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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ADIENCE INC

CIK:**846972**| IRS No.: **141671486** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-10379** | Film No.: **94527778**
SIC: **3250** Structural clay products

Business Address
1305 GRANDVIEW AVE
PITTSBURGH PA 15211
4123812600

FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

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

For quarter ended: March 31, 1994	Commission File No. 33-27289

ADIENCE, INC.

Delaware (State or other jurisdiction of incorporation or organization)	14-1671486 (IRS Employer Identification Number)

1305 Grandview Avenue
Pittsburgh, Pennsylvania 15211
(Address of registrant's principal executive offices)

412-381-2600
(Registrant's telephone number, including area code)

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 at least the past 90 days. Yes /X/ No / /

10,000,000 shares of common stock, par value $.01 per share, are outstanding as of March 31, 1994.

ADIENCE, INC.

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PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ADIENCE, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except share data)	March 31, 1994 (Unaudited)	December 31, 1993 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 2,022	$ 2,200
Accounts receivable, less allowance (1994 - $1,279; 1993 - $1,287)	25,686	27,046
Inventories	18,800	18,650
Costs and estimated earnings in excess of billings on uncompleted contracts	1,773	1,924
Prepaid expenses, deposits and other	1,962	2,231
Total current assets	50,243	52,051
Deferred income taxes	3,609	3,609
Property, plant and equipment:		
Land	2,763	2,763
Buildings	12,377	12,328
Machinery and equipment	25,306	24,877
	40,446	39,968
Less allowances for depreciation	8,040	7,151
	32,406	32,817
Other assets	4,737	4,720
Reorganization value in excess of amounts allocable to identifiable assets, net	8,920	9,190
Total assets	$ 99,915	$102,387

The accompanying notes are an integral part of these financial statements.

ADIENCE, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except share data)	March 31, 1994 (Unaudited)	December 31, 1993 (Audited)
Liabilities and shareholders' equity		
Current liabilities:		
Revolving lines of credit	$ 12,411	$ 9,185
Current portion of long-term obligations	739	759
Accounts payable	10,236	11,424
Salaries, wages and withholdings	1,173	953
Payable to principal shareholder	577	569
Accrued expenses	4,018	3,727
Billings in excess of costs and estimated earnings on uncompleted contracts	637	619
Accrued insurance	6,173	6,466
Accrued income taxes	1,056	1,569
Environmental liability	746	783
Deferred income taxes	66	66
Total current liabilities	37,832	36,120
Payable to principal shareholder	3,041	3,189
Long-term obligations	46,316	46,211
Deferred income taxes	3,930	3,930
Minority interest in subsidiary	3,368	3,428
Shareholders' equity:		
Common stock, $.01 par value; authorized 20,000,000 shares; issued and outstanding 10,000,000 shares	100	100
Additional paid-in capital	23,900	23,900
Retained deficit	(18,252)	(14,367)
Foreign currency translation	(320)	(124)
Total shareholders' equity	5,428	9,509
Total liabilities and shareholders' equity	$ 99,915	$102,387

The accompanying notes are an integral part of these financial statements.

ADIENCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands of dollars, except per share data)	Post-emergence Three Months Ended March 31, 1994	Pre-emergence Three Months Ended March 31, 1993
Net revenues	$ 28,210	$ 32,563
Costs and expenses:		
Cost of revenues	24,313	25,836
Selling, general and administrative	6,102	6,797
Amortization of intangible asset	270	--
	30,685	32,633
Operating loss	(2,475)	(70)

Other income (expense):		
Interest and other income	190	110
Interest expense	(1,863)	(2,940)
Loss before income taxes and minority interest in subsidiary	(4,148)	(2,900)
Income tax benefit	(200)	(972)
Loss before minority interest in subsidiary	(3,948)	(1,928)
Minority interest in subsidiary	(63)	2
Net loss	$ (3,885)	$ (1,930)
Net loss per common share*	$ (0.39)	$ *
Average common shares outstanding	10,000	*

* Earnings per share are not meaningful prior to June 30, 1993 due to the reorganization--see Note 1.

The accompanying notes are an integral part of these financial statements.

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

(In thousands of dollars)	Post-emergence Three Months Ended March 31, 1994	Pre-emergence Three Months Ended March 31, 1993
Cash flow from operating activities		
Net loss	$ (3,885)	$ (1,930)
Non-cash expenses and revenues included in loss:		
Depreciation and amortization	1,538	1,107
Provisions for doubtful accounts	110	17
ESOP expense	--	228
Minority interest	(63)	2
Changes in operating assets and liabilities:		
Accounts receivable	1,368	(1,411)
Inventories, prepaid expenses, deposits and other	119	(355)
Costs and estimated earnings in excess of billings on uncompleted contracts	151	(444)
Income tax receivable	--	(1,078)
Accounts payable, salaries, wages and withholdings, accrued expenses, accrued insurance and payable to principal shareholder	(1,108)	2,857
Billings in excess of costs and estimated earnings on uncompleted contracts	18	331
Accrued income taxes	(513)	--
Environmental liability	(37)	(27)
Other	(185)	14
Net cash used by operating activities	(2,487)	(689)
Cash flow form investing activities		
Purchase of property, plant and equipment	(727)	(709)
Other	(150)	(150)
Net cash used by investing activities	(877)	(859)
Cash flows from financing activities		
Net borrowings on revolving lines of credit	3,226	639
Principal payments on long-term obligations	(40)	(214)
Net cash provided by financing activities	3,186	425
Net decrease in cash and cash equivalents	(178)	(1,123)
Cash equivalents and beginning of period	2,200	2,048

Cash and cash equivalents at end of period	$ 2,022	$ 925

The accompanying notes are an integral part of these financial statements.

ADIENCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 1994

(Dollar amounts in thousands, except share data, unless otherwise noted)

NOTE 1 - BASIS OF PRESENTATION AND COMPANY REORGANIZATION

Adience, Inc. ("Adience" or "Company") has experienced continued losses from continuing operations (before reorganization items) both pre- and post-emergence under Chapter 11. In addition, a write down of reorganization value in excess of amounts allocable to identifiable assets was recorded at December 31, 1993, based on management's belief that a permanent impairment of this asset now exists. The Company is currently seeking to replace and improve the terms of its line of credit financing agreement with Congress Financial Corporation (Congress) which expires June 30, 1994.

The continued viability of the Company is dependent upon, among other factors, the ability to generate sufficient cash from operations, financing, or other sources that will meet ongoing obligations over a sustained period. Management has prepared detailed operating and financial plans which combine multifunctional resources as teams to respond better to customer needs, make an investment in product and service opportunities expected to produce a greater return on investment, continue a cost control program begun in 1993, and assume refinancing of the line of credit arrangement. Management believes that the successful implementation of this plan will enable the Company to continue as a going concern for a reasonable period.

There can be no assurance however, that such activities will achieve the intended improvement in results of operations or financial position.

A Prepackaged Plan of Reorganization under Chapter 11 of the Bankruptcy Code (the "Prepackaged Plan") was filed by Adience and the Unofficial Committee of Noteholders of Adience on February 22, 1993. The Prepackaged Plan was confirmed by the United States Bankruptcy Court for the Western District of Pennsylvania on May 4, 1993 and consummated on June 30, 1993.

The Prepackaged Plan provided for a restructuring of Adience's capital structure and allowed the holders of $66 million aggregate principal amount of Adience's 15% Senior Subordinated Notes ("Old Reset Notes") to exchange them for $49 million aggregate principal amount of new 11% Senior Secured Notes ("New Secured Notes") due June 15, 2002, plus common stock representing 55% of the outstanding common stock of Adience. The Prepackaged Plan also included forgiveness of accrued interest totaling approximately $8.8 million. The value of the cash and securities distributed was $17.5 million less than the allowed claims; the resultant gain was recorded as an extraordinary gain.

NOTE 1 - CONTINUED

Neither Adience Canada, a wholly-owned subsidiary, or Information Display Technology, Inc. (IDT), a majority-owned subsidiary of Adience, guarantee the new 11% Notes issued by Adience under the Prepackaged Plan. The new Notes are secured by a lien on all the assets of Adience, including the stock of IDT.

Adience Canada and IDT did not file plans of reorganization.

The sum of allowed claims plus post petition liabilities exceeded the reorganization value of the assets of Adience immediately before the date of consummation. Also, the Company experienced a change in control as pre-reorganization holders of common stock received less than 50% of the new common stock issued pursuant to the Prepackaged Plan. AICPA SOP 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code ("SOP 90-7"), requires that under these circumstances, a new reporting entity is created and assets and liabilities should be recorded at their fair values. This accounting treatment is referred to in these statements as "fresh start reporting". The Company's basis of accounting for financial reporting purposes changed on June 30, 1993 as a result of applying SOP 90-7. Specifically, application of SOP 90-7 required the adjustment of the Company's assets and liabilities to reflect a reorganization value generally approximating the fair value of the Company as a going concern on an unleveraged basis, the elimination of its retained deficit, and adjustments to its capital structure to reflect consummation of the Prepackaged Plan. Fresh start reporting has not been adopted by Adience Canada and IDT.

The consolidated statements of operations and cash flows after June 30, 1993 are not comparable to the respective financial statements prior to such date, accordingly a solid black line has been shown to separate it from prior year information since it is not prepared on a comparable basis.

Reorganization value at the June 30, 1993 consummation date was determined by management with the assistance of independent advisors. The methodology employed involved estimation of enterprise value (i.e., the market value of the Company's debt and shareholders' equity), taking into account a discounted cash flow analysis, as well as the capitalization of earnings and cash flow approaches. The discounted cash flow analysis was based on five-year cash flow projections prepared by management.

NOTE 1 - CONTINUED

The five-year cash flow projections were based on estimates and assumptions about circumstances and events that have not yet taken place. Such estimates and assumptions are inherently subject to significant economic and competitive uncertainties and contingencies beyond the control of the corporation, including, but not limited to, those with respect to the future courses of the Company's business activity. Accordingly, there will usually be differences between projections and actual results because events and circumstances frequently do not occur as expected; and those differences may be material. The assumptions included: a rate of sales growth of approximately 2.5% per annum in excess of the anticipated rate of inflation; selling, general and administrative expenses, after adjustment for non-recurring items, increase in line with the rate of sales growth; operating profit margins for each of the five years are approximately equal to one half of the average annual operating profit margins achieved during the most recent profitable period of 1988-1990; and effective tax rates of 33%.

At June 30, 1993, the adjustment to record confirmation of the plan of $23 million was allocated to assets and liabilities as follows:

Inventories	$ 1,287
Property, plant and equipment	19,448
Reorganization value in excess of amounts allocable to identifiable assets	18,329
Intangible assets	(3,032)
Deferred income taxes	(1,108)
Additional paid-in capital	(10,896)
Prepaid contribution to employee stock ownership plan	(863)
	$ 23,165

Current assets and liabilities were recorded at fair value. Property, plant and equipment was recorded at reorganization value, which approximated fair value in continued use, based on an independent appraisal. In addition, under SOP 90-7, the long-term debt was recorded at present values on June 30, 1993.

The resulting unamortized discount is being accreted to interest expense over the term of the New Secured Notes.

NOTE 1 - CONTINUED

Based on the allocation of equity value in conformity with SOP 90-7, the portion of the equity value which was not attributed to specific tangible or identifiable intangible assets of the reorganized Company of $18,329 was reported as "reorganization value in excess of amounts allocable to identifiable assets". This value was initially being amortized on a straight line basis in equal annual amounts over 9 years. On a quarterly basis, management will continue to evaluate the recoverability of the unamortized portion of the reorganization value in excess of amounts allocable to identifiable assets by comparing actual cash flows with the projected cash flows used to arrive at the reorganization value. Should a material difference exist, management will then consider whether the assumptions made in the preparation of the projected cash flows are still reasonable. If management is of the opinion that new projected cash flows are required and that a permanent impairment of the remaining reorganization value has occurred, a reduction of some or all of the unamortized value will be immediately recognized.

In the fourth quarter of 1993, the Company recorded a charge of $8 million to reduce the recorded reorganization value in excess of amounts allocable to identifiable assets based on management's comparison of actual cash flows post-emergence through December 31, 1993, with the projected cash flows used to arrive at the reorganization value. This comparison resulted in the preparation of new cash flow projections, which in turn led the Company to the conclusion that permanent impairment of the reorganization value has occurred and that an immediate reduction of approximately 50% of the remaining unamortized value needs to be recognized.

The Company has adopted "fresh start reporting" in accordance with SOP 90-7 in preparing its consolidated balance sheet as of June 30, 1993. The balance sheet became the opening balance sheet for Adience, Inc., as reorganized, on July 1, 1993.

The accompanying unaudited consolidated financial statements of Adience have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated results of operations for the three months ended March 31, 1994 are not necessarily indicative of the results that may be expected for the year ended December 31, 1994.

NOTE 2 - PRO FORMA RESULTS OF OPERATIONS

The following consolidating pro forma statement of operations reflects the financial results of the Company as if the reorganization had been effective

January 1, 1993:

<TABLE>
ADIENCE, INC.
CONSOLIDATING PRO FORMA STATEMENT OF OPERATIONS
UNAUDITED

<CAPTION>

For the Three Months Ended March 31, 1993

	Unconsolidated ADIENCE	Pro Forma Adjustments Debit	Pro Forma Adjustments Credit	Unconsolidated Adience Pro Forma	IDT	ADIENCE CANADA	ADIENCE, INC. CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net revenues	$ 19,893			$ 19,893	$ 10,682	$ 1,988	$ 32,563
Costs and expenses:							
Cost of revenues	(16,034)	$ 930(1)		(16,964)	(8,513)	(1,289)	(26,766)
Selling, general and administrative	(4,154)		$ 235(1)	(3,919)	(2,155)	(488)	(6,562)
Amortization of intangible asset		270(1)		(270)			(270)
	(20,188)	1,200	235	(21,153)	(10,668)	(1,777)	(33,598)
Operating (loss) profit	(295)	1,200	235	(1,260)	14	211	(1,035)
Other income (expense):							
Interest and other income	66			66	20	24	110
Interest expense	(2,921)		1,111(2)	(1,810)	(18)	(1)	(1,829)
	(2,885)		1,111	(1,744)	2	23	(1,719)
(Loss) income from continuing operations before income taxes and minority interest in subsidiary	(3,150)	1,200	1,346	(3,004)	16	234	(2,754)
Income taxes (benefit)	(1,072)			(1,072)	6	94	(972)

(Loss) income from continuing operations before minority interest in subsidiary	(2,078)	1,200	1,346	(1,932)	10	140	(1,782)
Minority interest in subsidiary	(2)			(2)			(2)
(Loss) income from continuing operations	$ (2,080)	$1,200	$1,346	$ (1,934)	$ 10	$ 140	$ (1,784)

(/TABLE)

NOTE 2 - CONTINUED

(1) Reflects a three month impact of additional depreciation expense resulting from the write-up of property, plant and equipment, the amortization of the write-up in inventory values, the amortization of reorganization value in excess of fair value, and the reduction of ESOP expense and goodwill amortization which was written off in conjunction with fresh start reporting.

(2) Interest expense on reorganized long-term debt.

NOTE 3 - INVENTORIES

Inventories consist primarily of raw materials of $7,778 and $7,512, work-in-process of $2,391 and $2,374 and finished goods of $8,631 and $8,764 at March 31, 1994 and December 31, 1993, respectively.

NOTE 4 - CONTRACTS IN PROGRESS

The status of contract costs on uncompleted construction contracts was as follows:

	Costs and estimated earnings in excess of billings	Billings in excess of costs and estimated earnings	Total
March 31, 1994:			
Costs and estimated earnings of $1,622	$21,042	$6,565	
Billings	19,269	7,202	
	$ 1,773	$ 637	$1,136
December 31, 1993:			
Costs and estimated earnings of $1,649	$20,113	$6,218	
Billings	18,189	6,837	
	$ 1,924	$ 619	$1,305

Accounts receivable at March 31, 1994 and December 31, 1993 include amounts billed but not yet paid by customers under retainage provisions of approximately $2,711 and $2,989, respectively. Such amounts are generally due within one year.

NOTE 5 - INCOME TAX PAYMENTS

For the three month periods ended March 31, 1994 and 1993 the Company made income tax payments totaling $377 and $23, respectively.

NOTE 6 - LINES OF CREDIT

On the consummation date of the plan of reorganization, June 30, 1993, Adience entered into a financing agreement with Congress through the twelve month period ending June 30, 1994. Under this agreement, Adience may request loan advances not to exceed the lesser of $12 million or available collateral (80% of eligible accounts receivable less than 90 days plus 30% of raw material and finished goods inventory). The loan is collateralized by accounts receivable, inventory, fixed assets, intangible assets and Adience's shares of IDT. In addition, IDT has guaranteed the Adience line of credit and has pledged as collateral its own accounts receivable, inventory and equipment. The interest rate on the loan is 2.5% over the prime rate (effective rate of 8.75% at March 31, 1994). At March 31, 1994 Adience had borrowed $12,411 under the credit facility, including checks in transit of $1,396.

In addition, IDT entered into a financing agreement with Congress, which was also subsequently renewed through June 30, 1994. Under this agreement, IDT may request loan advances not to exceed the lesser of $3 million or available collateral (80% of eligible accounts receivable less than 90 days plus 30% of raw material and finished goods inventory). The loan is collateralized by accounts receivable, inventory and fixed assets. Adience guarantees IDT's debt to Congress. The interest rate on the loan is 2.5% over the prime rate. At March 31, 1994, there were no borrowings under this agreement.

Both Adience and IDT pay commitment fees on the unused portion of their credit facility of 0.5%. Under the terms of the financing agreements, both companies are required to maintain certain financial ratios and meet other financial conditions. The agreements do not allow the companies to incur additional indebtedness, pay cash dividends, make certain investments, advances or loans, and limits annual capital expenditures. As of March 31, 1994, Adience and IDT were in compliance with the covenants of their respective agreements. Adience's ability to continue to comply with such conditions is dependent upon Adience's ability to achieve specified levels of sales, profitable operations and borrowing availability. Waivers or amendments may be required in the future to ensure compliance. Inability to achieve compliance could affect Adience's access to further borrowings or require it to secure additional capital by other means.

NOTE 6 - CONTINUED

Both companies anticipate the financing agreements with Congress will be renewed at June 30, 1994 or, alternatively, both companies will be able to secure financing from other sources.

NOTE 7 - LONG-TERM OBLIGATIONS

	March 31, 1994	December 31, 1993
Long-term obligations consisted of the following:		
New Senior Secured Notes due in 2002, interest at 11%	$49,079	$49,079
Notes payable with monthly installments of principal and interest of $22 through December 1997, interest at 10%	793	836
Capital lease obligations	762	745
Other (interest ranges from 10% to 13%)	546	560

	51,180	51,220
Less current portion	739	759
	50,441	50,461
Discount on New Senior Secured Notes	4,125	4,250
	$46,316	$46,211

In connection with the Plan of Reorganization, $49,079 of New Senior Secured Notes with an annual interest rate of 11% were issued under an indenture agreement dated as of June 30, 1993. The New Senior Secured Notes are redeemable at the option of Adience after December 15, 1997. The New Senior Secured Notes are not guaranteed by subsidiaries of Adience. The New Notes are secured by a lien on all the assets of Adience, including the stock of IDT.

Adience, on a consolidated basis, has agreed to certain restrictive covenants which are ordinary to such financings including, among other things, limitations on asset sales, limitations on additional indebtedness and restrictions on the payment of dividends.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

At March 31, 1994, Adience had $1,643 in irrevocable standby letters of credit outstanding, not reflected in the accompanying consolidated financial statements, as guarantees in force for various insurance policies, performance and bid bonds. These instruments are usually for a period of one year or the duration of the contract. The letters of credit reduce Adience's availability under the Congress credit facility.

In February 1992, IDT was cited by the Ohio Environmental Protection Agency (the "Ohio EPA") for violations of Ohio's hazardous waste regulations, including speculative accumulation of waste and illegal disposal of hazardous waste on the site of its Alliance, Ohio facility. IDT had $783 accrued at December 31, 1993 for the clean up of this site.

In December 1993, IDT and Adience signed a consent order with the Ohio EPA and Ohio Attorney General which required IDT and Adience to pay to the State of Ohio a civil penalty of $200 (of which IDT paid $175 and Adience paid $25). In addition, the consent order requires the payment of stipulated penalties of up to $1 per day for failure to satisfy certain requirements of the consent order including milestones in the closure plan. IDT expects that the work to be conducted under the closure plan will be substantially completed in 1994, subject to IDT receiving all necessary approvals from the Ohio EPA. At March 31, 1994, environmental accruals amounted to $746 which represents management's reasonable estimate of the amounts remaining to be incurred in this matter, including the costs of effecting the closure plan, bonding and insurance costs, penalties and legal and consultants' fees. Since 1991, Adience and IDT have together paid $360 (excluding the civil penalty) for the environmental clean-up related to the Alliance facility.

Under the acquisition agreement pursuant to which IDT acquired the property from Adience, Adience represented and warranted that, except as otherwise disclosed to IDT, no hazardous material has been stored or disposed of on the property. No disclosure of storage or disposal of hazardous material on the site was made. Accordingly, Adience is required to indemnify IDT for any losses in excess of $250. IDT has notified Adience that it is claiming the right to indemnification for all costs in excess of $250 incurred by IDT in this matter, and has received assurance that Adience will honor such claim. Adience has reimbursed IDT $266; if Adience is financially unable to honor its remaining obligation, such costs would be borne by IDT.

Adience is engaged in various other legal actions arising in the ordinary course of business. Management believes, after discussions with internal and external counsel, that the ultimate outcome of the proceedings will not have a material adverse effect on Adience's consolidated financial position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Reorganization and Fresh-Start Reporting

Adience, Inc. has experienced continued losses from continuing operations (before reorganization items) both pre- and post-emergence under Chapter 11. In addition, a write down of reorganization value in excess of amounts allocable to identifiable assets was recorded at December 31, 1993, based on management's belief that a permanent impairment of this asset existed. The Company is currently seeking to replace and improve the terms of its line of credit financing agreement with Congress Financial Corporation (Congress) which expires June 30, 1994.

The continued viability of the Company is dependent upon, among other factors, the ability to generate sufficient cash from operations, financing, or other sources that will meet ongoing obligations over a sustained period. Management has prepared detailed operating and financial plans which combine multifunctional resources as teams to respond better to customer needs, make an investment in product and service opportunities expected to produce a significantly greater return on investment, continue a cost control program begun in 1993, and assume refinancing of the line of credit arrangement on improved terms. Management believes that the successful implementation of this plan will enable the Company to continue as a going concern for a reasonable period.

There can be no assurance however, that such activities will achieve the intended improvement in results of operations or financial position.

On February 22, 1993, Adience and the unofficial committee of noteholders of Adience filed a "prepackaged" plan of reorganization under Chapter 11 of the United States Bankruptcy Code (the "Reorganization"). The Prepackaged Plan was confirmed by the United States Bankruptcy Court for the Western District of Pennsylvania on May 4, 1993 and consummated on June 30, 1993.

The filing was precipitated by a combination of an overall decline in the demand for refractory products and services during 1991 and 1992 caused by a decrease in the production of refractory using industries in the United States, particularly steel, and losses from discontinued operations. The primary purposes of the Prepackaged Plan were to reduce Adience's debt service requirements and overall indebtedness, to realign its capital structure and to provide Adience with greater liquidity. Neither IDT nor Adience Canada, Inc. filed a plan of reorganization.

The Prepackaged Plan provided for a restructuring of Adience's capital structure and allowed the holders of $66 million aggregate principal amount of Adience's Senior Subordinated Reset Notes ("Old Subordinated Notes") to exchange them for $49 million aggregate principal amount of new 11% Senior Secured Notes ("New Senior Notes") due June 15, 2002, plus common stock representing 55% of the outstanding common stock of Adience. The Prepackaged Plan also included forgiveness of outstanding interest totaling approximately $8.8 million. The value of the cash and securities distributed was $17.5 million less than the allowed claims; the resultant gain was recorded as an extraordinary gain.

In connection with the Reorganization described above, Adience applied the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7") as of June 30, 1993. The Company's basis of accounting for financial reporting purposes changed as a result of applying SOP 90-7. Specifically, SOP 90-7 required the adjustment of the Company's assets and liabilities to reflect a reorganization value generally approximating the fair value of the Company as a going concern on an unleveraged basis, the elimination of its accumulated deficit, and adjustments to its capital structure to reflect consummation of the Prepackaged Plan. Accordingly, the results of operations after June 30, 1993 are not comparable to the results of operations prior to such date.

Results of Operations

Three Months Ended March 31, 1994 Compared with Three Months Ended March 31, 1993.

Net revenues by industry segment for the three months ended March 31, 1994 and 1993 were as follows:

Net Revenues	Three Months Ended March 31, Post-emergence 1994	Pre-emergence 1993	% Change
Heat Technology Division	$22,126	$21,881	1 %
IDT	6,084	10,682	(43)%
Total	$28,210	$32,563	(13)%

Net revenues for the Heat Technology division remained consistent with prior period's net revenues.

Included in net revenues for IDT for the period ended March 31, 1993 is one large project with incremental revenues of $2.2 million. This was substantially completed in the fourth quarter of 1993. Also included in the period ended March 31, 1993 were $900 of revenues attributable to IDT's Kensington division, which was sold during December 1993. The remaining decline is attributable to construction delays caused by extreme weather conditions during the winter months. Construction activity is expected to increase during the second and third quarters of 1994.

Cost of Revenues	Three Months Ended March 31, Post-emergence 1994	Pre-emergence 1993	% Change
Heat Technology Division	$19,255	$17,323	11 %
IDT	5,058	8,513	(41)%
Total	$24,313	$25,836	(6)%

Cost of revenues for the Heat Technology division increased by a higher percentage than the net revenue increase for the three months ended March 31, 1994. Competitive pressure continues to prevent the Heat Technology division from improving its gross margins. In addition, due to the application of SOP 90-7 as of June 30, 1993, buildings and machinery and equipment were written up by $13 million to fair value, resulting in an increase in depreciation expense in the period ending March 31, 1994 of 27%.

Cost of revenues for IDT decreased at a rate comparable to the decrease in net revenues.

Selling, General and Administrative Expenses	Three Months Ended March 31, Post-emergence 1994	Pre-emergence 1993	% Change
Heat Technology Division	$4,468	$4,642	(4)%
IDT	1,634	2,155	(24)%
Total	$6,102	$6,797	(10)%

Selling, general and administrative expenses decreased during the first quarter of 1994 as a result of cost containment programs implemented at IDT. In addition, on July 1, 1993 the company suspended any future recognition of expense related to the Employee Stock Ownership Plan (ESOP) which was established during 1989. Accordingly, Adience has no intention at this time to issue more shares of its common stock to the ESOP. Contributions to the ESOP charged to expense for the three months ended March 31, 1993 amounted to $228.

Interest expense decreased 37% for the three months ended March 31, 1994 to $1.9 million from $2.9 million for the three months ended March 31, 1993. The decrease was primarily due to the restructuring of the Senior Secured Reset Notes from $66 million to $49 million and a reduction of interest on the New Notes from 15% to 11%.

The Company remains in a net operating loss position. Therefore, the Company does not anticipate that the new tax laws will have a significant effect on its result of operations in fiscal 1994.

Liquidity and Sources of Capital
- - -------------------------------

The Company's principal sources of liquidity are cash from operations, cash on hand, and certain credit facilities available to the Company.

Management of the Company believes that cash on hand and funds from operations, together with borrowings under credit facilities described below, will be sufficient to cover its working capital, capital expenditure and debt service requirements through 1994. The Company is actively seeking an increase in its credit line through its current lender or different financing resources. The Company expects average borrowings to increase over 1993 levels. The Company intends to seek further to strengthen its financial position and increase its financial flexibility and may from time to time consider possible additional transactions, including other capital market transactions.

Net cash flows used by operating activities totaled $2.5 million for the three months ended March 31, 1994 as compared to $700 in the comparable period of 1993. The decreased investment in working capital (exclusive of cash and cash equivalents) of $3.3 million during 1994 relates primarily to lower trade receivable arising from a decrease in sales for IDT and an increase in short-term borrowings. Inventory balances for IDT increased by 14% over 1993 levels in anticipation of increased sales during the upcoming months.

Capital expenditures used approximately $700 of funds through March 31, 1994. During 1993, Adience committed to purchase a new plant facility to expand current production of a specific product line. The estimated total cost of this facility and the necessary capital expenditures for machinery and equipment is $1.8 million and is expected to be partially financed through the Pennsylvania Industrial Development Authority. It is anticipated that necessary capital expenditures in future years will not exceed depreciation expense but will represent a material use of operating funds.

Adience and IDT together had $2.2 million in available credit as of March 31, 1994 under their short-term borrowing arrangements with Congress.

Short-term liquidity is dependent, in large part, on general economic conditions and the effect on the steel industry. Due to the cyclical nature of the steel business and considering current trends and industry forecasts, it appears the period of low steel demand has ended.

On the consummation date of the plan of reorganization, June 30, 1993, Adience entered into a financing agreement with Congress for the twelve month period ending June 30, 1994. Under this agreement, Adience may request loan advances not to exceed the lesser of $12 million or available collateral (80% of eligible accounts receivable less than 90 days plus 30% of raw material and finished goods inventory). The loan is collateralized by accounts receivable, inventory, fixed assets, intangible assets and Adience's shares of IDT. In addition, IDT guaranteed the Adience line of credit and has pledged its own accounts receivable, inventory and equipment. The interest rate on the loan is 2.5% over the prime rate (effective rate of 8.75% at March 31, 1994). At March 31, 1994 Adience had borrowed $12,411 under the credit facility, including checks in transit of $1,396. Letters of credit issued under the facility totaled $943 at March 31, 1994, which reduced the availability under the financing arrangement in a like amount.

IDT also renewed its financing agreement with Congress through June 30, 1994. Under this agreement, IDT may request loan advances not to exceed the lesser of $3 million or available collateral (80% of eligible accounts receivable less than 90 days plus 30% of raw material and finished goods inventory). The loan is collateralized by accounts receivable, inventory and fixed assets. Adience has guaranteed IDT's debt to Congress. The interest rate on the loan is 2.5% over the prime rate. At March 31, 1994, no amounts were outstanding under this agreement. Letters of credit issued under the facility totaled $700 at March 31, 1994, which reduced the availability under the financing arrangement in a like amount.

Both Adience and IDT pay commitment fees on the unused portion of their credit facilities. Under the terms of the financing agreements, Adience is required to maintain minimum levels of net worth of $1,500 and working capital of $12,000. The agreements additionally contain other restrictive covenants applicable to Adience and its subsidiaries which, among other things, limit (i) the incurrence of additional indebtedness, (ii) the granting of liens, (iii) the making of loans, investments and guaranties, (iv) transactions with affiliates, (v) the payment of dividends and other distributions, (vi) the making of annual capital expenditures, and (vii) the disposition of real property.

As of March 31, 1994, Adience and IDT were in compliance with the covenants of their respective agreements. Adience's ability to continue to comply with such conditions is dependent upon Adience's ability to achieve specified levels of sales, profitable operations and borrowing availability. Waivers or amendments may be required in the future. Inability to achieve compliance could affect Adience's access to further borrowings or require it to secure additional capital by other means.

Both Adience and IDT anticipate that either the financing agreements with Congress will be renewed at June 30, 1994 or, alternatively, both companies will be able to secure financing from other sources.

Long-term liquidity is dependent upon the Company's ability to operate profitably and generate cash flow following favorable changes made to its capital structure and the restructuring of its management structure. Adience's New Senior Notes are due in June 2002, and may not be redeemed at the option of Adience prior to December 15, 1997. Adience has not yet formulated plans to meet these long-term debt requirements. The Indenture under which the New Senior Notes were issued contains restrictive covenants similar to those included in the financing agreements with Congress, and additionally limits the use of cash proceeds from the sale of Adience's assets. The Indenture provides that Adience may not make any asset sale outside of the ordinary course of business unless (i) such asset sale is for fair value and (ii) at least 50% of the consideration therefor received by Adience is in the form of cash and/or cash equivalents. In the case of the sale by Adience of all or substantially all of the stock of IDT or any other asset for which the gross cash proceeds exceed $2 million, Adience is required, within 180 days after the receipt of the net cash proceeds of such asset sale, to make an offer to repurchase the New Senior Notes at a price equal to 100% of the principal amount of the New Senior Notes plus accrued interest thereon. In addition, a default on the Congress financing agreement will result in a default under the Indenture.

Both internal and external factors are material to the Company's long-term liquidity. External factors include general economic conditions, the performance of the steel industry and spending by public school systems. Long-term liquidity is dependent upon the Company's ability to control costs during periods of low demand so as to sustain positive cash flow from operations. The Company, even after Reorganization, continues to operate with a significant amount of interest-bearing debt. Should additional financing be needed, the Company's access to new sources of capital or the amount of available and unused lines of bank credit may be limited.

In February 1992, IDT was cited by the Ohio Environmental Protection Agency (the "Ohio EPA") for violations of Ohio's hazardous waste regulations, including speculative accumulation of waste and illegal disposal of hazardous waste on the site of its Alliance, Ohio Facility. IDT had $783 accrued at December 31, 1993 for the clean-up of this site.

In December 1993, IDT and Adience signed a consent order with the Ohio EPA and Ohio Attorney General which required IDT and Adience to pay to the State of Ohio a civil penalty of $200 (of which IDT paid $175 and Adience paid $25). In addition, the consent order requires the payment of stipulated penalties of up to $1 per day for failure to satisfy certain requirements of the consent order including milestones in the closure plan. IDT expects that the work to be conducted under the closure plan will be substantially completed in 1994, subject to IDT receiving all necessary approvals from the Ohio EPA. At March

31, 1994, environmental accruals amounted to $746 which represents management's reasonable estimate of the amounts remaining to be incurred in this matter, including the costs of effecting the closure plan, bonding and insurance costs, penalties and legal and consultants' fees. Since 1991, Adience and IDT have together paid $360 (excluding the civil penalty) for the environmental clean-up related to the Alliance facility.

Under the acquisition agreement pursuant to which IDT acquired the property from Adience, Adience represented and warranted that, except as otherwise disclosed to IDT, no hazardous material has been stored or disposed of on the property. No disclosure of storage or disposal of hazardous material on the site was made, accordingly, Adience is required to indemnify IDT for any losses in excess of $250. IDT has notified Adience that it is claiming the right to indemnification for all costs in excess of $250 incurred by IDT in this matter, and has received assurance that Adience will honor such claim. Adience has reimbursed IDT $266; if Adience is financially unable to honor its remaining obligation, such costs would be borne by IDT.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended March 31, 1994.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADIENCE, INC.

Date: May 13, 1994 By: /s/ Fletcher L. Byrom

Fletcher L. Byrom
Chairman and
Chief Executive Officer

Date: May 13, 1994 By: /s/ Stephen M. Grimshaw

Stephen M. Grimshaw
Vice President - Finance and Treasurer
(Principal Financial Officer and
Principal Accounting Officer)

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