MANITOWOC CO INC
Form 10-Q
May 03, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2007

Or

o **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

1-11978

The Manitowoc Company, Inc.

(Exact name of registrant as specified in its charter)

Wisconsin	**39-0448110**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2400 South 44th Street, Manitowoc, Wisconsin	**54221-0066**
(Address of principal executive offices)	(Zip Code)

(920) 684-4410

(Registrant s telephone number, including area code)

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 x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares outstanding of the Registrant s common stock, $.01 par value, as of March 31, 2007, the most recent practicable date, was 62,360,553.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE MANITOWOC COMPANY, INC.

Consolidated Statements of Operations

For the Three Months Ended March 31, 2007 and 2006

(Unaudited)

(In millions, except per-share and average shares data)

	Three Months Ended March 31, 2007	2006
Net sales	$ 862.1	$ 633.0
Costs and expenses:		
Cost of sales	666.7	497.8
Engineering, selling and administrative expenses	93.8	78.9
Amortization expense	0.9	0.7
Total operating costs and expenses	761.4	577.4
Earnings from operations	100.7	55.6
Other expense:		
Interest expense	(9.1)	(11.7)
Other expenses, net	(0.1)	(1.0)
Total other expense	(9.2)	(12.7)
Earnings from continuing operations before taxes on income	91.5	42.9
Provision for taxes on income	27.4	12.9
Earnings from continuing operations	64.1	30.0
Loss from discontinued operations, net of income taxes of $(0.2)		(0.3)
Net earnings	$ 64.1	$ 29.7
Basic earnings per share:		
Earnings from continuing operations	$ 1.03	$ 0.49
Loss from discontinued operations, net of income taxes		(0.01)
Net earnings	$ 1.03	$ 0.49
Diluted earnings per share:		
Earnings from continuing operations	$ 1.01	$ 0.48
Loss from discontinued operations, net of income taxes		(0.01)
Net earnings	$ 1.01	$ 0.48
Weighted average shares outstanding basic	62,050,961	60,936,490
Weighted average shares outstanding diluted	63,446,369	62,461,920

See accompanying notes which are an integral part of these statements.

THE MANITOWOC COMPANY, INC.

Consolidated Balance Sheets

As of March 31, 2007 and December 31, 2006

(Unaudited)

(In millions, except share data)

	March 31, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 140.1	$ 173.7
Marketable securities	2.4	2.4
Restricted cash	15.3	15.1
Accounts receivable, less allowances of $28.3 and $27.6	347.3	285.2
Inventories net	569.7	492.4
Deferred income taxes	99.4	97.7
Other current assets	79.1	76.2
Total current assets	1,253.3	1,142.7
Property, plant and equipment net	395.3	398.9
Goodwill	479.6	462.1
Other intangible assets net	160.4	160.0
Deferred income taxes	18.6	14.3
Other non-current assets	41.8	41.5
Total assets	$ 2,349.0	$ 2,219.5
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 881.3	$ 839.6
Short-term borrowings	34.8	4.1
Product warranties	61.2	59.6
Product liabilities	32.6	32.1
Total current liabilities	1,009.9	935.4
Non-Current Liabilities:		
Long-term debt	265.2	264.3
Pension obligations	37.2	64.5
Postretirement health and other benefit obligations	60.3	59.9
Long-term deferred revenue	65.7	71.6
Other non-current liabilities	70.4	49.3
Total non-current liabilities	498.8	509.6
Commitments and contingencies (Note 12)		
Stockholders Equity:		
Common stock (150,000,000 shares authorized for both periods, 79,587,964 shares issued for both periods, 62,360,553 and 62,121,862 shares outstanding, respectively)	0.7	0.7
Additional paid-in capital	238.6	231.8
Accumulated other comprehensive income	54.9	48.0
Retained earnings	638.6	587.4
Treasury stock, at cost (17,227,411 and 17,466,102 shares, respectively)	(92.5)	(93.4)
Total stockholders equity	840.3	774.5
Total liabilities and stockholders equity	$ 2,349.0	$ 2,219.5

See accompanying notes which are an integral part of these statements.

THE MANITOWOC COMPANY, INC.

Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2007 and 2006

(Unaudited)

(In millions)

	Three Months Ended March 31, 2007	2006
Cash Flows from Operations:		
Net earnings	$ 64.1	$ 29.7
Adjustments to reconcile net earnings to cash used for operating activities of continuing operations:		
Discontinued operations, net of income taxes		0.3
Depreciation	24.2	17.5
Amortization of intangible assets	0.9	0.7
Amortization of deferred financing fees	0.3	0.4
Deferred income taxes	5.0	0.2
Gain on sale of property, plant and equipment	(1.4)	(0.8)
Changes in operating assets and liabilities, excluding effects of business acquisitions:		
Accounts receivable	(59.6)	(33.6)
Inventories	(81.4)	(68.3)
Other assets	(5.9)	(2.5)
Accounts payable and accrued expenses	19.0	64.3
Other liabilities	(5.5)	(15.4)
Net cash used for operating activities of continuing operations	(40.3)	(7.5)
Net cash used for operating activities of discontinued operations		(0.3)
Net cash used for operating activities	(40.3)	(7.8)
Cash Flows from Investing:		
Business acquisition, net of cash acquired	(15.9)	(12.1)
Capital expenditures	(10.6)	(10.4)
Restricted cash	(0.2)	
Proceeds from sale of property, plant and equipment	2.7	1.7
Net cash used for investing activities	(24.0)	(20.8)
Cash Flows from Financing:		
Proceeds from (payments on) revolving credit facility	26.8	(4.3)
Payments on long-term debt	(0.5)	(11.8)
Proceeds from long-term debt	4.3	6.1
Proceeds (payments) on note financings	(2.3)	9.8
Dividends paid	(2.2)	(2.1)
Exercises of stock options including windfall tax benefits	2.9	4.7
Net cash provided by financing activities	29.0	2.4
Effect of exchange rate changes on cash	1.7	1.1
Net decrease in cash and cash equivalents	(33.6)	(25.1)
Balance at beginning of period	173.7	229.5
Balance at end of period	$ 140.1	$ 204.4

See accompanying notes which are an integral part of these statements.

THE MANITOWOC COMPANY, INC.

Consolidated Statements of Comprehensive Income

For the Three Months Ended March 31, 2007 and 2006

(Unaudited)

(In millions)

	Three Months Ended March 31, 2007	2006
Net earnings	$ 64.1	$ 29.7
Other comprehensive income :		
Derivative instrument fair market value adjustment net of income taxes	0.4	0.2
Foreign currency translation adjustments	6.5	5.2
Total other comprehensive income	6.9	5.4
Comprehensive income	$ 71.0	$ 35.1

See accompanying notes which are an integral part of these statements.

THE MANITOWOC COMPANY, INC.

Notes to Unaudited Consolidated Financial Statements

For the Three Months Ended March 31, 2007 and 2006

1. Accounting Policies

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the results of operations, cash flows and comprehensive income for the three months ended March 31, 2007 and 2006 and the financial position at March 31, 2007, and except as otherwise discussed such adjustments consist of only those of a normal recurring nature. The interim results are not necessarily indicative of results for a full year and do not contain information included in the company s annual consolidated financial statements and notes for the year ended December 31, 2006. The consolidated balance sheet as of December 31, 2006 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the company s latest annual report.

All dollar amounts, except share and per share amounts, are in millions of dollars throughout the tables included in these notes unless otherwise indicated.

2. Acquisition

On January 3, 2007, the company acquired the Carrydeck line of mobile industrial cranes from Marine Travelift, Inc. of Sturgeon Bay, Wisconsin. The acquisition of the Carrydeck line adds six new models to the company s product offering of mobile industrial cranes. The aggregate consideration paid for Carrydeck line resulted in approximately $15.6 million of goodwill being recognized by the company s Crane segment. As of March 31, 2007, all excess purchase price over net assets acquired was assigned to goodwill. The company is in the process of valuing other intangible assets acquired in this acquisition and will assign value to these assets during the second quarter of 2007.

On May 26, 2006, the company acquired substantially all of the assets and business operated by McCann s Engineering & Mfg. Co. and McCann s de Mexico S.A. de C.V. (McCann s). Headquartered in Los Angeles, California, and with operations in Tijuana, Mexico McCann s is engaged in the design, manufacture and sale of beverage dispensing equipment primarily used in fast food restaurants, stadiums, cafeterias and convenience stores. McCann s primary products are backroom beverage equipment such as carbonators, water boosters and racks. McCann s also produces accessory components for beverage dispensers including specialty valves, stands and other stainless steel components. The aggregate consideration paid for the McCann s acquisition was $37.1 million, including acquisition costs of approximately $0.7 million. The acquisition resulted in approximately $14.4 million of goodwill and $14.3 million of other intangible assets being recognized by the company s Foodservice segment. See further detail related to the goodwill and other intangible assets of the McCann s acquisition at Note 5, Goodwill and Other Intangible Assets.

On January 3, 2006, the company acquired certain assets, rights and properties of ExacTech, Inc., a supplier of fabrication, machining, welding, and other services to various parties. Located in Port Washington, Wisconsin, ExacTech, Inc. now provides these services to the company s U.S. based crane manufacturing facilities. The aggregate consideration paid for the acquisition resulted in approximately $6.5 million of goodwill being recognized by the company s Crane segment in the first quarter of 2006.

3. Discontinued Operations

During the third quarter of 2005, the company decided to close Toledo Ship Repair Company (Toledo Ship Repair), a division of the company s wholly-owned subsidiary, Manitowoc Marine Group, LLC. Located in Toledo, Ohio, Toledo Ship Repair performed ship repair and industrial repair services. During the third quarter of 2005, the company recorded a $5.2 million pre-tax ($3.8 million after tax) charge for costs related to the closure of the business. This charge included $0.2 million related to severance agreements; $1.0 million for future lease payments; $0.3 million for the write-off of goodwill related to this business; $2.2 million for the write-down of certain assets (primarily property, plant and equipment and inventory) to estimated salvage value; and $1.5 million for closing and other related costs. This charge was recorded in gain (loss) on sale or closure of discontinued operations, net of income taxes in the Consolidated Statements of Operations during the third quarter of 2005. The closure of Toledo Ship Repair represents a discontinued operation under Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Results of Toledo Ship Repair in current and prior periods have been classified as discontinued in the Consolidated Financial Statements to exclude the results from continuing operations. The closure of Toledo was completed during the first quarter of 2006.

The following selected financial data of Toledo Ship Repair for the three months ended March 31, 2006 is presented for informational purposes only and does not necessarily reflect what the results of operations would have been had the business operated as a stand-alone entity. There was no general corporate expense or interest expense allocated to discontinued operations for this business during the periods presented.

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	Three Months Ended March 31, 2006
Net sales	$
Pretax loss from discontinued operations	$ (0.5)
Benefit for taxes on loss	0.2
Net loss from discontinued operations	$ (0.3)

4. Inventories

The components of inventory at March 31, 2007 and December 31, 2006 are summarized as follows:

	March 31, 2007	December 31, 2006
Inventories gross:		
Raw materials	$ 223.9	$ 198.3
Work-in-process	201.9	174.2
Finished goods	214.8	187.2
Total inventories gross	640.6	559.7
Excess and obsolete inventory reserve	(47.0)	(44.4)
Net inventories at FIFO cost	593.6	515.3
Excess of FIFO costs over LIFO value	(23.9)	(22.9)
Inventories net	$ 569.7	$ 492.4

Inventory is carried at lower of cost or market using the first-in, first-out (FIFO) method for 86% and 85% of total inventory at March 31, 2007 and December 31, 2006, respectively. The remainder of the inventory cost is determined using the last-in, first-out (LIFO) method.

5. Goodwill and Other Intangible Assets

The changes in carrying amount of goodwill by reportable segment for the year ended December 31, 2006 and three months ended March 31, 2007 are as follows:

	Crane	Foodservice	Marine	Total
Balance as of January 1, 2006	$ 196.7	$ 185.7	$ 47.2	$ 429.6
ExacTech, Inc. acquisition	6.5			6.5
McCann s acquisition		14.4		14.4
Foreign currency impact	11.6			11.6
Balance as of December 31, 2006	214.8	200.1	47.2	462.1
Carrydeck acquisition	15.6			15.6
Foreign currency impact	1.9			1.9
Balance as of March 31, 2007	$ 232.3	$ 200.1	$ 47.2	$ 479.6

As discussed in Note 2, Acquisition, during 2006, the company completed the acquisitions of McCann s and ExacTech, Inc. The acquisition of ExacTech, Inc. resulted in an increase of $6.5 million of goodwill and no other intangible assets. The acquisition of McCann s resulted in an increase of $14.4 million of goodwill and $14.3 million of other intangible assets. The other intangible assets consist of trademarks totaling $7.0 million, which have an indefinite life, customer relationships of $5.8 million, which have been assigned a 13 year life, and patents of $1.5 million which have been assigned a 10 year life. During the first quarter of 2007, the company completed the acquisition of the Carrydeck line of mobile industrial cranes from Marine Travelift, Inc. of Sturgeon Bay, Wisconsin. The acquisition resulted in approximately $15.6 million of goodwill being recognized by the company s Crane segment. As of March 31, 2007, all excess purchase price over net assets acquired was assigned to goodwill. The company is in the process of valuing other intangible assets acquired in this acquisition and will assign value to these assets during the second quarter of 2007.

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The gross carrying amount and accumulated amortization of the company s intangible assets other than goodwill were as follows as of March 31, 2007 and December 31, 2006.

	March 31, 2007			**December 31, 2006**		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Book Value**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Trademarks and tradenames	$ 106.0	$	$ 106.0	$ 105.1	$	$ 105.1
Customer relationships	5.8	(0.4)	5.4	5.8	(0.3)	5.5
Patents	31.3	(10.4)	20.9	31.1	(9.8)	21.3
Engineering drawings	12.0	(4.6)	7.4	12.0	(4.4)	7.6
Distribution network	20.7		20.7	20.5		20.5
	$ 175.8	$ (15.4)	$ 160.4	$ 174.5	$ (14.5)	$ 160.0

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at March 31, 2007 and December 31, 2006 are summarized as follows:

	March 31, 2007	**December 31, 2006**
Trade accounts	$ 475.7	$ 431.8
Interest payable	7.9	7.9
Employee related expenses	83.9	76.3
Income taxes payable	67.2	62.9
Profit sharing and incentives	33.8	54.8
Unremitted cash liability	4.3	11.7
Deferred revenue - current	49.6	48.1
Amounts billed in excess of sales	60.9	57.2
Miscellaneous accrued expenses	98.0	88.9
	$ 881.3	$ 839.6

7. Accounts Receivable Securitization

The Company has entered into an accounts receivable securitization program whereby it sells certain of its domestic trade accounts receivable to a wholly owned, bankruptcy-remote special purpose subsidiary which, in turn, sells participating interests in its pool of receivables to a third-party financial institution (Purchaser). The Purchaser receives an ownership and security interest in the pool of receivables. New receivables are purchased by the special purpose subsidiary and participation interests are resold to the Purchaser as collections reduce previously sold participation interests. The company has retained collection and administrative responsibilities on the participation interests sold. The Purchaser has no recourse against the company for uncollectible receivables; however, the company s retained interest in the receivable pool is subordinate to the Purchaser and is recorded at fair value. Due to a short average collection cycle of less than 60 days for such accounts receivable and due to the company s collection history, the fair value of the company s retained interest approximates book value. The retained interest recorded at March 31, 2007 is $67.3 million and is included in accounts receivable in the accompanying Consolidated Balance Sheets.

The securitization program includes certain of the company s domestic Foodservice and Crane segment s businesses and the capacity of the program is $90 million. Trade accounts receivables sold to the Purchaser and being serviced by the company totaled $85.0 million at March 31, 2007.

Sales of trade receivables from the special purpose subsidiary to the Purchaser totaled $10.0 million, for the quarter ended March 31, 2007. Cash collections of trade accounts receivable balances in the total receivable pool totaled $240.2 million for the quarter ended March 31, 2007.

The accounts receivables securitization program is accounted for as a sale in accordance with FASB Statement No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities a Replacement of FASB Statement No. 125.

Sales of trade receivables to the Purchaser are reflected as a reduction of accounts receivable in the accompanying Consolidated Balance Sheets and the proceeds received are included in cash flows from operating activities in the accompanying Consolidated Statements of Cash Flows.

The table below provides additional information about delinquencies and net credit losses for trade accounts receivable subject to the accounts receivable securitization program.

	Balance outstanding March 31 2007	**Balance Outstanding 60 Days or More Past Due March 31, 2007**	**Net Credit Losses Three Months Ended March 31, 2007**
Trade accounts receivable subject to securitization program	$ 152.3	$ 1.7	$
Trade accounts receivable balance sold	85.0		
Retained interest	$ 67.3		

8. Income Taxes

The company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The following table provides the open tax years for which the Company could be subject to income tax examination by the tax authorities in its major jurisdictions:

Jurisdiction	Open Years
U.S. Federal	2004 2006
Wisconsin	1997 2006
Pennsylvania	2002 2006
France	2003 2006
Germany	2001 2006
Italy	2004 2006
Portugal	2002 2006
England	2001 2006
Singapore	2000 2006

The Internal Revenue Service (IRS) commenced an examination of the company s U.S. income tax returns for the 2004 and 2005 tax years in the first quarter of 2007 that is anticipated to be completed by the end of 2008. As of March 31, 2007, the IRS proposed an adjustment to disallow the company s 2002 research credit claim for which the tax benefit has not been recognized. In 2006 the Wisconsin Department of Revenue began an examination of the company s Wisconsin income tax returns for 1997 through 2005 that is anticipated to be completed by the end of 2008. As of March 31, 2007, no significant adjustments have been proposed. The company was notified by the German tax authorities of an examination of its German income and trade tax returns for 2001 through 2004 that is expected to begin during 2007.

The company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes,* effective January 1, 2007. As a result of the adoption of FIN 48, the company recognized an additional tax liability of $10.6 million for unrecognized tax benefits, including $4.6 million of accrued interest and penalties, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. Immediately prior to adopting FIN No. 48, the company s total amount of unrecognized tax benefits, including interest and penalties, was $25.1 million. All of the company s unrecognized tax benefits, if recognized, would affect the effective tax rate.

The company recognizes accrued interest and penalties related to unrecognized tax benefits as part of income tax expense. During the quarter ended March 31, 2007 the company recognized a benefit of $0.2 million related to interest and penalties. Upon the adoption of Interpretation 48, the Company has accrued interest and penalties in the aggregate of $8.1 million.

During the next 12 months, the company expects that its unrecognized tax benefits (including interest and penalties) will decrease by $2.9 million resulting from the impact of a proposed IRS audit assessment to the federal research credit, which will not impact the effective rate, and an increase of $0.7 million for other items.

9. Earnings Per Share

The following is a reconciliation of the average shares outstanding used to compute basic and diluted earnings per share.

	Three Months Ended March 31, 2007	2006
Basic weighted average common shares outstanding		