

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1996-01-11 | Period of Report: 1995-11-30  
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FILER

**TEMTEX INDUSTRIES INC**

CIK: 110740 | IRS No.: 751321869 | State of Incorporation: DE | Fiscal Year End: 0831  
Type: 10-Q | Act: 34 | File No.: 000-05940 | Film No.: 96502793  
SIC: 3433 Heating equipment, except electric & warm air furnaces

Mailing Address  
GRAYSTONE CENTRE STE  
650  
3010 LBJ FREEWAY LB 55  
DALLAS TX 75234-2705

Business Address  
GRAYSTONE CENTRE STE  
650  
3010 LBJ FRWY - LB 55  
DALLAS TX 75234-2705  
2144841845

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended November 30, 1995      Commission File No. 0-5940

TEMTEX INDUSTRIES, INC.

-----  
(Exact name of Registrant as specified in its Charter)

Delaware

75-1321869

-----  
(State or other jurisdiction of  
incorporation or organization)

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

3010 LBJ Freeway, Suite 650, Dallas, Texas

75234

-----  
(Address of principal executive offices)

-----  
(Zip Code)

214/484-1845

-----  
(Registrant's telephone number including area 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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

Yes [ X ]      No [   ]

The Registrant had 3,464,141 shares of common stock, par value \$.20 per share, outstanding as of the close of the period covered by this report.

## PART I. FINANCIAL INFORMATION

TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES  
 Condensed Consolidated Statements of Operations (Unaudited)  
 (In Thousands Except Share Amounts)

<TABLE>  
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	3 Mths. Ended	
	November 30,	
	1995	1994
	----	----
<S>	<C>	<C>
Net sales	\$12,993	\$14,167
Cost of goods sold	8,917	9,316
	-----	-----
	4,076	4,851
Cost and expenses:		
Selling, general and administrative	2,901	3,150
Interest	161	86
Other income	(5)	(11)
	-----	-----
	3,057	3,225
	-----	-----
INCOME FROM OPERATIONS BEFORE		
INCOME TAXES	1,019	1,626
State and federal income taxes--Note A	438	597
	-----	-----
NET INCOME	\$ 581	\$ 1,029
	=====	=====
Income per common share--Note B		
NET INCOME	\$ .16	\$ .29
	=====	=====
Weighted average common and common equivalent shares outstanding	3,523,301	3,547,005
	=====	=====

See notes to condensed consolidated financial statements.  
 </TABLE>

TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES  
 Condensed Consolidated Balance Sheets (Unaudited)

November 30, 1995 and August 31, 1995  
(In Thousands)

<TABLE>  
<CAPTION>

	November 30, 1995	August 31, 1995
	-----	-----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,434	\$ 736
Accounts receivable, less allowance for doubtful accounts of \$609,000 at November 30, 1995 and \$541,000 at August 31, 1995	7,910	7,011
Inventories	8,661	8,773
Prepaid expenses and other assets	365	401
Income taxes recoverable	443	443
Deferred taxes	350	350
	-----	-----
TOTAL CURRENT ASSETS	19,163	17,714
DEFERRED TAXES	530	530
OTHER ASSETS	316	366
ASSETS RELATED TO DISCONTINUED OPERATIONS --Note F	107	99
PROPERTY, PLANT AND EQUIPMENT		
Land and clay deposits	325	325
Buildings and improvements	3,496	3,496
Machinery, equipment, furniture and fixtures	21,825	21,448
Leasehold improvements	752	742
	-----	-----
	26,398	26,011
Less allowances for depreciation, depletion and amortization	17,934	17,505
	-----	-----
	8,464	8,506
	-----	-----
	\$28,580	\$27,215
	=====	=====

</TABLE>

<TABLE>

<CAPTION>

	November 30, 1995	August 31, 1995
	-----	-----
<S>	<C>	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 1,000	\$2,000
Accounts payable	5,740	4,144
Accrued expenses	1,746	1,786
Income taxes payable	409	--
Current maturities of indebtedness to related parties	7	7
Current maturities of long-term obligations--Note C	765	763
	-----	-----
TOTAL CURRENT LIABILITIES	9,667	8,700
INDEBTEDNESS TO RELATED PARTIES, less current maturities	1,619	1,621
LONG-TERM OBLIGATIONS, less current maturities--Note C	1,297	1,478
COMMITMENTS AND CONTINGENCIES--Note E	--	--
STOCKHOLDERS' EQUITY--Note D		
Preferred stock - \$1 par value; 1,000,000 shares authorized, none issued	--	--
Common stock - \$.20 par value; 10,000,000 shares authorized, 5,265,625 shares issued	715	715
Additional capital	9,225	9,225
Retained earnings	6,384	5,803
	-----	-----
	16,324	15,743
Less:		
Treasury stock:		
At cost - 113,696 shares	327	327
At no cost - 1,687,788 shares	--	--
	15,997	15,416
	-----	-----
	\$28,580	\$27,215
	=====	=====

See notes to condensed consolidated financial statements.

</TABLE>

TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In Thousands)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	3 Months Ended	
	November 30,	
	1995	1994
	----	----
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	\$ 581	\$1,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	429	314
Provision for doubtful accounts	83	107
Changes in operating assets and liabilities:		
Accounts receivable	(982)	(1,052)
Inventories	112	(624)
Prepaid expenses and other assets	86	(168)
Accounts payable and accrued expenses	1,556	1,169
Income taxes payable	409	530
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,274	1,305
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(387)	(908)
Expenditures on assets related to discontinued operations	(8)	(1)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(395)	(909)
FINANCING ACTIVITIES		
Proceeds from revolving line of credit and long-term borrowings	--	512
Principal payments on revolving line of credit, long-term obligations and indebtedness to related parties	(1,181)	(56)
	-----	-----
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,181)	456
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	698	852
Cash and cash equivalents at beginning of year	736	627
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,434	\$1,479
	=====	=====

See notes to condensed consolidated financial statements.

</TABLE>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A--INCOME TAXES

The Company calculates its income tax expense under the liability method of accounting for income taxes. Income for the first three months of fiscal 1996 reflects an estimated annualized tax rate of approximately 43%.

NOTE B--INCOME PER COMMON SHARE

Income per common share is based on the weighted average number of common stock and common stock equivalents outstanding during each period. Common stock equivalents include options granted to key employees and outside directors. The number of common stock equivalents was based on the number of shares issuable on the exercise of options reduced by the number of common shares that are assumed to have been purchased, at the average price of the common stock during each quarter, with the proceeds from the exercise of the options. Fully diluted income per common share is not presented because dilution is not significant.

NOTE C--NOTES PAYABLE AND LONG-TERM DEBT

In fiscal 1994, the Company entered into a two year credit agreement with a bank whereby the Company may borrow a maximum of \$3,000,000 under a revolving credit note. The credit agreement was amended in fiscal 1995, in which a three year term note of \$1,212,000 was added. The term note requires quarterly payments of principal and interest with the final payment due in March, 1998. Covenants contained in the original loan agreement that require the maintenance of a specified ratio of total liabilities to tangible net worth, as defined, and a fixed charge flow coverage ratio, as defined, remain in effect.

NOTE D--CAPITAL STOCK

At November 30, 1995 and August 31, 1995, there were 1,000,000 shares of preferred stock, with a par value of \$1 authorized. None have been issued.

At November 30, 1995 and August 31, 1995, there were 10,000,000 shares of par value \$.20 common stock authorized of which 5,265,625 shares were issued. Of the shares issued, 3,464,141 were outstanding. The remainder of the issued stock is comprised of 113,696 shares of

treasury stock at cost and 1,687,788 shares of treasury stock at no cost.

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#### NOTE E--CONTINGENCIES

Due to the complexity of the Company's operations, disagreements occasionally occur.

In the opinion of management, the Company's ultimate loss from such disagreements and potential resulting legal action, if any, will not be significant.

#### NOTE F--DISCONTINUED OPERATIONS

In 1993, management of the Company decided to discontinue the Company's contract products segment.

At August 31, 1995 assets related to the discontinued contract products operations were stated at estimated realizable values and consisted of land, building and equipment.

In the first quarter of fiscal 1996, the Company leased the building and the majority of the land. The initial lease term is for a period of five years with an option to extend the lease for an additional five year period. The lease also contains an option to purchase the property during the first two years of the initial lease period.

The remaining parcel of land and equipment are on the market to be sold.

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

#### Net Sales

The Company reported an 8% decrease in net sales to \$12,993,000 in the first quarter of fiscal 1996 compared to net sales of \$14,167,000 in the first quarter of fiscal 1995.

Fireplace Products. Net sales decreased approximately 8% in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. The sales decrease was attributed to a small decrease in the number of zero-clearance fireplaces and ventfree log sets delivered in addition to a small decrease in the average selling prices received for the products in the first quarter of fiscal 1996. Net sales were



apparently influenced by the decrease in housing starts between the comparison periods. Nationwide, housing starts decreased from an annualized average of 1,494,000 in the first quarter of fiscal 1995 to an annualized average of 1,363,000 for the first two months of fiscal 1996. [Housing start data for November 1995 (the last month of Company's first quarter), was not published at the time this report was prepared.]

Face Brick Products. Net sales decreased approximately 11% in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. The reduction in sales was the direct result of a reduction in the quantity of brick sold in the first quarter of 1996.

#### Gross Profit

Fireplace Products. Gross profit decreased approximately 15% in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. The decrease was caused by the decrease in net sales.

Face Brick Products. Gross profit decreased approximately 21% in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. With fixed manufacturing costs maintaining a relatively constant level, the lower volume of product manufactured and sold did not permit favorable absorption of overhead expenses.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$249,000 or 8% in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. Selling expenses are generally variable and decrease as sales decrease. As a percentage of sales, expenses were approximately 22% in each of the comparison quarters.

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#### Interest Expense

Interest expense increased \$75,000 in the first quarter of 1996 compared to the first quarter of 1995. The increase in expense was caused by the increase in debt outstanding during the first quarter of 1996. It should be noted that outstanding debt at November 30, 1995 was more than \$1,000,000 less than the amount outstanding at August 31, 1995.

#### Income Taxes

Income tax expense of \$438,000 for the first quarter of fiscal 1996 includes the provision for both federal and state income taxes. An estimated annualized effective tax rate of 43% was applied to pre-tax income for the first quarter of fiscal 1996.

## Liquidity and Capital Resources

Net cash provided by operating activities was \$2,274,00 for the first quarter of 1996 compared to \$1,305,000 for the first quarter of 1995. The increased cash flow from operations in the first quarter of fiscal 1996 was due primarily to changes in working capital, principally increases in accounts payable and income taxes payable.

In May 1994, the Company entered into a two-year credit agreement with a bank whereby the Company may borrow a maximum of \$3,000,000 under a revolving credit facility. The amount available under the revolving credit facility is subject to limitations based on specified percentages of the Company's eligible outstanding receivables and inventory. The outstanding principal balance may bear interest at a variable or fixed rate, at the Company's option, at the time funds are requested. Interest is payable quarterly and also at the end of the borrowing period if borrowing at a fixed rate. In fiscal 1995, the loan agreement was amended whereby a promissory term note in the amount of \$1,212,000 was added with a maturity date of March 1998. The term note requires quarterly payments of principal and interest.

Working capital increased by \$482,000 at November 30, 1995 compared to August 31, 1995. Although there was an increase in the amount of working capital, the current ratio remained the same at approximately 2.0 at each of the measurement dates.

Capital expenditures and capitalized lease obligations for the first three months of 1996 were \$387,000 compared to \$921,000 for the first three months of 1995. Expenditures include amounts for tooling, dies and repairs to existing tooling and equipment. The capital additions have been financed by cash flow from operations.

The Company anticipates that cash flow from operations together with funds available from the revolving credit facility should provide the Company with adequate funds to meet its working capital requirements as well as requirements for capital expenditures for at least the next twelve months.

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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended

November 30, 1995 are not necessarily indicative of the results that may be expected for the year ending August 31, 1996. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended August 31, 1995.

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PART II. OTHER INFORMATION

Item 6(b). Reports on Form 8-K

The Registrant did not file any reports on Form 8-K during the quarter for which this report is filed.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEMTEX INDUSTRIES, INC.

DATE: 1/10/96

BY:/s/E.R.Buford

-----

E. R. Buford  
President

DATE: 1/10/96

BY:/s/R. N. Stivers

-----

R. N. Stivers  
Vice President-Finance

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF TEMTEX INDUSTRIES, INC. FOR THE QUARTER ENDED NOVEMBER 30, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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