

STEWART & STEVENSON SERVICES INC

Form 10-Q

December 06, 2005

**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 October 29, 2005**

**OR**

**o 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 0-8493**

**STEWART & STEVENSON SERVICES, INC.**

(Exact name of registrant as specified in its charter)

**Texas**

**74-1051605**

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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**2707 North Loop West, Houston, Texas**  
(Address of principal executive offices)

**77008**  
(Zip Code)

**(713) 868-7700**

(Registrant's telephone number, including area code)

**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

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

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

Number of shares outstanding of each of the registrant's classes of common stock, as of November 21, 2005:

**Common Stock, without Par Value: 29,277,710 Shares**

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**STEWART & STEVENSON SERVICES, INC.**





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**Item 1. Financial Statements****STEWART & STEVENSON SERVICES, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS***(In thousands, except share data)*

	October 29, 2005 (Unaudited)	January 31, 2005
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 50,093	\$ 128,515
Short-term investments	10,790	2,480
Accounts receivable, net	63,221	62,136
Inventories	21,460	17,803
Deferred income tax asset	6,406	5,872
Income tax receivable	4,551	7,223
Other current assets	3,957	1,655
Total assets of discontinued operations	344,738	321,949
<b>Total Current Assets</b>	<b>505,216</b>	<b>547,633</b>
Property, Plant and Equipment, net	40,993	34,660
Deferred Income Tax Asset	23,998	26,438
Intangibles and Other Assets, net	45,972	4,611
<b>Total Assets</b>	<b>\$ 616,179</b>	<b>\$ 613,342</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Notes payable	\$ 1,874	\$
Current portion of long-term debt	25,000	
Accounts payable	53,897	43,441
Accrued payrolls and incentives	13,308	13,178
Billings in excess of incurred costs	18,162	59,894
Other current liabilities	26,358	26,154
Total liabilities of discontinued operations	112,005	99,193
<b>Total Current Liabilities</b>	<b>250,604</b>	<b>241,860</b>
Long-Term Debt, net of current portion	76	25,000
Accrued Postretirement Benefits and Pension	58,684	57,621
Other Long-Term Liabilities	3,715	4,141
<b>Total Liabilities</b>	<b>313,079</b>	<b>328,622</b>
<b>Shareholders' Equity:</b>		
Common stock, without par value, 100,000,000 shares authorized; 29,270,741 and 28,865,070 shares issued, respectively	66,978	59,616
Accumulated other comprehensive loss	(37,968)	(36,048)
Retained earnings	274,090	261,152
<b>Total Shareholders' Equity</b>	<b>303,100</b>	<b>284,720</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 616,179</b>	<b>\$ 613,342</b>

*See accompanying notes to consolidated condensed financial statements.*





## STEWART &amp; STEVENSON SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

*(In thousands, except per share data)*

	Three Months Ended		Nine Months Ended	
	October 29, 2005 (Unaudited)	October 30, 2004	October 29, 2005 (Unaudited)	October 30, 2004
Sales	\$ 161,821	\$ 133,431	\$ 531,513	\$ 412,951
Cost of sales	155,421	114,961	489,349	351,752
Gross profit	6,400	18,470	42,164	61,199
Selling and administrative expenses	4,720	6,199	14,869	19,281
Other expense (income), net	85	29	(138)	29
Operating profit	1,595	12,242	27,433	41,889
Interest expense	563	534	1,636	1,487
Interest income	(525)	(411)	(2,082)	(997)
Earnings from continuing operations before income taxes	1,557	12,119	27,879	41,399
Income tax expense	918	3,630	10,411	14,038
Net earnings from continuing operations	639	8,489	17,468	27,361
Earnings (loss) from discontinued operations, net of tax expense (benefit) of \$2,574, (\$5,557), \$4,656 and (\$9,454)	4,660	(6,406)	9,656	(13,959)
Loss from disposal of discontinued operations, net of tax of (\$1,077) and (\$3,269)	(1,949)		(6,780)	
Net earnings	\$ 3,350	\$ 2,083	\$ 20,344	\$ 13,402
Weighted average shares outstanding:				
Basic	29,194	28,768	29,060	28,729
Diluted	29,674	29,186	29,555	29,100
<b>Earnings (loss) per share:</b>				
Basic:				
Continuing operations	\$ 0.02	\$ 0.30	\$ 0.60	\$ 0.95
Discontinued operations	0.09	(0.23)	0.10	(0.48)
Net earnings per share	\$ 0.11	\$ 0.07	\$ 0.70	\$ 0.47
Diluted:				
Continuing operations	\$ 0.02	\$ 0.29	\$ 0.59	\$ 0.94
Discontinued operations	0.09	(0.22)	0.10	(0.48)
Net earnings per share	\$ 0.11	\$ 0.07	\$ 0.69	\$ 0.46
Cash dividends per share	\$ 0.085	\$ 0.085	\$ 0.255	\$ 0.255

*See accompanying notes to consolidated condensed financial statements.*



## STEWART &amp; STEVENSON SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

*(In thousands)*

	Three Months Ended		Nine Months Ended	
	October 29, 2005	October 30, 2004	October 29, 2005	October 30, 2004
	(Unaudited)		(Unaudited)	
<b>Operating Activities</b>				
Net earnings	\$ 3,350	\$ 2,083	\$ 20,344	\$ 13,402
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Net (earnings) loss from discontinued operations	(2,711)	6,406	(2,876)	13,959
Deferred tax (benefit) expense	(2,393)	2,634	1,378	(427)
Depreciation and amortization	2,738	2,233	5,988	6,200
Unrealized foreign exchange (gains) losses	(198)		1,216	
Change in operating assets and liabilities net of the effect of acquisition, divestiture and discontinued operations:				
Accounts receivable, net	(7,826)	(6,627)	(8,576)	(9,716)
Recoverable costs and accrued profits not yet billed	5,044			
Inventories	1,877	(6,527)	3,066	(7,072)
Other current and noncurrent assets	619	(7,373)	1,771	8,935
Accounts payable	(10,440)	3,077	3,918	(663)
Accrued payrolls and incentives	4,385	4,690	(1,929)	3,308
Billings in excess of incurred costs	18,179	3,635	(41,715)	(33,094)
Other current liabilities	(2,065)	(2,452)	(8,153)	2,884
Accrued postretirement benefits and pension	348	(10,148)	1,063	(9,434)
Other, net	59	163	(304)	(1,413)
<b>Net Cash Provided by (Used in) Continuing Operations</b>	<b>10,966</b>	<b>(8,206)</b>	<b>(24,809)</b>	<b>(13,131)</b>
Net Cash Provided by (Used in) Discontinued Operations	(24,231)	(3,152)	(16,606)	47,218
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(13,265)</b>	<b>(11,358)</b>	<b>(41,415)</b>	<b>34,087</b>
<b>Investing Activities</b>				
Capital expenditures	(7,125)	(3,021)	(8,960)	(6,567)
Proceeds from sale of businesses	9,438		24,438	
Acquisition of businesses, net of cash acquired			(42,778)	
Proceeds from disposal of property, plant and equipment	147	163	147	342
Short-term investment activity, net	250	3,505	(8,310)	315
Net investing activities of discontinued operations		38	66	112
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>2,710</b>	<b>685</b>	<b>(35,397)</b>	<b>(5,798)</b>
<b>Financing Activities</b>				
Loan acquisition costs			(76)	

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Change in short-term notes payable	(19)		(19)	
Dividends paid	(2,474)	(2,465)	(7,407)	(7,341)
Proceeds from exercise of stock options	2,302	89	5,949	1,339
<b>Net Cash Used in Financing Activities</b>	<b>(191)</b>	<b>(2,376)</b>	<b>(1,553)</b>	<b>(6,002)</b>
<b>Effect of exchange rate changes on cash</b>	<b>348</b>		<b>(57)</b>	
Increase (decrease) in cash and cash equivalents	(10,398)	(13,049)	(78,422)	22,287
Cash and cash equivalents, beginning of period	60,491	87,522	128,515	52,186
Cash and cash equivalents, end of period	\$ 50,093	\$ 74,473	\$ 50,093	\$ 74,473
<b>Cash Paid For:</b>				
Interest	\$ 42	\$ 6	\$ 1,014	\$ 1,017
Income taxes (excluding refunds)	172	768	433	1,078

*See accompanying notes to consolidated condensed financial statements.*

**STEWART & STEVENSON SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

**Note 1 Summary of Significant Accounting Policies and Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements of Stewart & Stevenson Services, Inc. and Subsidiaries (collectively, the Company) have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished herein reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended October 29, 2005 are not necessarily indicative of the results that will be realized for the fiscal year ending January 31, 2006.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

The Company's fiscal year begins on February 1 of the year stated and ends on January 31 of the following year. For example, the Company's Fiscal 2005 commenced on February 1, 2005 and ends on January 31, 2006. The Company reports results on the fiscal quarter method with each quarter comprising approximately 13 weeks.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2005.

The accompanying consolidated condensed financial statements for Fiscal 2004 and related notes contain certain reclassifications to conform with the presentation used in Fiscal 2005.

As permitted under Statement of Financial Accounting Standards (SFAS) No. 123, the Company continues to use the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, to account for its stock-based compensation programs. Accordingly, no compensation expense is recognized when the exercise price of an employee stock option is equal to or greater than the market price of the Company's common stock on the grant date and all other provisions of the award are fixed. In December 2004, the Financial Accounting Standards Board (the FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment, which requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the statements of operations based on their fair values. The Company is currently evaluating the impact of the new standard, which is required to be adopted in the first quarter of Fiscal 2006.

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The following pro forma data are calculated as if compensation expense for the Company's stock option plans was determined based on the fair value at the grant date for awards under these plans, amortized to expense on a pro rata basis over the option vesting period (*in thousands, except per share data*):

	Three Months Ended		Nine Months Ended	
	October 29, 2005	October 30, 2004	October 29, 2005	October 30, 2004
Net earnings:				
As reported	\$ 3,350	\$ 2,083	\$ 20,344	\$ 13,402
Pro forma compensation expense, determined under fair value method, net of tax	(635)	(601)	(1,849)	(1,661)
Pro forma	\$ 2,715	\$ 1,482		