

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-07-12** | Period of Report: **1995-05-31**
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FILER

TEMTEX INDUSTRIES INC

CIK: **110740** | IRS No.: **751321869** | State of Incorpor.: **DE** | Fiscal Year End: **0831**
Type: **10-Q** | Act: **34** | File No.: **000-05940** | Film No.: **95553359**
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 May 31, 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 3,459,141 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. 5/31/95	Ended 5/31/94	9 Mths. 5/31/95	Ended 5/31/94
	<C>	<C>	<C>	<C>
Net sales	\$ 8,581	\$10,234	\$32,961	\$32,578
Cost of goods sold	6,772	7,074	23,636	22,140
	1,809	3,160	9,325	10,438
Cost and expenses:				
Selling, general and administrative	2,663	2,470	8,269	7,459
Interest	140	87	337	440
Other income	(15)	(16)	(159)	(48)
	2,788	2,541	8,447	7,851
INCOME FROM OPERATIONS BEFORE INCOME TAXES	(979)	619	878	2,587
State and federal income tax (benefit) expense--Note A	(360)	(193)	322	279
NET (LOSS) INCOME	\$ (619)	\$ 812	\$ 556	\$ 2,308

(Loss) income per common share--Note B

NET (LOSS) INCOME	\$ (.17)	\$.23	\$.16	\$.73
	-----	-----	-----	-----
	-----	-----	-----	-----
Weighted average common and common equivalent shares outstanding	3541040	3547704	3544134	3179864
	-----	-----	-----	-----
	-----	-----	-----	-----

</TABLE>

See notes to condensed consolidated financial statements.

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TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
May 31, 1995 and August 31, 1994
(In Thousands)

<TABLE>
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	May 31, 1995	August 31, 1994
	-----	-----
<S> ASSETS	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	\$ 389	\$ 627
Accounts receivable, less allowance for doubtful accounts of \$584,000 in 1995 and \$522,000 in 1994	5,756	7,729
Inventories	9,479	8,784
Prepaid expenses and other assets	543	442
Income taxes recoverable	483	--
Deferred taxes	93	93
	-----	-----
TOTAL CURRENT ASSETS	16,743	17,675

DEFERRED TAXES	871	871
OTHER ASSETS	356	370
ASSETS RELATED TO DISCONTINUED OPERATIONS		
--Note F	101	105
PROPERTY, PLANT AND EQUIPMENT		
Land and clay deposits	120	120
Buildings and improvements	3,167	2,320
Machinery, equipment, furniture and fixtures	21,054	18,082
Leasehold improvements	734	613
	-----	-----
	25,075	21,135
Less allowances for depreciation, depletion and amortization	17,189	16,408
	-----	-----
	7,886	4,727
	-----	-----
	\$25,957	\$23,748
	-----	-----
	-----	-----

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	May 31, 1995	August 31, 1994
	-----	-----
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 1,875	\$ 375
Accounts payable	4,236	4,819
Accrued expenses	1,390	2,069
Income taxes payable	--	3
Current maturities of indebtedness to related parties--Note G	7	7
Current maturities of long-term obligations--Note C	582	213
	-----	-----

TOTAL CURRENT LIABILITIES	8,090	7,486
INDEBTEDNESS TO RELATED PARTIES, less current maturities--Note G	1,623	947
LONG-TERM OBLIGATIONS, less current maturities--Note C	769	399
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, 5,260,625 shares issued	714	714
Additional capital	9,218	9,215
Retained earnings	5,870	5,314
	-----	-----
	15,802	15,243
Less:		
Treasury stock:		
At cost - 113,696 shares	327	327
At no cost - 1,687,788 shares	--	--
	-----	-----
	15,475	14,916
	-----	-----
	\$25,957	\$23,748
	-----	-----
	-----	-----

</TABLE>

See notes to condensed consolidated financial statements.

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TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In Thousands)

<TABLE>
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	9 Months Ended	
	May 31,	
	1995	1994
	-----	-----
<S>	<C>	<C>
OPERATING ACTIVITIES		

Net income	\$ 556	\$ 2,308
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,064	736
Deferred tax benefit	--	(342)
Gain on disposition of buildings and equipment	(83)	(23)
Provision for doubtful accounts	101	302
Changes in operating assets and liabilities:		
Accounts receivable	1,872	(1,059)
Inventories	(695)	(994)
Prepaid expenses and other assets	(88)	(77)
Accounts payable and accrued expenses	(1,262)	(184)
Income taxes payable	(486)	207
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	979	874
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3,511)	(1,223)
Expenditures on assets related to discontinued operations	(2)	(256)
Proceeds from disposition of property, plant and equipment	89	25
Proceeds from disposition of assets and other receipts related to discontinued operations	6	44
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(3,418)	(1,410)
FINANCING ACTIVITIES		
Proceeds from revolving line of credit and long-term borrowings	2,456	110
Principal payments on revolving line of credit, long-term obligations and indebtedness to related parties	(258)	(5,640)
Proceeds from issuance of common stock	3	6,530
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,201	1,000
	-----	-----
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(238)	464
Cash and cash equivalents at beginning of year	627	410
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 389	\$ 874
	-----	-----
	-----	-----

</TABLE>

See notes to condensed consolidated financial statements.

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. At September 1, 1993, the Company recorded a valuation allowance against the entire net deferred tax asset amount that resulted from using the liability method. During the quarter ended May 31, 1994, the Company reduced the valuation allowance which increased net income by \$342,000. The Company utilized all of its tax loss carryforwards in fiscal 1994.

Income for the first nine months of fiscal 1995 reflects an estimated annualized tax rate of approximately 36.7%.

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 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 note. The credit agreement was amended in September 1994, in which a three year term note of \$512,000 was added. The term note bears interest at the lending bank's prime commercial interest rate with principal and interest payments required on a quarterly basis. 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 May 31, 1995 and August 31, 1994, there were 1,000,000 shares of preferred stock, with a par value of \$1 authorized. None have been issued.

At May 31, 1995 and August 31, 1994, there were 10,000,000 shares of par value \$.20 common stock authorized of which 5,260,625 shares were issued. Of the shares issued, 3,459,141 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. Assets related to the discontinued contract products operations are included in the Condensed Consolidated Balance Sheets under the caption "Assets Related to Discontinued Operations" and consist of land, building and equipment.

NOTE G--INDEBTEDNESS TO RELATED PARTIES

One of the manufacturing facilities is leased from a partnership consisting of the Company's Chairman and a former director and is accounted for as a capitalized lease. During fiscal 1995, the facility was expanded to increase the manufacturing capacity as well as add other improvements to the location.

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

NET SALES

The Company reported a 16% decrease in net sales to \$8,581,000 in the third quarter of fiscal 1995 compared to net sales of \$10,234,000 in the third quarter of fiscal 1994. For the first nine months of 1995, sales of \$32,961,000 were approximately 1% greater than sales of \$32,578,000 reported for the first nine months of 1994.

FIREPLACE PRODUCTS. Net sales decreased approximately 19% in the third quarter of fiscal 1995 compared to the third quarter of 1994. The sales decrease was

attributed to a 15% decrease in the quantity of zero clearance fireplaces delivered and a 45% decrease in the quantity of ventfree gas log sets delivered between the comparative quarters. Purchases from retailers have declined as retailers have unsold inventory remaining as the result of the weak demand caused by the mild winter across the nation. Anticipated reorders to replenish retail inventories did not occur as planned. Sales of zero clearance fireplaces were also negatively influenced by the reduction in new housing starts between the comparative quarters. Nationwide, annualized new housing starts decreased approximately 16% in the third quarter of fiscal 1995 compared to the third quarter of fiscal 1994 due to overall increases in mortgage lending rates. Between the comparative nine month periods, net sales increased approximately 1%. Deliveries of zero clearance fireplaces increased by approximately 5% between the nine month comparison periods and deliveries of ventfree gas log sets decreased by approximately 4%. Between the comparative nine month periods, new housing starts decreased by approximately 3% which indicates that the Company increased its share in providing the new housing market with zero clearance fireplaces.

FACE BRICK PRODUCTS. Net sales decreased approximately 6% in the third quarter of fiscal 1995 compared to the third quarter of fiscal 1994. A reduction in the quantity of brick sold was partially offset by a slight increase in the average selling price. Between the comparative nine month periods, net sales increased by approximately 2%. The increase in the average selling price received for the brick more than offset the small decrease in the quantity sold.

GROSS PROFIT

FIREPLACE PRODUCTS. Gross profit decreased by approximately 53% in the third quarter of fiscal 1995 compared to the third quarter of fiscal 1994. The decrease in sales volume was responsible for the decrease in gross profit. Fixed manufacturing costs on a per unit basis increased as a result of the decrease in sales volume. Between the comparative nine month periods, gross profit decreased by approximately 14%.

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FACE BRICK PRODUCTS. Gross profit decreased approximately 5% in the third quarter of fiscal 1995 compared to the third quarter of fiscal 1994. The decrease in net sales was responsible for the decreases in gross profit. Between the nine month periods, gross profit increased approximately 6% as a result of the increase in the average unit selling price between the two periods.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by \$193,000 or 8% in the third quarter of fiscal 1995 compared to the third quarter of fiscal 1994. Between the comparative nine month periods, expenses increased by \$810,000 or approximately 11%. The increases in both periods of fiscal 1995 were due mainly to planned increases in selling expenses including advertising, promotions,

displays and trade shows.

INTEREST EXPENSE

Interest expense increased \$53,000 in the third quarter of 1995 compared to the third quarter of 1994. The increase was caused by the increase in short term debt outstanding during the most recent quarter. Between the comparative nine month periods, interest expense decreased \$103,000. Outstanding debt was significantly reduced in the second quarter of fiscal 1994 when a portion of the net proceeds that the Company received from a secondary stock offering was used to retire a major portion of the Company's debt.

INCOME TAXES

Income tax expense of \$322,000 for the first nine months of fiscal 1995 includes the provision for both federal and state income taxes. Income for the nine months ended May 31, 1994 reflects the utilization of operating loss carryforwards, which had been fully reserved, resulting in a benefit of approximately \$342,000. All of the Company's net operating loss and investment tax credit carryforwards were utilized in fiscal 1994. An estimated annualized effective tax rate of 36.7% was applied to pre-tax income for the first nine months of fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$979,00 for the first nine months of 1995 compared to \$874,000 for the first nine months of 1994. The increased cash flow from operations was caused primarily by changes in working capital, principally a decrease in accounts receivable.

In May 1994, the Company entered into a two year credit agreement with a bank whereby the Company may borrow up to \$3,000,000 under a revolving credit note. The credit agreement was amended in September 1994, in which a three year term note of \$512,000 was added. Funds provided by the term note were used for various capital expenditures. The term note bears interest at the lending bank's prime commercial interest rate. Quarterly principal and accrued interest payments are required.

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Working capital decreased by \$1,536,000 at May 31, 1995 compared to August 31, 1994 and the current ratio decreased from 2.4 at August 31, 1994 to 2.1 at May 31, 1995.

Capital expenditures for the first nine months of 1995 were \$3,511,000 compared to \$1,223,000 for the first nine months of 1994. Expenditures include amounts for tooling and dies for new fireplace products models, equipment (both replacement and for additional capacity), and the construction of an office building to replace one destroyed by fire in 1991 at the brick products manufacturing facility. In addition, capitalized lease obligations of \$717,000

were recorded in fiscal 1995. The major portion of the capitalized lease obligations was the cost of the manufacturing facility expansion at the Manchester, Tennessee fireplace products plant. The capital additions have been financed by cash flow from operations and funds from both the revolving credit and term notes.

In the second quarter of fiscal 1994, the Company completed a secondary stock offering in which 1,000,000 shares of common stock were issued which provided the Company with approximately \$6,529,000, net of expenses. A portion of the net proceeds was used to retire debt with the remaining portion being used for working capital purposes.

The Company anticipates that cash flow from operations together with funds from the term note and 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. If additional funds are needed, due to the amount of current year capital expenditures, the lending bank that holds the credit agreement has indicated that the agreement would be amended to provide the Company with whatever additional funds the Company might require.

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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 nine month period ended May 31, 1995 are not necessarily indicative of the results that may be expected for the year ending August 31, 1995. 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, 1994.

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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: July 11, 1995

BY:/s/E.R.Buford

E. R. Buford
President

DATE: July 11, 1995

BY:/s/R. N. Stivers

R. N. Stivers
Vice President-Finance

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM TEMTEX INDUSTRIES, INC. AND SUBSIDIARIES FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MAY 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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