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BUTLER MANUFACTURING CO
Form 10-Q
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13
or 15(d) of the
Securities Exchange Act of 1934

Commission File No. 001-12335

FOR THE QUARTER ENDED MARCH 31, 2002

BUTLER MANUFACTURING COMPANY

Incorporated in the State of Delaware

1540 Genessee Street
Post Office Box 419917
Kansas City, Missouri 64102

Phone: (816) 968-3000
I.R.S. Employer Identification Number: 44-0188420

Shares of common stock outstanding at
MARCH 31, 2002: 6,296,228

The name, address and fiscal year of the Registrant have not changed since the last report.

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, and (2) has been subject to such filing requirements for the past 30 days.

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BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

For the three months ended March 31, 2002 and 2001

(unaudited)
(\$000's omitted except for per share data)

	2002	2001
	-----	-----
Net sales	\$ 182,852	\$ 194,859
Cost of sales	160,733	170,094
	-----	-----
Gross profit	22,119	24,765
Selling, general and administrative expenses	27,837	28,187
	-----	-----
Operating loss	(5,718)	(3,422)
Other income (expense), net	(70)	486
	-----	-----
Loss before interest and taxes	(5,788)	(2,936)
Interest expense	1,958	1,479
	-----	-----
Pretax loss	(7,746)	(4,415)
Income tax benefit	2,378	1,612
	-----	-----
Net loss	\$ (5,368)	\$ (2,803)

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	=====	=====
Basic loss per common share	\$ (0.85)	\$ (0.45)
	=====	=====
Diluted loss per common share	\$ (0.85)	\$ (0.45)
	=====	=====
Basic weighted average number of shares	6,290,239	6,273,626
Diluted weighted average number of shares	6,290,239	6,273,626

See Accompanying Notes to Consolidated Financial Statements.

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BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31, 2002 and 2001

(unaudited)
(\$000's omitted)

	2002	2001
	-----	-----
Net loss	\$ (5,368)	\$ (2,803)
Other comprehensive income (loss):		
Foreign currency translation and hedging activity	244	(707)
	-----	-----
Comprehensive loss	\$ (5,124)	\$ (3,510)
	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

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BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

March 31, 2002 and December 31, 2001
(\$000's omitted)

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	2002 ----- (unaudited)	2001 ----- (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,263	\$ 52,569
Receivables, net	94,791	109,522
Inventories:		
Raw materials	19,692	20,132
Work in process	12,048	13,692
Finished goods	31,407	32,100
LIFO reserve	(8,599)	(8,489)
Total inventory	----- 54,548	----- 57,435
Real estate developments in progress	23,975	23,966
Net current deferred tax assets	16,635	16,636
Other current assets	9,400	14,939
Total current assets	----- 244,612	----- 275,067
Investments and other assets	52,340	48,741
Assets held for sale	3,684	3,684
Property, plant and equipment, at cost	298,077	302,360
Less accumulated depreciation	(157,064)	(159,090)
Net property, plant and equipment	----- 141,013	----- 143,270
	----- \$ 441,649	----- \$ 470,762
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 1,995	\$ 2,100
Current maturities of long-term debt	5,562	5,617
Accounts payable	55,881	70,362
Dividends payable	1,134	1,131
Accrued liabilities	89,993	98,237
Taxes on income	5,248	8,659
Total current liabilities	----- 159,813	----- 186,106
Net noncurrent deferred tax liabilities	3,683	3,683
Other noncurrent liabilities	21,493	18,254
Long-term debt, less current maturities	98,041	98,244
Shareholders' equity:		
Common stock, no par value, authorized 20,000,000 shares, issued 9,088,200 shares, at stated value, outstanding 6,296,228 in 2002 and 6,280,783 in 2001	12,623	12,623
Foreign currency translation, hedging activity, and minimum pension liability	(6,547)	(6,791)
Retained earnings	217,136	223,594
	----- 223,212	----- 229,426
Less cost of common stock in treasury, 2,791,972 shares in 2002 and 2,807,417 shares in 2001	64,593	64,951
Total shareholders' equity	----- 158,619	----- 164,475

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\$ 441,649	\$ 470,762
=====	=====

See Accompanying Notes to Consolidated Financial Statements.

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BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2002 and 2001

(unaudited)
(\$000's omitted)

	2002	2001
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (5,368)	\$ (2,8
Adjustments to reconcile net earnings provided by and used in operating activities:		
Depreciation and amortization	4,533	4,0
Equity earnings (loss) of joint ventures	15	(
Change in asset and liabilities:		
Receivables	14,731	24,0
Inventories	2,887	1,1
Real estate developments in progress	(9)	10,5
Other current assets and liabilities	(20,406)	(33,3
Other noncurrent operating assets and liabilities	614	4
	-----	-----
Net cash provided (used) by operating activities	(3,003)	4,1
Cash flows from investing activities:		
Capital expenditures	(1,602)	(6,4
Capital expenditures - software	(2,314)	(6
Other, net	694	1,0
	-----	-----
Net cash used by investing activities	(3,222)	(5,9
Cash flows from financing activities:		
Payment of dividends	(1,130)	(1,0
Proceeds from issuance of long-term debt	-	1
Repayment of long-term debt	(203)	(4
Net change in short-term debt	(160)	4,3
Issuance of treasury stock	360	6
Purchase of treasury stock	(2)	(
	-----	-----
Net cash provided (used) by financing activities	(1,135)	3,5
Effect of exchange rate changes	54	(7
	-----	-----
Net increase (decrease) in cash and cash equivalents	(7,306)	9
Cash and cash equivalents at beginning of year	52,569	16,8
	-----	-----

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Cash and cash equivalents at March 31

\$ 45,263

\$ 17,7

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See Accompanying Notes to Consolidated Financial Statements.

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BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the accounting policies described in the consolidated financial statements and related notes included in Butler Manufacturing Company's 2001 Form 10-K. It is suggested that those consolidated statements be read in conjunction with this report. The year-end financial statements presented were derived from the company's audited financial statements. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments necessary for a fair presentation of the financial position of Butler Manufacturing Company and the results of its operations.

NOTE 2 - GOODWILL

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS No. 141), and No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), effective for fiscal years beginning after December 15, 2001. These Statements eliminated the pooling-of-interests method of accounting for business combinations and the systematic amortization of goodwill. SFAS No. 141 applies to all business combinations with a closing date after June 30, 2001, of which the Company had no such activity. At the beginning of fiscal 2002, the company adopted SFAS No. 142. Under the new standard, purchased goodwill is no longer amortized over its useful life, but will be subject to annual impairment tests. Therefore, the company did not incur any goodwill amortization expense during the first quarter of 2002. Goodwill amortization expense recorded in the first quarter of 2001 was less than \$.1 million, or an after tax effect of less than \$.01 per share. As of January 1, 2002 the company tested its Architectural Products business segment using an estimate of fair value rather than an undiscounted cash flow approach performed under prior accounting standards. It was determined that its fair value exceeded its carrying value and no impairment was recognized. The company has elected to perform an annual test for goodwill impairment in the third quarter.

NOTE 3 - BUSINESS SEGMENTS

The company groups its operations into five business segments: North American Building Systems, International Building Systems, Architectural Products, Construction Services, and Real Estate.

The North American Building Systems segment includes the North American metal buildings and the wood buildings businesses. These business units supply steel and wood frame pre-engineered building systems for a wide variety of commercial, community, industrial, and agricultural applications.

The International Buildings Systems segment includes the company's Asian metal buildings business and European metal buildings business which is being sold. These businesses supply pre-engineered metal buildings for commercial,

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community, industrial, and agricultural applications primarily for the Chinese and European markets.

The Architectural Products segment includes the operations of the Vistawall Group. The group's businesses design, manufacture, and market architectural aluminum systems for nonresidential construction, including curtain wall, storefront systems, windows, doors, skylights, and roof accessories.

The Construction Services segment provides comprehensive design and construction planning, execution, and management services for major purchasers of construction. Projects are usually executed in conjunction with the dealer representatives of other Butler divisions.

The Real Estate segment provides real estate build-to-suit-to-lease development services in cooperation with Butler dealers.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies as included in the company's 2001 form 10-K. Butler Manufacturing Company's reportable segments are strategic business units that offer products and services for different markets. They are managed separately because each business requires different technology and expertise.

The Other classification represents unallocated corporate expenses and unallocated assets, including corporate offices, deferred taxes, pension accounts, interest expense, and intersegment eliminations.

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NET SALES (Thousands of dollars)	Three Months Ended March 31,	
	2002	2001
North American Building Systems	\$ 78,487	\$ 91,073
International Building Systems	21,592	15,804
Architectural Products	51,581	58,271
Construction Services	37,750	18,233
Real Estate	0	15,953
Other	(6,558)	(4,475)
	\$ 182,852	\$ 194,859

Net sales represent revenues from sales to affiliated and unaffiliated customers before elimination of intersegment sales, which is included in Other.

Intersegment eliminations are primarily sales between North American Building Systems and Architectural Products segments to the International Building Systems and Construction Services segments.

PRETAX EARNINGS (LOSSES) (Thousands of dollars)	Three Months Ended March 31,	
	2002	2001
North American Building Systems	\$ (4,252)	\$ (4,644)
International Building Systems	(29)	(649)

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Architectural Products	909	3,581
Construction Services	777	396
Real Estate	555	1,492
Other	(5,706)	(4,591)
	-----	-----
	\$ (7,746)	\$ (4,415)
	=====	=====

TOTAL ASSETS (Thousands of dollars)	March 31, 2002	December 31, 2001

North American Building Systems	\$ 130,346	\$ 140,488
International Building Systems	66,001	59,900
Architectural Products	107,310	115,879
Construction Services	24,800	21,069
Real Estate	28,884	44,112
Other	84,308	34,558
	-----	-----
	\$ 441,649	\$ 416,006
	=====	=====

Total assets represent assets used by each business segment. Other represents cash and cash equivalents, assets held for sale, corporate equipment, and miscellaneous other assets which are not related to a specific business segment. In prior periods the North American Building Systems and International Building Systems segments were reported as a single segment. Because of reorganization and management changes, two segments were formed.

NOTE 4 - RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

In December 2001, the Company's board of directors approved the disposition of its European metal buildings business. As a result, the Company recorded a \$3.8 million pretax charge in connection with this decision. In addition, the Company recorded a \$4.3 million pretax charge for the impairment of certain assets. During 2001, \$1.7 million of the restructuring reserve was utilized and in the first quarter of 2002, \$.2 million was utilized for severance and other employee separation costs. At March 31, 2002, \$1.9 million remains in the restructuring reserve. The sale is expected to close in the second quarter.

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NOTE 5 - INDEBTEDNESS

In June 2001, the company entered into a \$50 million bank credit facility and issued \$50 million of senior unsecured notes pursuant to a note agreement, allowing domestic bank borrowings to be reduced to zero.

Interest on advances under the new credit facility are based on either (a) the higher of the federal funds rate plus .50% or the prime rate, which is payable quarterly, or (b) LIBOR, which is payable at the end of periods ranging from one to six months. The credit agreement provides for a commitment fee on unused advances ranging from .20% to .30%. Commitments under the credit facility expire on June 30, 2004, at which time any outstanding advances are payable. The agreement contains certain operating covenants, including restrictions on liens, investments, acquisitions, asset sales and mergers. The agreement also requires the company to maintain a capitalization ratio, as defined, of .5 to 1, a fixed

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charge coverage ratio, as defined, of 1.7 to 1, and a leverage ratio, as defined, of 3.25 to 1, through June 30, 2002 and 3.0 to 1 thereafter.

The senior notes bear interest, payable semi-annually on June 30 and December 30, at the effective rate of 7.91% per annum. Principal of the senior notes is payable in annual installments of \$4.55 million on December 30th of each year, commencing December 30, 2006, with the final installment due on December 30, 2016. The Note Agreement contains certain operating covenants, including restrictions on liens, additional indebtedness and asset sales, and requires the company to maintain adjusted consolidated net worth, as defined, of \$125 million plus the cumulative sum of 50% of consolidated net income for each fiscal quarter after March 31, 2001 and a fixed charge coverage ratio, as defined, of 1.5 to 1.0.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net sales were \$183 million for the first quarter 2002 compared with \$195 million in 2001, 6% lower than a year ago. Lower sales were due to a weaker nonresidential construction market compared with a year ago. An increase in International Building Systems and Construction Services segments sales were not enough to offset lower sales in the North American Building Systems, Architectural Products and Real Estate segment sales. Sales in the North American Building Systems segment declined 14% due to lower non-residential building sales and lower order rates caused by a weaker U.S. economy, while sales in the Architectural Building Systems group were 11% lower than a year ago due to a weaker U.S. economy and resultant declining office and retail construction opportunities. The International Building Systems segment reported a strong quarter due to increased China metal building sales. Sales were \$22 million in this segment, up 37% from a year ago. The company's European metal buildings business accounted for \$3 million of the International Building Systems segment sales during the first quarter 2002. The company reported at year-end its intent to withdraw from the European market with the announced sale of its European metal buildings business to the Lindab AB Group headquartered in Sweden. Construction Services segment sales were \$38 million in the first quarter of 2002 compared with \$18 million for the same period a year ago, as the segment entered the 2002 quarter with a higher backlog of projects to execute. The Real Estate segment did not close any project sales in first quarter 2002, compared with \$16 million closed a year ago. The revenues of the Construction Services and Real Estate segments are primarily project related. Quarterly comparisons of revenue are not as meaningful as in the company's more manufacturing oriented businesses.

Gross profits declined 11% in the first quarter 2002 to \$22 million. The decline in gross profits was due to lower sales and more competitive pricing in a sluggish nonresidential construction market.

Selling, general and administrative expenses of \$28 million for the first quarter 2001 were slightly lower than a year ago. The decline in selling, general and administrative expenses was due to lower business activity and tighter controls over expenses, evident by management's decision to temporarily idle select manufacturing capacity. Interest expense was \$2 million up from \$1.5 million due primarily to greater capitalized interest on the headquarters project in 2001, and a higher average interest rate in 2002 than the first quarter 2001.

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The pretax loss for the quarter ended March 31, 2001 was \$7.7 million, compared with a loss of \$4.4 million, a year ago, and the effective tax rate for the quarter was lower due to a lower effective tax rate on China sales. The net loss for the first quarter 2002 was \$5.4 compared with a \$2.8 million loss a year ago.

LIQUIDITY AND CAPITAL RESOURCES

Since December 2001, cash and cash equivalents decreased \$7 million to \$45 million due to a decline in cash flows from operations, investing, and financing activities. Components of working capital declined during the quarter due to lower sales. Receivables declined in most segments due as did inventory and related payables due to lower sales during the quarter. Investments and other assets increased during the first quarter 2002 due primarily to development of a scalable enterprise system in the Buildings Systems business. Cash from investing activities was used primarily for capital expenditures. Capital expenditures were \$1.6 million at March 31, 2002, lower than a year ago when the company's world headquarters project was under construction. Capital expenditures were incurred primarily in the North American Building Systems, the International Buildings Systems and the Architectural Products segments. Cash from financing activities was used for payment of dividends.

During 2001 the company entered into a \$50 million bank credit facility to fund future working capital requirements, and signed a \$50 million private placement agreement. The company's foreign operations maintain separate lines of credit with local banks of approximately \$6 million, with \$2 million utilized at current exchange rates at March 31, 2002. For the three months ended March 31, 2002, there were no domestic short-term borrowings. Borrowings averaged \$34.6 million for the quarter ended March 31, 2001. Management believes the company's operating cash flow, cash balances, along with the bank credit lines, are sufficient to meet future foreseen liquidity requirements.

Cash paid for interest was \$1.2 million in the first quarter 2002, while a cash refund of \$4.2 million was received for the disposition of the European business. Cash paid for interest and taxes was \$1.7 million and \$1.3 million, respectively, for the same period a year ago.

During the first quarters of 2002 and 2001, treasury stock purchases were minimal compared with the prior year, and dividends were \$1 million each. Total backlog at March 31, 2002 was \$290 million down 2% from a year ago. Higher margin product backlog was approximately 10% lower, while construction backlog increased 39% as compared to the same period a year ago.

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MARKET PRICE RISK

The company's principal exposure to market risk is from changes in commodity prices, interest rates, and currency exchange rates. To limit exposure and to manage volatility related to these risks, the company enters into select commodity and currency hedging transactions, as well as forward purchasing arrangements. The company does not use financial instruments for trading purposes.

Commodity Price Exposure: The company's primary commodities are steel, aluminum, and wood. Steel is the company's largest purchased commodity. Although steel prices are relatively stable the company enters into forward steel purchase arrangements in its metal buildings business for periods of less than one years duration to protect against potential price increases. To the extent there are increases in the company's steel costs, they are generally recaptured in the company's product sales prices. During periods of falling prices the company

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reserves the right to purchase steel from other competitive suppliers. During the latter half of the 2002 first quarter, steel prices rose sharply, partly due to recent tariffs imposed by the U.S. Government on certain imported steel products. These increases directly impacted the company's U.S. metal buildings business. Recent investments and increased operating efficiencies in company operations have helped to dampen the impact of the increase, nevertheless, in April, 2002, the company's U.S. metal buildings business announced a price increase on most of its products to partially mitigate the impact of rising steel prices.

The company's wood frame building business enters into forward purchase arrangements for commercial grade lumber for periods of less than one year's duration. Lumber costs are generally more volatile than steel costs. To offset increases in lumber costs, the company adjusts product prices accordingly.

Aluminum hedge contracts of less than one year duration are purchased to hedge the engineered products backlog of the Vistawall group against potential losses caused by increases in aluminum costs. This product line is sensitive to material cost movements due to the longer lead times from project quoting to manufacture. Gains or losses recorded on hedge contracts are offset against the actual aluminum costs charged to cost of sales when contracts are settled. At March 31, 2002 the fair value of open aluminum contracts recorded in its cumulative other comprehensive income was less than \$.1 million pretax. Mark to market gains on the company's Canadian currency exchange contracts were recorded in earnings and were less than \$.1 million pretax at March 31, 2002. At March 31, 2002 a 10% change in both aluminum and Canadian currency contracts was immaterial.

Interest Rates: The majority of the company's long-term debt carries a fixed interest rate, which limits the company's exposure to increases in market rates. However, interest rate changes impacts the fair market value of such debt. As of March 31, 2002, holding other variables constant, including levels of indebtedness, a one percentage point increase in interest rates would result in approximately a \$5 million change in the fair value of the company's fixed rate debt.

Foreign Currency Fluctuation: The majority of the company's business is transacted in U.S. dollars, therefore limiting the company's exposure to foreign currency fluctuations. Where the company has foreign-based operations, the local currency has been adopted as the functional currency. As such, the company has both transaction and translation foreign exchange exposure in those operations. Due to relative cost and limited availability, the company does not hedge its foreign net asset exposure. At March 31, 2002 the company's net asset investment in foreign operations was \$26 million. The company does hedge its short-term foreign currency transaction exposures related to metal building sales in Canada. Forward exchange contracts are purchased to cover a portion of the exposure.

FORWARD LOOKING INFORMATION

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which may include statements concerning projection of revenues, income or loss, capital expenditures, capital structure, or other financial items, statements regarding the plans and objectives of management for future operations, statements of future economic performance, statements of the assumptions underlying or relating to any of the foregoing statements, and other statements which are other than statements of historical fact. These statements appear in a number of places in this report and include statements regarding the intent, belief, or current expectations of the company and its management with respect to (i) the cost and timing of the completion of new or expanded facilities, (ii) the company's competitive position, (iii) the supply and price of materials used by the company, (iv) the demand and price for the company's products and services, or (v) other trends

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affecting the company's financial condition or results of operations, including changes in manufacturing capacity utilization and corporate cash flow in both domestic and international markets. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially as a result of these various factors.

For additional comments, refer to the April 15, 2002, letter to shareholders, which is attached as exhibit 19.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes to the disclosure made in the Annual Report on Form 10-K for the year ended December 31, 2001 regarding this matter. See discussion about market risk under Item 2. Management Discussion and Analysis on page 10 above.

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PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

(19) April 15, 2002 Letter to Shareholders.

(b) Reports on Form 8-K

The company has not filed any reports on Form 8-K during the quarter ended March 31, 2002.

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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BUTLER MANUFACTURING COMPANY

May 14, 2002

Date

/s/ Larry C. Miller

Larry C. Miller
Vice President - Finance,
and Chief Financial Officer

May 14, 2002

Date

/s/ John W. Huey

John W. Huey
Vice President, General Counsel
and Secretary