

Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

YALE INDUSTRIAL PRODUCTS INC  
Form 10-Q  
February 09, 2007

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 December 31, 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

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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

The number of shares of common stock outstanding as of January 31, 2007 was: 18,818,437 shares.

FORM 10-Q INDEX  
COLUMBUS MCKINNON CORPORATION  
DECEMBER 31, 2006

	PAGE #
	-----
PART I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	
Condensed consolidated balance sheets - December 31, 2006 and March 31, 2006	2
Condensed consolidated statements of operations and retained earnings - Three months and nine months ended December 31, 2006 and January 1, 2006	3
Condensed consolidated statements of cash flows - Nine months ended December 31, 2006 and January 1, 2006	4
Condensed consolidated statements of comprehensive income - Three months and nine months ended December 31, 2006 and January 1, 2006	5
Notes to condensed consolidated financial statements - December 31, 2006	6
Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22
Item 4. Controls and Procedures	22
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings - none.	23
Item 1A. Risk Factors	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - none.	23
Item 3. Defaults upon Senior Securities - none.	23
Item 4. Submission of Matters to a Vote of Security Holders - none.	23
Item 5. Other Information - none.	23
Item 6. Exhibits	23

Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

- 1 -

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

COLUMBUS MCKINNON CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2006	MARCH 31, 2006
	-----	-----
	(UNAUDITED)	
	(IN THOUSANDS)	
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 32,125	\$ 45,598
Trade accounts receivable	91,612	95,726
Unbilled revenues	14,363	12,061
Inventories	86,314	74,845
Prepaid expenses	17,270	15,676
	-----	-----
Total current assets	241,684	243,906
Property, plant, and equipment, net	55,210	55,132
Goodwill and other intangibles, net	188,000	187,327
Marketable securities	27,873	27,596
Deferred taxes on income	33,539	46,065
Other assets	5,283	6,018
	-----	-----
Total assets	\$ 551,589	\$ 566,044
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Notes payable to banks	\$ 8,723	\$ 5,798
Trade accounts payable	38,329	39,311
Accrued liabilities	57,151	61,264
Restructuring reserve	447	793
Current portion of long-term debt	194	127
	-----	-----
Total current liabilities	104,844	107,293
Senior debt, less current portion	28,330	67,841
Subordinated debt	136,000	136,000
Other non-current liabilities	49,609	50,489
	-----	-----
Total liabilities	318,783	361,623
	-----	-----
Shareholders' equity		
Common stock	188	185
Additional paid-in capital	173,595	170,081
Retained earnings	74,164	51,152
ESOP debt guarantee	(3,558)	(3,996)
Unearned restricted stock	-	(22)
Accumulated other comprehensive loss	(11,583)	(12,979)
	-----	-----
Total shareholders' equity	232,806	204,421
	-----	-----
Total liabilities and shareholders' equity	\$ 551,589	\$ 566,044
	=====	=====

# Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

- 2 -

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

	THREE MONTHS ENDED		NINE MO
	DECEMBER 31, 2006	JANUARY 1, 2006	DECEMBER 31, 2006
(IN THOUSANDS, EXCEPT PER SHARE D			
Net sales	\$ 142,044	\$ 133,322	\$ 432,963
Cost of products sold	103,421	98,391	313,040
Gross profit	38,623	34,931	119,923
Selling expenses	14,989	13,281	45,095
General and administrative expenses	8,566	8,392	26,195
Restructuring charges	128	83	(278)
Amortization of intangibles	44	61	131
	23,727	21,817	71,143
Income from operations	14,896	13,114	48,780
Interest and debt expense	4,034	6,268	12,722
Cost of bond redemptions	359	4,950	4,942
Investment income	(3,774)	(364)	(4,560)
Other income	(151)	(409)	(1,444)
Income before income tax expense	14,428	2,669	37,120
Income tax expense	5,510	1,471	14,673
Income from continuing operations	8,918	1,198	22,447
Income from discontinued operations (net of tax)	208	215	565
Net income	9,126	1,413	23,012
Retained earnings (accumulated deficit) - beginning of period	65,038	1,941	51,152
Retained earnings - end of period	\$ 74,164	\$ 3,354	\$ 74,164
Basic income per share:			
Income from continuing operations	\$ 0.48	\$ 0.08	\$ 1.21
Income from discontinued operations	0.01	0.01	0.03
Net income	\$ 0.49	\$ 0.09	\$ 1.24

Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

	=====	=====	=====
Diluted income per share:			
Income from continuing operations	\$ 0.47	\$ 0.07	\$ 1.19
Income from discontinued operations	0.01	0.01	0.03
	-----	-----	-----
Net income	\$ 0.48	\$ 0.08	\$ 1.22
	=====	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

- 3 -

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

NINE MONTH  
DECEMBER 31,  
2006  
-----  
(IN THOUS

OPERATING ACTIVITIES:

Income from continuing operations	\$ 22,447
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:	
Depreciation and amortization	6,306
Deferred income taxes	12,526
Gain on sale of real estate/investments	(4,745)
Loss on early retirement of bonds	4,069
Stock compensation expense	1,040
Amortization/write-off of deferred financing costs	1,385
Changes in operating assets and liabilities:	
Trade accounts receivable and unbilled revenues	4,178
Inventories	(10,890)
Prepaid expenses	(1,564)
Other assets	(297)
Trade accounts payable	(2,033)
Accrued and non-current liabilities	(5,192)
	-----
Net cash provided by operating activities	27,230
	-----

INVESTING ACTIVITIES:

Proceeds from sale of marketable securities	22,077
Purchases of marketable securities	(20,025)
Capital expenditures	(6,825)
Proceeds from sale of facilities and surplus real estate	2,051
Proceeds from discontinued operations note receivable - revised	565
	-----
Net cash used by investing activities	(2,157)
	-----

FINANCING ACTIVITIES:

Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

Proceeds from issuance of common stock/options exercised	2,334
Net borrowings (payments) under revolving line-of-credit agreements	2,294
Repayment of debt	(43,668)
Proceeds from issuance of long-term debt	-
Deferred financing costs incurred	(456)
Other	438
	-----
Net cash used by financing activities	(39,058)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	512
	-----
Net change in cash and cash equivalents	(13,473)
Cash and cash equivalents at beginning of period	45,598
	-----
Cash and cash equivalents at end of period	\$ 32,125
	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

- 4 -

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

	THREE MONTHS ENDED		NINE
	DECEMBER 31,	JANUARY 1,	DECEMBER 31,
	2006	2006	2006
	----	----	----
	(IN THOUSANDS)		
Net income	\$ 9,126	\$ 1,413	\$ 23,012
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	425	(818)	3,081
Unrealized (loss) gain on investments:			
Unrealized holding gains arising during the period	1,999	260	2,328
Reclassification adjustment for gains included in net income	(3,544)	(192)	(4,013)
	-----	-----	-----
	(1,545)	68	(1,685)
	-----	-----	-----
Total other comprehensive income (loss)	(1,120)	(750)	1,396
	-----	-----	-----
Comprehensive income	\$ 8,006	\$ 663	\$ 24,408
	=====	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

COLUMBUS MCKINNON CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)  
DECEMBER 31, 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 December 31, 2006, and the results of its operations and its cash flows for the three and nine-month periods ended December 31, 2006 and January 1, 2006, have been included. Results for the period ended December 31, 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 \$174 and \$1,040 of non-deductible incentive stock option expense in the quarter and nine months ended December 31, 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

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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 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 nine 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 December 31, 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 December 31, 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 \$12.93 and \$12.13 for options granted during the nine months ended December 31, 2006 and January 1, 2006, respectively. The following table provides the weighted-average assumptions used to value stock options granted during the nine months ended December 31, 2006 and January 1, 2006:

	NINE MONTHS ENDED	
	DECEMBER 31, 2006	JANUARY 1, 2006

#### Assumptions:

Risk-free interest rate.....	4.9 %	4.5 %
------------------------------	-------	-------



## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

Dividend yield--Incentive Plan.....	0.0 %	0.0 %
Volatility factor.....	0.593	0.615
Expected life--Incentive Plan.....	5.5 years	5.0 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 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 nine months ended December 31, 2006:

	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)
Outstanding at March 31, 2006....	1,132,118	\$ 11.28	
Granted.....	70,000	22.41	
Exercised.....	(203,093)	10.60	
Cancelled.....	(27,500)	7.76	
Outstanding at December 31, 2006.	971,525	\$ 12.32	6.0
Exercisable at December 31, 2006.	552,150	\$ 13.58	4.5

- 7 -

We calculated intrinsic value for those options that had an exercise price lower than the market price of our common shares as of December 31, 2006. The aggregate intrinsic value of outstanding options as of December 31, 2006 is calculated as the difference between the exercise price of the underlying options and the market price of our common shares for the 866,425 options that were in-the-money at that date. The aggregate intrinsic value of exercisable options as of December 31, 2006 is calculated as the difference between the exercise price of the underlying options and the market price of our common shares for the 520,800 exercisable options that were in-the-money at that date. The Company's closing stock price was \$21.02 as of December 31, 2006. The total intrinsic value of stock options exercised during the first nine months of fiscal 2007 was \$2,999 (\$2,631 for fiscal 2006). As of December 31, 2006, there are 129,600 options available for future grants under the two stock option plans.

The fair value of shares that vested during the nine months ended December 31, 2006 and January 1, 2006 was \$3.65 and \$3.75, respectively.

Cash received from option exercises under all share-based payment arrangements

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

for the nine months ended December 31, 2006 was \$2,153. 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 December 31, 2006, \$1,631 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 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 JANUARY 1, 2006	NINE MONTHS JANUARY 1,
	-----	-----
Net income, as reported	\$ 1,413	\$ 11,99
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(186)	(76)
Net income, pro forma	\$ 1,227	\$ 11,23
	=====	=====
Basic income per share:		
As reported	\$ 0.09	\$ 0.7
	=====	=====
Pro forma	\$ 0.07	\$ 0.7
	=====	=====
Diluted income per share:		
As reported	\$ 0.08	\$ 0.7
	=====	=====
Pro forma	\$ 0.07	\$ 0.7
	=====	=====

### 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 December 31, 2006, there were 48,000 shares available for future grants under the Restricted Stock Plan.

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

During the first nine months of Fiscal 2007, no shares of restricted stock were granted. As of December 31, 2006, there are 2,000 shares of restricted stock outstanding with a weighted average fair value grant price of \$16.25.

### 3. INVENTORIES

Inventories consisted of the following:

	DECEMBER 31, 2006	MARCH 31, 2006
	-----	-----
At cost - FIFO basis:		
Raw materials.....	\$ 50,878	\$ 41,134
Work-in-process.....	11,827	12,199
Finished goods.....	37,116	33,424
	-----	-----
	99,821	86,757
LIFO cost less than FIFO cost.....	(13,507)	(11,912)
	-----	-----
Net inventories.....	\$ 86,314	\$ 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

During the first nine-months of fiscal 2007, the Company recorded restructuring costs of \$132 for severance and the maintenance of non-operating facilities being held for sale which are expensed on an as incurred basis in accordance with SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." \$128 and \$4 of these costs are related to the Solutions and Products segments, respectively. In the second quarter of fiscal 2007 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 December 31, 2006 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	TOTAL
	-----	-----	-----
Reserve at March 31, 2006	\$ 59	\$ 734	\$ 793
Restructuring charges	57	75	132
Cash payments	(116)	(168)	(284)
Restructuring charge reversal	-	(410)	(410)
Gain on sale of a non-operating facility	-	216	216
	-----	-----	-----
Reserve at December 31, 2006	\$ -	\$ 447	\$ 447
	=====	=====	=====

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

### 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		NINE MONTHS ENDED
	DECEMBER 31,	JANUARY 1,	DECEMBER 31,
	2006	2006	2006
	----	----	----
Service costs.....	\$ 1,049	\$ 1,088	\$ 3,147
Interest cost.....	1,879	1,737	5,636
Expected return on plan assets..	(1,831)	(1,654)	(5,492)
Net amortization.....	623	508	1,869
	-----	-----	-----
Net periodic pension cost.....	\$ 1,720	\$ 1,679	\$ 5,160
	=====	=====	=====

- 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		NINE MONTHS ENDED
	DECEMBER 31,	JANUARY 1,	DECEMBER 31,
	2006	2006	2006
	----	----	----
Service costs.....	\$ 2	\$ 4	\$ 5
Interest cost .....	160	188	482
Amortization of plan net losses...	100	101	300
	-----	-----	-----
Net periodic postretirement cost..	\$ 262	\$ 293	\$ 787
	=====	=====	=====

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 38.2%, 55.1%, 39.5%, and 29.6% in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively. The effective income tax rate in the third quarter of fiscal 2006 reflects the \$4,950 loss on

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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. The nine 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. During the fourth quarter of fiscal 2006, as a result of our improved operating performance over the past several years, we reevaluated the certainty as to whether our 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 December 31, 2006, we had U.S. federal net operating loss carry-forwards of approximately \$48,400, representing approximately \$16,900 of cash tax savings in future periods.

### 7. EARNINGS PER SHARE

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

	THREE MONTHS ENDED		NINE
	DECEMBER 31, 2006	JANUARY 1, 2006	DECEMBER 2006
	----	----	----
Numerator for basic and diluted earnings per share:			
Net income	\$ 9,126	\$ 1,413	\$ 23,012
	=====	=====	=====
Denominators:			
Weighted-average common stock outstanding - denominator for basic EPS	18,544	16,611	18,491
Effect of dilutive employee stock options and awards	410	676	438
	-----	-----	-----
Adjusted weighted-average common stock outstanding and assumed conversions - denominator for diluted EPS	18,954	17,287	18,929
	=====	=====	=====

- 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

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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 nine months ended December 31, 2006 and January 1, 2006, is as follows:

	NINE MONTHS ENDED DECEMBER 31, 2006		
	PRODUCTS	SOLUTIONS	TOTAL
Sales to external customers.....	\$ 384,039	\$ 48,924	\$ 432,963
Income from operations.....	49,991	(1,211)	48,780
Depreciation and amortization.....	5,657	649	6,306
Total assets.....	515,053	36,536	551,589

	NINE MONTHS ENDED JANUARY 1, 2006		
	PRODUCTS	SOLUTIONS	TOTAL
Sales to external customers.....	\$ 362,405	\$ 46,506	\$ 408,911
Income from operations.....	39,089	1,914	41,003
Depreciation and amortization.....	5,893	916	6,809
Total assets.....	470,108	30,200	500,308

- 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 DECEMBER 31, 2006				
Current assets:				
Cash and cash equivalents	\$ 6,549	\$ (486)	\$ 26,062	\$
Trade accounts receivable and unbilled revenues	56,997	233	48,745	
Inventories	40,277	20,627	28,185	
Other current assets	5,591	1,411	10,268	

Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

Total current assets	109,414	21,785	113,260	
Property, plant, and equipment, net	23,719	11,440	20,051	
Goodwill and other intangibles, net	89,835	58,034	40,131	
Intercompany	85,316	(85,699)	(74,004)	
Other assets	82,595	197,328	26,908	
Total assets	\$ 390,879	\$ 202,888	\$ 126,346	\$ ( )
Current liabilities	\$ 40,891	\$ 16,987	\$ 47,875	\$ ( )
Long-term debt, less current portion	161,132	-	3,198	
Other non-current liabilities	18,094	8,513	23,002	
Total liabilities	220,117	25,500	74,075	
Shareholders' equity	170,762	177,388	52,271	( )
Total liabilities and shareholders' equity	\$ 390,879	\$ 202,888	\$ 126,346	\$ ( )
FOR THE NINE MONTHS ENDED DECEMBER 31, 2006				
Net sales	\$ 208,814	\$ 125,574	\$ 134,320	\$ ( )
Cost of products sold	153,144	94,092	101,139	
Gross profit	55,670	31,482	33,181	
Selling, general and administrative expenses	31,715	12,650	26,925	
Restructuring charges	(331)	-	53	
Amortization of intangibles	79	2	50	
	31,463	12,652	27,028	
Income (loss) from operations	24,207	18,830	6,153	
Interest and debt expense	9,453	2,975	294	
Other (income) and expense, net	4,591	(407)	(5,246)	
Income (loss) before income tax expense (benefit)	10,163	16,262	11,105	
Income tax expense (benefit)	5,264	6,444	3,175	
Income (loss) from continuing operations	4,899	9,818	7,930	
Income from discontinued operations	565	-	-	
Net income (loss)	\$ 5,464	\$ 9,818	\$ 7,930	\$ ( )

- 12 -

	Parent	Guarantors	Nonguarantors	Elim
FOR THE NINE MONTHS ENDED DECEMBER 31, 2006				
OPERATING ACTIVITIES:				
Net cash provided by operating activities	\$ 24,998	\$ 1,424	\$ 808	\$ ( )

INVESTING ACTIVITIES:

Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

Sale of marketable securities, net	-	-	2,052
Capital expenditures	(4,195)	(710)	(1,920)
Proceeds from sale of facilities and surplus real estate	1,655	396	-
Proceeds from discontinued operations note receivable	565	-	-
Net cash (used) provided by investing activities	(1,975)	(314)	132
FINANCING ACTIVITIES:			
Proceeds from stock options exercised	2,334	-	-
Net borrowings under revolving line-of-credit agreements	-	-	2,294
(Repayment) borrowings of debt	(46,321)	-	2,653
Deferred financing costs incurred	(456)	-	-
Other	438	-	-
Net cash (used) provided by financing activities	(44,005)	-	4,947
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	(135)	647
Net change in cash and cash equivalents	(20,982)	975	6,534
Cash and cash equivalents at beginning of period	27,531	(1,461)	19,528
Cash and cash equivalents at end of period	\$ 6,549	\$ (486)	\$ 26,062

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				
Long-term debt, less current portion	\$ 48,146	\$ 15,368	\$ 43,306	\$
Other non-current liabilities	203,384	-	457	
	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	\$ (



Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

	Parent	Guarantors	Nonguarantors	Elim
FOR THE NINE MONTHS ENDED JANUARY 1, 2006				
Net sales	\$ 195,700	\$ 109,735	\$ 121,098	\$
Cost of products sold	146,411	83,126	88,829	
Gross profit	49,289	26,609	32,269	
Selling, general and administrative expenses	29,767	11,710	23,648	
Restructuring charges	236	-	84	
Amortization of intangibles	132	2	50	
	30,135	11,712	23,782	
Income (loss) from operations	19,154	14,897	8,487	
Interest and debt expense	15,867	3,537	213	
Other (income) and expense, net	7,549	24	(2,321)	
(Loss) income before income tax expense	(4,262)	11,336	10,595	
Income tax expense	590	1,044	3,145	
(Loss) income from continuing operations	(4,852)	10,292	7,450	
Income from discontinued operations	643	-	-	
Net (loss) income	\$ (4,209)	\$ 10,292	\$ 7,450	\$
FOR THE NINE MONTHS ENDED JANUARY 1, 2006				
OPERATING ACTIVITIES:				
Net cash provided by operating activities	\$ 16,996	\$ 9,296	\$ 12,217	\$
INVESTING ACTIVITIES:				
Sale of marketable securities, net	-	-	90	
Capital expenditures	(2,641)	(497)	(1,600)	
Proceeds from sale of facilities and surplus real estate	-	468	1,623	
Proceeds from discontinued operations note receivable - revised	643	-	-	
Net cash (used) provided by investing activities	(1,998)	(29)	113	
FINANCING ACTIVITIES:				
Proceeds from stock offering/options exercised	59,944	-	-	
Net borrowings (payments) under revolving line-of-credit agreements	240	-	(1,657)	
Repayment of debt	(196,706)	-	(175)	
Proceeds from issuance of long-term debt	136,000	-	-	
Deferred financing costs incurred	(2,357)	-	-	
Dividends paid	9,067	(8,854)	(213)	
Other	446	-	-	
Net cash provided (used) by financing activities	6,634	(8,854)	(2,045)	
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(230)	12	197	
Net change in cash and cash equivalents	21,402	425	10,482	
Cash and cash equivalents at beginning of period	1,019	(697)	9,157	
Cash and cash equivalents at end of period	\$ 22,421	\$ (272)	\$ 19,639	\$

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 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, 2025 and March 31, 2037 to range between \$5,000 and \$14,000 using actuarial parameters of continued claims for a period of 18 to 30 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 approximates \$8,400 which has been reflected as a liability in the consolidated financial statements as of December 31, 2006. The recorded liability does not consider the impact of any potential favorable federal legislation such as the "FAIR Act". This liability may fluctuate based on the 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. Of this amount, management expects to incur asbestos liability payments of approximately \$325 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. NEW ACCOUNTING STANDARDS

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 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 expect to take in our 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.

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.

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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.

- 15 -

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 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

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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 nine 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 nine 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

- 16 -

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 NINE MONTHS ENDED DECEMBER 31, 2006 AND JANUARY 1, 2006

Net sales in the fiscal 2007 quarter ended December 31, 2006 were \$142,044, up \$8,722 or 6.5% from the fiscal 2006 quarter ended January 1, 2006. Net sales for the nine months ended December 31, 2006 were \$432,963, an increase of \$24,052 or 5.9% from the nine months ended January 1, 2006. Sales in the Products segment increased by \$9,013 or 7.6% from the previous year's quarter and \$21,634 or 6.0% from the previous year's nine-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 \$2,000 and \$5,400 in the quarter and nine months ended December 31, 2006, respectively. Translation of foreign currencies, particularly the Euro and Canadian dollar, into U.S. dollars contributed \$1,300 and \$3,600 toward the Products segment increase in sales for the quarter and

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

nine-month period ended December 31, 2006, respectively. Sales in the Solutions segment decreased 1.9% or \$291 for the quarter and increased 5.2% or \$2,418 for the nine months ended December 31, 2006 when compared with the same periods in the prior year. The quarter's decrease in this segment is due to lower volume in our European conveyor business. Translation of foreign currencies into U.S. dollars contributed \$700 and \$800 to the Solutions segment sales for the quarter and nine-months ended December 31, 2006. Sales in the segments are summarized as follows:

	THREE MONTHS ENDED				NINE MONTHS ENDED		
	DEC. 31, 2006	JAN. 1, 2006	CHANGE AMOUNT	%	DEC. 31, 2006	JAN. 1, 2006	A
Products	\$ 126,863	\$ 117,850	\$ 9,013	7.6	\$ 384,039	\$ 362,405	\$
Solutions	15,181	15,472	(291)	-1.9	48,924	46,506	\$
Net sales	\$ 142,044	\$ 133,322	\$ 8,722	6.5	\$ 432,963	\$ 408,911	\$

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

	THREE MONTHS ENDED				NINE MONTHS		
	DEC. 31, 2006		JAN. 1, 2006		DEC. 31, 2006		
	\$	%	\$	%	\$	%	
Products	\$ 37,654	29.7	\$ 32,142	27.3	\$ 114,967	29.9	\$
Solutions	969	6.4	2,789	18.0	4,956	10.1	\$
Total Gross Profit	\$ 38,623	27.2	\$ 34,931	26.2	\$ 119,923	27.7	\$

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 a few specific projects, a challenging pricing environment, and unfavorable sales mix.

Selling expenses were \$14,989, \$13,281, \$45,095, and \$40,019 in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively. The changes in expense dollars were impacted by increased investment to support our strategic growth initiatives (\$450 and \$1,250 for the quarter and nine-month period ended December 31, 2006, respectively), translation from changes in foreign exchange rates (\$100 and \$600 for the quarter and nine-month period ended December 31, 2006, respectively) and increased variable selling costs as a result of higher sales volume. As a percentage of consolidated net sales, selling expenses were 10.6%, 10.0%, 10.4%, and 9.8% in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively.

General and administrative expenses were \$8,566, \$8,392, \$26,195, and \$25,106 in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively. The fiscal 2007 nine-month data is higher than the prior year due to the result of stock based compensation expense (\$600), and increased research and development (\$460). As a percentage of consolidated net sales, general and administrative expenses were 6.0%, 6.3%, 6.1% and 6.1% in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively.

Restructuring charges were \$128, \$83, (\$278), and \$320 in the fiscal 2007 and 2006 quarters and the nine-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, \$131, and \$184 in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively.

Interest and debt expense was \$4,034, \$6,268, \$12,722, and \$19,617 in the fiscal 2007 and 2006 quarters and the nine-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 2.8%, 4.7%, 2.9% and 4.8% in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively.

Cost of bond redemptions was \$359, \$4,950, \$4,942, and \$8,279 in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively, supporting our debt reduction initiatives.

Investment income was \$3,744, \$364, \$4,560, and \$1,629 in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively. The fiscal 2007 quarter and nine month period includes \$3,300 of realized gains on sale of investments resulting from the reallocation of our captive insurance company's investment portfolio.

Other (income) and expense, net was (\$151), (\$409), (\$1,444) and (\$1,398) in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively.

Income tax expense as a percentage of income from continuing operations before income tax expense was 38.2%, 55.1%, 39.5%, and 29.6% in the fiscal 2007 and 2006 quarters and the nine-month periods then ended, respectively. The effective income tax rate in the third quarter of fiscal 2006 reflects the \$4,950 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. The nine 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. During the fourth quarter of fiscal 2006, as a result of our improved operating performance over the past several years, we reevaluated the certainty as to whether our 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 December 31, 2006, we had U.S. federal net operating loss carry-forwards of approximately \$48,400, representing

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

approximately \$16,900 of cash tax savings in future periods.

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled \$32,125 at December 31, 2006, an increase of \$7,984 from the October 1, 2006 balance of \$24,177.

Net cash provided by operating activities was \$27,230 for the nine months ended December 31, 2006 compared to \$38,509 for the nine months ended January 1, 2006. The \$11,279 decrease is the result of an \$11,092 increase in income from continuing operations which includes a \$2,930 increase in investment income and \$3,329 of lower bond redemption costs relative to the prior period. This increased income was offset by unfavorable changes in net working capital of \$26,950, including \$13,029 of increased inventory (support for upcoming new product launches, a surge in demand for larger capacity equipment, and timing of offshore purchases) and a \$13,456 decrease in accounts payable and accrued and

- 18 -

non-current liabilities (timing of disbursements, decreased product liability reserves, and decreased variable compensation accruals).

Net cash used in investing activities was \$2,157 for the nine months ended December 31, 2006 compared to \$1,914 for the nine months ended January 1, 2006. The \$243 increase in net cash used in investing activities was the result of a \$2,087 increase in capital expenditures, offset by a \$1,962 increase in proceeds from the sale of marketable securities.

Net cash used in financing activities was \$39,058 for the nine months ended December 31, 2006 compared to \$4,265 for the nine months ended January 1, 2006. The net cash used in financing activities for the nine months ended December 31, 2006 consisted of \$41,374 of net debt repayments, partially offset by \$2,334 of proceeds from the issuance of common stock and stock options exercised. The net cash used by financing activities for the nine months ended January 1, 2006 consisted of \$198,298 of net debt repayments and \$2,357 of deferred financing costs incurred in association with our issuance of the 8 7/8% Notes, offset by \$136,000 of proceeds from the issuance of those notes, and \$59,944 of proceeds from the issuance of common stock and stock options exercised.

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 Revolving Credit Facility which provides availability up to \$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 \$64,341 net of outstanding borrowings of zero and outstanding letters of credit of \$10,659 of December 31, 2006. Interest is payable at a Eurodollar Rate or a prime rate plus

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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, in whole or in part, at prices declining annually from 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.

The Senior Secured 10% Notes (10% Notes) issued on July 22, 2003 amounted to \$25,132 as of December 31, 2006 and are due August 1, 2010. 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 a prices declining annually from 105% 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

- 19 -

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 nine months ended December 31, 2006 and January 1, 2006 were \$6,825 and \$4,738, respectively. We expect capital spending for fiscal 2007 to be approximately \$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,



## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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 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 expect to take in our tax returns. We are assessing the impact the adoption of FIN 48 will have on our consolidated financial position and results of operations.

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

- 20 -

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

## Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

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.

- 21 -

### 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

As of December 31, 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 December 31, 2006. There were no changes in the Company's internal controls or other factors during our third quarter ended December 31, 2006.

- 22 -

## 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.

Edgar Filing: YALE INDUSTRIAL PRODUCTS INC - Form 10-Q

- Item 4. Submission of Matters to a Vote of Security Holders - none.
- Item 5. Other Information - none.
- Item 6. Exhibits

(a) Exhibits:

- Exhibit 10.1 Amendment No. 8 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Monthly Retirement Benefit Plan, dated December 22, 2006.
- Exhibit 10.2 First Amendment, dated as of January 8, 2007, made in connection with that certain Third Amended and Restated Credit Agreement, dated as of March 16, 2006, among Columbus McKinnon Corporation, the Guarantors named therein, the lending institutions party thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.
- 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 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.

- 23 -

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: FEBRUARY 9, 2007  
-----

/S/ KAREN L. HOWARD  
-----

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

