

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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WOODWARD GOVERNOR CO

CIK: **108312** | IRS No.: **361984010** | State of Incorpor.: **DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **000-08408** | Film No.: **94528080**
SIC: **3728** Aircraft parts & auxiliary equipment, nec

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

{ X } QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 1994 Commission File #0-8408

OR

{ } TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

WOODWARD GOVERNOR COMPANY
(Exact name of registrant as specified in its charter)

Delaware 36-1984010
(State or other jurisdiction of I.R.S. Employer identification No.)
incorporation or organization)

5001 North Second Street, Rockford, Illinois 61125-7001
(Address of principal executive offices)

Registrant's telephone number - (815) 877-7441

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
As of April 30, 1994, 2,926,689 shares of common stock with a par value of 6.25 cents per share were outstanding.

WOODWARD GOVERNOR COMPANY
FORM 10-Q
For the Quarter Ended March 31, 1994

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WOODWARD GOVERNOR COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED EARNINGS
for the three months ended March 31, 1994 and 1993
(in thousands except per share amounts)
(Unaudited)

<CAPTION>

	1994	1993
	-----	-----
		(restated)
<S>	<C>	<C>
Net billings for products and services	\$81,873	\$82,634
	-----	-----

Costs and expenses:

Cost of goods sold	60,691	60,621
Sales, service and administrative expenses	13,433	12,865
Other (income) and expense, net:		
Interest (income)	(\$130)	(\$187)
Interest expense	1,378	655
Miscellaneous expense, net	730	1,216
	-----	-----
Total costs and expenses	76,102	75,170
	-----	-----
Earnings before income taxes and cumulative effect of accounting changes	5,771	7,464
Income taxes	2,481	2,957
	-----	-----
Earnings before cumulative effect of accounting changes	3,290	4,507
Cumulative effect of accounting changes	-	-
	-----	-----
Net earnings	\$3,290	\$4,507
	-----	-----
Net earnings per share:		
Before cumulative effect of accounting changes	\$1.12	\$1.52
Cumulative effect of accounting changes	-	-
	-----	-----
Net earnings per share	\$1.12	\$1.52
	-----	-----
Average shares outstanding	2,956	2,973
	-----	-----
Cash dividends per share	\$0.93	\$0.93
	-----	-----

<FN>

See accompanying note to consolidated financial statements.

</TABLE>

<TABLE>

WOODWARD GOVERNOR COMPANY AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED EARNINGS
for the six months ended March 31, 1994 and 1993
(in thousands except per share amounts)
(Unaudited)

<CAPTION>

		1994			1993
		-----			-----
<S>	<C>	<C>	<C>		(restated) <C>
Net billings for products and services		\$155,813			\$160,483
		-----			-----
Costs and expenses:					
Cost of goods sold		115,227			119,040
Sales, service and administrative expenses		26,190			25,867
Other (income) and expense, net:					
Interest (income)	(\$312)			(\$383)	
Interest expense	2,116			1,484	
Miscellaneous expense, net	1,933	3,737	2,366		3,467
		-----	-----	-----	-----
Total costs and expenses		145,154			148,374
		-----			-----
Earnings before income taxes and cumulative effect of accounting changes		10,659			12,109
Income taxes		4,583			4,722
		-----			-----
Earnings before cumulative effect of accounting changes		6,076			7,387
Cumulative effect of accounting changes, net of tax benefit of \$11,360		-			(17,417)
		-----			-----
Net earnings (loss)		\$6,076			(\$10,030)
		-----			-----
Net earnings (loss) per share:					
Before cumulative effect of accounting changes		\$2.06			\$2.49
Cumulative effect of accounting changes, net of tax		-			(5.86)

Net earnings (loss) per share	\$2.06	(\$3.37)
Average shares outstanding	2,956	2,973
Cash dividends per share	\$1.86	\$1.86

<FN>
See accompanying note to consolidated financial statements.
</TABLE>

<TABLE>

WOODWARD GOVERNOR COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

<CAPTION>

	March 31, 1994	September 30, 1993
	(Unaudited)	
	<C>	<C>
Assets		
Current Assets:		
Cash and cash equivalents	\$9,230	\$10,497
Accounts receivable, less allowance for losses of \$2,080 for March and \$1,989 for September	56,322	64,024
Inventories	84,495	83,128
Deferred income taxes	14,549	12,519
Total current assets	164,596	170,168
Property, plant and equipment, at cost:		
Land	6,145	6,156
Buildings and improvements	141,021	140,780
Machinery and equipment	167,790	158,043
Construction in progress	2,180	3,792
Total	317,136	308,771
Less allowance for depreciation	177,743	164,755
Property, plant and equipment - net	139,393	144,016
Intangibles and other assets	5,955	5,887
Deferred income taxes	12,395	12,390

Total Assets	\$322,339	\$332,461
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term borrowings	\$10,655	\$18,123
Current portion of long-term debt	3,889	3,889
Accounts payable and accrued expenses	36,081	35,915
Taxes on income	4,608	4,432
Total current liabilities	55,233	62,359
Long-term debt, less current portion	36,152	36,246
Other liabilities	27,634	27,634
Commitments and contingencies	-	-
Shareholders' equity represented by:		
Preferred stock	-	-
Common stock	190	190
Additional paid-in capital	13,887	13,884
Unearned stock plan compensation	(22,052)	(22,327)
Currency translation adjustment	12,135	12,786
Retained earnings	208,692	207,924
Less treasury stock, at cost	9,532	6,235
	212,852	212,457
	203,320	206,222
Total liabilities and shareholders' equity	\$322,339	\$332,461

<FN>
See accompanying note to consolidated financial statements.
</TABLE>

<TABLE>

WOODWARD GOVERNOR COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOW
FOR THE SIX MONTHS ENDED MARCH 31, 1994 AND 1993
(in thousands of dollars)
(Unaudited)

<CAPTION>

	1994	1993
	-----	-----
	<C>	(restated) <C>
Cash flows from operating activities:		
Net earnings (loss)	\$6,076	(\$10,030)

Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Cumulative effect of accounting changes, net of tax	-	17,417
Depreciation	13,228	13,143
Deferred income taxes, noncurrent	(5)	5
Stock plan compensation expense	275	400
Changes in assets and liabilities:		
Accounts receivable	7,499	11,515
Inventories	(1,602)	(5,264)
Current liabilities, other than short-term borrowings and current portion of long-term debt	(61)	(11,916)
Other, net	(2,073)	559
	-----	-----
Total adjustments	17,261	25,859
	-----	-----
Net cash provided by operating activities	23,337	15,829
	-----	-----
Cash flows from investing activities:		
Payments for purchase of property, plant and equipment	(8,946)	(11,176)
Other	124	(1)
	-----	-----
Net cash (used) in investing activities	(8,822)	(11,177)
	-----	-----
Cash flows from financing activities:		
Cash dividends paid	(5,517)	(5,530)
Purchase of treasury stock	(3,310)	-
Payments of long-term debt	(94)	(74)
Short-term borrowings, by original maturity:		
More than three months - proceeds	-	-
More than three months - payments	-	-
Three months or less, net	(8,674)	(1,532)
Tax benefit applicable to ESOP dividend	206	182
	-----	-----
Net cash (used) in financing activities	(17,389)	(6,954)
	-----	-----
Effect of exchange rate changes on cash	1,607	(81)
	-----	-----
Net change in cash and cash equivalents	(1,267)	(2,383)
Cash and cash equivalents, beginning of year	10,497	7,633
	-----	-----

Cash and cash equivalents, end of quarter	\$9,230	\$5,250
	-----	-----

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid		
(net of amount capitalized)	\$2,301	\$1,797
Income taxes paid	\$5,959	\$5,134

<FN>

See accompanying note to consolidated financial statements.

</TABLE>

WOODWARD GOVERNOR COMPANY AND SUBSIDIARIES
NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of March 31, 1994, and the statements of consolidated earnings and cash flows for the three and six month periods ended March 31, 1994 and 1993, have been prepared by the Company without audit. The September 30, 1993 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Information furnished in this 10-Q report is based in part on approximations and is subject to year-end adjustment and audit. The figures do reflect all adjustments necessary, in the opinion of management, to present fairly the Company's financial position as of March 31, 1994, and the results of its operations for the three and six month periods ended March 31, 1994 and 1993, and cash flows for the six months then ended. All such adjustments are of a normal and recurring nature. The statements have been prepared in accordance with accounting policies set forth in the Company's 1993 annual report on Form 10-K and should be read in conjunction with the Notes to Consolidated Financial Statements therein. The results for the last fiscal year have been restated to reflect the adoption of Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", No. 109 "Accounting for Income Taxes", and No. 112 "Employers' Accounting for Post-employment Benefits", which the company adopted in the fourth quarter of fiscal 1993. The statements of consolidated earnings for the three and six month periods ended March 31, 1994 are not necessarily indicative of the results to be expected for other interim periods or for the full year.

PART I - ITEM 2

WOODWARD GOVERNOR COMPANY AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net billings for products and services delivered to customers in the second quarter of fiscal year 1994 were \$81,873,000, down 1% from \$82,634,000 in

1993. Costs and expenses during the same period increased from \$75,170,000 in 1993 to \$76,102,000 in 1994. As a result, earnings before income taxes and cumulative effect of accounting changes decreased from \$7,464,000 to \$5,771,000. Net earnings for the three months were \$3,290,000 compared to \$4,507,000 in 1993.

For the first six months of the fiscal year, net billings were \$155,813,000, 3% less than 1993's \$160,483,000. Total costs and expenses for the six month period were \$145,154,000, compared to \$148,374,000 last year. Earnings before income taxes and cumulative effect of accounting changes decreased 12% to \$10,659,000 in 1994 from \$12,109,000 last year. Due to these reduced earnings and the increase in effective tax rate from 39% to 43%, earnings before the cumulative effect of accounting changes decreased from \$7,387,000 to \$6,076,000. Earnings per share before cumulative effect of accounting changes decreased from \$2.49 per share through the second quarter last year to \$2.06 per share this year.

The depressed state of the commercial aircraft industry continues to impact shipment levels. Second quarter shipments of the Aircraft Controls group were \$35,898,000, 13% less than the \$41,374,000 shipped in the same period last year. Year-to-date shipments of aircraft products total \$67,822,000 or 17% less than last year's total of \$81,856,000. The strong trend of the first quarter for Industrial Controls shipments continued into the second quarter. Industrial Controls shipments in the second quarter totaled \$45,975,000, 11% greater than the \$41,260,000 reported in the second quarter last year. For the six months ended March 31, Industrial Controls shipments were \$87,991,000, compared to \$78,625,000 for the same period last year. Shipments from the overseas business units of industrial control products totaled \$37,920,000, up \$4,739,000 or 14% from last year's total of \$33,181,000 for the same period. Domestic shipments of industrial control products were also strong for the six months at \$50,071,000, up 10% from last year's \$45,443,000.

Although costs and expenses have decreased 2% for the six month period from \$148,374,000 to \$145,154,000, costs and expenses for the three month period ended March 31 increased from \$75,170,000 to \$76,102,000. While the increase for the three months is disappointing, there are some specific reasons for it. We have reported for many years about the management information system migration project that we undertook. We are very close to the initial implementation stage of this project and, as a result, we have been performing additional scrutiny and review of our system records so as to migrate only accurate, current information.

As a result of this review, in the second quarter, we recorded over \$1,000,000 of obsolete inventory write-offs compared to none through the second quarter last year and approximately \$450,000 in total for all of last year. In addition, we closed old tool and production orders which added over \$600,000 of additional expense. Research and development costs also remain high as we continue to devote resources to fund projects to ensure future growth. As a result of completing the settlement of an income tax review, we recorded \$665,000 of interest expense in the second

quarter. This does not minimize our disappointment over the increase in costs and expenses, nor does it reduce our commitment to contain our cost base, but it does help explain some of the reasons for the increase in the second quarter. For the six month period, it is also important to recognize there were six months of occupancy costs for the Loveland facility this year compared to three months last year. Worker membership, including 100 members at the recently acquired company in Germany, totaled 3,305 at March 31, 1994, compared to 3,563 at March 31, 1993.

Cash and cash equivalents have decreased and totaled \$9,230,000 at March 31, 1994 compared to \$10,497,000 at September 30, 1993. Accounts receivable have decreased from \$64,024,000 at September 30, 1993 to \$56,322,000 at March 31, 1994 due to the higher level of shipments in the last two months of last fiscal year. As a reflection of economic conditions, customers have taken longer over the last year to pay accounts and it requires more effort to collect receivables. Inventories have increased slightly to \$84,495,000 at March 31, 1994 from \$83,128,000 at September 30, 1993. Property, plant and equipment-net has decreased from September 30, 1993 due to capital expenditures being less than depreciation. Short-term borrowings and long-term debt was \$50,696,000 at March 31, 1994, down from \$58,258,000 at September 30, 1993.

The company's effective tax rate for the six months ended March 31, 1994 and 1993 was 43.0% and 39.0%, respectively. The effective tax rate for the fiscal year ended September 30, 1993 was 42.0%.

PART II - OTHER INFORMATION

Item 6(b)

No Form 8-K was filed for the quarter 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.

WOODWARD GOVERNOR COMPANY

May 11, 1994

/s/ John A. Halbrook
John A. Halbrook, President

and Chief Executive Officer

May 11, 1994

/s/ Vern H. Cassens
Vern H. Cassens, Senior Vice
President, Treasurer, and Chief
Financial Officer