COLUMBUS MCKINNON CORP
Form 10-Q
July 26, 2013

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 1934

For the quarterly period ended June 30, 2013

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: 0-27618

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

New York	16-0547600
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
140 John James Audubon Parkway, Amherst, NY	14228-1197
(Address of principal executive offices)	(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. : x Yes o 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 x No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

The number of shares of common stock outstanding as of July 22, 2013 was: 19,654,697 shares.

FORM 10-Q INDEX
COLUMBUS McKINNON CORPORATION
June 30, 2013

Index
Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (Unaudited)

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2013	March 31, 2013
	(unaudited)	
ASSETS:	(In thousands)	
Current assets:		
Cash and cash equivalents	$110,399	$121,660
Trade accounts receivable	76,034	80,224
Inventories	101,451	94,189
Prepaid expenses and other	21,005	17,905
Total current assets	308,889	313,978
Property, plant, and equipment, net	67,091	65,698
Goodwill	110,961	105,354
Other intangibles, net	12,878	13,395
Marketable securities	24,166	23,951
Deferred taxes on income	38,711	37,205
Other assets	6,458	7,286
Total assets	$569,154	$566,867
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Trade accounts payable	$30,133	$34,329
Accrued liabilities	50,706	48,884
Current portion of long term debt	1,043	1,024
Total current liabilities	81,882	84,237
Senior debt, less current portion	2,376	2,641
Subordinated debt	148,480	148,412
Other non current liabilities	89,248	91,590
Total liabilities	321,986	326,880
Shareholders' equity:		
Voting common stock; 50,000,000 shares authorized; 19,621,654 and 19,507,939 shares issued and outstanding	196	195
Additional paid in capital	193,083	192,308
Retained earnings	111,211	104,191
ESOP debt guarantee	(449)	(552)
Accumulated other comprehensive loss	(56,873)	(56,155)
Total shareholders' equity	247,168	239,987
Total liabilities and shareholders' equity	$569,154	$566,867

See accompanying notes.
3

Index

COLUMBUS McKINNON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (UNAUDITED)

	Three Months Ended	
	June 30, 2013	June 30, 2012
	(In thousands, except per share data)	
Net sales	$138,891	$153,013
Cost of products sold	95,400	109,189
Gross profit	43,491	43,824
Selling expenses	16,747	16,366
General and administrative expenses	12,849	14,177
Amortization of intangibles	459	499
	30,055	31,042
Income from operations	13,436	12,782
Interest and debt expense	3,371	3,499
Investment income	(216)	(280)
Foreign currency exchange loss (gain)	226	(336)
Other expense and (income), net	89	(320)
Income before income tax expense	9,966	10,219
Income tax expense	2,946	1,783
Net income	7,020	8,436
Retained earnings - beginning of year	104,191	25,895
Retained earnings - end of period	$111,211	$34,331
Average basic shares outstanding	19,520	19,347
Average diluted shares outstanding	19,779	19,507
Basic income per share:		
Net income	$0.36	$0.44
Diluted income per share:		
Net income	$0.35	$0.43

See accompanying notes.

4

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

	Three Months Ended June 30, 2013	June 30, 2012
	(In thousands)	
Net income	$7,020	$8,436
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(130)	(5,110)
Change in derivatives qualifying as hedges, net of taxes of $25 and $0*	86	(97)
Change in pension liability and postretirement obligation	(5)	-
Adjustments for unrealized gain on investments:		
Unrealized holding (loss) gain arising during the period, net of taxes of $234 and $0*	(434)	(286)
Reclassification adjustment for (gain) loss included in net income, net of taxes of $127 and $0*	(235)	83
Net change in unrealized gain on investments	(669)	(203)
Total other comprehensive loss	(718)	(5,410)
Comprehensive income	$6,302	$3,026

* The zero net deferred tax benefit related to the change in derivatives for our domestic subsidiaries qualifying as hedges, unrealized holding gains and losses, and reclassification adjustments during the period ended June 30, 2012 is related to the deferred tax asset valuation allowance that was recorded in that period.

See accompanying notes.

Index

COLUMBUS McKINNON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended June 30, 2013	June 30, 2012
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	$7,020	$8,436
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation and amortization	2,992	3,110
Deferred income taxes and related valuation allowance	(786)	13
Gain on sale of real estate, investments, and other	(347)	(114)
Stock-based compensation	717	664
Amortization of deferred financing costs and discount on subordinated debt	171	95
Changes in operating assets and liabilities, net of effects of business acquisition:		
Trade accounts receivable	4,854	(2,090)
Inventories	(6,961)	(4,204)
Prepaid expenses	(3,724)	(2,336)
Other assets	865	448
Trade accounts payable	(4,550)	(2,964)
Accrued and non-current liabilities	(2,159)	(4,947)
Net cash used for operating activities	(1,908)	(3,889)
INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	952	1,196
Purchases of marketable securities	(1,613)	(962)
Capital expenditures	(3,614)	(1,716)
Purchase of businesses, net of cash acquired	(5,847)	-
Net cash used for investing activities	(10,122)	(1,482)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	412	-
Net payments under lines-of-credit	-	(13)
Repayment of debt	(266)	(211)
Change in ESOP guarantee	104	107
Net cash provided by (used for) financing activities	250	(117)
Effect of exchange rate changes on cash	519	(1,819)
Net change in cash and cash equivalents	(11,261)	(7,307)
Cash and cash equivalents at beginning of period	121,660	89,473
Cash and cash equivalents at end of period	$110,399	$82,166
Supplementary cash flow data:		
Interest paid	$367	$484
Income taxes paid, net of refunds	$2,131	$1,663

See accompanying notes.

6

Index

COLUMBUS McKINNON CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
June 30, 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 June 30, 2013, the results of its operations for the three month periods ended June 30, 2013 and June 30, 2012, and cash flows for the three months ended June 30, 2013 and June 30, 2012, have been included. Results for the period ended June 30, 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 quarter ended June 30, 2013, approximately 59% of sales were to customers in the U.S.

2. Divestitures

During the fiscal 2013 quarter ending September 30, 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 Hebetechnik Gesellschaft m.b.H ("Hebetechnik") located in Austria, a privately owned company with annual sales of approximately $10,000,000. Hebetechnik has been a value-added partner of the Company in the lifting industry in the Austrian market for over 20 years. The results of Hebetechnik are included in the Company's condensed consolidated financial statements from the date of acquisition. The acquisition of Hebetechnik 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 $5,378,000 was recorded as goodwill. The allocation of the purchase price is preliminary pending the finalization of the fair values of the assets acquired and liabilities assumed. Goodwill recorded in connection with the acquisition will not be deductible for tax purposes. The preliminary assignment of purchase consideration to the assets acquired and liabilities assumed is as follows (in thousands):

Working capital	$249
Property, plant and equipment	220
Goodwill	5,378

Total	$5,847

Index

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 and, consequently, the fair value is based on Level 2 inputs. The carrying values of the Company's senior debt and notes payable to banks approximate fair value based on current market interest rates for debt instruments of similar credit standing and, consequently, their fair values are based on Level 2 inputs. As of June 30, 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):

	Fair value measurements at reporting date using			
Description	June 30, 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	$24,166	$24,166	$-	$ -
Derivative liabilities	(462)	-	(462)	-
Other equity investments	1,114	1,114	-	-
Assets/(Liabilities) disclosed at fair value:				
Subordinated debt	$(159,000)	$-	$(159,000)	$ -
Senior debt	(3,419)	-	(3,419)	-

Index

Description	March 31, 2013	Fair value measurements at reporting date using: 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	$23,951	$23,951	$-	$ -
Derivative liabilities	(512)	-	(512)	-
Other equity investments	1,508	1,508	-	-
Assets/(Liabilities) disclosed at fair value:				
Subordinated debt	$(160,500)	$-	$(160,500)	$ -
Senior debt	(3,665)	-	(3,665)	-

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 $148,480,000 at June 30, 2013 and $148,412,000 at March 31, 2013.

Assets and liabilities that were measured on a non-recurring basis during the period ended June 30, 2013 include assets and liabilities acquired in connection with the acquisition of Hebetechnik 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):

	June 30, 2013	March 31, 2013
At cost - FIFO basis:		
Raw materials	$55,729	$52,900
Work-in-process	15,832	10,813
Finished goods	49,537	50,722
	121,098	114,435
LIFO cost less than FIFO cost	(19,647)	(20,246)
Net inventories	$101,451	$94,189

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond management's control, estimated interim results are subject to change in the final year-end LIFO inventory valuation.

9

Index

6. Marketable Securities

All of the Company's marketable securities, which consist of equity securities and fixed income securities, have been classified as available-for-sale securities and are therefore recorded at their fair values with the unrealized gains and losses, net of tax, reported in accumulated other comprehensive loss in the shareholders' equity section of the balance sheet unless unrealized losses are deemed to be other than temporary. In such instances, the unrealized losses are reported in the consolidated statements of operations and retained earnings within investment income. Estimated fair value is based on published trading values at the balance sheet dates. The cost of securities sold is based on the specific identification method. Interest and dividend income are included in investment income in the consolidated statements of operations and retained earnings.

The marketable securities are carried as long-term assets since they are held for the settlement of the Company's general and products liability insurance claims filed through CM Insurance Company, Inc., a wholly owned captive insurance subsidiary. The marketable securities are not available for general working capital purposes.

In accordance with ASC Topic 320-10-35-30 "Investments – Debt & Equity Securities – Subsequent Measurement," the Company reviews its marketable securities for declines in market value that may be considered other-than-temporary. The Company generally considers market value declines to be other-than-temporary if there are declines for a period longer than six months and in excess of 20% of original cost, or when other evidence indicates impairment. We also consider the nature of the underlying investments and other market conditions in making this assessment. There were no other-than-temporary impairments for the three months ended June 30, 2013 or June 30, 2012.

The following is a summary of available-for-sale securities at June 30, 2013 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable securities	$22,563	$ 1,852	$ 249	$ 24,166

The aggregate fair value of investments and unrealized losses on available-for-sale securities in an unrealized loss position at June 30, 2013 are as follows (in thousands):

	Aggregate Fair Value	Unrealized Losses
Securities in a continuous loss position for less than 12 months	$ 7,206	$ 249
Securities in a continuous loss position for more than 12 months	-	-
	$ 7,206	$ 249

Net realized gains related to sales of marketable securities were $36,000 and $83,000, in the three-month periods ended June 30, 2013 and June 30, 2012, respectively.

The following is a summary of available-for-sale securities at March 31, 2013 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable securities	$21,635	$ 2,335	$ 19	$ 23,951

7. Goodwill and Intangible Assets

Goodwill is not amortized but is tested for impairment at least annually, in accordance with the provisions of ASC Topic 350-20-35-1. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The fair value of a reporting unit is determined using a discounted cash flow methodology. The Company's reporting units are determined based upon whether discrete financial information is available and reviewed regularly, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. The Company's reporting units identified under ASC Topic 350-20-35-33 are at the component level, or one level below the reporting segment level as defined under ASC Topic 280-10-50-10 "Segment Reporting – Disclosure." The Company has four reporting units. Only two of the four reporting units carry goodwill at June 30, 2013 and March 31, 2013.

Index

When we evaluate the potential for goodwill impairment, we assess a range of qualitative factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel and overall financial performance. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a two-step impairment test.

In accordance with ASC Topic 350-20-35-3, the measurement of impairment of goodwill consists of two steps. In the first step, the Company compares the fair value of each reporting unit to its carrying value. As part of the impairment analysis, the Company determines the fair value of each of its reporting units with goodwill using the income approach. The income approach uses a discounted cash flow methodology to determine fair value. This methodology recognizes value based on the expected receipt of future economic benefits. Key assumptions in the income approach include a free cash flow projection, an estimated discount rate, a long-term growth rate and a terminal value. These assumptions are based upon the Company’s historical experience, current market trends and future expectations.

We performed our qualitative assessment during the fourth quarter of fiscal year 2013 and determined it was not more likely than not that the fair value of each of our reporting units was less than its applicable carrying value. Accordingly, we did not perform the two-step goodwill impairment test for any of our reporting units.

Future impairment indicators, such as declines in forecasted cash flows, may cause additional significant impairment charges. Impairment charges could be based on such factors as the Company’s stock price, forecasted cash flows, assumptions used, control premiums or other variables.

A summary of changes in goodwill during the three months ended June 30, 2013 is as follows (in thousands):

Balance at April 1, 2013	$105,354
Acquisition of Hebetechnik (See Note 3)	5,378
Currency translation	229
Balance at June 30, 2013	$110,961

Identifiable intangible assets acquired in a business combination are amortized over their useful lives unless their useful lives are indefinite, in which case those intangible assets are tested for impairment annually (or upon identification of impairment indicators) and not amortized until their lives are determined to be finite.

Identifiable intangible assets are summarized as follows (in thousands):

	June 30, 2013			March 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademark	$5,640	$ (1,468)	$4,172	$5,556	$ (1,370)	$4,186
Customer relationships	14,296	(6,263)	8,033	14,166	(5,894)	8,272
Other	1,007	(334)	673	1,235	(298)	937
Total	$20,943	$ (8,065)	$12,878	$20,957	$ (7,562)	$13,395

Based on the current amount of identifiable intangible assets, the estimated amortization expense for each of the fiscal years 2014 through 2018 is expected to be approximately $1,700,000.

Index

8. Derivative Instruments

The Company uses derivative instruments to manage selected foreign currency exposures. The Company does not use derivative instruments for speculative trading purposes. All derivative instruments must be recorded on the balance sheet at fair value. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded as accumulated other comprehensive loss, or “AOCL”, and is reclassified to earnings when the underlying transaction has an impact on earnings. The ineffective portion of changes in the fair value of the derivative is reported in foreign currency exchange loss (gain) in the Company’s consolidated statement of operations. For derivatives not classified as cash flow hedges, all changes in market value are recorded as a foreign currency exchange loss (gain) in the Company’s consolidated statements of operations and retained earnings.

The Company has foreign currency forward agreements and a cross-currency swap in place to offset changes in the value of intercompany loans to certain foreign subsidiaries due to changes in foreign exchange rates. The notional amount of these derivatives is $1,283,000 and all contracts mature by September 30, 2013. These contracts are not designated as hedges.

The Company has foreign currency forward agreements in place to hedge changes in the value of recorded foreign currency liabilities due to changes in foreign exchange rates at the settlement date. The notional amount of those derivatives is $3,137,000 and all contracts mature within twelve months. These contracts are marked to market each balance sheet date and are not designated as hedges.

The Company has foreign currency forward agreements that are designated as cash flow hedges to hedge a portion of forecasted inventory purchases and sales, including multi-year contracts related to capital project sales, denominated in a foreign currency. The notional amount of those derivatives is $8,173,000 and all contracts mature within twelve months of June 30, 2013.

The Company is exposed to credit losses in the event of non performance by the counterparties on its financial instruments. All counterparties have investment grade credit ratings. The Company anticipates that these counterparties will be able to fully satisfy their obligations under the contracts. The Company has derivative contracts with three different counterparties as of June 30, 2013.

The following is the effect of derivative instruments on the condensed consolidated statement of operations for the three months ended June 30, 2013 and 2012 (in thousands):

June 30,	Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized in Other Comprehensive Loss on Derivatives (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Reclassified from AOCL into Income (Effective Portion)
2013	Foreign exchange contracts	$ 91	Cost of products sold	$ 5
2012	Foreign exchange contracts	(5)	Cost of products sold	92

June 30,	Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivatives	Amount of Gain Recognized

			in Income on Derivatives
2013	Foreign exchange contracts	Foreign currency exchange gain	$ 130
2012	Foreign exchange contracts	Foreign currency exchange gain	(611)

As of June 30, 2013, the Company had no derivatives designated as net investments or fair value hedges in accordance with ASC Topic 815, “Derivatives and Hedging.”

12

Index

The following is information relative to the Company's derivative instruments in the condensed consolidated balance sheet as of June 30, 2013 (in thousands):

		Fair Value of Asset (Liability)	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	June 30, 2013	March 31, 2013
Foreign exchange contracts	Other Assets	$21	$8
Foreign exchange contracts	Accrued Liabilities	$(344)	$(511)

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	June 30, 2013	March 31, 2013
Foreign exchange contracts	Other Assets	$-	$95
Foreign exchange contracts	Accrued Liabilities	$(139)	$(104)

9. Debt

The Company entered into a fifth amended, restated and expanded revolving credit facility dated October 19, 2012 (New Revolving Credit Facility). The New Revolving Credit Facility provides availability up to a maximum of $100,000,000 and has an initial term ending October 31, 2017.

Provided there is no default, the Company may request an increase in the availability of the New Revolving Credit Facility by an amount not exceeding $75,000,000, subject to lender approval. The unused portion of the New Revolving Credit Facility totalled $93,075,000 net of outstanding borrowings of $0 and outstanding letters of credit of $6,925,000 as of June 30, 2013. The outstanding letters of credit at June 30, 2013 consisted of $2,485,000 in commercial letters of credit and $4,440,000 of standby letters of credit. Interest on the revolver is payable at varying Eurodollar rates based on LIBOR plus an applicable margin of 100 basis points or at a Base Rate (equivalent to a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its "prime rate.") plus 0 basis points. The applicable margin is determined based on the pricing grid in the New Revolving Credit Facility which varies based on the Company's total leverage ratio at June 30, 2013. The New Revolving Credit Facility is secured by all U.S. inventory, receivables, equipment, real property, subsidiary stock (limited to 65% of non-U.S. subsidiaries) and intellectual property.

The corresponding credit agreement associated with the New Revolving Credit Facility places certain debt covenant restrictions on the Company, including certain financial requirements and restrictions on dividend payments, with which the Company was in compliance as of June 30, 2013. Key financial covenants include a minimum fixed charge coverage ratio of 1.25x, a maximum total leverage ratio, net of cash, of 3.50x and maximum annual capital expenditures of $30,000,000.

In connection with the execution of the New Revolving Credit Facility, it was determined that the borrowing capacity of each lender participating in this new agreement exceeded their borrowing capacities prior to the amendment. As a result, unamortized deferred financing costs associated with the agreement prior to its amendment remain deferred and are being amortized over the term of the New Revolving Credit Facility. Fees and other costs paid to execute the New Revolving Credit Facility totaling $684,000 were recorded as additional deferred financing costs and are being amortized over the term of the New Revolving Credit Facility.

At March 31, 2012, the Company had entered into an amended, restated and expanded revolving credit facility dated December 31, 2009. The Revolving Credit Facility provided availability up to a maximum of $85,000,000 and had an initial term ending December 31, 2013. The Revolving Credit Facility was replaced by the New Revolving Credit Facility on October 19, 2012.

Index

On January 25, 2011, the Company issued $150,000,000 principal amount of 7 7/8% Senior Subordinated Notes due 2019 in a private placement pursuant to Rule 144A under the Securities Act of 1933, as amended (Unregistered 7 7/8% Notes). The offering price of the Unregistered 7 7/8% Notes was 98.545% of par after adjustment for original issue discount.

Provisions of the Unregistered 7 7/8% Notes include, without limitation, restrictions on indebtedness, asset sales, and dividends and other restricted payments. Until February 1, 2014, the Company may redeem up to 35% of the outstanding Unregistered 7 7/8% Notes at a redemption price of 107.875% with the proceeds of equity offerings, subject to certain restrictions. On or after February 1, 2015, the Unregistered 7 7/8% Notes are redeemable at the option of the Company, in whole or in part, at a redemption price of 103.938%, reducing to 101.969% and 100% on February 1, 2016 and February 1, 2017, respectively and are due February 1, 2019. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the Unregistered 7 7/8% Notes may require the Company to repurchase all or a portion of such holder's Unregistered 7 7/8% Notes at a purchase price equal to 101% of the principal amount thereof. The Unregistered 7 7/8% Notes are guaranteed by certain existing and future U.S. subsidiaries and are not subject to any sinking fund requirements.

On June 2, 2011 the Company exchanged $150,000,000 of its outstanding Unregistered 7 7/8% Notes due 2019 for a like principal amount of its 7 7/8% Notes due 2019, registered under the Securities Act of 1933, as amended (7 7/8% Notes). All of the Unregistered 7 7/8% Senior Subordinated Notes due 2019 were exchanged in the transaction. The 7 7/8% Notes contain identical terms and provisions as the Unregistered 7 7/8% Notes.

The Company's Notes payable to banks consist primarily of draws against unsecured non-U.S. lines of credit. The Company's other senior debt consists primarily of capital lease obligations.

Unsecured and uncommitted lines of credit are available to meet short-term working capital needs for certain of our subsidiaries operating outside of the U.S. The lines of credit are available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between our subsidiaries and the local bank at the time of each specific transaction. As of June 30, 2013, unsecured credit lines totaled approximately $6,505,000, of which $0 was drawn. In addition to the above facilities, one of our foreign subsidiaries has a credit line secured by a parent company guarantee. This credit line provides availability of up to $978,000, of which $0 was drawn as of June 30, 2013.

Refer to the Company's consolidated financial statements included in its annual report on Form 10-K for the year ended March 31, 2013 for further information on its debt arrangements.

10. Net Periodic Benefit Cost

The following table sets forth the components of net periodic pension cost for the Company's defined benefit pension plans (in thousands):

	Three months ended	
	June 30, 2013	June 30, 2012
Service costs	$624	$605
Interest cost	2,409	2,477
Expected return on plan assets	(3,157)	(2,803)
Net amortization	1,577	1,502

Net periodic pension cost	$1,453	$1,781

14

Index

The Company currently plans to contribute approximately $11,000,000 to its pension plans in fiscal 2014.

The following table sets forth the components of net periodic postretirement benefit cost for the Company's defined benefit postretirement plans (in thousands):

	Three months ended	
	June 30, 2013	June 30, 2012
Interest cost	$62	$78
Amortization of plan net losses	21	36
Net periodic postretirement cost	$83	$114

For additional information on the Company's defined benefit pension and postretirement benefit plans, refer to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended March 31, 2013.

11. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands):

	Three months ended	
	June 30, 2013	June 30, 2012
Numerator for basic and diluted earnings per share:		
Net income	$7,020	$8,436
Denominators:		
Weighted-average common stock outstanding – denominator for basic EPS	19,520	19,347
Effect of dilutive employee stock options and other share-based awards	259	160
Adjusted weighted-average common stock outstanding and assumed conversions – denominator for diluted EPS	19,779	19,507

Stock options and performance shares with respect to 98,000 and 300,000 common shares were not included in the computation of diluted loss per share for June 30, 2013 and 2012, respectively, because they were antidilutive.

On July 26, 2010, the shareholders of the Company approved the 2010 Long Term Incentive Plan ("LTIP"). The Company grants share based compensation to eligible participants under the LTIP. The total number of shares of common stock with respect to which awards may be granted under the plan is 1,250,000 including shares not previously authorized for issuance under any of the Prior Stock Plans and any shares not issued or subject to outstanding awards under the Prior Stock Plans.

Index

During the first three months of fiscal 2014 and 2013, a total of 68,217 and 0 shares of stock were issued upon the exercising of stock options related to the Company’s stock option plans. During the fiscal year ended March 31, 2013, 58,539 shares of restricted stock units vested and were issued.

Refer to the Company’s consolidated financial statements included in its Form 10-K for the year ended March 31, 2013 for further information on its earnings per share and stock plans.

12. Loss Contingencies

Like many industrial manufacturers, the Company is involved in asbestos-related litigation. In continually evaluating costs relating to its estimated asbestos-related liability, the Company reviews, among other things, the incidence of past and recent claims, the historical case dismissal rate, the mix of the claimed illnesses and occupations of the plaintiffs, its recent and historical resolution of the cases, the number of cases pending against it, the status and results of broad-based settlement discussions, and the number of years such activity might continue. Based on this review, the Company has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate is highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that can affect the range of the liability. The Company will continue to study the variables in light of additional information in order to identify trends that may become evident and to assess their impact on the range of liability that is probable and estimable.

Based on actuarial information, the Company has estimated its asbestos-related aggregate liability including related legal costs to range between $8,000,000 and $13,000,000 using actuarial parameters of continued claims for a period of 18 to 30 years from June 30, 2013. The Company's estimation of its asbestos-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles approximates $11,000,000, which has been reflected as a liability in the consolidated financial statements as of June 30, 2013. The recorded liability does not consider the impact of any potential favorable federal legislation. This liability will fluctuate based on the uncertainty in the number of future claims that will be filed and the cost to resolve those claims, which may be influenced by a number of factors, including the outcome of the ongoing broad-based settlement negotiations, defensive strategies, and the cost to resolve claims outside the broad-based settlement program. Of this amount, management expects to incur asbestos liability payments of approximately $2,350,000 over the next 12 months. Because payment of the liability is likely to extend over many years, management believes that the potential additional costs for claims will not have a material effect on the financial condition of the Company or its liquidity, although the effect of any future liabilities recorded could be material to earnings in a future period.

The Company is also involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability. The Company's estimation of its product-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles approximates $6,100,000, which has been reflected as a liability in the consolidated financial statements as of June 30, 2013. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. Management believes that the potential additional costs for claims will not have a material effect on the financial condition of the Company or its liquidity, although the effect of any future liabilities recorded could be material to earnings in a future period.

13. Income Taxes

Income tax expense as a percentage of income from continuing operations before income tax expense was −−30% and −17% in the quarter ended June 30, 2013 and June 30, 2012, respectively. Typically these percentages vary from the U.S. statutory rate primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries. We estimate that the effective tax rate related to continuing operations will be approximately 27% to 32% for fiscal 2014 based on the forecasted jurisdictional mix of taxable income.

For the period ended June 30, 2012, income taxes as a percentage of income before income taxes were not reflective of U.S. statutory rates. The Company had a valuation allowance of $53,325,000 at March 31, 2012 due to the uncertainty of whether U.S. federal and certain foreign net operating loss carryforwards ("NOLs") and deferred tax assets might ultimately be realized. In fiscal year 2013, we utilized the remaining U.S. federal NOLs thereby, reducing the valuation allowance by $5,107,000. As a result of our increased operating performance over the past several years, we reevaluated the certainty as to whether our remaining NOLs and other deferred tax assets may ultimately be realized. Management concluded that it is more likely than not that almost all of the remaining deferred tax assets will be realized; therefore, $49,161,000 of the remaining valuation allowance was reversed as of March 31, 2013.

Index

14. Summary Financial Information

The following information (in thousands) sets forth the condensed consolidating summary financial information of the parent and guarantors, which guarantee the 7 7/8% Senior Subordinated Notes, and the nonguarantors. The guarantors are 100% owned and the guarantees are full, unconditional, joint and several.

	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
As of June 30, 2013:					
ASSETS					
Current assets:					
Cash and cash equivalents	$70,420	$ -	$ 39,979	$ -	$ 110,399
Trade accounts receivable, less allowance for doubtful accounts	33,126	4,456	38,452	-	76,034
Inventories	30,208	15,131	56,112	-	101,451
Prepaid expenses and other	11,933	1,781	7,291	-	21,005
Total current assets	145,687	21,368	141,834	-	308,889
Net property, plant, and equipment	40,748	11,198	15,145	-	67,091
Goodwill	40,696	31,025	39,240	-	110,961
Other intangibles, net	283	-	12,595	-	12,878
Intercompany	18,638	60,533	(79,171)	-	-
Marketable securities	-	-	24,166	-	24,166
Deferred taxes on income	27,377	2,389	8,945	-	38,711
Investment in subsidiaries	203,753	-	-	(203,753)	-
Other assets	5,896	525	37	-	6,458
Total assets	$483,078	$ 127,038	$ 162,791	$ (203,753)	$ 569,154
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Trade accounts payable	$14,521	$ 5,469	$ 10,143	$ -	$ 30,133
Accrued liabilities	21,635	4,202	24,869	-	50,706
Current portion of long-term debt	-	321	722	-	1,043
Total current liabilities	36,156	9,992	35,734	-	81,882
Senior debt, less current portion	-	1,566	810	-	2,376
Subordinated debt	148,480	-	-	-	148,480
Other non-current liabilities	50,391	5,843	33,014	-	89,248
Total liabilities	235,027	17,401	69,558	-	321,986
Total shareholders' equity	248,051	109,637	93,233	(203,753)	247,168
Total liabilities and shareholders' equity	$483,078	$ 127,038	$ 162,791	$ (203,753)	