

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**  
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### FILER

#### **NATIONAL TECHNICAL SYSTEMS INC /DE/**

CIK: **110536** | IRS No.: **954134955** | State of Incorpor.: **DE** | Fiscal Year End: **0131**  
Type: **10-Q** | Act: **34** | File No.: **000-16438** | Film No.: **95546722**  
SIC: **8734** Testing laboratories

Mailing Address  
24007 VENTURA BLVD  
CALABASAS CA 91302

Business Address  
24007 VENTURA BLVD  
CALABASAS CA 91302  
8185910776

FORM 10-Q  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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(mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended April 30, 1995

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For transition period from \_\_\_\_\_ to \_\_\_\_\_

0-16438  
(Commission File Number)

NATIONAL TECHNICAL SYSTEMS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

95-4134955  
(IRS Employer  
Identification number)

24007 Ventura Boulevard, Calabasas, California  
(Address of registrant's principal executive office)

(818) 591-0776  
(Registrant's telephone number)

91302  
(Zip code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

The number of shares of common stock, par value \$.01 per share, outstanding as of June 11, 1995 was 6,650,777.

NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES

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PART I -- FINANCIAL INFORMATION  
NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets (unaudited)

	April 30, 1995	January 31, 1995
Assets	-----	-----
Current assets:		
Cash	\$ 1,124,000	\$ 1,696,000
Receivables, less allowance for doubtful accounts of \$580,000 at April 30, 1995 and \$577,000 at January 31, 1995	10,678,000	9,680,000
Income taxes receivable	4,000	0
Inventories	1,883,000	2,082,000
Deferred income taxes	436,000	434,000
Prepaid expenses	878,000	757,000
	-----	-----
Total current assets	15,003,000	14,649,000
Property, plant and equipment, at cost	40,874,000	40,413,000
Less: accumulated depreciation	24,000,000	23,500,000
Net property, plant and equipment	16,874,000	16,913,000
Intangible assets	468,000	529,000
Property held for sale	544,000	544,000
Other assets	417,000	433,000
	-----	-----
Total Assets	\$33,306,000	\$33,068,000
	=====	=====

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 2,570,000	\$ 2,866,000
Accrued expenses	1,843,000	1,627,000
Income taxes payable	0	184,000
Current installments of long-term debt	2,002,000	2,060,000
	-----	-----
Total current liabilities	6,415,000	6,737,000

Long-term debt, excluding current installments

10,644,000 10,045,000

Deferred income taxes

1,464,000 1,455,000

Stockholders' equity:

Common stock of \$.01 par value.

Authorized, 20,000,000; issued and outstanding 6,651,000 as of April 30, 1995 and 6,650,000 as of January 31, 1995

67,000 66,000

Additional paid-in capital

10,415,000 10,480,000

Retained earnings

4,301,000 4,285,000

Total stockholders' equity

14,783,000 14,831,000

Total Liabilities and Stockholders' Equity

\$33,306,000 \$33,068,000

See accompanying notes to Consolidated Financial Statements.

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NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Income (unaudited)  
for Three Months Ended April 30, 1995 and 1994

	1995	1994
	-----	-----
Revenues	\$ 9,605,000	\$10,132,000
Cost of sales	7,533,000	7,802,000
Gross profit	2,072,000	2,330,000
Selling, general and administrative expense	1,716,000	1,715,000
	-----	-----
Operating income	356,000	615,000

Other income (expense):

Interest expense, net	(304,000)	(248,000)
Other	(22,000)	(29,000)
	-----	-----
Total other expense	(326,000)	(277,000)
	-----	-----
Income before income taxes	30,000	338,000
Income taxes	14,000	152,000
	-----	-----
Net income	\$ 16,000	\$ 186,000
	=====	=====
Primary and fully diluted net income per common share	\$ 0.00	\$ 0.03
	=====	=====
Weighted average number of common shares and common stock equivalents outstanding	6,651,000	6,606,000
	=====	=====

See accompanying notes to Consolidated Financial Statements.

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NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows (unaudited)  
for Three Months Ending April 30, 1995 and 1994

	1995	1994
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 16,000	\$ 186,000

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation and amortization	587,000	551,000
Provision for losses on receivables	3,000	33,000
Deferred income taxes	3,000	84,000
Loss on sale of assets	0	2,000
Net changes in assets and liabilities:		
Accounts receivable	(1,001,000)	252,000
Inventories	199,000	182,000
Prepaid expenses	(121,000)	25,000
Other assets	16,000	(14,000)
Accounts payable	(296,000)	(1,115,000)
Accrued expenses	216,000	(241,000)
Income taxes	(184,000)	29,000
	-----	-----
Net cash used in operating activities	(562,000)	(26,000)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(487,000)	(544,000)
Proceeds on sale of fixed assets	0	1,000
	-----	-----
Net cash used for investing activities	(487,000)	(543,000)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	1,000,000	353,000
Repayments of current and long-term debt	(459,000)	(372,000)
Cash dividends paid	(66,000)	0
Proceeds from stock options exercised	2,000	17,000
	-----	-----
Net cash provided by (used for) financing activities	477,000	(2,000)
	-----	-----
Net decrease in cash	(572,000)	(571,000)
Beginning cash balance	1,696,000	1,419,000
	-----	-----
 ENDING CASH BALANCE	 \$ 1,124,000	 \$ 848,000
	=====	=====

See accompanying notes to Consolidated Financial Statements.

NATIONAL TECHNICAL SYSTEMS, INC. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Financial Statements

1. In accordance with instructions to Form 10-Q the accompanying financial statements and footnotes have been condensed and, therefore, do not contain all disclosures required by generally accepted accounting principles. These statements should be read in conjunction with the financial statements and notes thereto included in the Registrant's Form 10-K for the year ended January 31, 1995.
2. The statements presented as of and for the three-month period ended April 30, 1995 and 1994 are unaudited. In Management's opinion, all adjustments have been made to present fairly the results of such unaudited interim periods. All such adjustments are of a normal recurring nature.
3. While the Registrant's business is not materially seasonal, the quarterly results of operations should not be construed as representing pro rata results of the Registrant's fiscal year.
4. Income taxes for the interim periods are computed using the effective tax rates estimated to be applicable for the full fiscal year. The Registrant expects to pay state and alternative minimum federal income taxes for the fiscal year ended January 31, 1996.
5. Net income per share for the three-month period ended April 30, 1995 and 1994 was computed by dividing net income by the weighted average number of common shares outstanding during the period. Common stock equivalents were excluded because their effect was immaterial or antidilutive.
6. The consolidated financial statements include the accounts of the Registrant and its wholly owned and financially controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.
7. Inventories consist of accumulated costs applicable to uncompleted contracts and are stated at actual cost which is not in excess of estimated net realizable value.
8. Cash paid for interest and taxes for the three months ended April 30, 1995 was \$271,000 and \$196,000 respectively. Cash paid for interest and taxes for the three months ended April 30, 1994 was \$246,000 and \$98,000 respectively.
9. On January 17, 1995, the Board of Directors declared a cash dividend of \$.01 per share to shareholders of record on

February 10, 1995. The cash dividend, which totaled \$66,000, was paid on February 24, 1995.

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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 quarterly financial statements and notes thereto. All information is based upon operating results of National Technical Systems, Inc. for the first quarter ended April 30.

(tabular header information: Dollars in thousands)

RESULTS OF OPERATIONS

REVENUES

Quarter ended April 30	1995	% Change	1994
	-----	-----	-----
Technical services	\$ 7,878	(6.6%)	\$ 8,437
Environmental services	358	2,653.8%	13
Registration services	463	121.5%	209
Contract labor services	906	(38.5%)	1,473
	-----		-----
Total net revenue	\$ 9,605	(5.2%)	\$10,132
	=====		=====

For the three months ended April 30, 1995, consolidated revenues decreased by \$527,000 or 5.2% when compared to the same period in 1994. In 1995, the technical services segment revenues decreased due to the continued downsizing in the aerospace and defense industry, cutbacks in the nuclear industry due to deregulation and a temporary decline in completed automotive testing contracts due to scheduling anomalies. The Registrant's environmental services segment revenues increased \$345,000 as a result of concentrated

marketing efforts. Revenues in the registration services segment also showed an increase as a result of continuing marketing efforts. The contract labor services segment revenue decreased \$567,000 reflecting the continuing effects of a declining backlog and a more competitive market for nuclear contract labor services.

It is anticipated by the Registrant that revenues in the technical services segment will improve slightly and remain approximately consistent with last year's levels, while revenues in both the environmental services segment and the registration services segment should continue to increase at a more moderate rate for the remainder of fiscal 1996. It is further anticipated that revenues in the contract labor services segment will continue at current levels through the end of the fiscal year.

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GROSS PROFIT			
Quarter ended April 30	1995	% Change	1994
	-----	-----	-----
Technical services	\$ 1,661	(10.0%)	\$ 1,846
% to segment revenue	21.1%		21.9%
Environmental services	85	553.8%	13
% to segment revenue	23.7%		100.0%
Registration services	118	40.5%	84
% to segment revenue	25.5%		40.2%
Contract labor services	208	(46.3%)	387
% to segment revenue	23.0%		26.3%
Total	\$ 2,072	(11.1%)	\$ 2,330
% to total net revenue	21.6%		23.0%

Gross profit as a percentage of net revenues decreased in the quarter ended April 30, 1995 by \$258,000 when compared to the same quarter in 1994. This decrease was due to pricing pressures from increased competition in the technical services and contract labor services segments. The Registrant anticipates the competitive environment for aerospace and defense testing and contract labor services to persist. However, the market for automotive testing should show some improvement. In addition, due to the decline in gross profits, the Registrant initiated an aggressive cost reduction program

which included reductions in its workforce and consolidations of some of its operations. Therefore, barring any unforeseen circumstances, gross profits should increase slightly and return to fiscal 1995 levels by the end of fiscal 1996.

SELLING, GENERAL & ADMINISTRATIVE

Quarter ended April 30	1995	% Change	1994
	-----	-----	-----
Technical services	\$ 1,276	(4.2%)	\$ 1,332
% to segment revenue	16.2%		15.8%
Environmental services	50		0
% to segment revenue	14.0%		0.0%
Registration services	136	172.0%	50
% to segment revenue	29.4%		23.9%
Contract labor services	229	(25.9%)	309
% to segment revenue	25.3%		21.0%
Corporate	25	4.2%	24
Total S G & A	\$ 1,716	0.1%	\$ 1,715
% to total net revenue	17.9%		16.9%

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Selling, general and administrative expenses as a percentage of net revenues increased in the first three months ending April 30, 1995 compared to the same period in 1994 due to revenues declining while overall expenses remained essentially unchanged. Expenses in the Registrant's technical services segment and contract labor service segment decreased as a result of management's ongoing cost containment efforts. These reductions were offset by increases in the environmental services and registration services segments which are reflective of the cost of pursuing business in these growing segments of the Registrant. The Registrant continues to look for ways to reduce costs but remain effective in these areas.

INTEREST EXPENSE

Net interest expense increased \$56,000 in the first quarter ending April 30, 1995 when compared to the same period in 1994. This increase was principally due to higher interest rates on existing loans and increases in the term loan and line of credit

balances.

#### INCOME TAXES

The income tax provisional rate for the first quarters of 1995 and 1994 reflects a rate in excess of the U.S. federal statutory rate primarily due to the inclusion of state income taxes. The Registrant's provision for the first quarter ending April 30, 1995 was lower than the same period in 1994 due to the decrease in income before taxes. Management has determined that it is more likely than not that the deferred tax asset will be realized on the basis of offsetting it against deferred tax liabilities. It is the Registrant's intention to evaluate the realizability of the deferred tax asset quarterly by assessing the need for a valuation account.

#### NET INCOME

The decrease in net income in the first quarter ending April 30, 1995 compared to the same period in 1994 was due to decreased revenues, lower gross profit margins and slightly higher interest costs.

#### BUSINESS ENVIRONMENT

Revenues in the Registrant's defense-related test business continued to be very competitive due to the ongoing cutbacks and consolidations in the aerospace and defense industry. The Registrant has, however, maintained a significant volume of work at lower prices than last year. After a detailed market analysis, the Registrant has decided, as part of its aggressive cost reduction program, to discontinue its aerospace test operations at its Hartwood, Virginia facility. This facility will continue to operate in support of the Registrant's Marine Corps support contract in the Virginia area as well as providing a base of operation for the Registrant's national sales office.

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The Registrant plans to sell some of the aerospace test assets at this facility to others and reallocate the majority of these assets to its other laboratories. Also, at the end of the Marine Corps support contract, the Registrant will decide whether to liquidate or lease out the real property. It is anticipated by the Registrant that the discontinuance of operations at this facility will not have a material affect on earnings nor the Registrant's ability to service its current customer base. The Registrant's strategy of establishing strategic alliances and

winning work from companies that have downsized or discontinued their own testing operations has mitigated the trends in the defense-related business to some degree. Furthermore, the Registrant's strategy of growth through diversification has been successful with the continued revenue growth in ISO registration services and environmental services. Because of the foregoing, as well as other factors affecting the Registrant's operating results, past financial performance should not be considered to be a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

#### LIQUIDITY AND CAPITAL RESOURCES

In the first quarter ended April 30, 1995, cash used in operations increased by \$536,000 when compared to the same period in 1994. Major items contributing to this increase were significant increases in accounts receivable balances partially offset by decreases in inventories and accrued expense balances.

Net cash used in investing activities in the three-month period ended April 30, 1995 decreased \$56,000 over the same period in 1994. The Registrant anticipates that its capital spending level in fiscal 1996 will be lower than fiscal 1995. The actual level of spending will be dependent on a variety of factors, including general economic conditions, bank covenants and the Registrant's operating requirements.

In the three-month period ended April 30, 1995, net cash provided by financing activities consisted of increases in the bank term loans and lines of credit of \$1,000,000, offset by debt reduction on short term and long term debt of \$459,000 and payment of a \$0.01 per share dividend. During fiscal 1995 the Registrant's revolving lines of credit with Bank of America NT & SA and Sanwa Bank California were extended to June 1996. The Registrant also has a term loan agreement with Bank of America NT & SA and Sanwa Bank California for an aggregate amount of \$5,000,000 payable in monthly installments of \$83,000 through August 31, 1998 and an additional \$1,000,000 loan with Sanwa Bank California entered into in January 1995 with payments of \$16,667 through January 31, 2000.

Management is not aware of any significant demands for capital funds that may materially affect the short or long-term liquidity in the form of large fixed asset acquisitions, unusual working capital commitments or contingent liabilities. The

Registrant's future working capital will be provided from operations, supplemented by its bank credit lines. The Registrant's bank revolving lines of credit, which currently aggregate \$5,000,000 for short-term liquidity needs had \$400,000 available at April 30, 1995.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

During the quarter ended April 30, 1995  
the registrant did not file a current report  
on Form 8-K

SIGNATURE

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 TECHNICAL SYSTEMS, INC.

Date: June 12, 1995  
-----

By: /s/ Lloyd Blonder  
-----

Lloyd Blonder  
Senior Vice President  
Chief Financial Officer

(Signing on behalf of the  
registrant and as principal  
financial officer)

EXHIBIT INDEX

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