

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

NATIONAL SERVICE INDUSTRIES INC

CIK: **70538** | IRS No.: **580364900** | State of Incorporation: **DE** | Fiscal Year End: **0831**
Type: **10-Q** | Act: **34** | File No.: **001-03208** | Film No.: **94501257**
SIC: **3640** Electric lighting & wiring equipment

Business Address
1420 PEACHTREE ST NE
ATLANTA GA 30309
4048531000

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For quarter ended November 30, 1993 Commission file number 1-3208

NATIONAL SERVICE INDUSTRIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	58-0364900
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1420 Peachtree Street, N. E., Atlanta, Georgia 30309-3002
(Address of Principal Executive Offices) (Zip Code)

(404) 853-1000
(Registrant's Telephone Number, Including Area Code)

None
(Former Name, Former Address and Former Fiscal Year, if Changed Since
Last Report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange
Act of 1934 during the preceding 12 months (or for such shorter period
that the registrant was required to file such reports), and (2) has

been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (applicable only to corporate issuers).

Common Stock - \$1.00 Par Value - 49,569,355 shares as of January 4, 1994

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PART I. FINANCIAL INFORMATION

NATIONAL SERVICE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands)

ASSETS	November 30, 1993 (Unaudited)	August 31, 1993
Current Assets:		
Cash and cash equivalents	\$ 24,946	\$ 15,853
Short-term investments	3,597	4,776
Receivables, less reserves for doubtful accounts of \$8,295 at November 30, 1993 and \$7,170 at August 31, 1993	244,116	249,958
Inventories, at the lower of cost (on a first-in, first-out basis) or market	173,168	171,545
Linens in service, net of amortization	83,070	77,931
Prepaid income taxes, net	13,875	25,340
Prepayments, etc.	12,451	11,513
Total Current Assets	555,223	556,916
Property, Plant, and Equipment, at cost:		
Land	32,991	33,303
Buildings and leasehold improvements	190,360	190,276
Machinery and equipment	502,332	500,459
Total Property, Plant and Equipment	725,683	724,038
Less - Accumulated depreciation and amortization	363,043	358,853
Property, Plant, and Equipment - net	362,640	365,185
Other Assets:		
Goodwill and other intangibles	124,795	127,387
Other	39,459	38,025
Total Other Assets	164,254	165,412

Total Assets	\$ 1,082,117	\$1,087,513
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LIABILITIES AND STOCKHOLDERS' EQUITY	November 30, 1993 (Unaudited)	August 31, 1993
Current Liabilities:		
Current maturities of long-term debt	\$ 1,460	\$ 1,792
Notes payable	3,811	4,404
Accounts payable	74,515	85,505
Accrued salaries, commissions, and bonuses	35,390	37,103
Self insurance reserves	70,656	71,888
Other accrued liabilities	48,059	42,981
 Total Current Liabilities	 233,891	 243,673
 Long-Term Debt, less current maturities	 28,221	 28,418
 Deferred Income Taxes	 82,151	 84,289
 Other Long-Term Liabilities	 27,503	 27,110
Convertible Preferred Stock:		
Series A participating preferred stock, \$.05 stated value, 500,000 shares authorized, none issued		
Preferred stock, no par value, 500,000 shares authorized, none issued		
Common Stockholders' Equity:		
Common stock, \$1 par value, authorized 80,000,000 shares, issued 57,918,978 shares at November 30, 1993 and August 31, 1993	57,919	57,919
Paid-in capital	7,355	7,299
Retained earnings	679,658	673,399
	744,932	738,617
Less - Treasury stock, at cost (8,354,386 shares at November 30, 1993 and 8,357,539 shares at August 31, 1993)	34,581	34,594
Total Stockholders' Equity	710,351	704,023
 Total Liabilities and Stockholders' Equity	 \$ 1,082,117	 \$1,087,513

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

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NATIONAL SERVICE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollar amounts in thousands, except per-share data)

	THREE MONTHS ENDED	
	NOVEMBER	30
	1993	1992
Sales and Service Revenues:		
Net sales of products	\$325,213	\$297,891
Service revenues	134,687	136,450
Total Revenues	459,900	434,341
Costs and Expenses:		
Cost of products sold	213,579	194,911
Cost of services	70,737	70,484
Selling and administrative expenses	141,583	135,937
Interest expense	1,146	1,171
Other expense (income), net	2,052	2,480
Total Costs and Expenses	429,097	404,983
Income before Provision for Income Taxes	30,803	29,358
Provision for Income Taxes:		
Current	12,591	9,694
Deferred	(960)	1,078
	11,631	10,772
Net Income	\$ 19,172	\$ 18,586
Per Share:		
Net income	\$.39	\$.38
Cash dividends	\$.26	\$.25
Weighted Average Number of Shares		
Outstanding (thousands)	49,562	49,547

The accompanying notes to consolidated financial statements are an integral part of these statements.

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NATIONAL SERVICE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollar amounts in thousands)

	THREE MONTHS ENDED	
	NOVEMBER 30	
	1993	1992
Cash Provided by (Used for) Operations:		
Net income	\$ 19,172	\$ 18,586
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,365	14,543
Provision for losses on accounts receivable	1,381	1,122
Gain on sale of property, plant, and equipment	(25)	(70)
Gain on the sale of business	(467)	-
Provision for deferred income taxes	(960)	1,078
Change in assets and liabilities net of effect of acquisitions-		
Receivables, net	4,742	9,645
Inventories and linens in service, net	(6,834)	(2,617)
Prepaid income taxes	11,465	2,546
Prepayments and other	(819)	3,850
Accounts payable and accrued liabilities	(8,873)	(19,300)
Net Cash Provided by Operations	34,147	29,383
Cash Provided by (Used for) Investing Activities:		
Change in short-term investments	1,179	68
Purchase of property, plant, and equipment	(10,977)	(11,376)
Sale of property, plant, and equipment	1,176	687
Sale of business	682	-
Acquisitions	(375)	(95,109)
Change in other assets	(2,632)	(3,546)
Net Cash Used for Investing Activities	(10,947)	(109,276)
Cash Provided by (Used for) Financing Activities:		
Change in notes payable	(593)	36,548

	-	-
Repayment of long-term debt	(529)	(448)
Recovery of investment in tax benefits	644	496
Deferred income taxes from investment in tax benefits	(1,178)	(838)
Issuance of treasury stock	68	261
Change in other long-term liabilities	393	(2,417)
Cash dividends paid	(12,886)	(12,384)
Net Cash Used for Financing Activities	(14,081)	21,218
Effect of Exchange Rate Changes on Cash	(26)	996
Net Change in Cash and Cash Equivalents	9,093	(57,679)
Cash and Cash Equivalents at Beginning of Year	15,853	101,137
Cash and Cash Equivalents at End of Period	\$ 24,946	\$ 43,458
Supplemental Cash Flow Information:		
Income taxes paid during the period	\$ 1,510	\$ 1,378
Interest paid during the period	604	1,717
Noncash Investing and Financing Activities:		
Noncash aspects of sale of business - Receivables incurred	\$ (336)	\$ -
Noncash aspects of acquisitions- Liabilities assumed	\$ -	\$ 29,957

The accompanying notes to consolidated financial statements are an integral part of these statements.

NATIONAL SERVICE INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION:

The interim consolidated financial statements included herein have been prepared by the company without audit and the condensed consolidated balance

sheet as of August 31, 1993 has been derived from audited statements. These statements reflect all adjustments, all of which are of a normal, recurring nature, which are, in the opinion of management, necessary to present fairly the consolidated financial position as of November 30, 1993, the consolidated results of operations for the three months ended November 30, 1993 and 1992, and the consolidated cash flows for the three months ended November 30, 1993 and 1992. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the company's Annual Report on Form 10-K for the fiscal year ended August 31, 1993.

The results of operations for the three months ended November 30, 1993 are not necessarily indicative of the results to be expected for the full fiscal year because the company's revenues and income are generally higher in the second half of its fiscal year and because of the uncertainty of general business conditions.

2. BUSINESS SEGMENT INFORMATION:

	Three Months Ended November 30			
	Sales and Service		Operating Profit	
	Revenues			Profit
	1993	1992	1993	1992
	(In thousands)			
Lighting Equipment	\$182,105	\$163,039	\$11,899	\$ 9,824
Textile Rental	134,687	136,450	11,238	10,994
Chemical	82,282	76,378	9,026	9,130
Other	60,826	58,474	1,513	2,454
	459,900	434,341	33,676	32,402
Corporate			(1,727)	(1,873)
Interest Expense			(1,146)	(1,171)
Total	\$459,900	\$434,341	\$30,803	\$ 29,358

3. INVENTORIES:

Major classes of inventory as of November 30, 1993 and August 31, 1993 were as follows:

November 30, August 31,
1993 1993
(In thousands)

Raw Materials and Supplies	\$ 74,820	\$ 77,911
Work-in-Process	11,291	11,269
Finished Goods	87,057	82,365
Total	\$173,168	\$171,545

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and related notes.

Financial Condition

National Service Industries completed the first quarter of fiscal 1994 in a strong financial position. Net working capital was \$312.3 million, compared with \$313.2 million at August 31, 1993, and the current ratio increased slightly to 2.4, compared with 2.3 at year end. Cash and short-term investments were \$28.5 million, up from \$20.6 million at August 31. For the quarter ended November 30, 1993, the company invested \$11.4 million in capital expenditures and acquisitions. Long-term debt and other long-term liabilities were 7.3 percent of total capitalization, unchanged from year end. Cash provided by operations was \$34.1 million, compared with \$29.4 million for the first quarter last year.

Capital expenditures, exclusive of acquisition spending, were \$11.0 million for the first quarter this year and \$11.4 million for the same period last year. Current-quarter spending was primarily the result of facilities and manufacturing process improvements in the lighting equipment division and wastewater compliance projects and fleet upgrading in the textile rental division. Prior-year spending was attributable to capacity expansion in the chemical division, information systems enhancements in the lighting equipment division, and cost reduction expenditures in each of these and the textile rental division.

Acquisition spending of \$95.1 million in the first quarter last year resulted from the chemical division's acquisitions of Kleen Canada, Inc., a Canadian manufacturer of specialty chemicals, and Graham International, a privately held, European specialty chemical business, and the textile rental division's acquisition of Initial Services Investments, Inc., an industrial uniform and dust control business. The effect of the acquisitions on the consolidated income statements is further discussed under "Results of Operations."

Dividend payments totaled \$12.9 million, or 26 cents per share, during the first quarter this year, compared with \$12.4 million, or 25 cents per share, for the same period last year. The quarterly dividend rate has been increased 3.8 percent to 27 cents per share effective January, 1994.

For the periods presented, capital expenditures, working capital needs, dividends, and acquisitions were financed primarily with internally generated funds, supplemented by short-term borrowings in the European market. The Initial acquisition was a cash transaction. The Graham acquisition in Europe was funded primarily through short-term debt financing, which was repaid during the remainder of the 1993 fiscal year. Contractual commitments for capital spending during the coming twelve months total \$10 million. For the current fiscal year, the company expects actual capital expenditures to be consistent with levels of recent years, which were \$36 million in 1993, \$43 million in 1992, and \$58 million in 1991. Current liquid assets and internally generated funds are expected to be more than adequate to meet anticipated cash requirements for the next twelve months, although some interim borrowings might be incurred to meet short-term needs. The company has complimentary lines of credit totaling \$124 million, of which \$82 million has been provided domestically and \$42 million is available on a multi-currency basis primarily from a European bank.

Results of Operations

National Service Industries' net income for the first fiscal quarter increased 3.2 percent to \$19.2 million. Sales for the quarter, which ended November 30, 1993, increased 5.9 percent to \$460 million. Earnings per share of 39 cents were 3.1 percent higher than the 38 cents per share reported in the first quarter last year. Income before taxes advanced 4.9 percent, but an increase in the effective tax rate reduced the net income advance to 3.2 percent.

The lighting equipment division reported an excellent quarter as sales improved 11.7 percent to \$182 million from \$163 million the prior year. The improvement was entirely the result of volume gains. Operating profit advanced 21 percent to 6.5 percent of revenues, up from 6.0 percent last year, due largely to divisional cost containment measures.

Results of the textile rental division were relatively flat. Revenues of \$135 million were slightly behind the prior-year quarter due to lost volume. Operating profit was 8.3 percent of revenues, up slightly from 8.1 percent the same period last year, as a result of lower general and administrative

expenses.

Sales of the chemical segment rose 7.7 percent to \$82 million from \$76 million the prior year. The improvement came primarily from domestic markets. The European operation contributed \$1.7 million of the increase on a full quarter's sales versus two months last year. Operating profit was 11.0 percent of revenues, down from 12.0 percent a year ago. European and Canadian results continued to be soft with operating margins lower than those in the U.S. The European operation improved due to cost reduction programs.

Sales of the divisions included in NSI's other sector advanced 4.0 percent. The envelope division reported an excellent quarter resulting from pricing gains and a reduction in operating costs. The insulation and marketing services sectors contributed only marginally to earnings due to reduced volume and higher personnel-related expenses.

Corporate income did not change materially from the first quarter last year as a reduction in interest income due to lower short-term investments was virtually offset by less unfavorable foreign currency exchange rate fluctuations. Interest expense was about even with the prior-year period.

The first quarter provision for income taxes was 37.8 percent of pretax income, compared with 36.7 percent for the same period last year. The 1994 rate was increased as a result of the Omnibus Budget Act of 1993. Changes in the year-to-year percentages also result from variation in the relative amount of tax exempt income.

PART II. OTHER INFORMATION

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

At the annual meeting of stockholders held January 5, 1994, all nominees for director were elected to the board without opposition and Arthur Andersen & Co. was appointed as independent auditor for the current fiscal year.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits are listed on the Index to Exhibits (page 11).

(b) There were no reports on Form 8-K for the three months ended

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.

NATIONAL SERVICE INDUSTRIES, INC.
REGISTRANT

DATE January 13, 1994 /S/ DAVID LEVY
DAVID LEVY
EXECUTIVE VICE PRESIDENT, ADMINISTRATION
AND COUNSEL

DATE January 13, 1994 /S/ J. ROBERT HIPPS
J. ROBERT HIPPS
SENIOR VICE PRESIDENT, FINANCE

INDEX TO EXHIBITS

NATIONAL SERVICE INDUSTRIES, INC. AND SUBSIDIARIES

COMPUTATIONS OF NET INCOME PER SHARE OF COMMON STOCK
(In thousands, except per-share data)

	THREE MONTHS ENDED NOVEMBER 30	
	1993	1992
Primary:		
Weighted Average Number of Shares (determined on a monthly basis)	49,562	49,547
Net Income	\$19,172	\$18,586
Primary Earnings per Share	\$.39	\$.38
Fully Diluted:		
Weighted Average Number of Shares Outstanding	49,562	49,547
Additional Shares Assuming Exercise of Options:		
Options exercised	746	282
Treasury stock purchased with proceeds	(689)	(237)
Average Common Shares Outstanding (as adjusted)	49,619	49,592
Net Income	\$19,172	\$18,586
Fully Diluted Earnings per Share	\$.39	\$.37

