

SMITH A O CORP
Form 10-Q
May 06, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013.

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 1-475

A. O. Smith Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

11270 West Park Place, Milwaukee, Wisconsin
(Address of principal executive office)

(414)359-4000

(Registrant's telephone number, including area code)

39-0619790
(I.R.S. Employer Identification No.)

53224-9508
(Zip Code)

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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 (§232.405 of this chapter) 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.

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 Act.) Yes No

Class A Common Stock Outstanding as of April 30, 2013 6,619,395 shares

Common Stock Outstanding as of April 30, 2013 39,741,893 shares

(Outstanding shares do not give effect to a two-for-one stock split in the form of a 100 percent stock dividend to owners of record April 30, 2013 and payable May 15, 2013)

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A. O. Smith Corporation

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PART I - FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

Three Months Ended March 31, 2013 and 2012

(dollars in millions, except for per share data)

(unaudited)

	Three Months Ended March 31,	
	2013	2012
Net sales	\$ 509.6	\$ 468.6
Cost of products sold	330.3	319.5
Gross profit	179.3	149.1
Selling, general and administrative expenses	120.0	105.3
Restructuring, impairment and settlement expense - net	1.7	-
Interest expense	1.5	3.0
Other income	(1.0)	(29.1)
	57.1	69.9
Provision for income taxes	18.1	22.4
Net Earnings	\$ 39.0	\$ 47.5
Net Earnings Per Share of Common Stock	\$ 0.42	\$ 0.52
Diluted Net Earnings Per Share of Common Stock	\$ 0.42	\$ 0.51
Dividends Per Share of Common Stock	\$ 0.10	\$ 0.08

(Earnings per share and dividends per share above have been impacted by the two-for-one stock split in the form of a 100 percent stock dividend to owners of record on April 30, 2013 and payable May 15, 2013)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

Three Months Ended March 31, 2013 and 2012

(dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2013	2012
Net earnings	\$ 39.0	\$ 47.5
Other comprehensive (loss) earnings		

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Foreign currency translation adjustments	(1.5)	2.8
Unrealized net gain on cash flow derivative instruments, less related income tax provision of \$(0.4) in 2013 and \$(0.4) in 2012	0.7	0.6
Adjustment to additional minimum pension liability, less related income tax provision of \$(3.9) in 2013	6.3	-
Reversal of unrealized gain on investments less related tax benefit of \$0.7 in 2012	-	(1.2)
Comprehensive Earnings	\$ 44.5	\$ 49.7

See accompanying notes to unaudited condensed consolidated financial statements.

PART I - FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2013 and December 31, 2012

(dollars in millions)

	(unaudited)	
	March 31, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 306.9	\$ 266.9
Marketable securities	144.5	196.0
Receivables	423.7	425.4
Inventories	169.8	163.4
Deferred income taxes	32.6	33.2
Other current assets	28.3	22.3
Total Current Assets	1,105.8	1,107.2
Property, plant and equipment	690.5	680.7
Less accumulated depreciation	344.5	335.0
Net property, plant and equipment	346.0	345.7
Goodwill	436.0	435.4
Other intangibles	337.2	338.7
Other assets	42.1	38.2
Total Assets	\$ 2,267.1	\$ 2,265.2
Liabilities		
Current Liabilities		
Trade payables	\$ 306.0	\$ 328.9
Accrued payroll and benefits	40.0	46.5
Income taxes	13.4	0.2
Accrued liabilities	51.3	57.0
Product warranties	43.2	43.2
Long-term debt due within one year	18.6	18.6
Current liabilities - discontinued operations	4.6	4.6
Total Current Liabilities	477.1	499.0
Long-term debt	210.5	225.1
Pension liabilities	186.6	190.1
Other liabilities	149.4	148.3
Long-term liabilities - discontinued operations	7.8	8.6
Total Liabilities	1,031.4	1,071.1
Stockholders' Equity		
Class A Common Stock, \$5 par value: authorized 14,000,000 shares; issued 13,304,280 and 13,309,876	66.6	66.6

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Common Stock, \$1 par value: authorized 120,000,000 shares; issued 82,033,936 and 82,049,542	82.0	82.0
Capital in excess of par value	583.1	580.5
Retained earnings	884.9	855.1
Accumulated other comprehensive loss	(315.0)	(320.5)
Treasury stock at cost	(65.9)	(69.6)
Total Stockholders Equity	1,235.7	1,194.1
Total Liabilities and Stockholders Equity	\$ 2,267.1	\$ 2,265.2

(Share related information above has been impacted by the two-for-one stock split in the form of 100 percent stock dividend to owners of record on April 30, 2013 and payable on May 15, 2013)

See accompanying notes to unaudited condensed consolidated financial statements

PART I - FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months ended March 31, 2013 and 2012

(dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2013	2012
Operating Activities		
Net earnings	\$ 39.0	\$ 47.5
Adjustments to reconcile net earnings to cash provided by (used in) operating activities:		
Depreciation and amortization	14.1	13.4
Pension expense	6.9	3.3
Loss on disposal of assets	-	0.1
Gain on sale of investments	-	(27.2)
Net changes in operating assets and liabilities, net of acquisitions:		
Current assets and liabilities	(28.0)	(21.5)
Noncurrent assets and liabilities	4.6	(0.5)
Cash Provided by Operating Activities - continuing operations	36.6	15.1
Cash Used in Operating Activities - discontinued operations	(0.8)	(18.6)
Cash Provided by (Used in) Operating Activities	35.8	(3.5)
Investing Activities		
Capital expenditures	(18.4)	(13.1)
Acquisitions	(6.1)	-
Investment in marketable securities	(31.7)	(60.9)
Net proceeds from sale of securities	83.0	122.9
Cash Provided by Investing Activities	26.8	48.9
Financing Activities		
Long-term debt retired	(15.5)	(143.1)
Common stock repurchases	(3.5)	-
Net proceeds from stock option activity	5.8	8.8
Dividends paid	(9.4)	(7.3)
Cash Used in Financing Activities	(22.6)	(141.6)
Net increase (decrease) in cash and cash equivalents	40.0	(96.2)
Cash and cash equivalents - beginning of period	266.9	463.4
Cash and Cash Equivalents - End of Period	\$ 306.9	\$ 367.2

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See accompanying notes to unaudited condensed consolidated financial statements

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

A. O. SMITH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2013 are not necessarily indicative of the results expected for the full year. It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the company's latest Annual Report on Form 10-K filed with the SEC on February 27, 2013.

Except where otherwise indicated, amounts reflected in the financial statements or the notes thereto relate to the company's continuing operations.

On April 15, 2013, the company's stockholders approved a proposal to increase the company's authorized shares of Common Stock and the company's board of directors declared a two-for-one stock split of the company's Class A Common Stock and Common Stock (including treasury shares) in the form of a one hundred percent stock dividend to stockholders of record on April 30, 2013 and payable on May 15, 2013. All references in the financial statements and footnotes to the number of shares outstanding, price per share, per share amounts and stock based compensation data have been recast to reflect the split for all periods presented.

Certain other prior year amounts have been reclassified to conform to the 2013 presentation.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 allows an entity to first assess qualitative factors in determining whether events and circumstances indicate that it is more-likely-than not that an indefinite-lived intangible asset is impaired. If an entity determines that it is not more-likely-than not that the indefinite-lived intangible asset is impaired, then the entity is not required to perform a quantitative impairment test. ASU 2012-02 is effective for the year ending December 31, 2013. The adoption of this ASU will not have an impact on the company's consolidated financial condition, results of operations or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 sets requirements for presentation for significant items reclassified out of accumulated other comprehensive income to net income in reporting periods presented. ASU 2013-02 is effective prospectively beginning with the quarter ended March 31, 2013. The adoption of this guidance did not have an impact on the company's financial condition or results of operations but required additional disclosure in the notes to the company's financial statements. The company has complied with the disclosure requirements of ASU 2013-02 for the period ended March 31, 2013.

