

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-17** | Period of Report: **1994-04-03**
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FILER

ELJER INDUSTRIES INC

CIK: **846657** | IRS No.: **752270874** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-10181** | Film No.: **94529130**
SIC: **3430** Hearing equip, except elec & warm air; & plumbing fixtures

Business Address
17120 DALLAS PKWY
DALLAS TX 75248
2144072600

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the Quarterly Period Ended April 3, 1994

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number 0-10181

ELJER INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

75-2270874

(State of Incorporation)

(I.R.S. Employer I.D. No.)

17120 Dallas Parkway, Dallas, Texas

75248

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (214) 407-2600

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
 ----- -----

At May 3, 1994 there were 7,122,326 shares of registrant's common stock

outstanding.

ELJER INDUSTRIES, INC.

FORM 10-Q

APRIL 3, 1994

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PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	For the Three Months Ended	
	April 3, 1994	April 4, 1993
	-----	-----
<S>	<C>	<C>
NET SALES	\$90,875	\$95,648
COST OF SALES	66,607	69,618
	-----	-----
GROSS PROFIT	24,268	26,030
SELLING & ADMINISTRATIVE EXPENSES	19,910	19,208
LITIGATION COSTS	1,360	1,945
	-----	-----
INCOME FROM OPERATIONS	2,998	4,877
OTHER EXPENSE, net	325	400
INTEREST INCOME	376	522
INTEREST EXPENSE	3,453	3,754
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(404)	1,245
INCOME TAXES	(764)	371
	-----	-----
NET INCOME	\$ 360	\$ 874
	=====	=====
NET INCOME PER SHARE	\$ 0.05	\$ 0.12
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	7,100	7,073
	=====	=====

</TABLE>

See notes to unaudited condensed consolidated financial statements.

ELJER INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

<TABLE>
<CAPTION>

A S S E T S	April 3, 1994	January 2, 1994
	-----	-----
<S>	<C>	<C>
CURRENT ASSETS:		
Cash & temporary cash investments	\$ 15,748	\$ 23,439
Restricted cash	15,765	15,966
Trade accounts receivable, net of reserves of \$8,747 and \$8,890	49,615	49,995

Insurance receivable	6,909	6,621
Inventories	61,704	59,548
Other current assets	8,290	7,202
	-----	-----
Total current assets	158,031	162,771
PROPERTIES & EQUIPMENT, net of accumulated depreciation of \$96,539 and \$94,793	57,266	58,015
COST IN EXCESS OF NET TANGIBLE ASSETS ACQUIRED, net	11,702	11,879
OTHER ASSETS	2,624	2,758
	-----	-----
	\$229,623	\$235,423
	=====	=====

</TABLE>

See notes to unaudited condensed consolidated financial statements.

ELJER INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

LIABILITIES AND SHAREHOLDERS' EQUITY	April 3, 1994	January 2, 1994
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
CURRENT LIABILITIES:		
Short-term debt and current maturities of long-term debt	\$ 20,885	\$ 18,430
Trade accounts payable	13,971	18,933
Accrued contingencies covered by insurance	6,909	6,621
Accrued expenses	60,220	63,687
	-----	-----
Total current liabilities	101,985	107,671
LONG-TERM DEBT	103,095	103,114
POSTRETIREMENT BENEFITS	40,972	40,743
OTHER LIABILITIES	13,185	13,144

DEFERRED INCOME TAXES	847	871
	-----	-----
Total liabilities	260,084	265,543
SHAREHOLDERS' EQUITY (DEFICIT):		
Common stock, \$1 par value, 50,000,000 shares authorized; 7,107,326 and 7,092,326 shares outstanding	7,186	7,186
Additional capital	78,801	78,700
Accumulated deficit	(106,886)	(107,246)
Foreign currency translation adjustments	(9,483)	(8,666)
Treasury stock	(79)	(94)
	-----	-----
Total shareholders' equity (deficit)	(30,461)	(30,120)
	-----	-----
	\$229,623	\$235,423
	=====	=====

</TABLE>

See notes to unaudited condensed consolidated financial statements.

ELJER INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

	For the Three Months Ended	
	April 3, 1994	April 4, 1993
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 360	\$ 874
Adjustments to reconcile net income to net cash used in perating activities-		
Depreciation and amortization	2,476	2,777
Stock issued as compensation	116	67
Change in assets and liabilities-		
Trade accounts receivable	(1,184)	(1,846)
Inventories	(2,190)	(842)
Trade accounts payable and accrued expenses	(7,234)	(6,278)
Accrued litigation - Kowin Development	(89)	(12,871)
Postretirement benefits	229	841
Other assets	(1,042)	(354)

Other, net	525	357
	-----	-----
Net cash used in operating activities	(8,033)	(17,275)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in properties and equipment	(1,714)	(1,903)
Proceeds from disposition of properties and equipment	16	79
	-----	-----
Net cash used in investing activities	(1,698)	(1,824)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term debt	8,413	(1,116)
Decrease in long-term debt	(6,012)	(11)
Collateralization of letters of credit	--	(1,450)
Taxes paid on dividends from foreign subsidiaries	--	(3,974)
	-----	-----
Net cash provided by (used in) financing activities	2,401	(6,551)
	-----	-----
EFFECTS OF EXCHANGE RATES ON CASH	(361)	(100)
	-----	-----
NET DECREASE IN CASH & TEMPORARY CASH INVESTMENTS	(7,691)	(25,750)
CASH & TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD	23,439	46,808
	-----	-----
CASH & TEMPORARY CASH INVESTMENTS, END OF PERIOD	\$15,748	\$21,058
	=====	=====

</TABLE>

See notes to unaudited condensed consolidated financial statements.

ELJER INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION:

The condensed consolidated financial statements include the accounts of Eljer Industries, Inc. and its wholly-owned subsidiaries (the "Company") of after the elimination of intercompany transactions and balances.

Accounting policies used in the preparation of the quarterly condensed consolidated financial statements, except as indicated below, are consistent in all material respects with the accounting policies described in the notes to financial statements appearing in the Company's Annual Report on Form 10-K for the year ended January 2, 1994. In the opinion of management, the interim financial statements reflect all adjustments which are necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. The results for such interim periods are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes to consolidated financial statements included in the aforementioned Form 10-K.

During the first quarter of 1994, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 39 ("FIN 39"). FIN 39 requires the Company to present separately in its balance sheet its contingent liabilities which can be estimated and the related recoverable assets. Accordingly, the accompanying condensed balance sheet as of January 2, 1994, and condensed statement of cash flows for the year ended January 2, 1994, have been reclassified to conform to the 1994 presentation.

Certain other reclassifications have also been made to the prior year financial statements to conform to the 1994 presentation.

(2) INVENTORIES:

Inventories consisted of the following (in thousands):

<TABLE>
<CAPTION>

	April 3, 1994 -----	January 2, 1994 -----
<S>	<C>	<C>
Finished goods	\$36,529	\$33,572
Work in process	8,121	8,529
Raw materials	17,054 -----	17,447 -----
Total inventories	\$61,704 =====	\$59,548 =====

</TABLE>

(3) CONTINGENCIES:

The Company and certain of its subsidiaries are involved in litigation related to the Qest polybutylene plumbing systems (the "Qest system"), environmental matters, Kowin Development Corporation ("Kowin Development"),

shareholder suits and other matters which, if determined adversely to the Company, may have a material adverse effect on its financial condition or results of operations. Reference is made to Note (13) "Contingencies" to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended January 2, 1994, which is incorporated herein.

(4) INCOME TAXES:

The Company's income tax benefit is a result of European and Canadian pretax losses in 1994 and the Company's ability to utilize deferred tax benefits in the United States. See Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

ELJER INDUSTRIES, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net sales decreased by approximately \$4.8 million to \$90.9 million for the three-month period ended April 3, 1994, compared to the three-month period ended April 4, 1993, a 5.0% decrease. The sales decrease resulted primarily from declines in European sales of commercial, industrial and residential chimneys and gas vents due to the deterioration in the European economy, particularly in Germany. In addition, 1993 first quarter sales included approximately \$1 million of sales generated at the Company's fiberglass plant, which was sold in the third quarter of 1993.

Gross profit margin decreased to 26.7% for the three-month period ended April 3, 1994, from 27.2% for the comparable 1993 period. The rise in margins for the Company's plumbing products, due to increased volume, improved product mix and production efficiencies, was more than offset by the reduced level of sales of higher margin European products.

Total selling and administrative expenses through April 3, 1994, were approximately \$702,000 higher for the three-month period then ended, as compared to the 1993 level. The increase resulted primarily from increased research, development and other selling costs related to the implementation of new plumbing products in North America. Litigation costs were approximately \$585,000 lower in the first quarter of 1994 compared to 1993.

Other expense, net was relatively stable, decreasing only \$75,000 in the first three months of 1994 as compared to 1993. Interest expense in the first three months of 1994 declined approximately \$301,000 over the same period in 1993. This decrease is primarily due to lower borrowing levels related to financing agreements at two of the Company's indirect wholly-owned subsidiaries during the first quarter of 1994 as compared to 1993.

Income tax expense was reduced from \$371,000 for the first three months of 1993 to a benefit of \$764,000 for the same period in 1994 due to European and Canadian pretax losses in the 1994 quarter, and the Company's ability to utilize

deferred tax benefits in the United States.

LIQUIDITY AND CAPITAL RESOURCES

The net cash used in operating activities of \$8.0 million for the three months ended April 3, 1994, was \$9.2 million less than the net cash used in operating activities for the comparable 1993 period. The cash usage in 1993 included a deposit of approximately \$12.6 million in lieu of an appeal bond for the previously disclosed Kowin Development litigation, in addition to other costs and fees associated with this lawsuit. The cash usage in the first quarters of 1994 and 1993 included payments previously accrued of approximately \$4.2 million and \$4.0 million, respectively, to customers under purchase incentive programs.

Capital expenditures for the first three months of 1994 were \$1.7 million, primarily for the replacement and improvement of capital equipment at various locations.

The Company experienced an increase in short-term borrowings during the first quarter of 1994 related mainly to revolving debt at the Company's indirect, wholly-owned subsidiary, United States Brass Corporation ("U.S. Brass") and the Company's Selkirk subsidiaries in Europe. The Company reduced its long-term borrowings by \$6.0 million due to the principal repayment required under the First Amendment to Amended and Restated Credit Agreement (the "Amendment") as discussed in the Company's Annual Report on Form 10-K for the year ended January 2, 1994. Under the terms of the Amendment, \$2.0 million, \$4.0 million and \$11.0 million principal payments are scheduled for October 5, 1994, December 30, 1994 and December 29, 1995, respectively, with the balance becoming due at the April 30, 1996 maturity date. The Company will be working toward some manner of debt restructuring prior to the maturity of the Amendment in April 1996. Neither the Company nor any of its subsidiaries has any commitment with respect to restructurings or other sources of financing and there can be no assurance that any such commitments can be obtained prior to the maturity of the Amendment.

In connection with the Amendment, the maturity date related to the accounts receivable sale program was accelerated to September 30, 1994. The Company is currently having discussions with other potential lenders to replace this facility and, while there can be no assurance in this regard, anticipates it will be successful. The structure of a new facility may be different than the current program.

As previously disclosed in the Company's Form 10-K for the year ended January 2, 1994, on February 4, 1994, Shell Chemical Company and Celanese Specialty Resins, a unit of Hoechst Celanese Corporation ("Celanese") notified U.S. Brass that they believe they have made expenditures on behalf of U.S. Brass totaling approximately \$35.3 million in claims settlements and related administrative costs of the toll free telephone service operated by them to handle calls from homeowners who have Qest systems which have experienced failures. However, insufficient information supporting this amount has been provided to U.S. Brass, and when and if sufficient information is ultimately provided, U.S. Brass believes that it has grounds to seek substantial reductions

in any such amount or to avoid any liability for such demands. U.S. Brass is unable to estimate the potential liability, if any, for which it may ultimately be responsible. Any such liability should be covered by its general liability insurance. See also "Legal Proceedings" in Part II -- Other Information, Item 1 in this Report and Note (13) to the Company's Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended January 2, 1994.

The Company believes that if it continues to be exposed to protracted litigation or suffers adverse court verdicts in Qest system lawsuits discussed in "Legal Proceedings" below, including the possibility of punitive damage awards for which insurance coverage may not be available, and if the Company does not receive complete and timely reimbursement from its excess insurance carriers, or obtain interim funding arrangements from its insurers, payments of such litigation costs may materially and adversely affect its liquidity.

Although the Company continues to believe that the Qest system liabilities are substantially covered by insurance, it is also exploring other means of resolving the polybutylene-related liabilities. It is continuing to press its suit against its former parent company, Household International, Inc. ("Household"), and is seeking to hold Household responsible for a portion of these liabilities, in addition to other damages. Further, the Company is exploring other options including the reorganization of U.S. Brass under federal bankruptcy laws. Such a proceeding could provide a means of maximizing the return to creditors of U.S. Brass and systematically resolving the issues raised in the polybutylene-related litigation. Under the terms of the Amendment (discussed above), the filing of such a proceeding no longer constitutes an event of default under the Credit Agreement. See Notes (13) and (14) to the Consolidated Financial Statements of the Company in the Company's Annual Report on Form 10-K for the year ended January 2, 1994.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note (13) "Contingencies" and Note (14) "Relationship with Household" to the Consolidated Financial Statements of the Company in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 1994, as filed with the Securities and Exchange Commission, which are made a part hereof by this reference.

U.S. Brass is a defendant together, in some cases with the Company, Household, Eljer Manufacturing, Inc. ("Eljer Manufacturing") and Qest Products Inc., in a number of lawsuits filed by homeowners, homeowner associations, developers, builders and plumbing contractors which involve the Qest polybutylene plumbing system manufactured and sold by U.S. Brass or a predecessor company. As of March 31, 1994, 108 lawsuits involving approximately 30,000 residential claims remain pending, not including purported class members in Arizona, California and Nevada.

On May 16, 1994, the Company announced that Shell Oil Company ("Shell") had filed suit in New Jersey state court against Household, the Company, Eljer Manufacturing and U.S. Brass alleging that U.S. Brass breached its obligations under a sharing agreement with Shell for handling Qest system claims and

liabilities. This suit also alleges that Household intentionally stripped the Company and U.S. Brass of assets in connection with the spin-off of the Company by Household in 1989 and thereby rendered U.S. Brass incapable of meeting its obligations under the sharing agreement. Shell asserts claims of breach of contract, fraud, negligent misrepresentation, contribution and indemnity and alter-ego claims. In addition, Shell seeks compensator and punitive damages and a declaration that Household, the Company and Eljer Manufacturing are liable for all obligations of U.S. Brass to Shell. As previously reported, a similar action against Household, Eljer Manufacturing and U.S. Brass was filed in December, 1993 by Celanese in the same court. Shell, Celanese, the Company and its subsidiaries are defendants in a number of lawsuits filed by homeowners, developers, builders and plumbing contractors which involve the Qest system manufactured and sold by U.S. Brass. In defending these actions, the defendants are also litigating their respective responsibility and liability for the alleged defects in the plumbing system.

As previously reported, the Company is involved in a number of insurance coverage lawsuits presently pending in federal and state courts with respect to the polybutylene plumbing litigation. The Company filed suit in July 1993 in federal court in Illinois against 18 insurance companies seeking declaratory relief that each of the defendants is obligated to defend and indemnify the Company and its subsidiaries, Eljer Manufacturing and U.S. Brass, for lawsuits arising from the installation and use of polybutylene plumbing systems manufactured and sold by U.S. Brass. The Company also seeks monetary damages from the insurance companies for failing to defend and indemnify the Company and its subsidiaries in the polybutylene plumbing system cases. A number of insurers have moved to dismiss the Company's suit or to refer the matter to the Illinois state court.

On May 16, 1994, the Company reported that the federal magistrate judge has recommended to the federal district judge that the Company's suit be dismissed on jurisdictional grounds. The magistrate judge, without considering the merits, concluded that insurance carriers not named in the suit are indispensable parties, and that if added to the suit, federal court jurisdiction based on diversity would not exist. The Company disagrees with the magistrate judge's recommendation and is considering the various responses which are available to it.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) None
- (b) Reports on Form 8-K

A report on Form 8-K was filed on January 7, 1994, related to the announcement that Celanese filed suit in the Superior Court of New Jersey against Household, the former parent of the Company, Eljer Manufacturing and U.S. Brass.

A report on Form 8-K was filed on February 11, 1994, related to the announcement that the federal appeals court in Chicago had affirmed substantially all of a previously-announced arbitration award in favor of Kowin Development and against Eljer Manufacturing.

A report on Form 8-K was filed on March 25, 1994, related to the March 14, 1994, announcement of an agreement in principle to settle the class action securities litigation against the Company and certain present and former members of the Board of Directors pending in a federal court in Texas.

Subsequent Reports on Form 8-K

None

SIGNATURES:

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

ELJER INDUSTRIES, INC.

Date May 17, 1994

By /s/ Henry W. Lehnerer

Henry W. Lehnerer
Vice President -
Finance and
Chief Financial Officer
(Principal Financial and
Accounting Officer)