

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-03-16** | Period of Report: **1994-01-31**
SEC Accession No. **0000897101-94-000024**

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FILER

DONALDSON CO INC

CIK: **29644** | IRS No.: **410222640** | State of Incorporation: **DE** | Fiscal Year End: **0731**
Type: **10-Q** | Act: **34** | File No.: **001-07891** | Film No.: **94516215**
SIC: **3564** Industrial & commercial fans & blowers & air purifying equip

Business Address
1400 W. 94TH ST.
MINNEAPOLIS MN 55431
6128873131

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act
of 1934

For the period ended January 31, 1994

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 Number)

1400 West 94th Street
Minneapolis, Minnesota 55431
(Address of principal executive offices)
(Zip Code)

Registrant's telephone number, including area code (612) 887-3131

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.

Yes X 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 -- 13,529,176 shares as of February 28, 1994

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED STATEMENTS OF CONSOLIDATED EARNINGS

DONALDSON COMPANY, INC. AND SUBSIDIARIES

(Thousands of Dollars Except Per Share Amounts)

(Unaudited)

	Three Months Ended January 31		Six Months Ended January 31	
	1994	1993	1994	1993
Net Sales	\$135,577	\$125,047	\$278,095	\$250,725
Cost of Sales	97,673	91,515	199,655	180,993
Gross Margin	37,904	33,532	78,440	69,732
Operating Expenses	28,155	25,896	55,836	51,139
Other (Income)	(844)	(1,283)	(770)	(1,136)
Interest Expense	788	806	1,471	1,592
Earnings Before Income Taxes	9,805	8,113	21,903	18,137
Income Taxes	3,567	2,891	8,104	6,620
Earnings Before Cumulative Effect of Accounting Change	6,238	5,222	13,799	11,517
Cumulative Effect of Accounting Change	-	-	2,206	-
Net Earnings	\$ 6,238	\$ 5,222	\$ 16,005	\$ 11,517
Average Shares and Equivalents Outstanding During Period	27,370,880	28,005,670	27,377,772	27,961,156
Earnings Per Share Before Cumulative Effect of Accounting Change	\$.23	\$.19	\$.50	\$.41
Cumulative Effect of Accounting Change	-	-	.08	-
Net Earnings per Share	\$.23	\$.19	\$.58	\$.41
Dividends Paid Per Share	\$.06	\$.05	\$.12	\$.10

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DONALDSON COMPANY, INC. AND SUBSIDIARIES

(Thousands of Dollars)

(Unaudited)

January 31, July 31,
1994 1993

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 31,677	\$ 32,110
Accounts Receivable, Net	103,953	103,320
Inventories		
Materials	22,741	23,248
Work in Process	7,449	7,615
Finished Products	17,669	18,062
Total Inventories	47,859	48,925
Other	10,193	11,659
TOTAL CURRENT ASSETS	193,682	196,014
Property, Plant and Equipment, at Cost	239,098	233,847
Less Accumulated Depreciation	147,059	143,332
Property, Plant and Equipment, Net	92,039	90,515
Other Assets	14,795	13,688
TOTAL ASSETS	\$300,516	\$300,217

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Short-Term Debt	\$ 7,511	\$ 4,238
Current Maturities of Long-Term Debt	2,798	3,357
Trade Accounts Payable	34,156	38,235
Accrued Employee Compensation & Related Taxes	15,165	16,799
Other Current Liabilities	30,206	31,037
TOTAL CURRENT LIABILITIES	89,836	93,666
Long-Term Debt	18,585	18,920
Deferred Income Taxes	404	2,060
Other Long-Term Liabilities	11,810	11,563

SHAREHOLDERS' EQUITY

Preferred Stock, \$1 par value, 1,000,000 shares authorized, no shares issued	-	-
Common Stock, \$5 par value, 40,000,000 shares authorized, 27,041,086 and 13,927,274 issued on January 31, 1994 and July 31, 1993	135,205	69,636
Capital Surplus	-	1,284
Retained Earnings	50,952	117,293
Cumulative Translation Adjustment	3,699	5,646
Treasury Stock - 286,205 shares in 1993 at cost	-	(9,876)
Receivable from ESOP	(9,975)	(9,975)
TOTAL SHAREHOLDERS' EQUITY	179,881	174,008
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$300,516	\$300,217

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

DONALDSON COMPANY, INC. AND SUBSIDIARIES

(Thousands of Dollars)
(Unaudited)

	Six Months Ended January 31	
	1994	1993
OPERATING ACTIVITIES		
Net Earnings	\$ 16,005	\$ 11,517
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	7,761	7,385
Cumulative Effect of Accounting Change	(2,206)	-
Changes in Operating Assets and Liabilities	(5,206)	1,718
Other	(2,973)	(1,653)
	13,381	18,967
INVESTING ACTIVITIES		
Net Expenditures on PP&E	(9,256)	(7,215)
Business Acquisitions, Net of Cash Acquired	-	(7,618)
Business Held for Sale	-	(2,782)
Dividends from Affiliate	2,050	3,000
	(7,206)	(14,615)
FINANCING ACTIVITIES		
Debt Increase (Decrease)	2,633	(4,512)
Dividends Paid	(2,989)	(2,768)
Purchase of Treasury Stock	(5,600)	(28)
Stock Options	403	(3,264)
	(5,553)	(10,572)
Effect of Exchange Rate Changes on Cash	(1,055)	235
DECREASE IN CASH AND CASH EQUIVALENTS	(433)	(5,985)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	32,110	31,096
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 31,677	\$ 25,111

See Notes to Condensed Consolidated Financial Statements.

Note A - 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 Rule 10-01 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. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Note B - Change in Method of Accounting for Income Taxes

Effective August 1, 1993, the Company changed its method of accounting for income taxes to comply with Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes" (FAS 109). The new Statement requires a liability approach for computing income taxes. As permitted under the new Statement, prior years' financial statements have not been restated. The cumulative effect of adopting FAS 109 was to increase net earnings by \$2.2 million (8 cents per share).

Significant components of deferred tax assets and liabilities at August 1, 1993 were as follows: (Thousands of Dollars)

Deferred Tax Assets:

Compensation and Retirement Plans	\$ 5,071
Accrued Expenses	3,730
Tax Loss and Tax Credit Carryforwards	855
Other	2,704
Gross Deferred Tax Assets	12,360

Deferred Tax Liabilities:

Depreciation and Amortization	(4,261)
Other	(3,396)
Gross Deferred Tax Liabilities	(7,657)

Net Deferred Tax Assets \$ 4,703

Note C - A two-for-one stock split effected in the form of a 100 percent stock dividend was declared by the Board of Directors on January 21, 1994 to shareholders of record on March 16, 1994. This split will result in the issuance of additional shares of Common Stock and the reissuance of shares of Common Stock held in treasury. All per share and certain share amounts have been adjusted to reflect the stock split.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

A. Financial Condition

Cash flow in the second quarter was a negative \$0.1 million. Net earnings, adjusted for the cumulative effect of the accounting change, plus depreciation, fully funded the Company's capital expenditures, dividends and stock repurchases in the quarter.

Working capital, excluding cash, increased \$2.2 million in the quarter. The increase was primarily related to a decrease in income taxes payable. Accounts receivable and inventories were basically unchanged during the period.

Capital expenditures of \$5.1 million in the quarter and \$9.3 million year-to-date are within the Company's 1994 capital expenditure budget of \$20.0 million.

In the second quarter, the Company repurchased 93,200 pre-split shares at a cost of \$3.8 million, or \$41.20 per share. The Company currently has Board authorization to repurchase an additional 818,200 shares (on a pre-split basis).

At the end of the second quarter, the Company had \$31.7 million of cash and cash equivalents, \$28.9 million of total debt, and a capitalization ratio of 13.8 percent, up from 12.7 percent as of the end of the first quarter. Debt increased in Europe in the second quarter as the Company's Belgian Coordination Center borrowed to factor additional European receivables.

The Company believes that operational cash flows should continue to adequately fund long-term capital needs, but external funds will be used as necessary.

B. Results of Operations

Second quarter sales of \$135.6 million were up 8 percent from prior year sales of \$125.0 million. Net earnings of \$6.2 million were up 19 percent from prior year net earnings of \$5.2 million. Earnings per share, restated for the two-for-one stock split declared on January 21st, of 23 cents were up 21 percent from 19 cents per share the prior year.

For the six-month period, sales of \$278.1 million were up 11 percent from prior year sales of \$250.7 million. Before the cumulative effect of the accounting change, earnings of \$13.8 million were up 20 percent from prior year earnings of \$11.5 million. Restated for the stock split, earnings per share of 50 cents were up 22 percent compared to 41 cents per share the prior year.

In the first quarter, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 109, "Accounting for Income Taxes," which increased earnings by \$2.2 million, or 8 cents per share. As a result, net earnings for the six-month period were \$16.0 million, or 58 cents per share.

Worldwide sales by market for the second quarter were as follows:

(\$Millions)	1994	1993	% Change
OEM	\$ 63.7	\$ 56.0	13.8%
Aftermarket	19.8	17.3	14.5
Defense	3.7	5.1	(27.5)
Exhaust Filtration	2.0	2.7	(25.9)
Engine Products	\$ 89.2	\$ 81.1	10.0%
Dust Collection	\$ 21.0	\$ 21.0	- %
Gas Turbine Filtration	14.4	13.5	6.7
High Purity Products	11.0	9.4	17.0
Industrial Products	\$ 46.4	\$ 43.9	5.7%
Net Sales	\$135.6	\$125.0	8.5%

In Engine Products, domestic OEM and aftermarket sales were up 21 percent and 19 percent, respectively. As expected, defense sales are down from the prior year, but both sales and backlogs have plateaued at current levels. The Company completed the final shipments of diesel particulate traps in the second quarter.

In Industrial Products, domestic dust collection sales were up 9 percent while overseas sales declined 22 percent due to the continued economic weakness in Germany and Japan. Gas turbine systems overseas sales were up 33 percent in the quarter. Domestic high purity products sales were up 30 percent due to increased VOC abator sales and the additional revenues from ENV Services, Inc., the service company acquired at the end of the second quarter of last year.

Second quarter gross margins of 28.0 percent were up from last year's margins of 26.8 percent as margins improved for all of the Company's businesses.

Operating expenses as a percent of sales in the quarter increased year-over-year from 20.7 percent to 20.8 percent. This year's results, however, included the recognition of warranty reserves for the diesel particulate trap in excess of those recorded last year. Excluding those additional reserves, operating expenses would have been 20.1 percent of sales in the second quarter.

Other income and interest expense were basically unchanged from the prior year. The Company's effective income tax rate increased from 35.6 percent last year to 36.4 percent this year, which reflects the 1.0 percent increase in the U.S. statutory income tax rate.

Though still facing difficult operating conditions, Brazil's operating losses in the second quarter were less than the prior year and should continue to improve on a comparable basis in the second half of the year.

Total backlogs of \$145.3 million were up 14 percent from the same period last year and 5 percent from the end of the first quarter. Hard order backlogs -- goods scheduled for delivery in 90 days -- of \$95.8 million were up 14 percent from last year and 10 percent from the end of the first quarter.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Annual Meeting of Shareholders of Registrant was held on November 19, 1993. A total of 13,595,798 shares were outstanding and entitled to vote at the meeting.
- (b) Not Applicable.
- (c) Of the total outstanding, 1,591,651 shares were general abstentions and broker nonvotes resulting in a shareholder vote as follows:
 - (i) Election of Directors:

Name of Nominee	Vote Tabulation	
	For	Withheld

A. Gary Ames	11,561,859	442,288
S. Walter Richey	11,722,553	281,594
Preston Townley	11,705,191	298,956

(ii) Ratified selection of Ernst & Young as Registrant's independent public auditors for the fiscal year ending July 31, 1994 with the following vote: For - 11,925,848; Against - 41,034; Abstaining - 37,265.

(d) Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Index

None

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended January 31, 1994.

SIGNATURES

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.

DONALDSON COMPANY, INC.
(Registrant)

Date 3/14/94

By /s/Thomas A. Windfeldt
Thomas A. Windfeldt
Vice President -
Corporate Controller
(Chief Accounting Officer)

Date 3/14/94

By /s/Raymond F. Vodovnik
Raymond F. Vodovnik
Vice President-Law and Secretary