

COLUMBUS MCKINNON CORP

Form 10-Q

January 23, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

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

For the quarterly period ended December 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: 0-27618

Columbus McKinnon Corporation
(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of incorporation or organization)

16-0547600
(I.R.S. Employer
Identification No.)

140 John James Audubon Parkway, Amherst, NY
(Address of principal executive offices)

14228-1197
(Zip code)

(716) 689-5400
(Registrant's telephone number, including area code)

(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 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 checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the 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 Exchange Act). o
Yes No

The number of shares of common stock outstanding as of January 20, 2014 was:19,741,089 shares.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (Unaudited)

COLUMBUS MCKINNON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2013 (unaudited) (In thousands)	March 31, 2013
ASSETS:		
Current assets:		
Cash and cash equivalents	\$123,868	\$121,660
Trade accounts receivable	75,555	80,224
Inventories	105,158	94,189
Prepaid expenses and other	19,639	17,905
Total current assets	324,220	313,978
Property, plant, and equipment, net	72,063	65,698
Goodwill	112,280	105,354
Other intangibles, net	12,638	13,395
Marketable securities	22,187	23,951
Deferred taxes on income	39,692	37,205
Other assets	6,490	7,286
Total assets	\$589,570	\$566,867
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Trade accounts payable	\$30,126	\$34,329
Accrued liabilities	57,231	48,884
Current portion of long term debt	1,138	1,024
Total current liabilities	88,495	84,237
Senior debt, less current portion	2,060	2,641
Subordinated debt	148,618	148,412
Other non current liabilities	82,300	91,590
Total liabilities	321,473	326,880
Shareholders' equity:		
Voting common stock; 50,000,000 shares authorized; 19,735,761 and 19,507,939 shares issued and outstanding	197	195
Additional paid in capital	196,226	192,308
Retained earnings	124,997	104,191
ESOP debt guarantee	(244	) (552)
Accumulated other comprehensive loss	(53,079	) (56,155)
Total shareholders' equity	268,097	239,987
Total liabilities and shareholders' equity	\$589,570	\$566,867

See accompanying notes.

COLUMBUS MCKINNON CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
 (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	(In thousands, except per share data)			
Net sales	\$145,072	\$153,225	\$422,815	\$452,710
Cost of products sold	102,075	109,428	292,067	322,687
Gross profit	42,997	43,797	130,748	130,023
Selling expenses	16,188	16,390	50,216	49,204
General and administrative expenses	15,230	12,725	42,247	39,448
Amortization of intangibles	478	493	1,463	1,481
	31,896	29,608	93,926	90,133
Income from operations	11,101	14,189	36,822	39,890
Interest and debt expense	3,395	3,413	10,138	10,418
Investment income	(254	) (354	) (746	) (1,017
Foreign currency exchange loss (gain)	568	293	988	147
Other expense (income), net	(147	) 65	(1,319	) (429
Income before income tax expense	7,539	10,772	27,761	30,771
Income tax expense	875	1,193	6,955	4,504
Net income	6,664	9,579	20,806	26,267
Retained earnings - beginning of period	118,333	42,583	104,191	25,895
Retained earnings - end of period	\$124,997	\$52,162	\$124,997	\$52,162
Average basic shares outstanding	19,691	19,451	19,622	19,406
Average diluted shares outstanding	20,019	19,697	19,915	19,620
Basic income per share:				
Net income	\$0.34	\$0.49	\$1.06	\$1.35
Diluted income per share:				
Net income	\$0.33	\$0.49	\$1.04	\$1.34

See accompanying notes.

COLUMBUS McKINNON CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	(In thousands)			
Net income	\$6,664	\$9,579	\$20,806	\$26,267
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	871	2,628	3,806	(49)
Change in derivatives qualifying as hedges, net of taxes of \$30, (\$89), \$138, and (\$158)	88	(138)	279)	(326)
Change in pension liability and postretirement obligation	(11)	(24)	(131)	9)
Adjustments for unrealized gain on investments:				
Unrealized holding gain (loss) arising during the period, net of taxes of \$141, \$0*, \$65, and \$0*	262	194	120	489
Reclassification adjustment for loss (gain) included in net income, net of taxes of \$19, \$0*, \$538, and \$0*	(36)	(253)	(998)	(400)
Net change in unrealized loss (gain) on investments	226	(59)	(878)	89)
Total other comprehensive income (loss)	1,174	2,407	3,076	(277)
Comprehensive income	\$7,838	\$11,986	\$23,882	\$25,990

* The zero net deferred tax benefit related to the unrealized holding gains and losses and reclassification adjustments on investments during the three and nine month periods ended December 31, 2012 is related to the deferred tax asset valuation allowance that was recorded in that period.

See accompanying notes.

COLUMBUS McKINNON CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

	Nine Months Ended	
	December 31, 2013	December 31, 2012
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	\$20,806	\$26,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,566	9,116
Deferred income taxes and related valuation allowance	(1,773)	) 153
Gain on sale of real estate, investments, and other	(1,629)	) (493)
Stock-based compensation	2,707	2,474
Amortization of deferred financing costs and discount on subordinated debt	655	288
Changes in operating assets and liabilities, net of effects of business acquisition:		
Trade accounts receivable	6,572	9,330
Inventories	(8,927)	) 4,129
Prepaid expenses	(1,588)	) (345)
Other assets	534	415
Trade accounts payable	(4,753)	) (8,835)
Accrued and non-current liabilities	(4,212)	) (16,212)
Net cash provided by operating activities	17,958	26,287
INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	5,444	4,907
Purchases of marketable securities	(3,611)	) (2,724)
Capital expenditures	(13,484)	) (7,139)
Purchase of business	(5,847)) —
Proceeds from sale of assets	—	2,357
Net cash used for investing activities	(17,498)	) (2,599)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,464	232
Net payments under lines-of-credit	(7)	) (52)
Repayment of debt	(566)	) (592)
Payment of deferred financing fees	—	(684)
Change in ESOP guarantee	308	318
Net cash provided by (used for) financing activities	1,199	(778)
Effect of exchange rate changes on cash	549	(446)
Net change in cash and cash equivalents	2,208	22,464
Cash and cash equivalents at beginning of period	121,660	89,473
Cash and cash equivalents at end of period	\$123,868	\$111,937
Supplementary cash flow data:		
Interest paid	\$6,845	\$7,274
Income taxes paid, net of refunds	\$9,572	\$3,591

See accompanying notes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

December 31, 2013

1. Description of Business

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of Columbus McKinnon Corporation (the Company) at December 31, 2013, the results of its operations for the three and nine month periods ended December 31, 2013 and December 31, 2012, and cash flows for the nine months ended December 31, 2013 and December 31, 2012, have been included. Results for the period ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ending March 31, 2014. The balance sheet at March 31, 2013 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Columbus McKinnon Corporation annual report on Form 10-K for the year ended March 31, 2013.

The Company is a leading designer, marketer and manufacturer of material handling products and services which efficiently and safely move, lift, position and secure material. Key products include hoists, rigging tools, cranes, and actuators. The Company's material handling products are sold globally, principally to third party distributors through diverse distribution channels, and to a lesser extent directly to end-users. During the three and nine months ended December 31, 2013, approximately 54% and 57% of sales, respectively were to customers in the U.S.

2. Divestitures

During the fiscal 2013 nine months ending December 31, 2012, the Company sold certain assets of the Gaffey division of Crane Equipment and Service, Inc. The sale of the Gaffey assets did not have a material effect on the Company's financial statements for year ended March 31, 2013 and therefore was not reclassified as a discontinued operation.

3. Acquisitions

On June 1, 2013, the Company acquired 100% of the outstanding common shares of Hebeteknik Gesellschaft m.b.H ("Hebeteknik") located in Austria, a privately owned company with annual sales of approximately \$10,000,000. Hebeteknik has been a value-added partner of the Company in the lifting industry in the Austrian market for over 20 years. The results of Hebeteknik are included in the Company's condensed consolidated financial statements from the date of acquisition. The acquisition of Hebeteknik is not considered significant to the Company's consolidated financial position and results of operations.

The acquisition was funded with existing cash. The purchase price has been preliminarily allocated to the assets acquired and liabilities assumed as of the date of acquisition. The excess consideration of \$5,324,000 was recorded as goodwill. The identifiable intangible asset consists of order backlog at the date of the acquisition and is estimated to have a three month useful life. Goodwill recorded in connection with the acquisition will be deductible for Austrian tax purposes. The preliminary assignment of purchase consideration to the assets acquired and liabilities assumed, pending finalization of the determination of the fair values of the net assets acquired, is as follows (in thousands):

Working capital	\$212
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Other current assets	58	
Property, plant and equipment	446	
Goodwill	5,324	
Long term debt	(193)
Total	\$5,847	

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4. Fair Value Measurements

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820 “Fair Value Measurements and Disclosures” establishes the standards for reporting financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

ASC Topic 820-10-35-37 establishes a hierarchy for inputs that may be used to measure fair value. Level 1 is defined as quoted prices in active markets that the Company has the ability to access for identical assets or liabilities. The fair value of the Company’s marketable securities is based on Level 1 inputs. Level 2 is defined as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 3 inputs are unobservable inputs based on the Company’s own assumptions used to measure assets and liabilities at fair value. The Company primarily uses readily observable market data in conjunction with internally developed discounted cash flow valuation models when valuing its derivative portfolio and, consequently, the fair value of the Company’s derivatives is based on Level 2 inputs. The Company uses quoted prices in an inactive market when valuing its Subordinated Debt, represented by the 7 7/8% Notes due 2019, registered under the Securities Act of 1933, as amended (unregistered 7 7/8% Notes) and, consequently, the fair value is based on Level 2 inputs. The carrying value of the Company’s senior debt approximates fair value based on current market interest rates for debt instruments of similar credit standing and, consequently, its fair value is based on Level 2 inputs. As of December 31, 2013 and March 31, 2013, the Company’s assets and liabilities measured or disclosed at fair value on recurring bases were as follows (in thousands):

Description	Fair value measurements at reporting date using			
	December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets/(Liabilities) measured at fair value:				
Marketable securities	\$22,187	\$22,187	\$—	\$—
Derivative liabilities	(219)	—	(219)	—
Liabilities disclosed at fair value:				
Subordinated debt	\$(160,500)	\$—	\$(160,500)	\$—
Senior debt	(3,198)	—	(3,198)	—
Description	Fair value measurements at reporting date using			
	March 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets/(Liabilities) measured at fair value:				

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Marketable securities	\$23,951	\$23,951	\$—	\$—
Derivative liabilities	(512) —	(512) —
Other equity investments	1,508	1,508	—	—
Liabilities disclosed at fair value:				
Subordinated debt	\$(160,500) \$—	\$(160,500) \$—
Senior debt	(3,665) —	(3,665) —

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The carrying amount of these financial assets and liabilities are the same as their fair value with the exception of the subordinated debt whose carrying value is a liability of \$148,618,000 at December 31, 2013 and \$148,412,000 at March 31, 2013.

Assets and liabilities that were measured on a non-recurring basis during the period ended December 31, 2013 include assets and liabilities acquired in connection with the acquisition of Hebeteknik described in Note 3. The estimated fair values allocated to the assets acquired and liabilities assumed relied upon fair value measurements based primarily on Level 3 inputs. The valuation techniques used to allocate fair values to working capital items; property, plant, and equipment; and identifiable intangible assets included the cost approach, market approach, and other income approaches. The valuation techniques relied on a number of inputs which included the cost and condition of property, plant, and equipment and forecasted net sales and income.

5. Inventories

Inventories consisted of the following (in thousands):

	December 31, 2013	March 31, 2013
At cost - FIFO basis:		
Raw materials	\$56,999	\$52,900
Work-in-process	16,011	10,813
Finished goods	52,310	50,722
	125,320	114,435
LIFO cost less than FIFO cost	(20,162)