FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-06-30**
SEC Accession No. 0000897069-99-000389

(HTML Version on secdatabase.com)

FILER

LADISH CO INC
CIK:**814250**| IRS No.: **311145953** | State of Incorp.:**WI** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-23539** | Film No.: **99670810**
SIC: **3460** Metal forgings & stampings

Mailing Address
5481 SOUTH PACKARD AVE
CUDAHY WI 53110

Business Address
5481 S PACKARD AVE
CUDAHY WI 53110
4147472611

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 Quarter Ended June 30, 1999

Commission File Number 0-23539

LADISH CO., INC.
(Exact name of registrant as specified in its charter)

Wisconsin	31-1145953
(State or other Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5481 South Packard Avenue, Cudahy, Wisconsin	53110
(Address of principal executive offices)	(Zip Code)

(414) 747-2611
(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, 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.

Class	Outstanding at June 30, 1999
Common Stock, $0.01 Par Value	13,586,049

PART I - FINANCIAL INFORMATION

LADISH CO., INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Share and Per Share Data)

	For the Three Months Ended June 30, 1999	For the Three Months Ended June 30, 1998	For the Six Months Ended June 30, 1999	For the Six Months Ended June 30, 1998
Net sales	$ 44,771	$ 60,779	$ 87,527	$ 122,450
Cost of sales	39,756	50,531	79,074	102,488
Gross income on sales	5,015	10,248	8,453	19,962
Selling, general and administrative expenses	1,922	2,170	3,579	4,227
Income from operations	3,093	8,078	4,874	15,735
Other income (expense):				
Interest expense	(181)	(189)	(342)	(970)
Other, net	61	80	170	169
Income from operations before provision for income taxes	2,973	7,969	4,702	14,934
Provision for income taxes	445	797	705	1,494
Net income	$ 2,528	$ 7,172	$ 3,997	$ 13,440
Basic earnings per share (1)	$ 0.18	$ 0.51	$ 0.29	$ 1.30
Diluted earnings per share (1)	$ 0.18	$ 0.46	$ 0.27	$ 1.11
Basic weighted average shares outstanding (1)	13,681,544	13,982,310	13,776,189	10,362,063
Diluted weighted average shares outstanding (1)	14,401,338	15,702,259	14,804,473	12,105,471

(1) See the discussion of the impact of the March 9, 1998 Initial Public Offering of Common Stock by the Company on the basic earnings per share calculation as well as the diluted earnings per share calculation in Part II - Other Information Item 5.

LADISH CO., INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Share and Per Share Data)

<TABLE>
<CAPTION>

Assets	June 30, 1999	December 31, 1998
Current assets:		
Cash and cash equivalents	$ 1,054	$ 5,517
Accounts receivable, less allowance of $300	24,860	35,409
Inventories	48,189	41,967
Prepaid expenses and other current assets	643	276
Total current assets	74,746	83,169
Property, plant and equipment:		
Land and improvements	3,855	3,855
Buildings and improvements	15,000	14,925
Machinery and equipment	115,631	112,279
Construction in progress	9,075	5,893
	143,561	136,952
Less - accumulated depreciation	(56,886)	(50,981)
Net property, plant and equipment	86,675	85,971
Other assets	10,125	4,737
Total assets	$ 171,546	$ 173,877

<CAPTION>

Liabilities and Stockholders' Equity Current liabilities:	June 30, 1999	December 31, 1998
Current portion of senior debt	$ 2,500	$ 2,250
Accounts payable	14,247	16,194
Accrued liabilities:		
Pensions	841	738
Postretirement benefits	5,488	5,488
Wages and salaries	5,373	4,045
Taxes, other than income taxes	158	272
Interest	57	36
Profit sharing	--	2,720
Paid progress billings	4,184	6,767
Other	6,429	4,610
Total current liabilities	39,277	43,120
Long-term liabilities:		
Senior debt, less current portion	6,882	1,250
Pensions	15,035	17,422
Postretirement benefits	41,839	42,762
Other noncurrent liabilities	677	677
Total liabilities	103,710	105,231
Stockholders' equity:		
Common stock - authorized 100,000,000, issued 14,188,803 and 14,013,667 shares of $0.01 par value as of June 30, 1999 and December 31, 1998, respectively	142	140
Additional paid-in capital	79,215	81,661
Accumulated deficit	(7,465)	(11,462)
Treasury stock, 602,754 shares and 222,754 shares of common stock at Cost as of June 30, 1999 and December 31, 1998, respectively	(4,056)	(1,693)
Total stockholders' equity	67,836	68,646
Total liabilities and stockholders' equity	$ 171,546	$ 173,877

</TABLE>

LADISH CO., INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

<TABLE>
<CAPTION>

	For the Six Months Ended June 30, 1999	For the Six Months Ended June 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	$ 3,997	$ 13,440
Adjustments to reconcile net income to net cash provided from (used for) operating activities:		
Depreciation	5,933	5,413
Amortization	189	148
Payment-in-kind interest on subordinated debt	--	300
Reduction in valuation allowance	599	1,396
Other	--	(3)
Change in assets and liabilities:		
Accounts receivable	11,766	(7,163)
Inventories	(3,271)	1,304
Other assets	(460)	326
Accounts payable and accrued liabilities	(4,224)	9,317
Other long-term liabilities	(3,310)	(19,771)
Net cash provided from operating activities	11,219	4,707
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(4,635)	(6,180)
Proceeds from sale of property, plant and equipment	10	3
Acquisition of business	(11,533)	--
Net cash used for investing activities	(16,158)	(6,177)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayment of) senior debt	5,882	(22,891)
Retirement of senior subordinated debt and warrants	--	(11,625)
Repayment of notes payable	--	(1,000)
Issuance of common stock	--	35,036
Repurchase of common stock	(2,363)	(150)
Retirement of warrants	(3,253)	--
Exercise of warrants	210	6,951
Net cash provided from financing activities	476	6,321
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,463)	4,851
CASH AND CASH EQUIVALENTS, beginning of period	5,517	566
CASH AND CASH EQUIVALENTS, end of period	$ 1,054	$ 5,417

</TABLE>

LADISH CO., INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands)

(1) Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly its financial position at June 30, 1999 and December 31, 1998 and its results of operations and cash flows for the six months ended June 30, 1999 and June 30, 1998. All adjustments are of a normal recurring nature.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X and therefore do not include all information and footnotes necessary for a fair presentation of the financial position, results of operations and cash flow in conformity with generally accepted accounting principles. In conjunction with its Form 10-K, the Company filed audited consolidated financial statements which included all information and footnotes necessary for a fair presentation of its financial position at December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1998, 1997 and 1996.

The results of operations for the six-month period ended June 30, 1999 are not necessarily indicative of the results to be expected for the full year.

(2) Inventories

Inventories consisted of:

	June 30, 1999	December 31, 1998
Raw material and supplies	$ 17,716	$ 16,546
Work-in-process and finished goods	33,201	28,697
Less progress payments	(2,728)	(3,276)
Total inventories	$ 48,189	$ 41,967

(3) Interest and Income Tax Payments

	For the Six Months Ended June 30,	
	1999	1998
Interest	$ 337	$ 3,084
Income taxes	356	11

(4) Cash and Cash Equivalents

Cash in excess of daily requirements is invested in marketable securities consisting of Commercial Paper and Repurchase Agreements which mature in three months or less. Such investments are deemed to be cash equivalents for purposes of the statement of cash flows.

(5) Revenue Recognition

Revenue is recognized when products are shipped.

(6) Initial Public Offering

On March 13, 1998, the Company received proceeds of $29.5 million on the sale of 2,336,000 shares of common stock in an initial public offering. Subsequently, the Underwriters exercised their option to purchase 501,138 shares for additional proceeds of $6.3 million. In addition, warrants for 5,792,635 shares were exercised for proceeds and conversion of debt of approximately $7.0 million.

(7) Earnings Per Share

The incremental difference between basic weighted average shares outstanding and diluted weighted average shares outstanding is due to the dilutive impact of outstanding options and warrants.

Management's Discussion and Analysis of Results of Operations and Changes in Financial Position

RESULTS OF OPERATIONS

Second Quarter 1999 Compared to Second Quarter 1998

Net sales for the three months ended June 30, 1999 were $44.8 million compared to $60.8 million for the same period in 1998. The decrease in sales for the second quarter of 1999 was primarily attributed to the continued decline of the jet engine market and the failure of the Company's joint venture partner's 38,000-ton press. The Company did benefit in the second quarter of 1999 due to reduced costs associated with manpower reductions and product mix. Gross profit declined to 11.2% of sales in contrast to 16.9% of sales in the second quarter of 1998 as a result of under absorption of fixed costs by the reduced level of sales.

Selling, general and administrative expenses, as a percentage of sales, were 4.3% for the second quarter of 1999 compared to 3.6% for the same period in 1998.

Interest expense for the period was $0.18 million in contrast to $0.19 million in 1998. The reduction in interest expense was attributable to lower loan balances of senior debt and reduced interest rates. As of June 30, 1999, the Company's senior debt had an interest rate equal to the commercial paper rate plus 1.0% per annum (reduced from 1.5% as of June 30, 1998).

The $0.45 million provision for taxes for 1999 and $0.80 million for 1998 represent largely non-cash accounting charges. The reversal of valuation allowances relating to pre-restructuring NOLs requires the Company to record a tax provision and to reflect the offset as an addition to paid-in capital, rather than as an offset to the provision for income taxes. The overall effective rate differs substantially from the statutory tax rate due to the reversal of valuation allowances relating to post-restructuring versus pre-restructuring deferred tax assets. The Company intends to continue to use its NOLs in the future to reduce actual payment of federal income taxes. The future use of the NOLs is subject to certain statutory restrictions. See "Liquidity and Capital Resources".

Six Months 1999 Compared to Six Months 1998

Net sales for the first six months of 1999 of $87.5 million compares to $122.5 million of sales for the first six months of 1998. The sales reduction was largely due to a decline of the jet engine and commercial aerospace industry compounded by the equipment failures at both the Company and its joint venture partner. Gross profit decreased to 9.7% in the first six months of 1999 in comparison to 16.3% during the first half of 1998 due to reduced sales. Net income of $4.0 million, or 4.6% of sales, for the first half of 1999 compares to the $13.4 million, or 11.0% of sales, for the same period in 1998. The reduction in net income is attributable to the reduced sales.

For the first six months of 1999, selling, general and administrative expenses, as a percentage of sales, were 4.1% compared to 3.5% for the first half of 1998.

Interest expense for the period of $0.34 million was a reduction from $0.97 million of interest in the first six months of 1998 due to reduced senior loan balances, lower interest rates and the retirement of subordinated notes in the first quarter of 1998.

As indicated above in the discussion of the Second Quarter, the $0.7 million tax provision for the first six months of 1999, compared to $1.5 million for the same period in 1998, represents the largely non-cash accounting charges associated with the use of pre-restructuring NOLs.

Liquidity and Capital Resources

In March 1998, the Company entered into an amended and restated credit agreement (the "Credit Agreement") with its lender which expires on June 30, 2000. The Credit Agreement consists of two facilities: (i) a $45 million revolving line of credit (the "Revolving Credit Facility") and (ii) an $8 million term loan (the "Term Loan"). All of the Company's assets have been pledged to secure borrowings under the Credit Agreement.

Borrowings under the Credit Agreement bear interest at a rate equal to the commercial paper rate plus 1.0% per annum (reduced from 1.5% as of December 31, 1998). Availability under the Revolving Credit Facility is subject to a borrowing base limitation which is calculated based upon eligible accounts receivable and inventories reduced by the amount of any letters of credit. At June 30, 1999, approximately $38.1 million was available and undrawn under the Revolving Credit Facility. The balance of the Term Loan as of June 30, 1999 was $2.5 million.

As of July 1, 1999, the Company entered into a new credit facility (the "New Facility") with a syndicate of lenders. The New Facility provides for borrowings of up to $100 million. Borrowings under the New Facility are unsecured and will initially be structured as revolving loans with the option of conversion into term loans. Borrowings under the New Facility bear interest at a rate of LIBOR plus 0.75% per annum. Proceeds from the New Facility were used to terminate the Credit Agreement on July 1, 1999.

The Company has net operating loss ("NOL") carryforwards, which were generated prior to a financial restructuring that was completed on April 30, 1993, as well as NOL carryforwards that were generated in subsequent years. The total remaining NOL carryforwards were approximately $52 million as of December 31, 1998. The NOL carryforwards expire gradually beginning in the year 2007 through 2010.

The Company's IPO created an ownership change as defined by the Internal Revenue Service, ("IRS"). This ownership change generated an IRS imposed limitation on the utilization of NOL carryforwards on future tax returns. The annual use of the NOL carryforwards is limited to the lesser of the Company's taxable income or the amount of the IRS imposed limitation.

Approximately $12 million of the NOL carryforwards is available for use annually. Approximately $2 million of the $12 million annual limitation relates to a previous restriction on NOL carryforwards generated prior to the financial restructuring.

Based on the limitations described above and certain other factors, a valuation allowance has been recorded against the entire amount of the net deferred tax assets. Any tax benefit that is realized in subsequent years from the reduction of the valuation allowance established at or prior to the financial restructuring will be recorded as an addition to paid-in capital. Any tax benefit that is realized in subsequent years from the utilization of deferred tax assets created after April 30, 1993, will be recorded as a reduction of future income tax provisions.

Under the common stock repurchase program (the "Program") authorized by the Company's Board of Directors, the Company repurchased 1,066,096 shares, or share equivalents, of its common stock during the second quarter of 1999. As of June 30, 1999, the Company has repurchased 1,348,850 shares, or share equivalents, of its common stock under the Program.

Year 2000 Compliance

The Company has installed a new computer operating system which is compliant with Year 2000 demands. The new system includes hardware, software, fiber-optic wiring and extensive training for numerous Company personnel. The project was initiated in 1997 and the Company implemented the system at the end of the third quarter of 1998. The Company used the fourth quarter of 1998 to prove-out and fully convert to the new operating system. The Company has estimated the cost of this new operating system to be approximately $6 million.

The Company is currently assessing the need for Year 2000 contingency plans for both internal operations and external business relations. At this time, the Company believes its new operating system will fully address all Year 2000 issues. Given the size and sophistication of those customers and suppliers which are material to the Company's business, the Company does not anticipate a significant business risk associated with Year 2000 compliance by its customers and suppliers.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company believes that its exposure to market risk related to changes in foreign currency exchange rates and trade accounts receivable is immaterial.

Any statements contained herein that are not historical facts are forward-looking statements within the meaning of the Private Securities Legislation Reform Act of 1995, and involve risks and uncertainties. These forward-looking statements include expectations, beliefs, plans, objectives, future financial performance, estimates, projections, goals and forecasts. Potential factors which could cause the Company's actual results of operations to differ materially from those in the forward-looking statements include market conditions and demand for the

Company's products; competition; technologies; raw material prices; interest rates and capital costs; taxes; unstable governments and business conditions in emerging economies; and legal, regulatory and environmental issues. Any forward-looking statement speaks only as of the date on which such statement is made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

PART II - OTHER INFORMATION

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

On May 21, 1999 at the annual meeting of the stockholders of the Company, the stockholders were asked to vote on the election of a new board of directors for the next year or until their successors are elected. The result of said voting is as follows:

Individual	For	Withheld
Lawrence W. Bianchi	11,738,889	73,134
Charles W. Finkl	11,738,122	73,901
Wayne E. Larsen	11,738,889	73,134
Robert W. Sullivan	11,738,440	73,583
Kerry L. Woody	11,738,740	73,283

The above individuals represent the entire previous board of directors. No other individuals were nominated or received stockholder votes.

No other matter was submitted to the stockholders for a vote during the period covered by this report.

Item 5. Other Information

As a result of the new shares of common stock issued by the Company in the IPO combined with the conversion of warrants into common stock as of June 30, 1999 the Company had 13,586,049 basic shares of common stock outstanding (as reflected in the Consolidated Balance Sheets on page 4). Due to the timing of the IPO and the warrant exercise combined with the dictates of Statement of Financial Accounting Standards No. 128, the Company reported on a weighted average basis 13,681,544 basic shares and 14,401,338 fully-diluted shares of common stock outstanding for the three months ended June 30, 1999 and 13,776,189 basic shares and 14,804,473 fully-diluted shares of common stock outstanding for the six months ended June 30, 1999.

At the May 21, 1999 meeting of the Compensation and Stock Option Committee (the "Committee") of the Board of Directors, the Committee recommended reducing the exercise price of the 402,500 options under the 1996 Long Term Incentive Plan from $14.50 per share

to $8.25 per share. At a subsequent Board of Directors Meeting, the Board of Directors approved the Committee's recommendation.

Item 6. Reports on Form 8-K

No reports on Form 8-K have been filed with the Commission during the period covered by this report.

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.

LADISH CO., INC.

Date: July 22, 1999 By: /S/ WAYNE E. LARSEN
Wayne E. Larsen
Vice President Law/Finance
& Secretary

EXHIBIT INDEX

Exhibit No.	Description
(27)	Financial Data Schedule

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF LADISH CO., INC. AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENT.
</LEGEND>
<MULTIPLIER> 1,000

<S>	<C>	
<PERIOD-TYPE>	6-MOS	
<FISCAL-YEAR-END>		DEC-31-1999
<PERIOD-START>		JAN-01-1999
<PERIOD-END>		JUN-30-1999
<CASH>		1,054
<SECURITIES>		0
<RECEIVABLES>		25,160
<ALLOWANCES>		300
<INVENTORY>		48,189
<CURRENT-ASSETS>		74,746
<PP&E>		86,675
<DEPRECIATION>		56,886
<TOTAL-ASSETS>		171,546
<CURRENT-LIABILITIES>		39,277
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		142
<OTHER-SE>		67,836
<TOTAL-LIABILITY-AND-EQUITY>		171,546
<SALES>		87,527
<TOTAL-REVENUES>		87,527
<CGS>		79,074
<TOTAL-COSTS>		3,579
<OTHER-EXPENSES>		170
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		342
<INCOME-PRETAX>		4,702
<INCOME-TAX>		705
<INCOME-CONTINUING>		3,997
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		3,997
<EPS-BASIC>		0.29
<EPS-DILUTED>		0.27

</TABLE>