

NATCO GROUP INC
Form 10-Q
August 09, 2006
Table of Contents

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 June 30, 2006

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 1-15603

NATCO Group Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

2950 North Loop West

22-2906892
(I.R.S. Employer

Identification No.)

77092

Edgar Filing: NATCO GROUP INC - Form 10-Q

7th Floor

Houston, Texas
(Address of principal executive offices)

713-683-9292

(Zip Code)

(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 (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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

As of July 31, 2006, the issuer had outstanding 17,240,465 shares of common stock, par value \$0.01 per share.

Table of Contents

NATCO GROUP INC.

FORM 10-Q

For the Quarter Ended June 30, 2006

TABLE OF CONTENTS

	Page No.
PART I	
<u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets June 30, 2006 (unaudited) and December 31, 2005</u>	2
<u>Unaudited Condensed Consolidated Statements of Operations Three and Six Months Ended June 30, 2006 and 2005</u>	3
<u>Unaudited Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2006 and 2005</u>	4
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	43
PART II	
<u>OTHER INFORMATION</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	44
Item 5. <u>Other Events</u>	45
Item 6. <u>Exhibits</u>	45
<u>Signatures</u>	46

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NATCO GROUP INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and par value data)

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,195	\$ 9,198
Trade accounts receivable, less allowance for doubtful accounts of \$1,796 and \$1,123 as of June 30, 2006 and December 31, 2005 respectively	123,824	111,770
Inventories	47,279	37,194
Deferred income tax assets, net	3,698	3,465
Prepaid expenses and other current assets	4,263	3,612
Total current assets	188,259	165,239
Property, plant and equipment, net	33,175	33,263
Goodwill, net	81,200	80,891
Deferred income tax assets, net	3,247	3,329
Other assets, net	1,330	1,021
Total assets	\$ 307,211	\$ 283,743

LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND**STOCKHOLDERS EQUITY**

Current liabilities:		
Trade accounts payable and other	\$ 37,257	\$ 48,720
Accrued expenses and other	45,367	41,781
Customer advanced billings and payments	32,449	18,272
Current portion of long-term debt		6,429
Income taxes payable	1,232	890
Total current liabilities	116,305	116,092
Long-term debt, excluding current installments	19,786	20,964
Long-term deferred tax liabilities	946	483
Postretirement benefits and other long-term liabilities	9,783	9,814
Total liabilities	146,820	147,353
Commitments and contingencies		
Series B redeemable convertible preferred stock (aggregate redemption value of \$15,000), \$.01 par value. 15,000 shares authorized, issued and outstanding (net of issuance costs)	14,222	14,222
Stockholders equity:		

Edgar Filing: NATCO GROUP INC - Form 10-Q

Preferred stock, \$.01 par value. Authorized 5,000,000 shares (of which 500,000 are designated as Series A and 15,000 are designated as Series B); no shares issued and outstanding (except Series B shares above)		
Series A preferred stock, \$.01 par value. Authorized 500,000 shares; no shares issued and outstanding		
Common stock, \$.01 par value. Authorized 50,000,000 shares; issued and outstanding 17,237,331 and 16,914,052 shares as of June 30, 2006 and December 31, 2005, respectively	173	169
Additional paid-in-capital	107,735	101,671
Retained earnings	36,550	19,914
Treasury stock, no shares and 2,550 shares at cost as of June 30, 2006 and December 31, 2005, respectively		(22)
Accumulated other comprehensive income	1,711	436
 Total stockholders' equity	 146,169	 122,168
 Total liabilities, redeemable convertible preferred stock and stockholders' equity	 \$ 307,211	 \$ 283,743

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**NATCO GROUP INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Revenue:				
Products	\$ 108,008	\$ 75,474	\$ 205,014	\$ 147,209
Services	20,699	19,174	41,460	36,095
Total revenue	\$ 128,707	\$ 94,648	\$ 246,474	\$ 183,304
Cost of goods sold and services:				
Products	\$ 83,760	\$ 61,710	\$ 159,694	\$ 120,135
Services	9,962	10,540	20,386	19,486
Total cost of goods sold and services	\$ 93,722	\$ 72,250	\$ 180,080	\$ 139,621
Gross profit	\$ 34,985	\$ 22,398	\$ 66,394	\$ 43,683
Selling, general and administrative expense	16,709	14,812	33,704	29,002
Depreciation and amortization expense	1,418	1,332	2,865	2,655
Closure, severance and other	193	48	245	90
Interest expense	727	1,076	1,431	2,091
Interest cost on postretirement benefit liability	50	210	100	420
Interest income	(55)	(13)	(119)	(65)
Other, net	578	474	129	394
Income before income taxes	\$ 15,365	\$ 4,459	\$ 28,039	\$ 9,096
Income tax provision	5,838	1,913	10,655	3,675
Net income	\$ 9,527	\$ 2,546	\$ 17,384	\$ 5,421
Preferred stock dividends	375	375	750	750
Net income allocable to common stockholders	\$ 9,152	\$ 2,171	\$ 16,634	\$ 4,671
Earnings per share basic:				
Net income	\$ 0.54	\$ 0.14	\$ 0.99	\$ 0.29
Earnings per share diluted:				
Net income	\$ 0.50	\$ 0.13	\$ 0.91	\$ 0.29
Basic weighted average number of shares of common stock outstanding	16,832	15,934	16,748	15,875
Diluted weighted average number of shares of common stock outstanding	19,195	16,249	19,096	16,146

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**NATCO GROUP INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Six Months Ended	
	2006	June 30, 2005 ⁽¹⁾
Cash flows from operating activities:		
Net income	\$ 17,384	\$ 5,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense	294	395
Depreciation and amortization expense	2,865	2,655
Non-cash interest expense	172	283
Stock compensation expense	1,098	901
Tax benefit of stock options exercised	366	279
Revaluation of warrants		549
Interest cost on postretirement benefit liability	100	420
Net payments on postretirement benefit liability	(398)	(809)
Loss (Gain) on the sale of property, plant and equipment	48	(371)
Change in assets and liabilities:		
(Increase) decrease in trade accounts receivable	(8,955)	1,845
(Increase) decrease in inventories	(9,626)	2,547
Increase in prepaid expense and other current assets	(624)	(2)
(Increase) decrease in long-term assets	38	(548)
Decrease in accounts payable	(9,426)	(10,521)
Increase (decrease) in accrued expenses and other	1,695	(11)
Increase in other income tax payable	328	
Increase in customer advanced billings and payments	13,945	3,120
Net cash provided by operating activities	9,305	6,153
Cash flows from investing activities:		
Capital expenditures for property, plant and equipment	(2,473)	(1,803)
Proceeds from the sales of property, plant and equipment	29	928
Investments in joint venture	(412)	
Net cash used in investing activities	(2,856)	(875)
Cash flows from financing activities:		
Repayments under long-term revolving credit agreements		(1,584)
Repayments of long-term debt	(7,607)	(3,263)
Proceeds from stock issuances related to stock options, net	2,060	1,832
Excess tax benefit of stock options exercised and restricted stock	2,324	
Change in bank overdrafts	(2,909)	(2,768)
Dividends paid	(750)	(750)
Deferred financing fees		(115)
Net cash used in financing activities	(6,882)	(6,648)
Effect of exchange rate changes on cash and cash equivalents	430	455

Decrease in cash and cash equivalents

(3)