

STEWART & STEVENSON SERVICES INC

Form 10-Q

June 13, 2003

**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 May 3, 2003**

**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 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Common Stock, Without Par Value**  
(Class)

**28,506,995 Shares**  
(Outstanding at May 30, 2003)

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

The following information required by Rule 10-01 of Regulation S-X is provided herein for Stewart & Stevenson Services, Inc. and Subsidiaries (collectively, the Company ):

Consolidated Condensed Balance Sheets May 3, 2003 and January 31, 2003.

Consolidated Condensed Statements of Earnings Three Months Ended May 3, 2003 and May 4, 2002.

Consolidated Condensed Statements of Cash Flows Three Months Ended May 3, 2003 and May 4, 2002.

Notes to Consolidated Condensed Financial Statements.

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

## CONSOLIDATED CONDENSED BALANCE SHEETS

*(In thousands, except share data)*

|   | May 3, 2003<br>(Unaudited) | January 31, 2003<br>(Audited) |
|---|----------------------------|-------------------------------|
| <b>Assets</b>   |                            |                               |
| <b>Current Assets</b>   |                            |                               |
| Cash and cash equivalents   | \$ 115,816                 | \$ 107,994                    |
| Accounts and notes receivable, net  | 147,398                    | 151,839                       |
| Recoverable costs and accrued profits not yet billed  | 15,302                     | 11,668                        |
| Inventories   | 250,536                    | 244,416                       |
| Excess of current cost over LIFO values   | (43,481)                   | (42,785)                      |
| Deferred income tax asset   | 16,291                     | 16,126                        |
| Other current assets  | 3,578                      | 3,967                         |
| Total assets of discontinued operations   | 10,039                     | 14,404                        |
| <b>Total Current Assets</b>   | <b>515,479</b>             | <b>507,629</b>                |
| Property, Plant and Equipment, net  | 116,767                    | 118,964                       |
| Deferred Income Tax Asset   | 13,316                     | 11,754                        |
| Intangibles and Other Assets, net   | 14,953                     | 14,288                        |
| <b>Total Assets</b>   | <b>\$ 660,515</b>          | <b>\$ 652,635</b>             |
| <b>Liabilities and Shareholders' Equity</b>   |                            |                               |
| <b>Current Liabilities</b>  |                            |                               |
| Notes payable   | \$ 2,526                   | \$ 1,454                      |
| Current portion of long-term debt   | 30,250                     | 30,250                        |
| Accounts payable  | 57,133                     | 60,159                        |
| Accrued payrolls and incentives   | 19,579                     | 17,408                        |
| Billings in excess of incurred costs  | 64,198                     | 62,568                        |
| Other current liabilities   | 33,016                     | 29,537                        |
| Total liabilities of discontinued operations  | 3,829                      | 4,092                         |
| <b>Total Current Liabilities</b>  | <b>210,531</b>             | <b>205,468</b>                |
| Long-Term Debt, net   | 26,675                     | 26,531                        |
| Accrued Postretirement Benefits and Pension   | 58,511                     | 54,681                        |
| Other Long-Term Liabilities   | 3,846                      | 3,947                         |
| <b>Total Liabilities</b>  | <b>299,563</b>             | <b>290,627</b>                |
| <b>Shareholders' Equity</b>   |                            |                               |
| Common stock, without par value, 100,000,000 shares authorized; 28,505,120 and 28,490,849 shares issued, respectively | 55,230                     | 54,843                        |
| Accumulated other comprehensive loss  | (21,560)                   | (21,703)                      |
| Retained earnings   | 327,282                    | 328,868                       |
| <b>Total Shareholders' Equity</b>   | <b>360,952</b>             | <b>362,008</b>                |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Total Liabilities and Shareholders' Equity | \$ | 660,515 | \$ | 652,635 |
|--|----|---------|----|---------|

*See accompanying notes to consolidated condensed financial statements.*



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

## CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

*(In thousands, except per share data)*

|  | Three Months Ended |             |
|--|--------------------|-------------|
|  | May 3, 2003        | May 4, 2002 |
|  | (Unaudited)        |             |
| Sales  | \$ 289,771         | \$ 299,670  |
| Cost of sales  | 248,892            | 255,918     |
| Gross profit   | 40,879             | 43,752      |
| Selling and administrative expenses  | 35,309             | 35,424      |
| Pension curtailment expense  | 2,400              |             |
| Interest expense   | 1,244              | 1,132       |
| Interest and investment income   | (500)              | (338)       |
| Other expense/(income), net  | 86                 | (21)        |
|  | 38,539             | 36,197      |
| Earnings from continuing operations before income taxes  | 2,340              | 7,555       |
| Income tax provision, net  | 682                | 2,659       |
| Net earnings from continuing operations before cumulative effect of change in accounting principle | 1,658              | 4,896       |
| Loss from discontinued operations, net of tax of \$(426) and \$(599)                               | (823)              | (1,097)     |
| Cumulative effect of change in accounting principle, net of tax of \$(1,798)                       |                    | (3,682)     |
| Net earnings   | \$ 835             | \$ 117      |
| Weighted average shares outstanding:   |                    |             |
| Basic  | 28,492             | 28,454      |
| Diluted  | 28,643             | 28,767      |
| Earnings (loss) per share:   |                    |             |
| Basic:   |                    |             |
| Continuing operations before cumulative effect   | \$ 0.06            | \$ 0.17     |
| Loss from discontinued operations, net   | (0.03)             | (0.04)      |
| Cumulative effect of change in accounting principle  |                    | (0.13)      |
| Net earnings per share   | \$ 0.03            | \$ 0.00     |
| Diluted:   |                    |             |
| Continuing operations before cumulative effect   | \$ 0.06            | \$ 0.17     |
| Loss from discontinued operations, net   | (0.03)             | (0.04)      |
| Cumulative effect of change in accounting principle  |                    | (0.13)      |
| Net earnings per share   | \$ 0.03            | \$ 0.00     |

|                          |    |       |    |       |
|--------------------------|----|-------|----|-------|
| Cash dividends per share | \$ | 0.085 | \$ | 0.085 |
|--------------------------|----|-------|----|-------|

*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 |                |
|---|--------------------|----------------|
|   | May 3, 2003        | May 4, 2002    |
|   | (Unaudited)        |                |
| <b>Operating Activities</b>   |                    |                |
| Net earnings  | \$ 835             | \$ 117         |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:             |                    |                |
| Net loss from discontinued operations   | 823                | 1,097          |
| Cumulative effect of change in accounting principle   |                    | 3,682          |
| Depreciation and amortization   | 5,543              | 4,852          |
| Change in operating assets and liabilities net of the effect of acquisitions and discontinued operations: |                    |                |
| Accounts and notes receivable, net  | 4,584              | (2,348)        |
| Recoverable costs and accrued profits not yet billed  | (3,634)            | (981)          |
| Inventories   | (5,423)            | (5,153)        |
| Other current and noncurrent assets   | (1,634)            | 11,864         |
| Accounts payable  | (3,026)            | (25,625)       |
| Accrued payrolls and incentives   | 2,517              | (809)          |
| Billings in excess of incurred costs  | 1,630              | 4,904          |
| Other current liabilities   | 3,479              | 7,374          |
| Accrued postretirement benefits and pension   | 3,823              | 905            |
| Other long-term liabilities   | 51                 | (196)          |
| <b>Net Cash Provided By (Used In) Continuing Operations</b>   | <b>9,568</b>       | <b>(317)</b>   |
| Net Cash Provided By (Used In) Discontinued Operations  | 3,278              | (2,211)        |
| <b>Net Cash Provided By (Used In) Operating Activities</b>  | <b>12,846</b>      | <b>(2,528)</b> |
| <b>Investing Activities</b>   |                    |                |
| Expenditures for property, plant and equipment  | (3,697)            | (9,995)        |
| Acquisition of businesses   | (409)              |                |
| Disposal of property, plant and equipment, net  | 391                | 545            |
| <b>Net Cash Used In Investing Activities</b>  | <b>(3,715)</b>     | <b>(9,450)</b> |
| <b>Financing Activities</b>   |                    |                |
| Change in short-term notes payable  | 1,072              | (48)           |
| Dividends paid  | (2,422)            | (2,418)        |
| Proceeds from exercise of stock options   | 41                 | 324            |
| <b>Net Cash Used In Financing Activities</b>  | <b>(1,309)</b>     | <b>(2,142)</b> |
| Increase (decrease) in cash and cash equivalents  | 7,822              | (14,120)       |
| Cash and cash equivalents, beginning of period  | 107,994            | 81,438         |
| Cash and cash equivalents, end of period  | \$ 115,816         | \$ 67,318      |

Cash Paid For:

|                                  |    |     |    |     |
|----------------------------------|----|-----|----|-----|
| Interest                         | \$ | 168 | \$ | 350 |
| Income taxes (excluding refunds) |    | 103 |    | 472 |

*See accompanying notes to consolidated condensed financial statements.*

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

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

**Note 1 - Basis of Presentation**

The accompanying 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 statement of the results for the interim periods. The results of operations for the three months ended May 3, 2003 are not necessarily indicative of the results that will be realized for the fiscal year ending January 31, 2004.

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 2003 commenced on February 1, 2003 and ends on January 31, 2004. 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 condensed consolidated 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 year ended January 31, 2003.

The accompanying consolidated condensed financial statements for Fiscal 2002 and related notes contain certain reclassifications to conform with the presentation used in Fiscal 2003.

**Note 2 - Comprehensive Income**

Total comprehensive income (loss) is as follows (*in thousands*):

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | May 3, 2003               | May 4, 2002 |
| Net earnings  | \$ 835                    | \$ 117      |
| Unrealized gain (loss) on forward contracts, net of tax | 34                        | (113)       |
| Currency translation gain (loss), net of tax            | 111                       | (233)       |
| Comprehensive income (loss)                             | \$ 980                    | \$ (229)    |

**Note 3 - Segment Information**

The Company modified its internal organization structure in 2003. The modifications made were as follows:

The Utilities Equipment business has been removed from the Airline Products segment and identified as a separate reporting segment. As previously announced, the Utilities Equipment business, which manufactures mobile railcar movers, snowblowers and off-road seismic vehicles, has been consolidated with Distributed Energy Solutions and Petroleum Equipment in the newly formed Engineered Products Division.

Certain business operations, which were exited in 2002, have been reclassified from Other Business Activities to the Power Products segment. This business operation consisted primarily of sales of gas compression equipment.

The marketing services and transportation/logistics business units were reclassified from the Power Products segment to Other Business Activities. These business units provide services to both internal customers and external unaffiliated customers. Intercompany sales have been eliminated.

Interest and investment income has been removed from segment operating profit (loss) measurements.

The corresponding segment information for Fiscal 2002 has been restated to conform to the new business segment presentation.

Financial information relating to industry segments with a reconciliation to earnings from continuing operations before income taxes is as follows (*in thousands except percentages*):

|                              | <b>Three Months Ended</b> |                    |
|------------------------------|---------------------------|--------------------|
|                              | <b>May 3, 2003</b>        | <b>May 4, 2002</b> |
| <b>Sales</b>                 |                           |                    |
| Tactical Vehicle Systems     | \$ 110,977                | \$ 115,461         |
| Power Products               | 124,349                   | 149,276            |
| Engineered Products:         |                           |                    |
| Petroleum Equipment          | 23,060                    | 6,518              |
| Distributed Energy Solutions | 13,069                    | 11,783             |
| Utilities Equipment          | 2,588                     | 1,584              |