FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
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FILER

SPS TECHNOLOGIES INC
CIK:**93444**| IRS No.: **231116110** | State of Incorp.:**PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-04416** | Film No.: **95536302**
SIC: **3452** Bolts, nuts, screws, rivets & washers

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101 GREENWOOD AVENUE
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101 GREENWOOD AVENUE
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended March 31, 1995
Commission file number 1-4416

SPS TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its Charter)

PENNSYLVANIA	23-1116110
(State of incorporation)	(I.R.S. Employer Identification No.)
101 Greenwood Avenue, Suite 470 Jenkintown, Pennsylvania	19046
(Address of principal executive offices)	(Zip Code)

(215) 517-2000
(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 (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 .

The number of shares of Registrant's Common Stock outstanding on May 2, 1995 was 5,655,833.

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES

PART 1

FINANCIAL INFORMATION

Item 1. Index to Financial Statements

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS
(Unaudited-Thousands of dollars except share data)

	Three Months Ended March 31, 1995	Three Months Ended March 31, 1994
Net sales	$ 102,432	$ 81,581
Cost of goods sold	85,137	68,553
Gross profit	17,295	13,028
Selling, general and administrative expense	11,650	10,820
Unusual items:		
Restructuring credit		(1,500)

Loss on disposal		6,600
Operating earnings (loss)	5,645	(2,892)
Other income (expense):		
Interest income	100	105
Interest expense	(1,620)	(1,718)
Equity in earnings of affiliates	400	210
Other, net	(25)	455
	(1,145)	(948)
Earnings (loss) before income taxes	4,500	(3,840)
Provision for income taxes	1,450	300
Net earnings (loss)	$ 3,050	$ (4,140)
Net earnings (loss) per share	$ .54	$ (.81)
Average shares outstanding	5,645,971	5,106,961

See accompanying notes to condensed consolidated financial statements.

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SPS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited-Thousands of dollars)

	March 31, 1995	December 31, 1994
Assets		
Current assets		
Cash and cash equivalents	$ 10,349	$ 9,472
Accounts and notes receivable, less allowance for doubtful receivables of $1,374 (1994-$1,299)	62,010	54,434
Inventories	81,401	77,299
Deferred income taxes	13,705	14,400
Prepaid expenses	2,926	2,379
Net assets held for sale	2,367	2,367
Total current assets	172,758	160,351

Investments in affiliates	15,015	14,841
Property, plant and equipment, net of accumulated depreciation of $100,887 (1994 - $99,736)	88,950	87,764
Other assets	26,461	26,290
Total assets	$ 303,184	$ 289,246

See accompanying notes to condensed consolidated financial statement.

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SPS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited-Thousands of dollars, except share data)

	March 31, 1995	December 31, 1994
Liabilities and shareholders' equity		
Current liabilities		
Notes payable	$ 11,157	$ 8,248
Accounts payable	27,925	27,163
Accrued expenses	37,931	35,190
Income taxes payable	1,468	1,259
Total current liabilities	78,481	71,860
Deferred income taxes	10,910	10,955
Long-term debt, less current installments	58,788	56,426
Retirement obligations	26,026	25,901
Shareholders' equity		
Preferred stock, par value $1 per share, Authorized 400,000 shares, Issued none		
Common stock, par value $1 per share, Authorized 30,000,000 shares, Issued 6,396,730 shares in 1995 (6,377,256 shares in 1994)	6,397	6,378
Additional paid-in capital	68,591	68,124
Retained earnings	66,766	63,716
Minimum pension liability	(1,235)	(1,235)
Common stock in treasury, at cost 740,897 shares in 1995 and 1994	(5,990)	(5,990)
Cumulative translation adjustments	(5,550)	(6,889)
Total shareholders' equity	128,979	124,104

Total liabilities and shareholders' equity	$ 303,184	$ 289,246

See accompanying notes to condensed consolidated financial statement.

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited-Thousands of dollars)

	Three Months Ended March 31, 1995	Three Months Ended March 31, 1994
Net cash provided (used) by operating activities	$ (1,737)	$ 264
Cash flows provided (used) by investing activities		
Additions to property, plant and equipment	(2,162)	(3,358)
Proceeds from sale of property, plant and equipment	76	1,051
Acquisition	(1,094)	
Other, net		(76)
Net cash used by investing activities	(3,180)	(2,383)
Cash flows provided (used) by financing activities		
Proceeds from borrowings	9,100	3,766
Reduction of borrowings	(3,923)	(1,707)
Other, net	487	16
Net cash provided by financing activities	5,664	2,075
Effect of exchange rate changes on cash	130	81
Net increase in cash and cash equivalents	877	37
Cash and cash equivalents at beginning of period	9,472	6,852
Cash and cash equivalents at end of period	$ 10,349	$ 6,889

See accompanying notes to condensed consolidated financial statements.

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited-Thousands of Dollars)

1. Financial Statements

In the opinion of the Company's management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position as of March 31, 1995, the results of operations for the three-month periods ended March 31, 1995 and 1994, and cash flows for the three-month periods ended March 31, 1995 and 1994. The December 31, 1994 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. The accompanying financial statements contain only normal recurring adjustments. All financial information has been prepared in conformity with the accounting principles reflected in the financial statements included in the 1994 Annual Report filed on Form 10-K applied on a consistent basis.

2. Inventories

	March 31, 1995	December 31, 1994
Finished goods	$ 34,239	$ 35,712
Work-in-process	21,636	17,335
Raw materials and supplies	17,052	13,952
Tools	8,474	10,300
	$ 81,401	$ 77,299

3. Unusual Items

In April 1994, the Company decided to dispose of its investment in its subsidiary, Ferre Plana, S.A., located in Barcelona, Spain. The loss on disposal of $6.6 million was included in the 1994 condensed statement of consolidated operations as an unusual charge. This disposal charge was for the write-off of the net assets associated with Ferre Plana, including the related intangible assets and cumulative translation adjustment account.

In 1993, the Company recorded a restructuring charge that included a provision for the liquidation of the Assembly Systems Division (ASD), a fastener segment product line. During the first quarter of 1994, the Company identified a buyer for this product line. As a result of this modification of the restructuring plan and the related

change in estimate, and because actual restructuring costs were lower than estimated costs, the Company recorded a $1.5 million credit for the reversal of excess reserves associated with the 1993 restructuring charge. Because the sale closed on April 22, 1994, the $1.6 million gain on the sale of ASD's net assets was recorded in the condensed statement of consolidated operations for the second quarter of 1994.

4. Income Taxes

The Company's provision for income taxes for the first quarter of 1994 resulted principally from the inability to recognize a full tax benefit on the loss on disposal of the Company's subsidiary in Spain.

5. Earnings Per Share

Per share data was calculated using the weighted average number of shares outstanding during the periods. Common share equivalents in the form of stock options have been excluded from the calculations as their dilutive effect is not material, or their effect is anti-dilutive.

6. Environmental Contingency

The Company has been identified as a potentially responsible party by various federal and state authorities for clean up or removal of waste from various disposal sites. At March 31, 1995, the accrued liability for environmental remediation represents management's best estimate of the costs related to environmental remediation which are considered probable and can be reasonably estimated. The measurement of the liability is evaluated quarterly based on currently available information. As the scope of the Company's environmental liability becomes more clearly defined, it is possible that additional reserves may be necessary. Accordingly, it is possible that the Company's results of operations in future quarterly or annual periods could be materially affected. However, management believes that the overall costs of environmental remediation will be incurred over an extended period of time and, as a result, are not expected to have a material impact on the consolidated financial position of the Company.

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES

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

Introduction

Net earnings for the first quarter of 1995 of $3.1 million represent a significant improvement over the net loss reported for the first quarter of 1994. Last year's loss included an unusual net non-cash charge related to the disposal of the Company's former subsidiary in Spain. With significant and continuing improvement in operating performance and with most markets served by the Company enjoying a favorable economic environment, the Company's sales, orders and backlog were up substantially in the first quarter of 1995.

Sales

Net sales in the first quarter of 1995 were $102.4 million, compared to $81.6 million for the same period in 1994. Sales increased $20.8 million, or 25.6 percent, compared to the first quarter of 1994 and increased $11.4 million or 12.6 percent, compared to the fourth quarter of 1994.

Fastener segment sales were $67.6 million, compared to first quarter of 1994 sales of $58.1 million, an increase of $9.5 million, or 16.3 percent. Despite continued weakness in the aerospace fastener market, the Company's aerospace fastener sales were up 18 percent to $31.2 million in the first quarter of 1995. The increase in sales volume is attributed to improved operating efficiencies which have resulted in the Company recapturing business lost to competitors in prior years. Sales in the transportation and industrial fastener markets increased by $4.7 million, or 14.8 percent, due to the continuing strength of the automobile business in the United States and the United Kingdom. Although automotive production levels in North America for the first quarter of 1995 exceeded prior year's level, the Company does not expect this trend to continue throughout 1995.

Materials segment sales were $34.8 million in the first quarter of 1995 compared to $23.5 million in the first quarter of 1994, an increase of $11.3 million, or 48.5 percent. Sales of magnetic materials to the domestic automobile and anti-theft security markets continued to increase compared to prior quarters. Cobalt-based medical and stainless steel alloy sales to the air melt investment casting market increased significantly from the first quarter of 1994 and are expected to remain strong throughout 1995.

Operating Earnings

Excluding the $5.1 million net unusual charge in the prior year, operating earnings for the fastener segment improved from $100 thousand in the first quarter of 1994 to $1.9 million in the first quarter of 1995. The improvement in earnings is attributed to the higher volume, better pricing of fastener product sales and to the investment in new state-of-the-art computer controlled machine tools which have reduced the Company's costs.

In the materials segment, first quarter 1995 operating earnings of $3.7 million, or 10.7 percent of sales, were up from $2.1 million, or 8.9 percent of sales, in the first quarter of 1994. This increase in operating earnings is attributed to higher volume of sales and to efficiencies gained from significant capital expenditure programs, which are continuing in 1995.

Other Expense

Interest expense decreased from $1.7 million in the first quarter of 1994 to $1.6 million in the first quarter of 1995. Lower levels of debt decreased interest expense by approximately $370 thousand, but higher interest rates caused interest expense to increase by $270 thousand. The unfavorable change in "other, net" income is attributed to the approximately $400 thousand gain from the sale of the Company's airplane in the first quarter of 1994.

Income Taxes

In the first quarter of 1994, the Company incurred a provision for income taxes despite a pre-tax loss from operations because of the inability to recognize a full tax benefit on the loss on disposal of the Company's subsidiary in Spain.

Earnings

The Company recorded net earnings for the first quarter of 1995 of $3.1 million, or $.54 per share, compared to a net loss of $4.1 million, or $.81 per share, for the first quarter of 1994. Excluding last year's net non-cash unusual charge of $5.1 million, net earnings for 1994 were $960 thousand, or $.19 per share.

Orders and Backlog

Incoming orders in the first quarter of 1995 were $122.1 million, compared to $92.3 million for the first quarter of 1994 and $90.3 million for the fourth quarter of 1994. The increase in orders reflects greater demand for the Company's products in all major markets served in both segments. Backlog at March 31, 1995 was $117.2 million, compared to $95.4 million on the same date a year ago and $98.5 million at December 31, 1994.

Unusual Items

As discussed in Note 3 to the financial statements, the Company sold its Spanish subsidiary, Ferre Plana, S.A., and a fastener segment product line, the Assembly Systems Division (ASD), in 1994. Ferre Plana, S.A., which manufactured commodity industrial fasteners, had incurred cumulative operating losses of $9.4 million since it was acquired in 1990, and would have incurred additional losses and required a substantial cash investment in 1994. ASD, which manufactured computer-controlled fastener tightening equipment, had accumulated operating losses totaling $11.6 million over the past five years. The exit of these historically unprofitable manufacturing operations allowed management to focus on and make needed investments into the Company's more profitable businesses.

Acquisition

On March 3, 1995, the Company executed an Asset Purchase Agreement with Harvard Industries, Inc. to acquire certain assets of Harvard's Elastic Stop Nut Division (ESNA) which designs, manufactures and sells aerospace locknuts and is located in Union, New Jersey. The acquired assets will be consolidated into existing aerospace operations in Jenkintown, Pennsylvania and Santa Ana, California. Following relocation of the machinery and equipment into existing facilities, the Company will commence manufacturing certain products previously manufactured by ESNA.

The purchase price of approximately $4.5 million includes value for machinery and equipment, an agreement not to compete and other intangible assets.

Liquidity and Capital Resources

Management considers liquidity to be the ability to generate adequate amounts of cash to meet its needs and capital resources to be the resources from which such cash can be obtained, principally from operating and external sources. The Company believes that capital resources available to it will be sufficient to meet the needs of its business, both on a short-term and long-term basis.

Cash flow provided or used by operating activities, investing activities and financial activities is summarized in the condensed statements of consolidated cash flows. Consistent with the increase in sales and orders experienced in the first quarter, higher accounts receivable and inventory resulted in net cash used by operating activities for the first quarter of 1995.

The increase in the cash used by investing activities is attributed to the first quarter 1995 payments related to the ESNA asset acquisition ($1.1 million) and the first quarter 1994 proceeds from the sale of the Company's aircraft ($1.1 million).

The remaining balance of approximately $3.4 million of the ESNA asset purchase price is expected to be paid out in the second quarter of 1995. Additionally, the Company spent $2.2 million for capital expenditures in the first quarter of 1995 and has budgeted $20.6 million for the full year of 1995, as reported on Form 10-K for the year ended December 31, 1994.

The Company's total debt to equity ratio was 54 percent at March 31, 1995 compared to 52 percent at December 31, 1994. Total debt was $69.9 million at March 31, 1995 and $64.7 million at December 31, 1994, As of March 31, 1995, under the terms of the existing credit agreements, the Company is permitted to incur an additional $36 million in debt and prohibited from paying cash dividends unless the terms are waived by the lenders or the agreements are amended.

PART II
OTHER INFORMATION

Item 4. Submission of Matters to Vote of Security Holders

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11 Computation of Dilution (Anti-dilution) of Earnings Per Share Resulting from Common Stock Equivalents.

(b) No reports on Form 8-K were filed during the quarter ended March 31, 1995

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES

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.

SPS TECHNOLOGIES, INC.
(Registrant)

Date: May 5, 1995

/s/William M. Shockley
William M. Shockley
Controller

Mr. Shockley is signing on behalf of the registrant and as the principal financial officer of the registrant.

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit 11

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES
Computation of Dilution (Anti-dilution) of Earnings Per Share
Resulting from Common Stock Equivalents
(Thousands of dollars except share data)

The following calculation is submitted in accordance with the Securities Exchange Act of 1934 although not required by Opinion No. 15 of the Accounting Principles Board as it results in dilution of less than 3%, or is anti-dilutive:

	Three Months Ended March 31, 1995	Three Months Ended March 31, 1994
Net earnings (loss)	$ 3,050	$ (4,140)
Weighted average number of shares outstanding during period	5,645,971	5,106,961
Weighted average number of maximum shares subject to exercise under outstanding stock options at end of period	669,975	290,791
	6,315,946	5,397,752
Less treasury shares assumed purchased with proceeds from assumed exercise of outstanding options (a)	557,785	282,330
Weighted average number of common shares and equivalent common shares outstanding after assumed exercise of options	5,758,161	5,115,422
Pro forma earnings (loss) per share based on above assumptions (b)	$ .53	$ (.81)
Earnings (loss) per share as reported	$ .54	$ (.81)

(a) All options are exercisable under a nonqualified plan. The proceeds from assumed exercise of options aggregated $16,270,602 and $6,242,315 in the three-month periods ended March 31, 1995 and 1994; the proceeds and number of treasury shares assumed purchased were determined on the most likely exercise assumption.

(b) Pro forma earnings per share assuming full dilution are not presented separately since there would be no additional dilutive effect, or the effect would be anti-dilutive.

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