FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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ELCO INDUSTRIES INC
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SIC: **3452** Bolts, nuts, screws, rivets & washers

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 13(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1993

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 0-5181

ELCO INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	36-1033080
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

1111 SAMUELSON ROAD, P.O. BOX 7009, ROCKFORD, ILLINOIS 61125
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (815) 397-5151

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 [ ]

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

4,983,554 Common Shares, $5 Par Value as of February 1, 1994

PART I. FINANCIAL INFORMATION

The condensed financial statements reflect all adjustments, consisting of normal recurring accruals, which the Company considers necessary for a fair presentation of the results for the indicated periods.

Incorporated herein is the following unaudited (except for the Consolidated Condensed Balance Sheet as of June 30, 1993, which is audited) financial information:

Consolidated Condensed Balance Sheets as of December 31, 1993 and June 30, 1993.

Consolidated Condensed Income Statements for the three-month and six-month periods ended December 31, 1993 and 1992.

Statements of Consolidated Cash Flows for the six-month periods ended December 31, 1993 and 1992.

Notes to Consolidated Condensed Financial Statements.

Management's Discussion and Analysis of Results of Operations and Financial Position.

ELCO INDUSTRIES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands)

	December 31 1993 (Unaudited)	June 30 1993 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,978	$ 8,013
Accounts receivable - less allowances (December 31, $527; June 30, $475)	26,677	29,282
Inventories	26,454	22,324
Deferred taxes on income	1,508	1,166
Prepaid and other current assets	581	446
Total current assets	57,198	61,231
Property, Plant and Equipment		
Land	449	449
Land and leasehold improvements	3,178	3,074

Buildings and building equipment	24,381	23,287
Machinery and equipment	110,063	105,084
Furniture and office equipment	8,837	8,448
Construction in progress	1,200	3,262
Total	148,108	143,604
Less accumulated depreciation and amortization	80,546	76,183
Property, plant and equipment-net	67,562	67,421
Intangibles, Net	10,904	11,201
Investment in and Advances to Unconsolidated Affiliate	1,632	1,628
Other Assets	5,561	5,708
TOTAL	$142,857	$147,189

See Notes to Consolidated Condensed Financial Statements.

ELCO INDUSTRIES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands)

	December 31 1993 (Unaudited)	June 30 1993 (Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable - trade creditors	$ 9,823	$ 13,153
Current maturities of long-term obligations	4,051	3,736
Accrued liabilities:		
Salaries, wages and commissions	1,585	3,039
Compensated absences	2,900	2,131
Federal and state taxes on income	496	1,112
Other taxes	1,192	1,074
Retirement plans	826	819
Interest	720	812
Other	2,910	2,853
Total current liabilities	24,503	28,729
Long-Term Debt	43,075	46,290
Long-Term Lease Obligations		7
Deferred Taxes on Income	7,479	6,859
Other Deferred Liabilities	4,322	4,153
Stockholders' Equity		
Capital stock:		
Preferred - Authorized,		

250,000 shares at $1 par value; issued and outstanding - none		
Common - Authorized, 20,000,000 shares at $5 par value; issued December 31, 4,987,635 and June 30, 4,984,255 shares	24,938	24,921
Additional paid-in capital	7,910	7,867
Retained earnings	30,679	28,412
Total	63,527	61,200
Less common stock in treasury at cost-December 31 and June 30, 4,081 shares	49	49
Total stockholders' equity	63,478	61,151
TOTAL	$142,857	$147,189

See Notes to Consolidated Condensed Financial Statements.

ELCO INDUSTRIES, INC.
CONSOLIDATED CONDENSED INCOME STATEMENTS
(UNAUDITED)
(Dollars in thousands except per share amounts)

	Three Months Ended December 31		Six Months Ended December 31	
	1993	1992	1993	1992
Net sales	$53,439	$46,928	$106,316	$93,553
Cost of products sold	43,667	38,758	85,731	76,915
Gross profit	9,772	8,170	20,585	16,638
Selling and administrative expenses	6,184	5,878	12,905	11,686
Income from operations	3,588	2,292	7,680	4,952
Interest expense	801	941	1,615	1,963
Interest income	10	18	55	47
Income before provision for taxes and equity in income (loss) of unconsolidated affiliate	2,797	1,369	6,120	3,036
Provision for taxes on income:				
Current:				
Federal	858	406	1,861	902
State	248	124	562	262
Deferred	55	28	117	111
Total provision for taxes on income	1,161	558	2,540	1,275
Income before equity in income (loss) of unconsolidated affiliate	1,636	811	3,580	1,761
Equity in income (loss) of unconsolidated affiliate	2	(104)	(17)	(104)

Net income	$ 1,638	$ 707	$ 3,563	$ 1,657
Net income per common share	$ .33	$ .14	$ .72	$ .33
Dividends per common share	$ .13	$ .13	$ .26	$ .26
Weighted average number of shares outstanding	4,982,525	4,955,511	4,981,350	4,951,014

See Notes to Consolidated Condensed Financial Statements.

ELCO INDUSTRIES, INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS
(UNAUDITED)
(Dollars in thousands)

	Six Months Ended December 31, 1993	1992
Cash flows from operating activities:		
Net income	$ 3,563	$ 1,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	5,077	4,651
Amortization of intangibles	297	299
Loss on retirement and disposal of property, plant and equipment	30	5
Change in assets and liabilities:		
Accounts receivable	2,605	1,638
Inventories	(4,130)	(314)
Prepaid and other current assets	(135)	(168)
Accounts payable	(3,330)	(2,392)
Accrued liabilities	(1,211)	(445)
Deferred taxes on income	278	111
Other deferred liabilities	169	92
ESOP contribution from common and treasury shares		309
Equity in loss of unconsolidated affiliate	17	104
Other	510	(48)
Net cash provided by operating activities	3,740	5,499
Cash flows from investing activities:		
Additions to property, plant and equipment	(5,541)	(3,296)
Proceeds from retirement and disposal of property, plant and equipment	293	102
Decrease in construction/project funds held in trust		1,546
Increase in other assets	(303)	(323)
Advances to unconsolidated affiliate	(21)	(19)
Net cash required for investing activities	(5,572)	(1,990)

Cash flows from financing activities:		
Proceeds from long-term debt	7,000	
Payments on long-term debt	(9,890)	(2,090)
Payments on long-term lease obligations	(17)	(145)
Dividends paid	(1,296)	(1,288)
Net cash required for financing activities	(4,203)	(3,523)
Net decrease in cash and cash equivalents	(6,035)	(14)
Cash and cash equivalents at beginning of year	8,013	2,562
Cash and cash equivalents at end of period	$ 1,978	$ 2,548
Cash paid for: Interest	$ 1,728	$ 2,067
Income taxes	$ 3,014	$ 1,289

See Notes to Consolidated Condensed Financial Statements.

ELCO INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands except per share amounts)

1. ACCOUNTING POLICIES

The consolidated condensed balance sheet as of December 31, 1993, the consolidated condensed income statements for the three month and six month periods ended December 31, 1993 and 1992, and the statements of consolidated cash flows for the six month periods ended December 31, 1993 and 1992 have been prepared by the Company without audit. The June 30, 1993 consolidated condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at December 31, 1993 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's June 30, 1993 annual report to stockholders. The results of operations for the period ended December 31, 1993 are not necessarily indicative of the operating results for the full year.

2. INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for approximately 49% and 48% of the Company's inventories at December 31 and June 30, 1993, respectively, and by the first-in, first-out (FIFO) and actual cost methods for all other inventories. The inventories are summarized as follows:

	December 31 1993	June 30 1993
Raw materials and supplies	$13,680	$11,701
Work in process	9,622	7,798
Finished goods	11,587	10,808
	34,889	30,307
Less LIFO reserve	(8,435)	(7,983)
Total	$26,454	$22,324

The replacement cost of inventories at December 31 and June 30, 1993 approximates FIFO value.

3. LONG-TERM DEBT

The Company must meet certain debt covenants. Under the most restrictive covenant, $3,416 of retained earnings at December 31, 1993 is not restricted as to payments of dividends. The agreements include a change in control provision which may result in a prepayment penalty and all unpaid principal and interest due immediately.

4. SHORT-TERM LINES OF CREDIT

At December 31, 1993, the Company had bank lines of credit permitting borrowing up to an aggregate of $18,000 at the banks' corporate base rate or a fixed rate (at the option of the Company) as defined in the agreements. The lines require no compensating balances or commitment fees. The lines, generally reviewed annually for renewal, are subject to the usual terms and conditions applied by the banks. At December 31, 1993, none of the lines were used.

5. TAXES ON INCOME

The effective tax rate for the quarters ended December 31, 1993 and 1992 were 41.5% and 40.8%, respectfully. The effective tax rate for the six-month periods ended December 31, 1993 and 1992 were 41.5% and 42.0%, respectively.

6. INTEREST

The Company capitalizes interest costs relating to construction of property and equipment. Such costs are amortized over the depreciable lives of the related assets. Certain information regarding this capitalization follows:

	Three Months Ended 12/31/93	Three Months Ended 12/31/92	Six Months Ended 12/31/93	Six Months Ended 12/31/92
Interest costs incurred	$ 831	$ 956	$1,690	$1,992
Interest capitalized	30	15	75	29
Interest expensed	$ 801	$ 941	$1,615	$1,963

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

General

The Company's products are classified into two segments: Industrial Products and Home and Construction Products. The following tabulation sets forth the sales and income from operations of each product segment for the periods indicated and the percentage of total sales.

	Qtr Ended 12/31/93 (000's)	% Of Total	Qtr Ended 12/31/92 (000's)	% Of Total	% Change
NET SALES:					
Industrial	$ 40,023	74.9%	$33,943	72.3%	17.9%
Home and Construction	13,416	25.1%	12,985	27.7%	3.3%
Consolidated Net Sales	$ 53,439	100.0%	$46,928	100.0%	13.9%

	Six Months Ended 12/31/93 (000's)	% Of Total	Six Months Ended 12/31/92 (000's)	% Of Total	% Change
NET SALES:					
Industrial	$ 77,489	72.9%	$66,923	71.5%	15.8%
Home and Construction	28,827	27.1%	26,630	28.5%	8.3%
Consolidated Net Sales	$106,316	100.0%	$93,553	100.0%	13.6%

	Qtr Ended 12/31/93 (000's)	% Of Sales	Qtr Ended 12/31/92 (000's)	% Of Sales	% Change
INCOME FROM OPERATIONS:					
Industrial	$ 2,761	6.9%	$ 1,531	4.5%	80.3%
Home and Construction	1,321	9.8%	1,265	9.7%	4.4%
	4,082		2,796		
Corporate expenses	(494)		(504)		
Total Income from Operations	$ 3,588	6.7%	$ 2,292	4.9%	56.5%

	Six Months Ended 12/31/93 (000's)	% Of Sales	Six Months Ended 12/31/92 (000's)	% Of Sales	% Change
INCOME FROM OPERATIONS:					
Industrial	$ 5,758	7.4%	$ 3,207	4.8%	79.5%
Home and Construction	3,249	11.3%	2,650	10.0%	22.6%
	9,007		5,857		
Corporate expenses	(1,327)		(905)		
Total Income from Operations	$ 7,680	7.2%	$ 4,952	5.3%	55.1%

The following table presents, for the periods indicated, certain information derived from the Consolidated Condensed Income Statements of the Company expressed as percentages of net sales and the percentage changes in the dollar amount of such items compared to the prior period.

	Percentage of Net Sales		Percentage Increase (Decrease)
	Three Months Ended December 31,		Three Months Ended December 31, 1993
	1993	1992	over 1992
Net sales	100.0	100.0	13.9
Cost of products sold	81.7	82.6	12.7

Gross profit	18.3	17.4	19.6
Selling and administrative expenses	11.6	12.5	5.2
Income from operations	6.7	4.9	56.5
Interest expense	1.5	2.0	(14.9)
Interest income	0.0	0.0	(44.4)
Income before provision for taxes and equity in income (loss) of unconsolidated affiliate	5.2	2.9	104.3
Provision for taxes on income	2.1	1.2	108.1
Income before equity in income (loss) of unconsolidated affiliate	3.1	1.7	101.7
Equity in income (loss) of unconsolidated affiliate	0.0	(.2)	
Net income	3.1	1.5	131.7

	Percentage of Net Sales Six Months Ended December 31, 1993	1992	Percentage Increase (Decrease) Six Months Ended December 31, 1993 over 1992
Net sales	100.0	100.0	13.6
Cost of products sold	80.6	82.2	11.5
Gross profit	19.4	17.8	23.7
Selling and administrative expenses	12.2	12.5	10.4
Income from operations	7.2	5.3	55.1
Interest expense	1.5	2.1	(17.7)
Interest income	0.1	0.1	17.0
Income before provision for taxes and equity in loss of unconsolidated affiliate	5.8	3.3	101.6
Provision for taxes on income	2.4	1.4	99.2
Income before equity in income (loss) of unconsolidated affiliate	3.4	1.9	103.3
Equity in income (loss) of unconsolidated affiliate	0.0	(.1)	
Net income	3.4	1.8	115.0

RESULTS OF OPERATIONS
(Dollars in Thousands)

Three Month Period Ended December 31, 1993 Compared To The Three Month Period Ended December 31, 1992.

Consolidated net sales increased $6,511 or 14% resulting from an 18% increase in the Industrial Products segment and a 3% increase in the Home and Construction Products segment. The growth in the Industrial Products segment was a function of a 12% increase in automobile and light truck production and stronger demand from most other industrial markets. Weak demand from two customers in the Home and Construction Products segment limited that segment's sales growth.

Gross profit increased from 17% of net sales to 18% primarily due to operations of the Industrial Products segment. Greater capacity utilization, higher margins on new products and ongoing expense control efforts contributed to that segment's improved margins. Margins in the Home and Construction Products segment kept pace with the sales increase.

Selling and administrative expenses increased at a lower rate than the sales increase due to cost containment efforts and to the fixed nature of certain of the expenses.

Net interest expense decreased 14% reflecting lower levels of debt and somewhat lower effective interest rates.

The effective income tax rate was approximately 41% in both periods.

Improvement in the operation of the Company's unconsolidated affiliate resulted in a breakeven level of profit compared to a loss in the prior period.

Six Month Period Ended December 31, 1993 Compared To The Six Month Period Ended December 31, 1992

Consolidated net sales increased $12,763 or 14% led by a 16% increase in the Industrial Products segment and followed by an 8% increase in the Home and Construction Products segment. Increases in vehicle production and the growing economy generated the Industrial Products segment growth. Growth in the Home and Construction Products segments was somewhat limited due to weaker demand from certain customers.

Gross profit increased from 18% of net sales to 19% primarily due to strong performance from the Industrial Products segment. Added volume and greater efficiencies generated this improvement. Improved operations in the Home and Construction Products segment resulted in a 23% increase in margins on an 8% increase in sales.

Selling and administrative expenses increased, but at a rate lower than the increase in sales. This primarily reflects the fixed nature of certain of these expenses.

Net interest expense decreased 19% reflecting lower levels of debt and, to a lesser extent, lower effective interest rates.

The effective income tax rate decreased modestly reflecting a favorable impact of state income taxes.

The operations of the Company's unconsolidated affiliate improved to near breakeven.

NEW ACCOUNTING PRONOUNCEMENTS

In November 1992, the FASB adopted Statement No. 112, "Employers' Accounting for Postemployment Benefits," which will be effective for the year ended June 30, 1995, and will require accrual accounting for the estimated cost of benefits provided to former or inactive employees after employment but before retirement. Management has not yet performed a complete evaluation to determine the financial impact, however, a preliminary assessment indicates that it is not likely to have a material impact on the Company.

During December 1991, the Financial Accounting Standards Board issued SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," which will require additional disclosures regarding long-term debt and other financial instruments. The Company must adopt SFAS No. 107 no later than June 30, 1996. Adoption of this statement will not impact the carrying value of the Company's assets and liabilities.

SEASONAL VARIATIONS IN BUSINESS

Sales and revenues of a material portion of the Company's business are normally stronger in the second half of the Company's fiscal year. Production levels are generally lower during the Company's first half of the fiscal year because of customer plant shutdowns due to summer vacations and the number of holidays scheduled during the month of December by both customers and the Company.

LIQUIDITY AND CAPITAL RESOURCES
(Dollars in thousands)

The following tabulation provides a summary of Changes in Consolidated Cash Flows for the periods indicated.

	Six Months Ended December 31	
	1993	1992
	(in thousands)	

Cash provided by (required for):		
Operating Activities	$3,740	$5,499
Investment Activities	(5,572)	(1,990)
Financing Activities	(4,203)	(3,523)
Net cash required	(6,035)	(14)
Balance at the beginning of the period	8,013	2,562
Balance at the end of the period	$1,978	$2,548

Working capital at December 31, 1993 represented approximately 15% of annualized sales, a level within a range the Company considers normal and has maintained for at least five years. Cash required for capital expenditures, required debt payments and working capital requirements exceeded that provided by income and depreciation. The Company expects to generate positive cash flow during the last six months of the fiscal year and to internally generate the cash required for operations and to finance capital expenditures.

At December 31, 1993, the Company had $18,000 of bank lines of credit, none of which were used or require compensating balances or commitment fees. Based on current operating plans, the Company does not believe it will be necessary to utilize these lines for any significant borrowing during the remainder of the year.

PART II. OTHER INFORMATION

Item 1. Legal proceedings - There have been no material developments in the legal proceedings addressed in the report on Form 10-K for June 30, 1993.

Item 2. Changes in the rights of the Company's security holders - Inapplicable this quarter.

Item 3. Defaults by the Company on its senior securities - Inapplicable this quarter.

Item 4. Results of votes of security holders - Inapplicable this quarter.

Item 5. Other information - Inapplicable this quarter.

Item 6a. Exhibits - No exhibits are required this quarter.

Item 6b. Reports on Form 8-K - No reports on Form 8-K were filed for the three-month period ended December 31, 1993.

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.

ELCO INDUSTRIES, INC.

Date: February 10, 1994

John C. Lutz
John C. Lutz
President and Chief Executive Officer

Date: February 10, 1994

August F. DeLuca
August F. DeLuca
Vice President-Finance and
Chief Financial Officer