

CRANE CO /DE/
Form 10-Q
August 06, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

Mark One:

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

For the Quarterly Period Ended June 30, 2014
OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____
Commission File Number: 1-1657
CRANE CO.

(Exact name of registrant as specified in its charter)

Delaware 13-1952290
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
100 First Stamford Place, Stamford, CT 06902
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 203-363-7300
(Not Applicable)

(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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(check one):

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). Yes No

The number of shares outstanding of the issuer's classes of common stock, as of July 31, 2014
Common stock, \$1.00 Par Value - 58,984,005 shares

PART I: FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS
CRANE CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net sales	\$750,096	\$648,746	\$1,466,926	\$1,276,317
Operating costs and expenses:				
Cost of sales	488,031	426,025	950,765	835,844
Selling, general and administrative	159,164	133,875	317,110	264,727
Restructuring charges	3,293	—	13,330	—
Acquisition integration related charges	2,028	—	6,755	—
Operating profit	97,580	88,846	178,966	175,746
Other income (expense):				
Interest income	365	519	753	1,151
Interest expense	(9,764)	(7,245)	(19,573)	(13,963)
Miscellaneous - net	(1,514)	406	(1,718)	286
	(10,913)	(6,320)	(20,538)	(12,526)
Income before income taxes	86,667	82,526	158,428	163,220
Provision for income taxes	26,758	27,112	49,647	49,864
Net income before allocation to noncontrolling interests	59,909	55,414	108,781	113,356
Less: Noncontrolling interest in subsidiaries' earnings	212	540	400	691
Net income attributable to common shareholders	\$59,697	\$54,874	\$108,381	\$112,665
Earnings per basic share	\$1.01	\$0.95	\$1.85	\$1.95
Earnings per diluted share	\$1.00	\$0.93	\$1.82	\$1.92
Average basic shares outstanding	58,883	57,908	58,682	57,684
Average diluted shares outstanding	59,843	58,828	59,664	58,594
Dividends per share	\$0.30	\$0.28	\$0.60	\$0.56

See Notes to Condensed Consolidated Financial Statements

CRANE CO. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (IN THOUSANDS)
 (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income before allocation to noncontrolling interests	\$59,909	\$55,414	\$108,781	\$113,356
Other comprehensive (loss) income, net of tax				
Currency translation adjustment	11,889	(2,427)	9,353	(22,328)
Changes in pension and postretirement plan assets and benefit obligation, net of tax	804	2,478	2,312	4,582
Other comprehensive (loss) income	12,693	51	11,665	(17,746)
Comprehensive income before allocation to noncontrolling interests	72,602	55,465	120,446	95,610
Less: Noncontrolling interests in comprehensive (loss) income	262	386	425	547
Comprehensive income attributable to common shareholders	\$72,340	\$55,079	\$120,021	\$95,063

See Notes to Condensed Consolidated Financial Statements.

CRANE CO. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS)
 (UNAUDITED)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$314,192	\$270,643
Accounts receivable, net	467,497	437,541
Current insurance receivable - asbestos	22,783	22,783
Inventories, net:		
Finished goods	128,183	108,409
Finished parts and subassemblies	37,569	36,645
Work in process	58,384	55,434
Raw materials	177,374	168,398
Inventories, net	401,510	368,886
Current deferred tax asset	36,646	31,651
Other current assets	18,465	17,588
Total current assets	1,261,093	1,149,092
Property, plant and equipment:		
Cost	862,589	841,231
Less: accumulated depreciation	556,908	536,176
Property, plant and equipment, net	305,681	305,055
Long-term insurance receivable - asbestos	139,197	148,222
Long-term deferred tax assets	169,895	186,734
Other assets	117,049	112,265
Intangible assets, net	392,524	408,923
Goodwill	1,247,324	1,249,316
Total assets	\$3,632,763	\$3,559,607

See Notes to Condensed Consolidated Financial Statements.

CRANE CO. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
 (UNAUDITED)

	June 30, 2014	December 31, 2013
Liabilities and equity		
Current liabilities:		
Short-term borrowings	\$ 153,806	\$ 125,826
Accounts payable	237,549	229,828
Current asbestos liability	88,038	88,038
Accrued liabilities	217,270	223,148
U.S. and foreign taxes on income	2,127	2,062
Total current liabilities	698,790	668,902
Long-term debt	749,192	749,170
Accrued pension and postretirement benefits	137,481	151,133
Long-term deferred tax liability	76,812	76,041
Long-term asbestos liability	570,753	610,530
Other liabilities	74,008	89,158
Total liabilities	2,307,036	2,344,934
Commitments and contingencies (Note 8)		
Equity:		
Preferred shares, par value \$.01; 5,000,000 shares authorized	—	—
Common stock, par value \$1.00; 200,000,000 shares authorized, 72,426,139 shares issued	72,426	72,426
Capital surplus	238,977	228,537
Retained earnings	1,476,291	1,403,202
Accumulated other comprehensive loss	(37,011	) (48,651
Treasury stock	(435,735	) (451,195
Total shareholders' equity	1,314,948	1,204,319
Noncontrolling interests	10,779	10,354
Total equity	1,325,727	1,214,673
Total liabilities and equity	\$3,632,763	\$3,559,607
Common stock issued	72,426,139	72,426,139
Less: Common stock held in treasury	(13,473,286	) (14,240,852
Common stock outstanding	58,952,853	58,185,287

See Notes to Condensed Consolidated Financial Statements.

CRANE CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Six Months Ended	
	June 30,	
	2014	2013
Operating activities:		
Net income attributable to common shareholders	\$ 108,381	\$ 112,665
Noncontrolling interests in subsidiaries' earnings	400	691
Net income before allocation to noncontrolling interests	108,781	113,356
Restructuring - non-cash	954	—
Depreciation and amortization	39,933	25,724
Stock-based compensation expense	10,589	10,386
Defined benefit plans and postretirement (benefit) expense	(5,850)	) 2,359
Deferred income taxes	10,642	9,647
Cash used for working capital	(54,426)	) (114,085)
Defined benefit plans and postretirement contributions	(13,018)	) (10,521)
Environmental payments, net of reimbursements	(4,670)	) (5,475)
Payments for asbestos-related fees and costs, net of insurance recoveries	(30,752)	) (28,940)
Other	(16,909)	) 8,094
Total provided by operating activities	45,274	10,545
Investing activities:		
Capital expenditures	(20,690)	) (12,039)
Proceeds from disposition of capital assets	1,065	287
Proceeds from divestiture	2,081	—
Proceeds from purchase price adjustment	6,100	—
Total used for investing activities	(11,444)	) (11,752)
Financing activities:		
Equity:		
Dividends paid	(35,293)	) (32,338)
Stock options exercised - net of shares reacquired	7,847	20,042
Excess tax benefit from stock-based compensation	7,465	4,922
Debt:		
Proceeds received from credit facility	28,000	12,905
Total provided by financing activities	8,019	5,531
Effect of exchange rates on cash and cash equivalents	1,700	(7,353)
Increase (Decrease) in cash and cash equivalents	43,549	(3,029)
Cash and cash equivalents at beginning of period	270,643	423,947
Cash and cash equivalents at end of period	\$ 314,192	\$ 420,918
Detail of cash used for working capital:		
Accounts receivable	\$ (26,273)	) \$(48,925)
Inventories	(32,175)	) (13,074)
Other current assets	(1,027)	) (10)
Accounts payable	5,069	(10,840)
Accrued liabilities	(4,681)	) (31,689)
U.S. and foreign taxes on income	4,661	(9,547)
Total	\$ (54,426)	) \$(114,085)
Supplemental disclosure of cash flow information:		
Interest paid	\$ 19,761	\$ 13,640

Income taxes paid	\$26,880	\$44,844
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See Notes to Condensed Consolidated Financial Statements.

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions to Form 10-Q and, therefore, reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These interim condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued amended guidance related to stock compensation. The guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented. Early adoption is permitted. The Company is evaluating the impact of the amended guidance on its financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The new guidance can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the impact of adopting this new accounting standard on our financial statements.

In April 2014, the FASB issued amended guidance to change the reporting of discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group was eligible for discontinued operations presentation. The amendment only allows disposals of components of an entity that represent a strategic shift and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The amendment requires expanded disclosure in the financial statements for discontinued operations, as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The amendment is effective for annual periods beginning on or after December 15, 2014 with early adoption permitted. The Company adopted this guidance which had no material impact on the Company's consolidated financial position, results of operations, cash flows and disclosures.

Note 2 - Segment Results

The Company's segments are reported on the same basis used internally for evaluating performance and for allocating resources. The Company has four reportable segments: Fluid Handling, Payment & Merchandising Technologies (formerly known as Merchandising Systems segment), Aerospace & Electronics and Engineered Materials. Assets of the reportable segments exclude general corporate assets, which principally consist of cash, deferred tax assets, insurance receivables, certain property, plant and equipment, and certain other assets. Furthermore, Corporate consists of corporate office expenses including related compensation, benefits, occupancy, depreciation, and other administrative costs. Financial information by reportable segment is set forth below:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net sales				
Fluid Handling	\$324,514	\$333,776	\$635,351	\$646,774
Payment & Merchandising Technologies	184,604	84,831	353,696	174,291
Aerospace & Electronics	177,554	172,392	346,514	337,275
Engineered Materials	63,424	57,747	131,365	117,977
Total	\$750,096	\$648,746	\$1,466,926	\$1,276,317
Operating profit (loss)				
Fluid Handling ^a	\$52,200	\$54,202	\$96,701	\$100,094
Payment & Merchandising Technologies ^b	18,644	8,868	26,091	19,033
Aerospace & Electronics ^c	35,885	37,041	68,442	77,152
Engineered Materials	9,771	9,172	20,564	17,746
Corporate ^d	(18,920)	(20,437)	(32,832)	(38,279)
Total	97,580	88,846	178,966	175,746
Interest income	365	519	753	1,151
Interest expense	(9,764)	(7,245)	(19,573)	(13,963)
Miscellaneous - net ^e	(1,514)	406	(1,718)	286
Income before income taxes	\$86,667	\$82,526	\$158,428	\$163,220

^a Includes \$386 and \$3,617 of restructuring and related charges for the three and six months ended June 30, 2014, respectively.

^b Includes \$1,629 of restructuring and related charges and \$1,082 of acquisition integration related costs for the three months ended June 30, 2014, respectively and \$5,617 of restructuring and related charges, \$4,665 of acquisition integration related costs and \$4,790 of acquisition related inventory step up and backlog amortization for the six months ended June 30, 2014.

^c Includes \$1,278 and \$4,096 of restructuring and related charges for the three and six months ended June 30, 2014, respectively.

^d Includes \$946 and \$2,090 of acquisition integration related costs for the three and six months ended June 30, 2014, respectively, and \$6,852 and \$9,740 of acquisition transaction costs for the three and six months ended June 30, 2013, respectively.

^e Includes \$1,624 pre-tax loss on sale of a small business divested in June 2014 for the three and six months ended June 30, 2014.

(in thousands)	As of June 30, 2014	December 31, 2013
Assets		
Fluid Handling	\$1,038,746	\$996,101
Payment & Merchandising Technologies	1,387,228	1,383,007

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Aerospace & Electronics	515,042	511,676
Engineered Materials	237,868	233,214
Corporate	453,879	435,609
Total	\$3,632,763	\$3,559,607

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(in thousands)	As of June 30, 2014	December 31, 2013
Goodwill		
Fluid Handling	\$239,258	\$239,205
Payment & Merchandising Technologies	633,624	635,759
Aerospace & Electronics	202,856	202,799
Engineered Materials	171,586	171,553
Total	\$1,247,324	\$1,249,316

Note 3 - Earnings Per Share

The Company's basic earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Shares of restricted stock are included in the computation of both basic and diluted earnings per share. Potentially dilutive securities include outstanding stock options, restricted share units, deferred stock units and performance-based restricted share units. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury method. Diluted earnings per share gives effect to all potentially dilutive common shares outstanding during the period.

(in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net income attributable to common shareholders	\$59,697	\$54,874	\$108,381	\$112,665
Average basic shares outstanding	58,883	57,908	58,682	57,684
Effect of dilutive stock options	960	920	982	910
Average diluted shares outstanding	59,843	58,828	59,664	58,594
Earnings per basic share	\$1.01	\$0.95	\$1.85	\$1.95
Earnings per diluted share	\$1.00	\$0.93	\$1.82	\$1.92

The computation of diluted earnings per share excludes the effect of the potential exercise of stock options when the average market price of the common stock is lower than the exercise price of the related stock options during the period (0.6 million and 0.9 million average options were excluded for the second quarter of 2014 and 2013, respectively, and 0.5 million and 1.3 million average options for the first half of 2014 and 2013, respectively).

Note 4 - Changes in Equity and Accumulated Other Comprehensive Income

A summary of the changes in equity for the six months ended June 30, 2014 and 2013 is provided below:

(in thousands)	Six Months Ended June 30,		
	2014		2013
	Total	Noncontrolling	Total Equity
	Shareholders'	Interests	
	Equity		