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APPLIED INDUSTRIAL TECHNOLOGIES INC
Form 8-K
August 06, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): August 6, 2004

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|-----------------------------|---|
| OHIO | 1-2299 | 34-0117420 |
| ---- | ----- | ----- |
| (State or Other Jurisdiction of Incorporation or Organization) | (Commission File Number) | (I.R.S. Employer Identification No.) |

One Applied Plaza, Cleveland, Ohio 44115

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (216) 426-4000.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Attached to this filing and incorporated by reference herein is the text of registrant's press release dated August 6, 2004 regarding fourth quarter and year-end results.

None of the contents of this Form 8-K should be deemed incorporated by reference into a Securities Act registration statement.

SIGNATURE

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.

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
(Registrant)

By: /s/ Fred D. Bauer

Fred D. Bauer

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Vice President-General Counsel
& Secretary

Date: August 6, 2004

APPLIED INDUSTRIAL TECHNOLOGIES REPORTS 41.8% INCREASE IN NET INCOME FOR FISCAL 2004 FOURTH QUARTER

CLEVELAND, Ohio, August 6, 2004 - Applied Industrial Technologies (NYSE: AIT) today reported its net income rose by 41.8 percent on a sales increase of 8.8 percent in its fiscal 2004 fourth quarter, ended June 30. Earnings per share rose by 37.5 percent in the quarter - the company's seventh consecutive quarter of year-over-year increases of 25 percent or more.

Net sales for the quarter increased to \$405,094,000 from \$372,438,000 in the comparable period a year ago. Net income for the quarter increased to \$10,895,000 or \$0.55 per share compared to \$7,684,000 or \$0.40 per share last year.

For the full fiscal 2004, sales increased by 3.6 percent to \$1,517,004,000 from \$1,464,367,000 in fiscal 2003. Net income increased 58.7 percent for the year to \$31,471,000 compared to \$19,832,000 last year. Net income per share was \$1.60 compared to \$1.03 in the previous year.

Commenting on the performance, Applied Chairman & Chief Executive Officer David L. Pugh said, "These financial results, among the best in our company's history, reflect operating improvements we have implemented over the past several years. As sales increases from a rebounding economy in the fourth quarter exceeded our initial expectations, we benefited from additional operating leverage that magnified the impact on our bottom line.

"In particular, our efforts to control expenses and manage assets led to significantly higher operating margins and returns for both the fourth quarter and the full year.

"Sales improved in all regions of North America and from most of our customer industries. We experienced especially strong increases in demand from the industrial machinery and equipment, primary metals, lumber and wood products and chemical sectors.

"We ended our fiscal 2004 with a strong balance sheet. Inventories are well controlled, debt levels remain low and a cash balance of nearly \$70 million provides Applied flexibility to pursue opportunities for profitable growth and enhancements to shareholder value.

"Looking ahead, we expect to see year-over-year sales increases in the range of 9 percent to 11 percent for the first quarter, and between 5 percent to 7 percent for the second quarter. We expect sales increases will moderate in the second half, primarily because of comparisons to strong sales in the third and fourth quarters of fiscal 2004.

"At this point, we see fiscal 2005 sales totaling between \$1.57 billion and \$1.61 billion. Our initial earnings guidance is in the range of \$.40 to \$.50 per share for the first quarter, and \$1.80 to \$2.00 per share for the full year."

During 2004, the company purchased 290,000 shares of its common stock for \$6.3

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million. At June 30, 2004, the company had remaining authorization to repurchase more than 800,000 additional shares.

Applied will host its fourth quarter conference call at 1:30 p.m. on Friday, August 6. To join in the call, dial 1-800-810-0924 and passcode 757196. The call will be conducted by Chairman & CEO David L. Pugh, President & COO Bill L. Purser and CFO Mark O. Eisele. The call will also be webcast and can be accessed live online at www.applied.com and will be archived there for 14 days. A replay of the teleconference will be available at 1-888-203-1112 (passcode 757196) from 3 p.m. on August 6 through midnight on August 20.

With more than 430 facilities and 4,300 employee associates across North America, Applied Industrial Technologies offers more than 2 million parts critical to the operations of MRO and OEM customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for industrial and fluid power applications, as well as customized mechanical, fabricated rubber and fluid power shop services. For its fiscal year ended June 30, 2004, the Company posted sales of \$1.52 billion. Applied can be visited on the Internet at www.applied.com.

This press release contains statements that are forward-looking, as that term is defined by the Securities and Exchange Commission in its rules, regulations and releases. Forward-looking statements are often identified by qualifiers such as "expect," "will," "guidance," "see" and similar expressions. Applied intends that such forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors including trends in the industrial sector of the economy, and other risk factors identified in Applied's most recent periodic report and other filings made with the Securities and Exchange Commission. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by the Company or any other person that the results expressed therein will be achieved. Applied assumes no obligation to update publicly or revise any forward-looking statements, whether due to new information, or events, or otherwise.

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For financial information, contact Mark O. Eisele, Vice President - Chief Financial Officer at 216-426-4417. For Corporate information, contact Richard C. Shaw, Vice President - Communications, at 216-426-4343.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED INCOME

(Thousands, except per share data)

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| | Three Months Ended June 30 | |
|--|-------------------------------|------------|
| | 2004 | 2003 |
| NET SALES | \$ 405,094 | \$ 372,430 |
| Cost of sales | 296,017 | 271,960 |
| GROSS PROFIT | 109,077 | 100,470 |
| Selling, distribution and administrative | 90,755 | 89,530 |
| OPERATING INCOME | 18,322 | 10,930 |
| Interest expense, net | 1,289 | 1,400 |
| Other (income) expense, net | (32) | (2,260) |
| INCOME BEFORE INCOME TAXES | 17,065 | 11,800 |
| INCOME TAXES | 6,170 | 4,120 |
| NET INCOME | \$ 10,895 | \$ 7,680 |
| NET INCOME PER SHARE - BASIC | \$ 0.56 | \$ 0.40 |
| NET INCOME PER SHARE - DILUTED | \$ 0.55 | \$ 0.40 |
| AVERAGE SHARES OUTSTANDING - BASIC | 19,322 | 18,820 |
| AVERAGE SHARES OUTSTANDING - DILUTED | 19,835 | 19,170 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- (1) Cost of sales for interim financial statements is computed using estimated gross profit percentages which are adjusted throughout the year based upon available information. Adjustments to actual cost are primarily made based upon physical inventories and the effect of year-end inventory quantities on LIFO costs. Fourth quarter adjustments in 2004 and 2003 increased gross profit by \$3,456 and \$4,410, net income by \$2,131 and \$2,682 and net income per share by \$0.11 and \$0.14 respectively. Reductions in inventories during the fiscal years ended June 30, 2004 and 2003 resulted in liquidations of LIFO inventory quantities carried at lower costs prevailing in prior years. The effect of these liquidations for the years ended June 30, 2004 and 2003 increased gross profit by \$672 and \$741, net income by \$420 and \$453 and net income per share by \$0.02 and \$0.02 respectively.
- (2) Effective July 1, 2003, the Company adopted the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," using the modified prospective method for the transition. Under the modified prospective method, stock based compensation cost recognized during this fiscal year is the same as that which would have been recognized had the fair value recognition provisions been applied to all awards granted after July 1, 1995. The compensation expense recorded during the quarter ended

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June 30, 2004 was \$271, (\$173 net of tax) or \$0.01 per share. During the year ended June 30, 2004, compensation expense recorded for stock-based compensation was \$1,586, (\$1,074 net of tax) or \$0.05 per share.

- (3) During the quarter ended March 31, 2004, the Company recorded non-recurring tax benefits primarily from a settlement with the Internal Revenue Service related to audits of our 1997 and 1998 tax returns and the acceptance by the IRS of tax refund claims for 1999, 2000, and 2001. The settlement added \$1,600, or \$0.08 per share, to earnings.
- (4) During the quarter ended June 30, 2003, the Company recorded pre-tax gains of \$2,133 for an insurance claim settlement and \$650 for the sale of surplus real estate. Both items accounted for approximately \$0.09 per share of income in the fourth quarter.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amount in Thousands)

| | June 30 2004 |
|---|-------------------|
| <hr/> | |
| ASSETS | |
| Cash | \$ 69,667 |
| Accounts receivable, less allowances of \$6,400 and \$6,100 | 190,815 |
| Inventories | 159,594 |
| Other current assets | 22,957 |
| <hr/> | |
| Total current assets | 443,033 |
| Property - net | 77,025 |
| Goodwill | 49,852 |
| Other assets | 26,931 |
| <hr/> | |
| TOTAL ASSETS | \$ 596,841 |
| <hr/> | |
| LIABILITIES | |
| Accounts payable | \$ 78,767 |
| Other current liabilities | 72,562 |
| <hr/> | |
| Total current liabilities | 151,329 |
| Long-term debt | 77,767 |
| Other liabilities | 28,210 |
| <hr/> | |
| TOTAL LIABILITIES | 257,306 |
| <hr/> | |
| SHAREHOLDERS' EQUITY | 339,535 |
| <hr/> | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 596,841 |
| <hr/> | |

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Amount in Thousands)

| | Year Ended June 30 | |
|--|--------------------|-----------|
| | 2004 | 2003 |
| CASH PROVIDED FROM OPERATIONS: | | |
| Net income | \$ 31,471 | \$ 19,832 |
| Depreciation and amortization | 17,043 | 15,957 |
| Other | 5,706 | 2,404 |
| (Gain)loss on sale of property | 13 | (3,249) |
| Cash effect of changes in working capital | (11,145) | 28,976 |
| CASH PROVIDED FROM OPERATIONS | 43,088 | 63,920 |
| INVESTING ACTIVITIES: | | |
| Property purchases | (14,387) | (12,794) |
| Proceeds from property sales | 1,441 | 7,456 |
| Net cash paid for acquisition of business | (1,285) | (10,255) |
| Deposits and other | (1,589) | (689) |
| CASH USED IN INVESTING ACTIVITIES | (15,820) | (16,282) |
| FINANCING ACTIVITIES: | | |
| Borrowings and repayments of notes payable - net | (2,850) | |
| Repayment of long-term debt | | (5,714) |
| Proceeds from termination of interest rate swap | | 2,517 |
| Change in cash overdrafts | (2,557) | 3,371 |
| Purchase of common stock for treasury | (6,336) | (9,946) |
| Cash dividends paid | (9,273) | (9,154) |
| Exercise of stock options | 8,336 | 3,307 |
| CASH USED IN FINANCING ACTIVITIES | (12,680) | (15,619) |
| INCREASE IN CASH | \$ 14,588 | \$ 32,019 |