

COLUMBUS MCKINNON CORP
Form 10-K
June 01, 2016

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

FORM 10-K

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

For the fiscal year ended March 31, 2016

Commission file number 0-27618

COLUMBUS McKINNON CORPORATION
(Exact name of Registrant as specified in its charter)

New York 16-0547600
(State of Incorporation) (I.R.S. Employer Identification Number)

205 Crosspoint Parkway
Getzville, New York 14068
(Address of principal executive offices, including zip code)

(716) 689-5400
(Registrant's telephone number, including area code)

Securities pursuant to section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$0.01 Par Value (and rights attached thereto)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by checkmark 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 30, 2015 (the second fiscal quarter in which this Form 10-K relates) was approximately \$362 million, based upon the closing price of the Company's common shares as quoted on the Nasdaq Stock Market on such date. The number of shares of the Registrant's common stock outstanding as of May 27, 2016 was 20,163,999 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for its 2016 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Registrant's fiscal year ended March 31, 2016 are incorporated by reference into Part III of this report.

COLUMBUS McKINNON CORPORATION

2016 Annual Report on Form 10-K

This annual report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from the results expressed or implied by such statements, including general economic and business conditions, conditions affecting the industries served by us and our subsidiaries, conditions affecting our customers and suppliers, competitor responses to our products and services, the overall market acceptance of such products and services, the integration of acquisitions and other factors set forth herein under “Risk Factors.” We use words like “will,” “may,” “should,” “plan,” “believe,” “expect,” “anticipate,” “intend,” “future” and other expressions to identify forward looking statements. These forward looking statements speak only as of their respective dates and we do not undertake and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated changes. Our actual operating results could differ materially from those predicted in these forward-looking statements, and any other events anticipated in the forward-looking statements may not actually occur.

TABLE OF CONTENTS

Part I

Item 1.	Business	<u>4</u>
Item 1A.	Risk Factors	<u>17</u>
Item 1B.	Unresolved Staff Comments	<u>21</u>
Item 2.	Properties	<u>22</u>
Item 3.	Legal Proceedings	<u>22</u>
Item 4.	Mine Safety Disclosures	<u>23</u>

Part II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>24</u>
Item 6.	Selected Financial Data	<u>26</u>
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>28</u>
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	<u>39</u>
Item 8.	Financial Statements and Supplemental Data	<u>40</u>
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	<u>97</u>
Item 9A.	Controls and Procedures	<u>97</u>
Item 9B.	Other Information	<u>99</u>

Part III.

Item 10.	Directors and Executive Officers of Registrant	<u>99</u>
Item 11.	Executive Compensation	<u>99</u>
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>99</u>
Item 13.	Certain Relationships and Related Transactions, and Director Independence	<u>99</u>
Item 14.	Principal Accountant Fees and Services	<u>99</u>

Part IV

Item 15 Exhibits and Financial Statement Schedules

100

3

PART I

Item 1. Business

General

We are a leading global designer, manufacturer and marketer of hoists, actuators, cranes, rigging tools, digital power control systems, and other material handling products serving a wide variety of commercial and industrial end-user markets. Our products are used to efficiently and ergonomically move, lift, position and secure objects and loads. We are the U.S. market leader in hoists and material handling drive systems, our principal line of products, as well as certain chain, forged fittings, and actuator products which we believe provides us with a strategic advantage in selling other products. We have achieved this leadership position through strategic acquisitions, our extensive, diverse and well-established distribution channels and our commitment to product innovation and quality. We have one of the most comprehensive product offerings in the industry and we believe we have more overhead hoists in use in North America than all of our competitors combined. Additionally, we believe we are the market leader of manual hoist and actuator products in Europe, which provides us further opportunity to sell other products through our existing distribution channels in that region. In September 2015, we significantly expanded our product offering with the acquisition of Magnetek, Inc. (Magnetek). The acquisition combines Magnetek's technology with our broad line of lifting and positioning mechanical products to create a more comprehensive solution for customers. Magnetek's digital power control systems serve the needs of selected niches of traditional and emerging markets that are becoming increasingly dependent on "smart" power. Much of Magnetek's focus is on developing and introducing innovative electronic drive solutions that both enhance our customers' productivity, safety, and energy efficiency. Our products are sold globally and our brand names, including CM, Coffing, Chester, Duff-Norton, Electromotive Systems, Enrange, IMPULSE, M-FORCE, Mondel, OmniPulse, Pfaff, Quattro, Shaw-Box, Telemotive, Unified, STB, and Yale are among the most recognized and well-respected in the marketplace.

Our business is cyclical in nature and sensitive to changes in general economic conditions, including changes in industrial capacity utilization, industrial production and general economic activity indicators, like GDP. Both U.S. and Eurozone capacity utilization are primary leading market indicators for our Company. U.S. total industrial capacity utilization has declined to 74.9% in March 2016, compared to 77.3% in March 2015 and 75.4% in December 2015. Eurozone capacity utilization was 81.9% in the quarter ended March 31, 2016, an increase from the quarter ended December 31, 2015 of 81.5% and March 31, 2015 of 81.0%. The European indicator reflects the continued slow recovery from the 2013 recession in Europe, while the U.S. indicator is indicative of a declining industrial market. This was particularly evident in the mining and oil and gas sectors. In addition we follow the Emerging Markets Purchasing Managers' Index (PMI) for other countries in which we have a strong sales and marketing presence including China, Brazil, Mexico, and South Africa.

Our Position in the Industry

We participate predominantly in the hoist, crane, digital power control systems, elevator, and monorail sector. We believe that the demand for our products and services will be aided by several growth drivers. These drivers include:

Productivity - We believe businesses respond to competitive pressures by seeking to maximize productivity and efficiency, among other actions. Our hoists and other lifting and positioning products allow loads to be lifted and placed quickly, precisely, with little effort and fewer people, thereby increasing productivity and reducing cycle time. Further, our variable frequency AC drive products and DC digital controls are highly reliable, operate at high speeds, and improve production output, while reducing labor and energy costs. In addition, emphasis on "Lean" techniques by many companies increases demand for our lifting and positioning products for use in single-piece flow workstation applications.

Safety - Driven by workplace safety regulations such as the Occupational Safety and Health Act (OSHA) and the Americans with Disabilities Act in the U.S. and other safety regulations around the world, and by the general competitive need to reduce costs such as health insurance premiums and workers' compensation expenses, businesses seek safer ways to lift and position loads. Our lifting and positioning products enable these tasks to be performed with reduced risk of personal injury. Our recent acquisition of Magnetek provides us with additional opportunities to enhance workplace safety and reduce the risk of accidents and personal injury, including collision avoidance software, programmable acceleration and deceleration, and other safeguards that prevent overheating, eliminate load swing, and prevent uneven lifting.

Consolidation of Suppliers - In an effort to reduce costs and increase productivity, our channel partners and end-user customers are increasingly consolidating their suppliers. We believe that our broad product offering combined with our well established brand names will enable us to benefit from this consolidation and enhance our market share.

Modernization and Upgrade of Existing Equipment - Overhead cranes, elevators, and mining equipment represent significant investments in capital which in most cases operate under severe duty and in some cases, in harsh environments. Many of the structural components of these systems are manufactured to withstand significant mechanical forces, and to have useful lives in excess of 30 years. For example, it is not uncommon to find cranes that are more than 50 years old still operating today, or elevators or mining equipment operating with aging and inefficient power control equipment. Rather than scrap structurally sound but outdated equipment, it is often more cost-effective to modernize the equipment to meet current operational needs by upgrading the power control systems. Our recently acquired drive technology along with our application expertise can provide reduced energy consumption, greater reliability, improved throughput, lower operational costs, enhanced features, and prolonged equipment life over older drive technology. We believe our large installed base of product combined with our industry expertise provides us with opportunities to expand our business through modernization projects.

Conversion to Wireless Applications - Many industries, including the overhead material handling, mobile hydraulic, construction, and mining markets, are rapidly adopting remote wireless control solutions. While wireless control has been available for a number of years, technology has improved significantly in recent years, enabling enhancements that have resulted in products that are safer, more reliable, ergonomically designed, versatile, and cost-effective. Our recent acquisition of Magnetek provides us with an expanded wireless control product offering, which we believe will help us to meet demand, increase market share, and enter new markets in this growing field.

Communication and Diagnostic Features - In many electrical applications today, electronic devices controlled by microprocessors are increasingly being networked together, resulting in smart devices with greater productivity and user benefits. The benefits of this trend on control systems for industrial applications include lower installation costs, better monitoring of performance, improved integration with supervisory systems, and improved uptime. We believe the development of "smart" hoists with the power of embedded and connected microprocessors will provide a tremendous benefit for users at all levels from maintenance to production users to meet their productivity, uptime and safety needs today and into the future.

Our Competitive Strengths

Leading North American Market Positions - We are a leading manufacturer and marketer of hoists, alloy and high strength carbon steel chain and forged fittings, digital power control systems, and actuators in North America. We have developed our leading market positions over our 141-year history by emphasizing safety, manufacturing excellence and superior service. Approximately 71% of our U.S. net sales for the year ended March 31, 2016 were from product categories in which we believe we hold the number one market share. We believe that the strength of our established products and brands and our leading market positions provide us with significant competitive advantages, including preferred supplier status with a majority of our largest channel partners and end user customers. Our large installed base of products also provides us with a significant competitive advantage in selling our products to existing customers as well as providing repair and replacement parts.

The following table summarizes the product categories where we believe we are the U.S. market leader:

Product Category	U.S. Market Share	U.S. Market Position	Percentage of U.S. Net Sales
Hoist, Trolleys and Components (1)	45% - 50%	#1	50 %
AC and DC Material Handling Drives (5)	55% - 60%	#1	10 %
Screw Jacks (2)	35% - 40%	#1	5 %
Tire Shredders (3)	50% - 55%	#1	3 %
Elevator DC Drives (5)	65% - 70%	#1	2 %

Jib Cranes (4)	25% - 30%	#1	1	%
			71	%

5

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- (1) Market share and market position data are internal estimates derived from survey information collected and provided by our trade associations in 2015.
 - (2) Market share and market position data are internal estimates derived by comparison of our net sales to net sales of one of our competitors and to estimates of total market sales from a trade association in 2015.
 - (3) Market share and market position data are internal estimates derived by comparing the number of our tire shredders in use and their capacity to estimates of the total number of tires shredded published by a trade association in 2015.
 - (4) Market share and market position are internal estimates derived from both the number of bids we win as a percentage of the total projects for which we submit bids and from estimates of our competitors' net sales based on their relative position in distributor catalog's in 2015.
 - (5) Market share and market position are internal estimates derived from comparison of our net sales to the net sales of our competitors.

Comprehensive Product Lines and Strong Brand Name Recognition - We believe we offer the most comprehensive product lines in the markets we serve. We offer training, engineering and design services to help channel partners and end users solve material handling problems. Most of our products are maintenance, repair and operating tools which work in conjunction with each other to create a complete lifting system. We complement our product offerings with training, engineering and design services to assist our channel partners and end-users in finding the optimal solution for their material handling needs. Our capability as a full-line supplier has allowed us to (i) provide our customers with "one-stop shopping" for material handling equipment, which meets some customers' desires to reduce the number of their supply relationships in order to lower their costs, (ii) leverage our engineering, product development and marketing costs over a larger sales base and (iii) achieve purchasing efficiencies on common materials used across our product lines. No single SKU comprises more than 1% of our sales, a testament to our broad and diversified product offering.

In addition, our brand names (including Budgit, Chester, CM, Coffing, Duff-Norton, Electromotive Systems, Enrange, IMPULSE, Little Mule, M-FORCE, Mondel, OmniPulse, Pfaff, Quattro, Shaw-Box, Unified, STB, Telemotive, and Yale) are among the most recognized and respected in the industry. The CM and Yale names have been synonymous with powered and manual hoists and were first developed and marketed under these brand names in the early 1900's. We believe that our strong brand name recognition and demonstrated performance have created customer loyalty and helps us maintain existing business, as well as capture additional business. We innovate and continually introduce new products to meet our changing customer needs. Products introduced or engineered for our customers during the last three fiscal years ended March 31, 2016 account for approximately 17.8% of our net sales.

Distribution Channel Diversity and Strength - Our products are sold to over 15,500 general and specialty distributors, end users and OEMs globally. We enjoy long-standing relationships with, and are a preferred provider to, the majority of our distributors and industrial buying groups. There has been consolidation among distributors of material handling equipment and we have benefited from this consolidation by maintaining and enhancing our relationships with leading distributors, as well as forming new relationships. We believe our extensive distribution channels provide a significant competitive advantage and allow us to effectively market new product line extensions and promote cross-selling. Our largest customer represents approximately 2% of our total net sales and our top 10 customers represent approximately 15% of our total net sales.

Expanding Non-U.S. Markets - We have significantly grown our non-U.S. sales since becoming a public company in 1996. Our non-U.S. sales have grown from \$34,300,000 (representing 16% of net sales) in fiscal 1996 to \$223,314,000 (representing 37% of our net sales) during the year ended March 31, 2016. This growth has occurred

primarily in Europe, Latin America and Asia-Pacific. We have ten sales offices in Asia to sell into this growing industrial market. Our non-U.S. business has provided us, and we believe will continue to provide us, with significant growth opportunities and new markets for our products.

"Non-U.S. sales" as expressed throughout Items 1 and 7 of this Form 10-K, are defined as sales to customers located outside of the United States.

Efficient Operations with Low-Cost Structure - We are extremely focused on optimizing our cost structure and have taken a number of steps towards reducing our costs, including: consolidating facilities, promoting a "Lean" culture, manufacturing in low cost jurisdictions, coordinating purchasing activities across the organization and selectively outsourcing non-critical functions. The actions we have taken to date have eliminated fixed costs from our operations and provided us with significant operating leverage as the economic conditions in our markets continue to improve.

Lean Culture - We have been applying “Lean” techniques since 2001 and our efforts have resulted in reduced manufacturing floor space and an improvement in productivity and on-time deliveries. We have witnessed the benefits of “Lean” principles in our manufacturing operations and continue to work on developing a “Lean” culture throughout our organization—improving our processes and reducing waste in all forms in all of our business activities.

Expansion Outside the U.S. - Our continued expansion of our manufacturing facilities in China and Europe provides us with a cost efficient platform to manufacture and distribute certain of our products and components. We now operate 19 principal manufacturing facilities in 7 countries, with 38 stand-alone sales and service offices in 23 countries and 9 warehouse facilities in 5 countries.

Consolidated Purchasing Activities - We continue to leverage our company-wide purchasing power through our global sourcing and commodity teams that improve our supply base to help reduce our overall costs and enhance our supplier quality and delivery.

Selective Integration and Outsourcing - We manufacture many of the critical parts and components used in the manufacture of our hoists and lifting systems, resulting in reduced costs. We continue to evaluate outsourcing opportunities for non-critical operations and components.

Strong After-Market Sales and Support - We believe that we retain customers and attract new customers due to our ongoing commitment to customer service and satisfaction. We have a large installed base of hoists and rigging tools that drives our after-market sales for replacement units and components and repair parts. We maintain strong relationships with our distribution channel partners and provide prompt service to end-users of our products through our authorized network of 14 chain repair stations and over 250 certified hoist service and repair stations globally. We also work closely with end users to design the appropriate lifting systems using our products to help them solve their material handling problems.

We also provide a wide variety of training and certification programs to the users of our products. These training and certification programs include crane inspection and operation training and certification, hoist inspection and repair training and certification, various rigging training courses, load securement training, and CM entertainment technology equipment training and certification classes. In addition to our training classes, we offer free monthly safety webinars to Channel Partners and end-users. These webinars are designed to provide information and promote best practices on the proper use, installation, inspection and maintenance for a variety of material handling products.

Industry Expertise and Technological Capabilities - We emphasize and leverage our ability to provide customized solutions for power and motion control applications through digital power technology. We have a long history of technical innovation and a highly skilled and experienced technical staff. Our technical personnel possess substantial expertise in disciplines central to digital power systems and applications. These include analog-to-digital circuit design, thermal management technology, and the application of microprocessors, digital signal processors, and software algorithms in the development of smart power products. We are widely recognized for our expertise in our served markets, regularly hosting training and technology seminars for customers and end users. We believe we are at the forefront of innovation in the industries we have traditionally served, continuously developing new products to provide cost-effective, value-added solutions to meet the changing needs of our customers.

Consistent Free Cash Flow Generation and Access to Capital—We have consistently generated positive free cash flow (which we define as net cash provided by operating activities less capital expenditures) through periods of economic uncertainty by continually controlling our costs, improving our working capital management and reducing the capital intensity of our manufacturing operations. During fiscal 2015, we significantly enhanced our capital structure by obtaining a \$125 million term loan which replaced higher interest bearing notes and entering into a new \$150 million revolving credit facility with an accordion feature allowing increases up to an additional \$75 million with lender

approval. This capital structure allows us to manage our liquidity in a low cost manner while maintaining flexibility to pursue attractive strategic growth opportunities. We exercised the accordion feature for \$75 million and utilized the new \$225 million revolving credit facility to obtain the funds necessary to acquire Magnetek in September of fiscal 2016. We borrowed \$195 million under the revolving credit facility to fund the acquisition price and pay certain acquisition related fees. We have repaid \$40 million of the amount borrowed for the Magnetek acquisition by March 31, 2016 and expect to repay an additional \$30 million in fiscal 2017 in addition to our scheduled principal payments of \$12.5 million required under our Term Loan agreement.

Experienced Management Team with Equity Ownership - Our senior management team provides significant depth and continuity of experience in the material handling industry, supplemented by expertise in growing businesses, aggressive cost management, balance sheet management, efficient manufacturing techniques, acquiring and integrating businesses and global operations. This diverse experience has been critical to our success to date and will be instrumental to our long-term growth. Our directors and management promote the ownership of company stock by the executive officers and directors to align the interests of our leadership team with those of our shareholders.

Our Strategy

Invest in New Products and Targeted Markets. We intend to leverage our competitive advantages to increase our market shares across all of our product lines and geographies by:

Introducing New Products—We continue to expand our business by developing new products and services and expanding the breadth of our products to address the material handling needs of our customers. We design our powered hoist products to meet applicable standards such as ASME, FEM, DIN and other region-specific/application-specific standards to maximize product utility across global markets. Our product development process starts with the voice-of-the-customer and results in products that meet or exceed our customers' needs. New product sales (defined as new products introduced within the last three years and products engineered for our customers) amounted to \$106,000,000 in the fiscal year ended March 31, 2016, or 17.8% of total sales.

Leveraging Our Distribution Channel Relationships and Vertical Market Knowledge—Our large, diversified, global customer base, our extensive distribution channels and our close relationships with end-users and channel partners provide us with insights into customer preferences and product requirements that allow us to anticipate and address the future needs of the marketplace. We are also investing in key vertical markets that will help us increase our revenues.

Broadening Our Product Offering—Developing and offering a broad range of products to our channel partners is an important element of our strategy. Industrial channel partners offer a broad array of industrial components that are used by many end-user markets. We continue to review and add new material handling products to broaden our offerings.

Continue to Grow in Non-U.S. Markets - Our non-U.S. sales of \$223,314,000 comprised 37% of our net sales for the year ended March 31, 2016, as compared with \$244,033,000, or 42% in fiscal 2015 and as compared to 16% of our net sales in fiscal 1996, the year we became a public company. Foreign currency translation unfavorably impacted sales by \$29,330,000 during fiscal 2016. Although we have made significant progress, our goal is to continue to increase our presence outside the U.S to capitalize on the higher growth opportunities and continue to diversify our business profile. We presently sell to distributors in over 50 countries and have our primary non-U.S. manufacturing facilities in China, Germany, the United Kingdom, Hungary, Mexico and France. In addition to new product introductions, we continue to expand our sales and service presence in the major and developing market areas of Asia-Pacific, Europe, and Latin America and have sales offices and warehouse facilities in Canada, various countries in Western and Eastern Europe, China, Thailand, Brazil, Uruguay, Panama and Mexico. We intend to increase our sales in Asia-Pacific by manufacturing a broader array of high quality, low-cost products and components in China. We have developed and are continuing to expand our development of hoist and other products in compliance with global standards and international designs to enhance our global distribution.

Focus on Operational Excellence - Our objective is to provide the highest quality products and services at prices consistent with the value created for our customers. We continually evaluate our processes with a focus to reduce our costs. Our view is that a market-focused sales and marketing effort along with low operating costs will prove to be successful for both our customers and for the Company. We continually seek ways to reduce our operating costs and

increase our manufacturing productivity, while improving our quality. Ongoing programs include our efforts to further develop our “Lean” culture throughout the organization, the expansion of our facilities in China, our continued search for new ways to leverage our purchasing power through combined sourcing and the continued focus on enhancing the efficiency of our global supply chain.

Pursue Strategic Acquisitions and Alliances; Evaluate Existing Business Portfolio - We intend to pursue synergistic acquisitions to complement our organic growth. Priorities for such acquisitions include: i. increasing international geographic penetration, particularly in the Asia-Pacific region and other emerging markets, and ii. further broadening our offering with complementary products and capabilities. Additionally, we continually challenge the long-term fit of our businesses for potential divestiture and redeployment of capital. We believe we achieved a highly synergistic acquisition with our acquisition of Magnetek during fiscal 2016. The acquisition of Magnetek was very strategic as it will support the development of "smart" and integrated technology into our hoisting systems and at the same time, deliver meaningful accretion to our bottom line. We have achieved our cost synergy targets and our plans to add to our revenue streams are on target through the end of FY16.

Our Business

ASC Topic 280 "Segment Reporting" establishes the standards for reporting information about operating segments in financial statements. We provide our products and services through one operating and reportable segment.

We design, manufacture and distribute a broad range of material handling products for various applications. Products include a wide variety of electric, air-powered, lever, and hand hoists, hoist trolleys, winches, industrial crane systems such as steel bridge, gantry and jib cranes and aluminum work station cranes; alloy and carbon steel chain; forged attachments, such as hooks, shackles, textile slings, clamps, logging tools and load binders; mechanical and electromechanical actuators and rotary unions; below-the-hook special purpose lifters and tire shredders; power and motion control systems, such as AC and DC drive systems, radio remote controls, push button pendant stations, brakes, and coll