

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-07-28** | Period of Report: **1995-06-30**
SEC Accession No. **0000065195-95-000005**

([HTML Version](#) on secdatabase.com)

FILER

MESTEK INC

CIK: **65195** | IRS No.: **250661650** | State of Incorporation: **PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-00448** | Film No.: **95557099**
SIC: **3585** Air-cond & warm air heatg equip & comm & indl refrig equip

Business Address
260 N ELM ST
WESTFIELD MA 01085
4135689571

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 the quarter ended: June 30, 1995

Commission file number: 1- 448

MESTEK, INC.

Pennsylvania Corporation

I.R.S. Employer Identification No.
25 - 0661650

260 North Elm Street
Westfield, Massachusetts 01085

Telephone: (413) 568-9571

The Registrant 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 and has been subject to such filing requirements for the past 90 days.

The number of shares of Common Stock outstanding as of July 26, 1995 was 9,015,271.

MESTEK, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED JUNE 30, 1994

INDEX

	Page No.
PART I - FINANCIAL INFORMATION	
Condensed consolidated balance sheets at June 30, 1995 and December 31, 1994	Pages 3 - 4
Condensed consolidated statements of income for the three months ended June 30, 1995 and 1994 and the six months ended June 30, 1995 and 1994	Page 5
Condensed consolidated statements of cash flows for the six months ended June 30, 1995 and 1994	Page 6
Condensed consolidated statement of changes in shareholders' equity for the period from January 1, 1994 through June 30, 1995	Page 7

Management's Discussion and Analysis of Financial Condition and Results of Operations	Page 10
---	---------

PART II - OTHER INFORMATION	Page 11
-----------------------------	---------

Item 6 - Exhibits and Reports on Form 8-K

Item 7 - Submission of Matters to a Vote of Security Holders

Statement of Computation of Per share Earnings	Page 12
--	---------

SIGNATURE	Page 12
-----------	---------

In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature.

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

MESTEK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 1995	Dec. 31, 1994
	(Dollars in thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,218	\$ 4,201
Accounts Receivable - less allowances of \$1,844,000 and \$1,440,000 respectively	34,897	35,306
Unbilled Accounts Receivable	197	124
Inventories	41,738	32,102
Other Current Assets	4,783	4,357
Total Current Assets	83,833	76,090
Property and Equipment (Net)	18,176	18,483
Equity Investments	8,760	8,643
Property held for sale	5,646	5,870
Other Assets and Deferred Charges - Net	11,297	11,344
Total Assets	\$ 127,712	\$ 120,430

See the Notes to Condensed Consolidated Financial Statements.

Continued on next page

MESTEK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
(Unaudited)

	June 30, 1995	Dec., 31 1994
(Dollars in thousands)		
LIABILITIES, AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 1,034	\$ 5,337
Short-Term Debt	13,525	-
Accounts Payable	9,560	14,117
Accrued Salaries and Bonus	1,503	3,008
Accrued Commissions	1,657	1,833
Progress Billings in Excess of Cost and Estimated Earnings	2,825	2,721
Other Accrued Liabilities	12,200	12,446
Total Current Liabilities	42,304	39,462
Long-Term Debt	195	211
Deferred Compensation	23	25
Total Liabilities	42,522	39,698
Shareholders' Equity		
Common Stock - no par, stated value \$0.05 per share, 9,610,135 shares	479	479
Paid in Capital	15,434	15,434
Retained Earnings	75,142	70,559
Treasury Shares, at cost, 594,864 and 574,424 common shares, respectively	(5,009)	(4,808)
Cumulative Translation Adjustment	(856)	(932)
Total Shareholders' Equity	85,190	80,732
Total Liabilities, and Shareholders' Equity	\$127,712	\$120,430

See the Notes to Condensed Consolidated Financial Statements.

MESTEK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1995	1994	1995	1994
(In thousands, except per share amounts)				
Net Sales	\$ 48,604	\$ 42,541	\$ 98,684	\$ 89,334
Net Service Revenues	3,875	3,614	7,554	6,864

Total Revenues	52,479	46,155	106,238	96,198
Cost of Goods Sold	34,718	30,523	70,669	64,066
Cost of Service Revenues	2,286	2,212	4,559	4,321
Gross Profit	15,475	13,420	31,010	27,811
Selling Expense	7,091	6,279	13,875	12,826
General and Administrative Expense	3,187	2,895	6,440	5,891
Engineering Expense	1,483	1,371	2,812	2,705
Operating Profit	3,714	2,875	7,883	6,389
Interest Expense	(186)	(168)	(243)	(362)
Amortization Expense	(17)	(12)	(30)	(25)
Gain on Sale of Investment	-	-	850	-
Other Income (Expense) - net	(232)	(146)	(591)	(553)
Income Before Income Taxes	3,279	2,549	7,869	5,449
Income Taxes	1,375	954	3,286	2,132
Net Income	\$ 1,904	\$ 1,595	\$ 4,583	\$ 3,317
Earnings per Common Share	\$.21	\$.17	\$.51	\$.36
Weighted Average Shares Outstanding	9,019	9,189	9,025	9,196

See the Notes to Condensed Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	6 Months Ended June 30,	
	1995	1994
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net Income	\$ 4,583	\$ 3,317
Adjustments to Reconcile Net Income to Net Cash Provided by (Used In) Operating Activities:		
Depreciation and Amortization	1,807	2,407
Provision for Losses on Accounts Receivable	404	507
Change in Assets & Liabilities:		
Cash Flows Provided (Used) by Changes In:		
Accounts Receivable	5	8,135
Unbilled Accounts Receivable	(73)	(398)
Inventories	(9,636)	(3,227)
Other Assets	(525)	2,083
Accounts Payable	(4,557)	(1,075)
Progress Billings	104	578
Other Accruals	(1,927)	(5,533)
Deferred Compensation	(2)	(2)
Net Cash Provided by (Used in) Operating Activities	(9,817)	6,792
Cash Flows from investing Activities:		
Capital Expenditures	(1,247)	(1,896)

Net Cash (Used in) Investing Activities	(1,247)	(1,896)
Cash Flows from Financing Activities:		
Net Borrowings Under Line of Credit Agreement	8,525	1,285
Proceeds from issuance of Debt (Net)	5,000	-
Principal Payments Under Long Term Debt Obligations	(4,319)	(7,000)
Repurchase of Common Stock	(201)	(229)
Redemption of \$5.00 Non-Voting Preferred Stock	-	(6)
Cumulative Translation Adjustments	76	218
Net Cash Provided by (Used in) Financing Activities	9,081	(6,168)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,983)	(1,272)
Cash and Cash Equivalents - Beginning of Period	4,201	3,573
Cash and Cash Equivalents - End of Period	\$ 2,218	\$ 2,301

See the Notes to Condensed Consolidated Financial Statements.

<TABLE>

MESTEK, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

For the period January 1, 1994 through June 30, 1995

<S>	\$5.00 Cumulative Convertible Preferred <C>	Common Stock <C>	Additional Paid In Capital <C>	Retained Earnings <C>	Treasury Shares <C>	Cumulative Translation Adjustment <C>	Total <C>
Balance - January 1, 1994	\$ 7,209	\$ 387	\$ 8,323	\$ 61,261	\$ (3,203)	\$ (660)	\$ 73,317
Net Income				9,298			9,298
Cash Dividends:							
Common Stock Repurchased					(1,605)		(1,605)
Conversion of \$5.00 Convertible Preferred	(7,203)	92	7,111				-
Redemption of \$5.00 Convertible Preferred	(6)						(6)
Cumulative Translation Adjustment						(272)	(272)
Balance - December 31, 1994	\$ 0	\$ 479	\$ 15,434	\$ 70,559	\$ (4,808)	\$ (932)	\$ 80,732
Net Income				4,583			4,583
Cumulative Translation Adjustment						76	76
Common Stock Repurchased					(201)		(201)
Balance - June 30, 1995	\$ 0	\$ 479	\$ 15,434	\$ 75,142	\$ (5,009)	\$ (856)	\$ (85,190)

</TABLE>

See the Notes to the Condensed Consolidated Financial Statements.

MESTEK, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries. In the opinion of management, the financial statements include all material adjustments, necessary for a fair presentation of the Company's financial position, results of operations and cash flows. The results of this interim period are not necessarily indicative of results for the entire year.

Inventories

Inventories are valued at the lower of cost or market. Cost of inventories is determined principally by the last-in, first-out (LIFO) method.

Income Taxes

Provisions for income tax in the amounts of \$1,375,000 and \$954,000, have been recorded for the three months ended June 30, 1995 and 1994, respectively.

Property Held for Sale

The condensed consolidated financial statements include, under the heading Property Held for Sale, manufacturing facilities in Northvale, New Jersey and Scranton, Pennsylvania. These properties are carried at cost which is less than estimated net realizable values.

Note 2 - Business Acquisitions

On November 1, 1994, pursuant to a motion approved by the United States Bankruptcy Court for the District of New Mexico, the Company acquired substantially all of the inventory, accounts receivable, and fixed tangible and intangible assets of Aztec Sensible Cooling, Inc. (Aztec) a manufacturer of evaporative cooling and other customer air handling equipment in Albuquerque, New Mexico. The purchase price for the assets acquired was \$1,372,000. This acquisition was accounted for as a purchase. Accordingly, the Company has included the results of this acquired business in its consolidated statement of operations for the period starting with the acquisition date.

Note 3 - Property and Equipment

	June 30, 1995	Dec. 31, 1994
Land	\$ 750,000	\$ 750,000
Buildings	11,194,000	10,662,000
Leasehold Improvements	2,966,000	2,873,000
Equipment	35,064,000	34,442,000
	49,974,000	48,727,000
Accumulated Depreciation	(31,798,000)	(30,244,000)
	\$ 18,176,000	\$ 18,483,000

Note 4 - Debt

	June 30, 1995	Dec. 31, 1994
Long Term Debt:		
Senior Notes	\$ 1,000,000	\$ 1,000,000
Note Payable American Standard, Inc.	-	1,903,000

Note Payable Eafco, Inc.	-	2,400,000
Other Bonds and Notes Payable	229,000	245,000
	1,229,000	5,548,000
Less Current Maturities	(1,034,000)	(5,337,000)
	\$ 195,000	\$ 211,000

Short Term Debt:

Revolving Loan Agreement	\$ 8,525,000	\$ -
Note Payable - Bank	5,000,000	-
	\$ 13,525,000	\$ -

On January 1, 1992, the Company entered into a Revolving Loan Agreement and Letter of Credit Facility (the "Agreement") with a commercial bank. The Agreement, which had been extended through June 30, 1995, was recently extended through June 30, 1996. It provides \$38 million of unsecured revolving credit and standby letter of credit capacity. Borrowings under the Agreement bear interest at a floating rate based on the bank's prime rate less 1.25%, or LIBOR plus 1.5% at the discretion of the borrower, and may be used for working capital or acquisition purposes, or to retire previously incurred debt.

Note 5 - Earnings Per Common Share

Earnings per share have been computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding includes shares which would have been issued upon the conversion of the \$5.00 Convertible Preferred Stock for the 1994 periods. As explained in Note 6, the \$5 Convertible Preferred Stock was eliminated in 1994.

Note 6 - Shareholders Equity

On April 25, 1994, a Notice of Redemption was sent to all holders of the Company's \$5.00 Convertible Preferred Stock, in accordance with its terms, announcing a redemption by the Company of all shares of Convertible Preferred stock outstanding and unconverted on June 24, 1994. Pursuant to the notice, all but 64 shares were converted into 1,838,259 shares of common shares of common stock on June 24, 1994.

The remaining 64 shares were redeemed on June 24, 1994.

The Company continues its program of selective "open market" purchases of its common stock in 1995. 6,000 common shares were acquired in this manner in the three month period ended June 30, 1995, and are accounted for as treasury shares. On January 2, 1995 the Company announced that its Board of Directors had authorized a common stock buyback program under which the Company would purchase common shares from holders of fewer than 100 shares on a direct basis at market prices. In the second quarter of 1995, 1,075 of such shares were acquired by the Company under this program, which has now expired, and are accounted for as treasury shares.

Note 7 - Other Transactions

On March 3, 1995, the Company, through its Delaware-based subsidiary, West Homestead Joint Venture Corporation, concluded the sale of its remaining 30% partnership interest in Mesta International (formerly Mesta Engineering Company) to Shougang Mechanical Equipment Co. of Pennsylvania, Inc., a U.S. subsidiary of a Chinese industrial company, for \$850,000 in cash and the assumption of all liabilities of Mesta International. The Company reported a gain on the transaction in the first quarter of 1995 of \$850,000.

Note 8 - Subsequent Events

On July 5, 1995, Mestek's wholly-owned subsidiary The Hydrotherm Corporation closed the sale of its real property located in Northvale, New Jersey for \$2,450,000, in notes payable over three years secured by the property, personal and corporate guarantees, and other security. The Company expects to report a nominal loss on the transaction.

On July 12, 1995, the Company purchased the operating assets of Cox Manufacturing Co., Inc. of Ridgeville, Indiana for approximately \$500,000.00 in a bulk sales transaction. The Company has leased a portion of the Cox facility to manufacture the radiant heating and furnace product line of Cox.

Item 2 - Management's Discussion and Analysis of Financial
Condition and Results of Operation

Total Revenues in the Company's HVAC segment during the second quarter of 1995 were increased relative to the second quarter of 1994, by \$4,674,000, or 11.4%, reflecting the effect of improved economic conditions in the commercial and industrial construction marketplaces. Gross profit margins for the HVAC segment were relatively unchanged at 27.7%. Operating income for this segment was up \$431,000, or 21.9%, from the second quarter of 1994, traceable principally to the increase in volume.

During the second quarter of 1995, Total Revenues, for the Company's Equipment Handling Segment grew by 74.4% relative to the second quarter of 1994 reflecting this segment's continued success with its new product offerings and the generally healthy climate affecting this relatively cyclical segment.

For the Company as a whole, Selling, General and Administrative, and Engineering costs, taken together as a percentage of Total Revenues, were slightly reduced from 22.8% to 22.4%.

Operating profit for the second quarter of 1995, for the Company as a whole, was increased by \$839,000, or 29.2%, reflecting the effects of increased HVAC volume and improved performances from the Company's Equipment Handling and Computer Systems segments.

The Company's total debt increased during the quarter ended June 30, 1995 by \$10,287,000, due to the combined effects of a seasonal increase in HVAC inventories, and a reduction in trade payables. The growth in inventories during the second quarter which was somewhat more pronounced than in prior years, is traceable in part to the relocation of certain manufacturing operations in 1995.

Management regards the Company's current capital structure and banking relationships as fully adequate to meet foreseeable future needs. As described in the Notes to the Condensed Consolidated Financial Statements, the Company recently extended its principal lending arrangement, the Revolving Loan Agreement and Letter of Credit Facility, which provides \$38 million of unsecured revolving credit and standby letter of credit capacity, through June 30, 1996. The Company has not paid dividends on its common stock since 1979.

As described in Note 8 to the Condensed Consolidated Financial Statements, the Company purchased the assets of Cox Manufacturing Co., Inc., on July 12, 1995, for approximately \$500,000. The Company believes the products acquired from Cox, a radiant heating product line and a furnace product line, will benefit from both manufacturing and distribution synergies with the Company's existing HVAC product lines.

PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Statement of Computation of Per Share Earnings ... Page 13

(b) Registrant did not file a Form 8-K during the quarter for which this report is filed.

Item 7 - Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Shareholders on May 24, 1995. The following Directors were re-elected to serve until the next Annual Meeting:

A. Warne Boyce
E. Herbert Burk
William J. Coad
Peter Glynn-Jones
Winston R. Hindle, Jr.
David W. Hunter
David R. Macdonald
John E. Reed
Stewart B. Reed

The shareholders voted to affirm the appointment of Grant Thornton as independent auditors for the Company for the fiscal year ending December 31, 1995.

The shareholders voted to amend the Articles of Incorporation as follows:

The current text of Article 5 of the Company's Articles of Incorporation shall be deleted in its entirety and be amended to read in full as follows:

"The authorized Capital Stock of the Corporation is 20,000,000 shares of common stock without part value (the "Common Stock") and 10,000,000 shares of preferred stock without par value (the "Preferred Stock").

A description of each class of Capital Stock which the Corporation shall have the authority to issue and a statement of the designations, powers, preferences, qualifications, limitations, restrictions and special or relative rights in respect of each class or series of any class are as follows:

I. THE PREFERRED STOCK

The shares of Preferred Stock may be issued from time to time in one or more series or classes. The Board of Directors of the Corporation is hereby authorized to fix the designations and powers, preferences and relative, participating, optional, special or other rights, if any, and qualifications, limitations or other restrictions thereof, including, without limitation, dividend rights and preferences over dividends on Common Stock or any series or classes of Preferred Stock, the dividend rate (and whether dividends are cumulative), conversion rights, if any, voting rights, rights and terms of redemption, if any, (including sinking fund provisions, if any) redemption price and liquidation preferences of any wholly unissued series or class of Preferred Stock and the number of shares constituting any such series or class and the designation thereof, or any of them; and to increase or decrease the number of shares of any series or class subsequent to the issue of shares of that series or class, but not below the number of shares of such series or class then outstanding.

II. THE COMMON STOCK

Except for and subject to those rights expressly granted to the holders of any series or class of the Preferred Stock pursuant to Section I of this Article 5th and except as may be provided by applicable law, the holders of Common Stock shall have exclusively all other rights of shareholders."

Such amendment became effective when filed in the Commonwealth of Pennsylvania

on June 23, 1995.

MESTEK, INC.
SCHEDULE OF COMPUTATION OF EARNINGS PER COMMON SHARE

	3 Months Ended		6 Months Ended	
	June 30,		June 30,	
	1995	1994	1995	1994
	(Amounts in thousands, except earnings per common shares)			
Net income	\$ 1,904	\$ 1,595	\$ 4,583	\$ 3,317
Less: dividends on Preferred Stock	-	-	-	-
Net income for earnings per share	\$ 1,904	\$ 1,595	\$ 4,583	\$ 3,317
Weighted average number of common shares outstanding	9,019	7,451	9,025	7,404
Common share equivalents resulting from conversion of the \$5.00 Convertible Preferred Stock	-	1,738	-	1,792
Total Common shares and common share equivalents	9,019	9,189	9,025	9,196
Earnings per common share	\$.21	\$.17	\$.51	\$.36

SIGNATURE

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.

MESTEK, INC.
(Registrant)

Date: July 26, 1995

Stephen M. Shea
Stephen M. Shea
Senior Vice President - Finance
(Chief Financial Officer)

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	DEC-31-1995
<PERIOD-END>	JUN-30-1995
<CASH>	2,218
<SECURITIES>	0
<RECEIVABLES>	36,741
<ALLOWANCES>	1,844
<INVENTORY>	41,738
<CURRENT-ASSETS>	4,783
<PP&E>	49,974
<DEPRECIATION>	31,798
<TOTAL-ASSETS>	127,712
<CURRENT-LIABILITIES>	42,304
<BONDS>	0
<COMMON>	479
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<OTHER-SE>	85,190
<TOTAL-LIABILITY-AND-EQUITY>	127,712
<SALES>	48,604
<TOTAL-REVENUES>	52,479
<CGS>	34,718
<TOTAL-COSTS>	37,004
<OTHER-EXPENSES>	232
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	186
<INCOME-PRETAX>	3,279
<INCOME-TAX>	1,375
<INCOME-CONTINUING>	1,904
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	1,904
<EPS-PRIMARY>	0.21
<EPS-DILUTED>	0.21

</TABLE>