

DONALDSON CO INC
Form 10-Q
March 07, 2013

**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 JANUARY 31, 2013 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 **1-7891**

DONALDSON COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

41-0222640
(I.R.S. Employer
Identification No.)

1400 West 94th Street
Minneapolis, Minnesota 55431
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(952) 887-3131**

Not Applicable
(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

Edgar Filing: DONALDSON CO INC - Form 10-Q

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 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. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$5 Par Value 146,772,584 shares as of January 31, 2013.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Thousands of dollars, except share and per share amounts)
(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
Net sales	\$ 596,036	\$ 580,883	\$ 1,184,983	\$ 1,189,178
Cost of sales	397,059	380,066	787,713	773,427
Gross margin	198,977	200,817	397,270	415,751
Operating expenses	127,785	126,049	252,541	250,656
Operating income	71,192	74,768	144,729	165,095
Interest expense	2,885	2,899	5,556	6,069
Other income, net	(2,542)	(4,550)	(8,354)	(9,410)
Earnings before income taxes	70,849	76,419	147,527	168,436
Income taxes	20,036	22,598	42,601	46,062
Net earnings	\$ 50,813	\$ 53,821	\$ 104,926	\$ 122,374
Weighted average shares - basic	147,951,535	150,105,610	148,531,306	150,309,746
Weighted average shares - diluted	149,988,832	152,825,570	150,742,467	152,961,346
Net earnings per share - basic	\$ 0.34	\$ 0.36	\$ 0.71	\$ 0.82
Net earnings per share - diluted	\$ 0.34	\$ 0.35	\$ 0.70	\$ 0.80
Dividends paid per share	\$ 0.090	\$ 0.075	\$ 0.180	\$ 0.150

See Notes to Condensed Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except share amounts)
(Unaudited)

	January 31, 2013	July 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 216,608	\$ 225,789
Short-term investments	67,875	92,362
Accounts receivable, less allowance of \$7,037 and \$6,418	407,528	438,796
Inventories	261,932	256,116
Prepays and other current assets	78,897	72,599
Total current assets	\$ 1,032,840	\$ 1,085,662
Property, plant, and equipment, at cost	1,013,383	949,619
Less accumulated depreciation	(600,655)	(564,710)
Property, plant, and equipment, net	412,728	384,909
Goodwill	167,270	162,949
Intangible assets, net	44,229	46,200
Other assets	61,601	50,362
Total assets	\$ 1,718,668	\$ 1,730,082
Liabilities and shareholders equity		
Current liabilities		
Short-term borrowings	\$ 59,335	\$ 95,147
Current maturities of long-term debt	82,467	2,346
Trade accounts payable	171,881	199,182
Other current liabilities	171,328	201,848
Total current liabilities	485,011	498,523
Long-term debt	120,375	203,483
Deferred income taxes	5,078	4,611
Other long-term liabilities	104,024	113,451
Total liabilities	714,488	820,068
Shareholders equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized, none issued		
Common stock, \$5.00 par value, 240,000,000 shares authorized, 151,643,194 shares issued	758,216	758,216
Retained earnings	430,547	366,788
Stock compensation plans	22,015	24,948
Accumulated other comprehensive loss	(43,590)	(101,888)
Treasury stock at cost, 4,761,074 and 3,980,832 shares at January 31, 2013 and July 31, 2012, respectively	(163,008)	(138,050)
Total shareholders equity	1,004,180	910,014
Total liabilities and shareholders equity	\$ 1,718,668	\$ 1,730,082

See Notes to Condensed Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of dollars)
(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
Net earnings	\$ 50,813	\$ 53,821	\$ 104,926	\$ 122,374
Foreign currency translation gain (loss)	17,112	(29,143)	42,964	(63,081)
Gain on hedging derivatives, net of deferred taxes of (\$307), (\$58), (\$198), and (\$314), respectively	424	9	131	427
Pension and postretirement liability adjustment, net of deferred taxes of (\$2,943), (\$4,241), (\$7,281), and \$4,119, respectively	7,608	9,888	15,203	(5,361)
Total comprehensive income	\$ 75,957	\$ 34,575	\$ 163,224	\$ 54,359

See Notes to Condensed Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of dollars)
(Unaudited)

	Six Months Ended January 31,	
	2013	2012
Operating Activities		
Net earnings	\$ 104,926	\$ 122,374
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	32,896	30,896
Changes in operating assets and liabilities	(26,831)	(43,485)
Tax benefit of equity plans	(8,560)	(7,576)
Stock compensation plan expense	6,218	6,440
Deferred taxes	(2,495)	(4,904)
Other, net	3,026	(1,547)
Net cash provided by operating activities	109,180	102,198
Investing Activities		
Net expenditures on property, plant, and equipment	(51,753)	(36,349)
Change in short term investments	31,250	(93,455)
Net cash used in investing activities	(20,503)	(129,804)
Financing Activities		
Purchase of treasury stock	(60,975)	(73,558)
Repayments of long-term debt	(887)	(45,917)
Change in short-term borrowings	(37,647)	79,369
Dividends paid	(26,495)	(22,342)
Tax benefit of equity plans	8,560	7,576
Exercise of stock options	9,152	9,791
Net cash used in financing activities	(108,292)	(45,081)
Effect of exchange rate changes on cash	10,434	(19,877)
Decrease in cash and cash equivalents	(9,181)	(92,564)
Cash and cash equivalents, beginning of year	225,789	273,494
Cash and cash equivalents, end of period	\$ 216,608	\$ 180,930

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Donaldson Company, Inc. and its subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S.) (U.S. GAAP) and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three and six month periods ended January 31, 2013 are not necessarily indicative of the results that may be expected for future periods. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended July 31, 2012.

Note B Short-Term Investments

All short-term investments are time deposits and have original maturities in excess of three months but not more than twelve months. The Company had \$67.9 million and \$92.4 million in short-term investments as of January 31, 2013 and July 31, 2012, respectively.

Note C Inventories

The components of inventory as of January 31, 2013 and July 31, 2012 are as follows (thousands of dollars):

	January 31, 2013	July 31, 2012
Materials	\$ 108,694	\$ 111,808
Work in process	33,076	30,767
Finished products	120,162	113,541
Total inventories	\$ 261,932	\$ 256,116

Edgar Filing: DONALDSON CO INC - Form 10-Q

Note D Accounting for Stock-Based Compensation

Stock-based compensation expense is recognized using the fair-value method for all awards. In addition to granting stock options, the Company also granted reload options related to options previously granted which were exercised during the first six months ended January 31, 2013. A reload stock option is granted for the number of shares tendered as payment for the exercise price and tax withholding obligation upon the exercise of a stock option with a reload provision. The option price of the reload option is equal to the market price of the stock on the date of exercise and will expire on the same date as the original option which was exercised. The Company determined the fair value of its option awards using the Black-Scholes option pricing model. The following assumptions were used to value the options, including reload options which generally have a shorter contractual life, granted during the six months ended January 31, 2013: range of less than 1 year to 8 years expected life; expected volatility range of 23.4 percent to 29.5 percent; risk-free interest rate range of 0.02 percent to 1.57 percent; and annual dividend yield of 1.0 percent. The expected life for options granted during the period represents the period of time that the options are expected to be outstanding based on the contractual life and historical data of option holder exercise and termination behavior. Expected volatilities are based upon historical volatility of the Company's stock over a period at least equal to the expected life of each option grant. Option grants are priced at the fair market value of the Company's stock on the date of grant. The weighted average fair value for options granted during the six months ended January 31, 2013 and 2012 was \$8.33 per share and \$9.43 per share, respectively. For the three and six months ended January 31, 2013, the Company recorded pre-tax stock option expense of \$4.1 million and \$5.5 million, respectively, and recorded \$1.4 million and \$1.8 million, respectively, of related tax benefit. For the three and six months ended January 31, 2012, the Company recorded pre-tax stock option expense of \$4.3 million and \$5.1 million, respectively, and recorded \$1.5 million and \$1.7 million, respectively, of related tax benefit.

The following table summarizes stock option activity during the six months ended January 31, 2013:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at July 31, 2012	8,056,327	\$ 20.97
Granted	910,442	33.77
Exercised	(1,148,958)	14.00
Canceled	(66,727)	34.20
Outstanding at January 31, 2013	7,751,084	23.39

The total intrinsic value of options exercised during the six months ended January 31, 2013 and 2012 was \$24.5 million and \$22.3 million, respectively.

The following table summarizes information concerning outstanding and exercisable options as of January 31, 2013:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.00 to \$15.89	1,496,222	1.58	\$ 15.26	1,496,222	\$ 15.26
\$15.90 to \$20.89	1,985,525	4.27	17.44	1,985,525	17.44
\$20.90 to \$25.89	1,423,462	6.24	21.78	1,423,462	21.78
\$25.90 to \$30.89	927,849	7.85	29.15	615,711	29.15
\$30.90 and above	1,918,026	8.98	34.30	427,247	34.78
	7,751,084	5.71	23.39	5,948,167	20.39

At January 31, 2013, the aggregate intrinsic value of options outstanding and exercisable was \$110.2 million and \$102.4 million, respectively.

Edgar Filing: DONALDSON CO INC - Form 10-Q

As of January 31, 2013, there was \$10.2 million of total unrecognized compensation expense related to non-vested stock options granted under the 2010 Master Stock Incentive Plan. This unvested expense is expected to be recognized during the remainder of Fiscal Years 2013, 2014, 2015, and 2016.

Note E Net Earnings Per Share

The Company's basic net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares. The Company's diluted net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares and common share equivalents relating to stock options and stock incentive plans. Certain outstanding options were excluded from the diluted net earnings per share calculations because their exercise prices were greater than the average market price of the Company's common stock during those periods. For the three and six months ended January 31, 2013, there were 1,171,544 options and 900,492 options excluded from the diluted net earnings per share calculation, respectively. For the three and six months ended January 31, 2012, there were 1,044,372 options and 1,053,830 options excluded from the diluted net earnings per share calculation, respectively.

The following table presents information necessary to calculate basic and diluted net earnings per common share (thousands, except per share amounts):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
Weighted average shares - basic*	147,952	150,106	148,531	150,310
Common share equivalents*	2,037	2,720	2,211	2,651
Weighted average shares - diluted*	149,989	152,826	150,742	152,961

Net earnings for basic and diluted earnings
Klaus Pohle

&tyle="DISPLAY: inline;
inline;
FONT-SIZE: 10pt;
FONT-FAMILY:
times new
roman">
Director
October 31,
2013

/s/ Gérard Van
Kemmel
Gérard Van Kemmel Director October 31, 2013

/s/ Anne Whitaker Authorized
Anne Whitaker Representative in the October 31, 2013
United States

INDEX TO EXHIBITS

Exhibit
Number

- (a)(3) Form of American Depositary Receipt.

- (d) Opinion of Ziegler, Ziegler & Associates LLP, counsel to the Depositary, as to the legality of the securities to be registered.

- (e) Rule 466 Certification