TEREX CORP
Form 10-Q
August 03, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

F O R M 10 – Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

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

Commission file number 1-10702

Terex Corporation

(Exact name of registrant as specified in its charter)

Delaware	**34-1531521**
(State of Incorporation)	(IRS Employer Identification No.)

200 Nyala Farm Road, Westport, Connecticut 06880

(Address of principal executive offices)

(203) 222-7170

(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, and (2) has been subject to such filing requirements for the past 90 days.

YES x **NO o**

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 x **Accelerated filer o** **Non-accelerated filer o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o **NO x**

Number of outstanding shares of common stock: 103.1 million as of July 31, 2007.

The Exhibit Index begins on page 47.

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TEREX CORPORATION AND SUBSIDIARIES

GENERAL

This Quarterly Report on Form 10-Q filed by Terex Corporation ("Terex" or the "Company") generally speaks as of June 30, 2007 unless specifically noted otherwise, and includes financial information with respect to the following subsidiaries of the Company (all of which are wholly-owned) which were guarantors on June 30, 2007 (the "Guarantors") of the Company's 7-3/8% Senior Subordinated Notes due 2014. See Note Q - "Consolidating Financial Statements" to the Company's June 30, 2007 Condensed Consolidated Financial Statements included in this Quarterly Report.

Guarantor	State or other jurisdiction of incorporation or organization	I.R.S. employer identification number
Amida Industries, Inc.	South Carolina	57-0531390
Cedarapids, Inc.	Iowa	42-0332910
CMI Terex Corporation	Oklahoma	73-0519810
Finlay Hydrascreen USA, Inc.	New Jersey	22-2776883
Genie Financial Services, Inc.	Washington	91-1712115
Genie Holdings, Inc.	Washington	91-1666966
Genie Industries, Inc.	Washington	91-0815489
Genie International, Inc.	Washington	91-1975116
Genie Manufacturing, Inc.	Washington	91-1499412
GFS National, Inc.	Washington	91-1959375
Koehring Cranes, Inc.	Delaware	06-1423888
Powerscreen Holdings USA Inc.	Delaware	61-1265609
Powerscreen International LLC	Delaware	61-1340898
Powerscreen North America Inc.	Delaware	61-1340891
Powerscreen USA LLC	Kentucky	31-1515625
PPM Cranes, Inc.	Delaware	39-1611683
Royer Industries, Inc.	Pennsylvania	24-0708630
Schaeff Incorporated	Iowa	42-1097891
Spinnaker Insurance Company	Vermont	03-0372517
Terex Advance Mixer, Inc.	Delaware	06-1444818
Terex Cranes, Inc.	Delaware	06-1513089
Terex Cranes Wilmington, Inc.	North Carolina	56-1570091
Terex Financial Services, Inc.	Delaware	45-0497096
Terex Mining Equipment, Inc.	Delaware	06-1503634
Terex Utilities, Inc.	Oregon	93-0557703
Terex-RO Corporation	Kansas	44-0565380
Terex-Telelect, Inc.	Delaware	41-1603748

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TEREX CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(unaudited)

(in millions, except per share data)

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2007	2006	2007	2006
Net sales	$ 2,342.2	$ 2,020.4	$ 4,354.9	$ 3,714.3
Cost of goods sold	1,835.1	1,627.7	3,435.8	3,014.1
Gross profit	507.1	392.7	919.1	700.2
Selling, general and administrative expenses	(222.6)	(185.5)	(433.9)	(351.1)
Income from operations	284.5	207.2	485.2	349.1
Other income (expense)				
Interest income	3.5	5.0	6.9	7.2
Interest expense	(14.7)	(26.1)	(28.9)	(50.6)
Loss on early extinguishment of debt	-	(6.7)	(12.5)	(6.7)
Other income (expense) – net	(2.0)	(1.1)	2.6	-
Income from continuing operations before income taxes	271.3	178.3	453.3	299.0
Provision for income taxes	(96.7)	(65.1)	(164.9)	(108.9)
Income from continuing operations	174.6	113.2	288.4	190.1
Income from discontinued operations – net of tax	-	6.0	-	7.9
Net income	$ 174.6	$ 119.2	$ 288.4	$ 198.0
PER COMMON SHARE:				
Basic				
Income from continuing operations	$ 1.70	$ 1.13	$ 2.81	$ 1.90
Income from discontinued operations	-	0.06	-	0.08
Net income	$ 1.70	$ 1.19	$ 2.81	$ 1.98
Diluted				
Income from continuing operations	$ 1.66	$ 1.10	$ 2.75	$ 1.85
Income from discontinued operations	-	0.06	-	0.08
Net income	$ 1.66	$ 1.16	$ 2.75	$ 1.93
Weighted average number of shares outstanding in per share calculation				
Basic	102.8	100.2	102.5	100.0

Diluted	104.9	102.6	104.7	102.6

The accompanying notes are an integral part of these financial statements.

TEREX CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(unaudited)

(in millions, except par value)

	June 30, 2007	*December 31, 2006*
Assets		
Current assets		
Cash and cash equivalents	$ 453.4	$ 676.7
Trade receivables (net of allowance of $61.5 at June 30, 2007 and $60.3 at December 31, 2006)	1,214.7	950.5
Inventories	1,907.4	1,502.0
Deferred taxes	140.0	132.9
Other current assets	180.3	170.7
Total current assets	3,895.8	3,432.8
Long-term assets		
Property, plant and equipment - net	362.3	338.5
Goodwill	636.3	632.8
Deferred taxes	181.1	172.5
Other assets	205.1	209.3
Total assets	$ 5,280.6	$ 4,785.9
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable and current portion of long-term debt	$ 24.5	$ 227.0
Trade accounts payable	1,246.1	1,034.3
Accrued compensation and benefits	167.8	169.3
Accrued warranties and product liability	120.2	107.6
Other current liabilities	499.2	489.0
Total current liabilities	2,057.8	2,027.2
Non-current liabilities		
Long-term debt, less current portion	627.2	536.1
Retirement plans and other	522.2	471.6
Total liabilities	3,207.2	3,034.9
Commitments and contingencies		
Stockholders' equity		
Common stock, $.01 par value – authorized 150.0 shares; issued 105.8 and 104.7 shares at June 30, 2007 and December 31, 2006, respectively	1.1	1.0
Additional paid-in capital	970.3	923.7
Retained earnings	959.2	707.3
Accumulated other comprehensive income	204.2	155.2
Less cost of shares of common stock in treasury – 3.9 shares at June 30, 2007	(61.4)	(36.2)

and 3.6 shares at December 31, 2006		
Total stockholders’ equity	2,073.4	1,751.0
Total liabilities and stockholders’ equity	$ 5,280.6	$ 4,785.9

The accompanying notes are an integral part of these financial statements.

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TEREX CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(in millions)

	Six Months Ended June 30,	
	2007	*2006*
Operating Activities		
Net income	$ 288.4	$ 198.0
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation	30.5	30.4
Amortization	6.1	6.4
Deferred taxes	(4.4)	18.7
Loss on early extinguishment of debt	3.2	1.5
Gain on sale of assets	(5.0)	(1.0)
Stock-based compensation	33.4	24.1
Excess tax benefit from stock-based compensation	(17.2)	(11.0)
Changes in operating assets and liabilities (net of effects of acquisitions and divestitures):		
Trade receivables	(244.8)	(255.5)
Inventories	(373.7)	(125.2)
Trade accounts payable	192.9	131.7
Accrued compensation and benefits	(13.8)	14.7
Income taxes payable	54.5	41.7
Accrued warranties and product liability	8.4	3.4
Other, net	(47.5)	30.8
Net cash (used in) provided by operating activities	(89.0)	108.7
Investing Activities		
Acquisition of businesses, net of cash acquired	-	(33.1)
Capital expenditures	(44.0)	(33.8)
Investments in and advances to affiliates	-	(6.8)
Proceeds from sale of assets	9.7	-
Net cash used in investing activities	(34.3)	(73.7)
Financing Activities		
Principal repayments of long-term debt	(200.0)	(100.0)
Excess tax benefit from stock-based compensation	17.2	11.0
Proceeds from stock options exercised	8.1	6.1
Net borrowings (repayments) under credit facility	84.4	0.2
Share repurchase	(24.7)	-
Other, net	1.4	(1.8)
Net cash used in financing activities	(113.6)	(84.5)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	13.6	21.6
Net Decrease in Cash and Cash Equivalents	(223.3)	(27.9)
Cash and Cash Equivalents at Beginning of Period	676.7	553.6
Cash and Cash Equivalents at End of Period	$ 453.4	$ 525.7

The accompanying notes are an integral part of these financial statements.

TEREX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

(unaudited)

(dollar amounts in millions, unless otherwise noted, except per share amounts)

NOTE A - BASIS OF PRESENTATION

Basis of Presentation. The accompanying unaudited Condensed Consolidated Financial Statements of Terex Corporation and subsidiaries as of June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America to be included in full year financial statements. The accompanying Condensed Consolidated Balance Sheet as of December 31, 2006 has been derived from the audited Consolidated Balance Sheet as of that date.

The Condensed Consolidated Financial Statements include the accounts of Terex Corporation, its majority-owned subsidiaries and other controlled subsidiaries (“Terex” or the “Company”). The Company consolidates all majority-owned and controlled subsidiaries, applies the equity method of accounting for investments in which the Company is able to exercise significant influence, and applies the cost method for all other investments. All material intercompany balances, transactions and profits have been eliminated.

In the opinion of management, all adjustments considered necessary for the fair statement of these interim financial statements have been made. Except as otherwise disclosed, all such adjustments consist only of those of a normal recurring nature. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006.

Cash and cash equivalents at June 30, 2007 and December 31, 2006 include $3.7 and $2.5, respectively, which was not immediately available for use. These consist primarily of cash balances held in escrow to secure various obligations of the Company.

Certain prior period amounts in the Condensed Consolidated Financial Statements have been reclassified to conform with current period presentation, including the stock split and discontinued operations discussed below.

The Company effected a two-for-one split of its common stock, par value $.01 per share (“Common Stock”) on July 14, 2006, for stockholders of record on June 15, 2006 (the “Stock Split”). Accordingly, all references to the number of shares and per share data for June 30, 2006 reflect this stock split.

On September 29, 2006, the Company completed the sale of its ownership interest in Terex Czech s.r.o. and Tatra a.s. (collectively, “Tatra”) to a group of private equity investors. Results of Tatra are included as Income from discontinued operations - net of tax in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2006.

Recent Accounting Pronouncements. In June 2006, the Financial Accounting Standards Board (“FASB”) ratified Emerging Issues Task Force (“EITF”) Issue No. 06-3 (“EITF No. 06-3”), “How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation).” The classification in the income statement of taxes is considered an accounting policy and any change in presentation would require the application of Statement of Financial Accounting Standard (“SFAS”) No. 154, “Accounting Changes and Error Corrections.” In addition, under the scope of EITF No. 06-3, significant taxes recorded in the Statement of Operations would require disclosure of the accounting policy elected and amounts reflected in gross revenue for all periods presented. Provisions of EITF No. 06-3 are effective for fiscal years beginning after December 15, 2006. The Company adopted this accounting standard on January 1, 2007. Adoption of EITF No. 06-3 did not have a material impact on the Company’s financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN No. 48”), which clarifies accounting for uncertainty in tax positions. FIN No. 48 requires that the Company recognize in its financial statements the impact of a tax position, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. Provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings as of January 1, 2007. The Company adopted this accounting standard on January 1, 2007. See Note C - “Income Taxes” for the impact of adoption of FIN No. 48.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the Company’s 2008 fiscal year. The Company is currently evaluating the impact of adopting SFAS No. 157 on its financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of the Company’s 2008 fiscal year. The Company is currently evaluating the impact of adopting SFAS No. 159 on its financial statements.

Accounts Receivable and Allowance for Doubtful Accounts. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines the allowance based on historical customer review. The Company reviews its allowance for doubtful accounts at least quarterly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by type of receivable. Account balances are charged off against the allowance when the Company determines that the receivable will not be recovered. The Company has off-balance sheet credit exposure related to guarantees provided to financial institutions as disclosed in Note O - “Litigation and Contingencies.” Substantially all receivables were trade receivables at June 30, 2007 and December 31, 2006.

Trade Accounts Payable. At June 30, 2007, $44.2 of book overdrafts are included in Trade accounts payable.

Accrued Warranties. The Company records accruals for potential warranty claims based on its claim experience. The Company’s products are typically sold with a standard warranty covering defects that arise during a fixed period of time, a fixed number of operating hours, or both. Each business provides a warranty specific to the products it offers. The specific warranty offered by a business is a function of customer expectations and competitive forces.

A liability for estimated warranty claims is accrued at the time of sale. The non-current portion of the warranty accrual is included in Retirement plans and other non-current liabilities. The liability is established using historical warranty claim experience for each product sold. Historical claim experience may be adjusted for known design improvements or for the impact of unusual product quality issues. Warranty reserves are reviewed quarterly to ensure critical assumptions are updated for known events that may affect the potential warranty liability.

The following table summarizes the changes in the consolidated product warranty liability:

	Six Months Ended
	June 30, 2007
Balance at beginning of period	$ 120.0
Accruals for warranties issued during the period	64.1
Changes in estimates	(5.7)
Settlements during the period	(47.0)
Foreign exchange effect/other	2.4
Balance at end of period	$ 133.8

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NOTE B - BUSINESS SEGMENT INFORMATION

Terex is a diversified global manufacturer of capital equipment focused on delivering reliable, customer relevant solutions for the construction, infrastructure, quarrying, mining, shipping, transportation, refining and utility industries. The Company operates in five reportable segments: (i) Terex Aerial Work Platforms; (ii) Terex Construction; (iii) Terex Cranes; (iv) Terex Materials Processing & Mining; and (v) Terex Roadbuilding, Utility Products and Other.

The Aerial Work Platforms segment designs, manufactures and markets aerial work platform equipment, telehandlers, light construction equipment and construction trailers. Products include material lifts, portable aerial work platforms, trailer-mounted articulating booms, self-propelled articulating and telescopic booms, scissor lifts, telehandlers, construction trailers, trailer-mounted light towers, power buggies, generators, related components and replacement parts, and other products. Customers in the construction and building maintenance industries use these products to build and/or maintain large physical assets and structures.

The Construction segment designs, manufactures and markets two primary categories of equipment and their related components and replacement parts: heavy construction equipment (including off-highway trucks, scrapers, hydraulic excavators, large wheel loaders, material handlers and truck mounted articulated hydraulic cranes) and compact construction equipment (including loader backhoes, compaction equipment, mini and midi excavators, site dumpers and wheel loaders). Construction, logging, mining, industrial and government customers use these products in construction and infrastructure projects and in coal, minerals, sand and gravel operations.

The Cranes segment designs, manufactures and markets mobile telescopic cranes, tower cranes, lattice boom crawler cranes, truck mounted cranes (boom trucks) and telescopic container stackers, as well as their related replacement parts and components. These products are used primarily for construction, repair and maintenance of infrastructure, building and manufacturing facilities. The Company acquired Power Legend International Limited ("Power Legend") and its affiliates, including a controlling 50% ownership interest in Sichuan Changjiang Engineering Crane Co., Ltd. ("Sichuan Crane"), on April 4, 2006. The results of Power Legend and Sichuan Crane are included in the Cranes segment from their date of acquisition.

The Materials Processing & Mining segment designs, manufactures and markets crushing and screening equipment (including crushers, impactors, washing systems, screens, trommels and feeders), hydraulic mining excavators, high capacity surface mining trucks, drilling equipment, related components and replacement parts, and other products. Construction, mining, quarrying and government customers use these products in construction and commodity mining. The Company acquired Halco Holdings Limited and its affiliates ("Halco") on January 24, 2006, and established the Terex NHL Mining Equipment Company Ltd. ("Terex NHL") joint venture on March 9, 2006. The results of Halco and Terex NHL are included in the Materials Processing & Mining segment since their date of acquisition and formation, respectively.

The Roadbuilding, Utility Products and Other segment designs, manufactures and markets asphalt and concrete equipment (including pavers, plants, mixers, reclaimers, stabilizers and profilers), landfill compactors and utility equipment (including digger derricks, aerial devices and cable placers), as well as related components and replacement parts. Government, utility and construction customers use these products to build roads, construct and maintain utility lines, trim trees and for other commercial operations. The Company also owns much of the North American distribution channel for the utility products group through the Terex Utilities distribution network. These operations distribute, install and rent utility aerial devices and digger derricks as well as other products that service the utility industry. They also provide parts and service support for a variety of the Company's other products, including mixers and aerial devices. The Company also operates a fleet of rental utility products in the United States and Canada. On April 27, 2007, the Company acquired the remaining 50% interest in Duvalpilot Equipment Outfitters, LLC, a distributor of the Company's products and other light construction equipment, which it did not already own. The Company, through Terex Financial Services, also facilitates loans and leases between customers and various financial institutions. In Europe, Terex Financial Services Holding B.V. ("TFSH"), a joint venture of the Company and a European financial institution, assists customers in the acquisition of the Company's products.

Included in Eliminations/Corporate are the eliminations among the five segments, as well as general and corporate items for the three and six months ended June 30, 2007 and 2006. Business segment information is presented below:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
	2007	*2006*	*2007*	*2006*
Net Sales				
Aerial Work Platforms	$ 640.3	$ 579.6	$ 1,188.0	$ 1,038.1
Construction	502.5	428.9	910.3	762.4
Cranes	544.5	440.6	1,045.3	809.3
Materials Processing & Mining	515.6	406.1	910.9	787.0
Roadbuilding, Utility Products and Other	168.8	195.0	347.6	374.0
Eliminations/Corporate	(29.5)	(29.8)	(47.2)	(56.5)
Total	$ 2,342.2	$ 2,020.4	$ 4,354.9	$ 3,714.3
Income from Operations				
Aerial Work Platforms	$ 147.0	$ 110.1	$ 246.3	$ 190.0
Construction	23.7	16.6	29.8	19.6
Cranes	56.8	36.9	109.8	62.9
Materials Processing & Mining	63.1	49.1	109.5	90.1
Roadbuilding, Utility Products and Other	4.1	11.6	6.5	19.1
Eliminations/Corporate	(10.2)	(17.1)	(16.7)	(32.6)
Total	$ 284.5	$ 207.2	$ 485.2	$ 349.1

	June 30,	*December 31,*
	2007	*2006*
Identifiable Assets		
Aerial Work Platforms	$ 980.5	$ 838.5
Construction	1,631.5	1,467.9
Cranes	1,408.9	1,271.0
Materials Processing & Mining	1,977.8	1,743.7
Roadbuilding, Utility Products and Other	410.7	388.1
Eliminations/Corporate	(1,128.8)	(923.3)
Total	$ 5,280.6	$ 4,785.9

NOTE C - INCOME TAXES

The effective tax rate on continuing operations for the three months ended June 30, 2007 was 35.6%, as compared to an effective rate of 36.5% for the three months ended June 30, 2006. The effective tax rate on continuing operations for the three months ended June 30, 2007 was lower than the prior year period primarily due to changes in the jurisdictional mix of income and the impact of permanent tax items. The effective tax rate on continuing operations for the six months ended June 30, 2007 and 2006 was 36.4%. An income tax expense of $0.8 was recorded within Income from discontinued operations for the six months ended June 30, 2006. There was no income tax expense recorded within Income from discontinued operations for the three months ended June 30, 2006.

The Company adopted the provisions of FIN No. 48 on January 1, 2007. The cumulative effect of the change on retained earnings as of January 1, 2007 as a result of the adoption of FIN No. 48 was a reduction of $36.5. As of January 1, 2007, the Company had approximately $87.2 of unrecognized tax benefits. Of these, approximately $69.9, if recognized, would affect the effective tax rate. The Company continues to classify interest and penalties associated with uncertain tax positions as income tax expense. Upon adoption of FIN No. 48, the Company had $5.7 of accrued interest and penalties recorded.

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries files income tax returns in the U.S. and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Germany, the United Kingdom and the U.S. Certain subsidiaries of the Company are currently under audit in Germany, the United Kingdom and the U.S. It is reasonably possible that these audits may be completed during the next 12 months. While the amount of uncertain tax benefits with respect to these audits may change within the next twelve months, it is not anticipated that any of the changes will be significant. With few exceptions, including net operating loss carry forwards in the U.S. and Australia, the Company and its subsidiaries are generally no longer subject to U.S. federal, state and local, or non-U.S., income tax examinations for years before 1999.

NOTE D - DISCONTINUED OPERATIONS

On September 29, 2006, the Company completed the sale of Tatra to a group of private equity investors. Tatra is located in the Czech Republic and is a manufacturer of on/off road heavy-duty vehicles for commercial and military applications. The Company received $26.2 in cash consideration for the shares of Tatra. Additionally, $31.6 in cash was received in satisfaction of all intercompany note receivable balances from Tatra. The Company had previously disclosed that it did not consider Tatra to be a core business. The Company recorded an after-tax loss of $7.7 on the disposition of Tatra. Results of Tatra, through the date of its disposition, are presented as Income from discontinued operations - net of tax in the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2006. Tatra was previously included in the Roadbuilding, Utility Products and Other segment.

NOTE E - EARNINGS PER SHARE

The Company effected the Stock Split on July 14, 2006. Accordingly, all references to the number of shares and per share amounts, for the periods ended June 30, 2006, reflect this Stock Split.

	Three Months Ended June 30, (in millions, except per share data)		*Six Months Ended June 30, (in millions, except per share data)*	
	2007	*2006*	*2007*	*2006*
Income from continuing operations	$ 174.6	$ 113.2	$ 288.4	$ 190.1
Income from discontinued operations-net of tax	-	6.0	-	7.9
Net income	$ 174.6	$ 119.2	$ 288.4	$ 198.0
Basic Shares:				
Weighted average shares outstanding	102.8	100.2	102.5	100.0
Earnings per share - basic:				
Income from continuing operations	$ 1.70	$ 1.13	$ 2.81	$ 1.90
Income from discontinued operations-net of tax	-	0.06	-	0.08
Net income	$ 1.70	$ 1.19	$ 2.81	$ 1.98
Diluted shares:				
Weighted average shares outstanding	102.8	100.2	102.5	100.0
Effect of dilutive securities:				
Stock options and restricted stock awards	2.1	2.4	2.2	2.6
Diluted weighted average shares outstanding	104.9	102.6	104.7	102.6

Earnings per share - diluted:				
Income from continuing operations	$ 1.66	$ 1.10	$ 2.75	$ 1.85
Income from discontinued operations-net of tax	-	0.06	-	0.08
Net income	$ 1.66	$ 1.16	$ 2.75	$ 1.93

Options to purchase 95 thousand and 48 thousand shares of Terex Common Stock were outstanding during the three months and six months ended June 30, 2006, respectively, but were not included in the computation of diluted shares as the exercise price of these awards exceeded the average market price for the period and the effect would have been anti-dilutive. Restricted stock awards of 138 thousand and 392 thousand shares were outstanding during the three months ended June 30, 2007 and 2006, respectively, and restricted stock awards of 120 thousand and 197 thousand shares were outstanding during the six months ended June 30, 2007 and 2006, respectively, but were not included in the computation of diluted shares because the effect would be anti-dilutive or because performance targets were not yet achieved for awards contingent upon performance.

NOTE F - INVENTORIES

Inventories consist of the following:

	June 30, 2007	December 31, 2006
Finished equipment	$ 620.6	$ 456.4
Replacement parts	352.5	320.5
Work-in-process	355.9	267.3
Raw materials and supplies	578.4	457.8
Inventories	$ 1,907.4	$ 1,502.0

Reserves for excess and obsolete inventory were $103.7 and $97.9 at June 30, 2007 and December 31, 2006, respectively.

NOTE G - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	June 30, 2007	December 31, 2006
Property	$ 48.9	$ 49.2
Plant	227.3	207.5
Equipment	354.4	313.8
	630.6	570.5
Less: Accumulated depreciation	(268.3)	(232.0)
Property, plant and equipment - net	$ 362.3	$ 338.5

NOTE H - EQUIPMENT SUBJECT TO OPERATING LEASES

Operating leases arise from the leasing of the Company’s products to customers. Initial noncancellable lease terms typically range up to 84 months. The net book value of equipment subject to operating leases was approximately $77 and $85 (net of accumulated depreciation of approximately $30 and $40) at June 30, 2007 and December 31, 2006, and is included within Other assets in the Company’s Condensed Consolidated Balance Sheet. The equipment is depreciated on the straight-line basis over the shorter of the estimated useful life or the estimated amortization period of any borrowings collateralized by the asset to its estimated salvage value.

NOTE I - ACQUISITIONS

On January 24, 2006, the Company acquired Halco for approximately $15 in cash, plus assumption of certain capitalized leases and pension liabilities. Halco is headquartered in Southowram, England, with operations also in the United States, Ireland and Australia. Halco designs, manufactures and distributes down-the-hole drill bits and hammers for drills. The results of Halco are included in the Materials Processing & Mining Segment from the date of acquisition.

On March 9, 2006, Terex's Unit Rig mining truck business entered into a joint venture with Inner Mongolia North Hauler Joint Stock Company Limited to produce high capacity surface mining trucks in China. Terex owns a controlling 50% interest in this joint venture, Terex NHL, a company incorporated under the laws of China. The results of Terex NHL are included in the Materials Processing & Mining Segment from the date of formation.

On April 4, 2006, the Company acquired Power Legend and its affiliates, including a controlling 50% ownership interest in Sichuan Crane, for approximately $25 in cash. Sichuan Crane is headquartered in Luzhou, China and designs, manufactures, sells and repairs cranes and other construction equipment and components. The results of Power Legend and Sichuan Crane are included in the Cranes segment from their date of acquisition.

NOTE J - INVESTMENT IN JOINT VENTURE

The Company owns a forty percent (40%) interest in the TFSH joint venture originally entered into on September 18, 2002. A European financial institution owns the majority sixty percent (60%) interest in TFSH. As defined by FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," TFSH is a variable interest entity. Based on the legal, financial and operating structure of TFSH, the Company has concluded that it is not the primary beneficiary of TFSH and that it does not control the operations of TFSH. Accordingly, the Company does not consolidate the results of TFSH into its consolidated financial statements. The Company applies the equity method of accounting for its investment in TFSH. The scope of TFSH's operations includes the opportunity to facilitate the financing of the Company's products sold in certain areas of Europe.

As of June 30, 2007, TFSH had total assets of approximately $485, consisting primarily of financing receivables and lease-related equipment, and total liabilities of approximately $438, consisting primarily of debt issued by the joint venture partner. Prior to March 31, 2006, the Company provided guarantees related to potential losses arising from shortfalls in the residual values of financed equipment or credit defaults by the joint venture's customers. As of June 30, 2007, the maximum exposure to loss under these guarantees was approximately $18. Additionally, the Company is required to maintain a capital account balance in TFSH, pursuant to the terms of the joint venture, which could result in the reimbursement to TFSH by the Company of losses to the extent of the Company's ownership percentage. Because of the capital account balance requirements for TFSH, during the first quarter of 2006, the Company contributed its proportional share of these requirements, which represented an additional $3.4 in cash to TFSH.

NOTE K - GOODWILL

An analysis of changes in the Company's goodwill by business segment is as follows:

	Terex Aerial Work Platforms	Terex Construction	Terex Cranes	Terex Materials Processing & Mining	Terex Roadbuilding, Utility Products and Other	Total
Balance at December 31, 2006	$ 104.2	$ 113.7	$ 115.2	$ 221.7	$ 78.0	$ 632.8
Acquisitions	-	-	(6.2)	(0.5)	-	(6.7)
Foreign exchange effect and other	0.9	2.7	2.0	4.6	-	10.2