

MANITOWOC CO INC  
Form 10-Q  
November 02, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934**

For the quarterly period ended September 30, 2007

or

o

**Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934**

For the transition period from            to

Commission File Number

1-11978

**The Manitowoc Company, Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: MANITOWOC CO INC - Form 10-Q

**Wisconsin**  
(State or other jurisdiction  
of incorporation or organization)

**39-0448110**  
(I.R.S. Employer  
Identification Number)

**2400 South 44th Street,**  
**Manitowoc, Wisconsin**  
(Address of principal executive offices)

**54221-0066**  
(Zip Code)

**(920) 684-4410**

(Registrant's telephone number, including area code)

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 check mark 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 Exchange 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

The number of shares outstanding of the Registrant's common stock, \$.01 par value, as of September 30, 2007, the most recent practicable date, was 125,599,704.

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE MANITOWOC COMPANY, INC.

## Consolidated Statements of Operations

For the Three and Nine Months Ended September 30, 2007 and 2006

((Unaudited) In millions, except per-share and average shares data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 1,006.2	\$ 779.0	\$ 2,886.9	\$ 2,158.1
Costs and expenses:				
Cost of sales	781.4	609.7	2,226.7	1,681.7
Engineering, selling and administrative expenses	99.4	84.2	293.8	249.9
Gain on sale of parts line			(3.3)	
Pension settlements			5.2	
Amortization expense	1.0	1.0	2.9	2.4
Total costs and expenses	881.8	694.9	2,525.3	1,934.0
Earnings from operations	124.4	84.1	361.6	224.1
Other expenses:				
Interest expense	(8.5)	(10.2)	(27.4)	(36.0)
Loss on debt extinguishment	(12.5)		(12.5)	(14.4)
Other income, net	(0.4)	0.7	4.4	4.1
Total other expense	(21.4)	(9.5)	(35.5)	(46.3)
Earnings from continuing operations before taxes	103.0	74.6	326.1	177.8
Provision for taxes on income	27.1	24.2	88.7	55.2
Earnings from continuing operations	75.9	50.4	237.4	122.6
Discontinued operations:				
Loss from discontinued operations, net of income taxes of \$(0.2)				(0.3)
Net earnings	\$ 75.9	\$ 50.4	\$ 237.4	\$ 122.3
Basic earnings per share:				
Earnings from continuing operations	\$ 0.61	\$ 0.41	\$ 1.91	\$ 1.00
Loss from discontinued operations, net of income taxes				(0.01)
Net earnings	\$ 0.61	\$ 0.41	\$ 1.91	\$ 1.00
Diluted earnings per share:				
Earnings from continuing operations	\$ 0.59	\$ 0.40	\$ 1.87	\$ 0.98
Loss from discontinued operations, net of income taxes				(0.01)
Net earnings	\$ 0.59	\$ 0.40	\$ 1.87	\$ 0.97

Edgar Filing: MANITOWOC CO INC - Form 10-Q

Dividends per share	0.02	0.018	0.055	0.053
Weighted average shares outstanding - basic	125,175,721	123,155,226	124,314,233	122,292,140
Weighted average shares outstanding - diluted	127,915,004	126,077,200	127,141,212	125,571,914

See accompanying notes which are an integral part of these statements.

## THE MANITOWOC COMPANY, INC.

## Consolidated Balance Sheets

As of September 30, 2007 and December 31, 2006

(Unaudited)

(In millions, except share data)

	September 30, 2007	December 31, 2006
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 103.8	\$ 173.7
Marketable securities	2.5	2.4
Restricted cash	15.6	15.1
Accounts receivable, less allowances of \$27.2 and \$27.6, respectively	427.2	285.2
Inventories net	629.4	492.4
Deferred income taxes	102.1	97.7
Other current assets	93.3	76.2
Total current assets	1,373.9	1,142.7
Property, plant and equipment net	443.3	398.9
Goodwill	545.3	462.1
Other intangible assets net	170.4	160.0
Deferred income taxes	19.1	14.3
Other non-current assets	38.5	41.5
Total assets	\$ 2,590.5	\$ 2,219.5
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 917.8	\$ 839.6
Short-term borrowings	10.4	4.1
Product warranties	67.5	59.6
Product liabilities	40.7	32.1
Total current liabilities	1,036.4	935.4
Non-Current Liabilities:		
Long-term debt	263.4	264.3
Pension obligations	25.9	64.5
Postretirement health and other benefit obligations	60.6	59.9
Long-term deferred revenue	67.8	71.6
Other non-current liabilities	77.9	49.3
Total non-current liabilities	495.6	509.6
Commitments and contingencies (Note 13)		
<b>Stockholders' Equity:</b>		
Common stock (300,000,000 and 150,000,000 shares authorized, respectively 159,175,928 and 79,587,964 shares issued, 125,599,704, and 62,121,862 shares outstanding, respectively)	1.3	0.7
Additional paid-in capital	254.4	231.8
Accumulated other comprehensive income	86.0	48.0
Retained earnings	807.1	587.4
Treasury stock, at cost (33,576,224 and 17,466,102 shares, respectively)	(90.3)	(93.4)
Total stockholders' equity	1,058.5	774.5

Edgar Filing: MANITOWOC CO INC - Form 10-Q

Total liabilities and stockholders' equity	\$	2,590.5	\$	2,219.5
--	----	---------	----	---------

See accompanying notes which are an integral part of these statements.

## THE MANITOWOC COMPANY, INC.

## Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2007 and 2006

(Unaudited, In millions)

	Nine Months Ended September 30,	
	2007	2006
<b>Cash Flows from Operations:</b>		
Net earnings	\$ 237.4	\$ 122.3
Adjustments to reconcile net earnings to cash provided by operating activities of continuing operations:		
Discontinued operations, net of income taxes		0.3
Pension settlements	1.3	
Gain on sale of parts line	(3.3)	
Depreciation	59.3	52.3
Amortization of intangible assets	2.9	2.4
Amortization of deferred financing fees	0.9	1.1
Loss on debt extinguishment	2.3	3.1
Deferred income taxes	(16.0)	10.6
Gain on sale of property, plant and equipment	(3.3)	(2.2)
Changes in operating assets and liabilities, excluding effects of business acquisitions and divestitures:		
Accounts receivable	(123.1)	(79.0)
Inventories	(148.0)	(106.3)
Other assets	(5.6)	13.9
Accounts payable and accrued expenses	37.1	87.9
Other liabilities	(12.4)	22.8
Net cash provided by operating activities of continuing operations	29.5	129.2
Net cash used for operating activities of discontinued operations		(0.3)
Net cash provided by operating activities	29.5	128.9
<b>Cash Flows from Investing:</b>		
Business acquisitions, net of cash acquired	(80.1)	(48.4)
Capital expenditures	(56.9)	(38.5)
Change in restricted cash	(0.5)	
Proceeds from sale of property, plant and equipment	7.8	5.0
Proceeds from sales of parts product line	4.9	
Purchase of marketable securities	(0.1)	
Net cash used for investing activities	(124.9)	(81.9)
<b>Cash Flows from Financing:</b>		
Proceeds from revolving credit facility	103.3	63.3
Payments on long-term debt	(113.8)	(248.7)
Proceeds from long-term debt	11.5	18.4
Proceeds (payments) from notes financing	3.4	(4.3)
Dividends paid	(6.9)	(6.5)
Exercises of stock options, including windfall tax benefits	20.0	8.4
Net cash provided by (used for) financing activities	17.5	(169.4)
Effect of exchange rate changes on cash	8.0	4.0
Net decrease in cash and cash equivalents	(69.9)	(118.4)

Edgar Filing: MANITOWOC CO INC - Form 10-Q

Balance at beginning of period		173.7		229.5
Balance at end of period	\$	103.8	\$	111.1

See accompanying notes which are an integral part of these statements.



**THE MANITOWOC COMPANY, INC.**

**Consolidated Statements of Comprehensive Income**

**For the Three and Nine Months Ended September 30, 2007 and 2006**

**(Unaudited)**

**(In millions)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net earnings	\$ 75.9	\$ 50.4	\$ 237.4	\$ 122.3
Other comprehensive income (loss)				
Derivative instrument fair market value adjustment - net of income taxes	(0.3)	0.1	(0.7)	0.8
Foreign currency translation adjustments	26.8	4.2	38.7	19.3
Total other comprehensive income	26.5	4.3	38.0	20.1
Comprehensive income	\$ 102.4	\$ 54.7	\$ 275.4	\$ 142.4

See accompanying notes which are an integral part of these statements.

**THE MANITOWOC COMPANY, INC.**  
**Notes to Unaudited Consolidated Financial Statements**  
**For the Three and Nine Months Ended September 30, 2007 and 2006**

**1. Accounting Policies**

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the results of operations, cash flows and comprehensive income for the three and nine months ended September 30, 2007 and 2006 and the financial position at September 30, 2007, and except as otherwise discussed such adjustments consist of only those of a normal recurring nature. The interim results are not necessarily indicative of results for a full year and do not contain information included in the company's annual consolidated financial statements and notes for the year ended December 31, 2006. The consolidated balance sheet as of December 31, 2006 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the company's latest annual report.

All dollar amounts, except share and per share amounts, are in millions of dollars throughout the tables included in these notes unless otherwise indicated.

Certain prior period amounts have been reclassified to conform to the current period presentation. See Note 7, "Stock Split," for further details.

**2. Acquisitions**

On July 19, 2007, the company acquired Shirke Construction Equipments Pvt. Ltd (Shirke). Headquartered in Pune, India, Shirke is a market leader in the Indian tower crane industry and has been Potain's Indian manufacturing partner and distributor since 1982. The aggregate consideration paid for Shirke resulted in approximately \$63.5 million of intangible assets being recognized by the company's Crane segment. As of September 30, 2007, all excess purchase price over net assets acquired was assigned to goodwill. The company is in the process of valuing other intangible assets acquired in this acquisition and will assign value to these assets during the fourth quarter of 2007. See further detail related to the goodwill and other intangible assets of the Shirke acquisition at note 5, "Goodwill and Other Intangible Assets."

On January 3, 2007, the company acquired the Carrydeck line of mobile industrial cranes from Marine Travelift, Inc. of Sturgeon Bay, Wisconsin. The acquisition of the Carrydeck line adds six new models to the company's product offering of mobile industrial cranes. The aggregate consideration paid for the Carrydeck line resulted in \$9.2 million of goodwill and \$6.5 million of other intangible assets being recognized by the company's Crane segment. See further detail related to the goodwill and other intangible assets of the Carrydeck acquisition at Note 5, "Goodwill and Other Intangible Assets."

On May 26, 2006, the company acquired substantially all of the assets and business operated by McCann's Engineering & Mfg. Co. and McCann's de Mexico S.A. de C.V. (McCann's). Headquartered in Los Angeles, California, and with operations in Tijuana, Mexico McCann's is engaged in the design, manufacture and sale of beverage dispensing equipment primarily used in fast food restaurants, stadiums, cafeterias and convenience stores. McCann's primary products are backroom beverage equipment such as carbonators, water boosters and racks. McCann's also

## Edgar Filing: MANITOWOC CO INC - Form 10-Q

produces accessory components for beverage dispensers including specialty valves, stands and other stainless steel components. The aggregate consideration paid for the McCann's acquisition was \$37.1 million, including acquisition costs of approximately \$0.7 million. The acquisition resulted in approximately \$14.4 million of goodwill and \$14.3 million of other intangible assets being recognized by the company's Foodservice segment. See further detail related to the goodwill and other intangible assets of the McCann's acquisition at Note 5, Goodwill and Other Intangible Assets.

On January 3, 2006, the company acquired certain assets, rights and properties of ExacTech, Inc., a supplier of fabrication, machining, welding, and other services to various parties. Located in Port Washington, Wisconsin, ExacTech, Inc. now provides these services to the company's U.S. based crane manufacturing facilities. The

aggregate consideration paid for the acquisition resulted in approximately \$6.5 million of goodwill being recognized by the company's Crane segment in the first quarter of 2006. See further detail related to the goodwill of the Exactech, Inc. acquisition at Note 5, "Goodwill and Other Intangible Assets."

### **3. Discontinued Operations**

During the third quarter of 2005, the company decided to close Toledo Ship Repair Company (Toledo Ship Repair), a division of the company's wholly-owned subsidiary, Manitowoc Marine Group, LLC. Located in Toledo, Ohio, Toledo Ship Repair performed ship repair and industrial repair services. During the third quarter of 2005, the company recorded a \$5.2 million pre-tax (\$3.8 million after tax) charge for costs related to the closure of the business. This charge included \$0.2 million related to severance agreements; \$1.0 million for future lease payments; \$0.3 million for the write-off of goodwill related to this business; \$2.2 million for the write-down of certain assets (primarily property, plant and equipment and inventory) to estimated salvage value; and \$1.5 million for closing and other related costs. This charge was recorded in gain (loss) on sale or closure of discontinued operations, net of income taxes in the Consolidated Statements of Operations during the third quarter of 2005. The closure of Toledo Ship Repair represents a discontinued operation under Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Results of Toledo Ship Repair have been classified as discontinued in the Consolidated Financial Statements to exclude the results from continuing operations. The closure of Toledo was completed during the first quarter of 2006.

The following selected financial data of Toledo Ship Repair for the three months ended March 31, 2006 is presented for informational purposes only and does not necessarily reflect what the results of operations would have been had the business operated as a stand-alone entity. There were no operating results from Toledo Ship Repair for the three months ended September 30, 2006 or the three and nine months ended September 30, 2007. There was no general corporate expense or interest expense allocated to discontinued operations for this business during the periods presented.

	<b>Three Months Ended March 31, 2006</b>	
Net sales	\$	
Pretax loss from discontinued operations	\$	(0.5)
Benefit for taxes on loss		0.2
Net loss from discontinued operations	\$	(0.3)

### **4. Inventories**

The components of inventory at September 30, 2007 and December 31, 2006 are summarized as follows:

	<b>September 30, 2007</b>		<b>December 31, 2006</b>	
Inventories gross:				
Raw materials	\$	254.6	\$	198.3
Work-in-process		219.3		174.2
Finished goods		229.5		187.2

Edgar Filing: MANITOWOC CO INC - Form 10-Q

Total inventories gross	703.4	559.7
Excess and obsolete inventory reserve	(50.3)	(44.4)
Net inventories at FIFO cost	653.1	515.3
Excess of FIFO costs over LIFO value	(23.7)	(22.9)
Inventories net	\$ 629.4	\$ 492.4

Inventory is carried at lower of cost or market value using the first-in, first-out (FIFO) method for 86% and 85% of total inventory at September 30, 2007 and December 31, 2006, respectively. The remainder of the inventory is costed using the last-in, first-out (LIFO) method.

### 5. Goodwill and Other Intangible Assets

The changes in carrying amount of goodwill by reportable segment for the year ended December 31, 2006 and nine months ended September 30, 2007 are as follows:

	Crane	Foodservice	Marine	Total
Balance as of January 1, 2006	\$ 196.7	\$ 185.7	\$ 47.2	\$ 429.6
ExacTech, Inc. acquisition	6.5			6.5
McCann's acquisition		14.4		14.4
Foreign currency impact	11.6			11.6
Balance as of December 31, 2006	214.8	200.1	47.2	462.1
Carrydeck acquisition	9.2			9.2
Shirke acquisition	63.5			63.5
Foreign currency impact	10.5			10.5
Balance as of September 30, 2007	\$ 298.0	\$ 200.1	\$ 47.2	\$ 545.3

As discussed in Note 2, Acquisitions, during 2006, the company completed the acquisitions of McCann's and ExacTech, Inc. The acquisition of ExacTech, Inc. resulted in an increase of \$6.5 million of goodwill and no other intangible assets. The acquisition of McCann's resulted in an increase of \$14.4 million of goodwill and \$14.3 million of other intangible assets. The other intangible assets consist of trademarks totaling \$7.0 million, which have an indefinite life, customer relationships of \$5.8 million, which have been assigned a 13 year life, and patents of \$1.5 million which have been assigned a 10 year life. During the first quarter of 2007, the company completed the acquisition of the Carrydeck line of mobile industrial cranes from Marine Travelift, Inc. of Sturgeon Bay, Wisconsin. The acquisition resulted in \$9.2 million of goodwill and \$6.5 million of other intangible assets being recognized by the company's Crane segment. The other intangible assets consist of trademarks totaling \$1.2 million, which have an indefinite life, customer relationships of \$4.2 million, which have been assigned a 20 year life, and non-patented technologies of \$1.1 million which have been assigned a 20 year life. During the third quarter of 2007, the company acquired Shirke. The aggregate consideration paid for Shirke resulted in approximately \$63.5 million of intangible assets being recognized by the company's Crane segment. As of September 30, 2007, all excess purchase price over net assets acquired was assigned to goodwill. The company is in the process of valuing other intangible assets acquired in this acquisition and will assign value to these assets during the fourth quarter of 2007.

The gross carrying amount and accumulated amortization of the company's intangible assets other than goodwill were as follows as of September 30, 2007 and December 31, 2006.

	September 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trademarks and tradenames	\$ 110.9	\$	\$ 110.9	\$ 105.1	\$	\$ 105.1
Customer relationships	9.9	(0.6)	9.3	5.8	(0.3)	5.5
Patents	34.6	(13.2)	21.4	31.1	(10.4)	20.7
Engineering drawings	11.7	(4.4)	7.3	12.0	(3.8)	8.2
Distribution network	21.5		21.5	20.5		20.5

Edgar Filing: MANITOWOC CO INC - Form 10-Q

\$ 188.6 \$ (18.2) \$ 170.4 \$ 174.5 \$ (14.5) \$ 160.0

**6. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses at September 30, 2007 and December 31, 2006 are summarized as follows:

	September 30, 2007	December 31, 2006
Trade accounts payable	\$ 504.1	\$ 431.8
Interest payable	5.2	7.9
Employee related expenses	90.4	76.3
Income taxes payable	31.1	62.9
Profit sharing and incentives	51.0	54.8
Unremitted cash liability	7.2	11.7
Deferred revenue - current	60.9	48.1
Amounts billed in excess of sales	49.4	57.2
Miscellaneous accrued expenses	118.5	88.9
	\$ 917.8	\$ 839.6

**7. Stock Split**

On July 26, the board of directors authorized a two-for-one split of the company's common stock. Record holders of Manitowoc's common stock at the close of business on August 31, 2007 received on September 10, 2007 one additional share of common stock for every share of Manitowoc common stock they owned as of August 31, 2007. Manitowoc shares outstanding at the close of business on August 31, 2007 totaled 62,787,642. The company's common stock began trading at its post-split price at the beginning of trading on September 11, 2007. Per share, share and stock option amounts within this quarterly report on Form 10-Q for both periods presented have been adjusted to reflect the stock split.

**8. Accounts Receivable Securitization**

The Company has entered into an accounts receivable securitization program whereby it sells certain of its domestic trade accounts receivable to a wholly owned, bankruptcy-remote special purpose subsidiary which, in turn, sells participating interests in its pool of receivables to a third-party financial institution (Purchaser). The Purchaser receives an ownership and security interest in the pool of receivables. New receivables are purchased by the special purpose subsidiary and participation interests are resold to the Purchaser as collections reduce previously sold participation interests. The company has retained collection and administrative responsibilities on the participation interests sold. The Purchaser has no recourse against the company for uncollectible receivables; however, the company's retained interest in the receivable pool is subordinate to the Purchaser and is recorded at fair value. Due to a short average collection cycle of less than 60 days for such accounts receivable and due to the company's collection history, the fair value of the company's retained interest approximates book value. The retained interest recorded at September 30, 2007 is \$70.2 million and is included in accounts receivable in the accompanying Consolidated Balance Sheets.

The securitization program includes certain of the company's domestic Foodservice and Crane segment's businesses and the program was amended in the third quarter of 2007 to increase the capacity of the program from \$90 million to \$105 million. Trade accounts receivables sold to the Purchaser and being serviced by the company totaled \$95.0 million at September 30, 2007.



## Edgar Filing: MANITOWOC CO INC - Form 10-Q

Sales of trade receivables from the special purpose subsidiary to the Purchaser totaled \$26.0 million for the nine months ended September 30, 2007. Cash collections of trade accounts receivable balances in the total receivable pool totaled \$828.5 million for the nine months ended September 30, 2007.

The accounts receivables securitization program is accounted for as a sale in accordance with FASB Statement No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities a Replacement of FASB Statement No. 125. Sales of trade receivables to the Purchaser are reflected as a reduction of accounts receivable in the accompanying Consolidated Balance Sheets and the proceeds received are included in cash flows from operating activities in the accompanying Consolidated Statements of Cash Flows.

The table below provides additional information about delinquencies and net credit losses for trade accounts receivable subject to the accounts receivable securitization program.

	Balance outstanding September 30, 2007	Balance Outstanding 60 Days or More Past Due September 30, 2007	Net Credit Losses Nine Months Ended September 30, 2007
Trade accounts receivable subject to securitization program	\$ 165.2	\$ 2.9	\$
Trade accounts receivable balance sold	95.0		
Retained interest	\$ 70.2		

## 9. Income Taxes

The company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The following table provides the open tax years for which the Company could be subject to income tax examination by the tax authorities in its major jurisdictions:

Jurisdiction	Open Years
U.S. Federal	2006
Wisconsin	1997 2006
Pennsylvania	2002 2006
France	2003 2006
Germany	2001 2006
Italy	2004 2006
Portugal	2002 2006
England	2001 2006
Singapore	2000 2006

The Internal Revenue Service (IRS) commenced an examination of the company's U.S. income tax returns for the 2004 and 2005 tax years in the first quarter of 2007. On October 2, 2007, the company signed an assessment agreement with the IRS coming to terms on a Research and Development (R&D) tax credit issue. Accordingly, the company recognized \$2.7 million of additional R&D tax credit benefit during the quarter. In 2006, the Wisconsin Department of Revenue (WDOR) began an examination of the company's Wisconsin income tax returns for 1997 through 2005 that is anticipated to be completed by the end of 2008. As of September 30, 2007, the WDOR has not formally issued any assessment report. In August 2007, the German tax authorities began an examination of the company's German entity's income and trade tax returns for 2001 through 2005. Thus far, there have been no significant developments with regard to this German examination.

## Edgar Filing: MANITOWOC CO INC - Form 10-Q

The company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, effective January 1, 2007. As a result of the adoption of FIN 48, the company recognized an additional tax liability of \$10.6 million for unrecognized tax benefits, including \$4.6 million of accrued interest and penalties,

which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. Immediately prior to adopting FIN No. 48, the company's total amount of unrecognized tax benefits, including interest and penalties, was \$25.1 million. All of the company's unrecognized tax benefits, if recognized, would affect the effective tax rate.

The company recognizes accrued interest and penalties related to unrecognized tax benefits as part of income tax expense. During the quarter ended September 30, 2007, the company recognized a benefit of \$2.0 million related to reductions in interest and penalties due to changes in estimates of uncertain tax liabilities. Upon the adoption of Interpretation 48, the Company has accrued interest and penalties in the aggregate of \$6.7 million.

During the next 12 months, the company does not expect any significant changes in its unrecognized tax benefits. During the first three quarters of 2007, the company recognized a decrease in its FIN 48 liability of \$13.9 million from the impact of an IRS audit settlement related to a federal research credit carryover causing a \$4.5 million tax benefit. In addition, a tax benefit of \$1.3 million resulted from the allowance of a French research credit. These items had the impact of reducing the company's effective tax rate by 5 percentage points and 2 percentage points in the three and nine months ending September 30, 2007, respectively.

## **10. Earnings Per Share**

The following is a reconciliation of the average shares outstanding used to compute basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Basic weighted average common shares outstanding	125,175,721	123,155,226	124,314,233	122,292,140
Effect of dilutive securities - stock options and restricted stock	2,739,283	2,921,974	2,826,979	3,279,774
Diluted weighted average common shares outstanding	127,915,004	126,077,200	127,141,212	125,571,914

For the three and nine months ended September 30, 2007, no common shares issuable upon the exercise of stock options, and for the three and nine months ended September 30, 2006, 0.2 million common shares issuable upon the exercise of stock options, were anti-dilutive and were excluded from the calculation of diluted earnings per share.

During the three months ended September 30, 2007, the company paid a quarterly dividend of \$0.02 per outstanding common share. At its July 2007 meeting, the board of directors approved a pre-split quarterly dividend of \$0.04 per share of common stock (\$0.02 per share of common stock post-split) payable on September 10, 2007, to shareholders of record on August 31, 2007. During the three months ended September 30, 2006, the company paid a quarterly dividend of \$0.018 per outstanding share of common stock. During the nine months ended September 30, 2007, the company paid three quarterly dividends of 0.055 per outstanding share of common stock. During the same period ending September 30, 2006, the company paid three quarterly dividends of \$0.053 per share of common stock each.

## **11. Stockholders' Equity**

## Edgar Filing: MANITOWOC CO INC - Form 10-Q

On March 21, 2007, the Board of Directors of the company approved the Rights Agreement between the company and Computershare Trust Company, N.A., as Rights Agent and declared a dividend distribution of one right (a "Right") for each outstanding share of Common Stock, par value \$0.01 per share, of the company (the "Common Stock"), to shareholders of record at the close of business on March 30, 2007 (the "Record Date"). In addition to the Rights issued as a dividend on the record date, the Board of Directors has also determined that one Right will be issued together with each share of Common Stock issued by the company after the Record Date. Generally, each Right, when it becomes exercisable, entitles the registered holder to purchase from the company one share of Common Stock at a purchase price, in cash, of \$110.00 per share (\$220.00 per share prior to the September 10, 2007 stock split), subject to adjustment as set forth in the Rights Agreement (the "Purchase Price" or "Exercise Price").

As explained in the Rights Agreement the Rights become exercisable on the Distribution Date, which is that date that any of the following occurs: (1) 10 days following a public announcement that a person or group of affiliated persons (an Acquiring Person) has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company; or (2) 10 business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of such outstanding shares of Common Stock. The Rights will expire at the close of business on March 29, 2017, unless earlier redeemed or exchanged by the Company as described in the Rights Agreement.

## **12. Stock Based Compensation**

Stock based compensation expense is calculated by estimating the fair value of incentive stock options at the time of grant and amortized over the stock options vesting period. Stock based compensation was \$1.6 million and \$4.9 million for the three and nine months ended September 30, 2007, respectively. Stock based compensation was \$1.3 million and \$4.4 million for the three and nine months ended September 30, 2006, respectively.

## **13. Contingencies and Significant Estimates**

The company has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) in connection with the Lemberger Landfill Superfund Site near Manitowoc, Wisconsin. Approximately 150 potentially responsible parties have been identified as having shipped hazardous materials to this site. Eleven of those, including the company, have formed the Lemberger Site Remediation Group and have successfully negotiated with the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources to fund the cleanup and settle their potential liability at this site. The estimated remaining cost to complete the clean up of this site is approximately \$8.1 million. Although liability is joint and several, the company's share of the liability is estimated to be 11% of the remaining cost. Remediation work at the site has been substantially completed, with only long-term pumping and treating of groundwater and site maintenance remaining. The company's remaining estimated liability for this matter, included in accounts payable and accrued expenses in the Consolidated Balance Sheet at September 30, 2007 is \$0.8 million. Based on the size of the company's current allocation of liabilities at this site, the existence of other viable potential responsible parties and current reserve, the company does not believe that any liability imposed in connection with this site will have a material adverse effect on its financial condition, results of operations, or cash flows.

During the due diligence process for the sale of the company's wholly-owned subsidiary Diversified Refrigeration, LLC, (f/k/a Diversified Refrigeration, Inc.) (DRI) certain contaminants in the soil and ground water associated with the facility were identified. As part of the sale agreement, the company agreed to be responsible for costs associated with further investigation and remediation of the issues identified. Estimates indicate that the costs to remediate this site are approximately \$2.0 million. During December 2005, the company recorded a \$2.0 million reserve for these estimated costs. This charge was recorded in discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2005. The company's remaining estimated liability for this matter, included in other accounts payable and accrued expenses in the Consolidated Balance Sheet at September 30, 2007 is \$1.8 million. Based upon available information, the company does not expect the ultimate costs will have a material adverse effect on its financial condition, results of operations, or cash flows.

At certain of the company's other facilities, the company has identified potential contaminants in soil and groundwater. The ultimate cost of any remediation required will depend upon the results of future investigation. Based upon available information, the company does not expect the ultimate costs will have a material adverse effect on its financial condition, results of operations, or cash flows.

## Edgar Filing: MANITOWOC CO INC - Form 10-Q

The company believes that it has obtained and is in substantial compliance with those material environmental permits and approvals necessary to conduct its various businesses. Based on the facts presently known, the company does not expect environmental compliance costs to have a material adverse effect on its financial condition, results of operations, or cash flows.

As of September 30, 2007, various product-related lawsuits were pending. To the extent permitted under applicable law, all of these are insured with self-insurance retention levels. The company's self-insurance retention levels vary by business, and have fluctuated over the last five years. The range of the company's self-insured retention levels is

\$0.1 million to \$3.0 million per occurrence. The high-end of the company's self-insurance retention level is for certain cranes manufactured in the United States for occurrences from January 2000 through October 2002. As of September 30, 2007, the largest self-insured retention level currently maintained by the company is \$2.0 million per occurrence and applies to product liability claims for cranes manufactured in the United States.

Product liability reserves in the Consolidated Balance Sheet at September 30, 2007, were \$40.7 million; \$15.6 million was reserved specifically for actual cases and \$25.1 million for claims incurred but not reported which were estimated using actuarial methods. Based on the company's experience in defending product liability claims, management believes the current reserves are adequate for estimated case resolutions on aggregate self-insured claims and insured claims. Any recoveries from insurance carriers are dependent upon the legal sufficiency of claims and solvency of insurance carriers.

At September 30, 2007 and December 31, 2006, the company had reserved \$78.4 million and \$69.4 million, respectively, for warranty claims included in product warranties and other non-current liabilities in the Consolidated Balance Sheets. Certain of these warranties and other related claims involve matters in dispute that ultimately are resolved by negotiations, arbitration, or litigation.

It is reasonably possible that the estimates for environmental remediation, product liability and warranty costs may change in the near future based upon new information that may arise or matters that are beyond the scope of the company's historical experience.

The company is involved in numerous lawsuits involving asbestos-related claims in which the company is one of numerous defendants. After taking into consideration legal counsel's evaluation of such actions, the current political environment with respect to asbestos related claims, and the liabilities accrued with respect to such matters, in the opinion of management, ultimate resolution is not expected to have a material adverse effect on the financial condition, results of operations, or cash flows of the company.

The company is also involved in various legal actions arising out of the normal course of business, which, taking into account the liabilities accrued and legal counsel's evaluation of such actions, in the opinion of management, the ultimate resolution is not expected to have a material adverse effect on the company's financial condition, results of operations, or cash flows.

#### **14. Guarantees**

The company periodically enters into transactions with customers that provide for residual value guarantees and buyback commitments. These transactions are recorded as operating leases for all significant residual value guarantees and for all buyback commitments. These initial transactions are recorded as deferred revenue and are amortized to income on a straight-line basis over a period equal to that of the customer's third party financing agreement. The deferred revenue included in accounts payable and accrued expenses and non-current liabilities at September 30, 2007 and December 31, 2006 was \$126.8 million and \$118.5 million, respectively. The total amount of residual value guarantees and buyback commitments given by the company and outstanding at September 30, 2007 was \$130.4 million. This amount is not reduced for amounts the company would recover from repossessing and subsequent resale of the units. The residual value guarantees and buyback commitments expire at various times through 2012.



## Edgar Filing: MANITOWOC CO INC - Form 10-Q

During the nine months ended September 30, 2007 and 2006, the company sold \$9.2 million and \$14.8 million, respectively, of its long term notes receivable to third party financing companies. The company guarantees some percentage, up to 100%, of collection of the notes to the financing companies. The company has accounted for the sales of the notes as a financing of receivables. The receivables remain on the company's Consolidated Balance Sheet, net of payments made, in accounts payable and accrued expenses and non-current assets and the company has recognized an obligation equal to the net outstanding balance of the notes in other current and non-current liabilities in the Consolidated Balance Sheets. The cash flow benefit of these transactions, net of payments made by the customer, are reflected as financing activities in the Consolidated Statement of Cash Flows. During the nine months ended September 30, 2007, the customers have paid \$12.6 million of the notes to the third party financing companies. As of September 30, 2007, the outstanding balance of the notes receivables guaranteed by the company was \$19.0 million.

Edgar Filing: MANITOWOC CO INC - Form 10-Q

In the normal course of business, the company provides its customers a warranty covering workmanship, and in some cases materials, on products manufactured by the company. Such warranty generally provides that products will be free from defects for periods ranging from 12 months to 60 months. If a product fails to comply with the company's warranty, the company may be obligated, at its expense, to correct any defect by repairing or replacing such defective products. The company provides for an estimate of costs that may be incurred under its warranty at the time product revenue is recognized. These costs primarily include labor and materials, as necessary, associated with repair or replacement. The primary factors that affect the company's warranty liability include the number of units shipped and historical and anticipated warranty claims. As these factors are impacted by actual experience and future expectations, the company assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. Below is a table summarizing the warranty activity for the nine months ended September 30, 2007 and 2006.

	2007		2006	
Balance at beginning of period	\$	69.4	\$	55.4
Accruals for warranties issued during the period		39.5		34.8
Settlements made (in cash or in kind) during the period		(32.6)		(27.6)
Acquisition				0.2
Currency translation		2.1		1.8
Balance at end of period	\$	78.4	\$	64.6

**15. Employee Benefit Plans**

The company provides certain pension, health care and death benefits for eligible retirees and their dependents. The pension benefits are funded, while the health care and death benefits are not funded but are paid as incurred. Eligibility for coverage is based on meeting certain years of service and retirement qualifications. These benefits may be subject to deductibles, co-payment provisions, and other limitations. The company has reserved the right to modify these benefits.

The components of periodic benefit costs for the three and nine months ended September 30, 2007 and 2006 are as follows:

	Three Months Ended September 30, 2007			Nine Months Ended September 30, 2007		
	U.S. Pension Plans	Non-U.S. Pension Plans	Postretirement Health and Other Plans	U.S. Pension Plans	Non-U.S. Pension Plans	Postretirement Health and Other Plans
Service cost - benefits earned during the period	\$	\$ 0.5	\$ 0.2	\$	\$ 1.5	\$ 0.5
Interest cost of projected benefit obligations	1.8	1.2	0.8	5.3	3.5	2.5
Expected return on plan assets	(1.8)	(1.1)		(5.3)	(3.3)	
Amortization of actuarial net (gain) loss	0.2		0.1	0.5		0.2
Net periodic benefit costs	\$ 0.2	\$ 0.6	\$ 1.1	\$ 0.5	\$ 1.7	\$ 3.2
Weighted average assumptions:						
Discount rate	5.75%	4.5 - 4.9%	5.75%	5.75%	4.5 - 4.9%	5.75%
Expected return on plan assets	6.5%	0.0 - 6.3%	N/A	6.5%	0.0 - 6.3%	N/A
Rate of compensation increase	N/A	1.8 - 4.0%	N/A	N/A	1.8 - 4.0%	N/A



Edgar Filing: MANITOWOC CO INC - Form 10-Q

	Three Months Ended September 30, 2006			Nine Months Ended September 30, 2006								
	U.S. Pension Plans	Non-U.S. Pension Plans	Postretirement Health and Other Plans	U.S. Pension Plans	Non-U.S. Pension Plans	Postretirement Health and Other Plans						
Service cost - benefits earned during the period	\$	\$	0.4	\$	\$	1.2	\$	\$	0.6			
Interest cost of projected benefit obligations		1.6	1.0	0.8	4.8	3.0		2.4				
Expected return on plan assets		(1.6)	(0.8)		(4.8)	(2.4)						
Amortization of actuarial net (gain) loss		0.2		0.1	0.6	0.1		0.1				
Net periodic benefit costs	\$	0.2	\$	0.6	\$	1.1	\$	0.6	\$	1.9	\$	3.1
Weighted average assumptions:												
Discount rate		5.50%	4.53%	5.50%	5.50%	4.53%		5.50%				
Expected return on plan assets		8.25%	5.74%	N/A	8.25%	5.74%		N/A				
Rate of compensation increase		N/A	3.53%	N/A	N/A	3.53%		N/A				

The company made a contribution of \$27.2 million during the first quarter of 2007 that fully funded the ongoing pension liability of the U.S. pension plans. The company also changed its investment policy to more closely align the interest rate sensitivity of its pension plan assets with the corresponding liabilities. The resulting asset allocation consists of approximately 10% equities and 90% fixed income securities. This funding and change in allocation will remove a significant portion of the U.S. pension's volatility arising from unpredictable changes in interest rates and the equity markets. This decision increased the funded status of these plans, and minimized unexpected future pension cash contributions that would result from implementation of the provisions of the Pension Protection Act.

During the second quarter of 2007, the company made a \$15.1 million pension contribution to its U.K. defined benefit pension plan. The \$15.1 million contribution funded the defined benefit plan as well as paid an incentive to certain pensioners to transfer from the defined benefit plan to a defined contribution plan. As a result of this payment, the company recorded a charge during the second quarter of 2007 of approximately \$3.8 million to reflect the incentive given to the pensioners and expenses incurred. This charge is recorded in pension settlements in the Consolidated Statement of Operations for the nine months ended September 30, 2007. Subsequent to the funding of the defined benefit pension plan, approximately \$39.2 million of assets and related liabilities were transferred from the defined benefit pension plan to a defined contribution pension plan.

During the second quarter of 2007, the company recorded a charge of \$1.4 million related to a withdraw liability from a multiemployer pension plan at its former River Falls, Wisconsin facility. During the third quarter of 2005, the company closed its Kolpak operation located in River Falls, Wisconsin and consolidated it with its operation in Tennessee. The \$1.4 million represents the estimated payment the company will make to the multiemployer pension plan for its former union employees at the closed facility. This charge is recorded in pension settlements in the Consolidated Statement of Operations for the nine months ended September 30, 2007.

## **16. Debt and Loss on Debt Extinguishment**

On August 1, 2007, the company redeemed its 10 ½% senior subordinated notes due 2012. Pursuant to the terms of the indenture, the company paid the note holders 105.25 percent of the principal amount plus accrued and unpaid interest up to the redemption date. As a result of this redemption, the company incurred a charge of \$12.5 million (\$8.1 million net of income taxes) related to the call premium, write-off of unamortized debt issuance costs and other expenses. The charge was recorded in loss on debt extinguishment in the Consolidated Statement of

Operations.

On May 15, 2006, the company redeemed its 10 3/8% senior subordinated notes due 2011. Pursuant to the terms of the indenture, the company paid the note holders 105.188 percent of the principal amount plus accrued and unpaid interest up to the redemption date. As a result of this redemption, the company incurred a charge of \$14.4 million (\$9.4 million net of income taxes) related to the call premium, write-off of unamortized debt issuance costs and other expenses. The charge was recorded in loss on debt extinguishment in the Consolidated Statement of Operations.

#### **17. Sale of Parts Line**

On April 3, 2007, the company sold all of its aftermarket replacement parts and rights to manufacture, sell and service aftermarket replacement parts for all the models of the Grove Manlift aerial work platform product line around the world, to MinnPar LLC. The company received \$4.9 million in proceeds and recognized a gain of \$3.3 million, which is recorded in gain on sale of parts line in the Consolidated Statement of Operations for the nine months ended September 30, 2007.

#### **18. Recent Accounting Changes and Pronouncements**

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statement No. 133 and 140. SFAS No 155 amends certain aspects of SFAS No 133, primarily related to hybrid financial instruments and beneficial interest in securitized financial assets, as well as amends SFAS No. 140, related to eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity (SPE) may hold. SFAS No. 155 was effective for the company on January 1, 2007 and did not have any impact on the company.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. SFAS No. 156, amends certain aspects of SFAS No. 140, by requiring that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 was effective for the company on January 1, 2007 and did not have any impact on the company.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for the company on January 1, 2008. The company does not anticipate the adoption of SFAS No. 157 will have a significant impact on its Consolidated Financial Statements.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option permits a company to choose to measure eligible items at fair value at specified election dates. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings after adoption. Statement 159 will be effective for us beginning January 1, 2008. We are currently evaluating the impact SFAS No. 159 could have on our consolidated financial statements.



**19. Subsidiary Guarantors of Senior Notes due 2013**

The following tables present condensed consolidating financial information for (a) the parent company, The Manitowoc Company, Inc. (Parent); (b) on a combined basis, the guarantors of the Senior Notes due 2013, which include substantially all of the domestic wholly owned subsidiaries of the company (Subsidiary Guarantors); and (c) on a combined basis, the wholly and partially owned foreign subsidiaries of the company, which do not guarantee the Senior Notes due 2013 (Non-Guarantor Subsidiaries). Separate financial statements of the Subsidiary Guarantors are not presented because the guarantors are fully and unconditionally, jointly and severally liable under the guarantees, and 100% owned by the company.

**The Manitowoc Company, Inc.**  
**Condensed Consolidating Statement of Operations**  
**For the Three Months Ended September 30, 2007**  
(In millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 614.1	\$ 509.9	\$ (117.8)	\$ 1,006.2
Costs and expenses:					
Cost of sales		488.0	411.2	(117.8)	781.4
Engineering, selling and administrative expenses	10.9	49.0	39.5		99.4
Gain on sale of parts line					
Pension settlement					
Amortization expense		0.5	0.5		1.0
Total costs and expenses	10.9	537.5	451.2	(117.8)	881.8
Earnings (loss) from operations	(10.9)	76.6	58.7		124.4
Other income (expense):					
Interest expense	(4.8)	(1.3)	(2.4)		(8.5)
Management fee income (expense)	9.2	(8.8)	(0.4)		
Loss on debt extinguishment	(12.5)				(12.5)
Other income (expense), net	15.6	(2.4)	(13.6)		(0.4)
Total other income (expense)	7.5	(12.5)	(16.4)		(21.4)
Earnings (loss) from continuing operations before taxes on income (loss) and equity in earnings of subsidiaries	(3.4)	64.1	42.3		103.0
Provision (benefit) for taxes on income	(0.8)	14.4	13.5		27.1
Earnings (loss) from continuing operations before equity in earnings of subsidiaries	(2.6)	49.7	28.8		75.9
Equity in earnings of subsidiaries		78.5		(78.5)	
Net earnings	\$ 75.9	\$ 49.7	\$ 28.8	\$ (78.5)	\$ 75.9



**The Manitowoc Company, Inc.**  
**Condensed Consolidating Statement of Operations**  
**For the Three Months Ended September 30, 2006**  
(In millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 498.0	\$ 358.7	\$ (77.7)	\$ 779.0
Costs and expenses:					
Cost of sales		401.0	286.4	(77.7)	609.7
Engineering, selling and administrative expenses	11.7	41.7	30.8		84.2
Amortization expense		0.5	0.5		1.0
Total costs and expenses	11.7	443.2	317.7	(77.7)	694.9
Earnings (loss) from operations	(11.7)	54.8	41.0		84.1
Other income (expense):					
Interest expense	(6.6)	(0.3)	(3.4)		(10.2)
Management fee income (expense)	6.6	(6.4)	(0.2)		
Other income (expense), net	7.7	(3.7)	(3.2)		0.7
Total other income (expense)	7.7	(10.4)	(6.8)		(9.5)
Earnings (loss) from continuing operations before taxes on income (loss) and equity in earnings of subsidiaries	(4.0)	44.4	34.2		74.6
Provision (benefit) for taxes on income	(1.3)	14.5	11.0		24.2
Earnings (loss) from continuing operations before equity in earnings of subsidiaries	(2.7)	29.9	23.2		50.4
Equity in earnings of subsidiaries		53.1		(53.1)	
Net earnings	\$	\$ 50.4	\$ 29.9	\$ (53.1)	\$ 50.4

**The Manitowoc Company, Inc.**  
**Condensed Consolidating Statement of Operations**  
**For the Nine Months Ended September 30, 2007**  
(In millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 1,776.5	\$ 1,460.3	\$ (349.9)	\$ 2,886.9
Costs and expenses:					
Cost of sales		1,414.8	1,161.8	(349.9)	2,226.7
Engineering, selling and administrative expenses	33.0	138.4	122.4		293.8
Gain on sale of parts line		(3.3)			(3.3)
Pension settlements	1.3		3.9		5.2
Amortization expense		1.4	1.5		2.9
Total costs and expenses	34.3	1,551.3	1,289.6	(349.9)	2,525.3
Earnings (loss) from operations	(34.3)	225.2	170.7		361.6
Other income (expense):					
Interest expense	(19.0)	(3.4)	(5.0)		(27.4)
Management fee income (expense)	27.1	(25.9)	(1.2)		
Loss on debt extinguishment	(12.5)				(12.5)
Other income (expense), net	49.5	(12.0)	(33.1)		4.4
Total other income (expense)	45.1	(41.3)	(39.3)		(35.5)
Earnings (loss) from continuing operations before taxes on income (loss) and equity in earnings of subsidiaries	10.8	183.9	131.4		326.1
Provision (benefit) for taxes on income	2.1	39.2	47.4		88.7
Earnings (loss) from continuing operations before equity in earnings of subsidiaries	8.7	144.7	84.0		237.4
Equity in earnings of subsidiaries	228.8			(228.8)	
Net earnings	\$ 237.5	\$ 144.7	\$ 84.0	\$ (228.8)	\$ 237.4

**The Manitowoc Company, Inc.**  
**Condensed Consolidating Statement of Operations**  
**For the Nine Months Ended September 30, 2006**  
(In millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated	
Net sales	\$	\$	1,382.1	\$	\$	2,158.1
Costs and expenses:						
Cost of sales		1,112.4	805.3	(236.0)		1,681.7
Engineering, selling and administrative expenses	30.6	123.3	96.0			249.9
Amortization expense		1.1	1.3			2.4
Total costs and expenses	30.6	1,236.8	902.6	(236.0)		1,934.0
Earnings (loss) from operations	(30.6)	145.3	109.4			224.1
Other income (expense):						
Interest expense	(27.5)	(0.7)	(7.8)			(36.0)
Management fee income (expense)	20.0	(19.5)	(0.5)			
Loss on debt extinguishment	(14.4)					(14.4)
Other income (expense), net	26.6	(13.0)	(9.5)			4.1
Total other expense	4.7	(33.2)	(17.8)			(46.3)
Earnings (loss) from continuing operations before taxes on income (loss) and equity in earnings of subsidiaries and discontinued operations	(25.9)	112.1	91.6			177.8
Provision (benefit) for taxes on income	(7.0)	31.5	30.7			55.2
Earnings (loss) from continuing operations before equity in earnings of subsidiaries and discontinued operations	(18.9)	80.6	60.9			122.6
Equity in earnings of subsidiaries	141.2			(141.2)		
Loss from discontinued operations, net of income taxes		(0.3)				(0.3)
Net earnings	\$	\$	\$	\$	\$	\$

**The Manitowoc Company, Inc.**  
**Condensed Consolidating Balance Sheet**  
**as of September 30, 2007**  
**(In millions)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents	\$ 5.0	\$ 29.5	\$ 69.3	\$	\$ 103.8
Marketable securities	2.5				2.5
Restricted cash	15.6				15.6
Accounts receivable net	0.4	117.2	309.6		427.2
Inventories net		230.6	398.8		629.4
Deferred income taxes	50.8		51.3		102.1
Other current assets	0.5	57.5	35.3		93.3
Total current assets	74.8	434.8	864.3		1,373.9
Property, plant and equipment net	9.5	179.4	254.4		443.3
Goodwill		325.9	219.4		545.3
Other intangible assets net		72.1	98.3		170.4
Deferred income taxes	26.8		(7.7)		19.1
Other non-current assets	20.6	9.9	8.0		38.5
Investment in affiliates	671.9	23.0	199.0	(893.9)	
Total assets	\$ 803.6	\$ 1,045.1	\$ 1,635.7	\$ (893.9)	\$ 2,590.5
<b>Liabilities and Stockholders Equity</b>					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 4.7	\$ 379.9	\$ 533.2	\$	\$ 917.8
Short-term borrowings			10.4		10.4
Product warranties		37.7	29.8		67.5
Product liabilities		34.4	6.3		40.7
Total current liabilities	4.7	452.0	579.7		1,036.4
Non-Current Liabilities:					
Long-term debt	202.6		60.8		263.4
Pension obligations	12.3	0.6	13.0		25.9
Postretirement health and other benefit obligations	59.5		1.1		60.6
Intercompany	(591.9)	(185.5)	798.7	(21.3)	
Long-term deferred income		18.6	49.2		67.8
Other non-current liabilities	58.0	15.6	4.3		77.9
Total non-current liabilities	(259.5)	(150.7)	927.1	(21.3)	495.6
Stockholders equity	1,058.4	743.8	128.9	(872.6)	1,058.5
Total liabilities and stockholders equity	\$ 803.6	\$ 1,045.1	\$ 1,635.7	\$ (893.9)	\$ 2,590.5

**The Manitowoc Company, Inc.**  
**Condensed Consolidating Balance Sheet**  
**as of December 31, 2006**  
(In millions)

	Parent	Guarantor	Non-Guarantor	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 20.4	\$ 22.9	\$ 130.4	\$	\$ 173.7
Marketable securities	2.4				2.4
Restricted cash	15.1				15.1
Accounts receivable-net	0.3	92.3	192.6		285.2
Inventories-net		203.7	288.7		492.4
Deferred income taxes	61.3		36.4		97.7
Other current assets	0.6	44.8	30.8		76.2
Total current assets	100.1	363.7	678.9		1,142.7
Property, plant and equipment - net	9.2	162.1	227.6		398.9
Goodwill		311.9	150.2		462.1
Other intangible assets - net		67.0	93.0		160.0
Deferred income taxes	15.2		(0.9)		14.3
Other non-current assets	23.4	11.7	6.4		41.5
Investments in affiliates	671.0	18.8	203.1	(892.9)	
Total assets	\$ 818.9	\$ 935.2	\$ 1,358.3	\$ (892.9)	\$ 2,219.5
<b>Liabilities and stockholders equity</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 65.4	\$ 335.1	\$ 439.1	\$	\$ 839.6
Short-term borrowings			4.1		4.1
Product warranties		33.1	26.5		59.6
Product liabilities		30.1	2.0		32.1
Total current liabilities	65.4	398.3	471.7		935.4
Non-Current Liabilities:					
Long-term debt	259.3		5.0		264.3
Pension obligations	29.3	10.9	24.3		64.5
Postretirement health and other benefit obligations	59.9				59.9
Long-term deferred revenue		9.7	61.9		71.6
Intercompany	(394.4)	(57.9)	721.4	(269.1)	
Other non-current liabilities	24.8	15.3	9.2		49.3
Total non-current liabilities	(21.1)	(22.0)	821.8	(269.1)	509.6
Stockholders equity	774.6	558.9	64.8	(623.8)	774.5
Total liabilities and stockholders equity	\$ 818.9	\$ 935.2	\$ 1,358.3	\$ (892.9)	\$ 2,219.5

**The Manitowoc Company, Inc.**  
**Condensed Consolidating Statement of Cash Flows**  
**For the Nine Months Ended September 30, 2007**  
(In millions)

	Parent	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operations	\$ 234.6	\$ 153.0	\$ (129.4)	\$ (228.7)	\$ 29.5
<b>Cash Flows from Investing:</b>					
Business acquisitions, net of cash acquired		(15.9)	(64.2)		(80.1)
Capital expenditures	(1.7)	(28.8)	(26.4)		(56.9)
Restricted cash	(0.5)				(0.5)
Proceeds from sale of property, plant and equipment			7.8		7.8
Proceeds from sales of parts product line		4.9			4.9
Purchase of marketable securities	(0.1)				(0.1)
Intercompany investments	(205.9)	(103.3)	80.5	228.7	
Net cash provided by (used for) investing activities of continuing operations	(208.2)	(143.1)	(2.3)	228.7	(124.9)
<b>Cash Flows from Financing:</b>					
Proceeds from revolving credit facility	53.3		50.0		103.3
Proceeds from long-term debt			11.5		11.5
Payments on long-term debt	(113.8)				(113.8)
Proceeds (payments) from notes financing	5.6	(0.6)	(1.6)		3.4
Dividends paid	(6.9)				(6.9)
Exercises of stock options	20.0				20.0
Net cash provided by (used for) financing activities	(41.8)	(0.6)	59.9		17.5
Effect of exchange rate changes on cash		(2.5)	10.5		8.0
Net increase (decrease) in cash and cash equivalents	(15.4)	6.8	(61.3)		(69.9)
Balance at beginning of period	20.4	22.9	130.4		173.7
Balance at end of period	\$ 5.0	\$ 29.7	\$ 69.1	\$	\$ 103.8

**The Manitowoc Company, Inc.**  
**Condensed Consolidating Statement of Cash Flows**  
**For the Nine Months Ended September 30, 2006**  
(In millions)

	Parent	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operations	\$ 146.7	\$ 45.9	\$ 77.5	\$ (141.2)	\$ 128.9
<b>Cash Flows from Investing:</b>					
Business acquisition, net of cash acquired		(48.4)			(48.4)
Capital expenditures	(1.2)	(15.9)	(21.4)		(38.5)
Proceeds from sale of property, plant and equipment		0.1	4.9		5.0
Intercompany investments	(43.1)	29.0	(127.1)	141.2	
Net cash provided by (used for) investing activities of continuing operations	(44.3)	(35.2)	(143.6)	141.2	(81.9)
<b>Cash Flows from Financing:</b>					
Proceeds from revolving credit facility	(4.3)		67.6		63.3
Payments on long-term debt	(223.5)		(25.2)		(248.7)
Proceeds from long-term debt			18.4		18.4
Proceeds (payments) from notes financing		(0.2)	(4.1)		(4.3)
Dividends paid	(6.5)				(6.5)
Exercises of stock options	8.4				8.4
Net cash provided by (used for) financing activities	(225.9)	(0.2)	56.7		(169.4)
Effect of exchange rate changes on cash			4.0		4.0
Net increase (decrease) in cash and cash equivalents	(123.5)	10.5	(5.4)		(118.4)
Balance at beginning of period	146.4	9.7	73.4		229.5
Balance at end of period	\$ 22.9	\$ 20.2	\$ 68.0	\$	\$ 111.1

**20. Business Segments**

The company identifies its segments using the management approach, which designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the company's reportable segments. The company has three reportable segments: Cranes and Related Products (Crane), Foodservice Equipment (Foodservice), and Marine. Net sales and earnings from operations by segment are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales:				
Crane	\$ 812.3	\$ 583.3	\$ 2,300.2	\$ 1,630.7
Foodservice	112.9	114.5	337.9	321.4
Marine	81.0	81.2	248.8	206.0
Total net sales	\$ 1,006.2	\$ 779.0	\$ 2,886.9	\$ 2,158.1
Earnings (loss) from operations:				
Crane	\$ 111.5	\$ 75.3	\$ 326.3	\$ 200.7
Foodservice	17.7	18.4	50.6	46.8
Marine	6.4	2.4	20.4	8.0
Corporate expense	(11.2)	(12.0)	(33.8)	(31.4)
Gain on sale of parts line			3.3	
Pension settlements			(5.2)	
Earnings from operations	\$ 124.4	\$ 84.1	\$ 361.6	\$ 224.1

Crane segment operating earnings for the three and nine months ended September 30, 2007 includes amortization expense of \$0.9 million and \$2.5 million, respectively. Crane segment operating earnings for the three and nine months ended September 30, 2006 includes amortization expense of \$0.8 million and \$2.2 million, respectively. Foodservice segment operating earnings for the three and nine months ended September 30, 2007 includes amortization expense of \$0.1 million and \$0.4 million, respectively. The Foodservice segment operating earnings for both the three and nine months ended September 30, 2006 include amortization of \$0.2 million.

As of September 30, 2007 and December 31, 2006, the total assets by segment were as follows:

	September 30, 2007	December 31, 2006
Crane	\$ 1,891.2	\$ 1,572.4
Foodservice	352.6	340.1
Marine	119.8	120.9
Corporate	226.9	186.1
Total	\$ 2,590.5	\$ 2,219.5



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation****Results of Operations for the Three and Nine Months Ended September 30, 2007 and 2006****Analysis of Net Sales**

The following table presents net sales by business segment (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales:				
Cranes and Related Products	\$ 812.3	\$ 583.3	\$ 2,300.2	\$ 1,630.7
Foodservice Equipment	112.9	114.5	337.9	321.4
Marine	81.0	81.2	248.8	206.0
Total net sales	\$ 1,006.2	\$ 779.0	\$ 2,886.9	\$ 2,158.1

Consolidated net sales for the three months ended September 30, 2007 increased 29.2% to \$1.0 billion, from \$779.0 million for the same period in 2006. For the nine months ended September 30, 2007 sales increased 33.8% to \$2.9 billion versus sales of \$2.2 billion for the nine months ended September 30, 2006. The increase in sales was primarily driven by our Crane segment.

Net sales from the Crane segment for the three months ended September 30, 2007 increased 39.3% to \$812.3 million versus \$583.3 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007 sales increased 41.1% to \$2.3 billion versus \$1.6 billion for the nine months ended September 30, 2006. Net sales for both the three and nine months ended September 30, 2007 increased over the same period in the prior year in all major geographic regions. The Crane segment continues to benefit from strong crane end-market demand. From a product line standpoint, the sales increase was driven by an increased demand for crawler, tower and mobile hydraulic cranes worldwide, an increase in our aftermarket sales and service business, and an increase in boom truck sales in North America. For the three and nine months ended September 30, 2007 versus the same periods in 2006, the stronger Euro currency compared to the U.S. Dollar had an approximate \$24.8 million and \$78.1 million, respectively, favorable impact on sales. As of September 30, 2007, total Crane segment backlog was \$2.7 billion, a 28.2% increase over the June 30, 2007 backlog of \$2.1 billion and a 72.9% increase over the December 31, 2006 backlog of \$1.5 billion.

Net sales from the Foodservice segment decreased 1.4% to \$112.9 million for the three months ended September 30, 2007 versus \$114.5 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007, Foodservice sales of \$337.9 million increased 5.1% over the same period in 2006. The reduction in net sales of the Foodservice segment during the quarter was due to lower sales in the segment's Ice division, which is attributable to a slowing ice market. The reduction in net sales by the Ice division was partially offset by increased sales in the Beverage and Refrigeration divisions. The sales increase during the nine months ended September 30, 2007 was driven by higher sales in our Ice, Refrigeration and Beverage divisions as well as the acquisition of McCann's. The acquisition of McCann's was completed on May 26, 2006, and increased sales by approximately \$9.2 million for the nine months ended September 30, 2007 over the same period in 2006.

## Edgar Filing: MANITOWOC CO INC - Form 10-Q

Net sales from our Marine segment were virtually the same for the quarters ended September 30, 2007 and 2006. For the nine months ended September 30, 2007, net sales in the Marine segment increased 20.8% to \$248.8 million compared to \$206.0 million during the nine months ended September 30, 2006. The sales increase during the nine months ended September 30, 2007 was a result of construction progress on the Improved Navy Lighterage System (INLS) for the U.S. Navy, higher commercial contract revenue, and favorable late winter repair demand.

**Analysis of Operating Earnings**

The following table presents operating earnings by business segment (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Earnings from operations:				
Cranes and Related Products	\$ 111.5	\$ 75.3	\$ 326.3	\$ 200.7
Foodservice Equipment	17.7	18.4	50.6	46.8
Marine	6.4	2.4	20.4	8.0
General corporate expense	(11.2)	(12.0)	(33.8)	(31.4)
Gain on sale of parts line			3.3	
Pension settlements			(5.2)	
Total	\$ 124.4	\$ 84.1	\$ 361.6	\$ 224.1

Consolidated gross profit for the three months ended September 30, 2007 was \$224.8 million, an increase of \$55.5 million over the \$169.3 million of consolidated gross profit for the same period in 2006. Consolidated gross profit for the nine months ended September 30, 2007 was \$660.2 million, an increase of \$183.7 million over the \$476.5 million of consolidated gross profit for the same period in 2006. These increases were driven by significantly higher gross profit in the Crane segment due to increased volume and favorable pricing levels partially offset by material cost increases. Third quarter 2007 gross profit of the Foodservice segment was up approximately \$0.2 million versus the third quarter of 2006, and for the first nine months of 2007 the gross profit was up approximately \$7.1 million versus the first nine months of 2006. The gross profit increase in the Foodservice segment was a result of sales price increases and effective management of cost increases for materials but was partially offset by decreased volume in the Ice division. For the three and nine months ended September 30, 2007, the Marine segment gross profit increased 40.8% and 46.7%, respectively, as a result of outstanding performance on new commercial construction projects.

Engineering, selling and administrative (ES&A) expenses for the third quarter of 2007 increased approximately \$15.2 million to \$99.4 million versus \$84.2 million for the third quarter of 2006. For the nine months ended September 30, 2007, ES&A was \$293.8 million which was a \$43.8 million increase over the ES&A for the nine months ended September 30, 2006. This increase was primarily driven by the Crane segment and corporate expenses. Crane segment increases were due to higher employee related costs, costs incurred on the ERP implementation project, higher marketing costs and the impact of currency exchange rates to the U.S. dollar. Corporate expenses increased primarily due to employee related costs and costs related to outside professional services.

For the three months ended September 30, 2007, the Crane segment reported operating earnings of \$111.5 million compared to \$75.3 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007, the Crane segment reported operating earnings of \$326.3 million compared to \$200.7 million for the nine months ended September 30, 2006. Operating earnings of the Crane segment were favorably affected by increased volume across all regions and products, and effective leveraging of engineering, selling and administrative expenses on higher sales volume. Operating margin for the three months ended September 30, 2007 was 13.8% versus 13.0% for the three months ended September 30, 2006. Volume, leveraging of fixed costs, and favorable pricing levels in all our regions contributed to the margin improvement.

For the three months ended September 30, 2007, the Foodservice segment reported operating earnings of \$17.7 million compared to \$18.4 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007, the Foodservice segment reported operating earnings of \$50.6 million compared to \$46.8 million for the nine months ended September 30, 2006. The decrease in operating earnings for the quarter was the result of decreased sales volume in the Ice division, which was partially offset by product price increases. The increase in operating earnings for the nine months ended September 30, 2007 versus the same period last year was the result of increased sales

Edgar Filing: MANITOWOC CO INC - Form 10-Q

volume in all the divisions, price increases, effective management of material cost increases, and the full impact of the McCann's acquisition which was completed during the second quarter of 2006.

For the three months ended September 30, 2007, the Marine segment reported operating earnings of \$6.4 million compared to \$2.4 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007, the Marine segment reported operating earnings of \$20.4 million compared to \$8.0 million for the nine months ended September 30, 2006. The three months ended September 30, 2007 benefited from continued strong performance on new construction commercial projects. The increase in the nine months ended September 30, 2007 was the result of strong performance on new construction commercial projects as well as a strong winter repair season for 2007.

For the three months ended September 30, 2007, corporate expenses were \$11.2 million compared to \$12.0 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007, corporate expenses were \$33.8 million compared to \$31.4 million for the nine months ended September 30, 2006. The decrease in corporate expenses for the three months ended September 30, 2007 compared to the three months ended September 30, 2006 is attributable to an increase in corporate expenses during the third quarter of 2006 for professional services related to acquisition efforts. The increase in corporate expenses in the nine months ended September 30, 2007 was the result of higher employee-related costs and other professional services expenses.

On April 3, 2007, we sold all of our aftermarket replacement parts and rights to manufacture, sell and service aftermarket replacement parts for all the models of the Grove Manlift aerial work platform product line around the world to MinnPar LLC (MinnPar). We received \$4.9 million in proceeds and recognized a gain of \$3.3 million, which is recorded in gain on sale of parts line in the Consolidated Statement of Operations for the nine months ended September 30, 2007.

During the second quarter of 2007, we made a \$15.1 million pension contribution to our U.K. defined benefit pension plan. The \$15.1 million contribution funded the defined benefit plan and paid an incentive to certain pensioners to transfer from the defined benefit plan to a defined contribution plan. As a result of this payment, the company recorded a charge during the second quarter of 2007 of approximately \$3.8 million to reflect the incentive given to the pensioners and expenses incurred. This charge is recorded in pension settlement in the Consolidated Statement of Operations for the nine months ended September 30, 2007. Subsequent to the funding of the defined benefit pension plan, approximately \$39.2 million of assets and related liabilities were transferred from the defined benefit pension plan to a defined contribution pension plan.

During the second quarter of 2007, we recorded a charge of \$1.4 million related to a withdraw liability from a multiemployer pension plan at our former River Falls, Wisconsin facility. During the third quarter of 2005, we closed our Kolpak operation located in River Falls, Wisconsin and consolidated it with our operation in Tennessee. The \$1.4 million represents the estimated payment we will make to the multiemployer pension plan for our former union employees at the closed facility. This charge is recorded in pension settlements in the Consolidated Statement of Operations for the nine months ended September 30, 2007.

#### **Analysis of Non-Operating Income Statement Items**

Interest expense for the third quarter of 2007 was \$8.5 million versus \$10.2 million for the third quarter ended September 30, 2006. For the nine months ended September 30, 2007, interest expense was \$27.4 million versus \$36.0 million for the nine months ended September 30, 2006. The decrease in interest expense is a result of the redemption of the senior subordinated notes due 2011 and 2012 during May 2006 and August 2007, respectively. These interest expense reductions were partially offset by an increase in the average borrowings outstanding under our revolving credit facility.

## Edgar Filing: MANITOWOC CO INC - Form 10-Q

During August 2007, we redeemed our 10 ½% senior subordinated notes due 2012. Pursuant to the terms of the indenture, we paid the note holders 105.25 percent of the principal amount plus accrued and unpaid interest up to the redemption date. As a result of this redemption, we incurred a charge of \$12.5 million (\$8.1 million net of income taxes) related to the call premium, the write-off of unamortized debt issuance costs and other expenses. The charge was recorded in loss on debt extinguishment in the Consolidated Statement of Operations.

During May 2006, we redeemed our 10 3/8% senior subordinated notes due 2011. Pursuant to the terms of the indenture, we paid the note holders 105.188 percent of the principal amount plus accrued and unpaid interest up to the redemption date. As a result of this redemption, we incurred a charge of \$14.4 million (\$9.4 million net of income taxes) related to the call premium, the write-off of unamortized debt issuance costs and other expenses. The charge was recorded in loss on debt extinguishment in the Consolidated Statement of Operations.

The effective tax rates for the three and nine months ended September 30, 2007 were 26.3% and 27.2%, respectively. The effective tax rates for the three and nine months ended September 30, 2006 were 32.4% and 31.0%, respectively. The tax rate for the nine months ended September 30, 2007 was favorably impacted by a foreign tax credit carryforward which was recognized during the second quarter and by an IRS audit settlement during the third quarter. In addition, all periods were favorably affected, as compared to the statutory rate, to varying degrees by certain global tax planning initiatives.

The loss from discontinued operations, net of income taxes, of \$0.3 million for the nine months ended September 30, 2006 reflects the operating results of our discontinued Toledo Ship Repair operation. The closure of Toledo was completed during the first quarter of 2006 and no further results were incurred or are expected from this operation.

## Acquisitions

On July 19, 2007, we acquired Shirke Construction Equipments Pvt. Ltd (Shirke). Headquartered in Pune, India, Shirke is a market leader in the Indian tower crane industry and has been Potain's Indian manufacturing partner and distributor since 1982. The aggregate consideration paid for Shirke resulted in approximately \$63.5 million of intangible assets being recognized by our Crane segment. As of September 30, 2007, all excess purchase price over net assets acquired was assigned to goodwill. We are in the process of valuing other intangible assets acquired in this acquisition and will assign value to these assets during the fourth quarter of 2007.

On January 3, 2007, the company acquired the Carrydeck line of mobile industrial cranes from Marine Travelift, Inc. of Sturgeon Bay, Wisconsin. The acquisition of the Carrydeck line adds six new models to the company's product offering of mobile industrial cranes. The aggregate consideration paid for Carrydeck line resulted in approximately \$9.2 million of goodwill and \$6.5 million of other intangible assets being recognized by the company's Crane segment. See further detail related to the goodwill and other intangible assets of the Carrydeck acquisition at Note 5, Goodwill and Other Intangible Assets.

On May 26, 2006, the company acquired substantially all of the assets and business operated by McCann's Engineering & Mfg. Co. and McCann's de Mexico S.A. de C.V. (McCann's). Headquartered in Los Angeles, California and with operations in Tijuana, Mexico, McCann's is engaged in the design, manufacture and sale of beverage dispensing equipment primarily used in fast food restaurants, stadiums, cafeterias and convenience stores. McCann's primary products are backroom beverage equipment such as carbonators, water boosters and racks. McCann's also produces accessory components for beverage dispensers including specialty valves, stands and other stainless steel components. The aggregate consideration paid for the McCann's acquisition was \$37.1 million, including acquisition costs of approximately \$0.7 million. The acquisition resulted in approximately \$14.4 million of goodwill and \$14.3 million of other intangible assets being recognized by the company's Foodservice segment. See further detail related to the goodwill and other intangible assets of the McCann's acquisition at Note 5, Goodwill and Other Intangible Assets.

On January 3, 2006, the company acquired certain assets, rights and properties of ExacTech, Inc., a supplier of fabrication, machining, welding, and other services to various parties. Located in Port Washington, Wisconsin, ExacTech, Inc. now provides these services to the company's U.S. based crane manufacturing facilities. The aggregate consideration paid for the acquisition resulted in approximately \$6.5 million of goodwill

being recognized by the company's Crane segment in the first quarter of 2006.



## Financial Condition

### First Nine Months of 2007

Cash and cash equivalents balance as of September 30, 2007 were \$103.8 million, which was a reduction of \$69.9 million from the December 31, 2006 balance of \$173.7 million. Cash flow from operations for the first nine months of 2007 was \$29.5 million compared to \$128.9 million for the first nine months of 2006. During the first nine months of 2007 inventories and accounts receivable increased by \$148.0 million and \$123.1 million, respectively. This is primarily due to increased production and sales in the Crane segment. In addition, during the first nine months of 2007 we made pension payments totaling \$42.3 million to our US and UK pension plans and tax payments of approximately \$103.8 million.

On January 3, 2007, we acquired the Carrydeck line of mobile industrial cranes from Marine Travelift, Inc. of Sturgeon Bay, Wisconsin. The cash flow impact of this acquisition is included in business acquisition, net of cash acquired, within the cash flow from investing section of the Consolidated Statement of Cash Flows.

On July 19, 2007, we acquired Shirke Construction Equipments Pvt. Ltd (Shirke). Headquartered in Pune, India, Shirke is a market leader in the Indian tower crane industry and has been Potain's Indian manufacturing partner and distributor since 1982. The cash flow impact of this acquisition is included in business acquisitions, net of cash acquired, within the cash flow from investing section of the Consolidated Statement of Cash Flows.

On April 3, 2007, we sold all of our aftermarket replacement parts and rights to manufacture, sell and service aftermarket replacement parts for all the models of the Grove Manlift aerial work platform product line around the world to MinnPar, LLC. We received \$4.9 million in proceeds from this transaction. The cash flow impact of this sale is included in proceeds from sale of parts line within the investing section of the Consolidated Statement of Cash Flows.

Capital expenditures during the first nine months of 2007 were \$56.9 million versus \$38.5 million during the first nine months of 2006. In the third quarter of 2007 we reached an agreement with Valcovna profilov a.s. for the development of a crane manufacturing facility in Saris, Slovakia. Capital expenditures in 2007 are also related to other facility expansions, machinery and tooling for our three segments. In addition, during the first quarter of 2007 we entered into agreements with a major software and systems supplier and a related consulting firm to purchase software and consulting services to implement an ERP system in our Crane segment. To date, capital expenditures on the ERP system have not been significant.

On August 1, 2007, we redeemed our 10 ½% senior subordinated notes due 2012. Pursuant to the terms of the indenture, we paid the note holders 105.25 percent of the principal amount plus accrued and unpaid interest up to the redemption date. The total cash payment for the redemption was \$129.6 million. As a result of this redemption, we incurred a charge of \$12.5 million (\$8.1 million net of income taxes) related to the call premium, write-off of unamortized debt issuance costs and other expenses. The charge was recorded in loss on debt extinguishment in the Consolidated Statement of Operations.

### First Nine Months of 2006

Cash and cash equivalents as of September 30, 2006 was \$111.1 million, which represented a \$118.4 million reduction of cash during the first nine months of 2006. Cash flow provided by operating activities of continuing operations totaled \$129.2 million compared to \$42.1 million for the first nine months of 2005. Cash flow during the first nine months of 2006 was driven by \$122.3 million of net earnings, an increase of \$74.7 million over net earnings for the first nine months of 2005. Accounts payable and accrued expenses positively impacted cash flow from operations with an \$87.9 million increase. This was driven primarily by the increase in inventory in the Crane segment required to support the increase in production and higher seasonal inventory levels in Foodservice. During the first nine months of 2006, a \$106.3 million increase in inventory and an increase in accounts receivable of \$79.0 million negatively impacted cash flow from operations. The increase in accounts receivable was driven by higher sales in the Crane segment.

On May 26, 2006, the company acquired substantially all of the assets and business operated by McCann's Engineering & Mfg. Co. (McCann's). Headquartered in Los Angeles, California, McCann's is engaged in the

design, manufacture and sale of beverage dispensing equipment primarily used in fast food restaurants, stadiums, cafeterias and convenience stores. McCann's primary products are backroom beverage equipment such as carbonators, water boosters and racks. McCann's also produces accessory components for beverage dispensers including specialty valves, stands and other stainless steel components. The cash flow impact of this acquisition is included in business acquisition, net of cash acquired within the cash flow from investing section of the Consolidated Statement of Cash Flows.

On January 3, 2006, we acquired certain assets, rights and properties of ExacTech, Inc., a supplier of fabrication, machining, welding and other services to various parties. Located in Port Washington, Wisconsin, the operation will provide these services to the U.S. based crane manufacturing facilities. The cash flow impact of this acquisition is included in business acquisition, net of cash acquired within the cash flow from investing section of the Consolidated Statement of Cash Flows.

Capital expenditures for year-to-date 2006 were \$38.5 million. The company continues to invest capital in the Foodservice ERP system, the new China manufacturing facilities in the Crane and Foodservice segment, new manufacturing equipment, and new product tooling.

During May 2006, we redeemed our 175 million Euro (\$216.9 million based on May 15, 2006 exchange rates) of 10 3/8% senior subordinated notes due 2011. We utilized cash on hand and availability under our revolving credit facility to fund this redemption.

### **Liquidity and Capital Resources**

Our outstanding debt at September 30, 2007 consisted of \$103.3 million of borrowings under our secured revolving credit facility (Revolving Credit Facility), \$150.0 million of 7 1/8% senior notes due 2013 (Senior Notes due 2013), and \$20.5 million of other debt and capital leases.

On August 1, 2007, we redeemed our 10 1/2% senior subordinated notes due 2012. Pursuant to the terms of the indenture, we paid the note holders 105.25 percent of the principal amount plus accrued and unpaid interest up to the redemption date. The total cash payment for the redemption was \$129.6 million. As a result of this redemption, we incurred a charge of \$12.5 million (\$8.1 million net of income taxes) related to the call premium, the write-off of unamortized debt issuance costs and other expenses. The charge was recorded in loss on debt extinguishment in the Consolidated Statement of Operations.

Our Revolving Credit Facility, has \$300 million of initial borrowing capacity and provides us with the ability to increase the capacity by an additional \$250 million during the life of the facility under the same terms. Borrowings under the Revolving Credit Facility bear interest at a rate equal to the sum of a base rate or a Eurodollar rate plus an applicable margin, which is based on our consolidated total leverage ratio as defined by the credit agreement. The annual commitment fee in effect at September 30, 2007 on the unused portion of the secured revolving credit facility was 0.15%. As of September 30, 2007, we had \$103.3 million outstanding under the Revolving Credit Facility with a weighted-average interest rate of 5.9%. The outstanding borrowings relate to the redemption of the senior subordinated notes due 2012 and the acquisition of Shirke. In addition to the outstanding borrowings, the availability under the Revolving Credit Facility is also reduced for outstanding letters of credit of \$2.0 million as of September 30, 2007.

The Senior Notes due 2013 are unsecured senior obligations ranking equal with our indebtedness under our Revolving Credit Facility, except that the Revolving Credit Facility is secured by substantially all domestic tangible and intangible assets of the company and its subsidiaries.

Edgar Filing: MANITOWOC CO INC - Form 10-Q

Interest on the Senior Notes due 2013 is payable semiannually in May and November each year. The Senior Notes due 2013 can be redeemed by us in whole or in part for a premium on or after November 1, 2008.

Our Revolving Credit Facility and Senior Notes due 2013 contain customary affirmative and negative covenants. In general, the covenants contained in the Revolving Credit Facility are more restrictive than those of the Senior Notes due 2013. Among other restrictions, these covenants require us to meet specified financial tests, which include the following: consolidated interest coverage ratio; consolidated total leverage ratio; and consolidated senior leverage ratio. These covenants also limit, among other things, our ability to redeem or repurchase our debt, incur additional debt, make acquisitions, merge with other entities, pay dividends or distributions, repurchase capital stock, and create or become subject to liens. The Revolving Credit Facility also contains cross-default provisions whereby certain defaults under any other debt agreements would result in default under the Revolving Credit Facility. We were in compliance with all covenants as of September 30, 2007, and based upon our current plans and outlook, we believe we will be able to comply with these covenants during the subsequent 12 months.

We have entered into an accounts receivable securitization program whereby we sell certain of our domestic trade accounts receivable to a wholly owned, bankruptcy-remote, special purpose subsidiary which, in turn, sells participating interests in its pool of receivables to a third-party financial institution (Purchaser). The Purchaser receives an ownership and security interest in the pool of receivables. New receivables are purchased by the special purpose subsidiary and participation interests are resold to the Purchaser as collections reduce previously sold participation interests. We have retained collection and administrative responsibilities on the participation interests sold. The Purchaser has no recourse against us for uncollectible receivables; however, our retained interest in the receivable pool is subordinate to the Purchaser's interest and is recorded at fair value. Due to a short average collection cycle of less than 60 days for such accounts receivable and our collection history, the fair value of our retained interest approximates book value. The total capacity of this facility is \$105 million as of September 30, 2007. The accounts receivable balances sold from the special purpose subsidiary was \$95.0 million at September 30, 2007. The retained interest recorded at September 30, 2007 is \$70.2 million, and is included in accounts receivable in the accompanying Consolidated Balance Sheets.

#### **Recent Accounting Changes and Pronouncements**

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statement No. 133 and 140*. SFAS No 155 amends certain aspects of SFAS No 133, primarily related to hybrid financial instruments and beneficial interest in securitized financial assets, as well as amends SFAS No. 140, related to eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity (SPE) may hold. SFAS No. 155 was effective for the company on January 1, 2007 and did not have any impact on the company.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140*. SFAS No. 156, amends certain aspects of SFAS No. 140, by requiring that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 was effective for the company on January 1, 2007 and did not have any impact on the company.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for the company on January 1, 2008. The company does not anticipate the adoption of SFAS No. 157 will have a significant impact on its Consolidated Financial Statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option permits a company to choose to measure eligible items at fair value at specified election dates. A

## Edgar Filing: MANITOWOC CO INC - Form 10-Q

company will report unrealized gains and losses on items for which the fair value option has been elected in earnings after adoption. Statement 159 will be effective for us beginning January 1, 2008. We are currently evaluating the impact SFAS No. 159 could have on our consolidated financial statements.

### **Critical Accounting Policies**

During the first quarter of 2007 the company adopted FASB Interpretation (FIN) No. 48. See Note 9, *Income Taxes*, for further information regarding the adoption of FIN No. 48.

### **Cautionary Statements About Forward-Looking Information**

Statements in this report and in other company communications that are not historical facts are forward-looking statements, which are based upon our current expectations. These statements involve risks and uncertainties that could cause actual results to differ materially from what appears within this annual report.

Forward-looking statements include descriptions of plans and objectives for future operations, and the assumptions behind those plans. The words *anticipates*, *believes*, *intends*, *estimates*, and *expects*, or similar expressions, usually identify forward-looking statements. Any and all projections of future performance are forward-looking statements.

In addition to the assumptions, uncertainties, and other information referred to specifically in the forward-looking statements, a number of factors relating to each business segment could cause actual results to be significantly different from what is presented in this annual report. Those factors include, without limitation, the following:

*Crane* market acceptance of new and innovative products; cyclicity of the construction industry; the effects of government spending on construction-related projects throughout the world; changes in world demand for our crane product offering; the replacement cycle of technologically obsolete cranes; demand for used equipment; actions of competitors; and foreign exchange rate risk.

*Foodservice* market acceptance of new and innovative products; weather; consolidations within the restaurant and foodservice equipment industries; global expansion of customers; actions of competitors; the commercial ice-cube machine replacement cycle in the United States; specialty foodservice market growth; future strength of the beverage industry; and the demand for quickservice restaurant and kiosks.

*Marine* shipping volume fluctuations based on performance of the steel industry; weather and water levels on the Great Lakes; trends in government spending on new vessels; government and military decisions relating to new and existing vessel construction programs; five-year survey schedule; the replacement cycle of older marine vessels; growth of existing marine fleets; consolidation of the Great Lakes marine industry; frequency of casualties on the Great Lakes; the level of construction and industrial maintenance, and ability of our customers to obtain financing.

*Corporate (including factors that may affect all three segments)* changes in laws and regulations throughout the world; the ability to finance, complete and/or successfully integrate, restructure and consolidate acquisitions, divestitures, strategic alliances and joint ventures; successful and timely completion of new facilities and facility expansions; competitive pricing; availability of certain raw materials; changes in raw materials and commodity prices; changes in domestic and international economic and industry conditions, including steel industry conditions; changes in the interest rate environment; risks associated with growth; foreign currency fluctuations; world-wide political risk; health epidemics; pressure of additional financing leverage resulting from

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

The company's market risk disclosures have not materially changed since the company's annual report on Form 10-K for fiscal 2006 was filed. The company's quantitative and qualitative disclosures about market risk are incorporated by reference from Item 7A of the company's Annual Report on Form 10-K for the year ended December 31, 2006.



**Item 4. Controls and Procedures**

*Disclosure Controls and Procedures:* The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the company in the reports that it files or submits under the Exchange Act, and that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

*Changes in Internal Controls Over Financial Reporting:* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). During the period covered by this report, we made no changes which have materially affected, or which are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

The company's risk factors disclosures have not materially changed since the 2006 Form 10-K was filed. The company's risk factors are incorporated by reference from Item 1A of the company's Annual Report on Form 10-K for the year ended December 31, 2006.

**Item 6. Exhibits**

(a) Exhibits: See exhibit index following the signature page of this Report, which is incorporated herein by reference.

**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.

Date: November 1, 2007

The Manitowoc Company, Inc.  
(Registrant)

/s/ Glen E. Tellock  
Glen E. Tellock  
President and Chief Executive Officer

/s/ Carl J. Laurino  
Carl J. Laurino  
Senior Vice President and Chief Financial  
Officer

**THE MANITOWOC COMPANY, INC.  
EXHIBIT INDEX  
TO FORM 10-Q  
FOR QUARTERLY PERIOD ENDED  
September 30, 2007**

<b>Exhibit No.*</b>	<b>Description</b>	<b>Filed/Furnished Herewith</b>	
31	Rule 13a - 14(a)/15d - 14(a) Certifications		X(1)
32.1	Certification of CEO pursuant to 18 U.S.C. Section 1350		X(2)
32.2	Certification of CFO pursuant to 18 U.S.C. Section 1350		X(2)

---

(1) Filed Herewith

(2) Furnished Herewith

Pursuant to Item 601(b)(2) of Regulation S-K, the Registrant agrees to furnish to the Securities and Exchange Commission upon request a copy of any unfiled exhibits or schedules to such document.