

COLUMBUS MCKINNON CORP  
Form 10-Q  
October 24, 2014

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

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

For the quarterly period ended September 30, 2014  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-27618

Columbus McKinnon Corporation  
(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of incorporation or organization)

16-0547600  
(I.R.S. Employer  
Identification No.)

140 John James Audubon Parkway, Amherst, NY  
(Address of principal executive offices)

14228-1197  
(Zip code)

(716) 689-5400  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. :  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting Company

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

The number of shares of common stock outstanding as of October 20, 2014 was: 19,961,752 shares.

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 COLUMBUS MCKINNON CORPORATION  
 September 30, 2014

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## Part I. Financial Information

## Item 1. Condensed Consolidated Financial Statements (Unaudited)

COLUMBUS MCKINNON CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | September 30,<br>2014<br>(unaudited)<br>(In thousands) | March 31,<br>2014 |
|--|--|-------------------|
| <b>ASSETS:</b>   |  |                   |
| Current assets:  |  |                   |
| Cash and cash equivalents  | \$114,481  | \$112,309         |
| Trade accounts receivable  | 79,874   | 93,223            |
| Inventories  | 100,062  | 97,576            |
| Prepaid expenses and other   | 22,196   | 23,444            |
| Total current assets   | 316,613  | 326,552           |
| Property, plant, and equipment, net  | 76,122   | 78,687            |
| Goodwill   | 116,978  | 119,303           |
| Other intangibles, net   | 18,686   | 20,842            |
| Marketable securities  | 22,149   | 21,941            |
| Deferred taxes on income   | 20,909   | 23,406            |
| Other assets   | 8,217  | 7,943             |
| Total assets   | \$579,674  | \$598,674         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>   |  |                   |
| Current liabilities:   |  |                   |
| Trade accounts payable   | \$26,007   | \$35,359          |
| Accrued liabilities  | 44,325   | 52,348            |
| Current portion of long term debt  | 711  | 1,588             |
| Total current liabilities  | 71,043   | 89,295            |
| Senior debt, less current portion  | 1,628  | 2,020             |
| Subordinated debt  | 148,822  | 148,685           |
| Other non current liabilities  | 55,486   | 67,388            |
| Total liabilities  | 276,979  | 307,388           |
| Shareholders' equity:  |  |                   |
| Voting common stock; 50,000,000 shares authorized; 19,960,947 and 19,806,300 shares issued and outstanding | 200  | 198               |
| Additional paid in capital   | 200,759  | 198,546           |
| Retained earnings  | 150,354  | 133,820           |
| ESOP debt guarantee  | —  | (142 )            |
| Accumulated other comprehensive loss   | (48,618 )  | (41,136 )         |
| Total shareholders' equity   | 302,695  | 291,286           |
| Total liabilities and shareholders' equity   | \$579,674  | \$598,674         |

See accompanying notes.

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

|  | Three Months Ended                    |                       | Six Months Ended      |                       |
|--|---------------------------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2014                 | September 30,<br>2013 | September 30,<br>2014 | September 30,<br>2013 |
|  | (In thousands, except per share data) |                       |                       |                       |
| Net sales                                  | \$146,991                             | \$138,852             | \$289,923             | \$277,743             |
| Cost of products sold                      | 99,835                                | 94,592                | 197,202               | 189,992               |
| Gross profit                               | 47,156                                | 44,260                | 92,721                | 87,751                |
| Selling expenses                           | 17,146                                | 17,281                | 35,037                | 34,028                |
| General and administrative expenses        | 13,300                                | 14,167                | 27,379                | 27,017                |
| Amortization of intangibles                | 576                                   | 526                   | 1,165                 | 985                   |
|  | 31,022                                | 31,974                | 63,581                | 62,030                |
| Income from operations                     | 16,134                                | 12,286                | 29,140                | 25,721                |
| Interest and debt expense                  | 3,264                                 | 3,372                 | 6,633                 | 6,743                 |
| Investment income                          | (465                                  | ) (276                | ) (667                | ) (492                |
| Foreign currency exchange loss<br>(gain)   | (169                                  | ) 195                 | (212                  | ) 420                 |
| Other expense (income), net                | 69                                    | (1,261                | ) (108                | ) (1,172              |
| Income before income tax expense           | 13,435                                | 10,256                | 23,494                | 20,222                |
| Income tax expense                         | 2,836                                 | 3,134                 | 6,162                 | 6,080                 |
| Net income                                 | 10,599                                | 7,122                 | 17,332                | 14,142                |
| Dividends declared of \$0.04 per<br>share  | (798                                  | ) —                   | (798                  | ) —                   |
| Retained earnings - beginning of<br>period | 140,553                               | 111,211               | 133,820               | 104,191               |
| Retained earnings - end of period          | \$150,354                             | \$118,333             | \$150,354             | \$118,333             |
| Average basic shares outstanding           | 19,950                                | 19,655                | 19,900                | 19,587                |
| Average diluted shares outstanding         | 20,187                                | 19,959                | 20,148                | 19,866                |
| Basic income per share:                    |                                       |                       |                       |                       |
| Net income                                 | \$0.53                                | \$0.36                | \$0.87                | \$0.72                |
| Diluted income per share:                  |                                       |                       |                       |                       |
| Net income                                 | \$0.53                                | \$0.36                | \$0.86                | \$0.71                |

See accompanying notes.

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

|   | Three Months Ended    |                       | Six Months Ended      |                       |   |
|---|-----------------------|-----------------------|-----------------------|-----------------------|---|
|   | September 30,<br>2014 | September 30,<br>2013 | September 30,<br>2014 | September 30,<br>2013 |   |
|   | (In thousands)        |                       |                       |                       |   |
| Net income  | \$10,599              | \$7,122               | \$17,332              | \$14,142              |   |
| Other comprehensive income (loss),<br>net of tax:   |                       |                       |                       |                       |   |
| Foreign currency translation<br>adjustments   | (8,349                | ) 3,065               | (8,018                | ) 2,935               |   |
| Change in derivatives qualifying as<br>hedges, net of taxes of \$(45), \$(82),<br>\$(116), and \$(108)            | 88                    | 105                   | 204                   | 191                   |   |
| Change in pension liability and<br>postretirement obligation, net of taxes<br>of \$(142), \$62, \$(143), \$65     | 263                   | (115                  | ) 264                 | (120                  | ) |
| Adjustments for unrealized (gain) loss<br>on investments:   |                       |                       |                       |                       |   |
| Unrealized holding gain (loss) arising<br>during the period, net of taxes of \$(3),<br>\$(158), \$(152), and \$76 | 5                     | 292                   | 282                   | (142                  | ) |
| Reclassification adjustment for gain<br>included in net income, net of taxes of<br>\$107, \$392, \$115, and \$518 | (198                  | ) (727                | ) (214                | ) (962                | ) |
| Net change in unrealized (gain) loss on<br>investments  | (193                  | ) (435                | ) 68                  | (1,104                | ) |
| Total other comprehensive income<br>(loss)  | (8,191                | ) 2,620               | (7,482                | ) 1,902               |   |
| Comprehensive income  | \$2,408               | \$9,742               | \$9,850               | \$16,044              |   |

See accompanying notes.

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

|  | Six Months Ended      |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2014 | September 30,<br>2013 |
|  | (In thousands)        |                       |
| <b>OPERATING ACTIVITIES:</b>   |                       |                       |
| Net income   | \$17,332              | \$14,142              |
| Adjustments to reconcile net income to net cash provided by operating activities:    |                       |                       |
| Depreciation and amortization  | 7,317                 | 6,324                 |
| Deferred income taxes and related valuation allowance                                | (404)                 | (1,249)               |
| Net gain on sale of real estate, investments, and other                              | (350)                 | (1,543)               |
| Stock-based compensation   | 1,919                 | 1,758                 |
| Amortization of deferred financing costs and discount on subordinated debt           | 434                   | 436                   |
| Property casualty loss   | 250                   | —                     |
| Changes in operating assets and liabilities, net of effects of business acquisition: |                       |                       |
| Trade accounts receivable  | 11,138                | 5,074                 |
| Inventories  | (6,070)               | (10,433)              |
| Prepaid expenses   | 63                    | (1,024)               |
| Other assets   | (322)                 | 684                   |
| Trade accounts payable   | (6,301)               | (5,366)               |
| Accrued liabilities  | (5,681)               | (1,353)               |
| Non-current liabilities  | (6,586)               | (5,741)               |
| Net cash provided by (used for) operating activities                                 | 12,739                | 1,709                 |
| <b>INVESTING ACTIVITIES:</b>   |                       |                       |
| Proceeds from sale of marketable securities  | 976                   | 3,724                 |
| Purchases of marketable securities   | (787)                 | (2,597)               |
| Capital expenditures   | (7,585)               | (8,033)               |
| Purchase of business   | —                     | (5,847)               |
| Other  | 16                    | —                     |
| Net cash provided by (used for) investing activities                                 | (7,380)               | (12,753)              |
| <b>FINANCING ACTIVITIES:</b>   |                       |                       |
| Proceeds from exercise of stock options  | 1,099                 | 838                   |
| Repayment of debt  | (1,220)               | (295)                 |
| Change in ESOP guarantee and other   | (779)                 | 206                   |
| Dividends paid   | (1,591)               | —                     |
| Net cash (used for) provided by financing activities                                 | (2,491)               | 749                   |
| Effect of exchange rate changes on cash  | (696)                 | 454                   |
| Net change in cash and cash equivalents  | 2,172                 | (9,841)               |
| Cash and cash equivalents at beginning of period                                     | 112,309               | 121,660               |
| Cash and cash equivalents at end of period   | \$114,481             | \$111,819             |
| <b>Supplementary cash flow data:</b>   |                       |                       |
| Interest paid  | \$6,335               | \$6,547               |
| Income taxes paid, net of refunds  | \$5,568               | \$7,465               |

See accompanying notes.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

September 30, 2014

## 1. Description of Business

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of Columbus McKinnon Corporation (the Company) at September 30, 2014, the results of its operations for the three and six month periods ended September 30, 2014 and September 30, 2013, and cash flows for the six months ended September 30, 2014 and September 30, 2013, have been included. Results for the period ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending March 31, 2015. The balance sheet at March 31, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Columbus McKinnon Corporation annual report on Form 10-K for the year ended March 31, 2014.

The Company is a leading designer, marketer and manufacturer of material handling products and services which efficiently and safely move, lift, position and secure material. Key products include hoists, rigging tools, cranes, and actuators. The Company's material handling products are sold globally, principally to third party distributors through diverse distribution channels, and to a lesser extent directly to end-users. During both the three and six months ended September 30, 2014, approximately 58% of sales were to customers in the U.S.

## 2. Acquisitions

On June 1, 2013, the Company acquired 100% of the outstanding common shares of Hebeteknik Gesellschaft m.b.H ("Hebeteknik") located in Austria, a privately owned company with annual sales of approximately \$10,000,000. Hebeteknik has been a value-added partner of the Company in the lifting industry in the Austrian market for over 20 years. The results of Hebeteknik are included in the Company's condensed consolidated financial statements from the date of acquisition. The acquisition of Hebeteknik is not considered significant to the Company's consolidated financial position and results of operations.

The acquisition of Hebeteknik was funded with existing cash. The purchase price has been allocated to the assets acquired and liabilities assumed as of the date of acquisition. The excess consideration of \$5,324,000 was recorded as goodwill. The identifiable intangible asset consisted of order backlog at the date of the acquisition and was estimated to have a three month useful life. Goodwill recorded in connection with the acquisition is deductible for Austrian tax purposes. The assignment of purchase consideration to the assets acquired and liabilities assumed was as follows (in thousands):

|                               |         |   |
|-------------------------------|---------|---|
| Working capital               | \$212   |   |
| Other current assets          | 58      |   |
| Property, plant and equipment | 446     |   |
| Goodwill                      | 5,324   |   |
| Long term debt                | (193    | ) |
| Total                         | \$5,847 |   |

On February 28, 2014 the Company acquired 100% of the outstanding common shares of Unified Industries, Inc. (“Unified”) located in Howell, Michigan, a privately-owned company with annual sales of approximately \$13,000,000. Unified designs, manufactures and markets overhead aluminum light rail workstations primarily used in automotive and other industrial applications. Unified's products are a natural extension of the Company's hoist portfolio and are expected to broaden the scope of the Company's bundled product solutions. The results of Unified are included in the Company’s consolidated financial statements from the date of acquisition. The acquisition of Unified is not considered significant to the Company’s consolidated financial position and results of operations.

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The acquisition of Unified was funded with existing cash. The purchase price has been preliminarily allocated to the assets acquired and liabilities assumed as of the date of acquisition. The excess consideration of \$6,980,000 was recorded as goodwill. The identifiable intangible assets acquired include engineered drawings of \$4,960,000, customer relationships of \$2,300,000, trademark and trade names of \$1,200,000, backlog of \$185,000, and non-compete agreements of \$14,000. The weighted average life of the acquired identifiable intangible assets subject to amortization was estimated at 20.3 years at the time of acquisition. Goodwill recorded in connection with the acquisition is not deductible for U.S. income tax purposes.

The preliminary assignment of purchase consideration to the assets acquired and liabilities assumed is as follows (in thousands):

|                                |          |   |
|--------------------------------|----------|---|
| Working capital                | \$3,854  |   |
| Property, plant and equipment  | 210      |   |
| Identifiable intangible assets | 8,659    |   |
| Other long term assets         | 97       |   |
| Other long term liabilities    | (3,293   | ) |
| Goodwill                       | 6,980    |   |
| Total                          | \$16,507 |   |

For both Unified and Hebeteknik, goodwill represents future economic benefits arising from other assets acquired that do not meet the criteria for separate recognition apart from goodwill, including assembled workforce, growth opportunities and increased presence in the markets served by the target companies.

### 3. Fair Value Measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820 "Fair Value Measurements and Disclosures" establishes the standards for reporting financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

ASC Topic 820-10-35-37 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the valuation techniques that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is separated into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, involving some degree of judgment.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The availability of observable inputs can vary and is affected by a wide variety of factors, including the type of asset/liability, whether the asset/liability is established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are required to reflect those that market participants would use in pricing the asset or liability at the measurement date.

When valuing its derivative portfolio, the Company primarily uses readily observable market data in conjunction with internally developed discounted cash flow valuation models and, consequently, the fair value of the Company's derivatives is based on Level 2 inputs. The Company uses quoted prices in an inactive market when valuing its Subordinated Debt, represented by the 7 7/8% Notes due 2019, registered under the Securities Act of 1933, as amended (7 7/8% Notes) and, consequently, the fair value is based on Level 2 inputs. The carrying value of the Company's senior debt approximates fair value based on current market interest rates for debt instruments of similar credit standing and, consequently, its fair value is based on Level 2 inputs.

The following table provides information regarding financial assets and liabilities measured or disclosed at fair value (in thousands):

|  | Fair value measurements at reporting date using |  |   |   |
|--|---|--|---|---|
|  | September 30,                                   | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Description                                  | 2014  |  |   |   |
| Assets/(Liabilities) measured at fair value: |   |  |   |   |
| Marketable securities                        | \$22,149  | \$22,149   | \$—   | \$—                                       |
| Derivative Assets                            | 38  | —  | 38  | —   |
| Disclosed at fair value:                     |   |  |   |   |
| Subordinated debt                            | \$(156,375 )                                    | \$—  | \$(156,375 )                                  | \$—                                       |
| Senior debt                                  | (2,339 )  | —  | (2,339 )                                      | —   |
|  |   | Fair value measurements at reporting date using                |   |   |
|  | March 31,                                       | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Description                                  | 2014  |  |   |   |
| Assets/(Liabilities) measured at fair value: |   |  |   |   |
| Marketable securities                        | \$21,941  | \$21,941   | \$—   | \$—                                       |
| Derivative liabilities                       | (42 )   | —  | (42 )   | —   |
| Disclosed at fair value:                     |   |  |   |   |
| Subordinated debt                            | \$(161,250 )                                    | \$—  | \$(161,250 )                                  | \$—                                       |
| Senior debt                                  | (3,608 )  | —  | (3,608 )                                      | —   |

The Company did not have any nonfinancial assets and liabilities that are recognized at fair value on a recurring basis.

The carrying amount of these financial assets and liabilities are the same as their fair value with the exception of the subordinated debt whose carrying value is a liability of \$148,822,000 at September 30, 2014 and \$148,685,000 at March 31, 2014.

Interest and dividend income on marketable securities are recorded in investment (income) loss. Changes in the fair value of derivatives are recorded in foreign currency exchange (gain) loss or other comprehensive loss, to the extent that the derivative qualifies as a hedge under the provisions of ASC Topic 815. Interest and dividend income on marketable securities are measured based upon amounts earned on their respective declaration dates.

Assets and liabilities that were measured on a non-recurring basis during the year ended March 31, 2014 include assets and liabilities acquired in connection with the acquisitions of Hebeteknik and Unified described in Note 2. The estimated fair values allocated to the assets acquired and liabilities assumed relied upon fair value measurements based primarily on Level 3 inputs. The valuation techniques used to allocate fair values to working capital items; property, plant, and equipment; and identifiable intangible assets included the cost approach, market approach, and other income approaches. The valuation techniques relied on a number of inputs which included the cost and condition of property, plant, and equipment and forecasted net sales and income. For Unified, significant valuation inputs included an attrition rate of 8% for customer relationships, an engineering cost per hour of \$57.20 for the engineered drawings, and a royalty rate of 1.5% for trademark and trade names. For Hebeteknik, significant valuation inputs included a weighted average cost of capital of 12.3%.

#### 4. Inventories

Inventories consisted of the following (in thousands):

|                               | September 30,<br>2014 | March 31,<br>2014 |
|-------------------------------|-----------------------|-------------------|
| At cost - FIFO basis:         |                       |                   |
| Raw materials                 | \$55,571              | \$55,072          |
| Work-in-process               | 15,012                | 12,338            |
| Finished goods                | 47,623                | 49,649            |
|                               | 118,206               | 117,059           |
| LIFO cost less than FIFO cost | (18,144               | ) (19,483         |
| Net inventories               | \$ 100,062            | \$97,576          |

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond management's control, estimated interim results are subject to change in the final year-end LIFO inventory valuation.

#### 5. Marketable Securities

All of the Company's marketable securities, which consist of equity securities and fixed income securities, have been classified as available-for-sale securities and are therefore recorded at their fair values with the unrealized gains and losses, net of tax, reported in accumulated other comprehensive loss in the shareholders' equity section of the condensed consolidated balance sheet unless unrealized losses are deemed to be other-than-temporary. In such instances, the unrealized losses are reported in the condensed consolidated statements of operations and retained earnings within investment income. Estimated fair value is based on quoted market prices at the balance sheet dates. The cost of securities sold is based on the specific identification method. Interest and dividend income are included in investment income in the condensed consolidated statements of operations and retained earnings.

Marketable securities are carried as long-term assets since they are held for the settlement of the Company's general and products liability insurance claims filed through CM Insurance Company, Inc., a wholly owned captive insurance subsidiary. The marketable securities are not available for general working capital purposes.

In accordance with ASC Topic 320-10-35-30 "Investments – Debt & Equity Securities – Subsequent Measurement," the Company reviews its marketable securities for declines in market value that may be considered other-than-temporary.

The Company generally considers market value declines to be other-than-temporary if there are declines for a period longer than six months and in excess of 20% of original cost, or when other evidence indicates impairment. We also consider the nature of the underlying investments, our intent and ability to hold the investments until their market values recover, and other market conditions in making this assessment. There were no other-than-temporary impairments for the three and six months ended September 30, 2014 or September 30, 2013.

During the three and six months ended September 30, 2014, investments that were previously written down were sold at a gain of \$58,000. There were no such gains or losses recorded for the three and six months ended September 30, 2013.

The following is a summary of available-for-sale securities at September 30, 2014 (in thousands):

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|                       | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|-----------------------|-------------------|------------------------------|-------------------------------|-------------------------|
| Marketable securities | \$20,181          | \$2,020                      | \$52                          | \$22,149                |

The aggregate fair value of investments and unrealized losses on available-for-sale securities in an unrealized loss position at September 30, 2014 are as follows (in thousands):

|  | Aggregate<br>Fair Value | Unrealized<br>Losses |
|--|-------------------------|----------------------|
| Securities in a continuous loss position for less than 12 months | \$45                    | \$—                  |
| Securities in a continuous loss position for more than 12 months | 4,490                   | 52                   |
|  | \$4,535                 | \$52                 |

Net realized gains related to sales of marketable securities were \$305,000 and \$91,000, in the three month periods ended September 30, 2014 and September 30, 2013, respectively and \$329,000 and \$127,000 for the six month periods then ended, respectively.

In addition to the above, during the three and six months ended September 30, 2013 the Company sold certain equity securities previously recorded on the condensed consolidated balance sheets in prepaid expenses and other resulting in a gain of \$1,028,000 and \$1,354,000, respectively. This gain has been recorded within other (income) expense, net in the condensed consolidated statements of operations and retained earnings.

The following is a summary of available-for-sale securities at March 31, 2014 (in thousands):

|                       | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|-----------------------|-------------------|------------------------------|-------------------------------|-------------------------|
| Marketable securities | \$20,078          | \$2,013                      | \$150                         | \$21,941                |

## 6. Goodwill and Intangible Assets

Goodwill is not amortized but is tested for impairment at least annually, in accordance with the provisions of ASC Topic 350-20-35-1. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The fair value of a reporting unit is determined using a discounted cash flow methodology. The Company's reporting units are determined based upon whether discrete financial information is available and reviewed regularly, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. The Company's reporting units identified under ASC Topic 350-20-35-33 are at the component level, or one level below the reporting segment level as defined under ASC Topic 280-10-50-10 "Segment Reporting – Disclosure." The Company has five reporting units. Only three of the five reporting units carried goodwill at September 30, 2014 and March 31, 2014.

When we evaluate the potential for goodwill impairment, we assess a range of qualitative factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel and overall financial performance. If, after completing this assessment, it is determined that it is more

likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a two-step impairment test.

In accordance with ASC Topic 350-20-35-3, the measurement of impairment of goodwill consists of two steps. In the first step, the Company compares the fair value of each reporting unit to its carrying value. As part of the impairment analysis, the Company determines the fair value of each of its reporting units with goodwill using the income approach. The income approach uses a discounted cash flow methodology to determine fair value. This methodology recognizes value based on the expected receipt of future economic benefits. Key assumptions in the income approach include a free cash flow projection, an estimated discount rate, a long-term growth rate and a terminal value. These assumptions are based upon the Company's historical experience, current market trends and future expectations.

We performed our qualitative assessment during the fourth quarter of fiscal year 2014 and determined that it was not more likely than not that the fair value of each of its reporting units with goodwill, other than Duff-Norton, was less than that its applicable carrying value. Accordingly, the Company did not perform the two-step goodwill impairment test for any of its reporting units other than the Duff-Norton reporting unit. The Company performed step one of the two-step impairment test for the Duff-Norton reporting unit. Based on the results of the two-step impairment test during the fourth quarter of fiscal 2014, the Company determined that the Duff-Norton reporting unit's fair value was not less than its applicable carrying value.

Future impairment indicators, such as declines in forecasted cash flows, may cause additional significant impairment charges. Impairment charges could be based on such factors as the Company's stock price, forecasted cash flows, assumptions used, control premiums or other variables.

A summary of changes in goodwill during the three months ended September 30, 2014 is as follows (in thousands):

|                               |            |
|-------------------------------|------------|
| Balance at April 1, 2014      | \$ 119,303 |
| Currency translation          | (2,325 )   |
| Balance at September 30, 2014 | \$ 116,978 |

Identifiable intangible assets acquired in a business combination are amortized over their useful lives unless their useful lives are indefinite, in which case those intangible assets are tested for impairment annually (or upon identification of impairment indicators) and not amortized until their lives are determined to be finite.

Identifiable intangible assets are summarized as follows (in thousands):

|                            | September 30, 2014    |                          |          | March 31, 2014        |                          |          |
|----------------------------|-----------------------|--------------------------|----------|-----------------------|--------------------------|----------|
|                            | Gross Carrying Amount | Accumulated Amortization | Net      | Gross Carrying Amount | Accumulated Amortization | Net      |
| Trademark                  | \$5,475               | \$(1,800 )               | \$3,675  | \$5,969               | \$(1,799 )               | \$4,170  |
| Indefinite lived trademark | 1,200                 | —                        | 1,200    | 1,200                 | —                        | \$1,200  |
| Customer relationships     | 16,204                | (7,906 )                 | 8,298    | 17,453                | (7,779 )                 | 9,674    |
| Acquired technology        | 4,960                 | (117 )                   | 4,843    | 4,960                 | (17 )                    | \$4,943  |
| Other                      | 1,145                 | (475 )                   | 670      | 1,135                 | (280 )                   | 855      |
| Total                      | \$28,984              | \$(10,298 )              | \$18,686 | \$30,717              | \$(9,875 )               | \$20,842 |

Based on the current amount of identifiable intangible assets, the estimated amortization expense for each of the fiscal years 2015 through 2019 is expected to be approximately \$2,300,000.



## 7. Derivative Instruments

The Company uses derivative instruments to manage selected foreign currency exposures. The Company does not use derivative instruments for speculative trading purposes. All derivative instruments must be recorded on the balance sheet at fair value. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded as accumulated other comprehensive gain (loss), or "AOCL," and is reclassified to earnings when the underlying transaction has an impact on earnings. The ineffective portion of changes in the fair value of the derivative is reported in foreign currency exchange (gain) loss in the Company's condensed consolidated statement of operations and retained earnings. For derivatives not classified as cash flow hedges, all changes in market value are recorded as a foreign currency exchange (gain) loss in the Company's condensed consolidated statements of operations and retained earnings. The cash flow effects of derivatives are reported within net cash provided by operating activities.

The Company has a foreign currency forward agreement in place to offset changes in the value of an intercompany loan to a foreign subsidiary due to changes in foreign exchange rates. The notional amount of this derivative is \$590,000 and the contract matures by April 30, 2016. This contract is marked to market each balance sheet date and is not designated as a hedge.

The Company has foreign currency forward agreements in place to hedge changes in the value of recorded foreign currency assets and liabilities due to changes in foreign exchange rates at the settlement date. The notional amount of those derivatives is \$444,000 and all contracts mature within two months. These contracts are marked to market each balance sheet date and are not designated as hedges.

The Company has foreign currency forward agreements that are designated as cash flow hedges to hedge a portion of forecasted inventory purchases denominated in a foreign currency. The notional amount of those derivatives is \$1,501,000 and all contracts mature within eight months of September 30, 2014.

The Company has derivative contracts with one counterparty as of September 30, 2014. The Company is exposed to credit losses in the event of non performance by the counterparty on its financial instruments. The counterparty has an investment grade credit rating. The Company anticipates that the counterparty will be able to fully satisfy its obligations under the contracts.

The Company's agreements with its foreign exchange contract counterparty contain provisions pursuant to which the Company could be declared in default of its derivative obligations. As of September 30, 2014, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions as of September 30, 2014, it could have been required to settle its obligations under these agreements at amounts which approximate the September 30, 2014 fair values reflected in the table below. During the six months ended September 30, 2014, the Company was not in default of any of its derivative obligations.

From its September 30, 2014 balance of accumulated other comprehensive loss, the Company expects to reclassify approximately \$5,000 out of accumulated other comprehensive loss during the next 12 months.

The following is the effect of derivative instruments on the condensed consolidated statements of operations and retained earnings for the three months ended September 30, 2014 and 2013 (in thousands):

| September 30, | Derivatives Designated as Cash Flow Hedges (Foreign Exchange Contracts) | Amount of Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on | Location of Gain or (Loss) Recognized in Income on Derivatives | Amount of Gain or (Loss) Reclassified from AOCL into Income (Effective |
|---------------|---|---|--|--|
|---------------|---|---|--|--|

|                  |  | Derivatives (Effective<br>Portion) |  | Portion)  |
|------------------|--|------------------------------------|--|---|
| 2014             | Foreign exchange contracts   | \$67                               | Cost of products sold  | \$(21 )   |
| 2013             | Foreign exchange contracts   | 25                                 | Cost of products sold  | (80 )   |
| September<br>30, | Derivatives Not Designated as<br>Hedging Instruments (Foreign<br>Exchange Contracts) |                                    | Location of Gain (Loss) Recognized in<br>Income on Derivatives | Amount of Gain (Loss)<br>Recognized in Income on<br>Derivatives |
| 2014             | Foreign exchange contracts   |                                    | Foreign currency exchange gain                                 | \$45  |
| 2013             | Foreign exchange contracts   |                                    | Foreign currency exchange gain                                 | 60  |

The following is the effect of derivative instruments on the condensed consolidated statements of operations and retained earnings for the six months ended September 30, 2014 and 2013 (in thousands):

| September 30, | Derivatives Designated as Cash Flow Hedges (Foreign Exchange Contracts) | Amount of Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives (Effective Portion) | Location of Gain or (Loss) Recognized in Income on Derivatives | Amount of Gain or (Loss) Reclassified from AOCL into Income (Effective Portion) |
|---------------|---|---|--|---|
| 2014          | Foreign exchange contracts  | 70  | Cost of products sold  | \$(134 )  |
| 2013          | Foreign exchange contracts  | 116   | Cost of products sold  | (75 )   |

  

| September 30, | Derivatives Not Designated as Hedging Instruments (Foreign Exchange Contracts) | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |
|---------------|--|---|---|
| 2014          | Foreign exchange contracts   | Foreign currency exchange gain                              | \$88  |
| 2013          | Foreign exchange contracts   | Foreign currency exchange loss                              | (70 )   |

As of September 30, 2014, the Company had no derivatives designated as net investments or fair value hedges in accordance with ASC Topic 815, "Derivatives and Hedging."

The following is information relative to the Company's derivative instruments in the condensed consolidated balance sheets as of September 30, 2014 (in thousands):

| Derivatives Designated as Hedging Instruments | Balance Sheet Location | Fair Value of Asset (Liability) |                |
|---|------------------------|---------------------------------|----------------|
|   |                        | September 30, 2014              | March 31, 2014 |
| Foreign exchange contracts                    | Other Assets           | \$61                            | \$—            |
| Foreign exchange contracts                    | Accrued Liabilities    | \$(47 )                         | \$(141 )       |

  

| Derivatives Not Designated as Hedging Instruments | Balance Sheet Location | September 30, 2014 |                | March 31, 2014     |                |
|---|------------------------|--------------------|----------------|--------------------|----------------|
|   |                        | September 30, 2014 | March 31, 2014 | September 30, 2014 | March 31, 2014 |
| Foreign exchange contracts                        | Other Assets           | \$24               | \$163          |                    |                |
| Foreign exchange contracts                        | Accrued Liabilities    | \$—                | \$(64 )        |                    |                |

## 8. Debt

At September 30, 2014 and 2013 the Company has access to borrow funds under a revolving credit facility (Current Revolving Credit Facility). The Current Revolving Credit Facility provides availability up to a maximum of \$100,000,000 and has an initial term ending October 31, 2017.

Provided there is no default, the Company may request an increase in the availability of the Current Revolving Credit Facility by an amount not exceeding \$75,000,000, subject to lender approval. The unused portion of the Current Revolving Credit Facility totaled \$94,748,000 net of outstanding borrowings of \$0 and outstanding letters of credit of \$5,252,000 as of September 30, 2014. The outstanding letters of credit at September 30, 2014 consisted of \$852,000 in commercial letters of credit and \$4,400,000 of standby letters of credit.





Commitment fees are payable against the unused portion of the revolver based on the applicable rate. Interest on an outstanding borrowing used against the revolver is payable at varying rates depending on the type of outstanding borrowing and its associated interest rate plus its associated applicable rate. The two potential interest rates used are either a Base Rate (equivalent to a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its "prime rate.", or (c) LIBOR plus 100 basis points or a Eurocurrency Rate (equivalent to LIBOR plus a Mandatory Cost).

The applicable rate is determined based on the pricing grid in the Current Revolving Credit Facility which varies based on the Company's total leverage ratio and borrowing type at September 30, 2014. The mandatory cost is intended to compensate the lenders for the cost of European banking requirements.

The Current Revolving Credit Facility is secured by all U.S. inventory, receivables, equipment, real property, subsidiary stock (limited to 65% of non-U.S. subsidiaries) and intellectual property.

The corresponding credit agreement associated with the Current Revolving Credit Facility places certain debt covenant restrictions on the Company, including certain financial requirements and restrictions on dividend payments, with which the Company was in compliance as of September 30, 2014. Key financial covenants include a minimum fixed charge coverage ratio of 1.25x, a maximum total leverage ratio, net of cash, of 3.50x and maximum annual capital expenditures of \$30,000,000.

At September 30, 2014 and 2013, the Company has outstanding \$150,000,000 7 7/8% Senior Subordinated Notes due 2019 registered under the Securities Act of 1933, as amended (7 7/8% Notes). The offering price of the notes was 98.545% of par after adjustment for original issue discount.

Provisions of the 7 7/8% Notes include, without limitation, restrictions on indebtedness, asset sales, and dividends and other restricted payments. On or after February 1, 2015, the 7 7/8% Notes are redeemable at the option of the Company, in whole or in part, at a redemption price of 103.938%, reducing to 101.969% and 100% on February 1, 2016 and February 1, 2017, respectively and are due February 1, 2019. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 7 7/8% Notes may require the Company to repurchase all or a portion of such holder's 7 7/8% Notes at a purchase price equal to 101% of the principal amount thereof. The 7 7/8% Notes are guaranteed by certain existing and future U.S. subsidiaries and are not subject to any sinking fund requirements.

The gross balances of deferred financing costs were \$4,133,000 as of September 30, 2014 and March 31, 2014. The accumulated amortization balances were \$1,829,000 and \$1,531,000 as of September 30, 2014 and March 31, 2014 respectively.

On June 22, 2007, the Company recorded a capital lease resulting from the sale and partial leaseback of its facility in Charlotte, NC under a 10 year lease agreement. The Company also has capital leases on certain production machinery and equipment. The outstanding balance on the capital lease obligations of \$2,339,000 and \$3,608,000 as of September 30, 2014 and March 31, 2014 respectively, are included in senior debt in the consolidated balance sheets.

The current and long term portion of the Company's other senior debt consists primarily of capital lease obligations.

Unsecured and uncommitted lines of credit are available to meet short-term working capital needs for certain of our subsidiaries operating outside of the U.S. The lines of credit are available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity,

representations, covenants and events of default, as mutually agreed between our subsidiaries and the local bank at the time of each specific transaction. As of September 30, 2014, unsecured credit lines totaled approximately \$6,568,000, of which \$0 was drawn. In addition, unsecured lines of \$12,062,000 were available for bank guarantees issued in the normal course of business of which \$4,477,000 was utilized.

Refer to the Company's consolidated financial statements included in its annual report on Form 10-K for the year ended March 31, 2014 for further information on its debt arrangements.

## 9. Net Periodic Benefit Cost

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

|                                | Three months ended |                    | Six months ended   |                    |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Service costs                  | \$557              | \$629              | \$1,117            | \$1,253            |
| Interest cost                  | 2,509              | 2,418              | 5,038              | 4,827              |
| Expected return on plan assets | (3,547)            | (3,157)            | (7,096)            | (6,314)            |
| Net amortization               | 1,046              | 1,582              | 2,115              | 3,159              |
| Net periodic pension cost      | \$565              | \$1,472            | \$1,174            | \$2,925            |

The Company currently plans to contribute approximately \$11,000,000 to its pension plans in fiscal 2015.

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

|                                  | Three months ended |                    | Six months ended   |                    |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                  | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Interest cost                    | \$54               | \$63               | \$108              | \$125              |
| Amortization of plan net losses  | 19                 | 22                 | 38                 | 43                 |
| Net periodic postretirement cost | \$73               | \$85               | \$146              | \$168              |

For additional information on the Company's defined benefit pension and postretirement benefit plans, refer to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended March 31, 2014.

In October 2014 the Company completed negotiations with one of its labor unions which resulted in an amendment to one of its pension plans. The Company has estimated that the curtailment charge resulting from this amendment will not be material to the financial statements.

## 10. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands):

|  | Three Months Ended |                    | Six Months Ended   |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Numerator for basic and diluted earnings per share:  |                    |                    |                    |                    |
| Net income   | \$10,599           | \$7,122            | \$17,332           | \$14,142           |
| Denominators:  |                    |                    |                    |                    |
| Weighted-average common stock outstanding – denominator for basic EPS                                    | 19,950             | 19,655             | 19,900             | 19,587             |
| Effect of dilutive employee stock options and other share-based awards                                   | 237                | 304                | 248                | 279                |
| Adjusted weighted-average common stock outstanding and assumed conversions – denominator for diluted EPS | 20,187             | 19,959             | 20,148             | 19,866             |



Stock options and performance shares with respect to 133,000 and 17,000 common shares for the three month periods ended September 30, 2014 and 2013, respectively, and 130,000 and 47,000 common shares for the six month periods ended September 30, 2014 and 2013, respectively were not included in the computation of diluted earnings per share for September 30, 2014 and 2013 because they were antidilutive. For the three and six months ended September 30, 2014 an additional 35,000 in contingently issuable shares were not included in the computation of diluted earnings per share because a performance condition had not yet been met.

On July 26, 2010, the shareholders of the Company approved the 2010 Long Term Incentive Plan (“LTIP”). The Company grants share based compensation to eligible participants under the LTIP. The total number of shares of common stock with respect to which awards may be granted under the plan is 1,250,000 including shares not previously authorized for issuance under any of the Prior Stock Plans and any shares not issued or subject to outstanding awards under the Prior Stock Plans.

During the first six months of fiscal 2015 and 2014, a total of 62,816 and 116,623 shares of stock were issued upon the exercising of stock options related to the Company’s stock option plans. During the fiscal year ended March 31, 2014, 89,729 shares of restricted stock units vested and were issued.

On October 19, 2014 the Company's Board of Directors declared a dividend of \$0.04 per common share. The dividend will be paid on November 17, 2014 to shareholders of record on November 7, 2014. The dividend payment is expected to be approximately \$800,000.

During the quarter ended September 30, 2014 the final quarterly loan payment was made by the Employee Stock Ownership Plan (ESOP) to the Company. There are no shares of collateralized common stock related to the ESOP loan outstanding at September 30, 2014.

Refer to the Company’s consolidated financial statements included in its Form 10-K for the year ended March 31, 2014 for further information on its earnings per share and stock plans.

## 11. Loss Contingencies

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

Based on actuarial information, the Company has estimated its asbestos-related aggregate liability including related legal costs to range between \$7,000,000 and \$12,000,000 using actuarial parameters of continued claims for a period of 18 to 30 years from September 30, 2014. The Company's estimation of its asbestos-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles approximates \$8,514,000, which has been reflected as a liability in the consolidated financial statements as of September 30, 2014. The recorded liability does not consider the impact of any potential favorable federal legislation. This liability will fluctuate based on the uncertainty in the number of future claims that will be filed and the cost to resolve those claims, which may be

influenced by a number of factors, including the outcome of the ongoing broad-based settlement negotiations, defensive strategies, and the cost to resolve claims outside the broad-based settlement program. Of this amount, management expects to incur asbestos settlement payments and legal defense costs of approximately \$2,000,000 over the next 12 months. Because payment of these costs is likely to extend over many years, management believes that the potential additional costs for claims will not have a material effect on the financial condition of the Company or its liquidity, although the effect of any future liabilities recorded could be material to earnings in a future period.

The Company is also involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance. The Company's estimation of its product-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles approximates \$5,668,000, which has been reflected as a liability in the consolidated financial statements as of September 30, 2014. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. Management believes that the potential additional costs for claims will not have a material effect on the financial condition of the Company or its liquidity, although the effect of any future liabilities recorded could be material to earnings in a future period.

## 12. Income Taxes

Income tax expense as a percentage of income from continuing operations before income tax expense was 21% and 31% in the quarter ended September 30, 2014 and September 30, 2013, respectively and 26% and 30% for the six-month periods then ended, respectively. Typically these percentages vary from the U.S. statutory rate primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries. For the three and six months ended September 30, 2014 income taxes as a percentage of income before income taxes was lower than our projected rate for fiscal 2015 due to a recently issued tax regulation that results in the utilization of certain tax credits relating to previous fiscal years. The credits result in an income tax benefit of \$1,431,000 for the three and six months ended September 30, 2014 and reduce the effective tax rate by 11% and 6% respectively. We estimate that the effective tax rate related to continuing operations will be approximately 27% to 32% for fiscal 2015.

## 13. Summary Financial Information

The following information (in thousands) sets forth the condensed consolidating summary financial information of the parent and guarantors, which guarantee the 7 7/8% Senior Subordinated Notes, and the nonguarantors. The guarantors are 100% owned and the guarantees are full, unconditional, joint and several.

|   | Parent    | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|---|-----------|------------|-------------------|--------------|--------------|
| As of September 30, 2014  |           |            |                   |              |              |
| <b>ASSETS</b>   |           |            |                   |              |              |
| Current assets:   |           |            |                   |              |              |
| Cash and cash equivalents                                       | \$76,111  | \$—        | \$38,370          | \$—          | \$114,481    |
| Trade accounts receivable, less allowance for doubtful accounts | 34,858    | 4,624      | 40,392            | —            | 79,874       |
| Inventories   | 31,262    | 8,372      | 60,428            | —            | 100,062      |
| Prepaid expenses and other                                      | 13,636    | 4          | 8,556             | —            | 22,196       |
| Total current assets  | 155,867   | 13,000     | 147,746           | —            | 316,613      |
| Net property, plant, and equipment                              | 47,932    | 6,343      | 21,847            | —            | 76,122       |
| Goodwill  | 40,697    | 31,025     | 45,256            | —            | 116,978      |
| Other intangibles, net  | 331       | —          | 18,355            | —            | 18,686       |
| Intercompany  | 13,303    | 58,061     | (71,364)          | —            | —            |
| Marketable securities   | —         | —          | 22,149            | —            | 22,149       |
| Deferred taxes on income  | 10,284    | 2,590      | 8,035             | —            | 20,909       |
| Investment in subsidiaries                                      | 224,486   | —          | —                 | (224,486)    | —            |
| Other assets  | 6,514     | 1,378      | 325               | —            | 8,217        |
| Total assets  | \$499,414 | \$112,397  | \$192,349         | \$(224,486)  | \$579,674    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                     |           |            |                   |              |              |
| Current liabilities:  |           |            |                   |              |              |
| Trade accounts payable  | \$13,516  | \$2,318    | \$10,173          | \$—          | \$26,007     |
| Accrued liabilities   | 17,147    | 2,539      | 24,639            | —            | 44,325       |
| Current portion of long-term debt                               | 279       | 373        | 59                | —            | 711          |
| Total current liabilities                                       | 30,942    | 5,230      | 34,871            | —            | 71,043       |
| Senior debt, less current portion                               | 368       | 1,106      | 154               | —            | 1,628        |
| Subordinated debt   | 148,822   | —          | —                 | —            | 148,822      |
| Other non-current liabilities                                   | 16,587    | 5,393      | 33,506            | —            | 55,486       |
| Total liabilities   | 196,719   | 11,729     | 68,531            | —            | 276,979      |
| Total shareholders' equity                                      | 302,695   | 100,668    | 123,818           | (224,486)    | 302,695      |
| Total liabilities and shareholders' equity                      | \$499,414 | \$112,397  | \$192,349         | \$(224,486)  | \$579,674    |



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|   | Parent   | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|---|----------|------------|-------------------|--------------|--------------|
| For the Three Months Ended September 30, 2014:              |          |            |                   |              |              |
| Net sales   | \$80,511 | \$ 14,964  | \$65,823          | \$(14,307 )  | \$ 146,991   |
| Cost of products sold                                       | 57,121   | 11,275     | 45,746            | (14,307 )    | 99,835       |
| Gross profit  | 23,390   | 3,689      | 20,077            | —            | 47,156       |
| Selling expenses  | 5,862    | 1,337      | 9,947             | —            | 17,146       |
| General and administrative expenses                         | 7,867    | 339        | 5,094             | —            | 13,300       |
| Amortization of intangibles                                 | 24       | —          | 552               | —            | 576          |
| Income from operations                                      | 9,637    | 2,013      | 4,484             | —            | 16,134       |
| Interest and debt expense                                   | 3,241    | 37         | (14 )             | —            | 3,264        |
| Investment income   | —        | —          | (465 )            | —            | (465 )       |
| Foreign currency exchange loss (gain)                       | (5 )     | —          | (164 )            | —            | (169 )       |
| Other expense and (income), net                             | (79 )    | (816 )     | 964               | —            | 69           |
| Income before income tax expense                            | 6,480    | 2,792      | 4,163             | —            | 13,435       |
| Income tax expense (benefit)                                | 672      | 1,191      | 973               | —            | 2,836        |
| Equity in income from continuing operations of subsidiaries | 4,791    | —          | —                 | (4,791 )     | —            |
| Net income  | \$10,599 | \$ 1,601   | \$ 3,190          | \$(4,791 )   | \$ 10,599    |

|   | Parent    | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|---|-----------|------------|-------------------|--------------|--------------|
| For the Six Months Ended September 30, 2014:                |           |            |                   |              |              |
| Net sales   | \$159,151 | \$27,769   | \$131,179         | \$(28,176 )  | \$ 289,923   |
| Cost of products sold                                       | 112,201   | 21,413     | 91,764            | (28,176 )    | 197,202      |
| Gross profit  | 46,950    | 6,356      | 39,415            | —            | 92,721       |
| Selling expenses  | 11,844    | 2,627      | 20,566            | —            | 35,037       |
| General and administrative expenses                         | 16,688    | 705        | 9,986             | —            | 27,379       |
| Amortization of intangibles                                 | 45        | —          | 1,120             | —            | 1,165        |
| Income from operations                                      | 18,373    | 3,024      | 7,743             | —            | 29,140       |
| Interest and debt expense                                   | 6,480     | 75         | 78                | —            | 6,633        |
| Investment income   | —         | —          | (667 )            | —            | (667 )       |
| Foreign currency exchange loss (gain)                       | (17 )     | —          | (195 )            | —            | (212 )       |
| Other expense and (income), net                             | (409 )    | (1,655 )   | 1,956             | —            | (108 )       |
| Income before income tax expense                            | 12,319    | 4,604      | 6,571             | —            | 23,494       |
| Income tax expense (benefit)                                | 2,505     | 1,983      | 1,674             | —            | 6,162        |
| Equity in income from continuing operations of subsidiaries | 7,518     | —          | —                 | (7,518 )     | —            |
| Net income  | \$17,332  | \$2,621    | \$4,897           | \$(7,518 )   | \$ 17,332    |

| For the Three Months Ended September 30, 2014                           | Parent    | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|---|-----------|------------|-------------------|--------------|--------------|
| Net income  | \$ 10,599 | \$ 1,601   | \$ 3,190          | \$(4,791)    | ) \$ 10,599  |
| Other comprehensive income (loss), net of tax:                          |           |            |                   |              |              |
| Foreign currency translation adjustments                                | —         | (7,920)    | (429)             | —            | (8,349)      |
| Change in derivatives qualifying as hedges, net of tax                  | 4         | —          | 84                | —            | 88           |
| Change in pension liability and post-retirement obligations, net of tax | —         | —          | 263               | —            | 263          |
| Adjustments:  |           |            |                   |              |              |
| Unrealized holding gains (losses) arising during the period, net of tax | —         | —          | 5                 | —            | 5            |
| Reclassification adjustment for loss included in net income, net of tax | —         | —          | (198)             | —            | (198)        |
| Total adjustments   | —         | —          | (193)             | —            | (193)        |
| Total other comprehensive income (loss)                                 | 4         | (7,920)    | (275)             | —            | (8,191)      |
| Comprehensive income (loss)   | \$ 10,603 | \$ (6,319) | \$ 2,915          | \$(4,791)    | ) \$ 2,408   |

| For the Six Months Ended September 30, 2014                             | Parent    | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|---|-----------|------------|-------------------|--------------|--------------|
| Net income  | \$ 17,332 | \$ 2,621   | \$ 4,897          | \$(7,518)    | ) \$ 17,332  |
| Other comprehensive income (loss), net of tax:                          |           |            |                   |              |              |
| Foreign currency translation adjustments                                | —         | (8,397)    | 379               | —            | (8,018)      |
| Change in derivatives qualifying as hedges, net of tax                  | 120       | —          | 84                | —            | 204          |
| Change in pension liability and post-retirement obligations, net of tax | —         | —          | 264               | —            | 264          |
| Adjustments:  |           |            |                   |              |              |
| Unrealized holding gains (losses) arising during the period, net of tax | —         | —          | 282               | —            | 282          |
| Reclassification adjustment for loss included in net income, net of tax | —         | —          | (214)             | —            | (214)        |
| Total adjustments   | —         | —          | 68                | —            | 68           |
| Total other comprehensive income (loss)                                 | 120       | (8,397)    | 795               | —            | (7,482)      |
| Comprehensive income (loss)   | \$ 17,452 | \$ (5,776) | \$ 5,692          | \$(7,518)    | ) \$ 9,850   |

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|  | Parent    | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|--|-----------|------------|-------------------|--------------|--------------|
| For the Six Months Ended September 30, 2014:         |           |            |                   |              |              |
| Operating activities:                                |           |            |                   |              |              |
| Net cash provided by (used for) operating activities | \$24,050  | \$206      | \$(11,517 )       | \$—          | \$ 12,739    |
| Investing activities:                                |           |            |                   |              |              |
| Proceeds from sale of marketable securities          | —         | —          | 976               | —            | 976          |
| Purchases of marketable securities                   | —         | —          | (787 )            | —            | (787 )       |
| Capital expenditures                                 | (4,827 )  | (151 )     | (2,607 )          | —            | (7,585 )     |
| Intercompany transactions                            | (13,303 ) | —          | 13,303            | —            | —            |
| Other  | 150       | 116        | (250 )            | —            | 16           |
| Net cash provided by (used for) investing activities | (17,980 ) | (35 )      | 10,635            | —            | (7,380 )     |
| Financing activities:                                |           |            |                   |              |              |
| Proceeds from exercise of stock options              | 1,099     | —          | —                 | —            | 1,099        |
| Repayment of debt                                    | (53 )     | (171 )     | (996 )            | —            | (1,220 )     |
| Change in ESOP debt guarantee and other              | (779 )    | —          | —                 | —            | (779 )       |
| Dividends paid                                       | (1,591 )  | —          | —                 | —            | (1,591 )     |
| Net cash provided by (used for) financing activities | (1,324 )  | (171 )     | (996 )            | —            | (2,491 )     |
| Effect of exchange rate changes on cash              | —         | —          | (696 )            | —            | (696 )       |
| Net change in cash and cash equivalents              | 4,746     | —          | (2,574 )          | —            | 2,172        |
| Cash and cash equivalents at beginning of year       | 71,365    | —          | 40,944            | —            | 112,309      |
| Cash and cash equivalents at end of year             | \$76,111  | \$—        | \$38,370          | \$—          | \$ 114,481   |

|   | Parent    | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|---|-----------|------------|-------------------|--------------|--------------|
| As of March 31, 2014:   |           |            |                   |              |              |
| <b>ASSETS</b>   |           |            |                   |              |              |
| Current assets:   |           |            |                   |              |              |
| Cash and cash equivalents                                       | \$71,365  | \$—        | \$40,944          | \$—          | \$112,309    |
| Trade accounts receivable, less allowance for doubtful accounts | 45,960    | 4,264      | 42,999            | —            | 93,223       |
| Inventories   | 31,076    | 8,374      | 58,126            | —            | 97,576       |
| Prepaid expenses and other                                      | 13,970    | 600        | 8,874             | —            | 23,444       |
| Total current assets  | 162,371   | 13,238     | 150,943           | —            | 326,552      |
| Net property, plant, and equipment                              | 47,644    | 6,976      | 24,067            | —            | 78,687       |
| Goodwill  | 40,696    | 31,025     | 47,582            | —            | 119,303      |
| Other intangibles, net  | 322       | —          | 20,520            | —            | 20,842       |
| Intercompany  | 21,892    | 55,593     | (77,485)          | ) —          | —            |
| Marketable securities   | —         | —          | 21,941            | —            | 21,941       |
| Deferred taxes on income  | 13,516    | 2,590      | 7,300             | —            | 23,406       |
| Investment in subsidiaries                                      | 216,968   | —          | —                 | (216,968)    | ) —          |
| Other assets  | 6,460     | 1,378      | 105               | —            | 7,943        |
| Total assets  | \$509,869 | \$110,800  | \$194,973         | \$(216,968)  | ) \$598,674  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                     |           |            |                   |              |              |
| Current liabilities:  |           |            |                   |              |              |
| Trade accounts payable  | \$18,508  | \$2,218    | \$14,633          | \$—          | \$35,359     |
| Accrued liabilities   | 24,268    | 2,661      | 25,419            | —            | 52,348       |
| Current portion of long-term debt                               | 271       | 351        | 966               | —            | 1,588        |
| Total current liabilities                                       | 43,047    | 5,230      | 41,018            | —            | 89,295       |
| Senior debt, less current portion                               | 430       | 1,299      | 291               | —            | 2,020        |
| Subordinated debt   | 148,685   | —          | —                 | —            | 148,685      |
| Other non-current liabilities                                   | 26,421    | 5,429      | 35,538            | —            | 67,388       |
| Total liabilities   | 218,583   | 11,958     | 76,847            | —            | 307,388      |
| Total shareholders' equity                                      | 291,286   | 98,842     | 118,126           | (216,968)    | ) 291,286    |
| Total liabilities and shareholders' equity                      | \$509,869 | \$110,800  | \$194,973         | \$(216,968)  | ) \$598,674  |

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|   | Parent   | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|---|----------|------------|-------------------|--------------|--------------|
| For the Three Months Ended September 30, 2013:              |          |            |                   |              |              |
| Net sales   | \$58,194 | \$31,703   | \$62,870          | \$(13,915)   | )\$ 138,852  |
| Cost of products sold                                       | 40,800   | 25,285     | 42,422            | (13,915)     | )94,592      |
| Gross profit  | 17,394   | 6,418      | 20,448            | —            | 44,260       |
| Selling expenses  | 6,244    | 1,284      | 9,753             | —            | 17,281       |
| General and administrative expenses                         | 4,671    | 3,598      | 5,898             | —            | 14,167       |
| Amortization of intangibles                                 | 24       | —          | 502               | —            | 526          |
| Income from operations                                      | 6,455    | 1,536      | 4,295             | —            | 12,286       |
| Interest and debt expense                                   | 3,241    | 44         | 87                | —            | 3,372        |
| Investment income   | —        | —          | (276)             | )—           | (276 )       |
| Foreign currency exchange gain                              | 24       | —          | 171               | —            | 195          |
| Other expense and (income), net                             | (1,452)  | )(816      | )1,007            | —            | (1,261 )     |
| Income before income tax expense                            | 4,642    | 2,308      | 3,306             | —            | 10,256       |
| Income tax expense (benefit)                                | 1,241    | 1,117      | 776               | —            | 3,134        |
| Equity in income from continuing operations of subsidiaries | 3,721    | —          | —                 | (3,721)      | )—           |
| Net income  | \$7,122  | \$1,191    | \$2,530           | \$(3,721)    | )\$ 7,122    |

|   | Parent    | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|---|-----------|------------|-------------------|--------------|--------------|
| For the Six Months Ended September 30, 2013:                |           |            |                   |              |              |
| Net sales   | \$118,194 | \$66,525   | \$121,313         | \$(28,289)   | )\$ 277,743  |
| Cost of products sold                                       | 82,046    | 52,626     | 83,609            | (28,289)     | )189,992     |
| Gross profit  | 36,148    | 13,899     | 37,704            | —            | 87,751       |
| Selling expenses  | 11,984    | 2,693      | 19,351            | —            | 34,028       |
| General and administrative expenses                         | 8,506     | 7,823      | 10,688            | —            | 27,017       |
| Amortization of intangibles                                 | 47        | —          | 938               | —            | 985          |
| Income from operations                                      | 15,611    | 3,383      | 6,727             | —            | 25,721       |
| Interest and debt expense                                   | 6,485     | 90         | 168               | —            | 6,743        |
| Investment income   | —         | —          | (492)             | )—           | (492 )       |
| Foreign currency exchange gain                              | 40        | —          | 380               | —            | 420          |
| Other expense and (income), net                             | (2,140)   | )(1,580    | )2,548            | —            | (1,172 )     |
| Income before income tax expense                            | 11,226    | 4,873      | 4,123             | —            | 20,222       |
| Income tax expense (benefit)                                | 3,508     | 2,000      | 572               | —            | 6,080        |
| Equity in income from continuing operations of subsidiaries | 6,424     | —          | —                 | (6,424)      | )—           |
| Net income  | \$14,142  | \$2,873    | \$3,551           | \$(6,424)    | )\$ 14,142   |



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| For the Three Months Ended September 30, 2013                           | Parent  | Guarantors | Non Guarantors | Eliminations | Consolidated |
|---|---------|------------|----------------|--------------|--------------|
| Net income  | \$7,122 | \$1,191    | \$2,530        | \$ (3,721 )  | \$ 7,122     |
| Other comprehensive income (loss), net of tax:                          |         |            |                |              |              |
| Foreign currency translation adjustments                                | —       | 3,733      | (668 )         | —            | 3,065        |
| Change in derivatives qualifying as hedges, net of tax                  | 75      | —          | 30             | —            | 105          |
| Change in pension liability and post-retirement obligations, net of tax | —       | —          | (115 )         | —            | (115 )       |
| Adjustments:  |         |            |                |              |              |
| Unrealized holding gain (losses) arising during the period, net of tax  | 96      | —          | 196            | —            | 292          |
| Reclassification adjustment for loss included in net income, net of tax | (880 )  | —          | 153            | —            | (727 )       |
| Total adjustments   | (784 )  | —          | 349            | —            | (435 )       |
| Total other comprehensive income (loss)                                 | (709 )  | 3,733      | (404 )         | —            | 2,620        |
| Comprehensive income (loss)   | \$6,413 | \$4,924    | \$2,126        | \$ (3,721 )  | \$ 9,742     |

| For the Six Months Ended September 30, 2013                             | Parent   | Guarantors | Non Guarantors | Eliminations | Consolidated |
|---|----------|------------|----------------|--------------|--------------|
| Net income  | \$14,142 | \$2,873    | \$3,551        | \$ (6,424 )  | \$ 14,142    |
| Other comprehensive income (loss), net of tax:                          |          |            |                |              |              |
| Foreign currency translation adjustments                                | —        | 5,052      | (2,117 )       | —            | 2,935        |
| Change in derivatives qualifying as hedges, net of tax                  | 26       | —          | 165            | —            | 191          |
| Change in pension liability and post-retirement obligations, net of tax | —        | —          | (120 )         | —            | (120 )       |
| Adjustments:  |          |            |                |              |              |
| Unrealized holding gain (losses) arising during the period, net of tax  | 96       | —          | (238 )         | —            | (142 )       |
| Reclassification adjustment for loss included in net income, net of tax | (880 )   | —          | (82 )          | —            | (962 )       |
| Total adjustments   | (784 )   | —          | (320 )         | —            | (1,104 )     |
| Total other comprehensive income (loss)                                 | (758 )   | 5,052      | (2,392 )       | —            | 1,902        |
| Comprehensive income (loss)   | \$13,384 | \$7,925    | \$1,159        | \$ (6,424 )  | \$ 16,044    |





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|  | Parent    | Guarantors | Non<br>Guarantors | Eliminations | Consolidated |
|--|-----------|------------|-------------------|--------------|--------------|
| For the Six Months Ended September 30, 2013:         |           |            |                   |              |              |
| Operating activities:                                |           |            |                   |              |              |
| Net cash provided by (used for) operating activities | \$10,999  | \$1,267    | \$(10,557 )       | \$ —         | \$ 1,709     |
| Investing activities:                                |           |            |                   |              |              |
| Proceeds from sale of marketable securities          | —         | —          | 3,724             | —            | 3,724        |
| Purchases of marketable securities                   | —         | —          | (2,597 )          | —            | (2,597 )     |
| Capital expenditures                                 | (1,318 )  | (1,116 )   | (5,599 )          | —            | (8,033 )     |
| Purchase of business, net of cash                    | —         | —          | (5,847 )          | —            | (5,847 )     |
| Intercompany loan                                    | (13,303 ) | —          | 13,303            | —            | —            |
| Net cash provided by (used for) investing activities | (14,621 ) | (1,116 )   | 2,984             | —            | (12,753 )    |
| Financing activities:                                |           |            |                   |              |              |
| Proceeds from exercise of stock options              | 838       | —          | —                 | —            | 838          |
| Repayment of debt                                    | —         | (151 )     | (144 )            | —            | (295 )       |
| Change in ESOP debt guarantee                        | 206       | —          | —                 | —            | 206          |
| Net cash provided by (used for) financing activities | 1,044     | (151 )     | (144 )            | —            | 749          |
| Effect of exchange rate changes on cash              | —         | —          | 454               | —            | 454          |
| Net change in cash and cash equivalents              | (2,578 )  | —          | (7,263 )          | —            | (9,841 )     |
| Cash and cash equivalents at beginning of year       | 79,412    | —          | 42,248            | —            | 121,660      |
| Cash and cash equivalents at end of year             | \$76,834  | \$—        | \$34,985          | \$—          | \$ 111,819   |

## 14. Changes in Other Comprehensive Loss

Changes in AOCL by component for the three and six-month period ended September 30, 2014 are as follows (in thousands):

|   | Three months ended September 30, 2014 |                        |                  |  | Total       |
|---|---------------------------------------|------------------------|------------------|--|-------------|
|   | Unrealized Investment Gain            | Retirement Obligations | Foreign Currency | Change in Derivatives Qualifying as Hedges |             |
| Beginning balance net of tax                              | \$2,029                               | \$(47,976 )            | \$5,603          | \$(83 )                                    | \$(40,427 ) |
| Other comprehensive income (loss) before reclassification | 5                                     | (482 )                 | (8,349 )         | 67   | (8,759 )    |
| Amounts reclassified from other comprehensive loss        | (198 )                                | 745                    | —                | 21   | 568         |
| Net current period other comprehensive income (loss)      | (193 )                                | 263                    | (8,349 )         | 88   | (8,191 )    |
| Ending balance  | \$1,836                               | \$(47,713 )            | \$(2,746 )       | \$5  | \$(48,618 ) |
|   | Six months ended September 30, 2014   |                        |                  |  |             |
|   | Unrealized Investment Gain            | Retirement Obligations | Foreign Currency | Change in Derivatives Qualifying as Hedges | Total       |
| Beginning balance net of tax                              | \$1,768                               | \$(47,977 )            | \$5,272          | \$(199 )                                   | \$(41,136 ) |
| Other comprehensive income (loss) before reclassification | 282                                   | (1,243 )               | (8,018 )         | 70   | (8,909 )    |
| Amounts reclassified from other comprehensive loss        | (214 )                                | 1,507                  | —                | 134  | 1,427       |
| Net current period other comprehensive income (loss)      | 68                                    | 264                    | (8,018 )         | 204  | (7,482 )    |
| Ending balance  | \$1,836                               | \$(47,713 )            | \$(2,746 )       | \$5  | \$(48,618 ) |

Details of amounts reclassified out of AOCL for the three-month period ended September 30, 2014 are as follows (in thousands):

| Details of AOCL Components                 | Amount<br>reclassified<br>from<br>AOCL | Affected line item on condensed consolidated<br>statement of operations and retained earnings |
|--|--|---|
| Unrealized gain on investments             | \$(305)                                | ) Investment income   |
|  | (305)                                  | ) Total before tax  |
|  | 107                                    | Tax expense   |
|  | \$(198)                                | ) Net of tax  |
| Net amortization of prior service cost     | \$1,065                                | (1)   |
|  | 1,065                                  | Total before tax  |
|  | 320                                    | Tax benefit   |
|  | \$745                                  | Net of tax  |
| Change in derivatives qualifying as hedges | \$66                                   | Cost of products sold   |
|  | 66                                     | Total before tax  |
|  | 45                                     | Tax expense   |
|  | \$21                                   | Net of tax  |

Details of amounts reclassified out of AOCL for the six-month period ended September 30, 2014 are as follows (in thousands):

| Details of AOCL Components                 | Amount<br>reclassified<br>from<br>AOCL | Affected line item on condensed consolidated<br>statement of operations and retained earnings |
|--|--|---|
| Unrealized gain on investments             | \$(329)                                | ) Investment income   |
|  | (329)                                  | ) Total before tax  |
|  | 115                                    | Tax expense   |
|  | \$(214)                                | ) Net of tax  |
| Net amortization of prior service cost     | \$2,153                                | (1)   |
|  | 2,153                                  | Total before tax  |
|  | 646                                    | Tax benefit   |
|  | \$1,507                                | Net of tax  |
| Change in derivatives qualifying as hedges | \$250                                  | Cost of products sold   |
|  | 250                                    | Total before tax  |
|  | 116                                    | Tax expense   |

\$134 Net of tax

- (1) These AOCL components are included in the computation of net periodic pension cost. (See Note 9 — Net Periodic Benefit Cost for additional details.)

#### 15. Effects of New Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements — Going Concern (Subtopic 205-40)." ASU 2014-15 addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." ASU 2014-11 changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. ASU 2014-11 also requires new disclosures about transfers that are accounted for as sales in transactions that are economically similar to repurchase agreements and increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. This ASU is effective for the first interim or annual period beginning after December 15, 2014. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 changes the criteria for disposals to qualify as discontinued operations and requires new disclosures about disposals of both discontinued operations and certain other disposals that do not meet the new definition. This ASU is effective prospectively for fiscal years, and interim periods within those years,

beginning after December 15, 2014. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists." ASU 2013-11 requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a significant effect on the Company's consolidated financial statements.

In April 2013, the FASB issued ASU No. 2013-07, "Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting." The objective of ASU 2013-07 is to clarify when an entity should apply the liquidation basis of accounting. The update provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have an effect on the Company's consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This ASU addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have an effect on the Company's consolidated financial statements.

In February 2013, the FASB, issued ASU No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date." This ASU addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several arrangements including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The ASU is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a significant effect on the Company's consolidated financial statements.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### Executive Overview

We are a leading worldwide designer, manufacturer and marketer of material handling products, systems and services which efficiently and safely move, lift, position and secure material. Key products include hoists, actuators, cranes and rigging tools. The Company is focused on serving commercial and industrial applications that require the safety and quality provided by the Company's superior design and engineering know-how.

Founded in 1875, we have grown to our current size and leadership position through organic growth and acquisitions. We developed our leading market position over our 139-year history by emphasizing technological innovation, manufacturing excellence and superior after-sale service. In addition, acquisitions significantly broadened our product lines and services and expanded our geographic reach, end-user markets and customer base. Ongoing initiatives include improving our productivity and increasing penetration of the Asian, Latin American and European marketplaces. In accordance with our strategy, we have been investing in our sales and marketing activities, new product development and "Lean" efforts across the Company. Shareholder value will be enhanced through continued emphasis on market expansion, customer satisfaction, new product development, manufacturing efficiency, cost containment, and efficient capital investment.

Over the course of our history, we have managed through many business cycles and our solid cash flow profile has helped us grow and expand globally. We stand with a capital structure which includes sufficient cash reserves, significant revolver availability with an expiration of October 31, 2017, fixed-rate long-term debt which expires in 2019 and a solid cash flow business profile. We plan to evaluate possible refinancing opportunities over the rest of the fiscal year as the 7 7/8% Notes are callable February 1, 2015.

Additionally, our revenue base is geographically diverse with approximately 42% derived from customers outside the U.S. for the six months ended September 30, 2014. We believe this will help balance the impact of changes that will occur in local economies as well as benefit the Company from growth in emerging markets. As in the past, we monitor both U.S. and Eurozone Industrial Capacity Utilization statistics as indicators of anticipated demand for our products. Since their June 2009 trough, these statistics have improved. However, in 2012 we saw a decline in the Eurozone statistics. Currently, these statistics have begun to improve as the Eurozone appears to be recovering from its latest recession. In addition, we continue to monitor the potential impact of other global and U.S. trends including industrial production, energy costs, steel price fluctuations, interest rates, foreign currency exchange rates and activity of end-user markets around the globe.

From a strategic perspective, we are investing in global markets and new products as we focus on our greatest opportunities for growth. We maintain a strong North American market share with significant leading market positions in hoists, lifting and sling chain, forged attachments and actuators. We seek to maintain and enhance our market share by focusing our sales and marketing activities toward select North American and global market sectors including energy, heavy OEM, entertainment, and construction and infrastructure.

Regardless of the economic climate and point in the economic cycle, we constantly explore ways to increase our operating margins as well as further improve our productivity and competitiveness. We have specific initiatives related to improved customer satisfaction, reduced defects, shortened lead times, improved inventory turns and on-time deliveries, reduced warranty costs, and improved working capital utilization. The initiatives are being driven by the continued implementation of our "Lean" efforts which are fundamentally changing our manufacturing and business processes to be more responsive to customer demand and improving on-time delivery and productivity. In



addition to “Lean,” we are working to achieve these strategic initiatives through product simplification, the creation of centers of excellence, and improved supply chain management.

We continuously monitor market prices of steel. We purchase approximately \$30,000,000 to \$40,000,000 of steel annually in a variety of forms including rod, wire, bar, structural and others. Generally, as we experience fluctuations in our costs, we reflect them as price increases or surcharges to our customers with the goal of being margin neutral.

We are also looking for opportunities for growth via strategic acquisitions or joint ventures. The focus of our acquisition strategy centers on product line expansion in alignment with our existing core product offering and opportunities for non-U.S. market penetration.

We operate in a highly competitive and global business environment. We face a variety of opportunities in those markets and geographies, including trends toward increased utilization of the global labor force and the expansion of market opportunities in Asia and other emerging markets. While we continue to execute our long-term growth strategy, we are supported by our solid capital structure, including our cash position and flexible cost base. We are also aggressively pursuing cost reduction opportunities to enhance future margins.

## Results of Operations

### Three Months Ended September 30, 2014 and September 30, 2013

Net sales in the fiscal 2015 quarter ended September 30, 2014 were \$146,991,000, up \$8,139,000 or 5.9% from the fiscal 2014 quarter ended September 30, 2013 net sales of \$138,852,000. Net sales were positively impacted \$2,886,000 by the Unified acquisition, \$2,208,000 due to an increase in sales volume, \$2,204,000 by an additional shipping day, and \$1,278,000 by price increases. Foreign currency translation unfavorably impacted sales by \$437,000 for the three months ended September 30, 2014.

Gross profit in the fiscal 2015 quarter ended September 30, 2014 was \$47,156,000, an increase of \$2,896,000 or 6.5% from the fiscal 2014 quarter ended September 30, 2013 gross profit of \$44,260,000. Gross profit margin increased to 32.1% in the fiscal 2014 quarter from 31.9% in the fiscal 2014 quarter. The increase in gross profit was due to \$1,278,000 in price increases, \$1,225,000 from the Unified acquisition, \$898,000 in increased volume and mix, \$301,000 in decreased product liability costs, and \$23,000 in increased productivity offset by \$364,000 in material cost inflation and \$315,000 in increased inventory reserves. The translation of foreign currencies had a \$150,000 unfavorable impact on gross profit in the three months ended September 30, 2014.

Selling expenses were \$17,146,000 and \$17,281,000 in the fiscal 2015 and 2014 second quarters ended September 30, 2014 and 2013, respectively. As a percentage of consolidated net sales, selling expenses were 11.7% and 12.4% in the fiscal 2015 and 2014 three months ended September 30, 2014 and 2013. Selling expenses are comparable to the prior year with a \$236,000 increase due to the Unified acquisition offset by general cost control. Foreign currency translation had a \$120,000 favorable impact on selling expenses.

General and administrative expenses were \$13,300,000 and \$14,167,000 in the fiscal 2015 and 2014 second quarters ended September 30, 2014 and 2013, respectively. As a percentage of consolidated net sales, general and administrative expenses were 9.0% and 10.2% in the fiscal 2015 and 2014 three months ended September 30, 2014 and 2013. The decrease in fiscal 2015 general and administrative expenses was primarily the result of non-recurring personnel related costs and professional services incurred in the prior year. Foreign currency translation did not have a significant impact on general and administrative expenses for the three months ended September 30, 2014.

Amortization of intangibles was \$576,000 and \$526,000 in the fiscal 2015 and 2014 second quarters ended September 30, 2014 and 2013, respectively. The increase in amortization of intangibles during fiscal 2015 was related to the acquisition of Unified which was completed during the fourth quarter of fiscal 2014.

Interest and debt expense was \$3,264,000 in the quarter ended September 30, 2014 and was consistent with \$3,372,000 in the quarter ended September 30, 2013.

Other expense (income), net was \$69,000 and \$(1,261,000) in the fiscal 2015 and 2014 second quarters ended September 30, 2014 and 2013, respectively. The fiscal 2015 amount includes a property casualty loss of \$250,000. The fiscal 2014 amount includes a gain on the sale of equity securities received in an insurance company demutualization.

Income tax expense as a percentage of income from continuing operations before income tax expense was 21% and 31% for the second quarters ended September 30, 2014 and 2013, respectively. These percentages vary from the U.S. statutory rate primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries. For the three months ended September 30, 2014 income taxes as a percentage of income before income taxes was lower than our projected rate for fiscal 2015 due to a recently issued tax regulation that results in the utilization of certain tax credits relating to previous fiscal years. The credits result in an income tax benefit of \$1,431,000 for the three and six months ended September 30, 2014. We estimate that the effective tax rate related to continuing operations will be approximately 27% to 32% for fiscal 2015.

Six Months Ended September 30, 2014 and September 30, 2013

Net sales in the fiscal 2015 six months ended September 30, 2014 were \$289,923,000, up \$12,180,000 or 4.4% from the fiscal 2014 six months ended September 30, 2013 net sales of \$277,743,000. Net sales were positively impacted \$6,830,000 by our recent acquisitions, \$2,947,000 by price increases, and \$1,877,000 by increased sales volume. Foreign currency translation favorably impacted sales by \$526,000 for the six months.

Gross profit in the fiscal 2015 six months ended September 30, 2014 was \$92,721,000, an increase of \$4,970,000 or 5.7% from the fiscal 2014 six months ended September 30, 2013 gross profit of \$87,751,000. Gross profit margin increased to 32.0% in the fiscal 2014 six months ended September 30, 2014 from 31.6% in the fiscal 2014 six months ended September 30, 2013. The increase in gross profit was due to \$2,947,000 in price increases, \$2,515,000 from our recent acquisitions, \$376,000 in decreased product liability costs, and \$21,000 in increased productivity net of increased inventory reserves offset by \$612,000 in decreased volume and mix and \$432,000 in material cost inflation. The translation of foreign currencies had a \$155,000 favorable impact on gross profit in the six months ended September 30, 2014.

Selling expenses were \$35,037,000 and \$34,028,000 in the six months ended September 30, 2014 and 2013, respectively. As a percentage of consolidated net sales, selling expenses were 12.1% and 12.3% in the fiscal 2015 and 2014 six months ended September 30, 2014 and 2013. Approximately \$716,000 of the increase in selling expense related to our recent acquisitions. The remaining increase related to investments made in emerging markets and general inflationary increases. Foreign currency translation had a \$46,000 unfavorable impact on selling expenses.

General and administrative expenses were \$27,379,000 and \$27,017,000 in the six months ended September 30, 2014 and 2013, respectively. As a percentage of consolidated net sales, general and administrative expenses were 9.4% and 9.7% in the fiscal 2015 and 2014 six months ended September 30, 2014 and 2013. The increase in fiscal 2015 general and administrative expenses was primarily the result of our recent acquisitions which accounted for \$470,000 of the increase. Foreign currency translation had a \$52,000 unfavorable impact on general and administrative expenses for the six months ended September 30, 2014.

Amortization of intangibles was \$1,165,000 and \$985,000 in the fiscal 2015 and 2014 six months ended September 30, 2014 and 2013, respectively. The increase in amortization of intangibles during fiscal 2015 was related to the acquisition of Unified which was completed during the fourth quarter of fiscal 2014.

Interest and debt expense was \$6,633,000 in the in the six months ended September 30, 2014 and was consistent with \$6,743,000 in the six months ended September 30, 2013.

Other expense (income), net was \$(108,000) and \$(1,172,000) in the fiscal 2015 and 2014 six months ended September 30, 2014 and 2013, respectively. The fiscal 2015 amount includes a property casualty loss of \$250,000. The fiscal 2014 amount includes a gain on the sale of equity securities received in an insurance company demutualization.

Income tax expense as a percentage of income from continuing operations before income tax expense was 26% and 30% for the six months ended September 30, 2014 and 2013, respectively. These percentages vary from the U.S. statutory rate primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries. For the six months ended September 30, 2014 income taxes as a percentage of income before income taxes was lower than our projected rate for fiscal 2015 due to a recently issued tax regulation that results in the utilization of certain tax credits relating to previous fiscal years. The credits result in

an income tax benefit of \$1,431,000 for the six months ended September 30, 2014. We estimate that the effective tax rate related to continuing operations will be approximately 27% to 32% for fiscal 2015.

## Liquidity and Capital Resources

Cash and cash equivalents totaled \$114,481,000 at September 30, 2014, an increase of \$2,172,000 from the March 31, 2014 balance of \$112,309,000.

### Cash flow provided by operating activities

Net cash provided by operating activities was \$12,739,000 for the six months ended September 30, 2014 compared with net cash provided by operating activities of \$1,709,000 for the six months ended September 30, 2013. The net cash provided by operating activities for the six months ended September 30, 2014 consisted of a decrease in trade accounts receivable of \$11,138,000 due to collections on sales from the quarter ended March 31, 2014 which had significantly higher sales volume than the quarter ended September 30, 2014. This increase in cash was offset by an increase in inventories of \$6,070,000 and a decrease in trade accounts payable and accrued and non-current liabilities of \$6,301,000 and \$12,267,000, respectively. The majority of the increase in inventory was due to anticipated sales volume growth during the remaining two quarters of fiscal 2015. The reduction in trade accounts payable is primarily the result of lower manufacturing activity in the quarter ended September 30, 2014 compared to the quarter ended March 31, 2014 and the timing of vendor payments. The reduction in accrued and non-current liabilities was due to contributions made to our pension plans and a decrease in accrued payroll costs (including the payment of the fiscal 2014 annual incentive compensation bonus) offset by an increase in customer deposits.

Net cash provided by operating activities was \$1,709,000 for the six months ended September 30, 2013 compared with net cash provided by operating activities of \$7,574,000 for the six months ended September 30, 2012. The net cash provided by operating activities for the six months ended September 30, 2013 consisted of a decrease in trade accounts receivable of \$5,074,000, offset by an increase in inventories of \$10,433,000 and a decrease in trade accounts payable and accrued and non-current liabilities of \$5,366,000 and \$7,094,000 respectively. Approximately \$3,500,000 of the increase in inventory was due to several large engineered projects that were in process with the rest of the increase due to anticipated sales volume growth in the second half of fiscal 2014. The reduction in accrued and non-current liabilities was due to payment of the annual incentive compensation and contributions made to our pension plans.

### Cash flow provided by investing activities

Net cash used for investing activities was \$7,380,000 for the six months ended September 30, 2014 compared with net cash used for investing activities of \$12,753,000 for the six months ended September 30, 2013. The net cash used for investing activities for the six months ended September 30, 2014 consisted of \$7,585,000 in capital expenditures (of which \$1,990,000 relates to the expansion of our China operations and \$2,260,000 relates to the implementation of our global ERP system) offset by \$189,000 in net cash proceeds from the sale of marketable equity securities. The other source of cash from investing activities of \$16,000 includes proceeds from an insurance settlement of \$150,000 and cash received from the sale of an asset of \$116,000 offset by an increase in restricted cash of \$250,000.

Net cash used for investing activities was \$12,753,000 for the six months ended September 30, 2013 compared with net cash used for investing activities of \$1,433,000 for the six months ended September 30, 2012. The net cash used for investing activities for the six months ended September 30, 2013 consisted of \$8,033,000 in capital expenditures (of which \$1,401,000 relates to implementation of our global ERP system), \$5,847,000 cash used for the purchase of Hebeteknik by our Austrian subsidiary, offset by \$1,127,000 in net cash proceeds from the sale of marketable equity securities.

### Cash flow provided by financing activities

Net cash used for financing activities was \$2,491,000 for the six months ended September 30, 2014 compared with net cash provided by financing activities of \$749,000 for the six months ended September 30, 2013. Net cash used for financing activities for the six months ended September 30, 2014 primarily relates to dividends paid of \$1,591,000 and the repayment of debt of \$1,220,000 offset by proceeds from the exercise of stock options of \$1,099,000.

Net cash provided by financing activities was \$749,000 for the six months ended September 30, 2013 compared with net cash used by financing activities of \$12,000 for the six months ended September 30, 2012. Net cash provided by financing activities for the six months ended September 30, 2013 primarily relates to cash proceeds from the exercise of stock options of \$838,000.

We believe that our cash on hand, cash flows, and borrowing capacity under our Revolving Credit Facility will be sufficient to fund our ongoing operations and budgeted capital expenditures for at least the next twelve months. This belief is dependent upon successful execution of our current business plan and effective working capital utilization. No material restrictions exist in accessing cash held by our non-U.S. subsidiaries. Additionally we expect to meet our U.S. funding needs without repatriating non-U.S. cash and incurring incremental U.S. taxes. As of September 30, 2014, \$36,695,000 of cash and cash equivalents were held by foreign subsidiaries.

At September 30, 2014 we have access to borrow funds under a revolving credit facility (Current Revolving Credit Facility). The Current Revolving Credit Facility provides availability up to a maximum of \$100,000,000 and has an initial term ending October 31, 2017.

Provided there is no default, we may request an increase in the availability of the Current Revolving Credit Facility by an amount not exceeding \$75,000,000, subject to lender approval. The unused portion of the Current Revolving Credit Facility totaled \$94,748,000, net of outstanding borrowings of \$0 and outstanding letters of credit of \$5,252,000, as of September 30, 2014. The outstanding letters of credit at September 30, 2014 consisted of \$852,000 in commercial letters of credit and \$4,400,000 of standby letters of credit. The unused portion of the Current Revolving Credit Facility combined with our cash balance yields total liquidity of \$209,229,000 at September 30, 2014.

Commitment fees are payable against the unused portion of the revolver based on the applicable rate. Interest on an outstanding borrowing used against the revolver is payable at varying rates depending on the type of outstanding borrowing and its associated interest rate plus its associated applicable rate. The two potential interest rates used are either a Base Rate (equivalent to a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its "prime rate.", or (c) LIBOR plus 100 basis points or a Eurocurrency Rate (equivalent to LIBOR plus a Mandatory Cost).

The corresponding credit agreement associated with the Current Revolving Credit Facility places certain debt covenant restrictions on the Company, including certain financial requirements and restrictions on dividend payments, with which we are in compliance as of September 30, 2014. Key financial covenants include a minimum fixed charge coverage ratio of 1.25x, a maximum total leverage ratio, net of cash, of 3.50x and maximum annual capital expenditures of \$30,000,000.

The applicable rate is determined based on the pricing grid in the Current Revolving Credit Facility which varies based on the Company's total leverage ratio and borrowing type at September 30, 2014. The mandatory cost is intended to compensate the lenders for the cost of European banking requirements.

At September 30, 2014 and 2013, we have outstanding \$150,000,000 7 7/8% Senior Subordinated Notes due 2019 registered under the Securities Act of 1933, as amended (7 7/8% Notes). The offering price of the notes was 98.545% of par after adjustment for original issue discount.

Provisions of the 7 7/8% Notes include, without limitation, restrictions on indebtedness, asset sales, and dividends and other restricted payments. On or after February 1, 2015, the 7 7/8% Notes are redeemable at the option of the Company, in whole or in part, at a redemption price of 103.938%, reducing to 101.969% and 100% on February 1, 2016 and February 1, 2017, respectively and are due February 1, 2019. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 7 7/8% Notes may require the Company to repurchase all or a portion of such holder's 7 7/8% Notes at a purchase price equal to 101% of the principal amount thereof. The 7 7/8% Notes are guaranteed by certain existing and future U.S. subsidiaries and are not subject to any sinking fund requirements.



The gross balances of deferred financing costs were \$4,133,000 as of September 30, 2014 and March 31, 2014. The accumulated amortization balances were \$1,829,000 and \$1,531,000 as of September 30, 2014 and March 31, 2014 respectively.

Our capital lease obligations related to property and equipment leases amounted to \$2,339,000 at September 30, 2014. Capital lease obligations are included in the current and long term portion of senior debt in the consolidated balance sheets.

Unsecured and uncommitted lines of credit are available to meet short-term working capital needs for certain of our subsidiaries operating outside of the U.S. The lines of credit are available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between our subsidiaries and the local bank at the time of each specific transaction. As of September 30, 2014, unsecured credit lines totaled approximately \$6,568,000, of which \$0 was drawn. In addition, unsecured lines of \$12,062,000 were available for bank guarantees issued in the normal course of business, of which \$4,477,000 was utilized.

## Capital Expenditures

In addition to keeping our current equipment and plants properly maintained, we are committed to replacing, enhancing and upgrading our property, plant and equipment to support new product development, improve productivity and customer responsiveness, reduce production costs, increase flexibility to respond effectively to market fluctuations and changes, meet environmental requirements, enhance safety and promote ergonomically correct work stations. Consolidated capital expenditures for the six months ended September 30, 2014 and September 30, 2013 were \$7,585,000 and \$8,033,000, respectively. We expect capital spending for fiscal 2015 to be approximately \$20,000,000, excluding acquisitions.

## Inflation and Other Market Conditions

Our costs are affected by inflation in the U.S. economy and, to a lesser extent, in non-U.S. economies including those of Europe, Canada, Mexico, South America, and Asia Pacific. We have been impacted by fluctuations in steel costs, which vary by type of steel and we continue to monitor them and address our pricing policies accordingly. In addition, U.S. employee benefits costs can be volatile and may exceed general inflation levels in future periods. Otherwise, we do not believe that general inflation has had a material effect on results of operations over the periods presented primarily due to overall low inflation levels over such periods and our ability to generally pass on rising costs through price increases or surcharges. In the future, we may be further affected by inflation that we may not be able to offset with price increases or surcharges. Additionally, we are impacted by fluctuations in currency exchange rates which are primarily translational, but transactional fluctuations could also impact our financial results.

## Goodwill Impairment Testing

We test goodwill for impairment at least annually and more frequently whenever events occur or circumstances change that indicate there may be impairment. These events or circumstances could include a significant long-term adverse change in the business climate, poor indicators of operating performance, or a sale or disposition of a significant portion of a reporting unit.

We test goodwill at the reporting unit level, which is one level below our operating segment. We identify our reporting units by assessing whether the components of our operating segment constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components. We also aggregate components that have similar economic characteristics into single reporting units (for example, similar products and / or services, similar long-term financial results, product processes, classes of customers, etc.). We have five reporting units, only three of which have goodwill. Our Unified Industries reporting unit, Duff Norton reporting unit and Rest of Products reporting unit had goodwill totaling \$6,980,000, \$9,751,000, and \$100,247,000, respectively, at September 30, 2014.

When we evaluate the potential for goodwill impairment, we assess a range of qualitative factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel and overall financial performance. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a two-step impairment test.

To perform the two-step impairment test, we use the discounted cash flow method to estimate the fair value of each of our reporting units. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating profit margins and cash flows, the terminal growth rate and the discount rate. Management projects revenue growth rates, operating margins and cash flows based on each reporting unit's

current business, expected developments and operational strategies over a five-year period. In estimating the terminal growth rate, we consider our historical and projected results, as well as the economic environment in which our reporting units operate. The discount rates utilized for each reporting unit reflect management's assumptions of marketplace participants' cost of capital and risk assumptions, both specific to the reporting unit and overall in the economy.

We currently do not believe that it is more likely than not that the fair value of each of our reporting units is less than that its applicable carrying value. Additionally, we currently do not believe that we have any significant impairment indicators or that any of our reporting units with goodwill are at risk of failing Step One of the goodwill impairment test. However if the projected long-term revenue growth rates, profit margins, or terminal rates are significantly lower, and/or the estimated weighted-average cost of capital is considerably higher, future testing may indicate impairment of one or more of the Company's reporting units and, as a result, the related goodwill may be impaired.

## Seasonality and Quarterly Results

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

## Effects of New Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements — Going Concern (Subtopic 205-40)." ASU 2014-15 addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." ASU 2014-11 changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. ASU 2014-11 also requires new disclosures about transfers that are accounted for as sales in transactions that are economically similar to repurchase agreements and increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. This ASU is effective for the first interim or annual period beginning after December 15, 2014. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 changes the criteria for disposals to qualify as discontinued operations and requires new disclosures about disposals of both discontinued operations and certain other disposals that do not meet the new definition. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists." ASU 2013-11 requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a significant effect on the Company's consolidated financial statements.

In April 2013, the FASB issued ASU No. 2013-07, "Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting." The objective of ASU 2013-07 is to clarify when an entity should apply the liquidation basis of accounting. The update provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have an effect on the Company's consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This ASU addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have an effect on the Company's consolidated financial statements.

In February 2013, the FASB, issued ASU No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date." This ASU addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several arrangements including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The ASU is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a significant effect on the Company's consolidated financial statements.

#### Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This report may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from the results expressed or implied by such statements, including general economic and business conditions, conditions affecting the industries served by us and our subsidiaries, conditions affecting our customers and suppliers, competitor responses to our products and services, the overall market acceptance of such products and services, facility consolidations and other restructurings, our asbestos-related liability, the integration of acquisitions and other factors disclosed in our periodic reports filed with the Commission. Consequently such forward-looking statements should be regarded as our current plans, estimates and beliefs. We do not undertake and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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

There have been no material changes in the market risks since the end of Fiscal 2014.

#### Item 4. Controls and Procedures

As of September 30, 2014, an evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer, of the effectiveness of the

design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2014, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is made known to them on a timely basis, and that these disclosure controls and procedures are effective to ensure such information is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

One of the Company's foreign locations implemented the enterprise resource planning system SAP during the fiscal year ended March 31, 2014. We expect to convert certain additional locations to SAP during fiscal 2015. We expect that the completion of these system implementations will enhance our internal controls as follows:

- a) The new enterprise resource planning system was designed to generate reports and other information used to account for transactions and reduce the number of manual processes employed by the Company;

- b) The new enterprise resource planning system is technologically advanced and is expected to increase the amount of application controls used to process data; and
- c) The Company will design new processes and implement new procedures in connection with the implementations.

There have been no other changes in the Company's internal control over financial reporting during the most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission issued an updated version of its Internal Control - Integrated Framework ("2013 Framework"). Originally issued in 1992 ("1992 Framework"), the framework provides principles-based guidance for designing and implementing effective internal controls. The 1992 Framework remains available during the transition period, which extends to December 15, 2014. As of September 30, 2014, the Company continues to utilize the 1992 Framework.



Part II. Other Information

Item 1. Legal Proceedings – none.

Item 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in the Company's Form 10-K for the year ended March 31, 2014.

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

Item 3. Defaults upon Senior Securities – none.

Item 4. Mine Safety Disclosures – Not applicable

Item 5. Other Information – none.

Item 6. Exhibits

- Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934; as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934; as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 101\* The following financial statements from the Company's Quarterly Report on Form 10-Q for the three and six months ended September 30, 2014, formatted in XBRL, as follows:
- (i) Condensed Consolidated Balance Sheets September 30, 2014 and March 31, 2014;
  - (ii) Condensed Consolidated Statements of Operations and Retained Earnings for the three and six months ended September 30, 2014 and 2013;
  - (iii) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2014 and 2013;
  - (iv) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended September 30, 2014 and 2013; and
  - (v) Notes to Condensed Consolidated Financial Statements.

\*Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

COLUMBUS McKINNON CORPORATION  
(Registrant)

Date: October 24, 2014

/S/ GREGORY P. RUSTOWICZ  
Gregory P. Rustowicz  
Vice President Finance and Chief Financial Officer  
(Principal Financial Officer)