

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

ELCO INDUSTRIES INC

CIK: **32013** | IRS No.: **361033080** | State of Incorporation: **DE** | Fiscal Year End: **0630**
Type: **10-Q** | Act: **34** | File No.: **000-05181** | Film No.: **94527903**
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)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 13(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 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 0-5181

ELCO INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

36-1033080

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

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 No

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

4,984,554 Common Shares, \$5 Par Value as of May 6, 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 March 31, 1994 and June 30, 1993.

Consolidated Condensed Income Statements for the three-month and nine-month periods ended March 31, 1994 and 1993.

Statements of Consolidated Cash Flows for the nine-month periods ended March 31, 1994 and 1993.

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)

	March 31 1994 (Unaudited)	June 30 1993 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,048	\$ 8,013
Accounts receivable - less allowances (March 31, \$536; June 30, \$475)	30,023	29,282
Inventories	27,148	22,324
Deferred taxes on income	1,822	1,166
Prepaid and other current assets	527	446
Total current assets	64,568	61,231
Property, Plant and Equipment		
Land	449	449
Land and leasehold improvements	3,200	3,074
Buildings and building equipment	24,603	23,287

Machinery and equipment	111,493	105,084
Furniture and office equipment	8,959	8,448
Construction in progress	1,811	3,262
Total	150,515	143,604
Less accumulated depreciation and amortization	82,785	76,183
Property, plant and equipment-net	67,730	67,421
Intangibles, Net	10,246	11,201
Investment in and Advances to Unconsolidated Affiliate	1,752	1,628
Other Assets	5,419	5,708
TOTAL	\$149,715	\$147,189

See Notes to Consolidated Condensed Financial Statements.

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

	March 31 1994 (Unaudited)	June 30 1993 (Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable - trade creditors	\$ 11,088	\$ 13,153
Current maturities of long-term obligations	4,037	3,736
Accrued liabilities:		
Salaries, wages and commissions	3,276	3,039
Compensated absences	2,937	2,131
Federal and state taxes on income	996	1,112
Other taxes	1,513	1,074
Retirement plans	1,426	819
Interest	1,049	812
Other	2,883	2,853
Total current liabilities	29,205	28,729
Long-Term Debt	43,067	46,290
Long-Term Lease Obligations		7
Contingencies		
Deferred Taxes on Income	8,016	6,859
Other Deferred Liabilities	4,337	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 March 31, 4,987,635 shares and June 30, 4,984,255 shares	24,938	24,921
Additional paid-in capital	7,919	7,867
Retained earnings	32,270	28,412
Total	65,127	61,200
Less common stock in treasury at cost-March 31, 3,081 shares; June 30, 4,081 shares	37	49
Total stockholders' equity	65,090	61,151
TOTAL	\$149,715	\$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		Nine Months Ended	
	March 31		March 31	
	1994	1993	1994	1993
Net sales	\$57,692	\$ 50,735	\$164,008	\$144,288
Cost of products sold	46,700	41,104	132,431	118,019
Gross profit	10,992	9,631	31,577	26,269
Selling and administrative expenses	6,575	6,110	19,480	17,796
Income from operations	4,417	3,521	12,097	8,473
Interest expense	766	890	2,381	2,853
Interest income	15	27	70	74
Income before provision for taxes and equity in income (loss) of unconsolidated affiliate	3,666	2,658	9,786	5,694
Provision for taxes on income:				
Current:				
Federal	1,043	751	2,904	1,653
State	335	242	897	504
Deferred	143	123	260	234
Total provision for taxes on income	1,521	1,116	4,061	2,391
Income before equity in income (loss) of unconsolidated affiliate	2,145	1,542	5,725	3,303
Equity in income (loss) of unconsolidated affiliate	94	(67)	77	(171)
Net income	\$ 2,239	\$ 1,475	\$ 5,802	\$ 3,132

Net income per common share	\$.45	\$.30	\$ 1.16	\$.63
Dividends per common share	\$.13	\$.13	\$.39	\$.39
Weighted average number of shares outstanding	4,984,276	4,959,174	4,982,311	4,953,694

See Notes to Consolidated Condensed Financial Statements.

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

	Nine Months Ended March 31,	
	1994	1993
Cash flows from operating activities:		
Net income	\$ 5,802	\$ 3,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	7,517	6,935
Amortization of intangibles	955	449
Loss on retirement and disposal of property, plant and equipment	10	8
Change in assets and liabilities:		
Accounts receivable	(741)	(1,144)
Inventories	(4,824)	156
Prepaid and other current assets	(81)	(8)
Accounts payable	(2,065)	(374)
Accrued liabilities	2,240	2,479
Deferred taxes on income	501	234
Other deferred liabilities	184	127
ESOP contribution from common and treasury shares		309
Equity in loss (income) of unconsolidated affiliate	(77)	171
Other	673	(89)
Net cash provided by operating activities	10,094	12,385
Cash flows from investing activities:		
Additions to property, plant and equipment	(8,152)	(5,673)
Proceeds from retirement and disposal of property, plant and equipment	316	225
Decrease in construction/project funds held in trust		2,109
Increase in other assets	(303)	(632)
Advances to unconsolidated affiliate	(47)	(16)
Net cash required for investing activities	(8,186)	(3,987)
Cash flows from financing activities:		

Proceeds from long-term debt	7,000	
Payments on long-term debt	(9,898)	(2,098)
Payments on long-term lease obligations	(31)	(157)
Dividends paid	(1,944)	(1,934)
Net cash required for financing activities	(4,873)	(4,189)
Net decrease in cash and cash equivalents	(2,965)	4,209
Cash and cash equivalents at beginning of year	8,013	2,562
Cash and cash equivalents at end of period	\$ 5,048	\$ 6,771
Cash paid for: Interest	\$ 2,197	\$ 2,724
Income taxes	\$ 3,814	\$ 1,795

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 March 31, 1994, the consolidated condensed income statements for the three month and nine month periods ended March 31, 1994 and 1993, and the statements of consolidated cash flows for the nine month periods ended March 31, 1994 and 1993 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 March 31, 1994 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 March 31, 1994 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

March 31, 1994 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:

	March 31 1994	June 30 1993
Raw materials and supplies	\$13,502	\$11,701
Work in process	10,183	7,798
Finished goods	12,046	10,808
	35,731	30,307
Less LIFO reserve	(8,583)	(7,983)
Total	\$27,148	\$22,324

The replacement cost of inventories at March 31, 1994 and June 30, 1993 approximates FIFO value.

3. LONG-TERM DEBT

The Company must meet certain debt covenants. Under the most restrictive covenant, \$3,878 of retained earnings at March 31, 1994 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 March 31, 1994, 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 March 31, 1994, none of the lines were used.

5. TAXES ON INCOME

The effective tax rate for the quarters ended March 31, 1994 and 1993 were 41.5% and 42.0%, respectfully. The effective tax rate for the nine-month periods ended March 31, 1994 and 1993 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		Nine Months Ended	
	3/31/94	3/31/93	3/31/94	3/31/93
Interest costs incurred	\$ 789	\$ 912	\$2,479	\$2,903
Interest capitalized	23	22	98	50
Interest expensed	\$ 766	\$ 890	\$2,381	\$2,853

7. CONTINGENCIES

The Company is currently involved in matters of litigation arising from the normal course of business, including environmental matters. The Company, together with other parties, has been designated a "Potentially Responsible Party" by the United States Environmental Protection Agency (USEPA) with respect to the cost of investigation and clean-up of a site in Illinois. Together with other parties, the Company is a third-party defendant in a federal enforcement action brought by the USEPA against several other primary defendants. The Company is also involved with clean-up efforts with respect to two pieces of property that it previously owned in Connecticut. The Company's potential exposure for these environmental matters has been evaluated and a liability has been recorded for its likely costs based on available information. Such liability is not material to the financial condition of the Company. It is the opinion of management, after consultation with counsel, that additional liabilities, if any, resulting from litigation matters are not expected to have a material adverse effect on the financial condition of the Company, although such matters could have a material effect on quarterly or annual operating results when resolved in a future period.

In January 1994, the USEPA notified the Company that it is one of over 300 PRPs with respect to the old Southington Landfill Superfund Site in Southington, Connecticut. Elco was identified as a successor to a company that allegedly used the site. The USEPA has not yet selected a plan of remediation for the site. The Company has insufficient information to determine its potential exposure in connection with the site, when (or if) it will incur such costs and the ultimate impact of the costs upon the Company's financial condition and results of operations.

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 3/31/94 (000's)	% Of Total	Qtr Ended 3/31/93 (000's)	% Of Total	% Change
NET SALES:					
Industrial	\$ 45,458	78.8%	\$ 38,489	75.9%	18.1 %
Home and Construction	12,234	21.2%	12,246	24.1%	(0.1)%
Consolidated Net Sales	\$ 57,692	100.0%	\$ 50,735	100.0%	13.7 %

	Nine Months Ended 3/31/94 (000's)	% Of Total	Nine Months Ended 3/31/93 (000's)	% Of Total	% Change
NET SALES:					
Industrial	\$122,947	75.0%	\$105,412	73.1%	16.6 %
Home and Construction	41,061	25.0%	38,876	26.9%	5.6 %
Consolidated Net Sales	\$164,008	100.0%	\$144,288	100.0%	13.7 %

	Qtr Ended 3/31/94 (000's)	% Of Sales	Qtr Ended 3/31/93 (000's)	% Of Sales	% Change
INCOME FROM OPERATIONS:					
Industrial	\$ 4,422	9.7%	\$ 3,112	8.1%	42.1 %
Home and Construction	485	4.0%	781	6.4%	(37.9)%
Corporate expenses	4,907 (490)		3,893 (372)		

Total Income from

Operations	\$ 4,417	7.7%	\$ 3,521	6.9%	25.4 %
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	Nine Months Ended 3/31/94 (000's)	% Of Sales	Nine Months Ended 3/31/93 (000's)	% Of Sales	% Change
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INCOME FROM OPERATIONS:

Industrial	\$10,180	8.3%	\$ 6,319	6.0%	61.1 %
Home and Construction	3,734	9.1%	3,431	8.8%	8.8 %
	13,914		9,750		
Corporate expenses	(1,817)		(1,277)		

Total Income from Operations	\$12,097	7.4%	\$ 8,473	5.9%	42.8 %
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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 March 31, 1994	1993	Three Months Ended March 31, 1994 over 1993
Net sales	100.0	100.0	13.7
Cost of products sold	80.9	81.0	13.6
Gross profit	19.1	19.0	14.1
Selling and administrative expenses	11.4	12.1	7.6
Income from operations	7.7	6.9	25.4
Interest expense	1.3	1.8	(14.0)
Interest income	0.0	0.1	(48.1)
Income before provision for taxes and equity in income (loss) of uncon- solidated affiliate	6.4	5.2	37.9
Provision for taxes on income	2.7	2.2	36.3
Income before equity in income (loss) of uncon- solidated affiliate	3.7	3.0	39.1
Equity in income (loss) of unconsolidated affiliate	0.2	(.1)	

Net income	3.9	2.9	51.8
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	Percentage of Net Sales		Percentage Increase
	Nine Months Ended		(Decrease)
	March 31,		Nine Months Ended
	1994	1993	March 31, 1994
			over 1993
Net sales	100.0	100.0	13.7
Cost of products sold	80.7	81.8	12.2
Gross profit	19.3	18.2	20.2
Selling and administrative expenses	11.9	12.3	9.5
Income from operations	7.4	5.9	42.8
Interest expense	1.5	2.0	(16.5)
Interest income	0.1	0.0	(5.4)
Income before provision for taxes and equity in income (loss) of unconsolidated affiliate	6.0	3.9	71.9
Provision for taxes on income	2.5	1.6	69.8
Income before equity in income (loss) of unconsolidated affiliate	3.5	2.3	73.3
Equity in income (loss) of unconsolidated affiliate	0.0	(.1)	
Net income	3.5	2.2	85.2

RESULTS OF OPERATIONS
(Dollars in Thousands)

Three Month Period Ended March 31, 1994 Compared To The Three Month Period Ended March 31, 1993.

Net sales increased \$6,957 or 13.7%, primarily due to an 18.1% increase in the Industrial Products Group. Growth in the Industrial Products Group resulted from increased automobile and light truck production and the growing economy. Net sales in the Home and Construction Products Group were comparable to the year earlier period due to declining sales to two significant retail customers due to incompatibility in product or distribution strategy. In subsequent periods, the Company anticipates replacing these lost sales with sales from new programs to two home centers. The setups of these new programs are anticipated to be completed by the end of calendar 1994.

Gross profit remained constant at approximately 19.0% of net sales. The Company incurred an expense of approximately \$500 relating to the loss of one of the customers mentioned previously. Without this charge, gross profit would have increased from 19.1% of net sales to 19.9%.

Selling and administrative expenses decreased from 12.1% of net sales to 11.4%. These expenses increased at a rate lower than the sales increase due to cost containment efforts and to the fixed nature of certain of the expenses.

Income from operations increased from 6.9% of net sales to 7.7%, one of the best results since the end of the last economic expansion in 1989. Operating margins for the Industrial Products Group increased from 8.1% of net sales to 9.7% as a result of higher sales levels, higher capacity utilization rates and continuing productivity improvement programs. Operating margins for the Home and Construction Products Group declined due to the lost customer expense mentioned previously. Without that charge, operating income would have increased on flat sales.

Net interest expense declined 13.0% primarily reflecting lower levels of debt and the effect of the refinancing of a portion of long-term debt.

The effective income tax rate decreased from 42.0% to 41.5% due to a favorable mix of state income taxes and to a reduced effect of certain non-deductible expenses.

The Company's share of the results of operations of Rocknel Fastener, Inc. ("Rocknel"), a joint venture company, improved from a loss of \$67 to income of \$94 due to continually improving operations and to an increase in the sale of higher margin products to new customers.

Net income increased from \$.30 per share to \$.45, a 50.0% increase.

Nine Months Ended March 31, 1994 Compared to Nine Months Ended March 31, 1993

Net sales increased \$19,720 or 13.7% with a 16.6% increase in the Industrial Products Group and a 5.6% increase in the Home and Construction Products Group. Increases in vehicle production and the continued growing economy primarily generated the Industrial Products Group growth. Growth in the Home and Construction Products Group was somewhat limited as a result of declining sales to two significant retail customers due to incompatibility in product or distribution strategy.

Gross profit increased from 18.2% of net sales to 19.3% primarily due to stronger sales performance, efficiency improvements and ongoing expense reduction programs.

Selling and administrative expenses decreased from 12.3% of net sales to 11.9%, reflecting the fixed nature of certain of these expenses. The 1994 expenses included a one-time charge of approximately \$366 related to the refinancing of certain long-term debt at lower rates.

Income from operations increased from 5.9% of net sales to 7.4% primarily

due to strong performance from the Industrial Products Group, where greater capacity utilization and a shift in sales to higher margin products contributed to improved gross profit margins. Margins improved modestly in the Home and Construction Products Group in spite of an expense of approximately \$500 related to the loss of one of the customers mentioned previously.

Net interest expense decreased 16.8% reflecting lower levels of debt, a more favorable effect of an interest rate swap agreement, lower effective interest rates and the effect of the refinancing of a portion of long-term debt.

The effective income tax rate decreased from 42.0% to 41.5% due to a favorable mix of state income taxes and to a reduced effect of certain non-deductible expenses.

The Company's share of the results of operations of Rocknel Fastener, Inc., a joint venture company, improved from a loss of \$171 to income of \$77. This improvement was the result of continued cost containment efforts, productivity improvements and the introduction of new, higher margin products to new customers.

Net income for the 1994 period was \$5,802 or \$1.16 per share, increases of 85.2% and 84.1%, respectively, from the prior periods results.

NEW ACCOUNTING PRONOUNCEMENTS

In November 1992, the Financial Accounting Standards Board issued SFAS 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.

	Nine Months Ended March 31	
	1994	1993
	(in thousands)	
Cash provided by (required for):		
Operating Activities	\$10,094	\$12,385
Investment Activities	(8,186)	(3,987)
Financing Activities	(4,873)	(4,189)
Net cash required	(2,965)	4,209
Balance at the beginning of the period	8,013	2,562
Balance at the end of the period	\$ 5,048	\$ 6,771

Working capital at March 31, 1994 was \$35,363 or approximately 16% of annualized sales, a level somewhat higher than normal and reflective of initial stocking requirements for two new major home center customers. Cash balances decreased from \$8,013 to \$5,048 during the period from July 1, 1993 to March 31, 1994. The increase in working capital required to support the significantly increased sales, plus cash requirements for capital expenditures and required debt payments exceeded cash provided by net income, depreciation and amortization. The Company anticipates that capital expenditures will approximate \$13,000 for its current fiscal year (including approximately \$5,000 to be spent in its fourth quarter) and \$14,500 for fiscal 1995, including approximately \$3,000 that it expects to spend in connection with an expansion at its Precision Stamping Division over the next 18 months.

At March 31, 1994 the Company had \$18,000 of bank lines of credit, none of which were in use or required compensating balances or commitment fees.

The Company believes that available sources of borrowing and anticipated funds from operations will satisfy the Company's projected cash requirements through fiscal 1995.

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 March 31, 1994.

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: May 13, 1994

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

Date: May 13, 1994

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