

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

COLUMBUS MCKINNON CORP  
Form 10-Q  
November 09, 2006

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

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

For the quarterly period ended October 1, 2006

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: 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. :  Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

The number of shares of common stock outstanding as of October 31, 2006 was: 18,762,062 shares.

FORM 10-Q INDEX  
COLUMBUS MCKINNON CORPORATION  
OCTOBER 1, 2006

	PAGE #
	-----
PART I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	
Condensed consolidated balance sheets - October 1, 2006 and March 31, 2006	2
Condensed consolidated statements of operations and retained earnings - Three months and six months ended October 1, 2006 and October 2, 2005	3
Condensed consolidated statements of cash flows - Six months ended October 1, 2006 and October 2, 2005	4
Condensed consolidated statements of comprehensive income - Three months and six months ended October 1, 2006 and October 2, 2005	5
Notes to condensed consolidated financial statements - October 1, 2006	6
Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings - none.	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - none.	24
Item 3. Defaults upon Senior Securities - none.	24
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 5. Other Information - none.	24
Item 6. Exhibits	24

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

COLUMBUS MCKINNON CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

	OCTOBER 1, 2006	MARCH 31, 2006
	-----	-----
	(UNAUDITED)	
	(IN THOUSANDS)	
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 24,177	\$ 45,598
Trade accounts receivable	94,433	95,726
Unbilled revenues	16,832	12,061
Inventories	85,904	74,845
Prepaid expenses	18,216	15,676
	-----	-----
Total current assets	239,562	243,906
Property, plant, and equipment, net	54,542	55,132
Goodwill and other intangibles, net	187,685	187,327
Marketable securities	27,149	27,596
Deferred taxes on income	37,355	46,065
Other assets	5,463	6,018
	-----	-----
Total assets	\$ 551,756	\$ 566,044
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Notes payable to banks	\$ 7,616	\$ 5,798
Trade accounts payable	41,105	39,311
Accrued liabilities	59,344	61,264
Restructuring reserve	421	793
Current portion of long-term debt	215	127
	-----	-----
Total current liabilities	108,701	107,293
Senior debt, less current portion	32,220	67,841
Subordinated debt	136,000	136,000
Other non-current liabilities	50,693	50,489
	-----	-----
Total liabilities	327,614	361,623
	-----	-----
Shareholders' equity		
Common stock	187	185
Additional paid-in capital	173,085	170,081
Retained earnings	65,038	51,152
ESOP debt guarantee	(3,705)	(3,996)
Unearned restricted stock	-	(22)
Accumulated other comprehensive loss	(10,463)	(12,979)
	-----	-----
Total shareholders' equity	224,142	204,421
	-----	-----
Total liabilities and shareholders' equity	\$ 551,756	\$ 566,044
	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

- 2 -

COLUMBUS MCKINNON CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS  
 (UNAUDITED)

	THREE MONTHS ENDED		SIX MO
	OCTOBER 1, 2006 ----	OCTOBER 2, 2005 ----	OCTOBER 1, 2006 ----
	(IN THOUSANDS, EXCEPT PER SHARE D		
Net sales	\$ 144,225	\$ 134,712	\$ 290,919
Cost of products sold	105,208	99,554	209,619
	-----	-----	-----
Gross profit	39,017	35,158	81,300
	-----	-----	-----
Selling expenses	14,739	13,080	30,106
General and administrative expenses	8,540	8,539	17,629
Restructuring charges	(410)	211	(406)
Amortization of intangibles	44	61	87
	-----	-----	-----
	22,913	21,891	47,416
	-----	-----	-----
Income from operations	16,104	13,267	33,884
Interest and debt expense	4,176	6,633	8,688
Other (income) and expense, net	(1,066)	1,864	2,504
	-----	-----	-----
Income before income tax expense	12,994	4,770	22,692
Income tax expense	4,898	1,721	9,163
	-----	-----	-----
Income from continuing operations	8,096	3,049	13,529
Income from discontinued operations (net of tax)	218	214	357
	-----	-----	-----
Net income	8,314	3,263	13,886
Retained earnings (accumulated deficit) - beginning of period	56,724	(1,322)	51,152
	-----	-----	-----
Retained earnings - end of period	\$ 65,038	\$ 1,941	\$ 65,038
	=====	=====	=====
Basic income per share:			
Income from continuing operations	\$ 0.44	\$ 0.21	\$ 0.73
Income from discontinued operations	0.01	0.01	0.02
	-----	-----	-----
Net income	\$ 0.45	\$ 0.22	\$ 0.75
	=====	=====	=====
Diluted income per share:			
Income from continuing operations	\$ 0.43	\$ 0.20	\$ 0.71
Income from discontinued operations	0.01	0.01	0.02

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Net income	\$ 0.44	\$ 0.21	\$ 0.73
	=====	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

- 3 -

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

	SIX MONTHS ENDED	
	OCTOBER 1, 2006	OCTOBER 2005
	----- (IN THOUSANDS) -----	
OPERATING ACTIVITIES:		
Income from continuing operations	\$ 13,529	\$ 10,1
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	4,208	4,6
Deferred income taxes	8,710	1,7
Gain on sale of real estate/investments	(1,170)	(1,5
Loss on early retirement of bonds	3,780	2,4
Stock compensation expense	866	
Amortization/write-off of deferred financing costs	1,148	1,5
Changes in operating assets and liabilities:		
Trade accounts receivable and unbilled revenues	(1,934)	(4
Inventories	(10,532)	(3
Prepaid expenses	(2,521)	(
Other assets	(258)	(2
Trade accounts payable	1,102	4,6
Accrued and non-current liabilities	(1,967)	1,4
Net cash provided by operating activities	----- 14,961 -----	----- 24,1 -----
INVESTING ACTIVITIES:		
Sale of marketable securities, net	777	4
Capital expenditures	(4,336)	(3,7
Proceeds from sale of facilities and surplus real estate	2,051	2,0
Proceeds from discontinued operations note receivable - revised	357	4
Net cash used by investing activities	----- (1,151) -----	----- (7 -----
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock/options exercised	2,051	2,7
Net borrowings (payments) under revolving line-of-credit agreements	1,571	(1,1
Repayment of debt	(39,325)	(126,9

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Proceeds from issuance of long-term debt	-	136,0
Deferred financing costs incurred	(395)	(1,5
Other	291	2
	-----	-----
Net cash (used) provided by financing activities	(35,807)	9,3
EFFECT OF EXCHANGE RATE CHANGES ON CASH	576	2
	-----	-----
Net change in cash and cash equivalents	(21,421)	33,0
Cash and cash equivalents at beginning of period	45,598	9,4
	-----	-----
Cash and cash equivalents at end of period	\$ 24,177	\$ 42,5
	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

- 4 -

COLUMBUS MCKINNON CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED)

	THREE MONTHS ENDED		SIX M
	OCTOBER 1, 2006	OCTOBER 2, 2005	OCTOBER 1, 2006
	----	----	----
	(IN THOUSANDS)		
Net income	\$ 8,314	\$ 3,263	\$ 13,886
	-----	-----	-----
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	306	1,171	2,656
Unrealized gain (loss) on investments:			
Unrealized holding gains arising during the period	536	653	329
Reclassification adjustment for gains included in net income	(153)	(541)	(469)
	-----	-----	-----
	383	112	(140)
	-----	-----	-----
Total other comprehensive income (loss)	689	1,283	2,516
	-----	-----	-----
Comprehensive income	\$ 9,003	\$ 4,546	\$ 16,402
	=====	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

- 5 -

# Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

COLUMBUS MCKINNON CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)  
OCTOBER 1, 2006

## 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 October 1, 2006, and the results of its operations and its cash flows for the three and six-month periods ended October 1, 2006 and October 2, 2005, have been included. Results for the period ended October 1, 2006 are not necessarily indicative of the results that may be expected for the year ended March 31, 2007. The balance sheet at March 31, 2006 has been derived from the audited 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, 2006.

The Company is a leading manufacturer and marketer of material handling products, systems and services which lift, secure, position and move material ergonomically, safely, precisely and efficiently. Key products include hoists, cranes, chain and forged attachments. The Company's material handling products are sold, domestically and internationally, principally to third party distributors through diverse distribution channels, and to a lesser extent directly to manufacturers and other end-users. The Company's integrated material handling solutions businesses deal primarily with end users and sales are concentrated, domestically and internationally (primarily Europe), in the consumer products, manufacturing, warehousing and, to a lesser extent, the steel, construction, automotive and other industrial markets.

## 2. STOCK BASED COMPENSATION

Effective April 1, 2006, the Company adopted SFAS 123(R), "Share-Based Payment," applying the modified prospective method. This Statement requires all equity-based payments to employees, including grants of employee stock options, to be recognized in the statement of earnings based on the grant date fair value of the award. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The adoption of SFAS 123(R) resulted in \$68 and \$866 of non-deductible incentive stock option expense in the quarter and six months ended October 1, 2006, respectively. Stock compensation expense is included in cost of goods sold, selling, and general and administrative expense. The Company uses a straight-line method of attributing the value of stock-based compensation expense, subject to minimum levels of expense, based on vesting.

In November 2005, the FASB issued FSP No. FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP provides an elective alternative simplified method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R) and reported in the Condensed Consolidated Statements of Cash Flows. Companies may take up to one year from the effective date of the FSP to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The Company is

## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

currently in the process of evaluating the alternative methods of calculating the pool of excess tax benefits.

### LONG TERM INCENTIVE PLAN

Effective July 31, 2006, the shareholders of the Company approved the adoption of our Long Term Incentive Plan (LTIP). The total number of shares of common stock with respect to which awards may be granted under the plan is 850,000. The LTIP was designed as an omnibus plan and awards may consist of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, or stock bonuses. A maximum of 600,000 shares may be awarded as restricted stock, restricted stock units, or stock bonuses.

- 6 -

During the first six months of fiscal 2007, a total of 9,390 shares of stock and 7,200 restricted stock units were granted under the LTIP to the Company's non-executive directors as part of their annual compensation. The weighted average fair value grant price of those shares and units was \$19.17.

As of October 1, 2006, there were 833,410 shares available for future grants under the Long Term Incentive Plan.

### STOCK OPTION PLANS

Existing prior to the adoption of the LTIP, the Company maintains two stock option plans, a Non-Qualified Stock Option Plan (Non-Qualified Plan) and an Incentive Stock Option Plan (Incentive Plan). Under the Non-Qualified Plan, options may be granted to officers and other key employees of the Company as well as to non-employee directors and advisors. As of October 1, 2006, no options have been granted to non-employees. Options granted under the Non-Qualified and Incentive Plans become exercisable over a four-year period at the rate of 25% per year commencing one year from the date of grant at an exercise price of not less than 100% of the fair market value of the common stock on the date of grant. Any option granted under the Non-Qualified Plan may be exercised not earlier than one year from the date such option is granted. Any option granted under the Incentive Plan may be exercised not earlier than one year and not later than 10 years from the date such option is granted.

### FAIR VALUE OF STOCK OPTIONS

The fair value of stock options granted was estimated on the date of grant using a Black-Scholes option pricing model. The weighted-average fair value of the options was \$13.30 for options granted during the six months ended October 1, 2006. No options were granted during the six months ended October 2, 2005. The following table provides the weighted-average assumptions used to value stock options granted during the six months ended October 1, 2006:

	SIX MONTHS ENDED OCTOBER 1, 2006 -----
Assumptions:	
Risk-free interest rate.....	5.0 %
Dividend yield--Incentive Plan.....	0.0 %
Volatility factor.....	0.595
Expected life--Incentive Plan.....	5.5 years

To determine expected volatility, the Company uses historical volatility based on daily closing prices of its Common Stock over periods that correlate with the expected terms of the options granted. The risk-free rate is based on the United States Treasury yield curve at the time of grant for the appropriate term of the



## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

options granted. Expected dividends are based on the Company's history and expectation of dividend payouts. The expected term of stock options is based on vesting schedules, expected exercise patterns and contractual terms.

### STOCK OPTION ACTIVITY

The following table summarizes stock option activity related to the Company's previously existing stock option plans for the six months ended October 1, 2006:

	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)
Outstanding at March 31, 2006	1,132,118	\$ 11.28	
Granted	50,000	22.98	
Exercised	(168,468)	11.11	
Cancelled	(27,500)	7.76	
Outstanding at October 1, 2006	986,150	\$ 12.00	6.2
Exercisable at October 1, 2006	588,025	\$ 12.92	4.8

- 7 -

We calculated intrinsic value for those options that had an exercise price lower than the market price of our common shares as of October 1, 2006. The aggregate intrinsic value of outstanding options as of October 1, 2006 is calculated as the difference between the exercise price of the underlying options and the market price of our common shares for the 682,950 options that were in-the-money at that date. The aggregate intrinsic value of exercisable options as of October 1, 2006 is calculated as the difference between the exercise price of the underlying options and the market price of our common shares for the 379,825 exercisable options that were in-the-money at that date. The Company's closing stock price was \$18.03 as of October 1, 2006. The total intrinsic value of stock options exercised during the first six months of fiscal 2007 was \$2,529 (\$2,415 for fiscal 2006). As of October 1, 2006, there are 149,600 options available for future grants under the two stock option plans.

Cash received from option exercises under all share-based payment arrangements for the six months ended October 1, 2006 was \$1,871. Proceeds from the exercise of stock options under stock option plans are credited to common stock at par value and the excess is credited to additional paid-in capital.

As of October 1, 2006, \$1,679 of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 3 years.

### PRO FORMA INFORMATION UNDER SFAS NO. 123 FOR PERIODS PRIOR TO FISCAL 2007

Prior to April 1, 2006, the Company accounted for the stock option plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. No stock-based employee compensation cost was reflected in net

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant and the number of options granted was fixed.

The Company's net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards for the comparable prior year periods is as follows:

	THREE MONTHS ENDED OCTOBER 2, 2005	SIX MONTHS ENDED OCTOBER 2, 2005
Net income, as reported	\$ 3,263	\$ 10,580
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(233)	(570)
Net income, pro forma	\$ 3,030	\$ 10,010
Basic income per share:		
As reported	\$ 0.22	\$ 0.70
Pro forma	\$ 0.20	\$ 0.66
Diluted income per share:		
As reported	\$ 0.21	\$ 0.70
Pro forma	\$ 0.20	\$ 0.66

RESTRICTED STOCK

Also existing prior to the adoption of the LTIP, the Company maintains a Restricted Stock Plan. The Company charges compensation expense and shareholders' equity for the market value of shares ratably over the restricted period. Grantees that remain continuously employed with the Company become vested in their shares five years after the date of the grant. As of October 1, 2006, there were 48,000 shares available for future grants under the Restricted Stock Plan.

During the first six months of Fiscal 2007, no shares of restricted stock were granted. As of October 1, 2006, there are 2,000 shares of restricted stock outstanding with a weighted average fair value grant price of \$16.25.

- 8 -

3. INVENTORIES

Inventories consisted of the following:

	OCTOBER 1, 2006	MARCH 31, 2006
At cost - FIFO basis:		
Raw materials.....	\$ 47,917	\$ 41,134

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Work-in-process.....	13,258	12,199
Finished goods.....	36,866	33,424
	-----	-----
	98,041	86,757
LIFO cost less than FIFO cost.....	(12,137)	(11,912)
	-----	-----
Net inventories.....	\$ 85,904	\$ 74,845
	=====	=====

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 forces beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

4. RESTRUCTURING CHARGES

In the second quarter of fiscal 2006 we completed the sale of a previously closed facility which resulted in the reversal of \$410 of restructuring charges within the Products segment, including \$216 of gain on the sale of a non-operating property that had been written down in previous periods. The liability as of October 2, 2005 consists primarily of environmental remediation costs which were accrued in accordance with SFAS No. 143.

The following table provides a reconciliation of the activity related to restructuring reserves:

	EMPLOYEE	FACILITY
	-----	-----
Reserve at March 31, 2006	\$ 59	\$ 734
Fiscal 2007 first quarter restructuring charges	4	-
Cash payments	(51)	(78)
	-----	-----
Reserve at July 2, 2006	\$ 12	\$ 656
Fiscal 2007 second quarter restructuring charge reversal	-	(410)
Cash payments	(12)	(41)
Gain on sale of a non-operating facility	-	216
	-----	-----
Reserve at October 1, 2006	\$ -	\$ 421
	=====	=====

5. NET PERIODIC BENEFIT COST

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	OCTOBER 1,	OCTOBER 2,	OCTOBER 1,	OCTOBER 2,
	2006	2005	2006	2005
	----	----	----	----
Service costs.....	\$ 1,049	\$ 1,088	\$ 2,098	\$ 3,757
Interest cost.....	1,878	1,737	3,757	

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Expected return on plan assets...	(1,830)	(1,654)	(3,661)	(
Net amortization.....	623	508	1,246	
	-----	-----	-----	-----
Net periodic pension cost.....	\$ 1,720	\$ 1,679	\$ 3,440	\$
	=====	=====	=====	=====

- 9 -

For additional information on the Company's defined benefit pension plans, refer to Note 11 in the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 2006.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	OCTOBER 1, 2006	OCTOBER 2, 2005	OCTOBER 1, 2006	OCTOBER 2005
	----	----	----	----
Service costs.....	\$ 1	\$ 4	\$ 3	\$ 8
Interest cost .....	161	188	322	376
Amortization of plan net losses....	100	101	200	202
	-----	-----	-----	-----
Net periodic postretirement cost...	\$ 262	\$ 293	\$ 525	\$ 586
	=====	=====	=====	=====

For additional information on the Company's defined benefit postretirement benefit plans, refer to Note 13 in the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 2006.

6. INCOME TAXES

Income tax expense as a percentage of income from continuing operations before income tax expense was 37.7%, 36.1%, 40.4%, and 24.6% in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively. The six month fiscal 2007 percentage varies from the U.S. statutory rate due to \$866 of non-deductible stock option expense in the period. The six month fiscal 2006 percentage varies from the U.S. statutory rate due to the utilization of domestic net operating loss carry-forwards that had been fully reserved. Therefore, income tax expense primarily resulted from non-U.S. taxable income and state taxes on U.S. taxable income. The effective income tax rate in the second quarter of fiscal 2006 reflects the \$3,330 loss on early extinguishment of debt which reduced U.S. taxable income, but did not affect our tax expense due to the existence of fully reserved U.S. Federal net operating loss carry-forwards. During the fourth quarter of fiscal 2006, as a result of the improved operating performance of the Company over the past several years, the Company reevaluated the certainty as to whether the Company's remaining net operating loss carryforwards and other deferred tax assets may ultimately be realized. As a result of the determination that it is more likely than not that nearly all of the remaining deferred tax assets will be realized, a significant portion of the remaining valuation allowance was reversed as of March 31, 2006. As of October 1, 2006, the Company had U.S. federal net operating loss carry-forwards of approximately \$61,500.

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

7. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	THREE MONTHS ENDED		SIX MONTHS
	OCTOBER 1, 2006	OCTOBER 2, 2005	OCTOBER 1, 2006
Numerator for basic and diluted earnings per share:			
Net income	\$ 8,314 =====	\$ 3,263 =====	\$ 13,886 =====
Denominators:			
Weighted-average common stock outstanding - denominator for basic EPS	18,500	14,845	18,465
Effect of dilutive employee stock options and awards	373 -----	586 -----	452 -----
Adjusted weighted-average common stock outstanding and assumed conversions - denominator for diluted EPS	18,873 =====	15,431 =====	18,917 =====

- 10 -

During the third quarter of fiscal 2006, the Company registered an additional 3,350,000 shares of its common stock which were sold at \$20.00 per share. The number of shares offered by the Company was 3,000,000 and 350,000 were offered by a selling shareholder. The Company did not receive any proceeds from the sale of shares by the selling shareholder.

8. BUSINESS SEGMENT INFORMATION

As a result of the way the Company manages the business, its reportable segments are strategic business units that offer products with different characteristics. The most defining characteristic is the extent of customized engineering required on a per-order basis. In addition, the segments serve different customer bases through differing methods of distribution. The Company has two reportable segments: Products and Solutions. The Company's Products segment sells hoists, industrial cranes, chain, attachments, and other material handling products principally to third party distributors through diverse distribution channels, and to a lesser extent directly to end-users. The Solutions segment sells engineered material handling systems such as conveyors and lift tables primarily to end-users in the consumer products, manufacturing, warehousing, and, to a lesser extent, the steel, construction, automotive, and other industrial markets. Intersegment sales are not significant. The Company evaluates performance based on operating income of the respective business units.

Segment information as of and for the six months ended October 1, 2006 and October 2, 2005, is as follows:

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

SIX MONTHS ENDED OCTOBER 1, 2006

	PRODUCTS	SOLUTIONS	TOTAL
Sales to external customers.....	\$ 257,176	\$ 33,743	\$ 290,919
Income from operations.....	33,848	36	33,884
Depreciation and amortization.....	3,775	433	4,208
Total assets.....	513,364	38,392	551,756

SIX MONTHS ENDED OCTOBER 2, 2005

	PRODUCTS	SOLUTIONS	TOTAL
Sales to external customers.....	\$ 244,555	\$ 31,034	\$ 275,589
Income from operations.....	26,820	1,069	27,889
Depreciation and amortization.....	4,059	592	4,651
Total assets.....	477,646	31,122	508,768

- 11 -

9. SUMMARY FINANCIAL INFORMATION

The following information sets forth the condensed consolidating summary financial information of the parent and guarantors, which guarantee the 10% Senior Secured Notes and the 8 7/8% Senior Subordinated Notes, and the nonguarantors. The guarantors are wholly owned and the guarantees are full, unconditional, joint and several.

	Parent	Guarantors	Nonguarantors	Elim
AS OF OCTOBER 1, 2006				
Current assets:				
Cash and cash equivalents	\$ 971	\$ (1,551)	\$ 24,757	\$
Trade accounts receivable and unbilled revenues	60,249	224	50,792	
Inventories	39,572	21,417	27,430	
Other current assets	4,978	1,427	11,811	
Total current assets	105,770	21,517	114,790	
Property, plant, and equipment, net	23,146	11,640	19,756	
Goodwill and other intangibles, net	89,818	58,035	39,832	
Intercompany	85,704	(86,369)	(73,751)	
Other assets	87,276	197,328	25,499	
Total assets	\$ 391,714	\$ 202,151	\$ 126,126	\$
Current liabilities				
Long-term debt, less current portion	\$ 43,177	\$ 18,787	\$ 47,407	\$
Other non-current liabilities	164,836	-	3,384	
	15,778	8,682	26,233	

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Total liabilities	223,791	27,469	77,024	
Shareholders' equity	167,923	174,682	49,102	
Total liabilities and shareholders' equity	\$ 391,714	\$ 202,151	\$ 126,126	\$

FOR THE SIX MONTHS ENDED OCTOBER 1, 2006

Net sales	\$ 141,257	\$ 85,164	\$ 89,388	\$
Cost of products sold	104,169	63,432	66,758	
Gross profit	37,088	21,732	22,630	
Selling, general and administrative expenses	21,477	8,470	17,788	
Restructuring charges	(406)	-	-	
Amortization of intangibles	52	1	34	
Income (loss) from operations	15,965	13,261	4,808	
Interest and debt expense	6,572	1,968	148	
Other (income) and expense, net	4,221	(406)	(1,311)	
Income (loss) before income tax expense	5,172	11,699	5,971	
Income tax expense	2,246	4,653	2,264	
Income (loss) from continuing operations	2,926	7,046	3,707	
Income from discontinued operations	357	-	-	
Net income (loss)	\$ 3,283	\$ 7,046	\$ 3,707	\$

- 12 -

	Parent	Guarantors	Nonguarantors	Elim
FOR THE SIX MONTHS ENDED OCTOBER 1, 2006				
OPERATING ACTIVITIES:				
Net cash provided by operating activities	\$ 14,203	\$ 171	\$ 587	\$
INVESTING ACTIVITIES:				
Sale of marketable securities, net	-	-	777	
Capital expenditures	(2,394)	(588)	(1,354)	
Proceeds from sale of facilities and surplus real estate	1,655	396	-	
Proceeds from discontinued operations note receivable - revised	357	-	-	
Net cash used by investing activities	(382)	(192)	(577)	
FINANCING ACTIVITIES:				
Proceeds from stock options exercised	2,051	-	-	
Net borrowings under revolving				

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

line-of-credit agreements	-	-	1,571
(Repayment) borrowings of debt	(42,328)	-	3,003
Deferred financing costs incurred	(395)	-	-
Other	291	-	-
-----			
Net cash (used) provided by financing activities	(40,381)	-	4,574
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	(69)	645
-----			
Net change in cash and cash equivalents	(26,560)	(90)	5,229
Cash and cash equivalents at beginning of period	27,531	(1,461)	19,528
-----			
Cash and cash equivalents at end of period	\$ 971	\$ (1,551)	\$ 24,757
=====			

AS OF MARCH 31, 2006

Current assets:

Cash and cash equivalents	\$ 27,531	\$ (1,461)	\$ 19,528	\$
Trade accounts receivable and unbilled revenues	60,808	157	46,822	
Inventories	32,708	18,177	26,325	
Other current assets	4,777	1,446	8,903	
-----				

Total current assets	125,824	18,319	101,578	
Property, plant, and equipment, net	24,651	11,703	18,778	
Goodwill and other intangibles, net	89,808	58,036	39,483	
Intercompany	92,325	(93,637)	(73,697)	
Other assets	96,548	197,328	25,939	
-----				

Total assets	\$ 429,156	\$ 191,749	\$112,081	\$ (
=====				

Current liabilities	\$ 48,146	\$ 15,368	\$ 43,306	\$
Long-term debt, less current portion	203,384	-	457	
Other non-current liabilities	16,305	8,676	25,508	
-----				

Total liabilities	267,835	24,044	69,271	
-----				

Shareholders' equity	161,321	167,705	42,810	(
-----				

Total liabilities and shareholders' equity	\$ 429,156	\$ 191,749	\$112,081	\$ (
=====				

- 13 -

	Parent	Guarantors	Nonguarantors	Elim
-----				
FOR THE SIX MONTHS ENDED OCTOBER 2, 2005				
Net sales	\$ 133,203	\$ 74,059	\$ 80,228	\$
Cost of products sold	99,422	55,921	59,041	
-----				
Gross profit	33,781	18,138	21,187	
Selling, general and administrative expenses	20,193	8,014	15,245	
Restructuring charges	159	-	78	
Amortization of intangibles	88	1	34	
-----				
	20,440	8,015	15,357	



Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Income (loss) from operations	13,341	10,123	5,830
Interest and debt expense	10,929	2,254	166
Other (income) and expense, net	2,904	28	(1,857)
(Loss) income before income tax expense	(492)	7,841	7,521
Income tax expense	349	683	2,276
(Loss) income from continuing operations	(841)	7,158	5,245
Income from discontinued operations	428	-	-
Net (loss) income	\$ (413)	\$ 7,158	\$ 5,245

FOR THE SIX MONTHS ENDED OCTOBER 2, 2005  
OPERATING ACTIVITIES:

Net cash provided by operating activities	\$ 7,543	\$ 8,507	\$ 8,112
---	----------	----------	----------

INVESTING ACTIVITIES:

Sale of marketable securities, net	-	-	475
Capital expenditures	(2,030)	(644)	(1,087)
Proceeds from sale of facilities and surplus real estate	-	468	1,623
Proceeds from discontinued operations note receivable - revised	428	-	-
Net cash (used) provided by investing activities	(1,602)	(176)	1,011

FINANCING ACTIVITIES:

Proceeds from stock options exercised	2,729	-	-
Net borrowings (payments) under revolving line-of-credit agreements	240	-	(1,350)
Repayment of debt	(126,831)	-	(122)
Proceeds from issuance of long-term debt	136,000	-	-
Deferred financing costs incurred	(1,566)	-	-
Dividends paid	8,854	(8,854)	-
Other	294	-	-

Net cash provided (used) by financing activities	19,720	(8,854)	(1,472)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(257)	11	513

Net change in cash and cash equivalents	25,404	(512)	8,164
Cash and cash equivalents at beginning of period	1,019	(697)	9,157

Cash and cash equivalents at end of period	\$ 26,423	\$ (1,209)	\$ 17,321
--	-----------	------------	-----------

- 14 -

10. LOSS CONTINGENCIES

Like many industrial manufacturers, the Company is involved in asbestos-related litigation. In continually evaluating costs relating to its estimated asbestos-related liability, the Company reviews, among other things, the incidence of past and recent claims, the historical case dismissal rate, the mix

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

of the claimed illnesses and occupations of the plaintiffs, its recent and historical resolution of the cases, the number of cases pending against it, the status and results of broad-based settlement discussions, and the number of years such activity might continue. Based on this review, the Company has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate is highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that can affect the range of the liability. The Company will continue to study the variables in light of additional information in order to identify trends that may become evident and to assess their impact on the range of liability that is probable and estimable.

Based on actuarial information, the Company has estimated its asbestos-related aggregate liability through March 31, 2032 and March 31, 2083 to range between \$4,600 and \$22,800 using actuarial parameters of continued claims for a period of 25 to 76 years. The Company's estimation of its asbestos-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles, is through March 31, 2032 and ranges from \$7,000 to \$8,000 as of October 1, 2006. The range of probable and estimable liability reflects uncertainty in the number of future claims that will be filed and the cost to resolve those claims, which may be influenced by a number of factors, including the outcome of the ongoing broad-based settlement negotiations, defensive strategies, and the cost to resolve claims outside the broad-based settlement program. Based on the underlying actuarial information, the Company has reflected \$7,500 as a liability in the consolidated financial statements in accordance with U.S. generally accepted accounting principles. The recorded liability does not consider the impact of any potential favorable federal legislation such as the "FAIR Act". Of this amount, management expects to incur asbestos liability payments of approximately \$300 over the next 12 months. Because payment of the liability is likely to extend over many years, management believes that the potential additional costs for claims will not have a material after-tax effect on the financial condition of the Company or its liquidity, although the net after-tax effect of any future liabilities recorded could be material to earnings in a future period.

11. OTHER (INCOME) AND EXPENSE, NET

The following table sets forth the components of other (income) and expense, net:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	OCTOBER 1, 2006	OCTOBER 2, 2005	OCTOBER 1, 2006	OCTOBER 2, 2005
	----	----	----	----
Cost of bond redemptions.....	\$ -	\$ 3,341	\$ 4,583	\$ 3,341
Investment income .....	(312)	(690)	(786)	(1,376)
Interest income.....	(203)	(223)	(605)	(605)
Gain on sale of real estate.....	(396)	(469)	(396)	(469)
Other.....	(155)	(95)	(292)	(95)
	-----	-----	-----	-----
Total other (income) and expense, net..	\$ (1,066)	\$ 1,864	\$ 2,504	\$ 1,864
	=====	=====	=====	=====

12. NEW ACCOUNTING STANDARDS

In June 2006, the Financial Accounting Standards Board (FASB) issued

## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes". FIN 48 is an interpretation of FASB Statement No. 109 "Accounting for Income Taxes" and must be adopted by the Company no later than April 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that the company has taken or expects to take in its tax returns. The Company is assessing the impact the adoption of FIN 48 will have on the Company's consolidated financial position and results of operations.

- 15 -

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007. The Company is assessing the impact the adoption of SFAS No. 157 will have on the Company's consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS 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). Among other items, SFAS 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS 158 is effective as of the end of the fiscal year ending after December 15, 2006. The Company is assessing the impact the adoption of SFAS No. 158 will have on the Company's consolidated financial position and results of operations.

- 16 -

Item 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
RESULTS OF OPERATIONS AND FINANCIAL CONDITION  
(DOLLAR AMOUNTS IN THOUSANDS)**

### EXECUTIVE OVERVIEW

We are a leading manufacturer and marketer of hoists, cranes, chain, conveyors, material handling systems, lift tables and component parts serving a wide variety of commercial and industrial end-user markets. Our products are used to efficiently and ergonomically move, lift, position or secure objects and loads. Our Products segment sells a wide variety of powered and manually operated wire rope and chain hoists, industrial crane systems, chain, hooks and attachments, actuators and rotary unions. Our Solutions segment designs, manufactures, and installs application-specific or standard material handling systems and solutions for end-users to improve work station and facility-wide work flow.

Founded in 1875, we have grown to our current size and leadership position through organic growth and the acquisition of 14 businesses between February 1994 and April 1999. We have developed our leading market position over our

## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

131-year history by emphasizing technological innovation, manufacturing excellence and superior after-sale service. In addition, the acquisitions significantly broadened our product lines and services and expanded our geographic reach, end-user markets and customer base. Ongoing integration of these businesses includes improving our productivity and extending our sales activities to the European and Asian marketplaces. We are executing those initiatives through our Lean Manufacturing efforts, new product development and expanded sales activities. Shareholder value will be enhanced through continued emphasis on improvement of the fundamentals including manufacturing efficiency, cost containment, efficient capital investment, market expansion and renewed customer focus.

We maintain a strong domestic market share with significant leading North American market positions in hoists, lifting and sling chain, and forged attachments. To broaden our product offering in markets where we have a strong competitive position as well as to facilitate penetration into new geographic markets, we have heightened our new product development activities. This includes the recent introduction of powered hoist lines in accordance with international standards, to complement our current offering of hoist products designed in accordance with U.S. standards. To further expand our global sales, we are introducing certain of our products that historically have been distributed only in North America and also introducing new products through our existing European distribution network. Furthermore, we are working to build a distribution network in China to capture an anticipated growing demand for material handling products as that economy continues to industrialize. We have recently reorganized our management team to align with these strategic initiatives. These investments in international markets and new products are part of our focus on our greatest opportunities for growth. Our overall order growth rate of approximately 9% for the first six months of fiscal 2007 compared to fiscal 2006 was a combination of increasing domestic organic sales growth and increasing global sales as a result of our expanding presence in emerging and existing international markets. Management monitors U.S. Industrial Capacity Utilization, which has been increasing since July 2003, as an indicator of anticipated demand for our product. In addition, we continue to monitor the potential impact of other global and domestic trends, including energy costs, steel price fluctuations, interest rates and activity in a variety of end-user markets around the globe.

Our Lean Manufacturing efforts continue to fundamentally change our manufacturing processes to be more responsive to customer demand and improve on-time delivery and productivity. From 2001 to 2004 under our facility rationalization program, we closed 13 facilities and consolidated several product lines, with potential opportunity for further rationalization. These activities are driving our operating leverage. In furtherance of our facility rationalization projects, we completed the sale of several excess properties during fiscal 2006 and the first six months of fiscal 2007, generating \$4,100 from real estate sales which has been, and will continue to be used to repay our outstanding debt.

We keep a close watch on the costs for fringe benefits such as health insurance, workers compensation insurance and pension. Combined, those benefits cost us over \$35,000 in fiscal 2006 and we work diligently to balance cost control with the need to provide competitive employee benefits packages for our associates. Another cost area of focus is steel. We utilize approximately \$40,000 to \$45,000 of steel annually in a variety of forms including rod, wire, bar, structural and others. With increases in worldwide demand for steel and fluctuating scrap steel prices, we experienced fluctuations in our costs that we reflected as price increases to our customers. We will continue to monitor our costs and reevaluate

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

our pricing policies. We continue to operate in a highly competitive business environment in the markets and geographies served. Our performance will be impacted by our ability to address a variety of challenges and opportunities in those markets and geographies, including trends towards increased utilization of the global labor force and the expansion of market opportunities in Asia and other emerging markets.

RESULTS OF OPERATIONS

THREE MONTHS AND SIX MONTHS ENDED OCTOBER 1, 2006 AND OCTOBER 2, 2005

Net sales in the fiscal 2007 quarter ended October 1, 2006 were \$144,225, up \$9,513 or 7.1% from the fiscal 2006 quarter ended October 2, 2005. Net sales for the six months ended October 1, 2006 were \$290,919, an increase of \$15,330 or 5.6% from the six months ended October 2, 2005. Sales in the Products segment increased by \$8,363 or 6.9% from the previous year's quarter and \$12,621 or 5.2% from the previous year's six-month period then ended. These increases are due to the continued strength of the U.S. and European industrial markets, as well as the impact of price increases of \$1,100 and \$3,400 in the quarter and six months ended October 1, 2006, respectively. Translation of foreign currencies, particularly the Euro and Canadian dollar, into U.S. dollars contributed \$1,200 and \$2,300 toward the Products segment increase in sales for the quarter and six-month period ended October 1, 2006, respectively. Sales in the Solutions segment increased 8.2% or \$1,150 for the quarter and 8.7% or \$2,709 for the six months ended October 1, 2006 when compared with the same periods in the prior year. The increase in this segment is due to increased volume at our tire shredder division and in our European conveyor business. Translation of foreign currencies into U.S. dollars contributed \$300 and \$100 toward the Solutions segment increase in sales for the quarter and six-months ended October 1, 2006. Sales in the segments are summarized as follows:

	THREE MONTHS ENDED				SIX MONTHS ENDED		
	OCT. 1, 2006	OCT. 2, 2005	CHANGE AMOUNT	%	OCT. 1, 2006	OCT. 2, 2005	AMOUNT
Products	\$ 129,037	\$ 120,674	\$ 8,363	6.9	\$ 257,176	\$ 244,555	\$ 12,621
Solutions	15,188	14,038	1,150	8.2	33,743	31,034	2,709
Net sales	\$ 144,225	\$ 134,712	\$ 9,513	7.1	\$ 290,919	\$ 275,589	\$ 15,330

Gross profits and gross profit margins by operating segment are summarized as follows:

	THREE MONTHS ENDED				SIX MONTHS ENDED			
	OCT. 1, 2006		OCT. 2, 2005		OCT. 1, 2006		OCT. 2, 2005	
	\$	%	\$	%	\$	%	\$	%
Products	\$ 37,896	29.4	\$ 32,665	27.1	\$ 77,313	30.1	\$ 72,692	28.8
Solutions	1,121	7.4	2,493	17.8	3,987	11.8	3,342	10.5

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Total Gross Profit	\$ 39,017	27.1	\$ 35,158	26.1	\$ 81,300	27.9	\$
	=====		=====		=====		=====

The increase in the gross profit margin for the Products segment is the result of product mix, the realization of operational leverage at increased sales volumes and ongoing cost containment activities. The Solutions segment gross profit margin was impacted by weak performance at our European conveyor business as a result of cost overruns on one specific project, less than desired order activity, and unfavorable project mix.

Selling expenses were \$14,739, \$13,080, \$30,106, and \$26,738 in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively. The changes in expense dollars were impacted by increased investment in new markets (\$450 and \$800 for the quarter and six-month period ended October 1, 2006, respectively), translation from changes in foreign exchange rates (\$200 and \$400 for the quarter and six-month period ended October 1, 2006, respectively) and increased variable selling costs as a result of higher sales volume and execution of our strategic growth initiatives. As a percentage of consolidated net sales, selling expenses were 10.2%, 9.7%, 10.3%, and 9.7% in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively.

- 18 -

General and administrative expenses were \$8,540, \$8,539, \$17,629, and \$16,714 in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively. The fiscal 2007 six-month data is higher than the prior year due to the result of stock based compensation expense (\$450), increased research and development (\$350), and increased training, recruiting and relocation expenses (\$300). As a percentage of consolidated net sales, general and administrative expenses were 5.9%, 6.3%, 6.1% and 6.1% in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively.

Restructuring charges were (\$410), \$211, (\$406), and \$237 in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively. The reversal of restructuring charges in fiscal 2007 resulted from the sale of a previously closed facility and included \$216 of gain on the sale of the property that had been written down in previous periods.

Amortization of intangibles was \$44, \$61, \$87, and \$123 in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively.

Interest and debt expense was \$4,176, \$6,633, \$8,688, and \$13,349 in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively. These decreases are the result of lower debt levels. As a percentage of consolidated net sales, interest and debt expense was 2.9%, 4.9%, 3.0% and 4.8% in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively.

Other (income) and expense, net was (\$1,066), \$1,864, \$2,504 and \$1,075 in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively. The following table sets forth the components of other (income) and expense, net:

THREE MONTHS ENDED		SIX MONTHS ENDED	
-----		-----	
OCTOBER 1,	OCTOBER 2,	OCTOBER 1,	OCTOBER 2,

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

	2006 ----	2005 ----	2006 ----	2005 ----
Cost of bond redemptions.....	\$ -	\$ 3,341	\$ 4,583	\$ 3,341
Investment income .....	(312)	(690)	(786)	(1,000)
Interest income.....	(203)	(223)	(605)	(605)
Gain on sale of real estate.....	(396)	(469)	(396)	(469)
Other.....	(155)	(95)	(292)	(95)
	-----	-----	-----	-----
Total other (income) and expense, net..	\$ (1,066)	\$ 1,864	\$ 2,504	\$ 1,864
	=====	=====	=====	=====

Income tax expense as a percentage of income from continuing operations before income tax expense was 37.7%, 36.1%, 40.4%, and 24.6% in the fiscal 2007 and 2006 quarters and the six-month periods then ended, respectively. The six month fiscal 2007 percentage varies from the U.S. statutory rate due to \$866 of non-deductible stock option expense in the period. The six month fiscal 2006 percentage varies from the U.S. statutory rate due to the utilization of domestic net operating loss carry-forwards that had been fully reserved. Therefore, income tax expense primarily resulted from non-U.S. taxable income and state taxes on U.S. taxable income. The higher effective income tax rate in the second quarter of fiscal 2006 reflects the \$3,330 loss on early extinguishment of debt which reduced U.S. taxable income, but did not affect our tax expense due to the existence of fully reserved U.S. Federal net operating loss carry-forwards. During the fourth quarter of fiscal 2006, as a result of the improved operating performance of the Company over the past several years, the Company reevaluated the certainty as to whether the Company's remaining net operating loss carryforwards and other deferred tax assets may ultimately be realized. As a result of the determination that it is more likely than not that nearly all of the remaining deferred tax assets will be realized, a significant portion of the remaining valuation allowance was reversed as of March 31, 2006. As of October 1, 2006, the Company had U.S. federal net operating loss carry-forwards of approximately \$61,500.

- 19 -

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled \$24,177 at October 1, 2006, an increase of \$4,250 from the July 2, 2006 balance of \$19,927.

Net cash provided by operating activities was \$14,961 for the six months ended October 1, 2006 compared to \$24,162 for the six months ended October 2, 2005. The \$9,201 decrease is the result of \$21,246 of changes in net working capital components, primarily \$10,532 of increased inventory (a surge in demand for larger capacity equipment, timing of offshore purchases, buying ahead of a known price increase, and adjustments for longer lead times on certain types of steel) and decreased accounts payable and accrued liabilities, offset by a \$3,372 increase in income from continuing operations, and \$6,915 increase in the benefit from deferred income taxes.

Net cash used in investing activities was \$1,151 for the six months ended October 1, 2006 compared to \$767 for the six months ended October 2, 2005. The \$384 increase in net cash used in investing activities was the result of an increase in capital expenditures to \$4,336 in fiscal 2007 compared to \$3,761 in fiscal 2006.

Net cash used in financing activities was \$35,807 for the six months ended October 1, 2006 compared to \$9,394 of net cash provided by financing activities

## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

for the six months ended October 2, 2005. The net cash used in financing activities for the six months ended October 1, 2006 consisted of \$39,325 of debt repayments, partially offset by \$2,051 of proceeds from the issuance of common stock and stock options exercised, and \$1,571 of borrowings under revolving line of credit agreements. The net cash provided by financing activities for the six months ended October 2, 2005 consisted of \$136,000 of proceeds from the issuance of long term debt, and \$2,729 of proceeds from stock options exercised, offset by \$126,953 of debt repayments, \$1,110 of payments under revolving line of credit agreements and \$1,566 of deferred financing costs incurred in association with our issuance of the 8 7/8% Notes.

We believe that our cash on hand, cash flows, and borrowing capacity under our Revolving Credit Facility will be sufficient to fund our ongoing operations and budgeted capital expenditures for at least the next twelve months. This belief is dependent upon a steady economy and successful execution of our current business plan which includes focus on cash generation for debt repayment. The business plan includes continued implementation of new market penetration, new product development, lean manufacturing and improving working capital utilization.

In March 2006, we entered into a new Revolving Credit Facility which provides availability up to a maximum of \$75,000. Provided there is no default, the Company may request an increase in the availability of the Revolving Credit Facility by an amount not exceeding \$50,000 if all Senior Secured 10% Notes (10% Notes) have been repaid in full or will be repaid in full contemporaneously with such increase, or \$25,000 in the event that any 10% Notes remain outstanding. The Revolving Credit Facility matures February 2010, however the maturity date can be extended to February 2011 based on certain conditions related to outstanding balances and maturity dates of the 10% Notes.

The unused portion of the Revolving Credit Facility totaled \$64,038, net of outstanding borrowings of zero and outstanding letters of credit of \$10,962 as of October 1, 2006. Interest is payable at a Eurodollar Rate or a prime rate plus an applicable margin determined by our leverage ratio. At our current leverage ratio, we qualify for the lowest applicable margin level, which amounts to 87.5 basis points for Eurodollar borrowings and zero basis points for prime rate based borrowings. The Revolving Credit Facility is secured by all domestic inventory, receivables, equipment, real property, subsidiary stock (limited to 65% for foreign subsidiaries) and intellectual property. The corresponding credit agreement associated with the Revolving Credit Facility places certain debt covenant restrictions on us, including certain financial requirements and a restriction on dividend payments.

The Senior Subordinated 8 7/8% Notes (8 7/8% Notes) issued on September 2, 2005 amounted to \$136,000 and are due November 1, 2013. Provisions of the 8 7/8% Notes include, without limitation, restrictions on indebtedness, asset sales, and dividends and other restricted payments. Until November 1, 2008, we may redeem up to 35% of the outstanding notes at a redemption price of 108.875% with the proceeds of equity offerings, subject to certain restrictions. On or after November 1, 2009, the 8 7/8% Notes are redeemable at the option of the Company,

- 20 -

in whole or in part, at prices declining annually from the 104.438% to 100% on and after November 1, 2011. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 8 7/8% Notes may require us to repurchase all or a portion of such holder's 8 7/8% Notes at a purchase price equal to 101% of the principal amount thereof. The 8 7/8% Notes are guaranteed by certain existing and future domestic subsidiaries and are not subject to any sinking fund requirements.



## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

The Senior Secured 10% Notes (10% Notes) issued on July 22, 2003 amounted to \$28,836 as of October 1, 2006 and are due August 1, 2010. During October 2006 we purchased an additional \$3,000 of the 10% Notes in the open market. Provisions of the 10% Notes include, without limitation, restrictions on indebtedness, restricted payments, asset and subsidiary stock sales, liens, and other restricted transactions. The remaining 10% Notes are not entitled to redemption at our option, prior to August 1, 2007. On and after August 1, 2007, they are redeemable at prices declining annually to 100% on and after August 1, 2009. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 10% Notes may require us to repurchase all or a portion of such holder's 10% Notes at a purchase price equal to 101% of the principal amount thereof. The 10% Notes are secured by a second-priority interest in all domestic inventory, receivables, equipment, real property, subsidiary stock (limited to 65% for foreign subsidiaries) and intellectual property. The 10% Notes are guaranteed by certain existing and future domestic subsidiaries and are not subject to any sinking fund requirements.

### CAPITAL EXPENDITURES

In addition to keeping our current equipment and plants properly maintained, we are committed to replacing, enhancing, and upgrading our property, plant, and equipment to support new product development, reduce production costs, increase flexibility to respond effectively to market fluctuations and changes, meet environmental requirements, enhance safety, and promote ergonomically correct work stations. Consolidated capital expenditures for the six months ended October 1, 2006 and October 2, 2005 were \$4,336 and \$3,761, respectively. We expect capital spending for fiscal 2007 to be in the range of \$8 to \$10 million compared with \$8.4 million in fiscal 2006. Anticipated higher capital expenditures for fiscal 2007 will be primarily directed toward new product development and productivity improvement.

### INFLATION AND OTHER MARKET CONDITIONS

Our costs are affected by inflation in the U.S. economy and, to a lesser extent, in foreign economies including those of Europe, Canada, Mexico, and the Pacific Rim. We do not believe that general inflation has had a material effect on results of operations over the periods presented primarily due to overall low inflation levels of most costs over such periods and the ability to generally pass on rising costs through price increases. However, we have been impacted by fluctuations in steel costs, which vary by type of steel and we continue to monitor them. In addition, U.S. employee benefits costs such as health insurance and workers compensation insurance as well as energy costs have exceeded general inflation levels. We generally incorporate those cost increases into our sales price increases and consider surcharges on certain products, as determined necessary. In the future, we may be further affected by inflation that we may not be able to pass on as price increases or surcharges.

### SEASONALITY AND QUARTERLY RESULTS

Quarterly results may be materially affected by the timing of large customer orders, periods of high vacation and holiday concentrations, gains or losses on early retirement of bonds, restructuring charges, divestitures and acquisitions. Therefore, the operating results for any particular fiscal quarter are not necessarily indicative of results for any subsequent fiscal quarter or for the full fiscal year.

### EFFECTS OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes". FIN 48 is an interpretation of FASB Statement No. 109 "Accounting for Income

## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Taxes" and must be adopted by us no later than April 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that we have taken or expects to take in its tax returns. We are assessing the impact the adoption of FIN 48 will have on our consolidated financial position and results of operations.

- 21 -

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007. We are assessing the impact the adoption of SFAS No. 157 will have on our consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS 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). Among other items, SFAS 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS 158 is effective as of the end of the fiscal year ending after December 15, 2006. We are assessing the impact the adoption of SFAS No. 158 will have on our consolidated financial position and results of operations.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report may include "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 disclosed in our periodic reports filed with the Commission. Consequently such forward-looking statements should be regarded as our current plans, estimates and beliefs. 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 events.

- 22 -

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the market risks since the end of Fiscal 2006.

### Item 4. Controls and Procedures

## Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

As of October 1, 2006, an evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures were effective as of October 1, 2006. There were no changes in the Company's internal controls or other factors during our second quarter ended October 1, 2006.

- 23 -

### PART II. OTHER INFORMATION

Item 1. Legal Proceedings - none.

Item 1A. Risk Factors

No material changes from risk factors as previously disclosed in the Company's Form 10-K for the year ended March 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - none.

Item 3. Defaults upon Senior Securities - none.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Stockholders held on July 31, 2006, the stockholders approved the following:

(a) A proposal to elect directors of the Company as follows:

15,222,177 votes cast for:	Timothy T. Tevens;
15,879,037 votes cast for:	Carlos Pasqual;
15,165,841 votes cast for:	Richard H. Fleming;
15,102,710 votes cast for:	Ernest R. Verebelyi;
15,732,867 votes cast for:	Wallace W. Creek;
15,697,640 votes cast for:	Linda A. Goodspeed;
15,725,280 votes cast for:	Stephen Rabinowitz.

(b) The Columbus McKinnon Corporation 2006 Long Term Incentive Plan was adopted by a vote of 10,957,168 votes for and 2,330,499 votes against.

(c) The Columbus McKinnon Corporation Executive Management Variable Compensation Plan was adopted by a vote of 13,926,972 votes for and 1,964,799 votes against.

Item 5. Other Information - none.

Item 6. Exhibits

(a) Exhibits:

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934; as adopted pursuant to Section 302 of the

Edgar Filing: COLUMBUS MCKINNON CORP - Form 10-Q

Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934; as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- 24 -

SIGNATURES

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

COLUMBUS MCKINNON CORPORATION

-----

(Registrant)

Date: NOVEMBER 9, 2006

-----

/S/ KAREN L. HOWARD

-----

Karen L. Howard  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

- 25 -