

APPLIED INDUSTRIAL TECHNOLOGIES INC

Form 10-Q

November 02, 2011

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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 SEPTEMBER 30, 2011

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 1-2299

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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Ohio (State or other jurisdiction of incorporation or organization)	34-0117420 (I.R.S. Employer Identification Number)
One Applied Plaza, Cleveland, Ohio (Address of principal executive offices)	44115 (Zip Code)
Registrant's telephone number, including area code: (216) 426-4000	
(Former name, former address and former fiscal year, if changed since last report)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Shares of common stock outstanding on October 14, 2011 41,977,758 (No par value)

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APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

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PART I: FINANCIAL INFORMATION

ITEM I: Financial Statements

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,	
	2011	2010
Net Sales	\$ 579,574	\$ 527,501
Cost of Sales	420,870	384,381
Gross Profit	158,704	143,120
Selling, Distribution and Administrative, including depreciation	115,437	108,229
Operating Income	43,267	34,891
Interest Expense, net	47	1,124
Other Expense (Income), net	1,932	(343)
Income Before Income Taxes	41,288	34,110
Income Tax Expense	14,906	13,355
Net Income	\$ 26,382	\$ 20,755
Net Income Per Share - Basic	\$ 0.62	\$ 0.49
Net Income Per Share - Diluted	\$ 0.61	\$ 0.48
Cash dividends per common share	\$ 0.19	\$ 0.17
Weighted average common shares outstanding for basic computation	42,397	42,370
Dilutive effect of potential common shares	564	716
Weighted average common shares outstanding for diluted computation	42,961	43,086

See notes to condensed consolidated financial statements.

Table of Contents**APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands)

	September 30, 2011	June 30, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 73,218	\$ 91,092
Accounts receivable, less allowances of \$7,428 and \$7,016	289,450	290,751
Inventories	215,013	204,066
Other current assets	27,532	33,005
Total current assets	605,213	618,914
Property, less accumulated depreciation of \$144,532 and \$143,930	73,079	69,014
Intangibles, net	86,661	89,551
Goodwill	76,783	76,981
Deferred tax assets	42,437	43,447
Other assets	16,054	17,024
TOTAL ASSETS	\$ 900,227	\$ 914,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 109,928	\$ 108,509
Compensation and related benefits	44,443	65,413
Other current liabilities	52,582	40,766
Total current liabilities	206,953	214,688
Postemployment benefits	43,911	47,730
Other liabilities	16,549	18,950
TOTAL LIABILITIES	267,413	281,368
Shareholders' Equity		
Preferred stock no par value; 2,500 shares authorized; none issued or outstanding		
Common stock no par value; 80,000 shares authorized; 54,213 shares issued	10,000	10,000
Additional paid-in capital	150,153	148,307
Income retained for use in the business	686,687	668,421
Treasury shares at cost (12,236 and 11,611 shares)	(216,190)	(198,224)
Accumulated other comprehensive income	2,164	5,059
TOTAL SHAREHOLDERS' EQUITY	632,814	633,563
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 900,227	\$ 914,931

See notes to condensed consolidated financial statements.

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(Unaudited)

(In thousands)

	Three Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities		
Net income	\$ 26,382	\$ 20,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property	2,818	2,713
Amortization of intangibles	2,809	2,787
Amortization of stock options and appreciation rights	633	1,259
Gain on sale of property	(386)	(10)
Other share-based compensation expense	1,260	996
Changes in assets and liabilities, net of acquisitions	(17,371)	(24,301)
Other, net	256	317
Net Cash provided by Operating Activities	16,401	4,516
Cash Flows from Investing Activities		
Property purchases	(7,142)	(873)
Proceeds from property sales	637	41
Net cash paid for acquisition of businesses, net of cash acquired	(1,241)	(27,697)
Net Cash used in Investing Activities	(7,746)	(28,529)
Cash Flows from Financing Activities		
Repayments under revolving credit facility		(50,000)
Purchases of treasury shares	(18,178)	
Dividends paid	(8,099)	(7,206)
Excess tax benefits from share-based compensation	149	392
Exercise of stock options and appreciation rights	84	143
Net Cash used in Financing Activities	(26,044)	(56,671)
Effect of Exchange Rate Changes on Cash	(485)	(500)
Decrease in cash and cash equivalents	(17,874)	(81,184)
Cash and cash equivalents at beginning of period	91,092	175,777
Cash and Cash Equivalents at End of Period	\$ 73,218	\$ 94,593
Non-cash Investing Activities:		
Property purchases, unpaid at September 30		\$ 10,000
See notes to condensed consolidated financial statements.		

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(Amounts in thousands, except per share amounts) (Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position of Applied Industrial Technologies, Inc. (the Company, or Applied) as of September 30, 2011, and the results of its operations for the three month periods ended September 30, 2011 and 2010 and its cash flows for the three months ended September 30, 2011 and 2010, have been included. The condensed consolidated balance sheet as of June 30, 2011 has been derived from the audited consolidated financial statements at that date. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2011.

Operating results for the three month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending June 30, 2012.

Inventory

The Company uses the last-in, first-out (LIFO) method of valuing U.S. inventories. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory determination.

During the three months ended September 30, 2010, the Company recorded overall LIFO benefits of \$301 and the LIFO reserves were reduced by the same amounts. No comparable benefits were recorded in the three months ended September 30, 2011.

2. GOODWILL AND INTANGIBLES

The changes in the carrying amount of goodwill for the Service Center Based Distribution segment for the period ended September 30, 2011 are as follows:

Balance at July 1, 2011	\$ 76,981
Goodwill acquired during the period	336
Other, primarily currency translation	(534)
Balance at September 30, 2011	\$ 76,783

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(Amounts in thousands, except per share amounts) (Unaudited)

At September 30, 2011, accumulated goodwill impairment losses, subsequent to fiscal year 2002, totaled \$36,605 and related to the Fluid Power Businesses segment.

The Company's intangible assets resulting from business combinations are amortized over their estimated period of benefit and consist of the following:

September 30, 2011	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Intangibles:			
Customer relationships	\$ 78,029	\$ 24,731	\$ 53,298
Trade names	25,796	6,084	19,712
Vendor relationships	13,999	3,887	10,112
Non-competition agreements	4,836	2,587	2,249
 Total Finite-Lived Intangibles	 122,660	 37,289	 85,371
 Indefinite-Lived Trade Names	 1,290		 1,290
 Total Intangibles	 \$ 123,950	 \$ 37,289	 \$ 86,661