FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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AEL INDUSTRIES INC

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-230

For the thirteen weeks ended November 26, 1993

AEL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	23-1353403
(State or other jurisdiction of incorporation of organization)	(IRS Employer Identification No.)

305 Richardson Road, Lansdale, Pennsylvania
19446

(Address of principal executive offices and Zip Code)

(215) 822-2929

(Registrant's telephone number, including area code)

N/A

(Former name, if changed since last report)

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

The number of shares outstanding of each class of common stock is as follows:

Class	Outstanding at January 3, 1994
Class A common stock, $1 par value	3,330,905
Class B common stock, $1 par value	434,717

AEL INDUSTRIES, INC.

FORM 10-Q

THIRTEEN WEEKS ENDED NOVEMBER 26, 1993

INDEX

</TABLE>

PART I. FINANCIAL INFORMATION FORM 10-Q

AEL INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

<TABLE>
<CAPTION>

<S>	November 26, 1993 <C>	February 26, 1993 <C>
ASSETS		
Current assets:		
Cash and equivalents	$11,723	$4,168
Marketable securities	1,543	12,123
Receivables, including unbilled amounts of $19,525 at November 26, 1993 and $22,423 at February 26, 1993:		
U. S. Government	25,350	37,360
Other	3,483	2,277
	28,833	39,637
Refundable income taxes	134	533
Inventories	5,160	3,634
Deferred income taxes	2,571	3,646
Other current assets	431	639
Total current assets	50,395	64,380
Property, plant and equipment (net of accumulated depreciation and amortization of $50,789 at November 26, 1993 and $46,088 at February 26, 1993)	44,936	44,477
Other assets	5,552	5,789
	$100,883	$114,646

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$2,078	$4,460
Accrued salaries, wages and employee benefits	5,644	5,995
Other current liabilities	8,613	13,269
Current portion of long-term debt	3,842	6,978
Total current liabilities	20,177	30,702
Long-term debt, net of current portion	21,402	25,141
Other liabilities	1,685	2,483
Commitments and contingent liabilities Note 4		
Shareholders' equity	57,619	56,320
	$100,883	$114,646

</TABLE>

See accompanying notes

AEL INDUSTRIES, INC. FORM 10-Q

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

<TABLE>
<CAPTION>

<S>	Thirteen Weeks Ended November 26, 1993 <C>	Thirteen Weeks Ended November 27, 1992 <C>	Thirty-Nine Weeks Ended November 26, 1993 <C>	Thirty-Nine Weeks Ended November 27, 1992 <C>
Sales and service revenue	$27,292	$28,154	$85,777	$80,149
Operating costs and expenses:				
Cost of products and services	19,992	21,796	64,186	59,750
Administrative and selling expenses	4,179	4,643	12,868	14,096
Bid and proposal costs	1,716	1,247	4,112	4,034
Research and development costs	617	777	1,581	1,761
	26,504	28,463	82,747	79,641
Operating income (loss)	788	(309)	3,030	508
Interest expense	(431)	(619)	(1,296)	(1,882)
Investment income	104	208	374	665
Other income (expense), net	(35)	23	(153)	(270)
Income (loss) before income taxes and cumulative effect of change in accounting principle	426	(697)	1,955	(979)
Income tax provision (benefit)			686	(126)
Income (loss) before cumulative effect of change in accounting principle	426	(697)	1,269	(853)
Cumulative effect of change in accounting for income taxes				2,540
Net income (loss)	$426	($697)	$1,269	$1,687
Earnings per share:				
Income (loss) before cumulative effect of change in accounting principle	$0.12	($0.18)	$0.34	($0.21)
Cumulative effect of change in accounting for income taxes				0.64
Net income (loss)	$0.12	($0.18)	$0.34	$0.43
Weighted average shares outstanding	3,785,000	3,899,000	3,764,000	3,918,000

</TABLE>

See accompanying notes

AEL INDUSTRIES, INC. FORM 10-Q

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

<TABLE>
<CAPTION>

<S>	Thirty-Nine Weeks Ended November 26, 1993 <C>	Thirty-Nine Weeks Ended November 27, 1992 <C>
Cash flows from operating activities:		
Net income	$1,269	$1,687
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Depreciation	4,898	4,996
Amortization of other assets	306	306
Cumulative effect of change in accounting for income taxes		(2,540)
Deferred income taxes	588	673
Accrued retirement benefits	(322)	(8)
Decrease in receivables	10,804	159
Increase in refundable income taxes, inventories and other current assets, net	(919)	(141)
Decrease in accounts payable, accrued liabilities and other current liabilities	(7,389)	(4,685)
Net cash provided by operating activities	9,235	447
Cash flows from investing activities:		
Additions to property, plant and equipment	(5,358)	(6,336)
Purchases of marketable securities		(31,369)
Liquidations of marketable securities	10,572	20,666
Other	(49)	78
Net cash provided (absorbed) by investing activities	5,165	(16,961)
Cash flows from financing activities:		
Reductions in long-term debt	(6,875)	(625)
Other	30	(52)
Net cash absorbed by financing activities	(6,845)	(677)
Increase (decrease) in cash and equivalents	7,555	(17,191)
Cash and equivalents at beginning of period	4,168	20,516
Cash and equivalents at end of period	$11,723	$3,325

</TABLE>

See accompanying notes

FORM 10-Q

AEL INDUSTRIES, INC.

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments necessary for a fair presentation of the results of the interim periods have been made. All adjustments were of a normal, recurring nature except for the cumulative effect of a change in accounting for income taxes, recorded in the first quarter of fiscal year 1993, as described in footnote 2.

The condensed consolidated financial statements should be read in conjunction with the Registrant's Annual Report on Form 10-K for the fiscal year ended February 26, 1993.

2. Effective February 29, 1992, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". The cumulative effect of the accounting change as of the beginning of fiscal year 1993 was $2,540,000 or $.64 per share, primarily resulting from recording tax benefits related to contract loss provisions recorded in prior years and adjusting tax rates on previously recorded tax assets and liabilities. The cumulative effect, recorded in the quarter ended May 29, 1992, also includes the recognition of a valuation allowance of $200,000 to reflect the potential loss of state tax benefits.

3. Under fixed price contracts, the Company may encounter, and on certain programs from time to time has encountered, cost overruns caused by increased material, labor, or overhead costs, design or production difficulties and various other factors such as technical and manufacturing complexity, which must be, and in such cases have been, borne by the Company. Adjustments to contract cost estimates are made in the periods in which the facts requiring such revisions become known. When the revised estimate indicates a loss, such loss is provided for currently in its entirety. In addition, the Company from time to time commits to invest its own funds, particularly in the case of high-technology seed programs. The estimated costs of such investments in excess of the related contract values are provided for currently in their entirety upon receipt of such contracts by the Company. During the quarter and nine months ended November 26, 1993, adjustments to contract cost estimates had net unfavorable impacts on income of $900,000 and $3,900,000, respectively, compared with net unfavorable impacts of $1,500,000 and $1,600,000 for adjustments of the same nature during the comparable periods ended November 27, 1992. In addition to the impact of contract cost adjustments, an investment provision of $300,000 was recorded in the current year quarter and an investment provision of $400,000 was recorded in the nine months ended November 27, 1992.

Other current liabilities at November 26, 1993 and February 26, 1993 include allowances for contract losses and other contract allowances aggregating $3,100,000 and $4,400,000, respectively.

4. The Company is a party to lawsuits and other legal matters arising out of the general conduct of its business. One such action relates to the U.S. Environmental Protection Agency (EPA) which, in 1989, placed a site that includes the Company's Richardson Road property on the National Priorities List for detailed study and cleanup of alleged environmental contamination. The Company continues to cooperate with the EPA in the study of this site. In the opinion of management, except for the matters described below, these lawsuits and legal matters will not have a materially adverse effect on consolidated financial position.

From time to time, the Company is also subject to claims and investigations arising from its business with the U. S. Government. In the fourth quarter of fiscal year 1993, the Company established an allowance of $2,200,000 based on an agreement to settle civil claims pertaining to the pricing of a 1985 fixed-price contract modification. The Company paid $1,100,000 in July 1993 and will pay $1,100,000 in July 1994. In an unrelated matter, the Company has provided documents, relating to its AN/MLQ-T4 Ground Jammer program, to the Department of Defense pursuant to a subpoena issued by its Inspector General in September 1992. At this time, management is unable to determine when the Government will complete its investigation regarding the Ground Jammer program or whether it will seek any remedies as a result of its investigation.

AEL INDUSTRIES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's consolidated results of operations for the thirteen weeks (quarter) and thirty-nine weeks (nine months) ended November 26, 1993, as compared with the thirteen weeks (quarter) and thirty-nine weeks (nine months) ended November 27, 1992, and its consolidated financial condition at November 26, 1993. The discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto which appear elsewhere in this Form 10-Q.

Results of Operations

Sales and service revenues of $27,292,000 for the quarter ended November 26, 1993 reflect a slight decrease from the $28,154,000 in revenues reported for the quarter ended November 27, 1992. Sales and service revenues of $85,777,000 for the nine months ended November 26, 1993, however, reflect a 7% increase from the $80,149,000 in revenues reported for the nine months ended November 27, 1992. Both the quarter and nine month period ended November 26, 1993 were favorably impacted by higher revenues from avionics installation/integration programs which contributed 32% of revenues in the current year, compared with 30% in the prior year. The current year was also favorably impacted by higher revenues from the APR-39A radar warning receiver program, the Band 9/10 electronic countermeasures program, and the Type 18 ADF electronic surveillance measures program. The APR-39A program contributed 11% and 9% of revenues for the quarter and nine months ended November 26, 1993, up from 2% and 3% for the comparable periods in the prior year. The Band 9/10 program contributed 10% of the current year's revenues in both the quarter and nine month period, compared with 9% and 6% for the comparable periods in the prior year. However, revenues from two other electronic countermeasures programs, TACJAM A and a program with a foreign government, decreased in the current year. The TACJAM A program's contributions to revenues dropped from 16% and 12% in the prior year quarter and nine months to 5% and 6% in the current year quarter and nine months.

Operating income for the quarter ended November 26, 1993 was $788,000 compared to an operating loss of $309,000 for the prior year quarter. Although sales and service revenues for the current year quarter decreased slightly from the prior year quarter, operating results improved significantly primarily due to a decrease in unfavorable contract cost estimate adjustments, and reductions in administrative and selling expenses and research and development costs, partially offset by an increase in bid and proposal costs. Spending reductions related to continued corporate restructuring initiated in fiscal year 1993 have resulted in improved gross margin performance as well as lower administrative and selling expenses in the current year. The increase in bid and proposal costs reflects the Company's increased bidding activity for development programs associated with long-term production contracts.

Operating income for the nine months ended November 26, 1993 was $3,030,000 compared to $508,000 for the nine months ended November 27, 1992. The increase in sales and service revenues for the nine months ended November 26, 1993 had a corresponding favorable impact on operating profit. In addition, continuing efforts to contain costs have led to a substantial reduction in overhead spending and administrative and selling expenses in the nine month period ended November 26, 1993. Partially offsetting these favorable items was an increase in unfavorable program cost estimate adjustments which totalled $3,900,000 for the nine months ended November 26, 1993 compared with $1,600,000 for the comparable prior year period.

Interest expense for the quarter and nine months ended November 26, 1993 decreased $188,000 and $586,000, respectively, from the comparable periods of the prior year primarily due to lower average debt levels in the current year. In April 1993, the Company repaid $6,600,000 of its $20,000,000, 10.03% unsecured note payable. Investment income for the quarter and nine months ended November 26, 1993 decreased $104,000 and $291,000, respectively, from the comparable periods of the prior year primarily due to the liquidation of marketable securities to meet the $6,600,000 debt repayment. Also, marketable securities were liquidated to fund capital expenditures including a significant building addition at the Company's Richardson Road facility which was completed in August 1993. Other income for the nine month periods ended November 26, 1993 and November 27, 1992 included $498,000 and $368,000, respectively, for royalties received under a license agreement with a foreign vendor.

The income tax provision (benefit) for the nine month periods ended November 26, 1993 and November 27, 1992 were based upon estimated annual effective tax rates of 35% and 13%, respectively. The 13% tax rate in fiscal year 1993 resulted from expected tax losses which were to provide benefits at less than the statutory tax rate. The decrease in the estimated annual effective tax rate for fiscal 1994 from 45% as of August 27, 1993 to 35% as of November 26, 1993 was due to an increase in deferred tax benefits to be recognized in accordance with new federal tax laws enacted. The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" in the first quarter of fiscal year 1993 and accordingly recorded the cumulative effect of the accounting change at the beginning of that quarter. The cumulative effect of the accounting change was $2,540,000, or $.64 per share, primarily resulting from the recording of tax benefits related to contract loss provisions recorded in prior years and adjusting tax rates on previously recorded tax assets and liabilities.

The Company had a firm orders backlog of approximately $139,900,000 at November 26, 1993 compared to $156,300,000 at February 26, 1993. Backlog included unfunded amounts representing 13% at November 26, 1993 and 10% at February 26, 1993.

Operating results for the remainder of fiscal year 1994 will be influenced by various internal and external factors. The Company is presently engaged in several programs involving state-of-the-art development efforts and, as is the case with most development efforts, technical and other complexities are often encountered. These complexities could result in revisions to contract cost estimates. When revised estimates indicate a loss, such loss is provided for currently. The Company could also encounter similar risks on other long-term contracts as well as research and development efforts, and such factors could impact future operating results. In addition, the Company continues to seek high-technology seed programs which are intended to provide a base for the Company's future operations. Such programs may require contract investment provisions, or significant Company-sponsored research and development expenditures, both reflecting the Company's commitment of its own funds. Ongoing changes in many countries around the world have resulted in the U.S. Government reassessing its approach to national defense spending. Although it is clear that defense spending will continue to decline, it is unclear how that spending will be redirected to build the new national defense architecture that is likely to emerge. Management is continuing its strategic planning efforts in order to select products and business areas which will enable the Company to effectively compete and perform in a very demanding marketplace. Although the uncertainties of future world events and the corresponding changes in national defense spending hang over the defense industry, the Company's products, heavily concentrated in the field of defense electronics, and management's constant thrust to improve its design, manufacturing and quality systems, provide the Company with the prerequisites to be competitive. The U.S. Government and its suppliers continue to be the most significant customers to the Company and a significant reduction in one or more of the Company's major defense programs, existing or anticipated, could adversely affect the Company's operating results.

The Company from time to time is subject to claims and investigations arising from the conduct of its business with the U.S. Government. Under one such investigation, the Company has supplied the Inspector General of the Department of Defense with certain documents related to the AN/MLQ-T4 Ground Jammer program. At this time, management is unable to determine when the Government will complete its investigation regarding the Ground Jammer program or whether the Government will seek remedies as a result of its investigation. This matter and other ongoing legal matters which may impact future operating results are described in Note 4 to the condensed consolidated financial statements.

Liquidity and Capital Resources

The Company's primary source of short-term financing is cost reimbursements under contracts with the U.S. Government and its suppliers. That financing is supplemented, when necessary, through the liquidation of short-term investments. Cash flows for the nine months ended November 26, 1993 were provided through operations and

liquidation of marketable securities, and were absorbed to repay long-term debt and fund capital expenditures. At November 26, 1993, the Company had available cash and equivalents and highly liquid marketable securities of approximately $13,300,000 and a line of credit agreement, which expires June 30, 1994, providing for borrowings up to $5,000,000, including $500,000 set aside for foreign currency transactions.

The ratio of current assets to current liabilities was 2.5 to 1 at November 26, 1993 compared with 2.1 to 1 at February 26, 1993. The improvement was primarily due to favorable cash flows from operating activities. The long-term debt to equity ratio of .4 to 1 at November 26, 1993 was essentially unchanged from the ratio at February 26, 1993. The Company's second installment repayment on its 10.03% unsecured note obligation is due April 1994. The scheduled repayment is $3,300,000 with an option to accelerate the repayment of an additional $1,700,000.

During the quarter ended August 27, 1993, the Company substantially completed construction of a major building addition at its Richardson Road facility. The total cost incurred to date, including related expenditures, of approximately $4,300,000 was funded through the liquidation of marketable securities.

In June 1993, the Company agreed to pay $2,200,000 in settlement of civil claims pertaining to the pricing of a 1985 fixed-price contract modification. The Company paid $1,100,000 in July 1993 and will pay the balance in July 1994.

With a substantial amount of highly liquid assets and a strong working capital position at November 26, 1993, capital resources should be sufficient to meet the Company's operating needs for the foreseeable future, as well as long-term debt maturities and other anticipated cash outlays.

PART II. OTHER INFORMATION

AEL INDUSTRIES, INC.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - None

(b) Reports on Form 8-K - There were no reports on Form 8-K filed for the thirteen week period ended November 26, 1993.

FORM 10-Q

AEL INDUSTRIES, INC.

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.

AEL INDUSTRIES, INC.
____
(Registrant)

Date: January 5, 1994 /S/ John F. Sharkey
_______________ _______________________
John F. Sharkey
Vice President, Finance