

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 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 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  
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Indicate the number of shares outstanding of each of the issuer's classes  
of common stock, as of the latest practicable date. 35,026,849 shares of Common  
Stock as of April 30, 1994.

FORM 10-Q

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INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1994 ----- (Unaudited)	September 30, 1993 ----- (Note 1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,832,000	\$ 26,466,000
Marketable securities	26,070,000	11,095,000
Accounts receivable, less allowance for doubtful accounts	49,696,000	51,885,000
Contract costs and recognized income not yet billed	28,567,000	35,453,000
Inventories (Note 2)	59,059,000	55,985,000
Investment in affiliate, sold in October 1993 (Note 4)	---	11,615,000
Prepaid expenses and other current assets	6,676,000 -----	7,094,000 -----
Total current assets	188,900,000	199,593,000
PROPERTY, PLANT AND EQUIPMENT		
at cost, less accumulated depreciation and amortization of \$45,303,000 at March 31, 1994 and \$40,939,000 at September 30, 1993	47,745,000	49,807,000
OTHER ASSETS	20,851,000 -----	20,870,000 -----
	\$257,496,000 =====	\$270,270,000 =====

<FN>

See notes to condensed consolidated financial statements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1994 ----- (Unaudited)	September 30, 1993 ----- (Note 1)
LIABILITIES AND SHARHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 25,608,000	\$ 30,896,000
Other current liabilities	45,278,000	51,914,000
	-----	-----
Total current liabilities	70,886,000	82,810,000
	-----	-----
LONG-TERM DEBT	16,998,000	23,298,000
	-----	-----
EMPLOYEE STOCK OWNERSHIP PLAN AND OTHER OBLIGATIONS	2,057,000	2,849,000
	-----	-----
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$.25 per share, authorized 3,000,000 shares -- Second Preferred Stock, Series I, authorized 1,950,000 shares, issued 1,677,727 shares at March 31, 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 35,964,650 shares at March 31, 1994 and 35,803,344 shares at September 30, 1993, and 885,300 shares and 202,900 shares in treasury at March 31, 1994 and September 30, 1993, respectively	8,991,000	8,951,000
Other shareholders' equity	158,145,000	151,942,000
	-----	-----
Total shareholders' equity	167,555,000	161,313,000
	-----	-----
	\$257,496,000	\$270,270,000
	=====	=====

<FN>

See notes to condensed consolidated financial statements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	1994 ----	1993 ----
Net sales	\$105,857,000	\$94,734,000
Cost of sales	74,558,000	67,613,000
	-----	-----
Gross profit	31,299,000	27,121,000
Selling, general and administrative expenses	22,947,000	19,829,000
	-----	-----
Income from operations	8,352,000	7,292,000

Other income (expense):		
Interest expense	(430,000)	(501,000)
Interest income	394,000	214,000
Other, net	34,000	543,000
	(2,000)	256,000
Income from continuing operations before income taxes	8,350,000	7,548,000
Provision for income taxes:		
Federal	2,808,000	2,269,000
State and other	616,000	650,000
	3,424,000	2,919,000
Income from continuing operations	4,926,000	4,629,000
Discontinued operations, net of income tax effect	---	193,000
Net income	\$ 4,926,000	\$ 4,822,000
Income per share of common stock (Note 3):		
Continuing operations	\$ .13	\$ .12
Discontinued operations	--	.01
Net income	\$ .13	\$ .13

<FN>

See notes to condensed consolidated financial statements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	SIX MONTHS ENDED MARCH 31,	
	1994	1993
	----	----
Net sales	\$222,012,000	\$198,316,000
Cost of sales	156,346,000	140,678,000
Gross profit	65,666,000	57,638,000
Selling, general and administrative expenses	45,864,000	40,906,000
Income from operations	19,802,000	16,732,000
Other income (expense):		
Interest expense	(891,000)	(1,003,000)
Interest income	846,000	448,000
Other, net	126,000	749,000
	81,000	194,000
Income from continuing operations before income taxes	19,883,000	16,926,000
Provision for income taxes:		

Federal	6,700,000	5,176,000
State and other	1,452,000	1,509,000
	-----	-----
	8,152,000	6,685,000
	-----	-----
Income from continuing operations	11,731,000	10,241,000
Discontinued operations, net of income tax effect	---	366,000
	-----	-----
Net income	\$ 11,731,000	\$ 10,607,000
	=====	=====
Income per share of common stock (Note 3):		
Continuing operations	\$ .31	\$ .27
Discontinued operations	--	.01
	-----	-----
Net income	\$ .31	\$ .28
	=====	=====

<FN>

See notes to condensed consolidated financial statements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

SIX MONTHS ENDED MARCH 31,

1994                      1993  
-----                      -----

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 11,731,000	\$10,607,000
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,730,000	4,677,000
Provision for losses on accounts receivable	379,000	332,000
Income from discontinued operations	---	(555,000)
Change in assets and liabilities:		
Decrease in accounts receivable and contract costs and recognized income not yet billed	8,696,000	4,066,000
Increase in inventories	(2,995,000)	(5,181,000)
(Increase) decrease in prepaid expenses and other assets	(434,000)	281,000
Decrease in accounts payable, accrued liabilities and Federal income taxes	(14,542,000)	(9,318,000)
Other changes, net	(23,000)	25,000
	-----	-----
Total adjustments	(4,189,000)	(5,673,000)
	-----	-----
Net cash provided by operating activities	7,542,000	4,934,000
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Net (increase) decrease in marketable securities	(14,975,000)	259,000
Acquisition of property, plant and equipment	(2,337,000)	(3,836,000)
Proceeds from sale of investment in affiliate	11,615,000	---
Acquired businesses	(1,557,000)	---
Decrease in equipment lease deposits and other	1,665,000	2,733,000
	-----	-----
Net cash used in investing activities	(5,589,000)	(844,000)
	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES:

Purchase of treasury shares	(6,037,000)	(550,000)
Proceeds from issuance of long-term debt	1,900,000	1,000,000
Payment of long-term debt	(5,716,000)	(1,403,000)
Other, net	266,000	297,000
	-----	-----
Net cash used by financing activities	(9,587,000)	(656,000)
	-----	-----

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,634,000)	3,434,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	26,466,000	18,007,000
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 18,832,000	\$21,441,000
	=====	=====

<FN>

See notes to condensed consolidated financial statements.

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 six-month periods ended March 31, 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:

	March 31, 1994	September 30, 1993
	-----	-----
Finished goods . . . . .	\$13,854,000	\$13,136,000
Work in process . . . . .	26,450,000	22,383,000
Raw materials and supplies . . . .	18,755,000	20,466,000
	-----	-----
	\$59,059,000	\$55,985,000
	=====	=====

(3) Net Income Per Share -

Net income 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 37,481,000 and 38,030,000 for the three months ended March 31, 1994 and 1993 and 37,704,000 and 37,966,000 for the six months ended March 31, 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 six months ended March 31, 1993 have been reclassified to reflect Oneita as a discontinued operation.

## AND RESULTS OF OPERATIONS

### Recent Developments

In May 1994, a major customer of the specialty plastic films segment informed the Company of its intention to make a design change which, over the next six months, 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 in the latter part of fiscal 1994 and thereafter, 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.

### Results of Operations

Net sales were \$105.9 million for the three-month period ended March 31, 1994, an increase of \$11.1 million or 11.7% over last year's comparable quarter. Net sales of the building products business were \$42.7 million, an increase of \$6.5 million or 17.8% over last year. The increase was primarily due to increased unit sales of garage doors. Net sales of the specialty plastic films business were \$29.7 million, an increase of \$1.6 million or 5.6% over last year, principally resulting from an increase in unit sales. Net sales of the electronic information and communication systems business were \$23.8 million, an increase of \$2.5 million or 11.8% over last year. The higher sales were principally due to new contract awards.

Income from operations for the three-month period ended March 31, 1994 was \$8.4 million, an increase of \$1.1 million or 14.5% over last year's comparable quarter. Operating income of the building products business decreased by \$.4 million compared to last year. The effect of higher sales was offset by increased production and distribution costs resulting from severe weather conditions experienced in January and February 1994, and start-up expenses for a new garage door product line. Operating income for the specialty plastic films business increased \$1.0 million compared to last year due to production efficiencies and lower raw material costs. Operating income of the electronic information and communication systems business increased \$.6 million principally due to the higher sales, offset in part by increased bid and proposal expenditures (\$.6 million).

Net sales were \$222.0 million in the six-month period ended March 31, 1994, an increase of \$23.7 million or 11.9% over last year's comparable period. Net sales of the building products business were \$103.8 million, an increase of \$17.2 million or 19.9% over last year, principally attributable to increased unit sales. Net sales of the specialty plastic films business were \$56.6 million, an increase of \$1.2 million or 2.2% over last year, due primarily to an increase in unit sales. Net sales of the electronic information and communication systems business were \$43.0 million, an increase of \$4.1 million or 10.4% over last year, for the reasons discussed above.

Income from operations for the six-month period ended March 31, 1994 was \$19.8 million, an increase of \$3.1 million or 18.3% over last year's comparable period. Operating income of the building products business increased \$1.4 million over last year's comparable period primarily due to the increased sales offset by start-up expenses relating to a new garage door product line. Operating income of the specialty plastic films business and the electronic information and communication systems business increased \$1.7 million and \$.1 million, respectively, for the reasons discussed above.

Net interest expense decreased by \$.3 million and \$.5 million for the three and six-month periods ended March 31, 1994, respectively, due to higher investable balances and reductions of long-term debt.

Liquidity and Capital Resources

Cash flow generated from operations was \$7.5 million after income tax payments of \$13.4 million. Cash and marketable securities increased by \$7.3 million to \$44.9 million. Working capital was \$118.0 million, approximately the same as at September 30, 1993.

Cash flows from investing activities were principally due to \$11.6 million of proceeds received from the sale of the Company's ownership interest in Oneita Industries, Inc. and the investment of those proceeds, as well as capital expenditures of \$2.3 million and acquisitions of \$1.6 million by the building products business.

Cash flows used by financing activities included debt reduction of \$3.8 million. Also, in April 1994, the Company authorized the purchase of up to 3,000,000 shares of its Common Stock, an increase of 1,000,000 shares over its previously announced plan. During the six-month period ended March 31, 1994, approximately 700,000 shares of Common Stock were purchased for \$6.0 million 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  
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Robert Balemian  
President  
(Principal Financial Officer)

Date: May 11, 1994