COLUMBUS MCKINNON CORP
Form 10-Q
January 28, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

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

For the quarterly period ended December 31, 2010

or

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

For the transition period from ________ to________

Commission File Number: 0-27618

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

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

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

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. : x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Act.

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

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

The number of shares of common stock outstanding as of December 31, 2010 was: 19,168,928 shares.

FORM 10-Q INDEX
COLUMBUS McKINNON CORPORATION
December 31, 2010

2

Index

Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (Unaudited)

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2010	March 31, 2010
	(unaudited)	
	(In thousands)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$46,090	$63,968
Trade accounts receivable	70,304	70,218
Inventories	98,151	79,822
Prepaid expenses	12,533	16,014
Total current assets	227,078	230,022
Property, plant, and equipment, net	57,673	57,106
Goodwill and other intangibles, net	122,438	124,165
Marketable securities	23,924	29,399
Deferred taxes on income	2,695	36,768
Other assets	3,530	4,037
Total assets	$437,338	$481,497
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Notes payable to banks	$520	$841
Trade accounts payable	31,860	33,480
Accrued liabilities	53,545	52,754
Restructuring reserve	217	2,755
Current portion of long term debt	1,147	1,155
Total current liabilities	87,289	90,985
Senior debt, less current portion	5,043	5,966
Subordinated debt	124,855	124,855
Other non current liabilities	68,169	72,413
Total liabilities	285,356	294,219
Shareholders' equity:		
Voting common stock; 50,000,000 shares authorized; 19,168,928. shares issued and outstanding	195	191
Additional paid in capital	183,124	182,385
(Accumulated deficit) retained earnings	(3,615)	34,878
ESOP debt guarantee	(1,516)	(1,850)
Accumulated other comprehensive loss	(26,206)	(28,326)
Total shareholders' equity	151,982	187,278
Total liabilities and shareholders' equity	$437,338	$481,497

See accompanying notes to condensed consolidated financial statements.

3

Index

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND (ACCUMULATED DEFICIT) RETAINED EARNINGS
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	(In thousands, except per share data)			
Net sales	$128,696	$118,971	$380,095	$353,213
Cost of products sold	99,345	92,146	291,488	268,907
Gross profit	29,351	26,825	88,607	84,306
Selling expenses	15,524	15,791	46,219	47,873
General and administrative expenses	10,275	9,471	29,855	26,663
Restructuring charges	150	3,616	1,947	12,148
Amortization of intangibles	452	490	1,315	1,408
	26,401	29,368	79,336	88,092
Income (loss) from operations	2,950	(2,543)	9,271	(3,786)
Interest and debt expense	3,281	3,257	9,885	10,001
Investment (income) loss	(317)	(361)	(1,020)	(966)
Foreign currency exchange loss (gain)	641	6	303	(633)
Other income, net	(294)	(2,059)	(933)	(2,040)
(Loss) income from continuing operations before income tax expense (benefit)	(361)	(3,386)	1,036	(10,148)
Income tax expense (benefit)	39,406	(909)	39,790	(2,409)
Loss from continuing operations	(39,767)	(2,477)	(38,754)	(7,739)
Income from discontinued operations - net of tax	128	133	261	266
Net loss	(39,639)	(2,344)	(38,493)	(7,473)
Retained earnings - beginning of period	36,024	36,762	34,878	41,891
Accumulated deficit (retained earnings) - end of period	$(3,615)	$34,418	$(3,615)	$34,418
Average basic shares outstanding	19,082	18,980	19,050	18,952
Average diluted shares outstanding	19,082	18,980	19,050	18,952
Basic income per share:				
Loss from continuing operations	$(2.09)	$(0.13)	$(2.03)	$(0.40)
Income from discontinued operations	0.01	0.01	0.01	0.01
Net loss	$(2.08)	$(0.12)	$(2.02)	$(0.39)
Diluted income per share:				
Loss from continuing operations	$(2.09)	$(0.13)	$(2.03)	$(0.40)
Income from discontinued operations	0.01	0.01	0.01	0.01
Net loss	$(2.08)	$(0.12)	$(2.02)	$(0.39)

See accompanying notes to condensed consolidated financial statements.

Index

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended	
	December 31, 2010	December 31, 2009
	(In thousands)	
OPERATING ACTIVITIES:		
Net loss	$(38,493)	$(7,473)
Adjustments to reconcile net loss to net cash (used for) provided by operating activities:		
Income from discontinued operations	(261)	(266)
Depreciation and amortization	8,257	9,231
Deferred income taxes and related valuation allowance	39,846	(4,054)
Gain on sale of real estate/investments	(991)	(1,994)
Stock-based compensation	1,347	1,527
Amortization of deferred financing costs	208	460
Non-cash restructuring charges	-	950
Changes in operating assets and liabilities net of effects of business acquisitions and divestitures:		
Trade accounts receivable	514	15,672
Inventories	(18,251)	15,721
Prepaid expenses	(2,836)	1,510
Other assets	268	410
Trade accounts payable	(1,363)	(10,783)
Accrued and non-current liabilities	(5,254)	(3,769)
Net cash (used for) provided by operating activities	(17,009)	17,142
INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	8,316	3,246
Purchases of marketable securities	(1,830)	(3,171)
Capital expenditures	(8,859)	(5,916)
Proceeds from sale of businesses or assets	1,182	3,380
Net cash used for investing activities from continuing operations	(1,191)	(2,461)
Net cash provided by investing activities from discontinued operations	261	266
Net cash used for investing activities	(930)	(2,195)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	4	201
Net payments under revolving line-of-credit agreements	(290)	(3,784)
Repayment of debt	(835)	(392)
Other	334	158
Net cash used for financing activities	(787)	(3,817)
Effect of exchange rate changes on cash	848	668
Net change in cash and cash equivalents	(17,878)	11,798
Cash and cash equivalents at beginning of period	63,968	39,236
Cash and cash equivalents at end of period	$46,090	$51,034

See accompanying notes to condensed consolidated financial statements.

Index

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

	Three Months Ended		Nine Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	(In thousands)			
Net loss	$(39,639)	$(2,344)	$(38,493)	$(7,473)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(193)	(863)	1,122	7,047
Change in derivatives qualifying as hedges, net of deferred tax expense (benefit) of $17, $(21), $154 and $(21)	32	(35)	286	(35)
Unrealized (loss) gain on investments:				
Unrealized holding (loss) gain arising during the period, net of deferred tax (benefit) expense of $0, $(72), $0 and $1,135	(331)	(133)	413	2,108
Reclassification adjustment for loss (gain) included in net loss, net of deferred tax expense (benefit) of $48, $(32), $161 and $(32)	90	(60)	299	(59)
	(241)	(193)	712	2,049
Total other comprehensive (loss) income	(402)	(1,091)	2,120	9,061
Comprehensive (loss) income	$(40,041)	$(3,435)	$(36,373)	$1,588

See accompanying notes to condensed consolidated financial statements.

Index

COLUMBUS McKINNON CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
December 31, 2010

1. Description of Business

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of Columbus McKinnon Corporation (the Company) at December 31, 2010, the results of its operations for the three and nine-month periods ended December 31, 2010 and December 31, 2009, and cash flows for the nine months ended December 31, 2010 and December 31, 2009, have been included. Results for the period ended December 31, 2010 are not necessarily indicative of the results that may be expected for the year ending March 31, 2011. The balance sheet at March 31, 2010 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Columbus McKinnon Corporation annual report on Form 10-K for the year ended March 31, 2010.

The Company is a leading designer, marketer and manufacturer of material handling products, systems and services which efficiently and ergonomically move, lift, position and secure material. Key products include hoists, cranes, rigging tools including chain and forged attachments, and actuators. The Company's material handling products are sold globally, principally to third party distributors through diverse distribution channels, and to a lesser extent directly to end-users.

2. Divestitures

Income from discontinued operations presented herein includes payments received on a note receivable related to the Company's fiscal 2002 disposal of Automatic Systems, Inc. Due to the uncertainty surrounding the financial viability of the debtor, the note has been recorded at the estimated net realizable value of $0.

During fiscal 2010, as part of the continuing strategic evaluation of its businesses, the Company determined that its American Lifts business no longer provided a strategic fit with its long-term growth and operational objectives. The American Lifts business manufactured powered lift tables which enhance workplace ergonomics and were sold primarily to customers in the general manufacturing, construction, and air cargo industries. On October 30, 2009, the Company sold this business to a strategic buyer for $2,400,000 in cash. American Lifts has not been treated as a discontinued operation as its results from operations were immaterial to the overall financial results of the Company.

3. Fair Value Measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820 "Fair Value Measurements and Disclosures" establishes the standards for reporting financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

ASC Topic 820-10-35-37 establishes a hierarchy for inputs that may be used to measure fair value. Level 1 is defined as quoted prices in active markets that the Company has the ability to access for identical assets or liabilities. The fair value of the Company’s marketable securities is based on Level 1 inputs. Level 2 is defined as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 3 inputs are unobservable inputs based on the Company’s own assumptions used to measure assets and liabilities at fair value. The Company primarily uses readily observable market data in conjunction with internally developed discounted cash flow valuation models when valuing its derivative portfolio and, consequently, the fair value of the Company’s derivatives is based on Level 2 inputs. As of December 31, 2010, the Company’s assets and liabilities measured at fair value on recurring bases were as follows (in thousands):

Index

Description	At December 31, 2010	Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets/(Liabilities):				
Marketable securities	$ 23,924	$ 23,924	$ -	$ -
Derivative liabilities	(807)	-	(807)	-

Assets that are measured on a nonrecurring basis include the Company's reporting units that are used to test goodwill for impairment on an annual or interim basis under the provisions of ASC Topic 350-20-35-1 "Intangibles, Goodwill and Other – Goodwill Subsequent Measurement," as well as property, plant and equipment in circumstances when the Company determines that those assets are impaired under the provisions of ASC Topic 360-10-35-17 "Property Plant and Equipment – Subsequent Measurement" and the measurement of termination benefits in connection with the Company's restructuring plan under the provisions of ASC Topic 420 "Exit or Disposal Cost Obligations." There were no assets or liabilities measured at fair value on a nonrecurring basis during the quarter ended December 31, 2010.

Fair Values of Defined Benefit Plan Assets

The Company holds fixed income securities within the assets of its defined benefit plans. The fair values of these assets were determined using the fair value hierarchy of inputs described above. These fixed income securities consist primarily of insurance contracts which are carried at their liquidation value based on actuarial calculations and the terms of the contracts. A summary of changes in Level 3 fixed income securities within those defined benefit plans during the three and nine months ended December 31, 2010 is as follows (in thousands):

Three months ended December 31, 2010	
Balance at October 1, 2010	$ 15,824
Return on investment	203
Disbursements, settlements, and transfers, net	(66)
Balance at December 31, 2010	$ 15,961
Nine months ended December 31, 2010	
Balance at April 1, 2010	$ 15,663
Return on investment	600
Disbursements, settlements, and transfers, net	(302)
Balance at December 31, 2010	$ 15,961

Index

4. Inventories

Inventories consisted of the following:

	December 31, 2010	March 31, 2010
At cost - FIFO basis:		
Raw materials	$ 49,377	$ 42,340
Work-in-process	15,717	10,774
Finished goods	51,214	44,585
	116,308	97,699
LIFO cost less than FIFO cost	(18,157)	(17,877)
Net inventories	$ 98,151	$ 79,822

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

5. Marketable Securities

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

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

In accordance with ASC Topic 320-10-35-30 "Investments – Debt & Equity Securities – Subsequent Measurement," the Company reviews its marketable securities for declines in market value that may be considered other-than-temporary. The Company generally considers market value declines to be other-than-temporary if there are declines for a period longer than six months and in excess of 20% of original cost, or when other evidence indicates impairment. There were no other-than-temporary impairments for the three and nine months ended December 31, 2010 or December 31, 2009.

The following is a summary of available-for-sale securities at December 31, 2010 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	$ 21,341	$ 2,707	$ 124	$ 23,924

Index

The aggregate fair value of investments and unrealized losses on available-for-sale securities in an unrealized loss position at December 31, 2010 are as follows:

	Aggregate Fair Value	Unrealized Losses
Securities in a continuous loss position for less than 12 months	$4,276	$112
Securities in a continuous loss position for more than 12 months	229	12
	$4,505	$124

Net realized gains related to sales of marketable securities were $90, $60, $298 and $59 in the three-month and nine-month periods ended December 31, 2010 and December 31, 2009, respectively.

The following is a summary of available-for-sale securities at March 31, 2010:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	$26,771	$2,667	$39	$29,399

6. Goodwill and Intangible Assets

Goodwill is not amortized but is periodically tested for impairment, in accordance with the provisions of ASC Topic 350-20-35-1. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The fair value of a reporting unit is determined using a discounted cash flow methodology. The Company’s reporting units are determined based upon whether discrete financial information is available and regularly reviewed, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. The Company’s reporting units identified under ASC Topic 350-20-35-33 are at the component level, or one level below the reporting segment level as defined under ASC Topic 280-10-50-10 “Segment Reporting – Disclosure.” The Company has four reporting units. Only two of the four reporting units carry goodwill at December 31, 2010 and March 31, 2010.

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

No impairment charges related to goodwill or intangible assets were recorded during the three and nine months ended December 31, 2010 or 2009. However, future impairment indicators, such as declines in forecasted cash flows, may cause the need for interim impairment tests which may result in additional significant impairment charges. Impairment indicators could be based on the Company’s stock price, forecasted cash flows, assumptions used, control premiums or other variables.

A summary of changes in goodwill during the nine months ended December 31, 2010 is as follows (in thousands):

Balance at April 1, 2010	$105,134
Currency translation	(244)

Balance at December 31, 2010	$104,890

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

Index

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

	December 31, 2010			March 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademark	$5,802	$ 715	$5,087	$5,856	$ 481	$5,375
Customer relationships	14,353	2,966	11,387	14,487	1,996	12,491
Other	1,383	309	1,074	1,358	193	1,165
Total	$21,538	$ 3,990	$17,548	$21,701	$ 2,670	$19,031

Based on the current amount of identifiable intangible assets, the estimated amortization expense for each of the fiscal years 2011 through 2015 is expected to be approximately $1,700,000.

7. Derivative Instruments

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

The Company has foreign currency forward agreements and a cross-currency swap in place to offset changes in the value of intercompany loans to certain foreign subsidiaries due to changes in foreign exchange rates. The notional amount of these derivatives is $15,132,000 and all contracts mature by September 30, 2013. These contracts are not designated as hedges.

The Company has foreign currency forward agreements in place to hedge changes in the value of booked foreign currency liabilities due to changes in foreign exchange rates at the settlement date. The notional amount of those derivatives is $2,066,000 and all contracts mature within twelve months. These contracts are marked to market each balance sheet date and are not designated as hedges.

The Company has foreign currency forward agreements that are designated as cash flow hedges to hedge a portion of forecasted inventory purchases denominated in a foreign currency. The notional amount of those derivates is $10,230,000 and all contracts mature within sixteen months of December 31, 2010.

The Company is exposed to credit losses in the event of non performance by the counterparties on its financial instruments. All counterparties have investment grade credit ratings. The Company anticipates that these counterparties will be able to fully satisfy their obligations under the contracts.

Index

The following is the pretax effect of derivative instruments on the condensed consolidated statement of operations for the nine months ended December 31, 2010 (in thousands):

Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Reclassified from AOCL into Income (Effective Portion)
Foreign exchange contracts	$283	Cost of products sold	$(3)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives
Foreign exchange contracts	Foreign currency exchange gain (loss)	$483

As of December 31, 2010, the Company had no derivatives designated as net investments or fair value hedges in accordance with ASC Topic 815, “Derivatives and Hedging.”

The following is information relative to the Company’s derivative instruments in the condensed consolidated balance sheet as of December 31, 2010 (in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value of Asset (Liability)
Foreign exchange contracts	Other Assets	$173
Foreign exchange contracts	Accrued Liabilities	$(630)

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value of Asset (Liability)
Foreign exchange contracts	Other Assets	$64
Foreign exchange contracts	Accrued Liabilities	$(414)

8. Debt

The Company entered into an amended, restated and expanded revolving credit facility dated December 31, 2009. The new Revolving Credit Facility provides availability up to a maximum of $85,000,000 and has an initial term ending May 1, 2013, which can be extended to December 31, 2013.

Provided there is no default, the Company may, on a one-time basis, request an increase in the availability of the Revolving Credit Facility by an amount not exceeding $65,000,000, subject to lender approval. The unused portion of the Revolving Credit Facility totaled $70,573,000 net of outstanding borrowings of $0 and outstanding letters of credit of $14,427,000 as of December 31, 2010. Interest on the revolver is payable at varying Eurodollar rates based on LIBOR or prime plus a spread determined by the Company’s total leverage ratio amounting to 325 or 225 basis points, respectively, based on the Company’s leverage ratio at December 31, 2010. The Revolving Credit Facility is secured by all domestic inventory, receivables, equipment, real property, subsidiary stock (limited to 65% of foreign subsidiaries) and intellectual property.

The corresponding credit agreement associated with the Revolving Credit Facility places certain debt covenant restrictions on the Company, including certain financial requirements and restrictions on dividend payments, with which the Company was in compliance as of December 31, 2010. Key financial covenants include a minimum fixed charge coverage ratio of 1.25x, a maximum total leverage ratio, net of cash, of 4.00x and 3.75x for the quarters ending December 31, 2010 and March 31, 2011 respectively and 3.50x thereafter, and maximum annual capital expenditures of $18,000,000, excluding capital expenditures for a global ERP system.

Index

The Company entered into a second amendment to its Revolving Credit Facility on December 16, 2010 to permit (i) the issuance of up to $175,000,000 of additional unsecured indebtedness upon repayment of the $124,855,000 Senior Subordinated 8 7/8% Notes which are due November 1, 2013 (ii) waive any requirement to apply the proceeds of such notes to reduce the revolving credit facility (iii) adjust the maximum total leverage ratio to 4.00x and 3.75x for the quarters ending December 31, 2010 and March 31, 2011, respectively, and decrease to 3.50x for the quarter ending June 30, 2011 and thereafter (iv) pre-approve a specific, potential acquisition and (v) pre-approve a specific, potential divestiture.

On January 10, 2011 the Company commenced a cash tender offer and consent solicitation for all of its 8 7/8% Notes. The 8 7/8% Notes amounted to $124,855,000 at December 31, 2010 and are due November 1, 2013. The tender offer is scheduled to expire on February 7, 2011. The total consideration paid for each note validly tendered by January 24, 2011 was $1,026 (including a $30 consent payment) per $1,000 principal amount of notes plus accrued and unpaid interest. After January 24, 2011 the tender price reverted to $996 per $1,000.

Cash outlays related to the tender may include $2,616,000 of accrued interest and $3,246,000 tender or redemption premium. In addition the Company will write off unamortized capitalized financing fees of $785,000 related to the 8 7/8% Notes. Expenses related to the tender or redemption premium and write off of unamortized capitalized financing fees will be recorded in the quarter ended March 31, 2011 and are expected to approximate $4,000,000. The Company will fund the tender offer and consent payments, and related costs, with proceeds from a private placement of senior subordinated notes.

New Senior Subordinated 7 7/8% Notes (7 7/8% Notes) were issued on January 25, 2011 in the amount of $150,000,000. The offering price of the notes was 98.545% of par.

Provisions of the 7 7/8% Notes include, without limitation, restrictions on indebtedness, asset sales, and dividends and other restricted payments. Until February 1, 2014, the Company may redeem up to 35% of the outstanding 7 7/8% Notes at a redemption price of 107.875% with the proceeds of equity offerings, subject to certain restrictions. On or after February 1, 2015, the 7 7/8% Notes are redeemable at the option of the Company, in whole or in part, at a redemption price of 103.938%, reducing to 101.969% and 100% on February 1, 2016 and February 1, 2017, respectively and are due February 1, 2019. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 7 7/8% Notes may require the Company to repurchase all or a portion of such holder’s 7 7/8% Notes at a purchase price equal to 101% of the principal amount thereof. The 7 7/8% Notes are guaranteed by certain existing and future U.S. subsidiaries and are not subject to any sinking fund requirements. The notes have not been, and will not be, registered under the Securities Act of 1933.

The Company received net proceeds of approximately $147,817,000 on issuance of the 7 7/8% Notes after deduction of $2,183,000 of original issue discount. In addition, cash outlays related to the offering include $3,075,000 for estimated offering costs which the Company expects to record as capitalized financing fees and amortize to interest expense through the maturity date.

The carrying amount of the Company’s revolving credit facility, notes payable to banks and other senior debt approximate their fair values based on current market rates. The Company’s 8 7/8% Notes, which have a carrying value of $124,855,000 at December 31, 2010, have an approximate fair value of $126,728,000 based on quoted market prices.

The Company’s Notes payable to banks consist primarily of secured and unsecured international lines of credit. The Company’s Senior debt consists primarily of any borrowings under the Company’s Revolving Credit Facility as well as capital lease obligations.

Unsecured and uncommitted lines of credit are available to meet short-term working capital needs for certain of the Company's subsidiaries operating outside of the U.S. The lines of credit are available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between the Company's subsidiaries and the local bank at the time of each specific transaction. As of December 31, 2010, significant unsecured credit lines totalled approximately $4,214,000, of which $517,000 was drawn.

Index

Refer to the Company's consolidated financial statements included in its annual report on Form 10-K for the year ended March 31, 2010 for further information on its debt arrangements.

9. Restructuring Charges

Beginning in fiscal 2010, as part of the business reorganization plan, the Company initiated strategic consolidation of its North American hoist and rigging operations. The process included the closure of two manufacturing facilities and the significant downsizing of a third facility. The closures and downsizing resulted in a reduction of approximately 500,000 square feet of manufacturing space and generation of annual savings estimated at approximately $13,000,000 to $15,000,000. Restructuring charges recorded in the quarter ended December 31, 2010 relate to the continuation of the consolidation of the North American hoist and rigging operations. Charges recorded in the nine months ended December 31, 2010 included a write off of production supplies in the amount of $411,000 and other facility related costs of $1,955,000, offset by a gain in the sale of a closed facility in the amount of $419,000.

Also, in fiscal 2010, the Company consolidated its North American sales force and offered certain of its employees an incentive to voluntarily retire early. Charges recorded in the nine months ended December 31, 2009 consisted of two benefits: a paid leave of absence of $3,826,000 and an enhanced pension benefit of $2,012,000. Restructuring charges recorded in the quarter ended December 31, 2009 included $3,037,000 in expense for severance costs related to salaried and union workforce reductions and $579,000 of other facility related costs. Charges recorded in the nine months ended December 31, 2009 included non-cash fixed asset impairment charges of $950,000, other facility related costs of $724,000, expenses for severance costs related to salaried and union workforce reductions of $4,218,000, and pension plan curtailment charges of $418,000.

Restructuring reserves were $217,000 as of December 31, 2010, consisting primarily of accrued severance costs.

The following provides a reconciliation of the activity related to restructuring reserves (in thousands):

Reserve at April 1, 2010	$ 2,755
Restructuring charges	1,947
Cash payments	(4,074)
Write-off of production supplies	(411)
Reserve at December 31, 2010	$ 217

10. Net Periodic Benefit Cost

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

	Three months ended		Nine months ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Service costs	$986	$983	$2,957	$2,948
Interest cost	2,492	2,432	7,476	7,294
Expected return on plan assets	(2,470)	(1,717)	(7,408)	(5,150)
Net amortization	912	1,168	2,736	3,506
Net periodic pension cost	$1,920	$2,866	$5,761	$8,598

Index

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

	Three months ended		Nine months ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Service costs	$-	$-	$-	$1
Interest cost	128	144	383	432
Amortization of plan net losses	86	73	258	218
Net periodic postretirement cost	$214	$217	$641	$651

The Company currently plans to contribute approximately $7,200,000 to its pension plans in fiscal 2011.

For additional information on the Company's defined benefit pension and postretirement benefit plans, refer to Note 12 in the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended March 31, 2010.

11. Income Taxes

Income tax expense (benefit) as a percentage of (loss) income from continuing operations before income tax expense (benefit) was 10,915.8%, (26.8%), 3,840.7% and (23.7%) in the fiscal 2011 and 2010 quarters and the nine months ended December 31, 2010 and December 31, 2009, respectively. Typically these percentages vary from the U.S. statutory rate primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries.

During the third quarter ended December 31, 2010, the Company recorded a non-cash charge of $39,700,000 (or $2.09 per basic and diluted share for the quarter and nine months ended December 31, 2010) included within its provision for income taxes. This charge relates to the Company's determination that a full valuation allowance against its deferred tax assets generated in the U.S. is necessary. The deferred tax assets relate principally to liabilities related to employee benefit plans and insurance reserves and U.S. net operating loss carryforwards. The U.S. net operating loss carryforwards have been generated primarily as a result of restructuring costs in fiscal years 2010 and 2011. Accounting rules require a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on the available and objectively verifiable evidence, it is more likely than not that such assets will not be realized. The existence of cumulative losses for a certain threshold period is a significant form of negative evidence used in the assessment. During the third quarter ended December 31, 2010, the Company determined that it would be in a three-year cumulative pretax loss position in the U.S. at March 31, 2011 primarily due to restructuring-related charges incurred in the U.S. to-date in fiscal 2011, despite our expectations of profitability for the remainder of fiscal 2011. If a cumulative loss threshold is met, the accounting rules indicate that forecasts of future profitability are generally not sufficient positive evidence to overcome the presumption that a valuation allowance is necessary.

The unusual relationship of income tax expense (benefit) as a percentage of (loss) income from continuing operations before income taxes is due primarily to the valuation allowance recorded during the period.

Index

12. Earnings Per Share

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

	Three months ended		Nine months ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Numerator for basic and diluted earnings per share:				
Net loss	$(39,639)	$(2,344)	$(38,493)	$(7,473)
Denominators:				
Weighted-average common stock outstanding – denominator for basic EPS	19,082	18,980	19,050	18,952
Effect of dilutive employee stock options and awards	-	-	-	-
Adjusted weighted-average common stock outstanding and assumed conversions – denominator for diluted EPS	$19,082	$18,980	$19,050	$18,952

On July 26, 2010 the Company adopted its 2010 Long Term Incentive Plan (the "Plan"). 1,250,000 shares of the Company's common stock are available under the Plan. The Plan permits the award of stock options, both nonqualified stock options ("NQSOs") and incentive stock options ("ISOs"), SARs, restricted stock, restricted stock units, deferred stock units, performance shares, performance share units, performance units, other stock-based awards, Covered Employee annual incentive awards, and cash-based awards.

During the first nine months of fiscal 2011 and 2010, a total of 4,125 and 32,375 shares of stock were issued upon the exercising of stock options related to the Company's stock option plans. During the fiscal year ended March 31, 2010, 29,800 shares of restricted stock vested and were issued.

For the quarter and nine months ended December 31, 2010 and 2009, 244,302, 218,679, 215,657 and 184,253, respectively, in options, performance shares and restricted stock were not included in the denominator for diluted EPS because their effects were anti-dilutive.

Index

13. Summary Financial Information

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

As of December 31, 2010	Parent	Guarantors	Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 16,057	$ 10	$ 30,023	$ -	$ 46,090
Trade accounts receivable	39,113	38	31,153	-	70,304
Inventories	29,400	21,604	49,247	(2,100)	98,151
Other current assets	(4,741)	497	16,177	600	12,533
Total current assets	79,829	22,149	126,600	(1,500)	227,078
Property, plant, and equipment, net	28,912	12,073	16,688	-	57,673
Goodwill and other intangibles, net	40,963	31,026	50,449	-	122,438
Intercompany	(58,264)	130,256	(72,857)	865	-
Other assets	1,591	2,030	26,528	-	30,149
Investment in subsidiaries	237,476	-	-	(237,476)	-
Total assets	$ 330,507	$ 197,534	$ 147,408	$ (238,111)	$ 437,338
Current liabilities	28,350	16,516	43,058	(635)	87,289
Long-term debt, less current portion	124,855	2,298	2,745	-	129,898
Other non-current liabilities	25,320	8,576	34,273	-	68,169
Total liabilities	178,525	27,390	80,076	(635)	285,356
Shareholders' equity	151,982	170,144	67,332	(237,476)	151,982
Total liabilities and shareholders' equity	$ 330,507	$ 197,534	$ 147,408	$ (238,111)	$ 437,338

17

Index

For the Three months ended December 31, 2010	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Net sales	$45,886	$35,982	$56,635	$ (9,807)	$ 128,696
Cost of products sold	39,543	29,478	39,881	(9,557)	99,345
Gross profit	6,343	6,504	16,754	(250)	29,351
Selling, general and administrative expenses	7,190	6,000	12,609	-	25,799
Restructuring charges	150	-	-	-	150
Amortization of intangibles	29	1	422	-	452
	7,369	6,001	13,031	-	26,401
Income (loss) from operations	(1,026)	503	3,723	(250)	2,950
Interest and debt expense	3,146	61	74	-	3,281
Other (income) and expense, net	156	50	(176)	-	30
Income (loss) before income tax expense	(4,328)	392	3,825	(250)	(361)
Income tax expense (benefit)	38,352	(41)	1,139	(44)	39,406
Equity in income from continuing operations of subsidiaries	2,913	-	-	(2,913)	-
Income (loss) from continuing operations	(39,767)	433	2,686	(3,119)	(39,767)
Income from discontinued operations	128	-	-	-	128
Net income (loss)	$(39,639)	$433	$2,686	$ (3,119)	$ (39,639)

For the Nine months ended December 31, 2010	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Net sales	$145,257	$107,036	$156,204	$ (28,402)	$ 380,095
Cost of products sold	122,603	87,439	109,748	(28,302)	291,488
Gross profit	22,654	19,597	46,456	(100)	88,607
Selling, general and administrative expenses	23,733	16,685	35,656	-	76,074
Restructuring charges	1,910	-	37	-	1,947
Amortization of intangibles	86	2	1,227	-	1,315
	25,729	16,687	36,920	-	79,336
(Loss) income from operations	(3,075)	2,910	9,536	(100)	9,271
Interest and debt expense	8,861	796	228	-	9,885
Other (income) and expense, net	(1,027)	17	(640)	-	(1,650)
(Loss) income before income tax expense	(10,909)	2,097	9,948	(100)	1,036
Income tax (benefit) expense	36,312	714	2,712	52	39,790
Equity in income from continuing operations of subsidiaries	8,467	-	-	(8,467)	-
Income (loss) from continuing operations	(38,754)	1,383	7,236	(8,619)	(38,754)
Gain from discontinued operations	261	-	-	-	261
Net income (loss)	$(38,493)	$1,383	$7,236	$ (8,619)	$ (38,493)

Index

For the Nine months ended December 31, 2010	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating activities:					
Net cash (used) provided by operating activities	$(14,597)	$2,177	$(4,589)	$ -	$ (17,009)
Purchase of marketable securities, net	-	-	6,486	-	6,486
Capital expenditures	(5,723)	(1,414)	(1,722)	-	(8,859)
Proceeds from sale of real estate	1,182	-	-	-	1,182
Net cash (used) provided by investing activities from continuing operations	(4,541)	(1,414)	4,764	-	(1,191)
Net cash provided by investing activities from discontinued operations	261	-	-	-	261
Net cash (used) provided by investing activities	(4,280)	(1,414)	4,764	-	(930)
Financing activities:					
Proceeds from stock options exercised	-	4	-	-	4
Net payments under revolving line-of-credit agreements	-	(154)	(971)	-	(1,125)
Other	1,112	(778)	-	-	334
Net cash provided (used) by financing activities	1,112	(928)	(971)	-	(787)
Effect of exchange rate changes on cash	-	151	697	-	848
Net change in cash and cash equivalents	(17,765)	(14)	(99)	-	(17,878)
Cash and cash equivalents at beginning of period	33,081	24	30,863	-	63,968
Cash and cash equivalents at end of period	$15,316	$10	$30,764	$ -	$ 46,090

Index

As of March 31, 2010	Parent	Guarantors	Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$33,081	$24	$30,863	$ -	$ 63,968
Trade accounts receivable	38,316	64	31,838	-	70,218
Inventories	26,023	16,057	39,742	(2,000)	79,822
Prepaid expenses	3,432	874	11,056	652	16,014
Total current assets	100,852	17,019	113,499	(1,348)	230,022
Property, plant, and equipment, net	27,330	11,998	17,778	-	57,106
Goodwill and other intangibles, net	41,013	31,028	52,124	-	124,165
Intercompany	(79,763)	153,190	(76,594)	3,167	-
Other non-current assets	37,319	1,255	31,630	-	70,204
Investment in subsidiaries	248,915	-	-	(248,915)	-
Total assets	$375,666	$214,490	$138,437	$ (247,096)	$ 481,497
Current liabilities	$38,157	$13,176	$37,833	$ 1,819	$ 90,985
Long-term debt, less current portion	124,855	2,475	3,491	-	130,821
Other non-current liabilities	25,376	9,083	37,954	-	72,413
Total liabilities	188,388	24,734	79,278	1,819	294,219
Shareholders' equity	187,278	189,756	59,159	(248,915)	187,278
Total liabilities and shareholders' equity	$375,666	$214,490	$138,437	$ (247,096)	$ 481,497

For the Three months ended December 31, 2009			Non		
	Parent	Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$48,717	$28,878	$48,800	$ (7,424)	