

KADANT INC
Form 10-Q
August 12, 2010

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 July 3, 2010

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 1-11406

KADANT INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

52-1762325
(I.R.S. Employer Identification No.)

One Technology Park Drive
Westford, Massachusetts
(Address of Principal Executive Offices)

01886
(Zip Code)

Registrant's telephone number, including area code: (978) 776-2000

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated Filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (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.

Class	Outstanding at July 30, 2010
Common Stock, \$.01 par value	12,430,675

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

KADANT INC.

Condensed Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	July 3, 2010	January 2, 2010
Current Assets:		
Cash and cash equivalents	\$47,206	\$45,675
Accounts receivable, less allowances of \$2,644 and \$2,493	39,355	36,436
Inventories (Note 4)	40,903	37,435
Other current assets	11,358	11,229
Assets of discontinued operation	482	496
Total Current Assets	139,304	131,271
Property, Plant, and Equipment, at Cost	96,295	100,700
Less: accumulated depreciation and amortization	59,895	62,285
	36,400	38,415
Other Assets	37,971	40,348
Goodwill	92,670	97,622
Total Assets	\$306,345	\$307,656

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.

Condensed Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands, except share amounts)	July 3, 2010	January 2, 2010
Current Liabilities:		
Current maturities of long-term obligations (Note 6)	\$ 500	\$ 500
Accounts payable	21,877	17,612
Accrued payroll and employee benefits	10,715	11,515
Customer deposits	13,595	11,920
Other current liabilities	15,808	20,380
Liabilities of discontinued operation	2,427	2,427
Total Current Liabilities	64,922	64,354
Other Long-Term Liabilities	24,644	26,521
Long-Term Obligations (Note 6)	22,500	22,750
Shareholders' Investment:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued	—	—
Common stock, \$.01 par value, 150,000,000 shares authorized; 14,624,159 shares issued	146	146
Capital in excess of par value	93,221	92,244
Retained earnings	155,455	146,624
Treasury stock at cost, 2,193,484 and 2,219,221 shares	(46,018)	(46,558)
Accumulated other comprehensive items (Note 2)	(9,741)	252
Total Kadant Shareholders' Investment	193,063	192,708
Noncontrolling interest	1,216	1,323
Total Shareholders' Investment	194,279	194,031
Total Liabilities and Shareholders' Investment	\$ 306,345	\$ 307,656

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.

Condensed Consolidated Statement of Operations
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended	
	July 3, 2010	July 4, 2009
Revenues	\$69,136	\$50,132
Costs and Operating Expenses:		
Cost of revenues	37,968	29,348
Selling, general, and administrative expenses	22,681	19,248
Research and development expenses	1,206	1,722
Restructuring costs and other income, net	(21)	1,013
	61,834	51,331
Operating Income (Loss)	7,302	(1,199)
Interest Income	32	92
Interest Expense	(339)	(507)
Income (Loss) from Continuing Operations Before Income Tax Provision (Benefit)	6,995	(1,614)
Income Tax Provision (Benefit)	1,717	(398)
Income (Loss) from Continuing Operations	5,278	(1,216)
Loss from Discontinued Operation (net of income tax benefit of \$3 and \$2)	(5)	(5)
Net Income (Loss)	5,273	(1,221)
Net (Income) Loss Attributable to Noncontrolling Interest	(53)	28
Net Income (Loss) Attributable to Kadant	\$5,220	\$(1,193)
Amounts Attributable to Kadant:		
Income (Loss) from Continuing Operations	\$5,225	\$(1,188)
Loss from Discontinued Operation	(5)	(5)
Net Income (Loss) Attributable to Kadant	\$5,220	\$(1,193)
Basic and Diluted Earnings (Loss) per Share from Continuing Operations Attributable to Kadant (Note 3)	\$.42	\$(.10)
Basic and Diluted Earnings (Loss) per Share Attributable to Kadant (Note 3)	\$.42	\$(.10)
Weighted Average Shares (Note 3):		
Basic	12,426	12,265
Diluted	12,549	12,265

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.

Condensed Consolidated Statement of Operations
(Unaudited)

(In thousands, except per share amounts)	Six Months Ended	
	July 3, 2010	July 4, 2009
Revenues	\$ 130,257	\$ 115,089
Costs and Operating Expenses:		
Cost of revenues	72,214	69,665
Selling, general, and administrative expenses	43,805	41,453
Research and development expenses	2,578	3,192
Restructuring costs and other income, net (Note 8)	(323)	1,770
	118,274	116,080
Operating Income (Loss)	11,983	(991)
Interest Income	70	299
Interest Expense	(697)	(1,320)
Income (Loss) from Continuing Operations Before Provision for Income Taxes	11,356	(2,012)
Provision for Income Taxes (Note 5)	2,433	2,066
Income (Loss) from Continuing Operations	8,923	(4,078)
Loss from Discontinued Operation (net of income tax benefit of \$5 and \$5)	(9)	(9)
Net Income (Loss)	8,914	(4,087)
Net (Income) Loss Attributable to Noncontrolling Interest	(83)	3
Net Income (Loss) Attributable to Kadant	\$ 8,831	\$ (4,084)
Amounts Attributable to Kadant:		
Income (Loss) from Continuing Operations	\$ 8,840	\$ (4,075)
Loss from Discontinued Operation	(9)	(9)
Net Income (Loss) Attributable to Kadant	\$ 8,831	\$ (4,084)
Basic and Diluted Earnings (Loss) per Share from Continuing Operations Attributable to Kadant (Note 3)	\$.71	\$ (.33)
Basic and Diluted Earnings (Loss) per Share Attributable to Kadant (Note 3)	\$.71	\$ (.33)
Weighted Average Shares (Note 3):		
Basic	12,418	12,386
Diluted	12,521	12,386

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.

Condensed Consolidated Statement of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended	
	July 3, 2010	July 4, 2009
Operating Activities:		
Net income (loss) attributable to Kadant	\$8,831	\$(4,084)
Net income (loss) attributable to noncontrolling interest	83	(3)
Loss from discontinued operation	9	9
Income (loss) from continuing operations	8,923	(4,078)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	3,355	3,719
Stock-based compensation expense	1,285	1,308
Provision for losses on accounts receivable	446	499
Gain on the sale of property, plant, and equipment	(233)	(6)
Other non-cash items, net	711	617
Changes in assets and liabilities:		
Accounts receivable	(5,118)	18,750
Unbilled contract costs and fees	(1,625)	(1,080)
Inventories	(4,797)	13,769
Other assets	110	7,616
Accounts payable	5,667	(9,593)
Contributions to pension plan	(1,750)	(2,400)
Other liabilities	1,434	(10,534)
Net cash provided by continuing operations	8,408	18,587
Net cash provided by discontinued operation	5	5
Net cash provided by operating activities	8,413	18,592
Investing Activities:		
Acquisition consideration	(2,592)	(1,135)
Purchases of property, plant, and equipment	(1,292)	(2,040)
Proceeds from sale of property, plant, and equipment	677	37
Net cash used in continuing operations for investing activities	(3,207)	(3,138)
Financing Activities:		
Repayments of short- and long-term obligations	(250)	(45,035)
Proceeds from issuance of long-term obligations	–	19,000
Purchases of Company common stock	–	(3,722)
Other, net	6	5
Net cash used in continuing operations for financing activities	(244)	(29,752)
Exchange Rate Effect on Cash and Cash Equivalents	(3,431)	1,225
Increase (Decrease) in Cash and Cash Equivalents	1,531	(13,073)

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Cash and Cash Equivalents at Beginning of Period	45,675	40,139
Cash and Cash Equivalents at End of Period	\$47,206	\$27,066
Non-cash Financing Activities:		
Issuance of Company common stock	\$369	\$78

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. General

The interim condensed consolidated financial statements and related notes presented have been prepared by Kadant Inc. (also referred to in this document as “we,” “Kadant,” “the Company,” or “the Registrant”), are unaudited, and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the Company’s financial position at July 3, 2010, and its results of operations for the three- and six-month periods ended July 3, 2010 and July 4, 2009 and cash flows for the six-month periods ended July 3, 2010 and July 4, 2009. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated balance sheet presented as of January 2, 2010, has been derived from the consolidated financial statements that have been audited by the Company’s independent registered public accounting firm. The condensed consolidated financial statements and related notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and related notes of the Company. The condensed consolidated financial statements and notes included herein should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 2, 2010, filed with the Securities and Exchange Commission.

Certain prior-period amounts within operating activities in the statement of cash flows have been reclassified from other non-cash items, net, and shown separately within operating activities to conform to the 2010 presentation.

2. Comprehensive (Loss) Income

Comprehensive (loss) income attributable to Kadant combines net income (loss), other comprehensive items, and comprehensive loss (income) attributable to noncontrolling interest. Other comprehensive items represent certain amounts that are reported as components of shareholders’ investment in the accompanying condensed consolidated balance sheet, including foreign currency translation adjustments, deferred gains and losses and unrecognized prior service loss associated with pension and other post-retirement plans, and deferred gains and losses on hedging instruments. The components of comprehensive (loss) income attributable to Kadant are as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Net Income (Loss)	\$5,273	\$(1,221)	\$8,914	\$(4,087)
Other Comprehensive Items:				
Foreign Currency Translation Adjustment	(5,813)	8,308	(9,718)	4,051
Pension and Other Post-Retirement Liability Adjustments, net (net of income tax of \$66 and \$108 in the three and six months ended July 3, 2010, respectively, and \$(97) and \$(118) in the three and six months ended July 4, 2009, respectively)	124	(174)	204	(215)
Deferred (Loss) Gain on Hedging Instruments (net of income tax of \$(24) and \$(179) in the three and six months ended	(327)	316	(668)	251

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July 3, 2010, respectively, and \$49 and \$(49) in the three and six months ended July 4, 2009, respectively)

	(6,016)	8,450	(10,182)	4,087
Comprehensive (Loss) Income	(743)	7,229	(1,268)	-
Comprehensive Loss (Income) Attributable to Noncontrolling Interest	58	(54)	106	(9)
Comprehensive (Loss) Income Attributable to Kadant	\$(685)	\$7,175	\$(1,162)	\$(9)

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KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

3. Earnings (Loss) per Share

Basic and diluted earnings (loss) per share are calculated as follows:

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Amounts Attributable to Kadant:				
Income (Loss) from Continuing Operations	\$5,225	\$(1,188)	\$8,840	\$(4,075)
Loss from Discontinued Operation	(5)	(5)	(9)	(9)
Net Income (Loss)	\$5,220	\$(1,193)	\$8,831	\$(4,084)
Basic Weighted Average Shares	12,426	12,265	12,418	12,386
Effect of Stock Options, Restricted Stock Units and Employee Stock Purchase Plan	123	—	103	—
Diluted Weighted Average Shares	12,549	12,265	12,521	12,386
Basic and Diluted Earnings (Loss) per Share:				
Continuing Operations	\$.42	\$(.10)	\$.71	\$(.33)
Discontinued Operation	—	—	—	—
Net Income (Loss)	\$.42	\$(.10)	\$.71	\$(.33)

Options to purchase approximately 161,200 and 41,200 shares of the Company's common stock for the second quarters of 2010 and 2009, respectively, and 118,100 and 58,500 shares of the Company's common stock for the first six months of 2010 and 2009, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the Company's common stock and the effect of their inclusion would have been anti-dilutive. In addition, the dilutive effect of restricted stock units totaling 63,400 and 38,300 shares of common stock was not included in the computation of diluted loss per share in the three- and six-month periods ended July 4, 2009, respectively, as the effect would have been anti-dilutive.

4. Inventories

The components of inventories are as follows:

(In thousands)	July 3, 2010	January 2, 2010
Raw Materials and Supplies	\$15,773	\$15,347
Work in Process	8,454	7,500
Finished Goods	16,676	14,588
	\$40,903	\$37,435

KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

5. Income Taxes

The provision for income taxes was \$2,433,000, or 21.4% of pre-tax income, and \$2,066,000, or (102.7%) of pre-tax loss, in the first six months of 2010 and 2009, respectively. The effective tax rate of 21.4% in the first six months of 2010 was lower than the Company's statutory rate primarily due to the expected release of valuation allowances associated with the expected utilization in 2010 of various deferred tax assets that had been fully reserved for in prior periods and a favorable geographical distribution of earnings. The provision for income taxes in the first six months of 2009 included income tax expense of \$1,216,000 associated primarily with earnings from the Company's foreign operations and income tax expense of \$850,000 associated with applying a valuation allowance to certain foreign deferred tax assets.

6. Long-Term Obligations

Long-Term Obligations

Long-Term obligations are as follows:

(In thousands)	July 3, 2010	January 2, 2010
Revolving Credit Facility	\$ 15,000	\$ 15,000
Variable Rate Term Loan, due from 2010 to 2016	8,000	8,250
Total Long-Term Obligations	23,000	23,250
Less: Current Maturities	(500)	(500)
Long-Term Obligations, less Current Maturities	\$ 22,500	\$ 22,750

The weighted average interest rate for long-term obligations was 4.81% as of July 3, 2010.

Revolving Credit Facility

On February 13, 2008, the Company entered into a five-year unsecured revolving credit facility (2008 Credit Agreement) in the aggregate principal amount of up to \$75,000,000. The 2008 Credit Agreement also includes an uncommitted unsecured incremental borrowing facility of up to an additional \$75,000,000. The principal on any borrowings made under the 2008 Credit Agreement is due on February 13, 2013. As of July 3, 2010, the outstanding balance on the 2008 Credit Agreement was \$15,000,000. Based on the Company's maximum leverage ratio and consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization), as defined in the 2008 Credit Agreement, as of July 3, 2010 the Company would have been able to borrow an additional \$56,282,000 under the Company's credit agreements.

Commercial Real Estate Loan

On May 4, 2006, the Company borrowed \$10,000,000 under a promissory note (2006 Commercial Real Estate Loan), which is repayable in quarterly installments of \$125,000 over a ten-year period with the remaining principal balance of \$5,000,000 due upon maturity. As of July 3, 2010, the remaining balance on the 2006 Commercial Real Estate

Loan was \$8,000,000. The 2006 Commercial Real Estate Loan is guaranteed and secured by real estate and related personal property of the Company and certain of its domestic subsidiaries, located in Theodore, Alabama; Auburn, Massachusetts; Three Rivers, Michigan; and Queensbury, New York, pursuant to mortgage and security agreements dated May 4, 2006.

KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

7. Warranty Obligations

The Company provides for the estimated cost of product warranties at the time of sale based on the actual historical occurrence rates and repair costs. The Company typically negotiates the terms regarding warranty coverage and length of warranty depending on the products and applications. While the Company engages in extensive product quality programs and processes, the Company's warranty obligation is affected by product failure rates, repair costs, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to the Company. Should actual product failure rates, repair costs, service delivery costs, or supplier warranties on parts differ from the Company's estimates, revisions to the estimated warranty liability would be required.

The changes in the carrying amount of accrued warranty costs included in other current liabilities in the accompanying condensed consolidated balance sheet are as follows:

(In thousands)	Six Months Ended July 3, 2010
Balance at Beginning of Period	\$2,801
Provision	1,221
Usage	(822)
Currency translation	(234)
Balance at End of Period	\$2,966

See Note 17 for warranty information related to the discontinued operation.

8. Restructuring Costs and Other Income, Net

2008 Restructuring Plan

The Company recorded restructuring costs of \$4,373,000 in 2008 and 2009 associated with its 2008 Restructuring Plan. These restructuring costs included facility-related costs of \$314,000 and severance and associated costs of \$4,059,000 related to the reduction of 329 full-time positions in China, North America, Latin America, and Europe, all in its Papermaking Systems segment. These actions were taken to adjust the Company's cost structure and streamline its operations in response to the weak economic environment, which accelerated in the fourth quarter of 2008, and its negative impact on current and projected order volumes, especially in its stock-preparation equipment product line. The Company recorded additional restructuring costs of \$67,000 in the first six months of 2010 associated with its 2008 Restructuring Plan.

2009 Restructuring Plan

The Company recorded restructuring costs of \$3,858,000 in 2009 associated with its 2009 Restructuring Plan, which consisted of severance and associated costs related to the reduction of 133 full-time positions in Europe, China, the

U.S., and Canada, all in its Papermaking Systems segment. These actions were taken to further adjust the Company's cost structure and streamline its operations in response to the continued weak economic environment. The Company recorded additional restructuring costs of \$114,000 in the first six months of 2010 associated with its 2009 Restructuring Plan.

KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

8. Restructuring Costs and Other Income, Net (continued)

A summary of the changes in accrued restructuring costs, of which \$659,000 is included in other current liabilities and \$459,000 is included in other long-term liabilities in the accompanying condensed consolidated balance sheet, is as follows:

(In thousands)	Severance Costs	Other Costs	Total Costs
2008 Restructuring Plan			
Balance at January 2, 2010	\$1,334	\$-	\$1,334
Provision	42	25	67
Payments	(663)	(25)	(688)
Currency translation	4	-	4
Balance at July 3, 2010	\$717	\$-	\$717
2009 Restructuring Plan			
Balance at January 2, 2010	\$2,302	\$-	\$2,302
Provision	114	-	114
Payments	(1,692)	-	(1,692)
Currency translation	(323)	-	(323)
Balance at July 3, 2010	\$401	\$-	\$401

The Company expects to pay the remaining accrued restructuring costs as follows: \$611,000 in 2010 and \$507,000 from 2011 to 2015.

Other Income

In the first quarter of 2010, the Company sold real estate in the U.S. for \$465,000, resulting in a pre-tax gain of \$285,000. In the second quarter of 2010, the Company recognized a curtailment gain on a pension liability of \$219,000 associated with the reduction of 25 full-time positions in France.

KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

9. Business Segment Information

The Company has one reportable operating segment, Papermaking Systems, and a separate product line, Fiber-based Products, which is reported in Other Business. In classifying operational entities into a particular segment, the Company aggregated businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution.

	Three Months Ended		Six Months Ended	
	July 3,	July 4,	July 3,	July 4,
(In thousands)	2010	2009	2010	2009