

MANITOWOC CO INC
Form 10-Q
May 08, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

or

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

For the transition period from _____ to _____

Commission File Number

1-11978

The Manitowoc Company, Inc.

(Exact name of registrant as specified in its charter)

Wisconsin

(State or other jurisdiction
of incorporation or organization)

**2400 South 44th Street,
Manitowoc, Wisconsin**

(Address of principal executive offices)

39-0448110

(I.R.S. Employer
Identification Number)

54221-0066

(Zip Code)

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(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 March 31, 2006, the most recent practicable date, was 61,211,972.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE MANITOWOC COMPANY, INC.
Consolidated Statements of Operations
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)
(In millions, except per-share and average shares data)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2006 | 2005 |
| Net sales | \$ 633.0 | \$ 510.3 |
| Costs and expenses: | | |
| Cost of sales | 497.8 | 413.5 |
| Engineering, selling and administrative expenses | 78.9 | 67.8 |
| Amortization expense | 0.7 | 0.8 |
| Total costs and expenses | 577.4 | 482.1 |
| Earnings from operations | 55.6 | 28.2 |
| Other expense: | | |
| Interest expense | (11.7) | (12.8) |
| Loss on debt extinguishment | | (8.3) |
| Other income (expenses), net | (1.0) | 1.3 |
| Total other expense | (12.7) | (19.8) |
| Earnings from continuing operations before taxes on income | 42.9 | 8.4 |
| Provision for taxes on income | 12.9 | 2.5 |
| Earnings from continuing operations | 30.0 | 5.9 |
| Earnings (loss) from discontinued operations, net of income taxes of \$(0.2) and \$0.3 | (0.3) | 0.6 |
| Net earnings | \$ 29.7 | \$ 6.5 |
| Basic earnings per share: | | |
| Earnings from continuing operations | \$ 0.49 | \$ 0.10 |
| Earnings (loss) from discontinued operations, net of income taxes | (0.01) | 0.01 |
| Net earnings | \$ 0.49 | \$ 0.11 |
| Diluted earnings per share: | | |
| Earnings from continuing operations | \$ 0.48 | \$ 0.10 |
| Earnings (loss) from discontinued operations, net of income taxes | (0.01) | 0.01 |
| Net earnings | \$ 0.48 | \$ 0.11 |
| Weighted average shares outstanding - basic | 60,936,490 | 59,988,138 |
| Weighted average shares outstanding - diluted | 62,461,920 | 61,222,372 |

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

THE MANITOWOC COMPANY, INC.
Consolidated Balance Sheets
As of March 31, 2006 and December 31, 2005
(Unaudited)
(In millions, except share data)

| | March 31, 2006 | December 31, 2005 |
|--|-------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 204.4 | \$ 229.5 |
| Marketable securities | 2.3 | 2.3 |
| Accounts receivable, less allowances of \$24.8 and \$23.8 | 293.3 | 243.2 |
| Inventories net | 397.2 | 331.5 |
| Deferred income taxes | 78.6 | 74.4 |
| Other current assets | 78.9 | 72.5 |
| Total current assets | 1,054.7 | 953.4 |
| Property, plant and equipment net | 359.5 | 353.9 |
| Goodwill | 437.9 | 429.6 |
| Other intangible assets net | 140.4 | 139.9 |
| Deferred income taxes | 26.8 | 26.7 |
| Other non-current assets | 55.5 | 58.3 |
| Total assets | \$ 2,074.8 | \$ 1,961.8 |
| Liabilities and Stockholders Equity | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 673.0 | \$ 591.8 |
| Short-term borrowings | 6.1 | 19.4 |
| Product warranties | 48.4 | 47.3 |
| Product liabilities | 31.5 | 31.8 |
| Total current liabilities | 759.0 | 690.3 |
| Non-Current Liabilities: | | |
| Long-term debt | 478.0 | 474.0 |
| Pension obligations | 72.1 | 71.6 |
| Postretirement health and other benefit obligations | 53.0 | 52.4 |
| Long-term deferred revenue | 76.4 | 81.7 |
| Other non-current liabilities | 54.1 | 48.5 |
| Total non-current liabilities | 733.6 | 728.2 |
| Commitments and contingencies (Note 7) | | |
| Stockholders Equity: | | |
| Common stock (150,000,000 and 75,000,000 shares authorized, respectively, 79,587,964 and 39,793,982 shares issued, respectively, 61,211,972 and 30,362,501 shares outstanding, respectively) | 0.7 | 0.4 |
| Additional paid-in capital | 199.7 | 197.3 |
| Accumulated other comprehensive income | 22.0 | 16.6 |
| Unearned compensation | | (1.4) |
| Retained earnings | 457.3 | 429.8 |
| Treasury stock, at cost (18,375,992 and 9,431,481 shares, respectively) | (97.5) | (99.4) |
| Total stockholders equity | 582.2 | 543.3 |
| Total liabilities and stockholders equity | \$ 2,074.8 | \$ 1,961.8 |

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

THE MANITOWOC COMPANY, INC.
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)
(In millions)

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | 2005 |
| | 2006 | 2005 |
| Cash Flows from Operations: | | |
| Net earnings | \$ 29.7 | \$ 6.5 |
| Adjustments to reconcile net earnings to cash used for operating activities of continuing operations: | | |
| Discontinued operations, net of income taxes | 0.3 | (0.6) |
| Depreciation | 17.5 | 13.9 |
| Amortization of intangible assets | 0.7 | 0.8 |
| Amortization of deferred financing fees | 0.4 | 0.6 |
| Deferred income taxes | 0.2 | 1.9 |
| Loss on early extinguishment of debt | | 1.8 |
| Gain on sale of property, plant and equipment | (0.8) | (1.5) |
| Changes in operating assets and liabilities, excluding effects of business acquisition: | | |
| Accounts receivable | (33.6) | (34.9) |
| Inventories | (68.3) | (59.9) |
| Other assets | (2.5) | (12.0) |
| Accounts payable and accrued expenses | 64.3 | 41.3 |
| Other liabilities | (15.4) | 12.5 |
| Net cash used for operating activities of continuing operations | (7.5) | (29.6) |
| Net cash used for operating activities of discontinued operations | (0.3) | (11.9) |
| Net cash used for operating activities | (7.8) | (41.5) |
| Cash Flows from Investing: | | |
| Business acquisition, net of cash acquired | (12.1) | |
| Capital expenditures | (10.4) | (8.2) |
| Proceeds from sale of property, plant and equipment | 1.7 | 3.0 |
| Net cash used for investing activities of continuing operations | (20.8) | (5.2) |
| Net cash used for investing activities of discontinued operations | | (0.1) |
| Net cash used for investing activities | (20.8) | (5.3) |
| Cash Flows from Financing: | | |
| Payments on revolving credit facility | (4.3) | |
| Payments on long-term debt | (11.8) | (67.7) |
| Proceeds from long-term debt | 6.1 | 7.6 |
| Proceeds (payments) on note financings | 9.8 | (0.3) |
| Dividends paid | (2.1) | (2.1) |
| Exercises of stock options | 4.7 | 3.3 |
| Net cash provided by (used for) financing activities | 2.4 | (59.2) |
| Effect of exchange rate changes on cash | 1.1 | (1.6) |
| Net decrease in cash and cash equivalents | (25.1) | (107.6) |
| Balance at beginning of period | 229.5 | 176.4 |
| Balance at end of period | \$ 204.4 | \$ 68.8 |

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

THE MANITOWOC COMPANY, INC.
Consolidated Statements of Comprehensive Income (Loss)
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)
(In millions)

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | 2005 |
| | 2006 | 2005 |
| Net earnings | \$ 29.7 | \$ 6.5 |
| Other comprehensive income (loss): | | |
| Derivative instrument fair market value adjustment - net of income taxes | 0.2 | (3.5) |
| Foreign currency translation adjustments | 5.2 | (18.1) |
| Total other comprehensive income (loss) | 5.4 | (21.6) |
| Comprehensive income (loss) | \$ 35.1 | \$ (15.1) |

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

THE MANITOWOC COMPANY, INC.
Notes to Unaudited Consolidated Financial Statements
For the Three Months Ended March 31, 2006 and 2005

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 (loss) for the three months ended March 31, 2006 and 2005 and the financial position at March 31, 2006, 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, 2005. The consolidated balance sheet as of December 31, 2005 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 3, Discontinued Operations, and Note 6, Stock Split, for further details.

2. Acquisition

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. will provide 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.

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 in current and prior periods 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 and 2005 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 was no general corporate expense or interest expense allocated to discontinued operations for this business during the periods presented.

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2006 | 2005 |
| Net sales | \$ | \$ 4.2 |
| Pretax loss from discontinued operations | \$ (0.5) | \$ (0.8) |
| Benefit for taxes on loss | 0.2 | 0.3 |
| Net loss from discontinued operations | \$ (0.3) | \$ (0.5) |

On December 30, 2005, the company completed the sale of Diversified Refrigeration, LLC, (f/k/a Diversified Refrigeration, Inc.) (DRI) to Monogram Refrigeration, LLC, a wholly-owned subsidiary of the General Electric Company. DRI was the company's private-label Foodservice

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contract manufacturing operation. Net proceeds from the sale of DRI were approximately \$28.4 million and resulted in a pre-tax gain of \$17.6 million (\$9.6 million after tax). This gain was recorded in gain (loss) on sale or closure of discontinued operations, net of income taxes in the Consolidated Statements of Operations for the year ended December 31, 2005. The sale of DRI represents a discontinued operation under SFAS No. 144. Results of DRI in prior periods have been classified as discontinued in the Consolidated Financial Statements to exclude the results from continuing operations.

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The following selected financial data of DRI for the three months ended 2005 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 DRI for the quarter ended March 31, 2006. There was no general corporate expense or interest expense allocated to discontinued operations for this business during the period presented.

| | Three Months Ended March 31, 2005 |
|--|--|
| Net sales | \$ 22.5 |
| Pretax earnings from discontinued operations | \$ 1.7 |
| Provision for taxes on earnings | (0.6) |
| Net earnings from discontinued operations | \$ 1.1 |

4. Inventories

The components of inventory at March 31, 2006 and December 31, 2005 are summarized as follows:

| | March 31, 2006 | December 31, 2005 |
|---------------------------------------|-----------------------|--------------------------|
| Inventories - gross: | | |
| Raw materials | \$ 141.0 | \$ 131.6 |
| Work-in-process | 138.8 | 113.9 |
| Finished goods | 178.6 | 143.2 |
| Total inventories - gross | 458.4 | 388.7 |
| Excess and obsolete inventory reserve | (39.2) | (36.3) |
| Net inventories at FIFO cost | 419.2 | 352.4 |
| Excess of FIFO costs over LIFO value | (22.0) | (20.9) |
| Inventories - net | \$ 397.2 | \$ 331.5 |

Inventory is carried at lower of cost or market using the first-in, first-out (FIFO) method for 84% and 85% of total inventory at March 31, 2006 and December 31, 2005, respectively. The remainder of the inventory cost is determined using the last-in, first-out (LIFO) method.

5. Stock Based Compensation

Effective January 1, 2006, the company adopted SFAS No. 123 (R), Share-Based Payment: An Amendment of Financial Accounting Standards Board Statements No. 123 (SFAS No. 123(R)), which revised SFAS No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be measured at fair value and expensed in the consolidated statement of operations over the service period (generally the vesting period) of the grant. Upon adoption, the company transitioned to SFAS No. 123(R) using the modified prospective application, under which compensation expense is only recognized in the consolidated statements of operations beginning with the first period that SFAS No. 123(R) is effective and continuing to be expensed thereafter. Prior periods stock-based compensation expense is still presented on a pro-forma basis.

The company maintains the following stock plans:

The Manitowoc Company, Inc. 1995 Stock Plan, provides for the granting of stock options, restricted stock and limited stock appreciation rights as an incentive to certain employees. Under this plan, stock options to acquire up to 5.0 million shares of common stock, in the aggregate, may be granted under the time-vesting formula at an exercise price equal to the market price of the common stock at the close of business or the business day immediately preceding the date of grant. The options become exercisable in 25% increments beginning on the second anniversary of the grant date over a four-year period and expire ten years subsequent to the grant date. The restrictions on any restricted shares granted under the plan lapse in one-third increments on each anniversary of the grant date. Awards are no longer granted under this plan. Awards surrendered under this plan become available for granting under the 2003 Incentive Stock and Awards Plan.

The Manitowoc Company, Inc. 2003 Incentive Stock and Awards Plan (2003 Stock Plan) provides for both short-term and long-term incentive awards for employees. Stock-based awards may take the form of stock options, stock appreciation rights, restricted stock, performance share or performance unit awards. The total number of shares of the company's common stock originally available for awards under the 2003 Stock Plan

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is 6.0 million shares subject to adjustments for stock splits, stock dividends and certain other transactions or events. Options under this plan are exercisable at such times and subject to such conditions as the compensation committee should determine. Options granted under the plan to date become exercisable in equal 25% increments beginning on the second anniversary of the grant date over a four-year period and expire ten years subsequent to the grant date. Restrictions on

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restricted stock awarded under this plan lapse 100% on the third anniversary of the grant date. There have been no awards of stock appreciation rights, performance shares or performance units.

The Manitowoc Company, Inc. 1999 Non-Employee Director Stock Option Plan (1995 Stock Plan), provides for the granting of stock options to non-employee members of the board of directors. Under this plan, stock options to acquire up to 0.4 million shares of common stock, in the aggregate, may be granted under a time-vesting formula and at an exercise price equal to the market price of the common stock at the date of grant. For the 1999 Stock Plan, the options become exercisable in 25% increments beginning on the first anniversary of the grant date over a four-year period and expire ten years subsequent to the grant date. During 2004, this plan was frozen and replaced with the 2004 Director Stock Plan.

The 2004 Non-Employee Director Stock and Awards Plan (2004 Stock Plan) was approved by the shareholders of the company during the 2004 annual meeting and it replaces The Manitowoc Company, Inc. 1999 Non-Employee Director Stock Option Plan. Stock-based awards may take the form of stock options, restricted stock, or restricted stock units. The total number of shares of the company's common stock originally available for awards under the 2004 Stock Plan is 0.5 million, subject to adjustments for stock splits, stock dividends, and certain other transactions and events. Stock options awarded under the plan vest immediately and expire ten years subsequent to the grant date. Restrictions on restricted stock awarded to date under the plan lapse on the third anniversary of the award date.

With the acquisition of Grove, the company inherited the Grove Investors, Inc. 2001 Stock Incentive Plan. Outstanding Grove stock options under the Grove Investors, Inc. 2001 Stock Incentive Plan were converted into options to acquire Manitowoc Stock at the date of acquisition. No future stock options may be granted under this plan. Under this plan, after the conversion of Grove stock options to Manitowoc stock options, stock options to acquire 0.1 million shares of common stock of the company were outstanding. These options are fully vested and expire on September 25, 2011. No additional options may be granted under the Grove Investors, Inc. 2001 Stock Incentive Plan.

As a result of the adoption of SFAS No. 123(R), the company recognized \$1.0 million of compensation expense associated with stock options for the three months ended March 31, 2006. The following presents pro-forma net income and per share data as if a fair-value-based method had been used to account for stock-based compensation for the three months ended March 31, 2005 (in millions, except per share amounts):

| | Three Months ended March 31, 2005 |
|--|--|
| Net earnings as reported | \$ 6.5 |
| Stock option based employee compensation expense included in reported reported net earnings, net of related income tax effect | |
| Stock option based employee compensation expense determined under fair-value-based method excluded in reported net earnings, net of related income tax effects | (0.9) |
| Pro-forma net earnings | \$ 5.6 |
| Earnings per share: | |
| Basic, as reported | \$ 0.11 |
| Basic, pro-forma | \$ 0.09 |
| Diluted, as reported | \$ 0.11 |
| Diluted, pro-forma | \$ 0.09 |

A summary of the company's stock option activity is as follows (in millions, except weighted average exercise price and aggregate intrinsic value):

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| | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|---|--------|---------------------------------|---------------------------|
| Options outstanding as of January 1, 2005 | 4.0 | \$ 12.76 | |
| Granted | 0.7 | \$ 20.41 | |
| Exercised | (0.9) | \$ 12.08 | |
| Cancelled | (0.3) | \$ 15.60 | |
| Options outstanding as of December 31, 2005 | 3.5 | \$ 14.48 | |
| Granted | 0.3 | \$ 37.11 | |
| Exercised | (0.4) | \$ 12.62 | |
| Cancelled | | \$ | |
| Options outstanding as of March 31, 2006 | 3.4 | \$ 16.55 | \$ 97.5 |
| Options exercisable as of: | | | |
| January 1, 2005 | 1.6 | \$ 12.30 | |
| December 31, 2005 | 1.5 | \$ 12.64 | |
| March 31, 2006 | 1.3 | \$ 12.96 | \$ 44.0 |

The outstanding stock options at March 31, 2006 have a range of exercise prices of \$8.47 to \$38.11 per option. The following table shows the options outstanding and exercisable by range of exercise prices at March 31, 2006 (in millions, except weighted average exercise price).

| Range of Exercise Price | Outstanding Options | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Exercisable Options | Weighted Average Exercise Price |
|-------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| \$8.47 - \$11.00 | 0.5 | 5.3 | \$ 9.58 | 0.4 | \$ 9.61 |
| \$11.01 - \$13.50 | 1.2 | 6.1 | 12.63 | 0.5 | 12.64 |
| \$13.51 - \$16.00 | 0.4 | 6.8 | 14.98 | 0.2 | 14.90 |
| \$16.01 - \$18.50 | 0.3 | 6.1 | 17.29 | 0.2 | 17.34 |
| \$18.51 - \$21.00 | 0.7 | 9.0 | 20.29 | | |
| \$21.01 - \$28.51 | 0.1 | 9.7 | 25.62 | | |
| \$36.00 - \$38.11 | 0.2 | 9.9 | 37.42 | | |
| | 3.4 | 7.0 | \$ 16.55 | 1.3 | \$ 12.96 |

The company continues to use the Black-Scholes valuation model to value stock options. The company used its historical stock prices as the basis for its volatility assumption. The assumed risk-free rates were based on ten-year U.S. Treasury rates in effect at the time of grant. The expected option life represents the period of time that the options granted are expected to be outstanding and were based on historical experience.

As of March 31, 2006 the company has \$8.0 million of unrecognized compensation expense which will be recognized over the next five years.

The weighted average fair value of options granted per share during the first quarter of 2006 and 2005 is \$15.48 and \$8.15, respectively. The fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing method with the following assumptions:

| | 2006 | 2005 |
|-------------------------|--------|--------|
| Expected life (years) | 7.0 | 7.3 |
| Risk-free interest rate | 4.5 % | 3.8 % |
| Expected volatility | 34.0 % | 32.0 % |
| Expected dividend yield | 0.6 % | 0.8 % |

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For the three months ended March 31, 2006, the total intrinsic value of stock options exercised was \$7.9 million.

The company recognized approximately \$0.1 million of compensation expense related to restricted stock which was issued during 2002 for the three months ended March 31, 2005. In addition, during the three months ended March 31, 2006, the company

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recognized approximately \$0.2 million of compensation expense related to restricted stock which was issued during the second quarter of 2005.

6. Stock Split

On February 24, 2006, the board of directors authorized a two-for-one stock split of the company's outstanding common stock. Record holders of Manitowoc's common stock at the close of business on March 31, 2006, received on April 10, 2006 one additional share of common stock for every share of Manitowoc common stock they owned as of March 31, 2006. Manitowoc shares outstanding at the close of business on March 31, 2006 totaled 30,605,986. The company's common stock began trading at its post-split price at the beginning of trading on April 11, 2006. Per 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.

7. 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. Estimates indicate that the total costs to clean up this site are approximately \$30 million. Although liability is joint and several, the company's share of the liability is estimated to be 11% of the total cost. Prior to December 31, 1996, the company accrued \$3.3 million in connection with this matter. 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 other current liabilities in the Consolidated Balance Sheet at March 31, 2006 is \$0.4 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 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 current liabilities in the Consolidated Balance Sheet at March 31, 2006 is \$1.9 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 that the ultimate costs will have a material adverse effect on its financial condition, results of operations, or cash flows.

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 March 31, 2006, 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 a legacy product liability insurance program inherited in the Grove Investors, Inc. acquisition for cranes manufactured in the United States for occurrences from January 2000 through October 2002. As of March 31, 2006, 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 March 31, 2006, were \$31.5 million; \$9.5 million reserved specifically for cases and \$22.0 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 March 31, 2006 and December 31, 2005, the company had reserved \$56.8 million and \$55.4 million, respectively, for warranty claims included in product warranties and other non-current liabilities in the Consolidated Balance Sheets. Certain of these warranty and other related claims involve matters in dispute that ultimately are resolved by negotiations, arbitration, or litigation.

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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. Presently, there are no reliable methods to estimate the amount of any such potential changes.

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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.

At March 31, 2006, the company is contingently liable under open standby letters of credit issued by the company's bank in favor of third parties totaling \$26.1 million.

8. 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 | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2006 | 2005 |
| Basic weighted average common shares outstanding | 60,936,490 | 59,988,138 |
| Effect of dilutive securities - stock options and restricted stock | 1,525,430 | 1,234,234 |
| Diluted weighted average common shares outstanding | 62,461,920 | 61,222,372 |

For the three months ended March 31, 2006 and 2005, 0.3 and 0.4 million common shares, respectively, issuable upon the exercise of stock options were anti-dilutive and were excluded from the calculation of diluted earnings per share.

During both the three months ended March 31, 2006 and 2005, the company paid a quarterly dividend of \$0.035 per outstanding common share.

9. 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 other current and non-current liabilities at March 31, 2006 and December 31, 2005 was \$124.0 million and \$128.5 million, respectively. The total amount of residual value guarantees and buyback commitments given by the company and outstanding at March 31, 2006 was \$146.6 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 2011.

During the three months ended March 31, 2006 and 2005, the company sold \$11.5 million and \$0.9 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 other current 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 Sheet. 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 three months ended March 31, 2006, the customers have paid \$1.7 million of the notes to the third party financing companies. As of March 31, 2006, the outstanding balance of the notes receivables guaranteed by the company was \$47.3 million.

The company also had an accounts receivable factoring arrangement with a bank. Under this arrangement, the company was required to repurchase from the bank the first \$1.0 million and amounts greater than \$1.5 million of the aggregate uncollected receivables during a twelve-month period. During the first quarter of 2006, the company terminated the factoring agreement with the bank. The company's contingent factoring liability, net of cash collected from customers, was \$0 million and \$23.6 million at March 31, 2006 and December 31, 2005, respectively.

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

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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

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table summarizing the warranty activity for the three months ended March 31, 2006 and 2005.

| | 2006 | 2005 |
|---|---------|---------|
| Balance at beginning of period | \$ 55.4 | \$ 46.5 |
| Accruals for warranties issued during the period | 11.1 | 8.8 |
| Settlements made (in cash or in kind) during the period | (10.1) | (9.2) |
| Currency translation | 0.4 | (1.2) |
| Balance at end of period | \$ 56.8 | \$ 44.9 |

10. Accounts Receivable Securitization

The company has 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 the company's collection history, the fair value of the company's retained interest approximates book value. The retained interest recorded at March 31, 2006 is \$46.5 million, and is included in accounts receivable in the accompanying Consolidated Balance Sheets.

The securitization program's capacity is \$60 million, and includes trade account receivables from its domestic Crane segment businesses. Trade accounts receivable sold to the Purchaser and being serviced by the company totaled \$31.1 million at March 31, 2006.

Sales of trade receivables from the special purpose subsidiary to the Purchaser totaled \$75.0 million, for the three months ended March 31, 2006. Cash collections of trade accounts receivable balances in the total receivable pool totaled \$130.5 million for the three months ended March 31, 2006.

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 March 31, 2006 | Balance Outstanding 60 Days or More Past Due March 31, 2006 | Net Credit Losses Three Months Ended March 31, 2006 |
|---|--|---|--|
| Trade accounts receivable subject to securitization program | \$ 77.6 | \$ 1.5 | \$ |
| Trade accounts receivable balance sold | 31.1 | | |
| Retained interest | \$ 46.5 | | |

During the three months ended March 31, 2006, the company incurred approximately \$0.2 million of costs related to establishing the securitization facility.

11. Plant Consolidations and Restructuring

During the third quarter of 2005, the company recorded a pre-tax restructuring charge of \$3.2 million in connection with the consolidation of its Kolpak operation located in Wisconsin with its Kolpak operation located in Tennessee within the Foodservice segment. This action was taken in an effort to streamline the company's cost structure and utilize available capacity. The charge included \$1.5 million to write-down the facility and

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land, which are held for sale, to estimated fair market value less cost to sell; \$0.7 million related to the write-down of certain equipment; \$0.1 million to write-off excess inventory which will not be transferred to Tennessee; \$0.5 million related to severance and other employee related costs; and \$0.4 million for other related closing costs. This charge was included in plant consolidation and restructuring costs in the Consolidated Statements of Operations for the third quarter ended September 30, 2005. As of March 31, 2006, the majority of these restructuring reserves have been utilized.

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12. 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 months ended March 31, 2006 and 2005 are as follows:

| | Three Months Ended March 31, 2006 | | | Three Months Ended March 31, 2005 | | |
|---|-----------------------------------|--------------------------|---------------------------------------|-----------------------------------|--------------------------|---------------------------------------|
| | 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 earning during the period | \$ | \$ 0.4 | \$ 0.2 | \$ | \$ 0.3 | \$ 0.2 |
| Interest cost of projected benefit obligations | 1.6 | 1.0 | 0.8 | 1.6 | 1.0 | 0.9 |
| Expected return on plan assets | (1.6) | (0.8) | | (1.6) | (0.8) | |
| Amortization of actuarial net (gain) loss | 0.2 | | 0.1 | 0.1 | | |
| Net periodic benefit costs | \$ 0.2 | \$ 0.6 | \$ 1.1 | \$ 0.1 | \$ 0.5 | \$ 1.1 |
| Weighted average assumptions: | | | | | | |
| Discount rate | 5.50 | % 4.53 | % 5.50 | % 5.75 | % 4.75 | % 5.75 |
| Expected return on plan assets | 8.25 | % 5.74 | % N/A | 8.25 | % 5.25 | % N/A |
| Rate of compensation increase | N/A | 3.53 | % N/A | N/A | 3.50 | % N/A |

13. Debt

In April 2006, the company announced that it will redeem its 10 3/8% senior subordinated notes due 2011, effective May 15, 2006. As set forth in the notes' articles of indenture, the company will pay the note holders 105.188 percent of the principal amount plus accrued and unpaid interest up to the redemption date. At March 31, 2006, the notes represented \$210.7 million of the company's outstanding debt. The company estimates that as a result of this redemption, it will incur a charge of \$12.2 million related to the call premium and write-off of unamortized debt issuance costs.

In December 2004, the company sold, pursuant to an underwritten public offering, approximately 3.0 million shares of its common stock at a price of \$36.25 per share. Net cash proceeds from this offering, after deducting underwriting discounts and commissions, were \$104.9 million. On January 10, 2005, the company completed the redemption of \$61.3 million of the 10 1/2% senior subordinated notes due 2012. As a result of this redemption, the company incurred a charge of approximately \$8.3 million (\$5.4 million net of income taxes) for the early extinguishment of debt related to the prepayment premium paid to the note holders of \$6.4 million, and the partial write-off of debt issuance costs of \$1.9 million. The charge was recorded in loss on debt extinguishment in the Consolidated Statement of Operations.

14. Goodwill and Other Intangible Assets

The changes in carrying amount of goodwill by reportable segment for the year ended December 31, 2005 and three months ended March 31, 2006 are as follows:

| | Crane | Foodservice | Marine | Total |
|---|----------|-------------|---------|----------|
| Balance as of January 1, 2005 | \$ 218.3 | \$ 186.1 | \$ 47.4 | \$ 451.8 |
| Write-off of discontinued operations goodwill | | (0.4) | (0.2) | (0.6) |
| Tax adjustment related to purchase accounting | (2.4) | | | (2.4) |
| Foreign currency impact | (19.2) | | | (19.2) |
| Balance as of December 31, 2005 | 196.7 | 185.7 | 47.2 | 429.6 |
| Exactech, Inc. acquisition | 6.5 | | | 6.5 |
| Foreign currency impact | 1.8 | | | 1.8 |
| Balance as of March 31, 2006 | \$ 205.0 | \$ 185.7 | \$ 47.2 | \$ 437.9 |

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As discussed in Note 2, Acquisition, during the first quarter of 2006, the company completed the acquisition of ExacTech, Inc. In addition, during 2005 the company closed its Toledo Ship Repair and divested of DRI. As a result, the company wrote-off the entire goodwill balances related to these businesses.

During 2005, the company reversed approximately \$2.4 million of a tax reserve related to a German tax issue. This reserve was established by the company during purchase accounting for the acquisition of Grove Investors, Inc. (Grove) as the tax issue related to a period prior to the company acquiring Grove. During 2005, the German tax audit was settled and the excess reserve was reversed through goodwill.

The gross carrying amount and accumulated amortization of the company's intangible assets other than goodwill were as follows as of

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March 31, 2006 and December 31, 2005.

| | March 31, 2006 | | | December 31, 2005 | | |
|---------------------------|-----------------------------|-----------------------------|----------------------|-----------------------------|-----------------------------|----------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Trademarks and tradenames | \$ 92.9 | \$ | \$ 92.9 | \$ 92.0 | \$ | \$ 92.0 |
| Patents | 28.7 | (8.2) | 20.5 | 28.5 | (7.6) | 20.9 |
| Engineering drawings | 11.3 | (3.7) | 7.6 | 11.2 | (3.5) | 7.7 |
| Distribution network | 19.4 | | 19.4 | 19.3 | | 19.3 |
| | \$ 152.3 | \$ (11.9) | \$ 140.4 | \$ 151.0 | \$ (11.1) | \$ 139.9 |

15. Recent Accounting Changes and Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, *Inventory Costs* an amendment of ARB No. 43, Chapter 4. SFAS No. 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. This statement was effective for the company on January 1, 2006. The adoption of SFAS No. 151 did not have a material impact on the company's Consolidated Financial Statements.

During December 2004, the FASB revised SFAS No. 123, *Accounting for Stock Based Compensation*. SFAS No. 123-Revised supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, and require all companies to estimate the fair value of incentive stock options granted and then amortize that estimated fair value to expense over the options' vesting period. SFAS No. 123-Revised is effective for all annual periods beginning after June 15, 2005. The company has adopted SFAS No. 123-Revised on January 1, 2006. See Note 5, *Stock Based Compensation*, for further information regarding the adoption of SFAS No. 123-Revised.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement requires retrospective applications to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, this statement requires that a change in depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. This new accounting standard was effective January 1, 2006. The adoption of SFAS No. 154 did not have an impact on our Consolidated Financial Statements.

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 is effective for the company on January 1, 2007. The company is currently evaluating the impact of SFAS No. 155 on its Consolidated Financial Statements.

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 is effective for the company on January 1, 2007. The company is currently evaluating the impact of SFAS No. 156 on its Consolidated Financial Statements.

16. Subsidiary Guarantors of Senior Subordinated Notes due 2011 and 2012 and 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 Subordinated Notes due 2011 and 2012 and 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 Subordinated Notes due 2011 and 2012 and 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 March 31, 2006
(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------|---------------------------|-----------------------------------|--------------|--------------|
| Net sales | \$ | \$ 410.6 | \$ 294.7 | \$ (72.3) | \$ 633.0 |
| Costs and expenses: | | | | | |
| Cost of sales | | 332.3 | 237.8 | (72.3) | 497.8 |
| Engineering, selling and administrative expense | 8.9 | 38.6 | 31.4 | | 78.9 |
| Amortization expense | | 0.3 | 0.4 | | 0.7 |
| Total costs and expenses | 8.9 | 371.2 | 269.6 | (72.3) | 577.4 |
| Earnings (loss) from operations | (8.9) | 39.4 | 25.1 | | 55.6 |
| Other income (expense): | | | | | |
| Interest expense | (10.0) | (0.1) | (1.6) | | (11.7) |
| Management fee income (expense) | 7.2 | (6.6) | (0.6) | | |
| Other income (expense), net | 8.5 | (5.1) | (4.4) | | (1.0) |
| Total other income (expense) | 5.7 | (11.8) | (6.6) | | (12.7) |
| Earnings (loss) from continuing operations before taxes on income (loss) and equity in earnings of subsidiaries | (3.3) | 27.6 | 18.5 | | 42.9 |
| Provision (benefit) for taxes on income | (0.8) | 6.5 | 7.1 | | 12.9 |
| Earnings (loss) from continuing operations before equity in earnings of subsidiaries | (2.5) | 21.1 | 11.4 | | 30.0 |
| Equity in earnings of subsidiaries | 32.2 | | | (32.2) | |
| Earnings (loss) from continuing operations | 29.7 | 21.1 | 11.4 | (32.2) | 30.0 |
| Earnings from discontinued operations, net of income taxes | | (0.3) | | | (0.3) |
| Net earnings | \$ 29.7 | \$ 20.8 | \$ 11.4 | \$ (32.2) | \$ 29.7 |

The Manitowoc Company, Inc.
Condensed Consolidating Statement of Operations
For the Three Months Ended March 31, 2005
(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------|---------------------------|-----------------------------------|--------------|--------------|
| Net sales | \$ | \$ 310.8 | \$ 254.7 | \$ (55.2) | \$ 510.3 |
| Costs and expenses: | | | | | |
| Cost of sales | | 257.4 | 211.3 | (55.2) | 413.5 |
| Engineering, selling and administrative expense | 5.3 | 34.2 | 28.3 | | 67.8 |
| Amortization expense | | 0.2 | 0.6 | | 0.8 |
| Total costs and expenses | 5.3 | 291.8 | 240.2 | (55.2) | 482.1 |
| Earnings (loss) from operations | (5.3) | 19.0 | 14.5 | | 28.2 |
| Other income (expense): | | | | | |
| Interest expense | (11.5) | (0.4) | (0.9) | | (12.8) |
| Loss on debt extinguishment | (8.3) | | | | (8.3) |
| Management fee income (expense) | 6.0 | (6.0) | | | |
| Other income (expense), net | 9.3 | (5.9) | (2.1) | | 1.3 |
| Total other expense | (4.5) | (12.3) | (3.0) | | (19.8) |
| Earnings (loss) from continuing operations before taxes on income (loss) and equity in earnings of subsidiaries | (9.7) | 6.6 | 11.5 | | 8.4 |
| Provision (benefit) for taxes on income | (3.3) | 2.3 | 3.6 | | 2.5 |
| Earnings (loss) from continuing operations before equity in earnings of subsidiaries | (6.4) | 4.3 | 8.0 | | 5.9 |
| Equity in earnings of subsidiaries | 12.8 | | | (12.8) | |
| Earnings (loss) from continuing operations | 6.4 | 4.3 | 8.0 | (12.8) | 5.9 |
| Earnings from discontinued operations, net of income taxes | | 0.6 | | | 0.6 |
| Net earnings | \$ 6.4 | \$ 4.9 | \$ 8.0 | \$ (12.8) | \$ 6.5 |

The Manitowoc Company, Inc.
Condensed Consolidating Balance Sheet
as of March 31, 2006
(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------------|---------------------------|-----------------------------------|------------------|---------------------|
| Assets | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 100.0 | \$ 13.4 | \$ 91.0 | \$ | \$ 204.4 |
| Marketable securities | 2.3 | | | | 2.3 |
| Accounts receivable - net | 0.4 | 113.4 | 179.5 | | 293.3 |
| Inventories - net | | 164.1 | 233.1 | | 397.2 |
| Deferred income taxes | 44.5 | | 34.1 | | 78.6 |
| Other current assets | 0.5 | 59.6 | 18.8 | | 78.9 |
| Total current assets | 147.7 | 350.5 | 556.5 | | 1,054.7 |
| Property, plant and equipment - net | 11.0 | 152.8 | 195.7 | | 359.5 |
| Goodwill | | 298.6 | 139.3 | | 437.9 |
| Other intangible assets - net | | 52.7 | 87.7 | | 140.4 |
| Deferred income taxes | 27.7 | | (0.9 |) | 26.8 |
| Other non-current assets | 28.2 | 14.8 | 12.5 | | 55.5 |
| Investment in affiliates | 459.6 | 18.8 | 203.1 | (681.5 |) |
| Total assets | \$ 674.1 | \$ 888.2 | \$ 1,194.0 | \$ (681.5 |) \$ 2,074.8 |
| Liabilities and Stockholders' Equity | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable and accrued expenses | \$ 40.5 | \$ 279.5 | \$ 353.0 | \$ | \$ 673.0 |
| Short-term borrowings | | | 6.1 | | 6.1 |
| Product warranties | | 24.2 | 24.2 | | 48.4 |
| Product liabilities | | 28.3 | 3.2 | | 31.5 |
| Total current liabilities | 40.5 | 332.0 | 386.5 | | 759.0 |
| Non-Current Liabilities: | | | | | |
| Long-term debt | 469.1 | | 8.9 | | 478.0 |
| Pension obligations | 29.7 | 14.4 | 28.0 | | 72.1 |
| Postretirement health and other benefit obligations | 53.0 | | | | 53.0 |
| Intercompany | (525.0 |) | (77.6 |) | 169.8 |
| Long-term deferred revenue | | 19.0 | 57.4 | | 76.4 |
| Other non-current liabilities | 24.7 | 15.8 | 13.6 | | 54.1 |
| Total non-current liabilities | 51.5 | (28.4 |) 277.7 | 432.8 | 733.6 |
| Stockholders' equity | 582.2 | 584.6 | 529.8 | (1,114.3 |) 582.2 |
| Total liabilities and stockholders' equity | \$ 674.1 | \$ 888.2 | \$ 1,194.0 | \$ (681.5 |) \$ 2,074.8 |

The Manitowoc Company, Inc.
Condensed Consolidating Balance Sheet
as of December 31, 2005
(In millions)

| | Parent | Guarantor | Non-Guarantor | Eliminations | Total |
|---|----------|-----------|---------------|--------------|------------|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 146.4 | \$ 9.7 | \$ 73.4 | \$ | \$ 229.5 |
| Marketable securities | 2.3 | | | | 2.3 |
| Account receivable-net | 0.2 | 85.0 | 158.0 | | 243.2 |
| Inventories-net | | 141.8 | 189.7 | | 331.5 |
| Deferred income taxes | 36.8 | | 37.6 | | 74.4 |
| Other current assets | 0.5 | 52.2 | 19.8 | | 72.5 |
| Total current assets | 186.2 | 288.7 | 478.5 | | 953.4 |
| Property, plant and equipment - net | 11.1 | 146.4 | 196.4 | | 353.9 |
| Goodwill-net | 1.0 | 291.0 | 137.6 | | 429.6 |
| Other intangible assets | | 54.1 | 85.8 | | 139.9 |
| Deferred income taxes | 26.7 | | | | 26.7 |
| Other non-current assets | 27.6 | 17.4 | 13.3 | | 58.3 |
| Investments in affiliates | 459.6 | 18.8 | 203.1 | (681.5) | |
| Total assets | \$ 712.2 | \$ 816.4 | \$ 1,114.7 | \$ (681.5) | \$ 1,961.8 |
| Liabilities and stockholders equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | \$ 47.5 | \$ 257.8 | \$ 286.5 | \$ | \$ 591.8 |
| Short-term borrowings | 4.3 | | 15.1 | | 19.4 |
| Product warranties | | 24.0 | 23.3 | | 47.3 |
| Product liabilities | | 28.8 | 3.0 | | 31.8 |
| Total current liabilities | 51.8 | 310.6 | 327.9 | | 690.3 |
| Long-term debt | 468.6 | | 5.4 | | 474.0 |
| Pension obligations | 29.7 | 14.3 | 27.6 | | 71.6 |
| Postretirement health and other benefit obligations | 52.4 | | | | 52.4 |
| Long-term deferred revenue | | 23.6 | 58.1 | | 81.7 |
| Intercompany | (443.8) | (108.0) | 167.4 | 384.4 | |
| Other non-current liabilities | 10.1 | 16.8 | 21.6 | | 48.5 |
| Total non-current liabilities | 117.0 | (53.3) | 280.1 | 384.4 | 728.2 |
| Stockholders equity | 543.2 | 559.1 | 506.9 | (1,065.9) | 543.3 |
| Total liabilities and stockholders equity | \$ 712.2 | \$ 816.4 | \$ 1,114.7 | \$ (681.5) | \$ 1,961.8 |

The Manitowoc Company, Inc.
Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 2006
(In thousands)

| | Parent | Subsidiary Guarantors | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|----------|--------------------------|-----------------------------------|--------------|--------------|
| Net cash provided by (used in) operations | \$ 38.9 | \$ (19.1) | \$ 4.6 | \$ (32.2) | \$ (7.8) |
| Cash Flows from Investing: | | | | | |
| Business acquisition | | (12.1) | | | (12.1) |
| Capital expenditures | (0.4) | (4.5) | (5.5) | | (10.4) |
| Proceeds from sale of property, plant and equipment | | | 1.7 | | 1.7 |
| Purchase of marketable securities | | | | | |
| Intercompany investments | (83.2) | 33.6 | 17.4 | 32.2 | |
| Net cash provided by (used for) investing activities of continuing operations | (83.7) | 17.1 | 13.6 | 32.2 | (20.8) |
| Cash Flows from Financing: | | | | | |
| Payments on revolving credit facility | (4.3) | | | | (4.3) |
| Payments on long-term debt | | | (11.8) | | (11.8) |
| Proceeds from long-term debt | | | 6.1 | | 6.1 |
| Proceeds on note financings | | 5.7 | 4.1 | | 9.8 |
| Dividends paid | (2.1) | | | | (2.1) |
| Exercises of stock options | 4.7 | | | | 4.7 |
| Net cash provided by (used for) financing activities | (1.7) | 5.7 | (1.6) | | 2.4 |
| Effect of exchange rate changes on cash | | | 1.1 | | 1.1 |
| Net increase (decrease) in cash and cash equivalents | (46.5) | 3.7 | 17.7 | | (25.1) |
| Balance at beginning of period | 146.5 | 9.7 | 73.3 | | 229.5 |
| Balance at end of period | \$ 100.0 | \$ 13.4 | \$ 91.0 | \$ | \$ 204.4 |

The Manitowoc Company, Inc.
Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 2005
(In thousands)

| | Parent | Subsidiary Guarantors | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|----------|--------------------------|-----------------------------------|--------------|--------------|
| Net cash provided by (used in) operations | \$ 9.5 | \$ (85.8) | \$ 47.6 | \$ (12.8) | \$ (41.5) |
| Cash Flows from Investing: | | | | | |
| Capital expenditures | (0.1) | (3.4) | (4.7) | | (8.2) |
| Proceeds from sale of property, plant and equipment | | | 3.0 | | 3.0 |
| Purchase of marketable securities | | | | | |
| Intercompany investments | (62.4) | 96.2 | (46.6) | 12.8 | |
| Net cash provided by (used for) investing activities of continuing operations | (62.5) | 92.8 | (48.3) | 12.8 | (5.2) |
| Net cash provided by investing activities of discontinued operations | | (0.1) | | | (0.1) |
| Net cash provided by (used for) investing activities | (62.5) | 92.7 | (48.3) | 12.8 | (5.3) |
| Cash Flows from Financing: | | | | | |
| Payments on long-term debt | (61.2) | | (6.5) | | (67.7) |
| Proceeds from long-term debt | | | 7.6 | | 7.6 |
| Payments on notes financings | | 0.2 | (0.5) | | (0.3) |
| Dividends paid | (2.1) | | | | (2.1) |
| Exercises of stock options | 3.3 | | | | 3.3 |
| Net cash provided by (used for) financing activities | (60.0) | 0.2 | 0.6 | | (59.2) |
| Effect of exchange rate changes on cash | | | (1.6) | | (1.6) |
| Net increase (decrease) in cash and cash equivalents | (113.1) | 7.1 | (1.6) | | (107.6) |
| Balance at beginning of period | 135.8 | (4.5) | 45.1 | | 176.4 |
| Balance at end of period | \$ 22.7 | \$ 2.6 | \$ 43.5 | \$ | \$ 68.8 |

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17. 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 is summarized as follows:

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2006 | 2005 |
| Net sales: | | |
| Crane | \$ 477.5 | \$ 358.0 |
| Foodservice | 93.6 | 96.2 |
| Marine | 61.9 | 56.1 |
| Total net sales | \$ 633.0 | \$ 510.3 |
| Earning from operations: | | |
| Crane | \$ 50.5 | \$ 19.6 |
| Foodservice | 10.6 | 12.3 |
| Marine | 3.7 | 1.6 |
| Corporate expense | (9.2) | (5.3) |
| Total | 55.6 | 28.2 |
| Interest expense | (11.7) | (12.8) |
| Loss on debt extinguishment | | (8.3) |
| Other income (expense), net | (1.0) | 1.3 |
| Earnings from continuing operations before taxes on income | \$ 42.9 | \$ 8.4 |

Crane segment operating earnings for the three months ended March 31, 2006 and 2005 includes amortization expense of \$0.7 million and \$0.8 million, respectively.

As of March 31, 2006 and December 31, 2005, the total assets by segment were as follows:

| | March 31, 2006 | December 31, 2005 |
|-------------|-----------------------|--------------------------|
| Crane | \$ 1,353.4 | \$ 1,224.7 |
| Foodservice | 339.7 | 313.2 |
| Marine | 127.1 | 123.3 |