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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TALLEY INDUSTRIES INC

CIK:**96238**| IRS No.: **860180396** | State of Incorp.:**DE** | Fiscal Year End: **1231**
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SIC: **8711** Engineering services

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Form 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(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 No. 1-4778

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

Delaware	86-0180396
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2702 North 44th Street, Phoenix, Arizona	85008
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:(602) 957-7711

(Former name, former address and former fiscal year, 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 requirement for the past 90 days.

YES[X] NO[ ]

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

Class of Common Stock	Outstanding at March 31, 1994
$1.00 par value	10,047,011

TALLEY INDUSTRIES, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

TALLEY INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheet
(thousands)

	March 31, 1994	December 31, 1993
ASSETS		
Cash and cash equivalents	$ 10,645	$ 12,194
Accounts receivable, net of allowance for doubtful accounts of $1,074,000 at March 31, 1994 and $1,091,000 at December 31, 1993	52,622	60,579
Inventories, net	63,816	64,808
Deferred income taxes	1,400	900
Prepaid expenses	9,488	9,664
Current assets	137,971	148,145
Realty assets	114,974	117,869
Long-term receivables	12,615	9,900
Property, plant and equipment, net	48,810	49,937
Intangibles	44,388	44,928
Other assets	11,545	11,659
Total assets	$370,303	$382,438
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current maturities of long-term debt	$ 3,187	$ 2,176
Current maturities of realty debt	15,307	16,795
Accounts payable	21,825	23,621
Accrued expenses	46,812	41,775
Current liabilities	87,131	84,367
Long-term debt	221,186	231,669
Long-term realty debt	13,016	11,446
Deferred income taxes	7,216	12,320
Other liabilities	5,926	6,094
Stockholders' equity:		
Preferred stock, $1 par value, authorized 5,000,000 shares:		
Series A	71	71
Series B	1,548	1,548
Series D	120	120
Common stock, $1 par value, authorized 20,000,000 shares	10,047	10,047
Capital in excess of par value	86,026	86,026

Foreign currency translation adjustment	(660)	(370)
Accumulated deficit	(60,935)	(60,429)
	36,217	37,013
Less 28,000 shares at March 31, 1994 and 33,000 shares at December 31, 1993 of Common stock in treasury, at cost	(389)	(471)
Total stockholders' equity	35,828	36,542
Total liabilities and stockholders' equity	$370,303	$382,438

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

TALLEY INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Operations
(thousands, except per share amounts)

	Three Months Ended March 31,	
	1994	1993
Sales	$58,817	$60,204
Services	15,521	15,119
Royalties	3,979	1,794
	78,317	77,117
Cost of sales	44,488	44,412
Cost of services	13,523	13,196
Selling, general, and administrative expenses	17,608	13,715
	75,619	71,323
Earnings from operations	2,698	5,794
Other income, net	(1,551)	(294)
	1,147	5,500
Interest expense	7,125	6,177
Loss before income taxes	(5,978)	(677)
Income tax benefit (provision)	5,472	(394)
Net loss	$(506)	$(1,071)
Loss applicable to common shares (after deduction of preferred stock dividends)	$(1,048)	$(1,614)
Net loss per share of common stock and common stock equivalents	$(.10)	$(.17)
Weighted average shares outstanding	10,018	9,608

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

TALLEY INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
(thousands)

	Three Months Ended March 31,	
	1994	1993

Cash and cash equivalents at beginning of year	$12,194	$10,168
Cash flows from operating activities:		
Loss from continuing operations	(506)	(1,071)
Adjustments to reconcile net income to cash flows from operating activities:		
Change in deferred income taxes	(5,604)	87
Depreciation and amortization	2,400	2,596
Original issue discount amortization on 12.25% debentures	2,120	-
Gain on sale of property and equipment	(4)	(77)
Other	157	926
Changes in assets and liabilities, net of effects from acquired businesses:		
(Increase) decrease in accounts receivable	5,535	(3,497)
Decrease in inventories	992	2,084
(Increase) decrease in prepaids	176	(445)
Decrease in realty assets	2,895	2,163
Decrease in accounts payable	(1,796)	(2,682)
Increase in accrued expenses	5,037	2,579
Other, net	(223)	1,062
Cash flows from operating activities	11,179	3,725
Cash flows from investing activities:		
Purchases of property and equipment	(875)	(773)
Reduction of long-term receivables	96	1,632
Increase in long-term receivables	(337)	(350)
Proceeds from sale of property and equipment	8	101
Cash flows from investing activities	(1,108)	610
Cash flows from financing activities:		
Repayment of long-term debt	(96,649)	(25,897)
Repayment of realty debt	(28)	(2,287)
Proceeds from new long-term debt	85,057	25,755
Cash flows from financing activities	(11,620)	(2,429)
Net increase (decrease) in cash and cash equivalents	(1,549)	1,906
Total cash and cash equivalents at March 31,	$10,645	$12,074

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

<TABLE>
<CAPTION>

TALLEY INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity
For the Three Months Ended March 31, 1994 and 1993
(thousands)

	Preferred Stock Series A	Preferred Stock Series B	Preferred Stock Series D	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1992	$ 71	$1,548	$ 120	$ 9,519	$83,537	$ -0-	$(53,931)
Net loss							(1,071)
Debt of ESOP guaranteed					84		
Stock grants				140	403		
BALANCE AT MARCH 31, 1993	$ 71	$1,548	$ 120	$ 9,659	$84,024	$ -0-	$(55,002)
BALANCE AT DECEMBER 31, 1993	$ 71	$1,548	$ 120	$10,047	$86,026	$ (471)	$(60,429)
Net earnings							(506)
Treasury stock issued						82	

BALANCE AT MARCH 31, 1994	$ 71	$1,548	$ 120	$10,047	$86,026	$ (389)	$(60,935)

</TABLE>

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

TALLEY INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 - General

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 1994 and December 31, 1993 and the results of operations for the three-month periods ended March 31, 1994 and 1993, and cash flows and changes in stockholders' equity for the three-month periods ended March 31, 1994 and 1993. Such results, however, may not be indicative of the results for the full year.

For additional information regarding significant accounting policies, and accounting matters applicable to the Company, reference should be made to the Company's Annual Report to Shareholders for the year ended December 31, 1993.

Note 2 - Inventories

Inventories are summarized as follows (in thousands):

	March 31, 1994	December 31, 1993
Raw materials and supplies	$11,778	$10,293
Work-in-process	8,695	9,584
Finished goods	26,542	26,470
Inventories applicable to government contracts	16,801	18,461
	$63,816	$64,808

Note 3 - Earnings Per Share

Common stock equivalents for the three months ended March 31, 1994 and 1993 were anti-dilutive and excluded from the computation of earnings per share. Dividends payable on anti-dilutive preferred stock were deducted from net earnings before calculating the earnings per share amount for the quarter. Earnings per common share assuming full dilution are not reported in either of the periods because the impact would be minimal.

Note 4 - Sale of Subsidiary

In July 1993 the Company completed the sale of the net assets of its precision potentiometer business for a cash purchase price of $2.8 million, which approximated the book value of the net assets sold. Sales and pretax earnings of the business sold for the six months ended June 30, 1993 were $2.3 million and $.4 million, respectively.

Note 5 - Income Tax Benefit

Pursuant to recent legislation passed in the State of Arizona regarding the rules for filing consolidated state income tax returns, the Company has reversed $5.6 million of state income tax accruals to reflect the change in the law. The new law is retroactive to the beginning of 1986.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors which have affected the Company.

A summary of period-to-period changes in the consolidated statement of earnings is shown below (in thousands):

	Three Months Ended March 31, 1994	1993
REVENUES:		
Government Products and Services	$ 36,258	$ 39,426
Airbag Royalties	3,896	1,722
Industrial Products	29,200	26,089
Specialty Products	5,762	7,180
Realty	3,201	2,700
	$ 78,317	$ 77,117
OPERATING INCOME:		
Government Products and Services	$ 4,186	$ 5,684

Airbag Royalty	3,896	1,722
Industrial Products	720	537
Specialty Products	610	773
Realty	(1,742)	(299)
Total operating income	7,670	8,417
Corporate expense	(6,584)	(3,036)
Non-segment interest income	61	119
Interest expense	(7,125)	(6,177)
Loss before income taxes and extraordinary gains	$ (5,978)	$ (677)

Revenues for the three-month period ended March 31, 1994 increased $1.2 million from $77.1 million to $78.3 million, compared with the corresponding period in the prior year. The slight increase in the three-month comparison is primarily the result of increasing revenue in the Airbag Royalties segment and the Steel Operations, offset by decreased revenue in the Government Products and Services segment due to scheduled price reductions under certain extended range munitions contracts and the timing of completion and shipments under other contracts. The pretax loss for the three months ended March 31, 1994 was $6.0 million compared with $.7 million pretax loss in the first three months of the previous year. The loss in the first quarter of 1994 includes a $4.5 million provision for litigation costs related to resolution of claims in connection with the airbag royalties being received from the licensee. Net loss for the three months ended March 31, 1994 was $.5 million, which reflects a tax benefit resulting from reversal of state income tax accruals of $5.6 million, pursuant to a retroactive change in tax laws in the State of Arizona.

Earnings from both the Airbag Royalty segment and the Industrial Products segment improved compared with the prior year. Royalties in the Airbag Royalty segment increased by $2.2 million from $1.7 million in the first three months of 1993 to $3.9 million for the first three months of 1994, while earnings from the Industrial segment improved $.2 million. Earnings from the Government Products and Services segment and the Specialty Products segment for the first three months of 1994, when compared with the first three months of 1993, were $1.5 million and $.2 million lower, respectively. Losses in the Realty segment increased by $1.4 million for the first three months of 1994, when compared with the prior year, as a result of increased property maintenance and development costs.

The gross profit percentage, excluding airbag royalties, of 22.0%, for the three months ended March 31, 1994 was down from the gross profit percentage of 23.5% for the comparable period in 1993. The decrease from the prior year is due to the mix of contracts and lower gross profit on 1994 sales of real estate.

Government Products and Services. Revenue and earnings in the first quarter of 1994 decreased $3.2 million and $1.5 million, respectively, when compared with the same period in the prior year. These decreases are primarily due to a scheduled pricing reduction under the extended range munitions program following the recovery of the Company's investment in a new production facility, and also due to the timing of completion and shipments under other contracts. Revenue and earnings from the Company's architectural and engineering services company are approximately equal to the comparable period in the prior year.

Airbag Royalties. Revenue from airbag royalties increased from $1.7 million in the first three months of 1993 to $3.9 million in the first three months of 1994. This increase was due to an increase in airbags manufactured and sold. (Also see "Other Matters" as a separate caption within Management's Discussion and Analysis of Financial Condition and Results of Operations)

Industrial Products. In the first three months of 1994 Industrial Products sales and earnings increased $3.1 million and $.2 million, respectively, when compared with the first three months of 1993. Increases in sales resulted from improvement in orders for stainless steel bars and rods and increased demand for ceramic insulator products due to harsh winter weather conditions and improved market share. The improvement in earnings resulted from the sales increases and cost reduction and streamlining efforts at the Company's steel and ceramic insulator operations. These increases partially were offset by lower welder products sales and earnings.

Specialty Products. During the first three months of 1994, sales for the Specialty Products segment decreased 19.7%, from $7.2 million to $5.8 million, while earnings decreased slightly from $.8 million to $.6 million, when compared with the same period in 1993. The decrease in sales and earnings when compared with the prior year is a result of the timing of sales, which are expected to improve during the remainder of 1994.

Realty. Sales of real estate in the first three months of 1994 were $3.2 million compared with $2.7 million for the comparable period in 1993. The operating loss increased from $.3 million in the first three months of 1993 to $1.7 million in the first three months of 1994, due to increased property maintenance and development costs. On March 28, 1994, a fully consolidated real estate joint venture, in which the Company has a $29.2 million interest, instituted Chapter 11 proceedings in the United States Bankruptcy Court for the District of Arizona. At the same time the joint venture filed a proposed plan of reorganization that would provide for the conversion of substantially all outstanding debt of the joint venture into equity in a new company to be formed to continue the project. A subsidiary of the Company, if the plan is accepted, would own approximately two-thirds of the equity in the new company.

Other. Interest expense in the first three months of 1994 increased to $7.1 million, from $6.2 million in the comparable period in 1993, mainly due to a major portion of the Company's debt being refinanced from variable rates to higher fixed rates. Corporate overhead increased from $3.0 million to $6.6 million over the comparable period in 1993 due to a $4.5 million provision for litigation costs related to resolution of claims in connection with airbag royalties being received from the licensee. Income tax benefit for the first three months of 1994 was $5.5 million compared to a tax provision of $.4 million in the comparable period in 1993. The net income tax benefit in 1994 is the result of a favorable state tax legislation which resulted in a $5.6 million reversal of taxes previously accrued. Interest income was less in 1994 due to a reduction in long term realty receivables.

Financial Condition, Liquidity and Capital Resources

At March 31, 1994, Talley had $10.7 million in cash and cash equivalents and net working capital of $50.8 million. Cash flow from operating activities for the three months ended March 31, 1994 was $11.2 million, generally the result of the Company's successful efforts toward collection of trade receivables, as compared with $3.7 million generated from operations during the first three months of 1993. Cash used in investing activities during the three months ended March 31, 1994 was $1.1 million, consisting of a net increase in long-term receivables of $.2 million and $.9 million of capital expenditures. Cash used in financing activities of $11.6 million reflects a reduction in debt from cash generated from operations and from cash available at the beginning of the year.

In October 1993, Talley completed a major refinancing program. This refinancing program included an offering of $185 million of debt securities, consisting of $70 million gross proceeds of Senior Discount Debentures due 2005, issued by the Company to yield 12.25% and $115 million of Senior Notes due 2003, with an interest rate of 10.75% issued by Talley Manufacturing and Technology, Inc. ("Talley Manufacturing"). In connection with this refinancing, Talley Manufacturing obtained a secured credit facility with institutional lenders, of which approximately $48 million was initially borrowed.

Borrowings under the secured credit facility may not exceed the collateral base as defined in the governing credit agreement. The facility consists of a five-year revolving credit facility of up to $40 million and a five-year $20 million term loan facility. At March 31, 1994 availability under the facility, based primarily on inventory and receivable levels, was $54.6 million, of which $36.8 million was borrowed. Upon the occurrence of certain specified events, at any time following the third anniversary of the secured credit facility, the agent thereunder may elect to terminate the facility.

The proceeds from the offering and the initial borrowings under the secured credit facility were used to repay substantially all of the Company's previously outstanding non-real estate debt. The Company anticipates that the new capital structure will support the long-term growth of Talley's core businesses and permit the implementation of its strategy to use proceeds received from the increasing airbag royalties and from the orderly sale of the assets of its real estate operations to reduce its total indebtedness.

As a holding company with no significant operating or income-producing assets beyond its stock interests in Talley Manufacturing and the subsidiaries holding its real estate operations, Talley will be dependent primarily upon distributions from those subsidiaries in order to meet its debt service and other obligations. Talley will be entitled to receive certain distributions from Talley Manufacturing (absent certain defaults under Talley Manufacturing indebtedness) for a period of five years, to be used to fund certain carrying and other costs associated with the orderly disposition of Talley's real estate assets. Additional funding is also available for the real estate costs from the anticipated redemption of preferred stock of Talley Manufacturing purchased for an agreed upon amount by Talley in connection with the October 1993 refinancing and from a portion of the net cash proceeds from the sale of real estate assets. Talley will be required to use certain funds received from Talley Manufacturing and certain funds from real estate sales to make offers to redeem certain indebtedness of Talley. Because the cash available to Talley is required to be used for these specific purposes, and because certain debt covenants limit Talley's ability to incur additional indebtedness, Talley will be dependent upon the payment of dividends from Talley Manufacturing (which payments will generally be limited by debt covenants of Talley Manufacturing) and to future sales of equity securities as its primary sources of discretionary liquidity. To the extent such sources do not provide adequate funds, Talley may be unable to fund expected costs and improvements associated with its real estate holdings or to make cash interest payments on its outstanding indebtedness when required. Nevertheless, and particularly in light of the absence of requirements for Talley to make cash payments of interest on outstanding indebtedness until April 15, 1999, the Company believes that Talley will have funds available in sufficient amounts, and at the required times, to permit Talley to meet its obligations.

Other Matters

As more fully explained in the Commitments and Contingencies note to the December 31, 1993 Consolidated Financial Statements, litigation between the Company and TRW, Inc. (TRW), the buyer of the Company's airbag business and licensee of the Company's technology related thereto, has been pending since 1989. In mid-February 1994 TRW filed a new declaratory judgment action asserting claims already made in the existing action and further claiming the Company, through the actions of a subsidiary, breached a non-compete provision of the Asset Purchase Agreement by rendering services to competitors of TRW, and requesting among other things a court order that a contemporaneous notice and a $26.5 million one-time payment that TRW sent to the Company was valid, entitling it to terminate that airbag royalty and obtain a paid up license to use the Company's airbag technology. On March 1, the Company answered TRW's complaint and also filed counterclaims alleging that

TRW had wrongfully terminated the license agreement, had intentionally interfered with Talley's business relationships and had failed to exert reasonable efforts to exploit the exclusive license granted to TRW by the Company.

On March 14, 1994 the Company filed a Motion for an Order requiring TRW to make payment of all quarterly royalties until the lawsuit is finally resolved. The Company sought the Order to avoid the potential harm from cash flow interruption and/or potential loan covenant defaults caused by TRW's failure to pay scheduled royalty payments. A three day hearing on the Company's Motion was completed on May 3, 1994. The Company expects a ruling from the Court on this Motion in the near future. Without regard to how the Court rules on the Motion, the Company intends to ask the Court for an early hearing on the merits of TRW's attempted termination of royalty payments. The Company believes that a final hearing will show that TRW's claims are without merit and that the Court will enter a final Order confirming the Company's right to continue receiving royalty payments.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

As more fully explained in the Commitments and Contingencies note to the December 31, 1993 Consolidated Financial Statements, litigation between the Company and TRW, Inc. (TRW), the buyer of the Company's airbag business and licensee of the Company's technology related thereto, has been pending since 1989. In mid-February 1994 TRW filed a new declaratory judgment action asserting claims already made in the existing action and further claiming the Company, through the actions of a subsidiary, breached a non-compete provision of the Asset Purchase Agreement by rendering services to competitors of TRW, and requesting among other things a court order that a contemporaneous notice and a $26.5 million one-time payment that TRW sent to the Company was valid, entitling it to terminate that airbag royalty and obtain a paid up license to use the Company's airbag technology. On March 1, the Company answered TRW's complaint and also filed counterclaims alleging that TRW had wrongfully terminated the license agreement, had intentionally interfered with Talley's business relationships and had failed to exert reasonable efforts to exploit the exclusive license granted to TRW by the Company.

On March 14, 1994 the Company filed a Motion for an Order requiring TRW to make payment of all quarterly royalties until the lawsuit is finally resolved. The Company sought the Order to avoid the potential harm from cash flow interruption and/or potential loan covenant defaults caused by TRW's failure to pay scheduled royalty payments. A three day hearing on the Company's Motion was completed on May 3, 1994. The Company expects a ruling from the Court on this Motion in the near future. Without regard to how the Court rules on the Motion, the Company intends to ask the Court for an early hearing on the merits of TRW's attempted termination of royalty payments. The Company believes that a final hearing will show that TRW's claims are without merit and that the Court will enter a final Order confirming the Company's right to continue receiving royalty payments.

On March 28, 1994, a fully consolidated real estate joint venture, in which the Company has a $29.2 million interest, instituted Chapter 11 proceedings in the United States Bankruptcy Court for the District of Arizona. At the same time the joint venture filed a proposed plan of reorganization that would provide for the conversion of substantially all outstanding debt of the joint venture into equity in a new company to be formed to continue the project. A subsidiary of the Company, if the plan is accepted, would own approximately two-thirds of the equity in the new company.

Item 3. Defaults Upon Senior Securities

(b) The Company has not made any dividend payments on its preferred and common shares since the first quarter of 1991, and the ability to pay dividends in the future is limited by the provisions of the Company's debt agreements. Dividends on the shares of Series A, Series B and Series D Preferred stock are cumulative and must be paid in the event of liquidation and before any distribution to holders of Common stock. These dividends are in arrears.

The Company's preferred stockholders have certain voting rights with respect to the election of two directors which were triggered by the dividend arrearages. The preferred stock does not provide any other voting rights or remedies to the preferred stockholders in the event of a dividend arrearage. Dividends on Series D Preferred Stock currently accrue at $4.50 per share annually. As of February 28, 1998, dividends of $15.75 per share are to be paid annually to holders of any Series D Preferred Stock still outstanding at that time. Annual dividends of $1.10 per share, and $1.00 per share, accrue with respect to outstanding shares of Series A Preferred Stock and Series B Preferred Stock, respectively. Cumulative dividends on preferred shares that have not been declared or paid are approximately: Series A - $234,000 ($3.30 per share), Series B - $4,645,000 ($3.00 per share) and Series D - $1,624,000 ($13.50 per share).

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.3* Talley Industries, Inc. Directors Benefit Plan as established by the Company effective January 1, 1994.

11* Computation of Earnings per Common and Common Equivalent Share.

* Documents marked with an asterisk are filed with this report.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed for the three months 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.

TALLEY INDUSTRIES, INC.
(Registrant)

Date: May 12, 1994 By Kenneth May
Kenneth May

Vice President, Controller
Principal Accounting
Officer

Date: May 12, 1994

By Mark S. Dickerson
Mark S. Dickerson
Vice President, General
Counsel and Secretary

TALLEY INDUSTRIES, INC.
DIRECTORS BENEFIT PLAN

Effective January 1, 1994, TALLEY INDUSTRIES, INC., a Delaware corporation (the "Company"), establishes the TALLEY INDUSTRIES, INC. DIRECTORS BENEFIT PLAN (the "Plan") for the purpose of providing deferred compensation and death benefits to certain members of the Company's Board of Directors.

1. Definitions. When a word or phrase shall appear in this Plan with the initial letter capitalized, and the word and phrase does not commence a sentence, the word or phrase shall generally be a term defined in this Section 1. The following words and phrases with the initial letter capitalized shall have the meanings set forth in this Section 1, unless a clearly different meaning is required by the context in which the word or phrase is used:

(a) "Affiliate" shall mean a corporation that is a member of a "controlled group of corporations" (within the meaning of Section 414(b) of the Code) and a group of trades and businesses under common control (within the meaning of Section 414(c) of the Code) of which the Company is a member.

(b) "Beneficiary" shall mean the person or persons designated to receive benefits under this Plan in the event of the death of the Participant as provided in Section 9.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.

(e) "Committee" shall mean the administrative committee appointed by the Board pursuant to Section 10 to administer the terms and provisions of this Plan.

(f) "Company" shall mean Talley Industries, Inc. and each corporation that succeeds to substantially all the business of the Company and elects to continue the Plan hereunder.

(g) "Director" shall mean an individual who is serving as a member of the Board and who is not an employee of the Company or an Affiliate.

(h) "Effective Date" shall mean January 1, 1994.

(i) "Group Life Insurance Plan" shall mean the Talley Industries, Inc. Group Insurance Plan, which provides life insurance coverage, as in effect on January 1, 1994, and as the same may be amended from time to time.

(j) "Participant" shall mean each Director who on or after the Effective Date has satisfied the eligibility requirements specified in Section 3 and whose participation has not terminated pursuant to Section 5.

(k) "Plan" shall mean the Talley Industries, Inc. Directors Benefit Plan, as set forth herein and as the same may be amended from time to time.

(l) "Year of Service" shall mean a fiscal year of the Company during which the Director has completed more than six (6) calendars months as a Director.

2. Construction. The masculine gender, where appearing in the Plan, shall include the feminine gender (and vice versa), and the singular shall include the plural, unless the context clearly indicates to the contrary. Headings and subheadings are for the purpose of reference only and are not to be considered in the construction of this Plan. If any provision of this Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect. All of the provisions of this Plan shall be construed and enforced according to the laws of the State of Illinois and shall be administered according to the laws of such state, except as otherwise required by Federal law. It is the intention of the Company that the Plan as adopted by the Company shall not be subject to the Employee Retirement Income Security Act of 1974 because this Plan covers only individuals who are not employees of the Company. The Plan shall be construed in a manner consistent with the Company's intention.

3. Eligibility. A Director shall become a Participant on the first day of the month coinciding with or next following the date on which he has completed at least five (5) Years of Service as a Director.

4. Crediting of Service. Except as provided herein, all Years of Service completed by a Director shall be taken into account under this Plan. Years of Service completed by a Director while an employee of the Company or an Affiliate shall not be taken into account.

5. Termination of Participation. A Participant's participation in the Plan shall terminate (a) upon the Participant's commencement of employment with the Company as an employee or (b) upon the Participant's resignation from the Board prior to attaining the age of seventy (70) years.

6. Pre-Retirement Death Benefits. Upon commencing participation, a Participant shall be covered by the Group Life Insurance Plan and such coverage shall continue until the Participant no longer qualifies as a Director.

In the event of a Participant's death while still serving as a Director, the Participant's Beneficiary shall be entitled to receive the life insurance proceeds payable from the Group Life Insurance Plan on account of the Participant's death in accordance with the terms of said plan.

7. Termination Benefit. A Participant who resigns from the Board on or after attaining the age of seventy (70) years shall be entitled to a lump sum payment from the Company equal to Fifty Thousand Dollars ($50,000.00). Such benefit shall be paid as soon as practicable after the Participant's resignation from the Board but in no event more than sixty (60) days after the effective date of such resignation.

8. Funding. Except as otherwise provided in Section 6, (a) benefits payable under the Plan shall constitute unfunded general obligations of the Company payable from its general assets, (b) the Company shall not be required to establish any special fund or trust for purposes of paying benefits under the Plan, (c) no Participant shall have any vested right to any particular asset of the Company as a result of participation in the Plan, and (d) each Participant shall be a general creditor of the Company.

9. Designation of Beneficiary. Each Participant shall have the right to designate on forms supplied by and delivered to the Committee, a Beneficiary or Beneficiaries to receive his benefits hereunder in the event of his death. Each Participant may change his Beneficiary designation from time to time by execution and delivery of a new form. Upon receipt of such designation by the Committee, such designation or change of designation shall become effective as of the date of notice, regardless of whether the Participant is living at the time notice is received. There shall be no liability on the part of the Company or the Committee with respect to any payment authorized by the Committee in accordance with the most recent valid Beneficiary designation of the Participant in its possession before receipt of a more recent and valid Beneficiary designation. If no designated Beneficiary is living when benefits become payable, or if there is no designated Beneficiary, the Beneficiary shall be the Participant's spouse; or if no spouse if then living, such Participant's children, including any legally adopted children, in equal shares by right of representation; or if no children are living upon the death of the Participant, the estate of the Participant.

10. Administration. The Plan shall be administered by the Company's Vice President of Human Resources. If the Vice President of Human Resources is unavailable or the position is vacant, the Plan shall be administered by the person charged with the performance of the duties of that position by the Board.

The Vice President of Human Resources may delegate his duties and responsibilities hereunder.

11. Amendment and Termination of the Plan. The Board shall have the power to amend, modify, suspend or terminate this Plan in writing at any time. No amendment, modification, suspension or termination shall deprive a Participant or person claiming benefits through the Participant of any benefit accrued under this Plan prior to the date of such amendment, modification, suspension or termination.

12. Assignment. No Participant or Beneficiary shall have any right to assign, pledge, hypothecate, anticipate or in any way create a lien on any amounts payable hereunder. No amounts payable hereunder shall be subject to assignment or transfer or otherwise be alienable, either by voluntary or involuntary act, or by operation of law, except as may be otherwise required by law in connection with marital separation or dissolution or child support obligations, or be subject to attachment, execution, garnishment, sequestration or other seizure under any legal, equitable or other process or be liable in any way for the debts or defaults of Participants and Beneficiaries.

13. Withholding. Any taxes required to be withheld from payments to Participants hereunder shall be deducted and withheld by the Company or by its agent for payment hereunder.

14. Other Benefit Plans of the Company. Nothing contained in this Plan shall prevent a Participant prior to his death, or his spouse or Beneficiary entitled to benefits after his death, from receiving, in addition to any payments provided for under this Plan, any payments provided for under any employee benefit plan of the Company by reason of his participation in such benefit plans. Nothing in this Plan shall be construed as preventing the Company or any of its Affiliates from establishing any other or different plans providing for current or deferred compensation for employees and/or Directors.

15. Miscellaneous. Nothing contained in this Plan shall be construed as a contract of employment, as a contract for a position on the Board, or as a right of any Participant to continue as a member of the Board. All of the provisions of this Plan shall be binding upon all persons who shall be entitled to any benefit hereunder, their heirs and personal representatives.

DATED: February 22, 1994

TALLEY INDUSTRIES, INC.

By William H. Mallender
Its Chairman and CEO

190387

EXHIBIT 11

TALLEY INDUSTRIES, INC. AND SUBSIDIARIES
Computation of Earnings Per Common
and Common Equivalent Share
(thousands, except per share amounts)

	1 9 9 4 Primary	1 9 9 4 Fully Diluted	1 9 9 3 Primary	1 9 9 3 Fully Diluted
Three months ended March 31:				
Loss from continuing operations	$ (506)	$ (506)	$(1,071)	$(1,071)
Preferred stock dividend	(542)	(542)	(543)	(543)
Net loss	$(1,048)	$(1,048)	$(1,614)	$(1,614)
Average common shares outstanding during period	10,018	10,018	9,608	9,608
Shares for computation	10,018	10,018	9,608	9,608
Net loss per share	$(.10)	$(.10)	$(.17)	$(.17)