

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**
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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.: **95546817**

SIC: **3564** Industrial & commercial fans & blowers & air purifying equip

Mailing Address

*1400 W 94TH STREET
MINNEAPOLIS MN 55431*

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 April 30, 1995

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 -- 26,254,269 shares as of May 31, 1995

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

<TABLE>

<CAPTION>

CONDENSED STATEMENTS OF CONSOLIDATED EARNINGS
DONALDSON COMPANY, INC. AND SUBSIDIARIES
(Thousands of Dollars Except Per Share Amounts)
(Unaudited)

Three Months Ended

Nine Months Ended

| | April 30 | | April 30 | |
|--|------------|------------|------------|------------|
| | 1995 | 1994 | 1995 | 1994 |
| <S> | <C> | <C> | <C> | <C> |
| Net Sales | \$ 186,764 | \$ 153,930 | \$ 519,800 | \$ 432,025 |
| Cost of Sales | 133,058 | 111,793 | 373,378 | 311,448 |
| Gross Margin | 53,706 | 42,137 | 146,422 | 120,577 |
| Operating Expenses | 33,667 | 26,764 | 96,464 | 82,600 |
| Other (Income) Expense | (434) | (599) | 497 | (1,369) |
| Interest Expense | 973 | 738 | 2,501 | 2,209 |
| Earnings Before Income Taxes | 19,500 | 15,234 | 46,960 | 37,137 |
| Income Taxes | 8,044 | 5,525 | 18,314 | 13,629 |
| Earnings Before Cumulative Effect of Accounting Change | 11,456 | 9,709 | 28,646 | 23,508 |
| Cumulative Effect of Accounting Change | -- | -- | -- | 2,206 |
| Net Earnings | \$ 11,456 | \$ 9,709 | \$ 28,646 | \$ 25,714 |
| Average Shares and Equivalents Outstanding During Period | 26,615,154 | 27,347,817 | 26,650,793 | 27,409,417 |
| Earnings Per Share Before Cumulative Effect of Accounting Change | \$.43 | \$.36 | \$ 1.07 | \$.86 |
| Cumulative Effect of Accounting Change | -- | -- | -- | .08 |
| Net Earnings Per Share | \$.43 | \$.36 | \$ 1.07 | \$.94 |
| Dividends Paid Per Share | \$.07 | \$.07 | \$.21 | \$.18 |

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DONALDSON COMPANY, INC. AND SUBSIDIARIES
(Thousands of Dollars)
(Unaudited)

| | April 30, 1995 | July 31, 1994 |
|---------------------------|-------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 37,281 | \$ 22,945 |
| Accounts Receivable, Net | 138,457 | 122,167 |
| Inventories | | |
| Materials | 31,500 | 27,430 |
| Work in Process | 9,785 | 8,521 |
| Finished Products | 27,899 | 24,294 |
| Total Inventories | 69,184 | 60,245 |
| Other | 8,116 | 14,951 |

| | | |
|---|-----------|-----------|
| TOTAL CURRENT ASSETS | 253,038 | 220,308 |
| Property, Plant and Equipment, at Cost | 287,187 | 258,923 |
| Less Accumulated Depreciation | 178,459 | 159,364 |
| Property, Plant and Equipment, Net | 108,728 | 99,559 |
| Other Assets | 20,863 | 17,493 |
| TOTAL ASSETS | \$382,629 | \$337,360 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-Term Debt | \$ 18,273 | \$ 14,073 |
| Current Maturities of Long-Term Debt | 6,257 | 2,883 |
| Trade Accounts Payable | 51,802 | 44,541 |
| Accrued Employee Compensation & Related Taxes | 22,780 | 19,755 |
| Other Current Liabilities | 32,324 | 34,505 |
| TOTAL CURRENT LIABILITIES | 131,436 | 115,757 |
| Long-Term Debt | 12,519 | 16,028 |
| Deferred Income Taxes | 5,510 | 2,248 |
| Other Long-Term Liabilities | 19,464 | 13,630 |
| 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, 27,063,407 issued on April 30, 1995 and July 31, 1994 | 135,317 | 135,317 |
| Capital Surplus | 52 | - |
| Retained Earnings | 88,117 | 65,654 |
| Cumulative Translation Adjustment | 14,321 | 8,244 |
| Treasury Stock - 770,574 and 552,951 shares, at cost | (16,442) | (11,853) |
| Receivable from ESOP | (7,665) | (7,665) |
| TOTAL SHAREHOLDERS' EQUITY | 213,700 | 189,697 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$382,629 | \$337,360 |

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
DONALDSON COMPANY, INC. AND SUBSIDIARIES
(Thousands of Dollars)
(Unaudited)

| | Nine Months Ended April 30 | |
|--|-------------------------------|-----------|
| | 1995 | 1994 |
| | ---- | ---- |
| OPERATING ACTIVITIES | | |
| Net Earnings | \$ 28,646 | \$ 25,714 |
| Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 14,073 | 11,612 |

| | | |
|---|-----------|-----------|
| Property, Plant and Equipment Write Down | 2,392 | 2,200 |
| Cumulative Effect of Accounting Change | -- | (2,206) |
| Changes in Operating Assets and Liabilities | (4,723) | (8,417) |
| Other | 3,832 | (4,389) |
| | ----- | ----- |
| | 44,220 | 24,514 |
| INVESTING ACTIVITIES | | |
| Net Expenditures on PP&E | (17,171) | (14,547) |
| Business Acquisitions, Net of Cash Acquired | (2,417) | -- |
| Dividends from Affiliate | -- | 2,850 |
| | ----- | ----- |
| | (19,588) | (11,697) |
| FINANCING ACTIVITIES | | |
| Purchase of Treasury Stock | (5,453) | (9,994) |
| Dividends Paid | (5,534) | (4,886) |
| Net Increase in Debt | 272 | 4,094 |
| Other | 139 | 378 |
| | ----- | ----- |
| | (10,576) | (10,408) |
| Effect of Exchange Rate Changes on Cash | 280 | (1,761) |
| | ----- | ----- |
| Increase in Cash and Cash Equivalents | 14,336 | 648 |
| Cash and Cash Equivalents-Beginning of Year | 22,945 | 32,110 |
| | ----- | ----- |
| Cash and Cash Equivalents-End of Period | \$ 37,281 | \$ 32,758 |
| | ===== | ===== |

See Notes to Condensed Consolidated Financial Statements.

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 only normal recurring accruals) considered necessary for a fair presentation have been included.

Note B - 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. The cumulative effect of adopting FAS 109 was to increase prior year first quarter net earnings by \$2.2 million (8 cents per share).

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

A. Financial Condition

Positive cash flow totaled \$14.3 million through the first nine months of this year; cash inflows essentially balanced cash outflows in the third quarter.

Operating cash flows have increased this year due to higher net earnings and non-cash expenses and smaller increases in working capital requirements. This higher level of cash flows easily covered a relatively high capital spending program this year as well as the acquisition of the remaining interest in our Mexican operation (DMP). DMP was previously a joint venture owned 50% by Donaldson Company, Inc. Dividend payments totaled \$1.8 million in the third quarter and \$5.5 million for the year-to-date. Treasury stock repurchases totaled \$0.1 million in the third quarter and \$5.5 million for the year-to-date.

At the end of the third quarter, the Company held \$37.3 million in cash and cash equivalents. Cash balances net of short-term debt and current maturities of long-term debt totaled \$12.8 million, up from \$10.6 million at the end of the second quarter. Long-term debt of \$12.5 million at quarter-end, represented 5.5 percent of total long-term capital, down from 7.4 percent at the end of last quarter. Long-term debt declined in the quarter as the Company decided to prepay a \$3.4 million 11 1/8% note on June 1, 1995. This debt was reclassified to a current liability at April 30, 1995.

B. Results of Operations

For the third quarter ended April 30, 1995, net sales increased 21 percent to \$186.8 million from \$153.9 million in the same period last year. Net earnings of \$11.5 million were up 18 percent from prior-year earnings of \$9.7 million. Earnings per share of 43 cents were up 19 percent compared to 36 cents last year.

Revenue increases continue to be broad-based; healthy gains have been achieved across all product lines and all major geographic segments. Worldwide net sales of engine products totaled \$123.8 million in the third quarter of 1995, up 21 percent from the same period last year. Worldwide net sales of industrial products totaled \$63.0 million in the most recent quarter, up 23 percent from last year.

Gross margins of 28.8 percent in the third quarter were significantly higher than the same period last year. This improvement reflects manufacturing efficiencies achieved from higher operating levels this year. In addition, asset write-offs related to our Brazilian operation depressed last year's results. For the year-to-date period, gross margins of 28.2 percent compare favorably to last year. Although our manufacturing costs continue to rise faster than our rate of price increases, we believe that current margin levels are sustainable through higher productivity.

Operating expenses as a percent of sales were 18.0 percent in the third quarter, slightly above the comparable period last year. For the year-to-date period, operating expenses were 18.6 percent of sales, slightly lower than last year. This improvement primarily reflects the unusually high levels of warranty expense incurred last year related to the diesel particulate trap product, which is no longer in production.

Total backlogs of \$205.0 million were up 35 percent from the same period last year and 5 percent from the end of the second quarter. Hard order backlogs - goods scheduled for delivery in 90 days - of \$123.1 million were up 21 percent from last year, unchanged from the end of the second quarter. Although the rapid buildup of backlogs has abated, the current backlogs stand at a historically high level, an encouraging indicator of future sales prospects.

PART II. OTHER INFORMATION

Item 6. - Exhibits and Reports on Form 8-K

- (a) Exhibit Index

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended April 30, 1995.

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 6/9/95

By /s/James R. Giertz
James R. Giertz
Vice President -
Chief Financial Officer

Date 6/9/95

By /s/Raymond F. Vodovnik
Raymond F. Vodovnik
Vice President-Legal

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