

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**  
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FILER

**DRIVER HARRIS CO**

CIK: **30197** | IRS No.: **220870220** | State of Incorporation: **NJ** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-01212** | Film No.: **95536075**  
SIC: **3490** Miscellaneous fabricated metal products

Mailing Address  
308 MIDDLESEX ST  
HARRISON NJ 07029

Business Address  
308 MIDDLESEX ST  
HARRISON NJ 07029  
2014834802

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

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended March 31, 1995 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 1-1212  
-----

Driver-Harris Company  
-----

(Exact name of registrant as specified in its charter)

New Jersey  
-----

22-0870220  
-----

(State or other jurisdiction of  
incorporation or organization)

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

308 Middlesex Street, Harrison, New Jersey  
-----

07029  
-----

(Address of principal executive offices)

(Zip Code)

Registrant's telephone no., including area code (201) 483-4802  
-----

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

Indicate the number of shares outstanding of each of the issuer's  
classes of common stock, as of the latest practicable date.

DRIVER-HARRIS COMPANY

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DRIVER-HARRIS COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts in thousands)

<TABLE>

	March 31, 1995	December 31, 1994
	-----	-----
ASSETS	(Unaudited)	
Current assets:		
<S>	<C>	<C>
Cash	\$ 501	\$ 461
Accounts receivable - net	8,405	7,494

Inventories:		
Materials	957	658
Work in process	303	226
Finished products	2,180	2,160
	-----	-----
	3,440	3,044
Prepaid expenses	312	227
	-----	-----
Total current assets	12,658	11,226
Other assets	131	369
Property, plant & equipment - net	4,475	4,298
	-----	-----
	\$ 17,264	\$ 15,893
	=====	=====
 LIABILITIES		
Current Liabilities:		
Short-term borrowings	\$ 1,353	\$ 1,762
Current portion of long-term debt	534	512
Accounts payable	6,826	5,295
Accrued expenses	871	843
Income taxes payable	98	86
	-----	-----
Total current liabilities	9,682	8,498
Long-term debt	2,751	2,734
Deferred income taxes	115	110
Postretirement benefit liabilities	433	417
Investment in related company	1,544	1,701
Deferred credit - related company	1,192	1,266
Sundry liabilities	250	259
Stockholders' equity:		
Common stock	1,187	1,187
Additional paid-in capital	1,982	1,982
Retained earnings (deficit)	(82)	(189)
Equity adjustment from translation	(1,790)	(2,072)
	-----	-----
Stockholders' equity	1,297	908
	-----	-----
	\$ 17,264	\$ 15,893
	=====	=====

</TABLE>

See accompanying notes.

DRIVER-HARRIS COMPANY AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollar amounts in thousands, except per share data)

<TABLE>

## THREE MONTHS ENDED MARCH 31

	Historical		Pro-Forma
	-----	-----	-----
	1995	1994	1994
	----	----	----
<S>	<C>	<C>	<C>
Net sales - customers	\$ 8,891	\$14,227	\$ 5,977
- related company		7,537	
Other revenues	238	201	223
	-----	-----	-----
Total Revenues	9,129	21,965	6,200
Cost of sales - customers	8,013	11,653	5,037
- related company		7,537	
	-----	-----	-----
Selling, general and administrative expenses	1,116	2,775	1,163
	-----	-----	-----
	154	16	243
Other charges (credits):			
Interest and finance expenses	186	383	103
Foreign exchange loss (gain)	8	35	(2)
Equity in related company	(157)	65	397
	-----	-----	-----
Income(Loss) before income taxes	117	(467)	(255)
Income taxes	10	40	24
	-----	-----	-----
NET INCOME/(LOSS)	\$ 107	\$ (507)	\$ (279)
	=====	=====	=====
NET INCOME/(LOSS) PER SHARE	\$ .08	\$ (.39)	\$ (.22)
	=====	=====	=====
Average common shares outstanding	1,294,539	1,294,320	1,294,320

&lt;/TABLE&gt;

See notes to financial statements.

DRIVER-HARRIS COMPANY AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Amounts in thousands)

<TABLE>

	THREE MONTHS ENDED	
	March 31	
	1995	1994
	-----	-----
OPERATING ACTIVITIES		
<S>	<C>	<C>
Net income/(loss)	\$ 107	\$ (507)
Adjustments to reconcile net income/(loss) to net cash provided:		
Depreciation and amortization	108	439
Equity in related company	(157)	65
Deferred credit	(74)	
Due from related company	(35)	(364)
Receivables	(372)	284
Inventories	(269)	(1,691)
Accounts payable and accrued expenses	1,350	1,006
Sundry	(51)	169
	-----	-----
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	607	(599)
INVESTING ACTIVITIES		
Capital expenditures	(112)	(362)
Sundry	41	11
	-----	-----
CASH USED IN INVESTING ACTIVITIES	(71)	(351)
FINANCING ACTIVITIES		
Change in short-term debt	(459)	(510)
Issuance of long-term debt	106	675
Reduction of long-term debt	(161)	(416)
Loans from related company		1,785
Cash of companies included in restructuring		(503)
	-----	-----
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(514)	1,031
Effect of exchange rate changes on cash	18	16
	-----	-----
Net change in cash	40	97
Cash at beginning of year	461	600
	-----	-----
CASH AT END OF PERIOD	\$ 501	\$ 697
	=====	=====

</TABLE>

See accompanying notes.

## NOTES TO FINANCIAL STATEMENTS

### 1 - Basis of Presentation

These financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information, disclosures, and notes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Reference should be made to the financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1994. These financial statements include all adjustments which are, in the opinion of management, necessary to a fair presentation of the results for the interim period.

### 2 - Restructuring during 1994

Effective March 18, 1994, the Company restructured its operations by combining its overseas resistance wire operations with Harrison Alloys Inc. (Harrison). The latter is referred to herein as "related company". Effective September 30, 1994, the Company transferred substantially all the assets of its U.S. operating subsidiary, Driver-Harris Alloys (Alloys), to Harrison in exchange for the assumption by Harrison of an equivalent amount of liabilities. As a result of the March transaction, Harrison is required, among other things, to pay to the Company license fees and commissions totalling \$500,000 per year from 1994 to 2003. For further details of these transactions, see Part I, Item 1, "Business" in the Company's Annual Report on Form 10-K for the year ended December 31, 1994 and Notes 3 and 4 to the 1994 consolidated financial statements.

After the above transactions, the Company, in addition to its 50% ownership of Harrison, continues to own Irish Driver-Harris Co. Ltd., a producer of insulated electrical wire and cable, located in Ireland and the U.K., and Quality Heat Treatment Pty. Ltd., a company in the furnace manufacturing and heat treating business, located in Australia.

The unaudited pro forma consolidated data for the three months ended March 31, 1994 gives effect to the foregoing transactions as if they had occurred on January 1, 1994.

### 3 - Investment in Related Company

Harrison Alloys Inc. ("Harrison"), a fifty percent owned company, is recorded on the equity method of accounting. The recognition of past losses has reduced the carrying amount of the Company's investment in Harrison to a negative balance (liability) of \$1,544,000 at March 31, 1995. This amount, combined with a deferred credit of \$1,192,000 which originated from the March 1994 restructuring described in Note 2, is equal to the balance of a bank loan of Harrison (\$2,736,000) which the Company has

guaranteed. During the three months ended March 31, 1995, Harrison made aggregate principal payments of \$231,000 under the bank loan. Accordingly, Driver-Harris Company recorded income from its equity in Harrison of \$157,000 and amortization of the deferred credit of \$74,000 (which is included in other revenues).

#### 4 - Waiver of Non-Compliance with Loan Covenant

The U.S. banks have waived non-compliance with a loan covenant until January 1, 1996.

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

#### Financial Condition

In consummating the restructuring during 1994 described in Note 2 to the Financial Statements, the Company has reduced its liabilities and contingent obligations and stabilized its cash flow requirements. The Company, however, is partially dependent upon Harrison Alloys Inc. (Harrison) for its U.S. cash flow. Harrison, a 50% owned company, has a highly leveraged debt structure, a portion of which the Company is contingently liable for.

#### Results of Operations

Net sales to customers of continuing operating units (see Note 2 to the Financial Statements) increased by almost fifty percent during the first quarter of 1995 compared to the same period last year. This was principally due to an increase in units shipped, higher exchange rates and increased selling prices. The latter were caused by the higher cost of raw materials principally copper and PVC. However, since increases in selling price lagged increased costs, the gross profit percentage dropped from 15.7% in 1994 to 9.9% in the current period. Selling, general and administrative expense remained almost constant relative to 1994 and therefore decreased as a percentage of net sales. Higher average borrowings in the first quarter of 1995 resulted in increased interest and finance expenses.

In 1994, the Company recorded a charge of \$65,000 (\$397,000 on a pro-forma basis) representing its equity in the investment in Harrison. In the current year, the company recorded income of \$157,000 from its equity in this investment. The recognition of past losses has reduced the carrying amount of the Company's investment in Harrison to a negative balance (liability), which combined with a deferred credit resulting from the March 1994 restructuring equaled the balance of a bank loan of Harrison which the Company has guaranteed. Losses from the Company's investment in Harrison are recognized only to the extent of the bank loan guaranty.

During the three months ended March 31, 1995, Harrison made aggregate principal payments of \$231,000 under the bank loan.

Accordingly, Driver-Harris recorded income from its equity in Harrison of \$157,000 and amortization of the deferred credit of \$74,000 (which is included in other revenues).

The disproportionate income tax provision in the 1995 period is primarily because \$157,000 recorded as income from equity in Harrison is not taxable income to the Company. In 1994, no tax benefits were available as to subsidiaries experiencing losses. The utilization of tax loss carryforwards provided tax benefits of \$23,000 and \$11,000 in the 1995 and 1994 periods, respectively.

#### 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.

DRIVER-HARRIS COMPANY

Date: May 10, 1995  
-----

By Frank L. Driver IV  
-----

President and  
Chief Financial Officer

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The schedule contains summary financial information extracted from the Company's Condensed Consolidated Balance Sheet at March 31, 1995 and the Company's Condensed Consolidated Statement of Operations for the three months ended March 31, 1995, and is qualified in its entirety by reference to such financial statements.

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