

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-08-02** | Period of Report: **1994-06-30**
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FILER

INSTRUMENT SYSTEMS CORP /DE/

CIK: **50725** | IRS No.: **111893410** | State of Incorporation: **DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **001-06620** | Film No.: **94541294**
SIC: **3442** Metal doors, sash, frames, moldings & trim

Business Address
100 JERICHO QUADRANGLE
JERICHO NY 11753
5169385544

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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 Number: 1-6620

INSTRUMENT SYSTEMS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

11-1893410
(I.R.S. Employer
Identification No.)

100 JERICHO QUADRANGLE, JERICHO, NEW YORK
(Address of principal executive offices)

11753
(Zip Code)

(516) 938-5544
(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 the past 90 days.

X Yes No

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date. 33,985,742 shares of Common
Stock as of July 31, 1994.

FORM 10-Q

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Signature

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INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

<CAPTION>

	June 30, 1994	September 30, 1993
	-----	-----
	(Unaudited)	(Note 1)
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,193,000	\$ 26,466,000
Marketable securities	21,096,000	11,095,000
Accounts receivable, less allowance for doubtful accounts	48,838,000	51,885,000

Contract costs and recognized income not yet billed	30,166,000	35,453,000
Inventories (Note 2)	61,543,000	55,985,000
Investment in affiliate, sold in October 1993 (Note 4)	---	11,615,000
Prepaid expenses and other current assets	6,273,000	7,094,000
Total current assets	193,109,000	199,593,000

PROPERTY, PLANT AND EQUIPMENT at cost, less accumulated depreciation and amortization of \$47,634,000 at June 30, 1994 and \$40,939,000 at September 30, 1993	50,563,000	49,807,000
OTHER ASSETS	20,889,000	20,870,000
	\$264,561,000	\$270,270,000

<FN> See notes to condensed consolidated financial statements.

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INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

<CAPTION>

	June 30, 1994	September 30, 1993
	(Unaudited)	(Note 1)
	<C>	<C>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 27,654,000	\$ 30,896,000
Other current liabilities	47,722,000	51,914,000
Total current liabilities	75,376,000	82,810,000

LONG-TERM DEBT	19,917,000	23,298,000
----------------	------------	------------

EMPLOYEE STOCK OWNERSHIP PLAN AND OTHER OBLIGATIONS	1,922,000	2,849,000
--	-----------	-----------

SHAREHOLDERS' EQUITY (Note 5):		
Preferred stock, par value \$.25 per share, authorized 3,000,000 shares --		
Second Preferred Stock, Series I, authorized 1,950,000 shares, issued		

1,677,729 shares at June 30, 1994 and 1,680,491 shares at September 30, 1993 (liquidation value \$16,777,000 and \$16,805,000, respectively).	419,000	420,000
Common Stock, par value \$.25 per share, authorized 85,000,000 shares, issued 35,968,644 shares at June 30, 1994 and 35,803,344 shares at September 30, 1993, and 1,850,600 shares and 202,900 shares in treasury at June 30, 1994 and September 30, 1993, respectively	8,992,000	8,951,000
Other shareholders' equity	157,935,000	151,942,000
	-----	-----
Total shareholders' equity	167,346,000	161,313,000
	-----	-----
	\$264,561,000	\$270,270,000
	=====	=====

<FN>
See notes to condensed consolidated financial statements.

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INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<CAPTION>

	THREE MONTHS ENDED JUNE 30,	
	1994	1993
	----	----
<S>	<C>	<C>
Net sales	\$125,287,000	\$108,164,000
Cost of sales	88,666,000	76,681,000
	-----	-----
Gross profit	36,621,000	31,483,000
Selling, general and administrative expenses	24,129,000	20,215,000
	-----	-----
Income from operations	12,492,000	11,268,000
	-----	-----
Other income (expense):		
Interest expense	(428,000)	(447,000)
Interest income	448,000	213,000
Other, net	(19,000)	93,000
	-----	-----
	1,000	(141,000)
	-----	-----
Income from continuing operations before income taxes	12,493,000	11,127,000
	-----	-----
Provision for income taxes:		
Federal	4,223,000	3,423,000
State and other	899,000	945,000

	5,122,000	4,368,000
Income from continuing operations	7,371,000	6,759,000
Discontinued operations, net of income tax effect:		
Operating loss	---	(903,000)
Provision for loss on disposal	---	(7,113,000)
	---	(8,016,000)
Net income (loss)	\$ 7,371,000	\$ (1,257,000)
Income (loss) per share of common stock (Note 3):		
Continuing operations	\$.20	\$.18
Discontinued operations	--	(.21)
Net income (loss)	\$.20	\$ (.03)

<FN> See notes to condensed consolidated financial statements.

</TABLE>

<TABLE>

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<CAPTION>

	NINE MONTHS ENDED JUNE 30,	
	1994	1993
	----	----
Net sales	\$347,299,000	\$306,480,000
Cost of sales	245,012,000	217,359,000
Gross profit	102,287,000	89,121,000
Selling, general and administrative expenses	69,993,000	61,121,000
Income from operations	32,294,000	28,000,000
Other income (expense):		
Interest expense	(1,319,000)	(1,450,000)
Interest income	1,294,000	661,000
Other, net	107,000	842,000
	82,000	53,000
Income from continuing operations before income taxes	32,376,000	28,053,000

Provision for income taxes:		
Federal	10,923,000	8,599,000
State and other	2,351,000	2,454,000
	-----	-----
	13,274,000	11,053,000
	-----	-----
Income from continuing operations	19,102,000	17,000,000
	-----	-----
Discontinued operations, net of income tax effect:		
Operating loss	---	(537,000)
Provision for loss on disposal	---	(7,113,000)
	-----	-----
	---	(7,650,000)
	-----	-----
Net income	\$ 19,102,000	\$ 9,350,000
	=====	=====
Income per share of common stock (Note 3):		
Continuing operations	\$.51	\$.45
Discontinued operations	--	(.20)
	-----	-----
Net income	\$.51	\$.25
	=====	=====

<FN>

See notes to condensed consolidated financial statements.

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INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<CAPTION>

	NINE MONTHS ENDED JUNE 30,	
	1994	1993
	----	----
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 19,102,000	\$ 9,350,000
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,241,000	7,027,000
Provision for losses on accounts receivable	588,000	499,000
Decrease in deferred income taxes	---	(1,540,000)
Loss from discontinued operations	---	9,431,000
Change in assets and liabilities:		
(Increase) decrease in accounts receivable and contract costs and recognized income not yet billed	8,104,000	(4,828,000)
Increase in inventories	(5,036,000)	(7,607,000)
(Increase) decrease in prepaid expenses and other assets	(51,000)	427,000
Decrease in accounts payable, accrued liabilities and Federal income taxes	(8,064,000)	(360,000)

Other changes, net	(33,000)	(12,000)
	-----	-----
Total adjustments	2,749,000	3,037,000
	-----	-----
Net cash provided by operating activities	21,851,000	12,387,000
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in marketable securities	(10,001,000)	(2,983,000)
Acquisition of property, plant and equipment	(7,369,000)	(6,036,000)
Proceeds from sale of investment in affiliate	11,615,000	---
Acquired businesses	(1,877,000)	---
Decrease in equipment lease deposits and other	1,202,000	2,521,000
	-----	-----
Net cash used in investing activities	(6,430,000)	(6,498,000)
	-----	-----

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INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED
(Unaudited)

<CAPTION>

	NINE MONTHS ENDED JUNE 30,	
	1994	1993
	----	----
	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury shares	(13,361,000)	(550,000)
Proceeds from issuance of long-term debt	5,100,000	2,500,000
Payment of long-term debt	(8,304,000)	(2,489,000)
Other, net	(129,000)	(70,000)
	-----	-----
Net cash used by financing activities	(16,694,000)	(609,000)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,273,000)	5,280,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	26,466,000	18,007,000
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 25,193,000	\$23,287,000
	=====	=====

<FN>

See notes to condensed consolidated financial statements.

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INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of Presentation -

The accompanying unaudited condensed consolidated financial statements

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 of the information and footnotes required by generally accepted accounting principles for complete financial statements. The balance sheet at September 30, 1993 has been derived from the audited financial statements at that date. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended June 30, 1994 are not necessarily indicative of the results that may be expected for the year ended September 30, 1994. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report to shareholders for the year ended September 30, 1993. The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," during the quarter ended December 31, 1993. Adoption of this standard did not have a material effect on the Company's financial position or results of operations. Prior periods have not been restated to reflect this standard.

(2) Inventories -

Inventories, stated at the lower of cost (first-in, first-out or average) or market, are comprised of the following:

<TABLE>

<CAPTION>

	June 30, 1994	September 30, 1993
	-----	-----
<S>	<C>	<C>
Finished goods	\$14,900,000	\$13,136,000
Work in process	26,406,000	22,383,000
Raw materials and supplies	20,237,000	20,466,000
	-----	-----
	\$61,543,000	\$55,985,000
	=====	=====

</TABLE>

(3) Income (Loss) Per Share -

Earnings per share is calculated using the weighted average number of shares of common stock, and where dilutive, common stock equivalents outstanding during each period. Shares used in computing per share results were 36,814,000 and 38,051,000 for the three months ended June 30, 1994 and 1993 and 37,408,000 and 37,994,000 for the nine months ended June 30, 1994 and 1993, respectively.

(4) Discontinued Operations -

The sale of the Company's 25% interest in Oneita Industries, Inc. was completed in October 1993 for approximately \$11,500,000. As a result, the operating results for the three months and nine months ended June 30, 1993 reflect Oneita as a discontinued operation.

(5) Treasury Stock Purchases -

In connection with a plan to purchase up to 4,000,000 shares of its Common and Preferred Stock, the Company expended \$13,361,000 during the nine-month

period ended June 30, 1994 for treasury shares. Approximately 2,000,000 Common shares have been purchased pursuant to the plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

Results of Operations

Net sales were \$125.3 million for the three-month period ended June 30, 1994, an increase of \$17.1 million or 15.8% over last year's comparable quarter. Net sales of the building products business were \$63.4 million, an increase of \$15.1 million or 31.3% over last year. The increase was primarily due to increased unit sales of garage doors. Net sales of the specialty plastic films business were \$29.0 million, an increase of \$1.8 million or 6.4% over last year, principally resulting from an increase in unit sales. Net sales of the electronic information and communication systems business were \$23.4 million, a decrease of \$.4 million compared to last year.

Income from operations for the three-month period ended June 30, 1994 was \$12.5 million, an increase of \$1.2 million or 10.9% over last year's comparable quarter. Operating income of the building products business increased by \$1.0 million compared to last year. The effect of higher sales was partly offset by increased distribution costs and start-up expenses for a new garage door product line. Operating income for the specialty plastic films business increased \$.9 million compared to last year due to increased sales and production efficiencies. Operating income of the electronic information and communication systems business decreased \$.4 million principally due to increased bid and proposal expenses.

Net sales were \$347.3 million for the nine-month period ended June 30, 1994, an increase of \$40.8 million or 13.3% over last year's comparable period. Net sales of the building products business were \$167.2 million, an increase of \$32.4 million or 24.0% over last year, principally attributable to increased unit sales. Net sales of the specialty plastic films business were \$85.6 million, an increase of \$3.0 million or 3.6% over last year, due primarily to an increase in unit sales. Net sales of the electronic information and communication systems business were \$66.3 million, an increase of \$3.6 million or 5.8% over last year, principally due to new contract awards.

Income from operations for the nine-month period ended June 30, 1994 was \$32.3 million, an increase of \$4.3 million or 15.3% over last year's comparable period. Operating income of the building products business increased \$2.4 million over last year's comparable period primarily due to the increased sales, offset in part by increased distribution costs and by start-up expenses relating to a new garage door product line. Operating income of the specialty plastic films business increased \$2.6 million due to increased sales and production efficiencies. Operating income of the electronic information and communication systems business was down slightly compared to last year.

As previously reported, a major customer of the specialty plastic films segment informed the Company in May 1994 of its intention to make a design change which, over the balance of the year and into fiscal 1995, will substantially reduce and could eliminate the segment's thin laminate program. This change is based upon the lower cost of an alternative material.

During fiscal 1993, sales of the thin laminate were approximately \$28 million. The loss of the thin laminate program will adversely impact earnings, subject to the ability of the Company to replace the business, expand other areas of the specialty plastic films business and reduce operating costs.

The Company has recently been approved as a supplier of other moisture barrier films to this customer and expects to sell approximately \$10 - \$15 million per year of such films. The Company has a number of ongoing development projects with this and other customers and will direct its efforts to find alternative business for the utilization of the plastic films segment's production capacity.

Net interest expense decreased by \$.3 million and \$.8 million for the three and nine-month periods ended June 30, 1994, respectively, due to higher investable balances and reductions of long-term debt.

Liquidity and Capital Resources

Cash flow generated from operations for the nine-month period ended June 30, 1994 was \$21.9 million after income tax payments of \$16.0 million. Cash and marketable securities increased by \$8.7 million to \$46.3 million. Working capital was \$117.7 million, approximately the same as at September 30, 1993.

Cash flows from investing activities included \$11.6 million of proceeds received from the sale of the Company's ownership interest in Oneita Industries, Inc., as well as capital expenditures of \$7.4 million and acquisitions of \$1.9 million by the building products business.

Cash flows used by financing activities included debt reduction of \$3.2 million. Also, in July 1994, the Company authorized the purchase of up to 4,000,000 shares of its Common and Preferred Stock, an increase of 1,000,000 shares over its previously announced plan. Approximately 2,000,000 shares of Common Stock have been purchased by the Company; during the nine-month period ended June 30, 1994, \$13.4 million was expended in connection with the stock buyback program.

Anticipated cash flows from operations, together with existing cash and marketable securities and lease line availability, should be adequate to finance presently anticipated short and long-term liquidity needs.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1 Legal Proceedings

There are no material changes in the information previously reported under this item.

Item 2 Changes in Securities

None

Item 3 Defaults upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None

Item 6 Exhibits and Reports on Form 8-K

None

SIGNATURE

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

INSTRUMENT SYSTEMS CORPORATION

By Robert Balemian

Robert Balemian

President

(Principal Financial Officer)

Date: July 26, 1994