

NATCO GROUP INC
Form 10-Q
May 07, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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 1-15603

NATCO Group Inc.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

11210 Equity Drive

Suite 100

Houston, Texas
(Address of principal executive offices)

22-2906892
(I.R.S. Employer

Identification No.)

77041
(Zip Code)

713-849-7500

(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

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, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Accelerated filer

Non-accelerated filer
Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 30, 2009, the issuer had outstanding 19,916,480 shares of common stock, par value \$0.01 per share.

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NATCO GROUP INC.

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Quarterly Report For the Quarter Ended March 31, 2009

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NATCO GROUP INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and par value data)

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,348	\$ 17,698
Trade accounts receivable, less allowance for doubtful accounts of \$2,039 and \$2,090 as of March 31, 2009 and December 31, 2008, respectively	106,332	146,127
Costs and estimated earnings in excess of billings on uncompleted contracts	43,241	31,237
Inventories, net	58,259	58,163
Deferred income tax assets, net	8,089	8,077
Prepaid expenses and other current assets	8,547	9,724
Total current assets	245,816	271,026
Property, plant and equipment, net	87,004	77,016
Goodwill, net	129,245	127,389
Deferred income tax assets, net	785	708
Intangible and other assets, net	28,000	32,027
Total assets	\$ 490,850	\$ 508,166
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable and other	\$ 61,757	\$ 76,253
Accrued expenses	52,146	52,202
Billings on uncompleted contracts in excess of costs and estimated earnings	51,317	51,131
Income taxes payable	3,025	5,675
Total current liabilities	168,245	185,261
Long-term deferred tax liabilities	12,674	12,250
Long-term debt		13,000
Postretirement benefits and other long-term liabilities	10,660	9,689
Total liabilities	191,579	220,200
Commitments and contingencies (See Note 9, Contingencies)		
NATCO Group Inc. stockholders equity:		
Preferred stock, \$.01 par value. Authorized 5,000,000 shares (of which 500,000 are designated as Series A); no shares issued and outstanding		
Common stock, \$.01 par value; 50,000,000 shares authorized; 20,250,914 and 20,242,414 shares issued as of March 31, 2009 and December 31, 2008, respectively	203	203
Additional paid-in-capital	161,980	159,193
Retained earnings	145,310	136,588
Treasury stock, 337,934 and 321,274 shares as of March 31, 2009 and December 31, 2008, respectively	(5,161)	(4,623)

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Accumulated other comprehensive (loss) income	(5,208)	(4,923)
Total NATCO Group Inc. stockholders' equity	297,124	286,438
Noncontrolling interests	2,147	1,528
Total stockholders' equity	299,271	287,966
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 490,850	\$ 508,166

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**NATCO GROUP INC. AND SUBSIDIARIES****UNAUDITED STATEMENTS OF OPERATIONS****(in thousands, except earnings per share data)**

	Three Months Ended March 31,	
	2009	2008
Revenue:		
Products	\$ 138,612	\$ 122,428
Services	23,290	29,542
Total revenue	\$ 161,902	\$ 151,970
Cost of goods sold and services:		
Products	\$ 101,605	\$ 89,856
Services	13,103	15,739
Total cost of goods sold and services	\$ 114,708	\$ 105,595
Gross profit	\$ 47,194	\$ 46,375
Selling, general and administrative expense	30,293	27,834
Depreciation and amortization expense	3,292	2,052
Interest expense	276	95
Interest income	(20)	(384)
Loss on unconsolidated investment	525	35
Other (income) expense, net	(1,293)	1,147
Income before income taxes and noncontrolling interests	\$ 14,121	\$ 15,596
Income tax provision	4,922	5,519
Net income	\$ 9,199	\$ 10,077
Less: Net income attributable to noncontrolling interests	477	224
Net income attributable to NATCO Group Inc.	8,722	9,853
Preferred stock dividends		248
Net income available to common stockholders	\$ 8,722	\$ 9,605
Earnings per share:		
-Basic	\$ 0.44	\$ 0.52
-Diluted	\$ 0.44	\$ 0.49
Weighted average number of shares of common stock:		
-Basic	19,523	18,367
-Diluted	19,622	19,825

Table of Contents**NATCO GROUP INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income attributable to NATCO Group Inc.	\$ 8,722	\$ 9,853
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense (benefit)	1,356	(599)
Depreciation and amortization expense	3,292	2,052
Non-cash interest expense	76	33
Share-based compensation expense	2,407	1,580
Excess tax benefit of share-based compensation		1
Noncontrolling interests	477	224
Loss from unconsolidated investment	525	35
Net periodic cost on postretirement benefit liability	(351)	(214)
Loss (Gain) on sale of property, plant and equipment	10	(27)
Change in assets and liabilities:		
Decrease in trade accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts	26,413	8,173
(Increase) decrease in inventories	(211)	818
Decrease (increase) in prepaid expense and other current assets	917	(3,787)
Decrease (increase) in long-term assets	285	(147)
Increase in long-term liabilities	1,416	1,771
(Decrease) increase in trade accounts payable and other and billings on uncompleted contracts in excess of costs and estimated earnings	(11,706)	2,204
Increase (decrease) in accrued expenses	1,173	(12,598)
(Decrease) increase in other income taxes	(1,911)	77
Net cash provided by operating activities	32,890	9,449
Cash flows from investing activities:		
Capital expenditures for property, plant and equipment	(13,267)	(3,132)
Acquisitions, net of cash acquired	192	(22,980)
Proceeds from sales of property, plant and equipment	276	27
Net cash used in investing activities	(12,799)	(26,085)
Cash flows from financing activities:		
Short-term borrowings	(13,000)	761
Proceeds from stock issuances related to stock options, net		129
Excess tax benefit of share-based compensation	(33)	16
Change in bank overdrafts	(1,476)	(3,918)
Dividends paid		(248)
Treasury shares acquired	(126)	(1,043)
Net cash used in financing activities	(14,635)	(4,303)
Effect of exchange rate changes on cash and cash equivalents	(1,806)	128

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Increase (decrease) in cash and cash equivalents	3,650	(20,811)
Cash and cash equivalents at beginning of period	17,698	63,577
Cash and cash equivalents at end of period	\$ 21,348	\$ 42,766
Cash paid for interest	\$ 224	\$ 8
Cash paid for income taxes	\$ 5,644	\$ 6,969

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**NATCO GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(1) Organization and Basis of Presentation**

NATCO Group Inc. is one of the industry leaders in the development of oil and gas process technology. The Company's products and services are used in onshore and offshore fields in most major oil and gas producing regions of the world.

The accompanying interim consolidated financial statements and related disclosures are unaudited and prepared by NATCO Group Inc. pursuant to accounting principles generally accepted in the United States of America (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission (SEC). As permitted by these regulations, certain information and footnote disclosures that would typically be required in financial statements prepared in accordance with US GAAP have been condensed or omitted. However, the Company's management believes that these statements reflect all the normal recurring and non-recurring adjustments necessary for a fair presentation, in all material respects, of the results of operations for the periods presented. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K filing for the year ended December 31, 2008 which includes a summary of our significant accounting policies and other disclosures. Effective January 1, 2009, we adopted FASB Statement No 160 Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). See Note 8 for further discussion.

The preparation of financial statements requires the Company's management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

References to NATCO and the Company are used throughout this document and relate collectively to NATCO Group Inc. and its consolidated subsidiaries.

(2) Inventories Inventories consisted of the following amounts:

	March 31, 2009 (unaudited)	December 31, 2008
	(in thousands)	
Finished goods	\$ 19,473	\$ 15,372
Work-in-process	20,675	26,854
Raw materials and supplies	33,294	32,803
Inventories at FIFO, LIFO and weighted average	73,442	75,029
Inventory reserves	(15,183)	(16,866)
Net inventories	\$ 58,259	\$ 58,163