

SPS TECHNOLOGIES INC
Form 10-Q
May 15, 2001

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, 2001
Commission file number 1-4416

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

PENNSYLVANIA
(State of incorporation)
Two Pitcairn Place, Suite 200

23-1116110
(I.R.S. Employer
Identification No.)

165 Township Line Road
Jenkintown, Pennsylvania
(Address of principal executive offices)

19046
(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 No

The number of shares of Registrant's Common Stock outstanding on May 8, 2001 was 13,079,352.

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES

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

Three Months Ended
March 31
2001 2000

Net sales	\$239,156	\$216,730
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Cost of goods sold	<u>189,452</u>	<u>174,106</u>
Gross profit	49,704	42,624
Selling, general and administrative expense	<u>27,290</u>	<u>23,553</u>
Operating earnings	<u>22,414</u>	<u>19,071</u>
Other income (expense):		
Interest income	279	442
Interest expense	(5,111)	(4,543)
Other, net	<u>(42)</u>	<u>140</u>
)	
	<u>(4,874)</u>	<u>(3,961)</u>
))
Earnings before income taxes	17,540	15,110
Provision for income taxes	<u>5,720</u>	<u>4,700</u>
Net earnings	<u>\$ 11,820</u>	<u>\$ 10,410</u>
Earnings per common share		
Basic	<u>\$ 0.92</u>	<u>\$ 0.82</u>
Diluted	<u>\$ 0.90</u>	<u>\$ 0.81</u>

See accompanying notes to condensed consolidated financial statements.

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

Unaudited

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	March 31, <u>2001</u>	December 31, <u>2000</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 18,740	\$ 31,933
Accounts and notes receivable, less allowance for doubtful receivables of \$4,037 (2000 - \$3,815)	150,525	130,017
Inventories	174,518	161,584
Deferred income taxes	17,720	18,247
Prepaid expenses and other	<u>9,015</u>	<u>7,830</u>
Total current assets	370,518	349,611
Property, plant and equipment, net of accumulated depreciation of \$165,277 (2000 - \$165,162)	223,579	228,632
Other assets, principally goodwill	<u>231,433</u>	<u>232,279</u>
Total assets	<u>\$ 825,530</u>	<u>\$ 810,522</u>

See accompanying notes to condensed consolidated financial statements.

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

Unaudited

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March 31, December 31,

2001 2000

Liabilities and shareholders' equity

Current liabilities

Notes payable and current portion of long-term debt	\$ 18,596	\$ 14,617
Accounts payable	79,571	77,093
Accrued expenses	62,203	65,679
Income taxes payable	<u>7,324</u>	<u>5,265</u>
Total current liabilities	<u>167,694</u>	<u>162,654</u>
Deferred income taxes	32,805	31,619
Long-term debt	243,310	243,586
Retirement obligations and other long-term liabilities	28,229	27,796

Shareholders' equity

Preferred stock, par value \$1 per share, authorized 400,000 shares, issued none

Common stock, par value \$0.50 per share, authorized 60,000,000 shares, issued 14,335,444 shares (14,210,886 shares in 2000)

Common stock, par value \$0.50 per share, authorized 60,000,000 shares, issued 14,335,444 shares (14,210,886 shares in 2000)	7,168	7,105
Additional paid-in capital	120,978	117,665
Common stock in treasury, at cost, 1,463,061 shares (1,428,354 shares in 2000)	(28,383)	(26,626)
Retained earnings	285,380	273,560
Accumulated other comprehensive income		
Minimum pension liability	(718)	(718)
Cumulative translation adjustments	(31,200)	(26,119)
Fair value of derivative adjustments	<u>267</u>	<u>-</u>

Total shareholders' equity	<u>353,492</u>	<u>344,867</u>
Total liabilities and shareholders' equity	<u>\$ 825,530</u>	<u>\$ 810,522</u>

See accompanying notes to condensed consolidated financial statements.

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

Three Months Ended
March 31,

	<u>2001</u>	<u>2000</u>
Net cash provided by operating activities (including depreciation and amortization of \$10,005 in 2001 and \$9,311 in 2000)	<u>\$ 1,818</u>	<u>\$ 8,297</u>
Cash flows provided by (used in) investing activities		
Additions to property, plant and equipment	(7,414)	(7,272)
Proceeds from sale of property, plant and equipment	92	2,476
Acquisitions of businesses, net of cash acquired	<u>(9,019)</u>	<u>(115,572)</u>
Net cash used in investing activities	<u>(16,341)</u>	<u>(120,368)</u>
))
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	16,798	88,071

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Reduction of borrowings	(15,586)	(9,319)
Purchases of treasury stock	-	(1,535)
Proceeds from exercise of stock options	<u>365</u>	<u>166</u>
Net cash provided by financing activities	<u>1,577</u>	<u>77,383</u>
Effect of exchange rate changes on cash	<u>(247)</u>	<u>(157)</u>
))
Net increase (decrease) in cash and cash equivalents	(13,193)	(34,845)
Cash and cash equivalents at beginning of period	<u>31,933</u>	<u>50,479</u>
Cash and cash equivalents at end of period	<u>\$ 18,740</u>	<u>\$ 15,634</u>
Significant noncash investing and financing activities		
Issuance of treasury shares for businesses acquired	\$ -	\$ 3,600
Debt assumed with businesses acquired	\$ 3,000	\$ 501
Acquisition of treasury shares for stock options exercised	\$ 1,758	\$ -

See accompanying notes to condensed consolidated financial statements.

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SPS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited - Thousands of dollars)

Three Months Ended
March 31,
2001 2000

Net earnings	\$11,820	\$10,410
Other comprehensive income (expense):		
Foreign currency translation adjustments	(5,081)	(1,738)
Changes in the fair value of derivatives	178	-
Cumulative effect of accounting change, net of tax	<u>89</u>	<u>-</u>
Total comprehensive income	<u>\$ 7,006</u>	<u>\$ 8,672</u>

See accompanying notes to condensed consolidated financial statements.

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

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, 2001, the results of operations for the three month periods ended March 31, 2001 and 2000, and cash flows for the three month periods ended March 31, 2001 and 2000. The December 31, 2000 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 2000 Annual Report filed on Form 10-K applied on a consistent basis.

2. Change in Accounting Policies

Effective January 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. The new standard requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on the use of the derivative and whether it qualifies for hedge accounting treatment. Based on market valuations for

derivatives held as of January 1, 2001, the Company recorded net-of-tax, cumulative-effect-type adjustments to other comprehensive income of \$89 to recognize the fair value of all derivatives. The Company made no significant change to its risk management strategies due to the adoption of SFAS No. 133.

The Company enters into derivative contracts to reduce the risk caused by variable interest rates and currency exchange rates. The Company is using interest rate swap agreements to modify a portion of its variable rate obligations to fixed rate obligations, thereby reducing the exposure to market rate fluctuations. A currency swap agreement is used by the Company to manage exposure related to an intercompany debt denominated in one currency that will be repaid in another currency. The Company has entered into a series of foreign currency forward contracts to buy certain foreign currencies each month over a future period of time at today's forward exchange rates. The Company formally assesses (both at the hedge's inception and on a quarterly basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods.

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As of March 31, 2001, all hedges outstanding were highly effective. The maximum remaining length of time of the interest rate swaps currently in place as of March 31, 2001 is approximately 4.5 years. The currency swap agreement matures on October 27, 2003. The maximum remaining length of time of the foreign currency forward contracts currently in place as of March 31, 2001 is approximately

3 years. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the swap agreements and the foreign currency forward contracts. The Company does not anticipate nonperformance by the counterparties who are major financial institutions.

The fair value of all derivatives were zero at the inception date and will be zero at the maturity of the derivatives. Throughout the term of the derivatives, the Company will adjust the derivatives to their fair value with an offsetting adjustment to other comprehensive income and current period earnings. Any change in fair value related to the derivative's hedge ineffectiveness and any component of the derivative's gain or loss excluded from the assessment of hedge effectiveness would be recognized in current period earnings. The net gain or loss recognized in earnings during the three months ended March 31, 2001 was not material. Of the amount reported in accumulated other comprehensive income at March 31, 2001, the Company estimates that \$1,700 of losses are expected to be reclassified as current period earnings within the next twelve months. When the losses are reclassified into current period earnings, they will be reported on the same line as the underlying transaction. If it is determined that a derivative is not highly effective as a hedge, the Company would discontinue hedge accounting prospectively and the gain or loss on the derivative remaining in accumulated other comprehensive income would be reclassified into earnings. In any situation in which hedge accounting was discontinued and the derivative remained outstanding, the Company would carry the derivative at its fair value on the balance sheet and recognize changes in the fair value in current period earnings.

3. Business Acquisitions

All acquisitions have been accounted for under the purchase method. The results of operations of the acquired businesses are included in the consolidated financial statements from the dates of acquisition.

On February 12, 2001 the Company and a group of investors acquired substantially all of the assets and business of AAA Aircraft Supply Co., Inc. (AAA) located in Windsor Locks, Connecticut for \$7,000. The Company's ownership percentage is 88.8 percent. AAA is a North American distributor of fasteners sold to the aerospace markets. The

purchase price approximated the fair value of the net assets acquired.

On March 14, 2000 the Company acquired all of the outstanding shares of Avibank Mfg., Inc. (Avibank) based in Burbank, California for approximately \$115,900. Consideration consisted of approximately \$112,300 in cash and 110,652 shares of the Company's common stock in treasury valued at \$3,600. Avibank is a manufacturer of latches, hold open rods, quick release pins, structural panel fasteners, self-retaining bolts and expandable fasteners for aerospace markets. Avibank, through its AVK Industrial Products Division, also manufactures threaded inserts for the automotive and industrial markets. The excess of the purchase price over the fair values of the net assets acquired was approximately \$90,800 and has been recorded as goodwill, patents, trademarks and other intangible assets which are being amortized on a straight-line basis over 15 to 40 years.

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In 2000, the Company also completed two relatively smaller acquisitions in Europe. On January 10, 2000, the Company acquired certain operating assets of ULMA S.p.A. (ULMA) based in Milan, Italy for approximately \$2,300. ULMA is a full range manufacturer of flat, planetary and cylindrical tread roll dies used in metal forming. In December 2000, the Company acquired certain operating assets of DACAR S.A. based in Auxerre, France for approximately \$1,600. DACAR is a manufacturer of precision machined components and structural assemblies used by European aerospace suppliers.

The following unaudited pro forma consolidated results of operations are presented as if the Avibank acquisition had been made at the beginning of the periods presented. The effects of the AAA, ULMA and DACAR acquisitions are not material and, accordingly, have been excluded from the pro forma presentation.

	Three Months Ended	
	<u>March 31,</u>	
	<u>2001</u>	<u>2000</u>
Net sales	\$239,156	\$233,537
Net earnings	11,820	8,217
Basic earnings per common share	.92	.64
Diluted earnings per common share	.90	.63

The pro forma consolidated results of operations include adjustments to give effect to amortization of goodwill and other intangibles, interest expense on acquisition debt, shares of common stock issued and the related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

4. Inventories

	<u>March 31,</u>	<u>December 31,</u>
	<u>2001</u>	<u>2000</u>
Finished goods	\$ 74,517	\$ 70,188

Work-in-process	54,880	51,093
Raw materials and supplies	38,493	34,273
Tools	<u>6,629</u>	<u>6,030</u>
	<u>\$ 174,519</u>	<u>\$ 161,584</u>

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5. 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, 2001, the accrued liability for environmental remediation represents management's best estimate of the undiscounted costs related to environmental remediation which are considered probable and can be reasonably estimated. The Company has not included any insurance recovery in the accrued environmental liability. The measurement of the liability is evaluated quarterly based on currently available information. Management believes the overall costs of environmental remediation will be incurred over an extended period of time. 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. Management does not anticipate that its consolidated financial condition will be materially affected by environmental remediation costs in excess of amounts accrued.

6. Per Share Data

Basic earnings per common share is calculated using the average shares of common stock outstanding, while diluted earnings per common share reflects the potential dilution that could occur if stock options were exercised. Earnings per share are computed as follows:

	Three Months Ended	
	<u>March 31</u>	
	<u>2001</u>	<u>2000</u>
Net earnings	<u>\$ 11,820</u>	<u>\$ 10,410</u>
Average shares of common stock outstanding used to compute basic earnings per common share	12,826,758	12,670,658
Additional common shares to be issued assuming exercise of stock options, net of shares assumed reacquired	<u>272,142</u>	<u>222,247</u>
Shares used to compute dilutive effect of stock options	<u>13,098,900</u>	<u>12,892,905</u>
Basic earnings per common share	<u>\$ 0.92</u>	<u>\$ 0.82</u>

Diluted earnings per common share \$ 0.90 \$ 0.81

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7. Segment Information

The Company has three reportable segments: Precision Fasteners and Components, Specialty Materials and Alloys and Magnetic Products. The Precision Fasteners and Components segment consists of business units which produce precision fasteners and fastening systems, structural and other metal components and consumable tools for critical applications in the aerospace, automotive and industrial machinery markets. The Specialty Materials and Alloys segment produces specialty metals, superalloys and ceramic cores for aerospace, industrial gas turbine, medical and other general industrial applications. The Magnetic Products segment produces magnetic materials and products used in automotive, telecommunications, aerospace, reprographic, computer and advertising specialty applications.

Three Months Ended

March 31,

2001 2000

Net sales:

Precision Fasteners and Components	\$163,846	\$148,162
Specialty Materials and Alloys	39,546	32,582
Magnetic Products	<u>35,764</u>	<u>35,986</u>
Total net sales	<u>\$239,156</u>	<u>\$216,730</u>

Operating earnings:

Precision Fasteners and Components	\$ 15,450	\$ 14,144
Specialty Materials and Alloys	6,271	4,351
Magnetic Products	3,843	3,376
Unallocated Corporate Costs	<u>(3,150)</u>	<u>(2,800)</u>
))
Total operating earnings	<u>\$ 22,414</u>	<u>\$ 19,071</u>

8. Subsequent Events

On April 5, 2001, the Company entered into a merger agreement to acquire the outstanding stock of M. Argüeso & Co., Inc. (Argüeso) for approximately \$19,600. Argüeso is headquartered in Mamaroneck, New York and is a leading manufacturer and distributor of wax blends for use in the investment casting industry. Argüeso's products are used in a variety of investment casting applications in diverse industries such as aerospace, power generation and medical. For the year ended December 31, 2000, Argüeso reported sales of approximately \$21,000. This acquisition will be accounted for under the purchase method. The results of operations of Argüeso will be included in the consolidated financial statements from the date of acquisition.

SPS TECHNOLOGIES, INC. AND SUBSIDIARIES

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

Introduction

Sales and net earnings increased in the first quarter of 2001 compared to the same quarter in 2000. The increase in operating results is primarily attributable to the impact of businesses acquired in 2000 and 2001 and strong demand for the Company's superalloy products from the industrial gas and aerospace turbine engine markets. The Company announced a major plant expansion in the Specialty Materials and Alloy segment and the acquisition of an aerospace fastener distributor.

Net Sales

Net sales increased \$22.4 million, or 10.3 percent, compared to the first quarter of 2000 and increased \$23.7 million, or 11.0 percent, compared to the fourth quarter of 2000. Sales from businesses acquired in 2000 and 2001 increased the Company's first quarter 2001 sales by \$24.1 million compared to the first quarter of 2000 and \$9.3 million compared to the fourth quarter of 2000.

Sales of products by companies acquired in 2000 and 2001 (primarily Avibank, DACAR and AAA Aircraft Supply) increased Precision Fasteners and Components segment sales by \$24.1 million compared to the first quarter of 2000 and \$9.3 million compared to the fourth quarter of 2000. Excluding the sales from these recently acquired businesses, this segment's sales decreased \$8.5 million, or 5.9 percent, compared to the first quarter of 2000 but increased \$5.0 million, or 3.8 percent, compared to the fourth quarter of 2000.

Sales of aerospace fasteners and components of \$69.8 million in the first quarter of 2001 represents a \$0.6 million, or 0.9 percent, decrease from the first quarter of 2000 and a \$2.1 million, or 3.1 percent, increase from the fourth quarter of 2000. Due to projected increases in airplane deliveries by the major aircraft manufacturing companies, the Company expects more favorable comparison of year to year quarterly sales throughout 2001.

Excluding recently acquired businesses, the Company's automotive and industrial fastener sales decreased \$6.9 million, or 10.7 percent, compared to the first quarter of 2000. This decrease is the result of lower demand from automotive and heavy truck markets in North America. Partially offsetting this decrease in demand in North America was strong demand from the automotive, truck and industrial markets in Brazil. Fastener sales in Brazil increased by \$1.3 million in the first quarter of 2001 compared to the first quarter of 2000.

Specialty Materials and Alloys segment sales increased \$7.0 million, or 21.4 percent, compared to the first quarter of 2000 and \$7.4 million, or 22.9 percent, compared to the fourth quarter of 2000. These higher sales are the result of strong demand from the industrial gas and aerospace turbine markets as well as the medical market. On March 29, 2001, the Company announced the purchase of a vacuum induction melting furnace to expand production capacity at its Cannon-Muskegon subsidiary. The new furnace is estimated to be delivered in December of 2001 and when fully operational is expected to add five million pounds of capacity, an increase in vacuum melt capacity of 56 percent. The capacity expansion is in response to continued growth in the industrial gas and aerospace turbine markets in North America, Europe and Asia, as well as expanding applications for the Company's proprietary superalloys, which are sold to those markets.

Magnetic Products segment sales were approximately the same as the first quarter of 2000 and \$2.1 million, or 6.1 percent, higher than the fourth quarter of 2000. While sales remained relatively stable in the first quarter of 2001, the Company is concerned about the economic conditions of the markets served by this segment. Softness in the automotive and telecommunications markets coupled with continued Asian penetration of the available market have been reflected in the Company's incoming orders. Incoming orders for the first quarter of 2001 are \$7.1 million, or 18.2 percent, lower compared to the first quarter of 2000.

Operating Earnings

Operating earnings of the Company increased \$3.3 million, or 17.5 percent, compared to the first quarter of 2000 and decreased \$0.6 million or 2.7 percent, compared to the fourth quarter of 2000. Operating earnings for the first quarter of 2000 include a non-recurring charge of \$0.6 million for the amortization of inventory step-up related to purchase accounting for the acquisition of Avibank on March 14, 2000. In addition, operating earnings for the three months ended March 31, 2000 include a non-recurring gain of \$0.9 million related to the sale of the automotive fastener manufacturing facility in Coventry, England. The Company's operations have continued to occupy a portion of the facility under a lease arrangement.

Excluding the non-recurring charge and gain described above, the operating earnings of the Precision Fasteners and Components segment increased from \$13.8 million, or 9.3 percent of sales, for the first quarter of 2000 to \$15.4 million, or 9.4 percent of sales in the first quarter of 2001. The increase in operating earnings is the result of operating earnings of recently acquired businesses and the cost of employee separations incurred in 2000 net of an earnings decline in 2001 from the North American fastener manufacturing plants. Operating earnings of companies acquired in 2000 and 2001 (Avibank, DACAR and AAA Aircraft Supply) increased Precision Fasteners and Components operating earnings by \$3.6 million. In the first quarter of 2000, the Company incurred \$1.4 million of cost for employee separations related to the downsizing of fastener manufacturing operations in England and Ireland. All severance cost were expended prior to December 31, 2000. Due primarily to the lower volume of automotive and industrial fastener sales, the North American fastener manufacturing operations reported a \$2.6 million decrease in operating earnings.

The operating earnings of the Specialty Materials and Alloys segment increased from \$4.4 million, or 13.4 percent of sales, for the first quarter of 2000 to \$6.3 million, or 15.9 percent of sales. This increase in earnings is due primarily to the increase in sales discussed above.

Operating earnings of the Magnetic Products segment increased from \$3.4 million, or 9.4 percent of sales, for the first quarter of 2000 to \$3.8 million, or 10.7 percent of sales, for the first quarter of 2001. The increase in operating profit is the result of improved operating performance by the Company's magnetic wound core manufacturing operation in Adelanto, California. This operation recorded an operating loss of approximately \$1.0 million in the first quarter of 2000 compared to a small operating profit in 2001. This improvement was partially offset by decreased earnings from other magnetic products manufacturing operations in North America attributed to lower sales.

Other Income and Expense

Due to higher levels of debt, interest expense increased from \$4.5 million in the first quarter of 2000 to \$5.1 million in the first quarter of 2001. The increase in debt is primarily due to the acquisition of Avibank on March 14, 2000.

Orders and Backlog

Incoming orders for the first quarter of 2001 increased 16.5 percent to \$258.7 million compared to the fourth quarter of 2000. A 36.8 percent increase in orders for aerospace fasteners and components contributed to this improvement in incoming orders.

Excluding the \$28.3 million of incoming orders for companies acquired in 2000 and 2001, the Company's incoming orders for the first quarter of 2001 increased \$10.8 million, or 4.9 percent, compared to the first quarter of 2000. Incoming orders for the Specialty Materials and Alloys Segment increased \$14.3 million, or 43.8 percent, compared to the first quarter of 2000 while incoming orders for Magnetic Products decreased \$7.1 million, or 18.2 percent. The backlog of orders, which represent firm orders with delivery scheduled within 12 months, at March 31, 2001 was \$318.8 million, compared to \$287.3 million on the same date a year ago and \$294.2 million at December 31, 2000.

Acquisitions

As discussed in Note 2 to the financial statements, the Company and a consortium of investors acquired substantially all of the assets and business of AAA Aircraft Supply Co., Inc. (AAA) located in Windsor Locks, Connecticut for \$7.0 million on February 12, 2001. The Company's ownership percentage is 88.8 percent. AAA is a North American distributor of fasteners sold to the aerospace markets. For the year ended December 31, 2000, AAA sales were approximately \$14.0 million. The acquisition of AAA will improve the Company's ability to service Pratt & Whitney and facilitates the Company's participation in United Technologies' movement towards a Point-of-Service supply concept.

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 financing activities is summarized in the condensed statements of consolidated cash flows. For the three months ended March 31, 2001, net cash provided by operating activities decreased by \$6.5 million compared to the first three months of 2000. This decrease in net cash

provided by operations is due to an increase in cash used to fund working capital (\$10.7 million) net of an increase in net earnings (\$1.4 million) which included a higher non-cash charge for deferred income taxes (\$1.5 million).

The decrease in cash used in investing activities is due to the cash payment in March 2000 for the acquisition of Avibank (\$112.3 million). The Company spent \$7.4 million for capital expenditures in the first three months of 2001 and is forecasting approximately \$48.0 million for the full year of 2001, an increase of \$9.7 million from the 2001 budgeted amount reported on Form 10-K for the year ended December 31, 2000. This increase is the result of the expansion of superalloy production capacity announced on March 29, 2001 and discussed above.

The Company's total debt to equity ratio was 74 percent at March 31, 2001, compared to 75 percent at December 31, 2000. Total debt was \$261.9 million at March 31, 2001 and \$258.2 million at December 31, 2000. As of March 31, 2001, under the terms of its existing credit agreements, the Company is permitted to incur an additional \$170.2 million in debt.

Forward-Looking Statements

Certain statements in Management's Discussion and Analysis of Financial Condition and Results of Operations contain "forward-looking" information, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risk and uncertainty. Statements such as the Company's expectations of more favorable comparisons of year to year quarterly sales of aerospace fasteners and components to continue throughout 2001, delivery of the new vacuum induction melting furnace in December 2001 and its installation resulting in an additional five million pounds of capacity, demand for its alloys from the industrial gas and aerospace turbine markets to remain relatively strong throughout 2001, future benefits of the Company's downsizing of fastener manufacturing operations, and future benefits from operational synergies with newly acquired companies are "forward-looking" statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations. Actual future results may differ materially depending on a variety of factors, such as: the effects of competition on products and pricing, fluctuations in raw material prices, customer satisfaction and qualification issues, labor disputes, worldwide political and economic stability and changes in fiscal policies, laws and regulations on a national and international basis. The Company undertakes no obligation to publicly release any forward-looking information to reflect anticipated or unanticipated events or circumstances after the date of this document.

SPS Technologies, Inc and Subsidiaries

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's primary market risk exposures are foreign currency exchange rate and interest rate risk. Fluctuations in foreign currency exchange rates affect the Company's results of operations and financial position. As discussed in Note 1 to the financial statements on Form 10-K for the year ended December 31, 2000, the Company uses forward exchange contracts and one currency swap agreement to minimize exposure and reduce risk from exchange rate fluctuations affecting the results of operation. Because the largest portion of the Company's foreign operations are in countries with relatively stable currencies, namely, England, Ireland and Canada, the foreign currency exchange rate risk to the Company's financial position is not significant. However, the Company has operations in Brazil, China and other foreign countries which

increases its exposure to foreign currency fluctuations. Fluctuations in interest rates primarily affect the Company's results of operations. Because a majority of the Company's debt is in fixed rate obligations (as disclosed in Note 8 to the financial statements on Form 10-K for the year ended December 31, 2000), the Company has effectively limited its exposure to fluctuations in interest rates.

A description of the Company's financial instruments is provided in Notes 1 and 15 to the financial statements on Form 10-K for the year ended December 31, 2000. Assuming an instantaneous 10 percent strengthening of the United States dollar versus foreign currencies for which forward exchange contracts and currency rate swap agreements existed and a 10 percent change in the interest rate on the Company's variable rate debt had all occurred on March 31, 2001, the Company's results of operations, cash flow and financial position would not have been materially affected.

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SPS TECHNOLOGIES, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
NONE.

(b) No reports on Form 8-K were filed during the quarter ended March 31, 2001.

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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 8, 2001

/s/ William M. Shockley
 William M. Shockley
 Vice President,
 Chief Financial Officer

Mr. Shockley is signing on behalf of the registrant and as the Chief Financial Officer of the registrant.

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(981) (134) (179) 147,720

Notes and interest receivable

Performing

69,875 69,875

Nonperforming

10,932 10,932

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	76,174	76,174
Net pizza parlor equipment	6,937	6,937
Marketable equity securities, at market value	5,439	5,439
Cash and cash equivalents	7,003	1,128
	2,600	1,178
	259	350
	33	3,518
	4,041	20,110
Investments in equity investees	4,981	4,981
Goodwill, net of accumulated amortization	11,858	11,858
Other intangibles, net of accumulated amortization	1,504	1,504
Other assets	61,714	(288)
	(13)	(60)
	6,093	(8)
	(1,493)	(1,864)
	64,081	

Total Assets

\$1,230,613 \$(141) \$207 \$(799) \$125 \$(10,435) \$(154) \$(2,305) \$(2,673) \$1,214,438

Liabilities and Equity

Notes and interest payable

\$889,146 \$ (1,260) \$(1,963) \$ (13,153) \$(436) \$(5,246) \$(7,682) \$859,406

Liabilities related to assets held for sale

108,197 (465) 107,732

Margin borrowings

21,509 21,509

Accounts payable and other liabilities

85,294 (2,181) (1,514) (43) (6) (149) (16) (197) (171) 81,017

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1,104,146 (2,646) (2,774) (2,006) (6) (13,302) (452) (5,443) (7,853) 1,069,664

Minority Interest

57,310 57,310

Stockholders' Equity

Preferred Stock

5,251 5,251

Common Stock

114 114

Paid-in capital

93,164 93,164

Accumulated (deficit)

(10,259) 2,505 2,981 1,207 131 2,867 298 3,138 5,180 8,048

Treasury stock

(18,458) (18,458)

Accumulated other comprehensive income

(655) (655)

(1) Includes properties sold prior to June 30, 2004.
(2) Assumes sale by ARI on January 1, 2004

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AMERICAN REALTY INVESTORS, INC.

PRO FORMA COMBINED STATEMENT OF OPERATIONS ^{(1) (2)}

SIX MONTHS ENDED JUNE 30, 2004

(Dollars in thousands, except per share)

	<u>Actual</u>	<u>Apartments⁽³⁾</u>	<u>Commercial⁽⁴⁾</u>	<u>Land⁽⁵⁾</u>	<u>Pro Forma</u>
Revenue:					
Rents	\$ 96,729	\$ (2,210)	\$ (3,555)	\$	\$ 90,964
Property operations	68,835	(1,517)	(1,577)	(20)	65,721
	<u>27,894</u>	<u>(693)</u>	<u>(1,978)</u>	<u>20</u>	<u>25,243</u>
Land Operations:					
Sales	30,194			3,433	33,627
Cost of sales	21,283			2,776	24,059
Deferral of gains on current period sales	5,159				5,159
	<u>3,752</u>			<u>657</u>	<u>4,409</u>
Pizza Parlor Operations:					
Sales	16,992				16,992
Cost of sales	13,137				13,137
	<u>3,855</u>				<u>3,855</u>
Income from Operations:	35,501	(693)	(1,978)	677	33,507
Other Income:					
Interest and other	2,450				2,450
Equity in loss of equity investees	(201)				(201)
Gain on foreign currency transaction	1,249				1,249
	<u>3,498</u>				<u>3,498</u>
Other Expense:					
Interest	37,228	(554)	(1,544)	(65)	35,065
Depreciation	14,585	(180)	(704)		13,701
Discount on sale of notes receivable	398				398
Advisory fees	5,228	(77)	(203)	(26)	4,922
General and administrative	8,892				8,892
Minority interest	1,629				1,629
	<u>67,960</u>	<u>(811)</u>	<u>(2,451)</u>	<u>(91)</u>	<u>64,607</u>
Net income (loss) from continuing operations	<u>\$ (28,961)</u>	<u>\$ 118</u>	<u>\$ 473</u>	<u>\$ 768</u>	<u>\$ (27,602)</u>
Basic and Diluted Earnings Per Share:					
Net Loss from Continuing Operations	<u>\$ (2.72)</u>				<u>\$ (2.60)</u>
Weighted Average Common Shares Used in Computing Earnings Per Share					
	10,629,307				10,629,307

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- (1) The Pro Forma Combined Statement of Operations assumes that each property was sold by ARI on January 1, 2004.
- (2) Operating results for properties are their actual operating results from January 1 to their respective dates of sale. Rents, property operations, interest expense and depreciation for non-land properties sold prior to August 15, 2004 were already excluded from the actual results of continuing operations in ARI's Report on Form 10-Q for the quarter ended June 30, 2004.
- (3) Includes the Tiberon Trails Apartments sold in March 2004, the Cliffs of El Dorado and Sandstone Apartments sold in May 2004, the Park Avenue Apartments sold in June 2004, the Falcon House Apartments sold in August 2004, and the In the Pines Apartments sold in October 2004.
- (4) Includes Plaza on Bachman, Countryside Retail and Harmon, Brandeis, and Odgen Industrial sold in February 2004; K-Mart, Texstar Warehouse, and the Pinewood Warehouse (Kelly) sold in March 2004; the Atrium sold in May 2004; 4135 Beltline sold in June 2004; the Cash Road Warehouse (Kelly) sold in July 2004; The Collection sold in September 2004; and One Steeplechase sold in October 2004.
- (5) Includes Red Cross sold in January 2004, Mason Goodrich sold in February 2004, Allen and Mason Goodrich sold in March 2004, Razor sold in August 2004, Vista Ridge sold in September 2004, and Mason Goodrich sold in October 2004.

AMERICAN REALTY INVESTORS, INC.

PRO FORMA COMBINED STATEMENT OF OPERATIONS ^{(1) (2)}

YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands, except per share)

	<u>Actual</u>	<u>Apartments⁽³⁾</u>	<u>Commercial⁽⁴⁾</u>	<u>Land⁽⁵⁾</u>	<u>Pro Forma</u>
Property revenue:					
Rents	\$ 166,908	\$ (4,653)	\$ (14,534)	\$ (11)	\$ 147,710
Property operations	116,454	(2,518)	(6,435)	(267)	107,234
	<u>50,454</u>	<u>(2,135)</u>	<u>(8,099)</u>	<u>256</u>	<u>40,476</u>
Land Operations:					
Sales	67,283			33,626	100,909
Cost of Sales	39,883			24,358	64,241
Deferred Gain on Sale	3,493			5,159	8,652
Recognition of previously deferred gains	19,924				19,924
	<u>43,831</u>			<u>4,109</u>	<u>47,940</u>
Pizza Parlor Operations:					
Sales	33,057				33,057
Cost of sales	26,051				26,051
	<u>7,006</u>				<u>7,006</u>
Income from Operations:	101,291	(2,135)	(8,099)	4,365	95,422
Other income:					
Interest and other	24,640				24,640
Equity in loss of equity investees	(4,441)				(4,441)
	<u>20,199</u>				<u>20,199</u>
Other expense:					
Interest	71,008	(1,869)	(3,597)	(1,553)	63,989
Depreciation	25,848	(534)	(2,331)		22,983
Discount on sale of note receivable	2,220				2,220
General & administrative	22,124				22,124
Advisory fee to affiliates	9,345	(312)	(629)	(176)	8,228
Litigation settlement	15				15
Writedown of assets held for sale	19,892				19,892
Loss on foreign currency translation	3,309				3,309
Minority interest	347		1,064		1,411
	<u>154,108</u>	<u>(2,715)</u>	<u>(5,493)</u>	<u>(1,729)</u>	<u>144,171</u>
Net income (loss) from continuing operations	\$ (32,618)	\$ 580	\$ (2,606)	\$ 6,094	\$ (28,550)

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	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic and Diluted Earnings Per Share:					
Net Loss from Continuing Operations	\$	(3.02)		\$	(2.65)
	<u> </u>			<u> </u>	
Weighted Average Common Shares Used in Computing					
Earnings Per Share		10,789,352			10,789,352
		<u> </u>			<u> </u>

The accompanying footnotes are an integral part of this Pro Forma Combined Statement of Operations

AMERICAN REALTY INVESTORS, INC.

NOTES TO PRO FORMA COMBINED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2003

- (1) The Pro Forma Combined Statement of Operations assumes that each property was sold by ARI on January 1, 2003.
- (2) Operating results for properties are their actual operating results for 2003. Rents, property operations, interest expense and depreciation for non-land properties sold prior to April 1, 2004 were already excluded from the actual results of continuing operations in ARI's Annual Report on Form 10-K for the year ended December 31, 2003.
- (3) Includes the Tiberon Trails Apartments sold in March 2004, the Cliffs of El Dorado and Sandstone Apartments sold in May 2004, the Park Avenue Apartments sold in June 2004, the Falcon House Apartments sold in August 2004, and the In the Pines Apartments sold in October 2004.
- (4) Includes Plaza on Bachman, Countryside Retail and Harmon, Brandeis, and Odgen Industrial sold in February 2004; K-Mart, Texstar Warehouse, and the Pinewood Warehouse (Kelly) sold in March 2004; the Atrium sold in May 2004; 4135 Beltline sold in June 2004; the Cash Road Warehouse (Kelly) sold in July 2004; The Collection sold in September 2004; and One Steeplechase sold in October 2004.
- (5) Includes Red Cross sold in January 2004, Mason Goodrich sold in February 2004, Allen and Mason Goodrich sold in March 2004, Rasor sold in August 2004, Vista Ridge sold in September 2004, and Mason Goodrich sold in October 2004.

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.

AMERICAN REALTY INVESTORS, INC.

Date: October 25, 2004

By: /s/ J. C. Lowenberg III
J. C. Lowenberg III
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Acting Principal
Executive Officer)

Date: October 25, 2004

By: /s/ Scott T. Lewis
Scott T. Lewis
Vice President and Chief Accounting Officer