MANPOWER INC /WI/
Form 10-Q
August 01, 2008
Table of Contents

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended:

June 30, 2008

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: 1-10686

MANPOWER INC.

(Exact name of registrant as specified in its charter)

Wisconsin	**39-1672779**
(State or other jurisdiction	(IRS Employer
of incorporation)	Identification No.)

100 Manpower Place

Milwaukee, Wisconsin	**53212**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(414) 961-1000**

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 _X_ 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 _X_ 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 __X__

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at July 29, 2008
Common Stock, $.01 par value	79,398,714

MANPOWER INC. AND SUBSIDIARIES

INDEX

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements (unaudited)

MANPOWER INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(in millions)

ASSETS

	June 30, 2008	December 31, 2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 561.3	$ 537.5
Accounts receivable, less allowance for doubtful accounts of $129.0 and $123.1, respectively	4,857.6	4,478.8
Prepaid expenses and other assets	150.4	122.2
Future income tax benefits	87.8	76.3
Total current assets	5,657.1	5,214.8
OTHER ASSETS:		
Goodwill	1,182.8	1,045.9
Intangible assets, less accumulated amortization of $66.6 and $56.1, respectively	419.5	364.8
Other assets	387.1	377.7
Total other assets	1,989.4	1,788.4
PROPERTY AND EQUIPMENT:		
Land, buildings, leasehold improvements and equipment	842.7	760.8
Less: accumulated depreciation and amortization	601.7	539.6
Net property and equipment	241.0	221.2
Total assets	$ 7,887.5	$ 7,224.4

The accompanying notes to consolidated financial statements

are an integral part of these balance sheets.

Table of Contents

MANPOWER INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(in millions, except share and per share data)

LIABILITIES AND SHAREHOLDERS EQUITY

	June 30, 2008	December 31, 2007
CURRENT LIABILITIES:		
Accounts payable	$ 1,208.3	$ 1,014.4
Employee compensation payable	217.7	213.6
Accrued liabilities	743.2	679.4
Accrued payroll taxes and insurance	739.1	724.7
Value added taxes payable	630.1	583.7
Short-term borrowings and current maturities of long-term debt	69.3	39.7
Total current liabilities	3,607.7	3,255.5
OTHER LIABILITIES:		
Long-term debt	944.5	874.8
Other long-term liabilities	431.2	424.8
Total other liabilities	1,375.7	1,299.6
SHAREHOLDERS EQUITY:		
Preferred stock, $.01 par value, authorized 25,000,000 shares, none issued		
Common stock, $.01 par value, authorized 125,000,000 shares, issued 103,705,350 and 103,414,254 shares, respectively	1.0	1.0
Capital in excess of par value	2,505.7	2,481.8
Retained earnings	1,194.0	1,040.3
Accumulated other comprehensive income	356.8	257.6
Treasury stock at cost, 24,313,461 and 23,541,579 shares, respectively	(1,153.4)	(1,111.4)
Total shareholders equity	2,904.1	2,669.3
Total liabilities and shareholders equity	$ 7,887.5	$ 7,224.4

The accompanying notes to consolidated financial statements

are an integral part of these balance sheets.

Table of Contents

MANPOWER INC. AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(in millions, except per share data)

	3 Months Ended June 30, 2008	3 Months Ended June 30, 2007	6 Months Ended June 30, 2008	6 Months Ended June 30, 2007
Revenues from services	$ 5,904.9	$ 5,034.4	$ 11,291.5	$ 9,570.0
Cost of services	4,751.3	4,010.3	9,170.2	7,745.9
Gross profit	1,153.6	1,024.1	2,121.3	1,824.1
Selling and administrative expenses	946.3	747.1	1,782.0	1,443.8
Operating profit	207.3	277.0	339.3	380.3
Interest and other expenses	13.9	7.7	25.2	17.3
Earnings before income taxes	193.4	269.3	314.1	363.0
Provision for income taxes	86.0	108.9	131.2	143.1
Net earnings	$ 107.4	$ 160.4	$ 182.9	$ 219.9
Net earnings per share basic	$ 1.36	$ 1.90	$ 2.31	$ 2.60
Net earnings per share diluted	$ 1.34	$ 1.86	$ 2.27	$ 2.54
Weighted average shares basic	79.2	84.4	79.3	84.6
Weighted average shares diluted	80.3	86.2	80.4	86.5

The accompanying notes to consolidated financial statements

are an integral part of these statements.

Table of Contents

MANPOWER INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(in millions)

	6 Months Ended June 30, 2008	6 Months Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 182.9	$ 219.9
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	53.4	44.1
Deferred income taxes	8.7	41.8
Provision for doubtful accounts	8.4	8.8
Share-based compensation	14.3	11.8
Excess tax benefit on exercise of stock options	(0.1)	(5.4)
Changes in operating assets and liabilities, excluding the impact of acquisitions:		
Accounts receivable	(75.8)	(296.2)
Other assets	(4.3)	(42.9)
Other liabilities	78.3	159.4
Cash provided by operating activities	265.8	141.3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(51.4)	(41.8)
Acquisitions of businesses, net of cash acquired	(195.5)	(18.1)
Proceeds from the sale of property and equipment	4.4	5.0
Cash used by investing activities	(242.5)	(54.9)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in short-term borrowings	26.5	3.4
Proceeds from long-term debt	63.3	0.6
Payments of long-term debt	(63.8)	(1.0)
Proceeds from stock option and purchase plans	11.1	31.7
Excess tax benefit on exercise of stock options	0.1	5.4
Repurchases of common stock	(52.7)	(89.0)
Dividends paid	(29.2)	(27.1)
Cash used by financing activities	(44.7)	(76.0)
Effect of exchange rate changes on cash	45.2	12.5
Change in cash and cash equivalents	23.8	22.9
Cash and cash equivalents, beginning of year	537.5	687.9
Cash and cash equivalents, end of period	$ 561.3	$ 710.8

SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 47.8	$ 41.8
Income taxes paid	$ 170.8	$ 73.6

The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents

MANPOWER INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

For the Six Months Ended June 30, 2008 and 2007

(in millions, except share and per share data)

(1) Basis of Presentation and Accounting Policies

Basis of Presentation

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although we believe that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements included in our 2007 Annual Report to Shareholders.

The information furnished reflects all adjustments that, in the opinion of management, are necessary for a fair statement of the results of operations for the periods presented. Such adjustments are of a normal recurring nature.

Employment-Related Items

In April 2007, we received a letter from the Central Agency For Social Security Organizations in France regarding a modification to the calculation of payroll taxes under certain French social programs aimed at encouraging the employment of low-wage workers. This modification reduced the amount of payroll taxes that we are required to remit retroactive to January 1, 2006. In the second quarter of 2007, we recorded $99.3 ($57.2 after tax, or $0.66 per diluted share) of net benefit related to this modification, including an increase to Gross Profit of $113.9 and an increase to Selling and Administrative Expenses of $14.6, for 2006 and the first half of 2007. In April 2008, we received additional information from our trade association, which was based on communications with the Central Agency indicating that this modification is also applicable to 2005. Therefore, we recorded $53.7 ($35.2 after tax, or $0.44 per diluted share) of a net benefit in the second quarter of 2008 related to this modification, which resulted in an increase to Gross Profit, for 2005.

(2) New Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS 141(R) changes the requirements for an acquirer s recognition and measurement of the assets acquired and the liabilities assumed in a business combination. SFAS 141(R) is effective for us in 2009. We are currently assessing the impact of adopting this statement.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 is effective for us in 2009 and must be applied prospectively. We are currently assessing the impact of adopting this statement.

Table of Contents

The FASB issued Statement No. 157, Fair Value Measurements (SFAS 157) in September 2006. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. Subsequently in February 2008, the FASB issued FASB Staff Position No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP FAS 157-1) and FASB Staff Position No. FAS 157-2, Partial Deferral of the Effective Date of Statement 157 (FSP FAS 157-2). FSP FAS 157-1 removed leasing transactions accounted for under Statement No. 13 and related guidance from the scope of SFAS 157. FSP FAS 157-2 deferred the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. We implemented SFAS 157 for financial assets and financial liabilities effective January 1, 2008 with no material impact on our consolidated financial statements. We are currently assessing the impact of SFAS 157 for nonfinancial assets and nonfinancial liabilities on our financial statements. See Note 7 for further information about our fair value measurements as of June 30, 2008.

In December 2006, we adopted Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). Under its measurement date provisions, SFAS 158 requires us to measure the funded status of our defined benefit and retiree medical plans as of the balance sheet date in 2008, rather than as of an earlier measurement date. We plan to adopt the measurement date provisions as of December 31, 2008. We do not expect the adoption of the provisions to have a material impact on our consolidated financial statements.

In January 2008, we adopted Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As of the initial adoption, we did not elect the fair value option for any existing eligible items under SFAS 159.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). SFAS 160 requires (a) that noncontrolling (minority) interests be reported as a component of shareholders equity, (b) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (c) that changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (d) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (e) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for us in 2009 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. We are currently assessing the impact of adopting this statement.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for us in 2009.

Table of Contents

(3) Stock Compensation Plans

During the six months ended June 30, 2008 and 2007, we recognized share-based compensation expense of approximately $14.3 and $11.8, respectively, related to grants of stock options, deferred stock, restricted stock and performance share units, and issuances of stock related to our employee stock purchase plan. Cash received from stock option exercises was $11.1 and $31.7 for the six months ended June 30, 2008 and 2007, respectively. We recognize share-based compensation expense related to grants of share-based awards in Selling and Administrative Expenses on a straight-line basis over the service period of each award recipient.

(4) Acquisitions and Reorganization Costs

Acquisitions

During the first six months of 2008, we acquired and invested in several companies throughout the world, including franchises. The total cash consideration for acquisitions, net of cash acquired, in the six months ended June 30 was $195.5 and $18.1 for 2008 and 2007, respectively.

In April 2008, we acquired Vitae, a leading professional placement firm in the Netherlands, for total consideration of $120.1 (76.3). The agreement also included contingent consideration of up to 10.0 that may be paid in 2010. Based on a preliminary valuation, which is subject to revision, Goodwill and Intangible Assets resulting from this transaction were $87.4 and $27.2, respectively, as of June 30, 2008.

Cash consideration related to other acquisitions, including franchises, net of cash acquired, for the first half of the year was $75.4 and $18.1 for 2008 and 2007, respectively. Based on preliminary valuations of these acquisitions, which is subject to revision, Goodwill and Intangible Assets resulting from these acquisitions were $37.8 and $36.4, respectively, as of June 30, 2008.

Reorganization Costs

In the fourth quarter of 2007, we established reserves totaling $4.4 in France for office closure costs and $4.0 at Jefferson Wells for severances and other office closure costs related to reorganizations at these entities. Payments against the $4.4 reserve in France started in 2008 and have totaled $0.7 as of June 30, 2008. We expect a majority of the remaining $3.7 will be paid in 2008. Of the $4.0 accrued by Jefferson Wells, $2.9 has been paid as of June 30, 2008, of which $2.8 was paid during the six months ended June 30, 2008. We expect a majority of the remaining $1.1 will be paid in 2008.

In 2006, we recorded expenses totaling $9.5 related to reorganizations in the U.K. for severance and other office closure costs. As of June 30, 2008, $8.0 has been paid, of which $0.7 was paid during the six months ended June 30, 2008. We expect a majority of the remaining $1.5 will be paid by the end of 2009. In 2006, we also recorded expenses totaling $6.9 at Right Management for severance costs, of which $1.6 was reversed in 2007 as fewer than expected former employees had claimed the severance. As of June 30, 2008, $5.0 has been paid, of which $0.2 was paid during the six months ended June 30, 2008. We expect the remaining $0.3 will be paid in 2008.

In 2005, we recorded total expenses of $15.3 in France for severance costs related to a reorganization. As of June 30, 2008, all of the $15.3 has been paid, of which $1.7 was paid in the first quarter of 2008.

Table of Contents

(5) Income Taxes

As of June 30, 2008, we had gross unrecognized tax benefits of $68.2 recorded in accordance with FIN 48 related to various tax jurisdictions, including $7.7 of interest and penalties and related tax benefits of $22.6. As of December 31, 2007, we had gross unrecognized tax benefits of $67.2 and related tax benefits of $22.6. The June 30, 2008 net amount of $45.6 would favorably affect the effective tax rate if recognized. Of the unrecognized tax benefits recorded, $9.1 is recorded as current.

We conduct business globally and, as a result, we are routinely audited by the various tax jurisdictions in which we operate. Generally, the tax years that remain subject to tax examination are 2003 through 2007 for our major operations in the U.S., France, U.K., Italy and Japan. As of June 30, 2008, we are under audit in the U.K., U.S. and Japan, but certain agreed components of the U.S. and Japan audit are now being formally finalized. We do not anticipate a significant adjustment to the Company s taxes paid as a result of these agreed audit components. There was no significant change in the total unrecognized tax benefits due to the settlement of audits, the expiration of statute of limitations or for other items during the six months ended June 30, 2008.

We provided for income taxes at an effective rate of 44.5% and 41.8% for the three and six months ended June 30, 2008, respectively, as compared to an effective rate of 40.4% and 39.4% for the three and six months ended June 30, 2007 respectively. The impact of certain discrete items increased the rate for both the second quarter and first half of 2008 as compared to the respective periods in 2007. In 2008, the discrete items were recorded in the second quarter with the primary item being a legal reserve recorded in France related to the French competition investigation. See Note 12 for further information about the legal reserve.

Excluding the discrete items mentioned above, our effective tax rate for the three and six months ended June 30, 2008, was 34.4% and 35.3%, respectively. These rates are different than the U.S. Federal statutory rate of 35% due primarily to the impact of the mix of U.S. and foreign earnings, U.S. state income taxes and other permanent items. These rates are lower than the annual effective tax rate of 38.7% for 2007 due primarily to differences in the amount of cash repatriations of non-U.S. earnings expected during each period.

(6) Earnings Per Share

The calculation of Net Earnings Per Share Basic and Net Earnings Per Share Diluted are as follows:

	3 Months Ended June 30,		**6 Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
Net Earnings Per Share Basic:				
Net earnings available to common shareholders	$ 107.4	$ 160.4	$ 182.9	$ 219.9
Weighted-average common shares outstanding (in millions)	79.2	84.4	79.3	84.6
	$ 1.36	$ 1.90	$ 2.31	$ 2.60
Net Earnings Per Share Diluted:				
Net earnings available to common shareholders	$ 107.4	$ 160.4	$ 182.9	$ 219.9
Weighted-average common shares outstanding (in millions)	79.2	84.4	79.3	84.6
Effect of restricted stock grants (in millions)	0.2	0.3	0.2	0.4
Effect of dilutive securities stock options (in millions)	0.9	1.5	0.9	1.5
	80.3	86.2	80.4	86.5
	$ 1.34	$ 1.86	$ 2.27	$ 2.54

Table of Contents

(7) Fair Value Measurements

As of January 1, 2008, we implemented SFAS 157 for our financial assets and financial liabilities. The fair value measurements of those items recorded in our consolidated balance sheet as of June 30, 2008 are as follows:

		Fair Value Measurements Using
	June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)