MANITOWOC CO INC
Form 10-Q
August 09, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 ý No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No ý

The number of shares outstanding of the Registrant’s common stock, $.01 par value, as of June 30, 2016, the most recent practicable date, was 137,576,641.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE MANITOWOC COMPANY, INC.
Condensed Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2016 and 2015
(Unaudited)
(In millions, except per-share and average shares data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	$ 457.7	$ 477.7	$ 885.1	$ 884.4
Cost of sales	369.5	382.8	715.0	714.1
Gross profit	88.2	94.9	170.1	170.3
Operating costs and expenses:				
Engineering, selling and administrative expenses	73.4	79.5	145.8	162.2
Amortization expense	0.8	0.7	1.5	1.5
Restructuring expense	8.8	0.6	13.2	0.8
Other	0.4	(0.1)	1.8	(0.1)
Total operating costs and expenses	83.4	80.7	162.3	164.4
Operating income	4.8	14.2	7.8	5.9
Other income (expense):				
Interest expense	(9.9)	(24.0)	(19.6)	(47.3)
Amortization of deferred financing fees	(0.4)	(1.0)	(1.3)	(2.1)
Loss on debt extinguishment	—	—	(76.3)	—
Other income - net	2.1	2.8	3.2	2.6
Total other expense	(8.2)	(22.2)	(94.0)	(46.8)
Loss from continuing operations before taxes on income	(3.4)	(8.0)	(86.2)	(40.9)
Provision (benefit) for taxes on income	0.7	(1.7)	122.2	(11.2)
Loss from continuing operations	(4.1)	(6.3)	(208.4)	(29.7)
Discontinued operations:				
(Loss) income from discontinued operations, net of income taxes of $0.0, $16.5, ($1.3) and $24.7, respectively	(0.8)	29.6	(4.0)	44.6
Net (loss) income	$ (4.9)	$ 23.3	$ (212.4)	$ 14.9
Basic (loss) income per common share:				
Loss from continuing operations	$ (0.03)	$ (0.05)	$ (1.52)	$ (0.22)
(Loss) income from discontinued operations	(0.01)	0.22	(0.03)	0.33
Basic (loss) income per common share	$ (0.04)	$ 0.17	$ (1.55)	$ 0.11
Diluted (loss) income per common share:				
Loss from continuing operations	$ (0.03)	$ (0.05)	$ (1.52)	$ (0.22)
(Loss) income from discontinued operations	(0.01)	0.21	(0.03)	0.32
Diluted (loss) income per common share:	$ (0.04)	$ 0.17	$ (1.55)	$ 0.11

Weighted average shares outstanding - basic	137,138,220	136,130,861	136,869,066	135,887,738
Weighted average shares outstanding - diluted	137,138,220	137,985,899	136,869,066	137,431,565

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

THE MANITOWOC COMPANY, INC.
Condensed Consolidated Statements of Comprehensive Income (Loss)
For the Three and Six Months Ended June 30, 2016 and 2015
(Unaudited)
(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss) income	$ (4.9)	$ 23.3	$ (212.4)	$ 14.9
Other comprehensive income (loss), net of tax				
Unrealized (loss) income on derivatives, net of income tax provision (benefit) of $0.0, $2.5, $0.0 and $(0.2), respectively	(0.1)	4.3	1.5	0.2
Employee pension and postretirement benefits, net of income tax provision of $0.0, $0.5, $0.0 and $1.0, respectively	1.2	1.4	2.4	2.8
Foreign currency translation adjustments	(17.4)	8.6	31.8	(54.2)
Total other comprehensive (loss) income, net of tax	(16.3)	14.3	35.7	(51.2)
Comprehensive (loss) income	$ (21.2)	$ 37.6	$ (176.7)	$ (36.3)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

THE MANITOWOC COMPANY, INC.
Condensed Consolidated Balance Sheets
As of June 30, 2016 and December 31, 2015
(Unaudited)
(In millions, except share data)

	June 30, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and temporary investments	$40.8	$ 31.5
Restricted cash	16.3	16.9
Accounts receivable, less allowances of $12.5 and $12.8, respectively	189.7	155.7
Inventories — net	499.9	452.6
Notes receivable	58.2	59.7
Other current assets	45.2	43.0
Current assets of discontinued operations	—	254.2
Total current assets	850.1	1,013.6
Property, plant and equipment — net	415.4	410.7
Goodwill	307.5	306.5
Other intangible assets — net	118.7	119.3
Other long-term assets	68.6	182.6
Long-term assets held for sale	5.6	5.5
Long-term assets of discontinued operations	—	1,501.5
Total assets	$1,765.9	$ 3,539.7
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$395.5	$ 436.3
Short-term borrowings and current portion of long-term debt	17.2	67.2
Product warranties	38.3	35.9
Customer advances	9.8	10.3
Product liabilities	22.1	21.9
Current liabilities of discontinued operations	—	312.0
Total current liabilities	482.9	883.6
Non-Current Liabilities:		
Long-term debt	275.0	1,330.4
Deferred income taxes	40.6	25.6
Pension obligations	78.7	99.4
Postretirement health and other benefit obligations	37.1	44.4
Long-term deferred revenue	22.5	29.7
Other non-current liabilities	77.8	87.3
Long-term liabilities of discontinued operations	—	219.8
Total non-current liabilities	531.7	1,836.6
Commitments and contingencies (Note 15)		
Total Equity:		
Common stock (300,000,000 shares authorized, 163,175,928 shares issued, 137,576,641 and 136,617,161 shares outstanding, respectively)	1.4	1.4
Additional paid-in capital	564.2	558.0
Accumulated other comprehensive loss	(123.4)	(207.8)

Retained earnings	378.3	539.5
Treasury stock, at cost (25,599,287 and 26,558,767 shares, respectively)	(69.2)	(71.6)
Total equity	751.3	819.5
Total liabilities and equity	$1,765.9	$ 3,539.7

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

THE MANITOWOC COMPANY, INC.
Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2016 and 2015
(Unaudited)
(In millions)

	Six Months Ended June 30, 2016	2015
Cash Flows from Operations:		
Net (loss) income	$ (212.4)	$ 14.9
Adjustments to reconcile net earnings to cash used for operating activities of continuing operations:		
Discontinued operations, net of income taxes	4.0	(44.6)
Depreciation	23.6	24.0
Amortization of intangible assets	1.5	1.5
Amortization of deferred financing fees	1.3	2.1
Deferred income taxes	125.2	32.8
Loss on early debt extinguishment	15.4	—
Loss (gain) on sale of property, plant and equipment	1.7	(0.6)
Other	(4.5)	6.1
Changes in operating assets and liabilities, excluding effects of business acquisitions and divestitures:		
Accounts receivable	(33.3)	(1.0)
Inventories	(43.0)	(95.6)
Other assets	(2.2)	(8.9)
Accounts payable	(40.8)	7.5
Accrued expenses and other liabilities	0.9	22.2
Net cash used for operating activities of continuing operations	(162.6)	(39.6)
Net cash used for operating activities of discontinued operations	(63.9)	(40.6)
Net cash used for operating activities	(226.5)	(80.2)
Cash Flows from Investing:		
Capital expenditures	(24.7)	(22.5)
Proceeds from sale of property, plant and equipment	0.9	5.1
Restricted cash	0.3	3.3
Net cash used for investing activities of continuing operations	(23.5)	(14.1)
Net cash used for investing activities of discontinued operations	(2.4)	(7.0)
Net cash used for investing activities	(25.9)	(21.1)
Cash Flows from Financing:		
Proceeds from revolving credit facility	—	142.0
Payments on long-term debt	(1,365.9)	(34.6)
Proceeds from long-term debt	261.1	1.4
Payments on notes financing	(5.0)	(9.3)
Debt issuance costs	(8.3)	—
Exercises of stock options	2.5	3.9
Dividend from spun-off subsidiary	1,361.7	—
Cash transferred to spun-off subsidiary	(17.7)	—

Net cash provided by financing activities of continuing operations	228.4	103.4
Net cash provided by financing activities of discontinued operations	0.2	0.2
Net cash provided by financing activities	228.6	103.6
Effect of exchange rate changes on cash	1.2	(2.6)
Net decrease in cash and cash equivalents	(22.6)	(0.3)
Balance at beginning of period, including cash of discontinued operations of $31.9 and $16.5	63.4	68.0
Balance at end of period, including cash of discontinued operations of $0.0 and $14.8	$ 40.8	$ 67.7

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

THE MANITOWOC COMPANY, INC.
Notes to Unaudited Condensed Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2016 and 2015
1. Accounting Policies and Basis of Presentation

During the first quarter of fiscal 2016, the Board of Directors of The Manitowoc Company, Inc. (“Manitowoc,” “MTW,” and the “Company”) approved the tax-free spin-off of the Company’s foodservice business (“MFS”) into an independent, public company (the “Spin-Off”). To consummate the Spin-Off, the Board declared a pro rata dividend of MFS common stock to MTW’s stockholders of record as of the close of business on February 22, 2016 (the "Record Date"), payable on March 4, 2016. Each MTW stockholder received one share of MFS common stock for every share of MTW common stock held as of the close of business on the Record Date.

In these Condensed Consolidated Financial Statements, unless otherwise indicated, references to Manitowoc, MTW and the Company, refer to The Manitowoc Company, Inc. and its consolidated subsidiaries after giving effect to the Spin-Off, or, in the case of information as of dates or for periods prior to the Spin-Off, the consolidated entities of the Crane business and certain other assets and liabilities that were historically held at the MTW corporate level but were specifically identifiable and attributable to the Crane business. The Company is a leading providers of engineered lifting equipment for the global construction industry, including lattice-boom cranes, tower cranes, mobile telescopic cranes, and boom trucks.

As a result of the Spin-Off, the Condensed Consolidated Financial Statements and related financial information reflect MFS operations, assets and liabilities, and cash flows as discontinued operations for all periods presented. Refer to Note 2, "Discontinued Operations," for additional information regarding the Spin-Off.

Subsequent to the Spin-Off, the management team determined that Manitowoc has one reportable segment, the Crane business. The Company identified its segment using the “management approach,” which designates the internal organization that is used by management for making operating decisions and assessing performance.

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments necessary for a fair statement of the results of operations and comprehensive income for the three and six months ended June 30, 2016 and 2015, the cash flows for the same six-month periods, and the financial position at June 30, 2016 and December 31, 2015, 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, 2015. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to SEC rules and regulations dealing with interim financial statements. However, the Company believes that the disclosures made in the Condensed Consolidated Financial Statements included herein are adequate to make the information presented not misleading. 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 on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current period presentation. All dollar amounts, except share and per share amounts, are in millions of dollars throughout the tables included in these notes unless otherwise indicated.

During the first quarter of 2016, in conjunction with the Spin-Off, the Company identified an out-of-period adjustment related to deferred tax assets which originated prior to 2010, whereby the Company had understated the deferred tax assets by $6.2 million at each balance sheet date prior to March 31, 2016. In the first quarter of 2016, the Company recorded an adjustment to the deferred tax assets and the income tax provision on continuing operations to record the out-of-period adjustment. Additionally, the Company identified an out-of-period adjustment in MFS' deferred tax assets, which also originated prior to 2010, whereby the Company had understated the deferred tax assets by $2.9 million at each balance sheet date prior to March 31, 2016. In the first quarter of 2016, prior to the Spin-Off, the Company recorded an adjustment to the deferred tax assets and the income tax provision on discontinued operations to correct the out-of-period adjustment. The Company does not believe that these adjustments were material to its Condensed Consolidated Financial Statements.

During the second quarter of 2016, the Company identified two adjustments to the previously issued financial statements for the three months ended March 31, 2016. In evaluating whether the Company's previously issued consolidated financial statements were materially misstated, the Company considered the guidance in ASC Topic 250, Accounting Changes and Error Corrections and ASC Topic 250-10-S99-1, Assessing Materiality. The Company determined that these errors were not material to the Company's prior interim period consolidated financial statements and therefore, amendment of the previously filed report was not required. However, the Company determined that the impact of the corrections would be too significant to record within the second quarter of 2016. As such, the revision for the corrections is reflected in the financial information of the applicable prior periods in this Form 10-Q filing.

The adjustments identified during the second quarter of 2016 are as follows:

- Adjustment related to accumulated other comprehensive loss ("AOCL"), whereby the Company had understated loss on debt extinguishment by $4.3 million, overstated income tax expense by $0.8 million, and understated loss from continuing operations by $3.5 million in the first quarter of 2016. The adjustment also resulted in an overstatement of AOCL and understatement of retained earnings by $2.6 million as of March 31, 2016.
- Adjustment related to the classification of income tax expense between continuing operations and discontinued operations in the three months ended March 31, 2015, whereby the Company had understated the benefit for taxes on continuing operations, and understated the income tax provision on discontinued operations by $2.1 million.

A summary of the adjustments on the impacted financial statement line items in the Condensed Consolidated Statements of Operations as revised and as previously presented in the March 31, 2016, Form 10-Q is as follows:

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	As revised	As previously presented	As revised	As previously presented
Loss on debt extinguishment	$ (76.3)	$ (72.0)	$ —	$ —
Loss from continuing operations before taxes on income	(82.8)	(78.5)	(32.9)	(32.9)
Provision (benefit) for taxes on income	121.5	122.3	(9.5)	(7.4)
Loss from continuing operations	(204.3)	(200.8)	(23.4)	(25.5)
Discontinued operations:				
(Loss) income from discontinued operations, net of income taxes	(3.2)	(3.2)	15.0	17.1
Net loss	$ (207.5)	$ (204.0)	$ (8.4)	$ (8.4)
Loss per common share - basic and diluted				
Loss from continuing operations	$ (1.50)	$ (1.47)	$ (0.17)	$ (0.19)
(Loss) income from discontinued operations	(0.02)	(0.02)	0.11	0.13
Loss per common share	$ (1.52)	$ (1.49)	$ (0.06)	$ (0.06)

2. Discontinued Operations

On March 4, 2016, Manitowoc completed the Spin-Off of MFS. The financial results of MFS are presented as income (loss) from discontinued operations, net of income taxes in the Condensed Consolidated Statements of Operations. The following table presents the financial results of MFS through the date of the Spin-Off for the indicated periods and do not include corporate overhead allocations:

Major classes of line items constituting earnings from discontinued operations before income taxes related to MFS

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Net sales	$ —	$ 407.7	$ 219.6	$ 753.1
Cost of sales	—	280.1	141.5	518.4
Engineering, selling and administrative expenses	—	65.2	48.3	141.1
Amortization expense	—	7.9	5.2	15.7
Restructuring expense	—	(0.5)	0.3	0.4
Separation expense	0.7	8.3	27.7	9.8
Other	—	0.5	—	0.5
Total operating costs and expenses	0.7	361.5	223.0	685.9
(Loss) earnings from operations	(0.7)	46.2	(3.4)	67.2
Other (expense) income	—	(0.2)	(1.8)	2.2
(Loss) earnings from discontinued operations before income taxes	(0.7)	46.0	(5.2)	69.4
(Benefit) provision for taxes on earnings	—	16.4	(1.3)	24.7
(Loss) earnings from discontinued operations, net of income taxes	$ (0.7)	$ 29.6	$ (3.9)	$ 44.7

The assets and liabilities of MFS have been classified as discontinued operations as of December 31, 2015. No assets or liabilities of MFS are reflected on the Company's Condensed Consolidated Balance Sheet as of June 30, 2016. These amounts consisted of the following carrying amounts in each major class at December 31, 2015.

Carrying amounts of major classes of assets and liabilities included as part of discontinued operations related to MFS

(in millions)	December 31, 2015
Assets	
Cash and temporary investments	$ 31.9
Restricted cash	0.6
Accounts receivable - net	63.8
Inventories - net	145.9
Other current assets	12.0
Property, plant and equipment - net	116.3
Goodwill	845.8
Other intangible assets - net	519.5
Other long-term assets	16.2
Long-term assets held for sale	3.7
Total major classes of assets of discontinued operations	$ 1,755.7
Liabilities	
Accounts payable and accrued expenses	$ 271.6
Current portion of long-term debt	0.4
Other current liabilities	40.0
Long-term debt	2.3
Deferred income taxes	167.9
Pension	29.3
Postretirement health and other benefit obligations	3.0
Other non-current liabilities	17.3

Total major classes of liabilities of discontinued operations	$ 531.8

7

Manitowoc and MFS entered into several agreements in connection with the separation, including a transition services agreement ("TSA"), separation and distribution agreement, tax matters agreement, intellectual property matters agreement, and an employee matters agreement.

Pursuant to the TSA, Manitowoc, MFS and their respective subsidiaries are providing various services to each other on an interim, transitional basis. Services being provided by Manitowoc include, among others, finance, information technology and certain other administrative services. The services generally commenced on March 4, 2016 and are expected to terminate within 12 months of that date. Billings by Manitowoc under the TSA are recorded as a reduction of the costs to provide the respective service in the applicable expense category.

During the three months ended June 30, 2016 and 2015, the Company recorded $0.7 million and $8.3 million, respectively, of separation costs related to the Spin-Off. During the six months ended June 30, 2016 and 2015 the Company recorded $27.7 million and $9.8 million, respectively, of separation costs related to the Spin-Off. Separation costs consist primarily of professional and consulting fees, and are included in the results of discontinued operations.

The following selected financial data of various other businesses disposed of prior to 2014, consisting primarily of administrative costs, for the three and six months ended June 30, 2016 and 2015, is presented for informational purposes only and does not necessarily reflect what the results of operations would have been had the businesses operated as stand-alone entities.

(in millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Net sales	$ —	$ —	$ —	$ —
Pretax (loss) income from discontinued operations	(0.1)	0.1	(0.1)	(0.1)
Provision for taxes on income	—	0.1	—	—
Net loss from discontinued operations	$ (0.1)	$ —	$ (0.1)	$ (0.1)

In 2014, the Company sold its interest in Manitowoc Dong Yue. Subsequent to the sale, Manitowoc Dong Yue had approximately $17.3 million of third party debt outstanding under a loan agreement entered into during the first quarter of 2014 that the Company has fully guaranteed. The loan is fully secured by Manitowoc Dong Yue’s fixed assets as well as finished goods inventory. Manitowoc Dong Yue is repaying the loan over a four-year period, with the last payment due on December 31, 2017.

3. Acquisitions and Disposals

Foodservice businesses

On October 21, 2015, MFS acquired the remaining 50.0% of outstanding shares of a joint venture in Thailand. Welbilt Thailand is a manufacturer of kitchen equipment in Southeast Asia. The purchase price, net of cash acquired, was approximately $5.3 million. Allocation of the purchase price resulted in $1.4 million of goodwill and $4.2 million of intangible assets. The results of Welbilt Thailand were included in the results of MFS since the date of acquisition, and, thus, are now classified in discontinued operations.

On December 7, 2015, Manitowoc announced the completion of the sale of a non-material MFS subsidiary, Kysor Panel Systems, a manufacturer of wood frame and high-density rail panel systems for walk-in freezers and coolers for the retail and convenience-store markets. The sale price for the transaction was approximately $85 million, with cash proceeds received of approximately $78 million, which were used to reduce outstanding debt. As a result of the Spin-Off, the results of this business are classified in discontinued operations.

4. Fair Value of Financial Instruments

The following tables set forth the Company’s financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value as of June 30, 2016			
(in millions)	Level 1	Level 2	Level 3	Total
Current Assets:				
Foreign currency exchange contracts	$ —	$ 0.3	$ —	$ 0.3
Commodity contracts	—	0.1	—	0.1
Total current assets at fair value	$ —	$ 0.4	$ —	$ 0.4
Current Liabilities:				
Foreign currency exchange contracts	$ —	$ 5.3	$ —	$ 5.3
Commodity contracts	—	0.1	—	0.1
Total current liabilities at fair value	$ —	$ 5.4	$ —	$ 5.4

	Fair Value as of December 31, 2015			
(in millions)	Level 1	Level 2	Level 3	Total
Current Assets:				
Foreign currency exchange contracts	$ —	$ 0.3	$ —	$ 0.3
Total current assets at fair value	$ —	$ 0.3	$ —	$ 0.3
Current Liabilities:				
Foreign currency exchange contracts	$ —	$ 1.1	$ —	$ 1.1
Commodity contracts	—	0.7	—	0.7
Interest rate swap contracts: Float-to-fixed	—	1.7	—	1.7
Total current liabilities at fair value	$ —	$ 3.5	$ —	$ 3.5
Non-current Liabilities:				
Interest rate swap contracts: Float-to-fixed	$ —	$ 0.6	$ —	$ 0.6
Foreign currency exchange contracts	—	0.1	—	0.1
Total non-current liabilities at fair value	$ —	$ 0.7	$ —	$ 0.7

The fair value of the Company's 12.750% Senior Secured Second Lien Notes due 2021 was $280.3 million as of