on reinvigorating the Harold's brand. Once a profitable growth trend has been re-established, the Company plans to continue its store expansion program… The Company plans to open no new stores during fiscal 2002. (Harold's, Annual Report 2001, part I, para. 4)

Moreover, the catalog business, never really profitable, had become an albatross, consuming vital advertising dollars and driving up operating costs. In an effort to cut costs, the company shifted its focus from expanding catalog circulation to reducing catalog expenses (Harold's, Annual Report 1997). As a result, catalog sales began to freefall by fiscal 1999; the company attributed the decline to a 27 percent reduction in total circulation. Weinstein (2003) noted however that the declining catalog business was a direct result of the company's deviation from its key demographic and its focus on shorter, tighter-fitting apparel. In fiscal 1996, catalog sales were 10 percent of overall company revenue; by fiscal 2000, catalog sales were 3 percent.

In fiscal 2001, the effect of the company's direct response catalog was negligible and it ceased operation. In its 2002 annual report, the company noted:

> In 2001, the Company ceased accepting sales through its catalog but has continued mailing a small publication to the database of its active customers. This mailer is used solely as an advertising vehicle as the customer is unable to order merchandise from it. (Harold's, Annual Report 2002, Summary of Significant Accounting Policies)

Amazingly, what was a $9 million dollar operating segment essentially became a direct mail piece in a four-year span.

Other problems were present; foremost was a significant change in capital structure. In order to support its nationwide expansion, the company became extremely reliant on non-owner financing. Long-term debt ballooned from $0.7 million in FY1994 to almost $28 million in FY2000; by FY2001, over half the company's assets were financed with current or long-term debt. As measured by a coverage ratio, the company was unable to cover its interest payments in fiscal years 2000 and 2001.

Another significant issue was merchandising; over time, the company moved away from classically inspired clothing to trendy merchandise. Yet, the company failed to recognize its movement away from its core customer – the 40-something individual who preferred classic clothing. In fact, not until FY2001 did the company publicly admit this error:

> The Company believes the sales decrease in fiscal 2001was primarily because the ladies' merchandise assortment for the spring and summer was too trendy and did not meet the needs of the more conservative and professional customers. While the fall merchandise was more positively received, the Company continues to be challenged with convincing its customers that it has returned to the more traditional merchandise which the customer has come to expect. (Harold's, Annual Report 2001, Item 7).

In sum, ongoing, internal discord regarding strategic direction, finances, and merchandising strategy ripped the company apart, and ultimately resulted in the resignation of the CEO, Rebecca Powell Casey, daughter of company founder, Harold Powell. In her resignation letter, she wrote:

> Over the past five years, Harold's has lost its focus, creative energy, and sadly, the heritage and loyalty that was nurtured and developed over its first 50 years… I do not believe that our current management or board can remedy this situation. I have enjoyed my long association with Harold's and I am sorry that it has to end this way. (As cited in Bailey 2014, Business)

In February, 2001, a new investment group under Williams-Sonoma Chairman and CEO Howard Lester and Ronald de Waal, an entrepreneur and former Saks vice-president effectively took over the company (Bailey 2014). They named Clark Hinkley CEO and moved the company's headquarters to Dallas, TX. In its FY2001 annual report, the company noted the new relationship:

On February 28, 2001, the Company executed a definitive agreement for the purchase by Inter-Him N.V., of which Ronald de Waal is a Managing Director, from the Company of 300,000 shares of a new Series 2001-A Preferred Stock for a total purchase price of $6 million. The purchase provides Inter-Him with special voting rights that empower it to elect a majority of the board of directors and maintain effective control over the Company. Proceeds from the sale of the preferred stock were used to repay debt under the Company's revolving credit facility, which may be re-borrowed by the Company in accordance with the terms of that facility. Excluding the preferred stock purchased in this transaction, Inter-Him owns 11.3% of the Company's outstanding shares and has been a more than 5% shareholder of the Company since 1994.

In conjunction with the equity transaction above, the Company has hired a new Chief Executive Officer [Clark Hinkley]. The new CEO has extensive retail experience in the area of women's specialty apparel and will direct the daily operations of the Company through the executive management team. He has also become a member of the board of directors. (Harold's, Annual Report 2001, Section 14 – Subsequent Event)

REQUIRED CASE STUDY QUESTIONS

Using the narrative and the financial and operating data provided (Appendix), respond to the following questions:

1. By FY2001, Harold's Stores Inc. seemed to be at a crossroads. What is your initial reaction to the situation Harold's finds itself in at the end of fiscal year 2001?

2. Research American Eagle Outfitters (AEO), Bebe Stores, Inc. (BEBE), and Guess?, Inc. (GES), three specialty apparel firms in the retail industry. Specifically, access their annual report filings (*Form 10-K*) at https://www.sec.gov/edgar/searchedgar/ companysearch.html for fiscal year 2001. What were the primary business strategies of these firms? Compare and contrast these strategies to those strategies being pursued by Harold's Stores Inc. Are Harold's strategies consistent or inconsistent with these indirect competitors?

3. Merchandising strategy is paramount in retail. In light of the apparel trends present in the 1990's into 2001, identify how Harold's product strategies are in line with industry clothing trends and where they fall short.

4. Based on the provided narrative, create a S-W-O-T matrix (Strengths, Weaknesses, Opportunities, Threats matrix); identify a minimum of three organizational (internal) strengths and weaknesses and a minimum of two environmental (external) opportunities and threats. What does the S-W-O-T analysis reveal?

5. Analyze Harold's Stores Inc. using common-size statements (% of sales for income statement items or % of assets for balance sheet items) for FY1994 through FY2001. What does the quantitative analysis reveal?

6. Analyze Harold's Stores Inc. Statements of Operations using trend analysis (i.e., year-on-year growth) for FY1995 through FY2001. What does the quantitative analysis reveal?

7. Analyze Harold's Stores Inc. using ratio analysis for FY1995 through FY2001; the following list provides common financial ratios by ratio category. Discuss strengths and weaknesses of the firm identified by your quantitative analysis.

Ratio	*Formula*
Profitability Ratios	
Gross Profit Margin	Gross Profit ÷ Revenue
Operating Profit Margin	Operating Income ÷ Revenue
Pre-tax Profit Margin	Earnings Before Tax ÷ Revenue
Net Profit Margin	Net Income ÷ Revenue
Return on Assets	Net Income ÷ Average Total Assets
Return on Equity	Net Income ÷ Average Total Equity
Liquidity Ratios	
Current Ratio	Current Assets ÷ Current Liabilities
Quick Ratio	(Cash + Accts. Rec. + Other Rec.) ÷ Current Liabilities
Debt Management Ratios	
Equity Multiplier	Average Total Assets ÷ Average Total Equity
Times Interest Earned	Operating Income ÷ Interest Expense
Debt to Asset	Total Liabilities ÷ Total Assets
Efficiency Ratios	
Inventory Turnover	Cost of Goods Sold ÷ Average Inventory
Days in Inventory	365 ÷ Inventory Turnover
Receivables Turnover	Revenue ÷ Average Accounts Receivable
Days in Sales	365 ÷ Receivables Turnover
Payments Turnover	Cost of Goods Sold ÷ Average Accounts Payable
Days in Payment	365 ÷ Payments Turnover
Cash Conversion Cycle	Days in Inventory + Days in Sales – Days in Payment
Fixed Asset Turnover	Revenue ÷ Average Net Property/Plant/Equipment

8. In a few paragraphs, summarize your thoughts and findings regarding what has happened at Harold's Stores Inc. Is the firm well positioned for future success, or are there significant issues that threaten its ability to return to profitability in the short- or long-run?

9. Suppose you were the CEO of Harold's Stores Inc. on January 1, 2001. State specifically what actions you would undertake to continue or to improve Harold's operational performance and return the firm to profitability? Be sure to address overall company strategy, merchandising, and financing in your suggestions.

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APPENDIX

Relevant financial and operational data for fiscal years 1994 through 2001 are presented in tabular format here. Some information is not available, and is indicated by "N/A." Key terms and a summary of Harold's accounting policies are shown in Table 6 and Table 7, respectively.

Table 1: Statements of Operations

Harold's Stores Inc.
Statements of Operations
($000 except EPS)

	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996	FY 1995	FY 1994
Revenue	127,484	136,262	129,224	119,919	108,257	94,264	75,795	60,940
Cost of Goods Sold	93,776	95,137	84,096	81,770	69,540	60,445	49,388	40,591
Gross Profit	**33,708**	**41,125**	**45,128**	**38,149**	**38,717**	**33,819**	**26,407**	**20,349**
Selling, General and Administration	35,691	39,663	35,686	33,725	29,713	26,537	20,884	16,040
Depreciation and Amortization	4,457	4,451	3,860	3,535	2,806	2,185	1,710	1,409
Operating Income	**(6,440)**	**(2,989)**	**5,582**	**889**	**6,198**	**5,097**	**3,813**	**2,900**
Interest Expense	1,754	1,114	797	815	318	452	274	117
Other Income/(Expense)	0	0	(50)	0	0	0	0	0
Earnings Before Tax	**(8,194)**	**(4,103)**	**4,735**	**74**	**5,880**	**4,645**	**3,539**	**2,783**
Provision for Income Tax	(3,278)	(1,641)	1,894	30	2,352	1,858	1,451	1,171
Net Income	**(4,916)**	**(2,462)**	**2,841**	**44**	**3,528**	**2,787**	**2,088**	**1,612**
EPS - Basic	(0.81)	(0.41)	0.48	0.01	0.61	0.51	0.40	0.35

Table 2: Statements of Cash Flows

Harold's Stores Inc.
Statements of Cash Flows
($000)

	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996	FY 1995	FY 1994
Cash Flow from Operations	**4,455**	**(6,597)**	**9,638**	**(3,551)**	**249**	**709**	**569**	**(509)**
Net Earnings	(4,916)	(2,462)	2,841	44	3,528	2,787	2,088	1,612
Depreciation & Amortization	4,457	4,451	3,860	3,535	2,806	2,185	1,710	1,409
Change in Working Capital	7,660	(7,572)	2,813	(7,894)	(5,742)	(4,519)	(3,404)	(3,533)
Other Operating Cash Flow	(2,746)	(1,014)	124	764	(343)	256	175	3
Cash Flow from Investing	**(1,223)**	**(3,946)**	**(5,755)**	**(4,554)**	**(9,705)**	**(4,857)**	**(3,952)**	**(2,804)**
Cash flow from Financing	**(3,345)**	**10,814**	**(3,563)**	**7,802**	**9,887**	**4,041**	**3,349**	**3,269**
Net Borrowings	(3,345)	10,814	(3,563)	7,804	3,023	4,044	3,352	260
Sale/Purchase of Stock	0	0	0	0	6,864	0	0	3,009
Other Financing Cash Flow	0	0	0	(2)	0	(3)	(3)	0
Change in Cash & Cash Equivalents	**(113)**	**271**	**320**	**(303)**	**431**	**(107)**	**(34)**	**(44)**

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Table 3: Balance Sheets

Harold's Stores Inc.
Balance Sheets
($000)

	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996	FY 1995	FY 1994
Total Assets	69,211	73,879	63,917	63,929	59,608	42,909	34,661	26,441
Current Assets	44,519	52,329	41,026	43,081	38,915	29,145	24,133	18,293
Cash and Cash Equivalents	608	721	450	130	433	2	109	143
Accounts Receivable	5,805	6,413	6,335	5,822	5,476	4,687	4,238	3,988
Other Receivables	169	2,374	1,059	886	673	568	671	502
Inventory	32,279	37,357	29,486	31,440	28,544	21,647	17,847	12,647
Prepaid & Other Current Assets	5,658	5,464	3,696	4,803	3,789	2,241	1,268	1,013
Non-Current Assets	24,692	21,550	22,891	20,848	20,693	13,764	10,528	8,148
Gross Property, Plant, Equipment	34,115	33,983	31,304	29,253	25,001	19,527	15,186	11,234
Accumulated Depreciation	(15,111)	(12,665)	(10,671)	(10,917)	(7,897)	(6,097)	(4,955)	(3,392)
Other Non-Current Assets	5,688	232	2,258	2,512	3,589	334	297	306
Total Liabilities	37,043	36,811	24,396	27,463	23,573	17,610	12,401	6,445
Current Liabilities	12,510	9,748	7,982	7,651	10,899	7,844	11,609	5,753
Accounts Payable	7,073	6,329	4,460	4,789	6,668	4,396	4,154	2,828
Accrued Expenses	1,912	1,823	1,711	1,212	2,256	1,865	1,386	830
Redeemable Gift Certificates	1,128	966	782	916	923	672	509	409
Current Debt/Capital Lease	2,397	630	549	734	110	75	4,977	1,475
Other Current Liabilities	0	0	480	0	942	836	583	211
Long-Term Liabilities	24,533	27,063	16,414	19,812	12,674	9,766	792	692
Long-Term Debt/Capital Lease	24,533	27,063	16,330	19,708	12,528	9,540	594	669
Other Long-Term Liabilities	0	0	84	104	146	226	198	23
Total Equity	32,168	37,068	39,521	36,466	36,035	25,299	22,260	19,996
Common Stock	61	61	60	60	57	50	47	43
Additional Paid-In Capital	34,187	34,170	34,161	33,947	31,548	20,572	17,491	13,047
Retained Earnings	(2,078)	2,838	5,300	2,459	4,430	4,677	4,722	6,906
Treasury Stock	(2)	(1)	0	0	0	0	0	0

Table 4: Supplementary Financial Data

Harold's Stores Inc.
Supplementary Financial Data
($000 except Average Liquidation Rate and Effective Tax Rate)

	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996	FY 1995	FY 1994
Catalog/Web Sales								
Catalog/Web Sales	2,550	5,314	8,243	9,039	8,883	9,426	N/A	5,400
Catalog Sales % Total Revenue	2%	4%	6%	8%	8%	10%	N/A	9%
Accounts Receivable								
Average Liquidation Rate (months)	3.8	3.7	3.7	3.5	3.0	4.0	N/A	N/A
Finance Charge Revenue (netted in SGA)	1,111	1,052	1,003	985	864	705	578	480
Property & Equipment								
Leasehold Improvements	13,917	12,321	9,660	8,516	7,052	4,934	4,310	N/A
Land	631	665	665	665	665	665	590	N/A
Buildings	2,464	2,970	2,967	2,940	2,847	2,796	1,987	N/A
Furniture & Equipment	17,103	18,027	17,020	15,683	13,504	10,604	8,299	N/A
Construction in Progress	N/A	0	992	729	933	528	N/A	N/A
Advertising								
Total Advertising Expense	6,269	7,942	7,849	10,002	8,001	7,807	5,912	3,968
Advertising Expense - Catalog Related	2,366	4,207	3,940	6,028	4,429	4,818	3,678	2,157
Deferred Catalog Costs (prepaid exp.)	146	218	421	341	909	257	220	N/A
Long-Term Debt								
Long-term Debt	26,930	27,693	16,879	20,442	12,638	9,615	669	N/A
Less Current Maturities	2,397	630	549	734	110	75	75	N/A
Long-term Debt, net	24,533	27,063	16,330	19,708	12,528	9,540	594	N/A
Facility Leases (Rent Expense)								
Base rent	8,296	6,438	4,350	3,702	2,806	2,222	1,791	1,461
Additional amount based on % of sales	635	1,365	1,041	1,206	1,261	1,112	922	666
Total	8,931	7,803	5,391	4,908	4,067	3,334	2,713	2,127
Effective Tax Rate	40%	40%	40%	40%	40%	40%	41%	42%

Table 5: Operational Data

Harold's Stores Inc.
Operational Data

	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996	FY 1995	FY 1994
Sales Mix*								
Women's Merchandise	**77%**	**78%**	**79%**	**77%**	**78%**	**80%**	**78%**	**N/A**
Sportswear	70%	71%	71%	68%	67%	69%	67%	N/A
Handbags, Belts and Accessories	2%	2%	3%	4%	5%	6%	5%	N/A
Shoes	5%	5%	5%	5%	5%	5%	6%	N/A
Men's Merchandise	**22%**	**21%**	**21%**	**22%**	**22%**	**20%**	**22%**	**N/A**
Suits, Sport coats, Slacks & Furnishings	10%	9%	9%	9%	8%	7%	7%	N/A
Shoes	1%	1%	1%	1%	1%	1%	1%	N/A
Sportswear and Accessories	12%	12%	11%	12%	13%	12%	14%	N/A
Other	**0%**	**0%**	**1%**	**1%**	**1%**	**0%**	**1%**	**N/A**
** May not equal 100% due to rounding*								
Revenue Metrics								
Annual Revenue Growth	-6.4%	5.4%	7.8%	10.8%	14.8%	24.4%	24.4%	N/A
Growth in Comparable Store Sales	-11.9%	-3.1%	-1.3%	-5.4%	-0.5%	8.7%	10.7%	7.4%
Revenue per Sq. Ft.	420	461	505	499	560	610	564	534
Other Operational Data								
Employees	1,428	1,590	1,439	1,322	1,345	1,080	955	812
Total Stores Open at End of Period	52	51	44	41	36	29	25	21
Total Retail Sq. Ft.	303,357	295,668	255,904	240,459	193,422	154,585	134,445	114,158

Table 6: Retail Industry Terminology

Key Term	*Definition*
Comparable Store Sales Growth	Year-on-year revenue growth for locations open at least one year; this percentage provides insight into a retail firm's growth excluding the impact of new store openings
Lease	A rental agreement; retail firms typically rent locations from property management companies
Leasehold Improvement	Costs incurred by retailers to customize leased space to conform with the firm's overall brand and image; this includes such things as lighting, signage, flooring, etc.…
Liquidation Rate	An indicator of how long it takes a customer to pay off a store credit card balance
Merchandise	Inventory offered for sale
Occupancy Costs	Costs incurred to occupy a retail space, including rent, maintenance expense, utilities, and depreciation of leasehold improvements
Revenue per Square Feet (Sq. Ft.)	A popular retail metric that reveals the amount of revenue the firm generates per square foot of retail space.

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Table 7: Summary of Significant Accounting Policies (FY 2001)

Accounting Policy	*Description*
Definition of Fiscal Year	The Company has a 52-53 week fiscal year, which ends on the Saturday closest to January 31.
Cash & Cash Equivalents	Includes overnight investments and credit card receivables collected within three business days.
Accounts Receivable & Finance Charges	Primarily represents the Company's credit card receivables from customers. Finance charges on these revolving receivables are imposed at various annual rates in accordance with the state laws in which the Company operates, and are recognized in income when earned. Minimum monthly payments are required generally equal to ten percent of the outstanding balance. Finance charge revenue is netted against selling, general and administrative expenses.
Merchandise Inventories	Merchandise inventories are valued at the lower of cost or market using the retail method of accounting.
Revenue Recognition	Sales from store locations are recognized at the time of the customer's purchase. Catalog and website are recognized at the time the order is shipped to the customer.
Catalog Costs	The Company expenses all non-direct advertising as incurred and defers the direct costs of producing its mail order catalogs. These costs are amortized over the estimated sales period of the catalogs, generally three to four months.
Depreciation/Amortization	Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the life of the respective leases or the expected life of the improvements. The following are the estimated useful lives used to compute depreciation and amortization: Buildings, 30 years; Leasehold improvements, 5-10 years; Furniture and equipment, 4-7 years; and Software and related costs, 3 years
Use of Estimates	The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Source: Harold's, Annual Report 2001

TEACHING NOTES

Harold's Stores Inc. is a case study in financial and strategic analysis. The case is based on an actual firm, Harold's Stores Inc., a specialty retailer founded in Norman, Oklahoma in 1948. After years of expansion and growth, by fiscal year 2001, Harold's faced an uncertain operating environment, including:

- Declining sales
- An unprofitable catalog business
- Operating losses
- Significant debt, and
- Changes in leadership

Students are asked to perform both strategic and financial analyses and then suggest opportunities and/or actions that Harold's should take to correct its strategic direction and financial performance in the immediate term after fiscal year 2001. No attempt has been made to disguise the company, its environment, or its actual reported results. The firm's common stock was listed on the American Stock Exchange under the symbol "HLD." SEC filings for Harold's Store Inc. through fiscal year 2007 can be found at: http://www.sec.gov/cgi-bin/browse-edgar?company=Harolds+St&owner=exclude&action =getcompany. Harold's Stores Inc. is no longer operational; it closed in 2008, but this fact lends itself to robust conversations around strategy and the use of financial information to analyze and drive relevant business change.

The instructor notes presented here provide the case's educational objectives and suggestions for implementation. Our classroom experience, ways to simplify or enhance the case, and a debriefing on Harold's Stores Inc. for the fiscal periods 2002 – 2007 are also provided. For the recommended solution, contact the authors.

EDUCATIONAL OBJECTIVES

The purpose of this case is to provide a learning environment whereby students can appreciate the relationship between strategy and financial performance. This relationship is frequently overlooked in chapter-specific homework assignments, especially in traditional accounting or finance courses. Even when the strategy-financial performance relationship is pursued, it is not typically done so in a managerial accounting or managerial finance course; instead, the association is explored in a business strategy management class. Yet, it is widely understood that exposure to the financial implications of strategic management and objectives benefits the learner (e.g., Brennan and Voss 2013; Greiner, Bhambri, and Cummings 2003; Kashyap, Mir, and Iyer 2006). As such, we advocate for the inclusion of both strategic and financial discussion in conventional managerial accounting and finance courses.

This case enriches learning by providing a real-world setting based on an actual for-profit organization, and by presenting events as they actually occurred using annual report data. Moreover, the case demonstrates for students the peril of thinking myopically. In the case of Harold's Stores Inc., its management continued to double-down on a nationwide expansion, a flailing catalog business, and a change in merchandising strategy despite financial evidence that suggested these efforts were counterproductive. Finally, with the provided post-mortem review of Harold's Stores Inc.'s actual results for fiscal years 2002 – 2007, the case presents the opportunity to compare students' suggested courses of action with actual management decisions. Hammond (1976) suggests the comparison enhances a students' skill development:

> [The outcome] is simply one more answer, which you may feel is better or worse than yours. What is important is that *you* know what you would do in that situation and, most importantly, *why,* and that your skill at arriving at such conclusions has been enhanced. (3)

After completing this case, students will be able to:

1. Accurately apply a strategic management process tool to assess firm strategy,
2. Perform financial statement analysis for the purpose of evaluating firm performance and assessing its financial condition, and
3. Weigh alternative strategic and/or tactical possibilities that could improve a firm's operations.

Moreover, additional benefits will accrue to the student-learner, including:

1. Students will profit from exposure to the retail industry and its operations,
2. Students will improve critical thinking and discernment skills, and
3. Students will advance their use of spreadsheet software through quantitative analysis.

IMPLEMENTATION GUIDANCE

This case is intended for undergraduate accounting or finance students at the junior- or senior-level; use in a managerial accounting or managerial finance course is appropriate. Alternatively, this case can be used at the MBA level in an introductory accounting or finance course. The case assumes that students have previously been exposed to the strategic management process including situational analysis and to financial analysis including the mechanics of ratio analysis. Prior understanding of the retail industry is helpful, but not required, as the case outlines merchandising strategy, industry trends, and competitive environment. Since many students have worked in a retail setting, they tend to readily connect with the provided narrative and quantitative data. Even so, some effort on the instructor's part may be required to bridge gaps in students' understanding of the retail environment. Finally, the use of spreadsheet software is highly recommended to complete the quantitative aspects of the case.

This case study can be used as an individual assignment, a group activity, or extra credit. For a group assignment, we do not recommend more than four individuals per group. Introduce the case and its requirements in a class period; expect 20 minutes for introduction and questions. Students should anticipate a range of six to twelve hours of non-class time to complete the case study, depending on whether the case is offered as an individual or group assignment and on the students' level of financial and strategic acumen. We recommend using one, 50-minute class period to debrief the case study. Emphasis during the debrief session should focus on the recommended solution, on students' suggestions concerning actions to employ to improve operational performance and profitability, and on Harold's performance for fiscal years 2002 through 2007.

EVIDENCE REGARDING EFFICACY

We field-tested the case study in two upper-divisional (300- and 400-level) accounting courses in the fall of 2015; because of timing issues stemming from our ability to finalize the case study, we elected to use the case as an extra credit opportunity instead of a graded assignment. The case was given to twelve junior- and senior-level accounting students at a mid-western university and at a southeastern university. All students had previous exposure to ratio analysis, business computer applications, and introductory management courses, the latter which included reviews of the strategic management process. The assignment was completed both individually and in groups of two to three students. We did not provide the financial or operational data in electronic spreadsheet format which required students to rekey this data from the case study to facilitate their computations.

The students did not ask hardly any questions during the course of completing the project. Exceptions included questions requesting clarification on the computation of common-size statements and whether the S-W-O-T analysis could be completed in bullet-form. These questions were answered to the respective student's satisfaction.

A rubric was used to assess student responses; note that our rubric is provided in the teaching notes. The mean (median) score was 80% (80%); we were satisfied with this mean score, especially since the assignment was given as extra credit. We expect that mean scores could be higher if the case is used as a graded assignment. The average time to complete the case study was six to twelve hours; the wide range for completion was a function of whether the case was done individually or in a group. The average length of submission, including exhibits and calculations, was approximately seven pages.

Instructor Feedback

One outside faculty was asked to field test the case study. We did not survey this instructor, per se, but the instructor provided an ex post qualitative assessment. Overall, the professor saw utility in the case study and will most likely use the case study again. The faculty's comments are given here.

> I spent approximately one hour reading and familiarizing myself with the case and related questions prior to assigning it to the class.
>
> It took approximately 45 minutes to read and grade a single report. I would expect this time to decrease the more familiar I become with the case and reasonable solutions.
>
> This case was very good practice for students in the use of Excel and in developing skills needed to perform a detailed financial statement analysis of a publicly-traded company…. I found this to be a very well-written and researched case and will in all likelihood use it again in future courses. There are not many well-written cases that I have found in the literature so thank you for helping to fill this gap.

Student Feedback

Students were asked to respond to an inquiry consisting of open-ended questions at the conclusion of the case. Overall, the students appreciated the nature of the case and its applicability to the real world; several noted however that calculating financial ratios was time-consuming. Individual student responses are listed here.

- "I found it very applicable to the real world, and helped us to think of the bigger picture, which can often be overlooked in homework."
- "It was interest and applicable, but very tedious and time consuming."
- "It was interesting because it dealt with a clothing retailer that struggled to find its way when clothing culture changed and the internet surfaced. It wasn't too challenging, but it was a little tough to make the SWOT analysis. There were a lot of different things that played into the demise of Harold's."
- "Yes, it did give me better appreciation because I got to see the effects of the financial decisions. Harold's made some financial decisions that hurt them."
- "This was a time consuming but interesting assignment."
- "It wasn't too challenging, just time consuming to complete, especially the ratios."

WAYS TO SIMPLIFY OR ENHANCE THE CASE STUDY

We believe effective cases are those that are easily modified to enrich learning and the learning environment. As such, we provide the following suggestions to simplify or enhance the delivery of this case study in the classroom.

Ways to Simplify

Here are ideas to simplify the case.

- Share the provided electronic spreadsheet file which contains tables from the case study. Providing the spreadsheet-based tables minimizes rekeying and facilitates computations. Alternatively, pre-work some of the ratios to allow students to spend more time on financial analysis and less time on "number-crunching." Students will appreciate these time-saving approaches. Note that ratio results are provided in the recommended solution.
- Depending on the nature of your managerial accounting or managerial finance course, you may choose to focus only on the quantitative (financial) or qualitative (strategic) aspects of the case. For example, using the case strictly as quantitative practice for a textbook chapter on ratio analysis is acceptable, even without the corresponding discussion on strategy.
- Choose to focus only on a few of the required questions. For example, the case can be successfully completed by utilizing only required case questions one, four, six, seven, and eight.

Ways to Enhance

Here are thoughts for enhancing the case.

- To broaden the requirements, share the financial and operational data from the periods after fiscal year 2001 (i.e., fiscal years 2002 – 2007); this data is provided in the postmortem section at the end of this document. Ask students to continue their financial analysis over this period to discern Harold's Stores Inc. financial health as it tried to mitigate its downward spiral. Alternatively, direct students to http://www.sec.gov/cgi-bin/browse-edgar?company=Harolds+St&owner=exclude&action =getcompany; ask them to detect changes in (or continuance of) company strategy, including merchandising strategy, growth strategy, and catalog/promotion strategy.
- Require additional computations beyond the suggested/mandatory ratios. Several supplementary ratios that are used in the retail sector include: Net sales per average store, Asset Turnover, Sales by channel, and Return on Invested Capital. For deeper analysis, Free Cash Flow as a percent of Sales and Free Cash Flow as a percent of Income can be derived, albeit with some modification.
- Extend your discussion or debrief to include broad strategies in the retail industry (e.g., low-cost vs. differentiator); incorporate other retail sectors (e.g., mass merchandiser, discounter, or other specialty retail) to compare/contrast with the specialty apparel sector.

POSTMORTEM: HAROLD'S STORES INC.

This section provides an examination of Harold's strategic direction and fiscal performance for fiscal years 2002 – 2007. A timeline of significant events is included. Relevant financial and operational data are presented in tabular format.

Harold's turmoil continued throughout the 2000's as it continued to face significant headwinds from various economic and environmental factors such as technology and changes in customer tastes and demands. The company struggled to change strategies, continuing its focus on same store sales growth with limited expansion; moreover, the company continued to adopt questionable merchandising strategies, like trying once again to appeal to younger shoppers by offering trendy and youth-oriented merchandise. In perhaps the most bizarre move, the company even tried reigniting its catalog business in 2003. In fairness, the company adopted some brand development measures, cut promotional spending, restructured corporate staff, and closed unprofitable stores (Harold's, Annual Reports 2003, 2005, 2006), but to no avail. As sales continued to plummet, the company relied extensively on external financing from Wells Fargo Retail Finance LLC and from its de facto owners, Howard Lester and Ronald de Waal. Eventually, the company fell victim to the great recession and filed a petition for chapter 11 liquidation with a bankruptcy court in November 2008 in Oklahoma City (Young 2008).

Time-line of significant events:

- 2002 (August) – Harold's Stores Inc. issues 200,000 shares of preferred stock; $4 million of proceeds are used to reduce the company's outstanding borrowings
- 2003 (January) - Company downsizes corporate staff; estimated annualized savings from the restructure is $2.0 million, inclusive of benefits.

- 2003 (February) – Harold’s Stores Inc. completes two important financing events: a new three-year credit facility was entered into with Wells Fargo Retail Finance, LLC and company receives a $5 million private equity investment.
- 2003 (March – June) - Company closes seven unprofitable store locations
- 2003 (August) – Harold’s relaunches catalog, sending 200,000 copies to former customers (Weinstein 2003)
- 2004 (February) – CEO Clark Hinkley announces retirement; the company Hugh Mullins, former Chairman and Chief Executive Officer of Neiman Marcus Stores, as President and CEO
- 2004 – The company launches a new and improved e-commerce site
- 2004 (April) – Harold’s significantly reduces promotional activities as part of its strategic objectives.
- 2004 (April) – Harold’s amends its existing credit facility with Wells Fargo Retail Finance; the amendment provided for an increase of $2 million in the Company's borrowing availability based upon an increase in the loan participation agreement between Wells Fargo and RonHow, LLC, an entity established in July 2003 which is owned and controlled by Ronald de Waal and Howard Lester, Harold’s de facto owners.
- 2005 (July) - Mullins resigns as CEO; company appoints Leonard Snyder as acting CEO
- 2006 (January) – Harold’s Stores Inc. amends the credit facility with Wells Fargo Retail II, LLC, extending the facility by three years and reducing required covenants. In conjunction with this negotiation, an additional $3 million of funding was received from the Company's principal investors (de Waal and RonHow LLC) to be utilized to enhance working capital and support planned capital expenditures.
- 2006 (February) – Harold’s begins selling merchandise on Amazon.com
- 2006 (August) - Harold’s Stores Inc. and RonHow LLC agreed to establish a $10 million subordinated debt facility, and $5 million was funded for general working capital purposes under the facility.
- 2006 (June) – Harold’s was delisted from American Stock Exchange because it failed to meet listing requirements (Stafford 2007)
- 2006 (October) - Ron Staffieri was hired as the Company's Chief Executive Officer.
- 2007 (January) - An additional $2 million was funded under the August 2006 facility, bringing the total amount outstanding at that time to $7 million in aggregate.
- 2007 (April) - RonHow LLC advances to Harold’s Stores Inc. an additional $3 million pursuant to August 2006 facility, bringing the total loan balance outstanding to $10 million. The additional $3 million will be used for working capital. (The company admits that until it is able to restore its profitability, it will remain dependent on RonHow LLC for additional financing.)
- 2007 (December) – Shareholders approve a proposal to terminate registration of common stock with the SEC (Chambers 2008). The company completes a complicated reverse and forward stock split that eliminates most of its shareholders and all reporting requirements to SEC (Stafford 2007)
- 2008 (February) – Harold’s obtained $1.8 million in additional funding and working capital through existing subordinated debt facility by RonHow, LLC
- 2008 (November) – Filed chapter 11 bankruptcy. (The bankruptcy was later converted to chapter 7 and Harold’s assets were liquidated)

Relevant financial and operational data for fiscal years 2002 through 2007 are presented in tabular format here (see Tables 1 through 5). Some information is not available, and is indicated by “N/A.”

Table 8: Statements of Operations

Harold's Stores Inc.
Statements of Operations
($000 except EPS)

	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Revenue	86,328	88,247	89,357	91,683	89,781	104,624
Cost of Goods Sold	62,631	61,188	57,643	60,915	64,338	82,034
Gross Profit	**23,697**	**27,059**	**31,714**	**30,768**	**25,443**	**22,590**
Selling, General and Administration	28,700	28,509	26,564	26,930	30,053	31,639
Depreciation and Amortization	3,611	3,795	4,076	7,000	5,798	4,241
Operating Income	**(8,614)**	**(5,245)**	**1,074**	**(3,162)**	**(10,408)**	**(13,290)**
Interest Expense	2,689	1,456	979	879	1,321	1,402
Other Income/(Expense)	73	721	0	(1,630)	(1,060)	(3,015)
Earnings Before Tax	**(11,230)**	**(5,980)**	**95**	**(5,671)**	**(12,789)**	**(17,707)**
Provision for Income Tax	0	0	0	0	3,206	(3,077)
Net Income	**(11,230)**	**(5,980)**	**95**	**(5,671)**	**(15,995)**	**(14,630)**
Preferred Stock Dividends	370	1,510	1,501	1,306	863	634
Net Income to Common Shareholders	(11,600)	(7,490)	(1,406)	(6,977)	(16,858)	(15,264)
EPS - Basic	(1.86)	(1.20)	(0.23)	(1.14)	(2.77)	(2.51)

Table 9: Statements of Cash Flows

Harold's Stores Inc.
Statements of Cash Flows
($000)

	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Cash Flow from Operations	**(10,803)**	**2,943**	**343**	**(1,891)**	**146**	**1,743**
Net Earnings	(11,230)	(5,980)	95	(5,671)	(15,995)	(14,630)
Depreciation & Amortization	3,611	3,795	4,076	7,000	5,798	4,241
Change in Working Capital	(3,315)	5,331	(3,761)	(3,208)	5,424	8,080
Other Operating Cash Flow	131	(203)	(67)	(12)	4,919	4,052
Cash Flow from Investing	**(2,674)**	**(230)**	**(2,028)**	**(1,614)**	**(1,736)**	**(770)**
Cash flow from Financing	**13,820**	**(2,751)**	**1,241**	**3,593**	**2,058**	**(1,019)**
Net Borrowings	11,483	(1,692)	2,285	(763)	(1,453)	(6,499)
Sale/Purchase of Stock	2,488	1	18	5,165	3,924	5,795
Other Financing Cash Flow	(151)	(1,060)	(1,062)	(809)	(413)	(315)
Change in Cash & Cash Equivalents	**343**	**(38)**	**(444)**	**88**	**468**	**(46)**

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Table 10: Balance Sheets

Harold's Stores Inc.
Balance Sheets
($000)

	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Total Assets	**38,500**	**35,215**	**43,065**	**42,745**	**42,968**	**53,726**
Current Assets	**28,579**	**24,939**	**29,519**	**27,190**	**30,204**	**36,350**
Cash and Cash Equivalents	979	636	674	1,118	1,030	562
Accounts Receivable	6,074	6,343	7,343	7,120	6,365	6,386
Other Receivables	1	157	125	109	219	17
Inventory	19,389	16,657	20,123	17,713	20,630	21,551
Prepaid & Other Current Assets	2,136	1,146	1,254	1,130	1,960	7,834
Non-Current Assets	**9,921**	**10,276**	**13,546**	**15,555**	**12,764**	**17,376**
Gross Property, Plant, Equipment	44,078	41,670	44,211	43,484	30,632	32,248
Accumulated Depreciation	(34,157)	(31,394)	(30,665)	(27,929)	(17,868)	(16,400)
Other Non-Current Assets	0	0	0	0	0	1,528
Total Liabilities	**47,419**	**35,357**	**36,168**	**35,041**	**32,894**	**30,696**
Current Liabilities	**34,491**	**28,939**	**29,001**	**26,302**	**29,895**	**12,244**
Accounts Payable	9,765	9,013	7,116	7,526	10,573	6,901
Accrued Expenses	949	1,100	797	992	1,155	2,293
Redeemable Gift Certificates	1,220	1,105	1,130	926	810	1,071
Current Debt/Capital Lease	22,502	17,647	19,958	16,858	17,357	1,979
Other Current Liabilities	55	74	0	0	0	0
Long-Term Liabilities	**12,928**	**6,418**	**7,167**	**8,739**	**2,999**	**18,452**
Long-Term Debt/Capital Lease	7,583	1,199	580	1,358	1,621	18,452
Other Long-Term Liabilities	5,345	5,219	6,587	7,381	1,378	0
Total Equity	**(8,919)**	**(142)**	**6,897**	**7,704**	**10,074**	**23,030**
Preferred Stock	19,648	16,941	16,491	15,911	10,475	6,113
Common Stock	62	62	62	62	61	61
Additional Paid-In Capital	34,585	34,469	34,468	34,449	34,224	34,200
Retained Earnings	(63,212)	(51,612)	(44,122)	(42,716)	(34,684)	(17,342)
Treasury Stock	(2)	(2)	(2)	(2)	(2)	(2)

Table 11: Supplementary Financial Data

Harold's Stores Inc.
Supplementary Financial Data
($000 except Catalog Sales % Revenue, Average Liquidation Rate and Effective Tax Rate)

	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Catalog/Web Sales						
Catalog/Web Sales	4,748	3,177	1,251	458	N/A	N/A
Catalog Sales % Total Revenue	6%	4%	1%	1%	N/A	N/A
Accounts Receivable						
Average Liquidation Rate (months)	2.5	2.6	2.7	2.7	2.9	3.0
Finance Charge Revenue (netted in SGA)	973	1,132	1,142	1,140	1,152	1,074
Property & Equipment						
Leasehold Improvements	25,104	24,351	25,624	12,475	13,048	13,534
Land	631	631	631	631	631	631
Buildings	897	881	3,039	3,039	3,024	2,368
Furniture & Equipment	17,446	15,807	14,917	13,892	13,929	15,715
Construction in Progress	N/A	N/A	N/A	N/A	N/A	N/A
Advertising						
Total Advertising Expense	5,468	5,035	4,313	4,190	4,220	3,889
Advertising Expense - Catalog Related	N/A	N/A	N/A	N/A	N/A	N/A
Deferred Catalog Costs (prepaid exp.)	N/A	N/A	N/A	N/A	N/A	N/A
Long-Term Debt						
Long-term Debt	30,085	18,846	20,538	18,216	18,978	20,431
Less Current Maturities	22,502	17,647	19,958	16,858	1,265	1,979
Long-term Debt, net	7,583	1,199	580	1,358	17,713	18,452
Facility Leases (Rent Expense)						
Base rent	7,386	7,008	6,797	8,544	7,793	8,163
Additional amount based on % of sales	118	186	252	217	288	427
Total	7,504	7,194	7,049	8,761	8,081	8,590
Effective Tax Rate	0%	0%	0%	0%	24%	17%

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Table 12: Operational Data

Harold's Stores Inc.
Operational Data

	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Sales Mix*						
Women's Merchandise	**84%**	**82%**	**81%**	**78%**	**76%**	**76%**
Sportswear	76%	75%	74%	72%	70%	69%
Handbags, Belts and Accessories	3%	2%	2%	2%	2%	2%
Shoes	6%	5%	5%	5%	4%	5%
Men's Merchandise	**16%**	**18%**	**19%**	**22%**	**24%**	**24%**
Suits, Sport coats, Slacks & Furnishings	7%	8%	9%	10%	11%	10%
Shoes	1%	1%	1%	1%	1%	1%
Sportswear and Accessories	8%	9%	9%	10%	12%	12%
Other	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
** May not equal 100% due to rounding*						
Revenue Metrics						
Annual Revenue Growth	-2.2%	-1.2%	-2.5%	2.1%	-14.2%	-17.9%
Growth in Comparable Store Sales	-8.0%	-4.0%	1.9%	11.3%	-9.9%	-16.3%
Revenue per Sq. Ft.	345	379	384	387	308	345
Other Operational Data						
Employees	785	724	688	839	1,006	1,179
Total Stores Open at End of Period	43	41	41	42	50	52
Total Retail Sq. Ft.	250,527	232,940	232,940	237,156	291,894	303,357

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