

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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COLTEC INDUSTRIES INC

CIK: **201493** | IRS No.: **131846375** | State of Incorpor.: **PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-07568** | Film No.: **94529049**
SIC: **3728** Aircraft parts & auxiliary equipment, nec

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

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act of 1934

For the quarterly period ended April 3, 1994

OR

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 1-7568

COLTEC INDUSTRIES INC

(Exact name of Registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation
or organization)

13-1846375

IRS Employer
Identification No.)

430 PARK AVENUE, NEW YORK, N.Y.

(Address of principal executive offices)

10022

(Zip code)

(212) 940-0400

(Registrant's telephone number, including area code)

(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 ()

On May 1, 1994, there were outstanding 69,802,681 shares of common stock, par value \$.01 per share.

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PART I FINANCIAL INFORMATION
Item I Financial Statements

COLTEC INDUSTRIES INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	April 3, 1994	December 31, 1993
	<u> </u>	<u> </u>
	(Unaudited)	
	(In thousands, except per share data)	
A S S E T S		
Current assets -		
Cash and cash equivalents	\$ 5,297	\$ 5,749
Accounts and notes receivable - net	196,706	161,521
Inventories -		
Finished goods	37,677	39,206
Work in process and finished parts	102,758	103,166
Raw materials and supplies	25,268	25,405
	<u>165,703</u>	<u>167,777</u>
Deferred income taxes	16,273	17,036
Other current assets	8,393	8,587
	<u>392,372</u>	<u>360,670</u>
Property, plant and equipment	637,535	657,237
Less accumulated depreciation and amortization	420,742	431,908
	<u>216,793</u>	<u>225,329</u>
Costs in excess of net assets acquired, net of amortization	133,776	132,550
Other assets	107,864	87,863
	<u>\$ 850,805</u>	<u>\$ 806,412</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities -		
Current maturities of long-term debt	\$ 535	\$ 1,543
Accounts payable	57,576	64,791
Accrued expenses	139,754	127,208
Current portion of liabilities of discontinued operations	4,000	4,000
	<hr/>	<hr/>
Total current liabilities	201,865	197,542
Long-term debt	1,047,866	1,032,089
Deferred income taxes	29,472	27,543
Other liabilities	135,607	132,367
Liabilities of discontinued operations	41,635	42,361
Shareholders' equity -		
Preferred stock, \$.01 par value, 2,500,000 shares authorized, shares outstanding - none	-	-
Common stock, \$.01 par value, 100,000,000 shares authorized, 69,943,341 shares issued (excluding 25,000,000 shares held by a wholly owned subsidiary)	699	699
Capital in excess of par value	637,008	636,846
Retained earnings (deficit)	(1,230,822)	(1,251,465)
Unearned compensation - restricted stock awards	(4,702)	(5,552)
Minimum pension liability	(4,205)	(4,205)
Foreign currency translation adjustments	(1,344)	1,077
	<hr/>	<hr/>
	(603,366)	(622,600)
Less: Cost of 140,660 and 179,309 shares of common stock in treasury at April 3, 1994 and December 31, 1993, respectively	(2,274)	(2,890)

	(605,640)	(625,490)
	\$ 850,805	\$ 806,412
	=====	=====

The accompanying notes to financial statements are an integral part of this statement.

2.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

	Three Months Ended	
	April 3, 1994	April 4, 1993
	(In thousands, except per share data)	
Net sales	\$331,850	\$339,934
Costs and expenses -		
Cost of sales	227,641	232,031
Selling and administrative	49,530	52,936
Total costs and expenses	277,171	284,967
Operating income	54,679	54,967
Interest and debt expense, net	22,424	28,059
Earnings before income taxes and extraordinary item	32,255	26,908

Provision for income taxes	11,612	9,418
	<hr/>	<hr/>
Earnings before extraordinary item	20,643	17,490
Extraordinary item	-	(264)
	<hr/>	<hr/>
Net earnings	\$ 20,643	\$ 17,226
	=====	=====
Earnings per common share -		
Before extraordinary item	\$.30	\$.25
Extraordinary item	-	-
	<hr/>	<hr/>
Net earnings	\$.30	\$.25
	=====	=====
Weighted average number of common and common equivalent shares	69,797	69,599
	=====	=====

The accompanying notes to financial statements are an integral part of this statement.

3.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	April 3, 1994	April 4, 1993
	<hr/>	
	(In thousands)	
Cash flows from operating activities		
Net earnings	\$ 20,643	\$ 17,226
Adjustments to reconcile net earnings to cash		
Extraordinary item	-	264
Depreciation and amortization	10,921	12,645
Deferred income taxes	1,929	227
Receivable from insurance carriers	(3,089)	(4,695)
Payment of liabilities of discontinued operations	(726)	(304)
Other operating items	(2,521)	2,198
	<hr/>	<hr/>
	27,157	27,561
	<hr/>	<hr/>

Changes in assets and liabilities		
Accounts and notes receivable	(15,989)	(14,248)
Inventories	(1,011)	(15,715)
Deferred income taxes	763	146
Other current assets	(85)	(1,266)
Accounts payable	(4,710)	543
Accrued expenses	(16,886)	2,075
	<hr/>	<hr/>
Changes in assets and liabilities	(37,918)	(28,465)
	<hr/>	<hr/>
Cash used in operating activities	(10,761)	(904)
	<hr/>	<hr/>
Cash flows from investing activities		
Capital expenditures	(7,146)	(4,108)
Other - net	(1,029)	1,891
	<hr/>	<hr/>
Cash used in investing activities	(8,175)	(2,217)
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	329,000	24,112
Retirement of long-term debt	(310,516)	(22,075)
	<hr/>	<hr/>
Cash provided by financing activities	18,484	2,037
	<hr/>	<hr/>
Cash and cash equivalents -		
Decrease	(452)	(1,084)
At beginning of period	5,749	7,155
	<hr/>	<hr/>
At end of period	\$ 5,297	\$ 6,071
	<hr/>	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

4.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
Notes to Financial Statements
April 3, 1994
(Unaudited)

1. The unaudited financial statements included herein reflect in the opinion of Coltec Industries Inc ("Coltec") all normal recurring adjustments necessary to present fairly the financial position and results of operations for the periods indicated. The unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the

information and footnotes required by generally accepted accounting principles for complete financial statements. The consolidated balance sheet as of December 31, 1993 has been derived from the audited financial statements as of that date. For further information, refer to the financial statements and footnotes included in Coltec's annual report to shareholders for the year ended December 31, 1993.

2. In the first quarter of 1994, Coltec adopted the requirements of Financial Accounting Standards Board Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts." In accordance with Interpretation No. 39, Coltec recorded its liabilities for asbestos-related matters that are deemed probable and can be reasonably estimated (settled actions and actions in advanced stages of processing), and separately recorded an asset equal to the amount expected to be recovered by insurance. In addition, Coltec has recorded a receivable for that portion of payments previously made for asbestos product liability actions and related litigation costs that is recoverable from its insurance carriers. Liabilities for asbestos related matters and the receivable from insurance carriers included in the Consolidated Balance Sheet are as follows:

	April 3, 1994	December 31, 1993
	(In thousands)	
Accounts and notes receivable - net	\$61,287	\$35,838
Other assets	37,952	23,697
Accrued expenses	31,581	-
Other liabilities	10,404	-

3. Interest paid and federal and state income taxes paid and refunded were as follows:

	Three Months Ended	
	April 3, 1994	April 4, 1993
	(In thousands)	
Interest paid	\$29,718	\$30,598
Income taxes:		
Paid	12,512	4,992
Refunded	285	896

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COLTEC INDUSTRIES INC AND SUBSIDIARIES
Notes to Financial Statements
April 3, 1994

(Unaudited)

4. During the first quarter of 1993, Coltec incurred an extraordinary charge of \$264,000, net of a tax benefit of \$135,000, in connection with the writeoff of deferred financing costs from early extinguishment of debt.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 3, 1994

PART I FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table shows financial information by industry segment for the three months ended April 3, 1994 and April 4, 1993.

	Three Months Ended	
	April 3, 1994	April 4, 1993
	(In millions)	
Sales:		
Aerospace/Government	\$ 99.1	\$113.1
Automotive	128.4	113.1
Industrial	104.7	114.0
Intersegment elimination	(.3)	(.3)
Total	\$331.9	\$339.9
	=====	=====
Operating income:		
Aerospace/Government	\$ 13.6	\$ 17.7
Automotive	28.3	26.3
Industrial	22.3	20.8
Total segments	64.2	64.8
Corporate unallocated	(9.5)	(9.8)
Operating income	\$ 54.7	\$ 55.0
	=====	=====

RESULTS of OPERATIONS

Three Months Ended April 3, 1994 Compared with Three Months Ended April 4, 1993.

Earnings before extraordinary item for the first quarter of 1994 were \$20.6 million, equal to \$.30 per common share, compared with \$17.5 million, or \$.25 per common share in the first quarter of 1993. Sales were \$331.9 million compared with \$339.9 million for the first quarter last year. Operating income for the 1994 first quarter was \$54.7 million and the operating margin was 16.5%. This compared with operating income of \$55.0 million and an operating margin of 16.2% in the first quarter of 1993. Results for the first quarter of 1994 were adversely impacted by the severe weather conditions in January and February .

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COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 3, 1994

In the Aerospace/Government segment, operating income in the first quarter of 1994 declined 23% on a 12% sales decline from the comparable 1993 period. Operating income in the Automotive segment improved 8% on a 14% sales increase, and operating income in the Industrial segment increased 7% on an 8% decline in sales.

Operating results for the Aerospace/Government segment continued to reflect the weakness in demand for commercial aircraft and delayed receipt of orders for engines for U.S. Navy programs. The improved performance in the Automotive segment reflects the increasing strength in the automotive industry and rising demand for segment products. In the Industrial segment, results were mixed in the first quarter of 1994, with higher sales and earnings reported by Quincy Compressor and Garlock Bearings, while Garlock Mechanical Packing, France Compressor Products and Delavan Commercial Products reported lower results. Order input in the Industrial segment increased in the first quarter of 1994 over the 1993 fourth quarter.

Excluding the operating results of Central Moloney, which was sold in January 1994, sales were up slightly to \$327.0 million from \$324.2 million and operating income was \$54.6 million compared with \$56.6 million in the first quarter of 1993. Excluding Central Moloney, operating income for the Industrial segment was level and sales were up 2% for the first quarter of 1994.

Following is a discussion of the results of operations for the three months ended April 3, 1994 compared with the three months ended April 4, 1993.

Sales. In the Aerospace/Government segment, sales were \$99.1 million

compared with \$113.1 million a year ago. The sales decline continued to reflect the weakness in demand for commercial aircraft. Shipments of Menasco landing gear were down reflecting schedule reductions early in 1993 that were in response to customer cutbacks. Sales were down at Fairbanks Morse Engine on lower shipments of engines reflecting completion of certain U.S. Navy programs; and at Chandler Evans Control Systems, sales were down on lower demand for spare parts from both the commercial and military markets.

Sales for the Automotive segment increased from \$113.1 million last year to \$128.4 million in the first quarter of 1994 reflecting higher new car and truck production. Sales at Holley Automotive were higher on increased demand for manifold assemblies, transmission solenoids and transmission modulators. Shipments of oil pumps and both mechanical and electrical emission-control air pumps were up at Coltec Automotive. The higher sales of electric air pumps reflected the acquisition late in 1993 of General Motor's air pump manufacturing operation. Farnam Sealing Systems reported higher sales on strong demand for gaskets and seals from both original equipment manufacturers and the aftermarket. Sales were lower at Holley Replacement Parts reflecting a decline in demand for carburetors in the aftermarket.

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COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 3, 1994

In the Industrial segment, sales were \$104.7 million for the first quarter of 1994 compared with \$114.0 million last year. Excluding Central Moloney, sales were \$99.8 million compared with \$98.2 million in the first quarter of 1993. Quincy Compressor reported higher sales on increased shipments of rotary screw air compressors and greater demand for compressor parts and accessories. Sales were higher at Garlock Bearings, Sterling Die and Haber on increased demand from the automotive market. Lower sales were reported in the first quarter of 1994 by Garlock Mechanical Packing, Garlock Valves & Industrial Plastics and France Compressor Products.

Cost of Sales. Cost of sales decreased 2% in the first quarter of 1994; however, excluding Central Moloney, cost of sales was 3% higher. This increase is related primarily to higher operating costs at Chandler Evans Control Systems and Walbar resulting from production delays and inefficiencies during the consolidation and relocation of operations pursuant to the restructuring plan announced in 1993. Cost of sales as a percent of sales increased to 68.2% from 66.7%, after excluding Central Moloney.

Selling and Administrative. Selling and administrative expense,

including other income and expense, declined 6% in the first quarter of 1994. Excluding Central Moloney, selling and administrative expense was down 4% due to lower sales and to reductions in the sales force at Garlock Mechanical Packing. As a percent of sales, selling and administrative expense declined to 15.1% from 15.8% in the first three months of 1993, after excluding Central Moloney.

Interest and Debt Expense, Net. Interest and debt expense, net declined \$5.6 million, or 20%, primarily reflecting lower cost under the 1994 Credit Agreement entered into in January 1994.

Provision for Income Taxes. The provision for income taxes for the first three months of 1994 results in an effective income tax rate of 36.0% compared with 35.0% for the first three months of 1993.

Extraordinary Item. Coltec incurred an extraordinary charge of \$.3 million, net of a \$.1 million tax benefit, in the first three months of 1993 resulting from the write-off of deferred financing costs from early extinguishment of debt.

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COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 3, 1994

Liquidity and Financial Position

In January 1994, Coltec entered into a \$415.0 million reducing revolving credit facility (the "1994 Credit Agreement"). This agreement was used to prepay borrowings outstanding and replace letters of credit issued under a credit agreement entered into in 1992. On January 11, 1994, borrowings of \$324.0 million were outstanding and letters of credit of \$43.6 million were issued under the 1994 Credit Agreement. The remaining balance of the 1994 Credit Agreement is being used for working capital and general corporate purposes. The 1994 Credit Agreement, which expires June 30, 1999, provides up to \$100 million for issuance of letters of credit and will be reduced \$50.0

million on both January 11, 1997 and 1998. On April 3, 1994, borrowings of \$329.0 million were outstanding and letters of credit of \$38.9 million were issued under the 1994 Credit Agreement leaving \$47.1 million available for additional borrowings and the issuance of letters of credit.

In the first quarter of 1994, Coltec adopted the requirements of Financial Accounting Standards Board Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts." In accordance with Interpretation No. 39, Coltec recorded liabilities (\$31.6 million included in accrued expenses and \$10.4 million included in other liabilities in the Consolidated Balance Sheet) for asbestos-related matters that are deemed probable and can be reasonably estimated (settled actions and actions in advanced stages of processing), and separately recorded an asset equal to the amount expected to be recovered by insurance. In addition, Coltec has recorded a receivable for that portion of payments previously made for asbestos product liability actions and related litigation costs that is recoverable from its insurance carriers. At April 3, 1994 and December 31, 1993, the receivable balance was \$99.2 million and \$59.5 million, respectively, of which \$61.3 million and \$35.8 million, respectively, is included in accounts and notes receivable - net, with the remaining balance included in other assets.

In the first three months of 1994, \$10.8 million of cash was used in operating activities compared with \$.9 million last year. The \$10.8 million of cash used in operating activities in 1994 reflects higher working capital requirements, a lower interest accrual resulting from the 1994 Credit Agreement, higher payments of income taxes and payments covering the restructuring plan announced in 1993. The \$.9 million of cash used in operating activities in the first quarter of 1993 was due to higher working capital requirements. Excluding the receivable due from insurance carriers, receivables increased 8% to \$135.4 million and receivables days outstanding were 38 days at April 3, 1994 compared with 36 days at year-end 1993. Inventories of \$165.7 million at April 3, 1994 were slightly lower than at December 31, 1993, however, excluding Central Moloney, inventories were slightly higher.

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COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 3, 1994

At April 3, 1994, total debt was \$1,048.4 million compared with \$1,033.6 million at year-end 1993. The negative balance in shareholders equity of \$605.6 million compares with a negative balance

of \$625.5 million at year-end 1993. Cash and cash equivalents at April 3, 1994 were \$5.3 million compared with \$5.7 million at December 31, 1993. Working capital at April 3, 1994 was \$190.5 million and the current ratio was 1.94. This compares with working capital of \$163.1 million and a current ratio of 1.83 at December 31, 1993.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

As of April 3, 1994, two subsidiaries of Coltec were among a number of defendants (typically 15 to 40) in approximately 68,300 actions (including approximately 6,000 actions in advanced stages of processing) filed in various states by plaintiffs alleging injury or death as a result of asbestos fibers. Through April 3, 1994, approximately 98,800 of the approximately 167,100 total actions brought have been settled or otherwise disposed of.

The damages claimed for personal injury or death vary from case to case and in many cases plaintiffs seek \$1 million or more in compensatory damages and \$2 million or more in punitive damages. Although the law in each state differs to some extent, it appears, based on advice of counsel, that liability for compensatory damages would be shared among all responsible defendants, thus limiting the potential monetary impact of such judgments on any individual defendant.

Following a decision of the Pennsylvania Supreme Court, in a case in which neither Coltec nor any of its subsidiaries were parties, that held insurance carriers are obligated to cover asbestos-related bodily injury actions if any injury or disease process, from first exposure through manifestation, occurred during a covered policy period (the "continuous trigger theory of coverage"), Coltec settled litigation with its primary and most of its first-level excess insurance carriers, substantially on the basis of the Court's ruling. Coltec is currently negotiating with its remaining excess carriers to determine, on behalf of its subsidiaries, how payments will be made with respect to such insurance coverage for asbestos claims. Coltec believes that agreement can be achieved without litigation, and on substantially the same basis that it has resolved the issues with its primary and first-level excess carriers. On this basis, Coltec will have available to it a significant amount of coverage from its solvent carriers for asbestos claims.

Settlements are generally made on a group basis with payments made to individual claimants over periods of one to four years. In the first quarter of 1994, two subsidiaries of Coltec received approximately 4,000 new actions. Payments were made with respect to asbestos liability and related costs aggregating \$10.1 million in the first quarter of 1994, substantially all of which were covered by insurance. In accordance with Coltec's internal procedures for the processing of

asbestos product liability actions and due to the proximity to trial or settlement, certain outstanding actions have progressed to a stage where Coltec can reasonably estimate the cost to dispose of these actions. As of April 3, 1994, Coltec estimates that the aggregate

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COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 3, 1994

remaining cost of the disposition of the settled actions for which payments remain to be made and actions in advanced stages of processing, including associated legal costs, is approximately \$42.0 million and Coltec expects that this cost will be substantially covered by insurance.

With respect to the 62,300 outstanding actions as of April 3, 1994 which are in preliminary procedural stages, Coltec lacks sufficient information upon which judgments can be made as to the validity or ultimate disposition of such actions, thereby making it difficult to estimate with reasonable certainty the liability or costs to Coltec. When asbestos actions are received they are typically forwarded to local counsel to ensure that the appropriate preliminary procedural response is taken. The complaints typically do not contain sufficient information to permit a reasonable evaluation as to their merits at the time of receipt, and in jurisdictions encompassing a majority of the outstanding actions, the practice has been that little or no discovery or other action is taken until several months prior to the date set for trial. Accordingly, Coltec generally does not have the information necessary to analyze the actions in sufficient detail to estimate the ultimate liability or costs to Coltec, if any, until the actions appear on a trial calendar. A determination to seek dismissal, to attempt to settle or to proceed to trial is typically not made prior to the receipt of such information.

It is also difficult to predict the number of asbestos lawsuits that Coltec's subsidiaries will receive in the future. Coltec has noted that, with respect to recently settled actions or actions in advanced stages of processing, the mix of the injuries alleged and the mix of the occupations of the plaintiffs have been changing from those traditionally associated with Coltec's asbestos-related actions. Coltec is not able to determine with reasonable certainty whether this trend will continue. Based upon the foregoing, and due to the unique factors inherent in each of the actions, including the nature of the disease, the occupation of the plaintiff, the presence or absence of other possible causes of a plaintiff's illness, the availability of legal defenses, such as the statute of limitations or state of the art,

and whether the lawsuit is an individual one or part of a group, management is unable to estimate with reasonable certainty the cost of disposing of outstanding actions in preliminary procedural stages or of actions that may be filed in the future. However, Coltec believes that its subsidiaries are in a favorable position compared to many other defendants because, among other things, the asbestos fibers in its asbestos-containing products were encapsulated. Considering the foregoing, as well as the experience of Coltec's subsidiaries and other defendants in asbestos litigation, the likely sharing of judgments among multiple responsible defendants, and the significant amount of insurance coverage that Coltec expects to be available from its solvent carriers, Coltec believes that pending and reasonably anticipated future claims are not likely to have a material effect on Coltec's results of operations and financial condition.

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COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 3, 1994

Although the insurance coverage which Coltec has is substantial, it should be noted that insurance coverage for asbestos claims is not available to cover exposures initially occurring on and after July 1, 1984.

In addition to claims for personal injury, the subsidiaries were among 40 named defendants in a class action seeking recovery of the cost of asbestos removal from school buildings. Twenty-nine similar school building cases have been dismissed without prejudice to the plaintiffs and without payment by Coltec's subsidiaries. Coltec's subsidiaries continue to be named as defendants in new cases.

Item 6. Exhibits and Reports on Form 8-K

(b) No reports on Form 8-K were filed during the quarter ended April 3, 1994 by Coltec Industries Inc.

S I G N A T U R E

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.

COLTEC INDUSTRIES INC
(Registrant)

by Paul G. Schoen

Paul G. Schoen
Executive Vice President, Finance
Treasurer and Chief Financial Officer

Date: May 16, 1994

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