ALLERGAN INC
Form DEFN14A
September 24, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN

PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant ¨ Filed by a party other than the Registrant x

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14-a6(e)(2))**
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Allergan, Inc.

(Name of Registrant as Specified In Its Charter)

Pershing Square Capital Management, L.P.

PS Management GP, LLC

PS Fund 1, LLC

William A. Ackman

William F. Doyle

Ben Hakim

Jordan H. Rubin

Roy J. Katzovicz

Valeant Pharmaceuticals International, Inc.

Valeant Pharmaceuticals International

J. Michael Pearson

Howard B. Schiller

Ari S. Kellen

Laurie W. Little

Betsy S. Atkins

Cathleen P. Black

Fredric N. Eshelman

Steven J. Shulman

David A. Wilson

John J. Zillmer

(Name of Person(s) Filing Proxy Statement, if Other Than The Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PROXY STATEMENT

IN CONNECTION WITH A SPECIAL MEETING

OF SHAREHOLDERS OF ALLERGAN, INC.

PROXY STATEMENT

OF

PS FUND 1, LLC

To the Shareholders of Allergan, Inc.:

This proxy statement (this Proxy Statement) and the accompanying WHITE proxy card (WHITE Proxy Card) are being furnished to you as a shareholder of Allergan, Inc., a Delaware corporation, with its principal executive offices at 2525 Dupont Drive, Irvine, CA 92612 (the Company and/or Allergan), by and on behalf of PS Fund 1, LLC, a Delaware limited liability company (PS Fund 1, we, our or us), which is managed by Pershing Square Capital Management, L.P. (Pershing Square), in connection with the solicitation of revocable proxies by PS Fund 1 for use at the special meeting, scheduled for December 18, 2014 (including any adjournments or postponements thereof and any meeting held in lieu thereof), of shareholders of Allergan for the purposes described below (the Special Meeting). Only holders of record at the close of business on October 30, 2014 (the Record Date) will be entitled to vote in person or by proxy at the Special Meeting. We will inform you of the time and location of the Special Meeting promptly following the date on which they are set in accordance with the Company s Amended and Restated Certificate of Incorporation, effective May 9, 2014 (the Charter), and the Company s Amended and Restated Bylaws, effective May 9, 2014 (the Bylaws), and the Delaware General Corporation Law (DGCL).

The Company is calling the Special Meeting as required by a settlement of a case we brought in the Delaware Court of Chancery after we delivered requests for a Special Meeting from holders of more than the percentage of shares required (the Requisite Percentage) to call a Special Meeting.

The date of this Proxy Statement is September 24, 2014. This Proxy Statement and the accompanying WHITE Proxy Card are first being sent or given to shareholders on or about September 26, 2014.

We are soliciting your proxy for the Special Meeting regarding the proposals (the Proposals) set forth in the section of this Proxy Statement titled Proposals for the Special Meeting.

On April 22, 2014, Valeant Pharmaceuticals International, Inc. (Valeant) first made an offer to the Board of Directors of Allergan (the Board) proposing a business combination of Allergan and Valeant. On May 30, 2014, Valeant publicly announced a revised proposal to merge with Allergan pursuant to which each share of common stock of the Company, par value $0.01 per share (Company Common Stock), would be exchanged for $72.00 in cash and 0.83 shares of Valeant common stock (and has indicated it remains willing to add a contingent value right (CVR) relating to sales of Allergan s DARPin® product if Allergan were to engage in negotiations with Valeant to work out the exact terms of the CVR). Please refer to the section of this Proxy Statement titled Background and Past Contacts for more detailed information.

From April 10, 2014 (the day before Pershing Square began its rapid accumulation program) to September 23, 2014 (the last business day prior to the filing of this Proxy Statement), the Company s stock price has increased by approximately 45%. We believe the market has spoken, and that shareholders see substantial value in Valeant s revised proposal. To date, the Board has refused to engage with Valeant in any way regarding a merger with Valeant.

Therefore, PS Fund 1 is asking the Company s shareholders to vote **FOR** each of the Proposals by using one of the voting methods set forth below.

Voting Methods

Voting by Mail. A WHITE Proxy Card is enclosed for your use. Whether or not you expect to attend the Special Meeting, please sign, date and mail your WHITE Proxy Card promptly in the enclosed postage paid envelope provided.

Voting by Telephone. If you live in the United States, you may vote your proxy toll-free 24 hours a day, 7 days a week up until 11:59 P.M. Eastern Time on the day prior to the Special Meeting by calling the toll-free telephone number on the WHITE Proxy Card. Please refer to the voting instructions on the WHITE Proxy Card. If you vote by telephone, please do not return your WHITE Proxy Card by mail.

Voting via the Internet. If you wish to vote via the Internet, you may submit your proxy from any location in the world 24 hours a day, 7 days a week, up until 11:59 P.M. Eastern Time on the day prior to the Special Meeting by visiting the website www.firstcoastresults.com/allergan. Please refer to the voting instructions on the WHITE Proxy Card. If you vote through the Internet, please do not return your WHITE Proxy Card by mail.

Vote in person by attending the Special Meeting. Written ballots will be distributed to shareholders who wish to vote in person at the Special Meeting. If you hold your shares through a bank, broker or other nominee, you must obtain a legal proxy from such custodian in order to vote in person at the Special Meeting.

If you hold your shares through a bank, broker or other nominee and you do not intend to vote in person at the Special Meeting, only such nominee can vote your shares, and only after receiving specific voting instructions from you. Please contact your bank, broker or nominee and instruct them to vote a WHITE Proxy Card **FOR** each of the Proposals thereon.

If PS Fund 1 receives WHITE Proxy Cards that have no explicit voting instructions, PS Fund 1 intends to vote such proxies **FOR** each of the Proposals thereon.

Pursuant to the WHITE Proxy Cards, we are requesting authority (i) to initiate and vote for the Proposals, (ii) to oppose and vote against any other matters which PS Fund 1 does not know, a reasonable time before the date of the Special Meeting, are to be presented at the Special Meeting, (iii) to adjourn or postpone the Special Meeting for any reason and (iv) to oppose and vote against any proposal to adjourn or postpone the Special Meeting.

If you have any questions, require assistance in voting your WHITE Proxy Card, or need additional copies of this Proxy Statement, please contact our proxy solicitor at:

D.F. King & Co., Inc.

48 Wall Street

New York, NY 10005

U.S. Toll-free: (800) 859-8511

Banks and brokers: (212) 269-5550

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SOLICITATION OF PROXIES FOR THE SPECIAL MEETING. In addition to delivering printed versions of this Proxy Statement and the WHITE Proxy Card to all shareholders by mail, this Proxy Statement and WHITE Proxy Card are also available on the Internet. You have the ability to access and print this Proxy Statement and the WHITE Proxy Card at http://www.advancingallergan.com. As a shareholder of Allergan, you may receive the Company s proxy statement with respect to the Special Meeting (the Company s Proxy Statement) and the accompanying proxy card. Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Please make certain that the latest dated proxy card you return is the WHITE Proxy Card.

THIS SOLICITATION OF PROXIES IS BEING MADE BY PS FUND 1, AND NOT ON BEHALF OF THE COMPANY OR THE BOARD.

YOUR VOTE IS IMPORTANT TO US, NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN. WE URGE YOU TO VOTE **FOR** THE PROPOSALS BY COMPLETING, SIGNING, DATING AND RETURNING THE ENCLOSED WHITE PROXY CARD. YOU MAY ALSO VOTE BY TELEPHONE USING THE TOLL-FREE NUMBER ON THE WHITE PROXY CARD OR VIA THE INTERNET USING THE URL PROVIDED ON THE WHITE PROXY CARD.

BACKGROUND AND PAST CONTACTS

On September 10, 2012, J. Michael Pearson, Valeant s Chairman of the Board and Chief Executive Officer, spoke to David Pyott, Allergan s Chairman of the Board, President and Chief Executive Officer, about possibly combining the two companies. Mr. Pyott informed Mr. Pearson that he would discuss the possibility with the Board.

On September 25, 2012, Mr. Pyott called Mr. Pearson and indicated that he had spoken with the Board about a possible business combination with Valeant, and Allergan was not interested in a transaction at that time. As part of its general review of strategic opportunities, Valeant s management continued to review numerous transaction alternatives with various pharmaceutical businesses and assets, including, from time to time, Allergan.

In September of 2013, Pershing Square hired William F. Doyle as a Senior Advisor.

On January 14, 2014, Mr. Doyle, a senior advisor at Pershing Square, spoke with Mr. Pearson, at a health care conference. They discussed Mr. Doyle s work with Pershing Square and it was suggested that they have a subsequent discussion regarding the potential of Valeant and Pershing Square jointly engaging in merger and acquisition transactions. On January 31, 2014, Messrs. Pearson and Doyle had a follow-up meeting in which they exchanged public information about Valeant and Pershing Square. Messrs. Doyle and Pearson did not specifically discuss Allergan at either meeting.

On February 4, 2014, Mr. Pearson and G. Mason Morfit, then a director of Valeant, met with Mr. Doyle and William A. Ackman, the Chief Executive Officer of Pershing Square. They primarily discussed Valeant and Valeant s business model. They also discussed what Pershing Square could do to encourage large public pharmaceutical companies to create more value for their stockholders, including by entering into different types of transactions with Valeant, though the structure that Valeant eventually used in connection with its offer for Allergan was not specifically discussed. Allergan was one of several companies mentioned, but was not discussed in detail.

On or around February 6, 2014, Mr. Ackman and Mr. Pearson had a telephone call in which they discussed, conceptually, a potential transaction structure in which Valeant would identify a target and disclose it confidentially to Pershing Square, after which Pershing Square could decide whether it was interested in working with Valeant with respect to such target and, if it was not, Pershing Square would agree not to make purchases of securities in such target. No specific targets were discussed on the telephone call. If Pershing Square decided that it was interested in working with Valeant with respect to a particular target identified by Valeant at a later date, then Pershing Square would conduct independent due diligence on the target, confirm its interest in working with Valeant to pursue a potential combination of Valeant and the target, and proceed to develop a strategy to purchase equity in the target. Around the same time, Mr. Pearson and Mr. Pyott agreed to meet the following weekend to follow up on their September 2012 discussions regarding the possibility of combining the two companies.

On February 7, 2014, Sullivan & Cromwell LLP (Sullivan & Cromwell), Valeant s counsel, sent Pershing Square and Kirkland & Ellis LLP (Kirkland & Ellis), Pershing Square s counsel, a draft confidentiality agreement that did not disclose the identity of Allergan. Between February 7, 2014 and February 9, 2014, representatives of Sullivan & Cromwell and Kirkland & Ellis exchanged drafts of and negotiated the confidentiality agreement.

On February 9, 2014, Valeant and Pershing Square entered into the confidentiality agreement, after which, Mr. Pearson called Mr. Ackman by telephone and informed him of Valeant s interest in a potential transaction with Allergan. Later that day, the board of directors of Valeant (the Valeant Board), met telephonically and discussed, among other things, pursuing the acquisition of Allergan and doing so with Pershing Square.

On February 10, 2014, in connection with Allergan senior management s meetings with analysts, Sanford B. Bernstein & Co. published a report of its discussions with Mr. Pyott, reporting that an acquisition of Allergan by Valeant was not a good fit and shareholders would hesitate to take Valeant paper. That same day, Bank of America Merrill Lynch analyst Gregg Gilbert issued a note stating that Allergan would not be interested in a transaction with Valeant.

On February 11, 2014, Pershing Square formed a new Delaware limited liability company, PS Fund 1, and Pershing Square, L.P., Pershing Square II, L.P., Pershing Square International, Ltd. and Pershing Square Holdings, Ltd (collectively, the Pershing Square Funds), which are investment funds managed by Pershing Square, entered into the original limited liability company agreement for PS Fund 1.

On February 13, 2014, representatives of Valeant and Pershing Square met to discuss a potential transaction involving Allergan. Representatives of Sullivan & Cromwell and Kirkland & Ellis also attended. Later that day, Sullivan & Cromwell sent Kirkland & Ellis a draft of an amended confidentiality agreement. Between February 13, 2014 and February 20, 2014, representatives of Sullivan & Cromwell and Kirkland & Ellis exchanged drafts of and negotiated the amended confidentiality agreement. Over that time, the parties negotiated to expand the categories of information covered by the confidentiality agreement from including the identity of Allergan, the terms of the confidentiality agreement and information about the potential transaction only to also include confidential information about Valeant in connection with Pershing Square s due diligence investigation on Valeant.

As a result of Mr. Pyott s published statements to analysts, on February 14, 2014, the planned meeting between Messrs. Pearson and Pyott was cancelled.

On February 20, 2014, Valeant and Pershing Square entered into the amended confidentiality agreement, dated as of February 9, 2014. That same day, Kirkland & Ellis sent Sullivan & Cromwell a draft letter agreement related to the purchase of equity in Allergan. Between February 20, 2014 and February 25, 2014, representatives of Valeant, Pershing Square and their respective counsel exchanged drafts of and negotiated the letter agreement. Over that time, the parties negotiated the terms and conditions upon which PS Fund 1 would purchase Allergan equity securities, including the $75.9 million limit on the number of shares of Allergan common stock that could be purchased for Valeant s account and the manner in which such shares and profit and loss would be allocated to Valeant; the timing of Valeant s contribution to PS Fund 1 upon notice from Pershing Square that PS Fund 1 had crossed the 4% ownership level; the flexibility that Valeant would retain through the addition of Valeant s right to approve purchases in excess of 5%; the extent to which Valeant would consult with Pershing Square regarding a potential acquisition of Allergan; the terms and conditions upon which Valeant could elect to cause Pershing Square to purchase $400 million of Valeant common shares immediately prior to the consummation of an acquisition of Allergan; the value of the Valeant common shares that Pershing Square would hold following consummation and the related holding period; and the events upon which PS Fund 1 would be dissolved.

During this same time, Valeant provided Pershing Square with operational information, including detailed product and segment sales, profit and loss, as well as budget and other financial information relating to Valeant s

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historical 2013 business performance, 2014 year-to-date business performance and 2014 outlook. Because the historical information provided to Pershing Square has subsequently been reflected in Valeant s quarterly results, and the forecast information provided to Pershing Square was consistent with Valeant s published guidance at the time, but has since been superseded by Valeant s current guidance, Valeant believes that such information would not be material to Allergan shareholders and has not made public disclosure of the details of such information.

On February 21, 2014, the Valeant Board met in Toronto and discussed a potential transaction involving Allergan. Messrs. Ackman and Doyle attended a portion of the meeting, during which, among other things, Pershing Square s role in a potential transaction was discussed.

On February 25, 2014, Pershing Square and Valeant entered into an agreement (the Letter Agreement) pursuant to which they agreed that a joint venture entity, PS Fund 1, would acquire shares of Company Common Stock and derivative instruments referencing Company Common Stock. Pursuant to the Letter Agreement, the parties thereto agreed, among other things, that:

Valeant would not, while Valeant, Pershing Square and/or PS Fund 1 may be deemed a group, acquire beneficial ownership of Allergan equity, except in a business combination transaction with Allergan or as a result of transactions by Pershing Square, PS Fund 1 or any of their respective affiliates;

PS Fund 1 would dissolve following the earliest to occur of several events, including the consummation of a business combination transaction with Allergan or at such time that Valeant informs Pershing Square or Allergan that it is no longer interested in pursuing a business combination transaction with Allergan;

Income, gain and loss on $75.9 million in value of shares of Company Common Stock purchased by PS Fund 1 would be allocated to Valeant and the remaining net profit realized by PS Fund 1 would be allocated to funds advised by Pershing Square, except that Valeant would have a right to 15% of the net profits otherwise allocable to funds advised by Pershing Square if, before dissolution and at a time when a Valeant business combination proposal for Allergan is outstanding, a proposal for a third party business combination with Allergan is outstanding or made;

Valeant would consult with Pershing Square before making any material decisions relating to a business combination with Allergan;

Pershing Square would direct the management of PS Fund 1 (including the manner and timing of purchases and sales of Allergan equity) and would generally decide how PS Fund 1 votes any securities it owns, except that until the Termination Time (as defined in the Letter Agreement) PS Fund 1 would vote all of its shares of Company Common Stock in favor of a proposal by Valeant to acquire Allergan and other proposals supported by Valeant and against proposals reasonably likely to impair the ability of Valeant to consummate a business combination with Allergan, and, subject to limited exceptions, would not sell or otherwise reduce its economic ownership in Allergan equity;

At the election of Valeant, immediately prior to consummation of a Valeant business combination with Allergan, Pershing Square would purchase, for $400 million, Valeant common shares at a per share price reflecting a 15% discount to the then current market price;

If Valeant and Allergan consummate a business combination transaction that permits shareholders of Allergan to elect to receive Valeant common shares, Pershing Square would cause PS Fund 1 to elect to receive Valeant common shares for all shares of Company Common Stock over which it controls that election; and

If Valeant and Allergan consummate a business combination transaction, Pershing Square would, on the date of consummation, hold Valeant common shares with a then current value of at least $1.5 billion and, for a period of at least one year after that consummation, it will not sell Valeant common shares unless after giving effect to the sale it continues to own at least $1.5 billion in value of Valeant common shares (and during that one year period it would not hedge its investment in that minimum number of shares).

Also on February 25, 2014, PS Fund 1 began acquiring securities of Allergan. Following the acquisition by PS Fund 1 of 597,431 shares of Company Common Stock, Valeant contributed $75.9 million to PS Fund 1 in respect of such shares. The Pershing Square Funds thereafter contributed to PS Fund 1 the remainder of the funds needed to fund the acquisition of securities of, and derivatives referencing, the Company. Between February 25 and April 21, 2014, representatives of Valeant and Pershing Square and their counsel participated in at least weekly phone calls to update Valeant on PS Fund 1 s trading.

On February 26, 2014, Sullivan & Cromwell sent Pershing Square and Kirkland & Ellis a draft of an amended and restated limited liability company agreement for PS Fund 1, including a Valeant entity as a member, and generally reflecting the terms of the Letter Agreement. Between February 25, 2014 and April 3, 2014, representatives of Sullivan & Cromwell and Kirkland & Ellis exchanged drafts of and negotiated the amended and restated limited liability company agreement of PS Fund 1.

On March 11, 2014 and March 12, 2014, the Valeant Board met and discussed various matters, including a potential transaction involving Allergan.

On March 17, 2014, representatives of Valeant and Pershing Square met to discuss the terms of a potential transaction with Allergan and to continue Pershing Square s due diligence of Valeant s business which also involved visits to certain Valeant operations and other oral and documentary due diligence.

On April 1, 2014, representatives of Valeant and Pershing Square met again to discuss Valeant s and Allergan s operations and the process for accomplishing the proposed transaction.

On April 3, 2014, Valeant Pharmaceuticals International (Valeant USA), Pershing Square and each of the Pershing Square Funds entered into the amended and restated limited liability company agreement of PS Fund 1, dated as of April 3, 2014, which generally reflected the terms of the Letter Agreement.

On April 7, 2014, the Valeant Board held a meeting in Toronto and discussed, among other things, pursuing an acquisition of Allergan and doing so with Pershing Square.

On April 8, 2014, PS Fund 1 reached beneficial ownership of 4.99% of Allergan s outstanding stock and, as required by the Letter Agreement, stopped purchasing equity in Allergan pending Valeant approval to cross the 5% threshold. On April 10, 2014, Valeant provided approval for PS Fund 1 to purchase equity derivatives referencing Allergan that would result in PS Fund 1 beneficially owning more than 5% of Allergan s outstanding stock.

On April 11, 2014, PS Fund 1 crossed the 5% Schedule 13D beneficial ownership threshold and began a rapid accumulation program. By April 21, 2014, PS Fund 1 had acquired beneficial ownership of approximately 9.7% of the outstanding shares of Company Common Stock.

Between April 13, 2014 and April 21, 2014, representatives of Valeant, Pershing Square and their advisors met and discussed the terms of Valeant s initial proposal and their investor presentations in support of the proposal.

On April 21, 2014, Pershing Square and Valeant each filed a Schedule 13D disclosing their beneficial ownership of shares in Company Common Stock. Pershing Square s Schedule 13D disclosed that Pershing Square had beneficially acquired for the account of PS Fund 1 an aggregate of 28,878,538 shares of Company Common Stock for total consideration of $3.217 billion, which had been contributed by the Pershing Square Funds and by Valeant USA pursuant to the Letter Agreement. That same evening, the Valeant Board met telephonically to determine whether to proceed with a proposal to acquire Allergan, and after deciding to do so, the appropriate terms of Valeant s proposal. The Valeant Board approved the terms of the proposal and authorized Valeant to deliver a merger proposal letter to Allergan the next morning.

On April 22, 2014, Valeant made a public proposal to Mr. Pyott and the Board to acquire Allergan for a price comprised of $48.30 in cash and 0.83 Valeant common shares for each share of Company Common Stock based on the fully diluted number of shares of Company Common Stock outstanding. Pursuant to the terms of the proposal, Allergan shareholders would receive a substantial premium over Allergan s unaffected stock price of $116.63 on April 10, 2014 (the day before Pershing Square began its rapid accumulation program) and would own approximately 43% of the combined company.

Later that day, Valeant and Pershing Square held an investor conference in which representatives of Valeant and Pershing Square delivered presentations describing the benefits of Valeant s proposal. Beginning on April 22, 2014, representatives of Valeant met with Allergan stockholders and Valeant shareholders to discuss Valeant s proposal.

On April 22, 2014, Allergan issued a press release in which it confirmed receipt of the proposal from Valeant and stated that the Board, in consultation with its financial and legal advisors, would carefully review and consider the proposal and pursue the course of action that it believes is in the best interests of the Company s shareholders. The Company also adopted a shareholder rights plan (commonly referred to as a Poison Pill), effective April 22, 2014.

On April 23, 2014, Mr. Ackman emailed Matthew Maletta, Allergan s Associate General Counsel and Secretary, to request an opportunity to speak with Michael R. Gallagher, the lead independent director of the Board, and Mr. Pearson spoke briefly with Mr. Pyott by telephone.

Mr. Maletta arranged a telephone call between Mr. Ackman and Mr. Gallagher, but later noted that Mr. Pyott and Jim Hindman, SVP of Investor Relations for Allergan, would be joining Mr. Gallagher on the call. While Mr. Ackman welcomed the opportunity to have a discussion with Mr. Pyott on April 24, 2014, Mr. Ackman s purpose for the call was to speak with Mr. Gallagher, without management present, as the lead director who Mr. Ackman expected, based on Allergan s proxy disclosures, to be the Board s independent representative for shareholders in considering the Valeant proposal.

During the April 24, 2014 call, Mr. Ackman requested the opportunity to speak with Mr. Gallagher in executive session, which Mr. Gallagher rejected. Mr. Ackman then asked for Mr. Gallagher s contact information so Mr. Ackman could contact Mr. Gallagher directly in the future. Mr. Gallagher was unwilling to provide Mr. Ackman with his contact information because Mr. Gallagher explained that he did not believe it was appropriate to speak to Mr. Ackman alone. Mr. Ackman then offered to speak with Mr. Gallagher with the Board s counsel present on the call, and Mr. Gallagher also refused this request.

On May 1, 2014, early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, was granted with respect to the acquisition by PS Fund 1 of certain shares of Company Common Stock. Later that day, PS Fund 1 exercised its American-style call options to purchase Company Common Stock and also paid the applicable forward purchase price under the forward purchase contracts to purchase Company Common Stock. As a result, PS Fund 1 became Allergan s largest shareholder. In total, Pershing Square contributed approximately $3.624 billion to PS Fund 1 to fund the acquisition of Company Common Stock through the purchase and ultimate settlement of derivative instruments.

On May 5, 2014, in response to news reports stating that the Company had begun to approach alternative business combination partners, Mr. Ackman sent a letter to Mr. Gallagher, encouraging the Board to begin discussions with Valeant regarding its proposal. Among other things, Mr. Ackman s letter highlighted Pershing Square s belief that (i) the strength of Allergan s negotiating position with Valeant comes, in part, from the potential that Allergan may negotiate a more valuable transaction with a large global pharmaceutical company, (ii) the list of global pharmaceutical companies with the financial capacity to buy Allergan is limited, and even more limited when factors such as strategic fit and antitrust risk are considered, and (iii) unless Allergan were to identify and engage with a large global pharmaceutical company for a transaction in the very near future, the

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odds of a transaction with such a counterparty are likely to decrease over time, the market and Valeant will likely learn of the lack of interest from alternative companies, and Allergan s negotiating leverage with Valeant will decline. Indeed, in the days that followed such letter, news outlets reported that several global pharmaceutical companies, including Sanofi, Johnson & Johnson and Shire, had been contacted by Allergan and had declined to engage in a business combination transaction.

On May 8, 2014, Valeant reported its First Quarter 2014 Financial Results. On its earnings call with analysts, Howard B. Schiller, Valeant s Executive Vice President and Chief Financial Officer, discussed Valeant s meetings with Allergan stockholders and Valeant shareholders. Mr. Schiller announced that, while Valeant was waiting for a response to its proposal from the Board, Valeant and Pershing Square would commence a referendum to determine whether Allergan stockholders are supportive of a transaction with Valeant, although the referendum proposal was ultimately commenced only by Pershing Square.

On May 12, 2014, Mr. Pyott sent a letter to Mr. Pearson stating that the Board had rejected Valeant s proposal.

Later on May 12, 2014, Mr. Ackman sent a letter (the 220 Request) to Mr. Maletta, pursuant to Section 220 of the DGCL requesting a complete record or list of the holders of Company Common Stock.

On May 13, 2014, Valeant issued a public letter to Allergan stockholders in response to Allergan s rejection of the proposal. Valeant announced that it would hold a webcast on May 28, 2014 to discuss why it believed that its proposal offered substantially superior value to Allergan s standalone strategy. Valeant also announced that, based on feedback from Allergan s stockholders, Valeant planned to improve its proposal during the May 28 webcast in order to demonstrate its commitment to complete the transaction.

Also on May 13, 2014, Pershing Square filed a preliminary proxy statement with the U.S. Securities and Exchange Commission (the SEC) announcing a meeting of Allergan stockholders in order to conduct a stockholder referendum in which stockholders would be given the opportunity to vote on a non-binding resolution (with the same terms as Proposal 7 described in this Proxy Statement) to request that the Board promptly engage in good faith discussions with Valeant regarding Valeant s proposal.

Also on May 13, 2014, Mr. Ackman spoke briefly by telephone with Mr. Pyott. Mr. Pyott only afforded 15 minutes for the call despite Mr. Ackman s understanding that Mr. Pyott had spent considerably more time with other Allergan shareholders and despite the fact that Pershing Square is Allergan s largest shareholder. During the call, Mr. Ackman asked several questions concerning Allergan s rejection of the Valeant proposal, and why the Board did not meet with Valeant before doing so. Mr. Pyott would not answer these questions, but simply told Mr. Ackman that the Valeant proposal substantially undervalued Allergan. At the end of the call, Mr. Ackman again requested the opportunity to meet with Allergan s independent directors. Mr. Pyott said that he was the only member of the Board that was authorized to speak with shareholders and rejected Mr. Ackman s request to meet with the full Board.

On May 19, 2014, Mr. Ackman sent a letter to Mr. Gallagher, the designated point of contact for corporate governance issues relating to Allergan. Mr. Ackman stated that, because Mr. Pyott stood to lose his leadership position if Valeant s proposal were consummated, Mr. Pyott would be unable to engage in unconflicted discussions with Valeant and Pershing Square regarding that proposal. Mr. Ackman also expressed his displeasure that Allergan had rejected Valeant s proposal without conducting any private due diligence.

Later on May 19, 2014, Mr. Gallagher sent a letter to Mr. Ackman in which he confirmed receipt of Mr. Ackman s prior letter and stated his disagreement with Mr. Ackman s assertion regarding Mr. Pyott s disabling conflict of interest in respect of Valeant s proposal.

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Also on May 19, 2014, representatives of Latham & Watkins LLP (Latham), on behalf of Allergan, sent a letter to representatives of Kirkland & Ellis, in response to the 220 Request, in which Latham stated that Allergan would make available to Pershing Square and certain of its affiliates such information set forth in the 220 Request that was currently available to Allergan.

On May 20, 2014, Valeant held its annual stockholder meeting. After the official business of the meeting concluded, Mr. Pearson made a presentation to Valeant shareholders during which he addressed, among other things, Valeant s proposal and Valeant s plans for its May 28 webcast. On May 20, 2014 and May 21, 2014, the Valeant Board met and discussed various matters, including the Allergan transaction.

On May 21, 2014, Mr. Ackman sent a letter to Mr. Gallagher confirming receipt of Mr. Gallagher s May 19 letter and stating that Pershing Square was encouraged to hear that the Board had an open mind and would show a high degree of professionalism in its review of Valeant s proposal, but that no effort had been made by the Board to reach out to Pershing Square or sit down with Valeant to discuss its proposal. Furthermore, Mr. Ackman noted Allergan s negative characterization of Valeant s proposal despite the immediate and long-term value that Valeant s proposal represented for Allergan s shareholders.

Later on May 21, 2014, Mr. Gallagher sent a letter to Mr. Ackman confirming receipt of Mr. Ackman s prior letter and stating that the Board would carefully review any revised offer announced by Valeant.

On May 27, 2014, Allergan filed a presentation with the SEC in which it criticized Valeant s business model and management team despite the fact that Allergan had failed to conduct any private due diligence on Valeant.

Later on May 27, 2014, representatives of Kirkland & Ellis sent a letter to representatives of Latham requesting that Latham produce those documents set forth in the 220 Request which were currently available to Allergan and to provide a list of those documents which Allergan would not be able to produce.

On May 28, 2014, executives of Valeant held an investor presentation in New York City during which Valeant publicly announced an improved proposal and Valeant s willingness to sit down with the Board and Allergan management to engage in meaningful discussions regarding that proposal. Representatives of Valeant also presented on Valeant s business model and refuted Allergan s claims from its May 27 press release and presentation.

Also on May 28, 2014, Mr. Pearson sent a letter to Mr. Pyott outlining the improved proposal, which increased the cash component of Valeant s proposal by $10.00 per share of Company Common Stock to $58.30, and included a CVR tied to sales of Allergan s DARPin® representing an additional $25.00 of value per share of Company Common Stock. In addition, Valeant committed to invest up to $400 million to develop DARPin® and pay to Allergan shareholders 40% of the net sales of DARPin® after recovery of Valeant shareholders investment in DARPin® development expenses.

On May 28, 2014, Allergan confirmed receipt of Valeant s revised proposal. Allergan stated that the Board would carefully review and consider the revised proposal and pursue the course of action that the Board believes is in the best interests of Allergan and all of its stockholders. However, Allergan s May 27 press release and presentation suggested that Allergan would not be willing to negotiate with Valeant.

On May 29, 2014, at the Sanford C. Bernstein Strategic Decisions Conference in New York City, numerous large Allergan shareholders expressed to Mr. Ackman their support of a merger between Allergan and Valeant. These investors suggested that, if Valeant raised its offer to $180 in value per share of Company Common Stock based on Valeant s current trading price, they would be supportive of a transaction.

On the morning of May 30, 2014, Mr. Ackman spoke by telephone with Mr. Pearson and conveyed to Mr. Pearson the substance of his conversations with other Allergan shareholders from the day before.

Mr. Ackman indicated that, if Valeant would raise its bid for Allergan so that its value (based on then current prices) approximated $180 per share of Company Common Stock, Pershing Square would accept a fixed exchange ratio of 1.22659 based on Allergan and Valeant closing prices on May 29, 2014. After considering Pershing Square s proposal, Mr. Pearson contacted Mr. Ackman and said that he would recommend to the Valeant Board that Valeant raise its offer for Allergan on the terms discussed with Mr. Ackman, which the Valeant Board approved at a telephone meeting later that day.

Later in the afternoon on May 30, 2014, Valeant announced that it was making a revised proposal for Allergan under which each Allergan share would be exchanged for $72.00 in cash and 0.83 Valeant common shares, based on the fully diluted number of Allergan shares outstanding. The revised proposal also referenced Valeant s continued willingness to include the CVR if Allergan were to engage in negotiations with Valeant to work out the exact terms. Under the revised proposal, Allergan stockholders would continue to be able to elect cash and/or Valeant stock, subject to proration. Pershing Square also separately agreed to exchange its Allergan shares for Valeant shares at a 1.22659 exchange ratio, based on closing stock prices of Allergan and Valeant on May 29, 2014, and receive no cash consideration.

Also on May 30, 2014, Mr. Pearson sent a letter to Mr. Pyott outlining the revised proposal to raise its offer for Allergan.

Allergan confirmed the receipt of Valeant s revised offer on May 30, 2014. Allergan stated that the Board would carefully review and consider the revised proposal and pursue the course of action that the Board believes is in the best interests of Allergan and all of its stockholders and referenced its position set forth in its May 27 presentation. Allergan s May 27 press release and presentation indicated that Allergan would likely not be willing to negotiate with Valeant.

On June 2, 2014, Valeant held an investor meeting and webcast to discuss its revised offer and announce its intention to commence an exchange offer on the terms of its revised offer. On the same day, Pershing Square filed a preliminary solicitation statement in respect of the Proposals. Pershing Square also indicated that it would no longer pursue its previously announced stockholder referendum in light of its plans to call a special meeting and in response to feedback Pershing Square received from other Allergan shareholders who urged Pershing Square to focus on calling a special meeting due to the more formal nature of the Special Meeting and the fact that certain proposals to be voted on at the Special Meeting would be binding on the Company.

On June 6, 2014, Pershing Square sent a letter (the June 6 Letter) to Arnold A. Pinkston, Executive Vice President, General Counsel and Assistant Secretary of Allergan, in which it asked Allergan to confirm, among other things, that actions taken in support of the PS Fund 1 solicitation and any subsequent application to the Delaware Court of Chancery that might be filed seeking an order requiring Allergan to hold a meeting for the election of directors would not result in Pershing Square being deemed an Acquiring Person under Allergan s Poison Pill.

On June 10, 2014, Allergan announced that Mr. Pyott had sent a letter to Mr. Pearson, stating that the Board had rejected Valeant s proposal.

On June 11, 2014, Pershing Square received a letter from Allergan s counsel in which it declined to provide the confirmation requested in the June 6 Letter, other than to note that the mere solicitation and receipt of one or more revocable proxies by Pershing Square from other Allergan stockholders for the purpose of requesting a special meeting would not in and of itself result in Pershing Square being deemed an Acquiring Person under Allergan s Poison Pill.

On June 12, 2014, PS Fund 1 commenced an action in the Delaware Court of Chancery seeking declaratory and other equitable relief, including a declaration that (i) the actions by PS Fund 1 and other Allergan stockholders solely for the purpose of exercising the right to call a special meeting in compliance with the requirements of the Bylaws will not trigger Allergan s Poison Pill, or alternatively (ii) the relevant provisions of

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Allergan s Poison Pill are invalid as a matter of law because they are inconsistent with the right to call a special meeting that is granted to stockholders in the Charter (the Poison Pill Lawsuit). On the same day, PS Fund 1 filed a motion seeking to expedite the resolution of the litigation. On June 19, 2014, the Delaware Court of Chancery granted the motion to expedite and set a hearing date for July 7, 2014.

On June 18, 2014, Valeant commenced an exchange offer (the Exchange Offer) pursuant to which Valeant is offering to exchange, for each share of Company Common Stock, at the election of the applicable Allergan shareholder:

$72.00 in cash and 0.83 common shares of Valeant (the Standard Election Consideration);

an amount in cash equal to the implied value of the Standard Election Consideration (based on the average of the closing prices of common shares of Valeant as quoted on the New York Stock Exchange (the NYSE) on each of the five NYSE trading days ending on the 10th business day preceding the date of expiration of the exchange offer); or

a number of Valeant common shares having a value equal to the implied value of the Standard Election Consideration (based on the average of the closing prices of Valeant common shares as quoted on the NYSE on each of the five NYSE trading days ending on the 10th business day preceding the date of expiration of the exchange offer),

subject in each case to the election and proration procedures described in the offer to exchange and in the related letter of election and transmittal.

On June 23, 2014, Allergan filed a Schedule 14D-9 with the SEC in which it recommended that Allergan shareholders not tender their shares of Company Common Stock in the Exchange Offer.

On June 24, 2014, Allergan issued a press release stating that its board of directors rejected Valeant s offer.

On June 24, 2014, Valeant filed a proxy statement on Schedule 14A for the calling of a special meeting of Valeant shareholders to approve the issuance of Valeant common shares in connection with an acquisition of Allergan.

On June 27, 2014, Pershing Square issued a press release announcing that it had entered into a settlement with Allergan resolving the Poison Pill Lawsuit and confirming that Pershing Square s actions in connection with the solicitation and receipt of revocable proxies to call a Special Meeting does not trigger Allergan s Poison Pill. The court order effecting the settlement was signed on June 28, 2014 and filed with the SEC by Pershing Square on June 30, 2014.

On July 7, 2014, Pershing Square first announced its slate of qualified, independent nominees for the Board and identified the sitting Allergan directors that it proposes to remove at the Special Meeting. The biographies of the nominees are set forth in the section of this Proxy Statement titled Information Regarding the Nominees.

On July 11, 2014, PS Fund 1 filed definitive solicitation materials with the SEC to solicit support for the calling of the Special Meeting.

On July 16, 2014, Pershing Square sent an open letter to the Board, criticizing the incumbent directors for their unwillingness to engage in a dialogue with Valeant. The July 16 letter also set forth Pershing Square s belief that the Company s attacks on the value of Valeant s currency were unsubstantiated and that there existed a disconnect between

Mr. Pyott criticizing Valeant s offer as inadequate while having recently sold shares of Company Common Stock at prices well below that of Valeant s offer.

On July 17, 2014, Pershing Square hosted a webcast in which it highlighted some of its beliefs regarding governance failings of Allergan, explained their doubts that Allergan could create superior shareholder value as a stand-alone entity and shared their views on the benefits of an Allergan-Valeant combination.

On July 21, 2014, Valeant and Pershing Square submitted a complaint letter with the SEC regarding what we believe to be attempts to mislead investors by Allergan and to negatively influence the market price of Valeant s common shares by continuing to make what we believe to be false and misleading statements regarding Valeant s business despite Valeant s public statements correcting this misinformation. A similar complaint was filed with the Autorité des marchés financiers in Québec on July 23, 2014.

On August 1, 2014, Allergan filed a lawsuit in the United States District Court for the Central District of California alleging that Valeant, Pershing Square and Mr. Ackman violated various federal securities laws (the Securities Lawsuit).

On the same day, Valeant and Pershing Square issued a joint press release in which they responded to the lawsuit, giving their firmly held view that the claims are baseless and Allergan s true purpose in bringing the litigation is to attempt to interfere with shareholders efforts to call a special meeting, and expressing confidence that this attempt to delay or avoid the special meeting will not succeed.

On August 8, 2014, Pershing Square filed its answer in response to Allergan s complaint in the Securities Lawsuit.

On August 21, 2014, the United States District Court for the Central District of California denied Allergan s motion to expedite proceedings in connection with its request for declaratory relief in the Securities Lawsuit.

On August 22, 2014, Pershing Square delivered to Allergan Special Meeting requests in excess of the Requisite Percentage necessary to cause Allergan to call the Special Meeting pursuant to the Charter and Bylaws.

On the same day, Pershing Square, PS Fund 1 and Valeant filed a lawsuit against Allergan in the Delaware Court of Chancery, challenging the bylaw requirements related to the calling of a special meeting of shareholders and seeking declaratory relief to require Allergan to schedule the Special Meeting within a reasonable period of time and before Allergan executes, consummates or reaches any binding agreement or understanding as to an alternative transaction (the Bylaws Litigation).

On August 26, 2014, Allergan announced that it had established a record date for shareholders entitled to vote at the Special Meeting of October 27, 2014.

On the same day, Allergan asked the United States District Court for the Central District of California to set an expedited schedule for discovery and filed a motion for a preliminary injunction against Valeant, Pershing Square and Mr. Ackman in the federal securities litigation.

Between September 3, 2014 and September 12, 2014, Pershing Square submitted written requests from additional Allergan shareholders which, in combination with the written requests submitted on August 22, 2014, represent approximately 35.68% of the outstanding common stock of Allergan. On September 4, 2014, Allergan and its independent inspector confirmed that Pershing Square had delivered requests that comply as to form with Allergan s bylaws from stockholders owning more than 25% of Allergan common stock.

On September 9, 2014, Mr. Ackman sent an open letter to the Board, highlighting that six of Allergan s top ten shareholders had submitted requests for a special meeting. Additionally, Mr. Ackman criticized the Board s incumbent directors for what he believed to be false and misleading attacks on Valeant s business and for what he believed to be baseless claims against Mr. Ackman, Pershing Square and Valeant in California.

On September 15, 2014, Pershing Square, PS Fund 1 and Valeant entered into an agreement with Allergan settling the Bylaws Litigation and confirming that the Special Meeting will be held on December 18, 2014, the Record Date will be set for the close of business on October 30, 2014, and that Allergan will take no action to delay, postpone or not hold the Special Meeting on December 18, 2014 or seek to invalidate any requests thereof. On the same day, Allergan issued a press release communicating the terms of the settlement.

PROPOSALS FOR THE SPECIAL MEETING

PS Fund 1 is soliciting your proxy for the Special Meeting in support of the following Proposals:

> ***Proposal 1*:** **RESOLVED, that the following six members of the current Board, Deborah Dunsire, M.D., Michael R. Gallagher, Trevor M. Jones, Ph.D., Louis J. Lavigne, Jr., Russell T. Ray and Henri A. Termeer, as well as any other person or persons elected or appointed to the Board without shareholder approval after the Company s 2014 annual meeting and up to and including the date of the Special Meeting (other than any Group Nominee set forth herein), be and hereby are removed from office as directors of the Company.**

Article 7 of the Charter, along with Section 141(k) of the DGCL, provides that any director or the entire Board may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of the Company s directors.

If Proposal 1 passes, only three directors will remain on the Board. We are seeking to remove Messrs. Deborah Dunsire, M.D., Michael R. Gallagher, Trevor M. Jones, Ph.D., Louis J. Lavigne, Jr., Russell T. Ray and Henri A. Termeer because we believe that they have not acted in the best interests of shareholders with respect to Valeant s proposal to acquire the Company as evidenced by the Board s failure to engage in good faith discussions with Valeant regarding its proposal to merge with Allergan, its adoption of a poison pill in the face of such proposal and its designation of Mr. Pyott as the only member of the Board authorized to speak with shareholders.

We believe that the incumbent Board is disserving you. On April 22, 2014, Valeant first made an offer to the Board proposing a business combination of Allergan and Valeant. On May 30, 2014, Valeant publicly announced a revised proposal to merge with Allergan pursuant to which each share of Company Common Stock would be exchanged for $72.00 in cash and 0.83 shares of Valeant common stock (and has indicated it remains willing to add a CVR relating to sales of Allergan s DARPin® product if Allergan were to engage in negotiations with Valeant to work out the exact terms of the CVR). From April 10, 2014 (the day before Pershing Square began its rapid accumulation program) to September 23, 2014 (the last business day prior to the filing of this Proxy Statement), the Company s stock price has increased by approximately 45%. Despite this, the Board has stubbornly refused to engage in discussions with Valeant regarding its proposal. In addition, Mr. Gallagher, Allergan s lead independent director (whose re-election at Allergan s 2014 annual meeting was recommended against by Institutional Shareholder Services (ISS)) has rejected Pershing Square s requests to discuss Valeant s proposal without management present. At the present time, Valeant s exchange offer cannot be consummated until the Board removes or renders inapplicable certain obstacles to the consummation of the exchange offer, such as the poison pill, which the Board could unilaterally eliminate. To date, ISS has not issued a recommendation on this Proposal 1 with respect to the removal of Allergan directors.

We have, in accordance with SEC requirements, provided shareholders with a way to vote for removal of less than all of the directors listed in the foregoing resolution by checking the FOR REMOVAL EXCEPT box on the WHITE Proxy Card and writing below that box the name(s) of the director(s) that the shareholder does not wish to remove.

A proxy marked WITHHOLD AUTHORITY for the removal of all of the directors or FOR REMOVAL EXCEPT with respect to any specific director will not be considered to have been voted for or against the removal of any such director.

We strongly urge you to vote ***FOR*** *Proposal 1 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

***Proposal 2*: RESOLVED, that the shareholders of Allergan hereby request that the Board elect or appoint the following individuals to serve as directors of the Company, regardless of whether Proposal 1 is passed: Betsy S. Atkins, Cathleen P. Black, Fredric N. Eshelman, Ph.D., Steven J. Shulman, David A. Wilson and John J. Zillmer (individually a Group Nominee and**

collectively, the Group Nominees); provided, however, that if at any time prior to the date of the Special Meeting one or more Group Nominees are no longer willing or, as a result of death or incapacity, able to serve as directors of the Company and a majority of the then-remaining Group Nominees select replacements, those replacements (rather than the individuals they replaced), along with the Group Nominees who have not been replaced, shall then be considered the Group Nominees for all purposes.

Pursuant to Article II, Section 6 of the Bylaws, such a proposal requesting that the Board elect or appoint such individuals as directors requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at such Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

Each Group Nominee named in this Proposal 2 has consented to be named in this Proxy Statement and to serve as a director of the Company, if elected. If the Group Nominees are elected, they intend to discharge their duties as directors of the Company consistent with all applicable legal requirements, including the general fiduciary obligations imposed upon corporate directors. Each of the Group Nominees is a highly experienced, independent member of the business community. We believe that the Group Nominees will act in your and Allergan s best interests. Although the Group Nominees have not made any commitment to us if elected other than that they will serve as a director and exercise their independent judgment in accordance with their fiduciary duties in all matters before the Board, we believe that the Group Nominees, if elected, are more likely than the incumbent Board, due to their independence from Allergan management, Valeant and Pershing Square (determined under the standards set forth in the New York Stock Exchange Listed Company Manual with respect to each of Allergan, Valeant and Pershing Square, as if, in the case of Valeant and Pershing Square, such standards related to Valeant and Pershing Square rather than Allergan). A vote for the Group Nominees is your message as the owners of Allergan that you are in favor of pursuing a possible acquisition of Allergan by Valeant in order to maximize the value of Allergan. The election of the Group Nominees to the Board will not preclude their consideration of any competing bids or proposals for the acquisition of Allergan.

If elected, each Group Nominee named in this Proposal 2 would serve as a director until the Company s annual meeting in 2015. This Proposal 2 is nonbinding in nature and thus the Board will be under no legal obligation to take any action with respect to the shareholders request to appoint new directors (which action is necessary to effect such request), no matter how many votes are cast in favor of this Proposal 2. Because shareholders have the right to elect directors, we believe that, upon removal of directors, the shareholders and not the remaining directors should be able to select replacements. Voting for Proposal 2 will send a message to the remaining directors as to the appropriate representatives of shareholders on the Board.

We have, in accordance with SEC requirements, provided shareholders with a way to vote for inclusion of less than all of the Group Nominees in the request contemplated by the foregoing resolution by checking the FOR ALL EXCEPT box on the WHITE Proxy Card and writing below that box the name(s) of the Group Nominee(s) that the shareholder does not wish to request the Board to elect or appoint.

A proxy marked WITHHOLD AUTHORITY with respect to all Group Nominees or FOR ALL EXCEPT with respect to any specific Group Nominee will not be considered to have been voted for or against the request that the Board elect or appoint such Group Nominee.

In the event that Proposal 1 passes and the above-named directors are removed from the Board creating six vacancies, but Proposal 2 does not pass or Proposal 2 passes but the Board refuses to implement the shareholders wishes and does not elect or appoint the Group Nominees, then pursuant to Article III, Section 5 of the Bylaws, Article 8 of the Charter and Section 223 of the DGCL, such vacancies may be filled by a majority vote of the then-remaining directors, even though less than a quorum.

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In the event that, at the time of filling any board vacancy, the directors then in office constitute less than a majority of the whole Board and those directors do not fill the vacancies with the Group Nominees, we intend to exercise our rights pursuant to Section 223(c) of the DGCL which provides that the Delaware Court of Chancery may summarily order an election to be held to fill any such vacancies or to replace the directors chosen by the directors then in office. For additional information on our rights under Section 223(c) of the DGCL, see the section of this Proxy Statement titled Information Regarding the Nominees.

We strongly urge you to vote ***FOR*** *Proposal 2 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 3**: RESOLVED, that Article II, Section 3 of the Bylaws be, and hereby is, amended to read as set forth in Section 3(A) of Exhibit E to the Solicitation Statement filed by PS Fund 1, LLC (PS Fund 1) on July 11, 2014 (the Solicitation Statement), in order to provide simplified mechanics for calling and determining the place, date and hour of any special meeting called at the request of the Company s shareholders.**

Pursuant to Article II, Section 6 of the Bylaws, the amendment of the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

In order to simplify the mechanics for calling a special meeting, we are proposing amendments to the Bylaws that would eliminate certain procedural and informational requirements for calling a special meeting which are set forth in the language marked as struck out in Article II, Section 3 of Exhibit E to the Solicitation Statement (and reproduced here as Exhibit A to this Proxy Statement) that were originally adopted at the time of the Company s 2013 annual meeting of shareholders. These requirements were summarized at the time of their adoption, in the Company s Proxy Statement on Schedule 14A, filed with the SEC on March 8, 2013, as follows:

no business may be conducted at the special meeting except as set forth in the Company s notice of meeting; no stockholder special meeting request may be made during the period commencing 90 days prior to the first anniversary of the date of the immediately preceding annual meeting and ending on the date of the final adjournment of the next annual meeting; a special meeting request cannot cover business substantially similar to what was covered at an annual or special meeting held within one year, subject to certain exceptions; a special meeting will not be held if similar business is to be covered at an annual or special meeting called by the Board but not yet held; and the requesting stockholder s notice must provide certain information regarding the business proposed to be conducted, and as to the stockholder giving notice and any person or entity acting in concert with the stockholder giving notice.

In the event that Proposal 3 passes, the Bylaw provisions quoted immediately above would be eliminated. We believe the elimination of these Bylaw provisions is an important step in improving the corporate governance of Allergan by streamlining the procedures by which shareholders may exercise their right to call a special meeting. We believe that the procedure requiring that written requests for a special meeting be made by the actual holders of record of 25% of the outstanding shares of Company Common Stock (as opposed to beneficial owners) is highly unusual. In addition, the time and cost burdens associated with collecting the level of information required to be provided (which is largely irrelevant to any legitimate concern Allergan may have) serves to deter participation by all but the largest stockholders as they will be the stockholders which may most easily comply given their existing legal departments and other resources. Those burdensome procedural and informational requirements include the obligation to provide extensive disclosure of each Proposing Person (as defined in the Bylaws) and can be difficult to interpret. Furthermore, requesting shareholders are required to make

representations, including that they intend to hold their shares through the date of the special meeting (failing which their requests are automatically revoked to the extent of any sale), and to update and supplement their information following submission of the written request. We believe that the cumulative effect of these Bylaw provisions is to make it substantially more difficult for shareholders to exercise the right to call a special meeting purportedly granted in the Company s Charter and Bylaws.

We strongly urge you to vote ***FOR*** *Proposal 3 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 4**: RESOLVED, that Article II, Section 3 of the Bylaws be, and hereby is, amended to add a new clause at the end (which shall be designated clause (B) if Proposal 3 above is passed and shall be designated clause (E) if Proposal 3 above is not passed) to read as set forth in Section 3(B) of Exhibit E to the Solicitation Statement, in order to provide mechanics for calling a special meeting if no directors or less than a majority of directors are then in office.**

Pursuant to Article II, Section 6 of the Bylaws, the amendment of the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

In the event that Proposal 1 passes and the above-named directors are removed from the Board creating six vacancies, but Proposal 2 does not pass or Proposal 2 passes but the Board refuses to implement the shareholders wishes and does not elect or appoint the Group Nominees, then, as discussed above, pursuant to Article III, Section 5 of the Bylaws, Article 8 of the Charter and Section 233(a) of the DGCL, such vacancies may be filled by a majority vote of the then-remaining directors, even though less than a quorum.

We are proposing amendments to the Bylaws that would facilitate the shareholders right to call a special meeting to elect the replacements of the removed directors in the event that, at the time of filling any board vacancy, the directors then in office constitute less than a majority of the whole Board, as contemplated by Section 223 of the DGCL. The text of the proposed amendment is reproduced as Exhibit A to this Proxy Statement. We believe that best practices would allow shareholders to replace directors removed by them and that shareholders should not be required to call another special meeting or wait until the following annual meeting to do so. We believe it is important for Allergan shareholders to send a strong message to the incumbent Board in this regard by insisting on shareholders concurrent right to fill vacancies.

We strongly urge you to vote ***FOR*** *Proposal 4 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 5: **RESOLVED, that Article II, Section 9 of the Bylaws be, and hereby is, amended to read as set forth in Section 9 of Exhibit E to the Solicitation Statement, in order to provide simplified mechanics for nominating directors or proposing business at any annual meeting.**

Pursuant to Article II, Section 6 of the Bylaws, the amendment of the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

In order to simplify the mechanics for nominating directors or proposing business at any annual meeting, we are proposing amendments to the Bylaws that would remove informational and procedural requirements for proposing business and nominating directors, which are set forth in the language marked as struck out in Article II, Section 9 of Exhibit E to the Solicitation Statement (and reproduced here as Exhibit A to this Proxy Statement), such as:

- the shareholder must provide detailed information regarding the business proposed to be conducted, as to the shareholder and any person or entity acting in concert with the shareholder, and as to each nominee, including the disclosure by the shareholder and each nominee of any Disclosable Interests (as defined in the Bylaws), which requirements require greater disclosure than that required by the federal proxy rules and Delaware law;

- the shareholder must make representations regarding its intention to hold its shares through the date of the meeting, and must appear in person or by qualified representative to present the matters at the meeting; and

- the requesting shareholder must update and supplement all such information as of the record date for the meeting and as of the date that is 10 business days prior to the meeting or any adjournment or postponement.

For reasons similar to those discussed under Proposal 3, we believe that simplifying these procedures is necessary to provide shareholders with meaningful rights to participate in the governance of the Company, consistent with the rights provided to shareholders in the Company s Charter.

We strongly urge you to vote ***FOR*** *Proposal 5 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 6**: RESOLVED, that, if Proposal 1 is passed, Article III, Section 2 of the Bylaws be, and hereby is, amended to read as set forth in Article III, Section 2 of Exhibit E to the Solicitation Statement, in order to fix the authorized number of directors of the Company at nine directors.**

Pursuant to Article II, Section 6 of the Bylaws, the amendment of the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present. According to Article 6 of the Charter, directors can only be elected at the annual meeting of shareholders.

If Proposal 1 is passed, and Proposal 2 passes and the Board implements the shareholders wishes and elects or appoints the Group Nominees, this Proposal 6 is designed to prevent the Board from taking other actions to nullify those actions, including by appointing to the Board several new directors affiliated with Company management. The text of the proposed amendment is reproduced as Exhibit A to this Proxy Statement. The approval of Proposal 6 is conditioned on the approval of Proposal 1.

We believe that, if Proposal 1 is passed and Proposal 2 passes, Allergan shareholders will be sending a message that they desire the Group Nominees to control the Board. However, if the incumbent Board expands the size of the Board, the desire of Allergan shareholders will be thwarted. For example, if the incumbent Board expands the size of the Board to 13, and the Board implements the shareholders wishes and elects or appoints the Group Nominees, the

Group Nominees elected will constitute six of the 13 directors on the Board and therefore will be unlikely to be able to effect a change in the direction of the Board. Regardless of the incumbent Board s motivation in so doing, we believe that any expansion of the Board would merely serve to disenfranchise you and delay your right to have a Board that advances your best interests.

We strongly urge you to vote ***FOR*** *Proposal 6 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 7**: RESOLVED, that any amendment to the Bylaws adopted without shareholder approval after the Company s 2014 annual meeting and up to and including the date of the Special Meeting that changes the Bylaws in any way from the version that was publicly filed with the SEC on March 26, 2014 and became effective as of May 9, 2014 (other than any amendment to the Bylaws set forth herein) be, and hereby are, repealed.**

Pursuant to Article VII, Section 3 of the Bylaws, the repeal of amendments to the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

This Proposal 7 is designed to prevent the Board from taking actions to amend the Bylaws to attempt to nullify or delay the actions taken by, or proposed to be taken by, the shareholders pursuant to the Proposals or to create new obstacles to the consummation of the transactions contemplated by Valeant s proposal. The text of the proposed amendment is reproduced as Exhibit A to this Proxy Statement.

We strongly urge you to vote ***FOR*** *Proposal 7 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 8**: RESOLVED, that the shareholders of Allergan hereby request that the Board promptly engage in good faith discussions with Valeant regarding Valeant s offer to merge with the Company, without in any way precluding discussions the Board may choose to engage in with other parties potentially offering higher value.**

Pursuant to Article II, Section 6 of the Bylaws, such a proposal requesting that the Board promptly engage in good faith discussions with Valeant regarding Valeant s proposal requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at such Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

This Proposal 8 is designed to provide shareholders with the ability to demonstrate, in a coordinated and powerful manner, their support for the Company to engage in a meaningful dialogue with Valeant. While there are numerous ways the Board could implement this Proposal 8, examples of such meaningful engagement could include, without limitation, and in each case conducted in good faith:

- the participation in one or more substantive, face-to-face meetings between the chief executive and other senior-level officers of the Company and representatives of Valeant to address the terms of Valeant s offer to merge with the Company;

- members of the Board making themselves available for face-to-face meetings with representatives of Valeant to discuss the terms of Valeant s offer;

discussions between the financial advisors of the Company and the financial advisors of Valeant;

discussions between the legal advisors of the Company and the legal advisors of Valeant, including in respect of the proposed merger agreement between the companies; and

the Company undertaking preliminary due diligence activities with respect to Valeant, including entering into a confidentiality agreement that would allow it to receive non-public information from Valeant.

This Proposal 8 is non-binding in nature and thus the Board will be under no legal obligation to take any action with respect to the shareholders request to engage with Valeant, no matter how many votes are cast in favor of this Proposal 8.

We strongly urge you to vote ***FOR*** *Proposal 8 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

VOTING PROCEDURES

Record Date; Vote Per Share

Allergan has one class of voting shares outstanding and, as of July 31, 2014, there were 297,183,809 shares of Company Common Stock outstanding as reported in the Quarterly Report filed on Form 10-Q filed by the Company with the SEC on August 5, 2014 (the Company 10-Q). Only holders of record on the Record Date are entitled to receive notice of the Special Meeting and to vote the shares of Company Common Stock that they held on the Record Date at the Special Meeting. Each share of Company Common Stock will have one vote on each matter to be voted on at the Special provided by investing activities was ($6.4) million, $3.1 million and $4.3 million in fiscal 2006, 2005 and 2004, respectively. The fiscal 2006 change in cash (used) provided by investing activities is the result of increased capital expenditures and lower proceeds from asset sales. The fiscal 2005 change in cash (used) provided by investing activities is primarily the result of increased capital expenditures. The fiscal 2006, 2005 and 2004 amounts included $2.1 million, $7.1 million and $7.8 million, respectively, from business and property divestitures. Net cash used in financing activities was $6.4 million, $21.9 million and $21.5 million in fiscal 2006, 2005 and 2004, respectively. The decrease for fiscal 2006 was the result of $56.6 million of proceeds from the November 2005 stock offering and $7.0 million from the exercise of employee stock options. The fiscal 2006, 2005 and 2004 amounts included $67.8 million, $22.9 million and $17.7 million of debt repayment, respectively. We also paid $2.8 million and $4.4 million of financing costs in fiscal 2006 and 2004, respectively, to effect the capital transactions previously described. CONTRACTUAL OBLIGATIONS The following table reflects a summary of our contractual obligations in millions of dollars as of March 31, 2006, by period of estimated payments due: FISCAL FISCAL 2008- FISCAL 2010- MORE THAN TOTAL 2007 FISCAL 2009 FISCAL 2011 FIVE YEARS ----- ---- ----------- ----------- ---------- Long-term debt obligations (a). $ 204.0 $ 0.1 $ 0.2 $ 67.4 $ 136.3 Operating lease obligations (b) 13.3 3.4 5.6 3.5 0.8 Purchase obligations (c) ...... -- -- -- -- -- Interest obligations (d)....... 119.8 18.8 37.6 32.2 31.2 Letter of credit obligations... 10.2 10.2 -- -- -- Other long-term liabilities reflected on the Company's balance sheet under GAAP (e)... 50.7 0.0 29.0 20.0 1.7 -------- ------ ------- -------- ------- Total.................... $ 398.0 $ 32.5 $ 72.4 $ 123.1 $ 170.0 ======== ====== ======= ======== ======= (a) As described in note 10 to our consolidated financial statements. (b) As described in note 18 to our consolidated financial statements. (c) We have no purchase obligations specifying fixed or minimum quantities to be purchased. We estimate that, at any given point in time, our open purchase orders to be executed in the normal course of business approximate $40 million. (d) Estimated for our Senior Secured Notes due 8/1/10 and Senior Subordinated Notes due 11/1/13. (e) As described in note 9 to our consolidated financial statements. We have no additional off-balance sheet obligations that are not reflected above. CAPITAL EXPENDITURES In addition to keeping our current equipment and plants properly maintained, we are committed to replacing, enhancing and upgrading our property, plant and equipment to support new product development, reduce production costs, increase flexibility to respond effectively to market fluctuations and changes, meet environmental requirements, enhance safety and promote ergonomically correct work stations. Further, our facility rationalization program underway between fiscal 2002-2004 reduced our annual capital expenditure requirements and also provided for transfers of equipment from the rationalized facilities to other operating facilities. Our capital expenditures for fiscal 2006, 2005 and 2004 were $8.4 million, $5.9 million and $3.6 million, respectively. Higher capital expenditures in fiscal 2006 and 2005 were the result of new product development and productivity enhancing equipment along with normal maintenance items. We expect capital expenditure spending in fiscal 2007 to be in the range of $8-$10 million. 26 INFLATION AND OTHER MARKET CONDITIONS Our costs are affected by inflation in the U.S. economy and, to a lesser extent, in foreign economies including those of Europe, Canada, Mexico and the Pacific Rim. We do not believe that general inflation has had a material effect on our 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 annual price increases and surcharges. However, employee benefits costs such as health insurance, workers compensation insurance, pensions as well as energy and business insurance have exceeded general inflation levels. In the future, we may be further affected by inflation that we may not be able to pass on as price increases. With changes in worldwide demand for steel and fluctuating scrap steel prices over the past several years, we experienced fluctuations in our costs that we have reflected as price increases and surcharges to our customers. We believe we have been successful in instituting surcharges and price increases to pass on these material cost increases. We will continue to monitor our costs and reevaluate our pricing policies. SEASONALITY AND QUARTERLY RESULTS Our quarterly results may be materially affected by the timing of large customer orders, periods of high vacation and holiday concentrations, restructuring charges and other costs attributable to our facility rationalization program, divestitures, acquisitions and the magnitude of rationalization integration costs. Therefore, our operating results for any particular fiscal quarter are not necessarily indicative of results for any subsequent fiscal quarter or for the full fiscal year. DISCONTINUED OPERATIONS In May 2002, we completed the divestiture of substantially all of the assets of ASI which comprised the principal business unit in our former Solutions - Automotive segment. Proceeds from this sale included cash of $15.9 million and an 8% subordinated note in the principal amount of $6.8 million payable over 10 years. Due to the uncertainty surrounding the financial viability of the new organization, the note has been recorded at the estimated net realizable value of $0. Principal payments received on the note are recorded as income from discontinued operations at the time of receipt. Accordingly, $0.7 million of income from discontinued operations was recorded in fiscal 2006. All interest and principal payments required under the note have been made to date. CRITICAL ACCOUNTING POLICIES AND ESTIMATES The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We continually evaluate the estimates and their underlying assumptions, which form the basis for making judgments about the carrying value of our assets and liabilities. Actual results inevitably will differ from those estimates. We have identified below the accounting policies involving estimates that are critical to our financial statements. Other accounting policies are more fully described in note 2 of notes to our consolidated financial statements. PENSION AND OTHER POSTRETIREMENT BENEFITS.The determination of the obligations and expense for pension and postretirement benefits is dependent on our selection of certain assumptions that are used by actuaries in calculating such amounts. Those assumptions are disclosed in Notes 11 and 13, respectively, to our fiscal 2006 consolidated financial statements and include the discount rates, expected long-term rate of return on plan assets and rates of future increases in compensation and healthcare costs. The pension discount rate assumptions of 5 3/4%, 6%, 6 1/4% as of March 31, 2006, 2005 and 2004, respectively, are based on long-term bond rates. The decrease in discount rates for fiscal 2006 and 2005 resulted in $3.9 million and $3.0 million increases in the projected benefit obligations as of March 31, 2006 and 2005, respectively. The rate of return on plan assets assumptions of 7 1/2%, 8 1/4% and 8.4% for the years ended March 31, 2006, 2005 and 2004, respectively, are based on the composition of the asset portfolios (approximately 56% equities and 44% fixed income at March 31, 2006) and their long-term historical returns. The actual assets realized gains of $6.8 and $5.5 million in fiscal 2006 and 2005. Our funded status as of March 31, 2006 and 2005 was negative by $33.9 million and $29.3 million, or 25.3% and 24.3%, respectively. Our pension contributions during fiscal 2006 and 2005 were approximately $7.8 and $9.7 million, respectively. The negative funded status may result in future pension expense increases. Pension expense for the March 31, 2007 fiscal year is expected to approximate $7.8 million, which is up from the fiscal 2006 amount of $7.0 million. The factors outlined above will result in increases in funding requirements over time, unless there is continued significant market appreciation in the asset values. However, pension funding contributions for the March 31, 2007 fiscal year are expected to decrease by approximately $1.8 million compared to fiscal 2006. The compensation increase assumption of 4% as of March 31, 2006, 2005 and 2004 is based on historical trends. 27 The healthcare inflation assumptions of 9 3/4%, 10 1/2% and 12% for fiscal 2006, 2005 and 2004, respectively are based on anticipated trends. Healthcare costs in the United States have increased substantially over the last several years. If this trend continues, the cost of postretirement healthcare will increase in future years. INSURANCE RESERVES. Our accrued general and product liability reserves as described in Note 15 to our consolidated financial statements involve actuarial techniques including the methods selected to estimate ultimate claims, and assumptions including emergence patterns, payment patterns, initial expected losses and increased limit factors. Other insurance reserves such as workers compensation and group health insurance are based on actual historical and current claim data provided by third party administrators or internally maintained. INVENTORY AND ACCOUNTS RECEIVABLE RESERVES. Slow-moving and obsolete inventory reserves are judgmentally determined based on historical and expected future usage within a reasonable timeframe. We reassess trends and usage on a regular basis and if we identify changes, we revise our estimated allowances. Allowances for doubtful accounts and credit memo reserves are also judgmentally determined based on historical bad debt write-offs and credit memos issued, assessing potentially uncollectible customer accounts and analyzing the accounts receivable agings. LONG-LIVED ASSETS. Property, plant and equipment and certain intangibles are depreciated or amortized over their assigned lives. These assets as well as goodwill are also periodically measured for impairment. The assigned lives and the projected cash flows used to test impairment are subjective. If actual lives are shorter than anticipated or if future cash flows are less than anticipated, we could incur a future impairment charge or a loss on disposal relating to these assets. MARKETABLE SECURITIES. On a quarterly basis, we review our marketable securities for declines in market value that may be considered other than temporary. We consider market value declines to be other than temporary if they are declines for a period longer than six months and in excess of 20% of original cost. DEFERRED TAX ASSET VALUATION ALLOWANCE. As of March 31, 2006, we had $56.7 million of total net deferred tax assets before valuation allowances. As described in Note 17 to the consolidated financial statements, $29.1 million of the assets pertain to U.S. federal net operating loss carryforwards ("NOLs") and the remainder relate principally to liabilities including employee benefit plans, insurance reserves, accrued vacation and incentive costs and also to asset valuation reserves such as inventory obsolescence reserves and bad debt reserves. The U.S. federal NOLs expire in 2023. We reduced the deferred tax assets by $5.2 million as a result of utilizing U.S. federal NOLs in fiscal 2006. As a result of our increased operating performance over the past several years, we reevaluated the certainty as to whether our remaining NOLs and other deferred tax assets may ultimately be realized. As a result of the determination that it is more likely than not that nearly all of the remaining deferred tax assets will be realized, a significant portion of the remaining valuation allowance was reversed in fiscal 2006. Our ability to realize our deferred tax assets is primarily dependent on generating sufficient future taxable income. If we do not generate sufficient taxable income, we could be required to record a valuation allowance. REVENUE RECOGNITION. Sales are recorded when title passes to the customer, which is generally at the time of shipment to the customer, except for long-term construction-type contracts. For long-term construction-type contracts, we recognize contract revenues under the percentage of completion method, measured by comparing direct costs incurred to total estimated direct costs. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. In the event that a loss is anticipated on an uncompleted contract, a provision for the estimated loss is made at the time it is determined. Billings on contracts may precede or lag revenues earned, and such differences are reported in the balance sheet as current liabilities (accrued liabilities) and current assets (unbilled revenues), respectively. Customers do not routinely return product. However, sales returns are permitted in specific situations and typically include a restocking charge or the purchase of additional product. We have established an allowance for returns based upon historical trends. EFFECTS OF NEW ACCOUNTING PRONOUNCEMENTS In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs," as an amendment to ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage). This Statement requires that these items be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. This Statement becomes effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of SFAS No. 151 to have a material impact on our consolidated financial statements. 28 In December 2004, the FASB issued SFAS No. 123(R) (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) was to be adopted for interim or annual periods beginning after June 15, 2005. On April 14th, 2005, the SEC announced that it would provide for a phased-in implementation process for FASB statement No. 123(R). The SEC is requiring that registrants adopt statement 123(R)'s fair value method of accounting for share-based payments to employees no later than the beginning of the first fiscal year beginning after June 15, 2005. We expect to adopt 123(R) in the first quarter of Fiscal 2007. Statement 123(R) permits public companies to adopt its requirements using one of two methods: 1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123(R) for all share-based payments granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date. 2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption. We are still evaluating the method we plan to use when we adopt statement 123(R). As permitted by Statement 123, we currently account for share-based payments to employees using Opinion 25's intrinsic value method and, as such, recognize no compensation cost for employee stock options. Accordingly, adoption of Statement 123(R)'s fair value method will have an impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of 123(R) cannot be predicted at this time because it will depend on levels of share based payments granted in the future. However, had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 to our consolidated financial statements. In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" which replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for and reporting of a change in accounting principle. This Statement becomes effective for changes in accounting methods during fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 will have a material impact on our consolidated results of operations and financial condition. ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates. We are exposed to various market risks, including commodity prices for raw materials, foreign currency exchange rates and changes in interest rates. We may enter into financial instrument transactions, which attempt to manage and reduce the impact of such changes. We do not enter into derivatives or other financial instruments for trading or speculative purposes. Our primary commodity risk is related to changes in the price of steel. We control this risk through negotiating purchase contracts on a consolidated basis and by attempting to build changes in raw material costs into the selling prices of our products. We also evaluate our steel cost increases and assess the need for price increases and surcharges to our customers. We have not entered into financial instrument transactions related to raw material costs. In fiscal 2006, 29% of our net sales were from manufacturing plants and sales offices in foreign jurisdictions. We manufacture our products in the United States, Mexico, China, Denmark, the United Kingdom, France and Germany and sell our products and solutions in over 50 countries. Our results of operations could be affected by factors such as changes in foreign currency rates or weak economic conditions in foreign markets. Our operating results are exposed to fluctuations between the U.S. dollar and the Canadian dollar, European currencies and the Mexican peso. For example, when the U.S. dollar strengthens against the Canadian dollar, the value of our net sales and net income denominated in Canadian dollars decreases when translated into U.S. dollars for inclusion in our consolidated results. We are also exposed to foreign currency fluctuations in relation to purchases denominated in foreign currencies. Our foreign currency risk is mitigated since the majority of our 29 foreign operations' net sales and the related expense transactions are denominated in the same currency so therefore a significant change in foreign exchange rates would likely have a very minor impact on net income. For example, a 10% decline in the rate of exchange between the euro and the U.S. dollar impacts net income by approximately $0.5 million. In addition, the majority of our export sale transactions are denominated in U.S. dollars. Accordingly, we currently have not invested in derivative instruments, such as foreign exchange contracts, to hedge foreign currency transactions. We control risk related to changes in interest rates by structuring our debt instruments with a combination of fixed and variable interest rates and by periodically entering into financial instrument transactions as appropriate. At March 31, 2006, we do not have any material swap agreements or similar financial instruments in place. At March 31, 2006 and 2005, approximately 97% and 96%, respectively, of our outstanding debt had fixed interest rates. At those dates, we had approximately $6.4 million and $11.4 million, respectively, of outstanding variable rate debt. A 1% fluctuation in interest rates in fiscal 2006 and 2005 would have changed interest expense on that outstanding variable rate debt by approximately $0.1 million for both years. Like many industrial manufacturers, we are involved in asbestos-related litigation. In continually evaluating costs relating to its estimated asbestos-related liability, we review, 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, we have 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. We 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, we have estimated our asbestos-related aggregate liability through March 31, 2031 and March 31, 2082 to range between $5.5 million and $19.0 million using actuarial parameters of continued claims for a period of 25 to 76 years. Our estimation of our asbestos-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles, is through March 31, 2031 and ranges from $5.5 million to $6.5 million as of March 31, 2006. The range of probable and estimable liability reflects 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. Based on the underlying actuarial information, we have reflected $6.3 million as a liability in the consolidated financial statements in accordance with U.S. generally accepted accounting principles. The increase in the recorded liability from the amount of $4.8 million at March 31, 2005 is due to a change in actuarial parameters used to calculate required asbestos liability reserve levels. The recorded liability does not consider the impact of any potential favorable federal legislation such as the "FAIR Act". Of this amount, management expects to incur asbestos liability payments of approximately $0.5 million over the next 12 months. Because payment of the liability is likely to extend over many years, management believes that the potential additional costs for claims will not have a material after-tax effect on our financial condition or our liquidity, although the net after-tax effect of any future liabilities recorded could be material to earnings in a future period. 30 ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS COLUMBUS MCKINNON CORPORATION Audited Consolidated Financial Statements as of March 31, 2006: F-1 Report of Independent Registered Public Accounting Firm The Board of Directors and Shareholders of Columbus McKinnon Corporation We have audited the accompanying consolidated balance sheets of Columbus McKinnon Corporation and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Columbus McKinnon Corporation and subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Columbus McKinnon Corporation's internal control over financial reporting as of March 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 1, 2006 expressed an unqualified opinion thereon. /s/ Ernst & Young LLP June 1, 2006 Buffalo, New York F-2 COLUMBUS MCKINNON CORPORATION CONSOLIDATED BALANCE SHEETS -------------------------------- MARCH 31, -------------------------------- 2006 2005 ---- ---- (IN THOUSANDS, EXCEPT SHARE DATA) ASSETS Current assets: Cash and cash equivalents.. $ 45,598 $ 9,479 Trade accounts receivable, less allowance for doubtful accounts ($3,417 and $3,015, respectively)... 95,726 88,974 Unbilled revenues... 12,061 8,848 Inventories... 74,845 77,626 Prepaid expenses.. 15,676 14,198 -------------------------------- Total current assets.. 243,906 199,125 Net property, plant, and equipment.. 55,132 57,237 Goodwill, net... 184,917 185,443 Other intangibles, net... 2,410 1,842 Marketable securities.. 27,596 24,615 Deferred taxes on income.. 46,065 6,122 Other assets.. 6,018 6,487 -------------------------------- Total assets.. $ 566,044 $ 480,871 ================================ LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Notes payable to banks.. $ 5,798 $ 4,839 Trade accounts payable... 39,311 33,688 Accrued liabilities... 61,264 52,328 Restructuring reserve... 793 144 Current portion of long-term debt... 127 5,819 -------------------------------- Total current liabilities... 107,293 96,818 Senior debt, less current portion.. 67,841 115,735 Subordinated debt.. 136,000 144,548 Other non-current liabilities.. 50,489 42,003 -------------------------------- Total liabilities... 361,623 399,104 Shareholders' equity: Voting common stock; 50,000,000 shares authorized; 18,575,454 and 14,948,172 shares issued.................................. 185 149 Additional paid-in capital.. 170,081 104,078 Retained earnings (accumulated deficit)... 51,152 (8,644) ESOP debt guarantee; 249,821 and 284,695 shares................................. (3,996) (4,554) Unearned restricted stock; 2,000 and 1,000 shares............................... (22) (6) Accumulated other comprehensive loss.. (12,979) (9,256) -------------------------------- Total shareholders' equity.. 204,421 81,767 -------------------------------- Total liabilities and shareholders' equity.. $ 566,044 $ 480,871 ================================ See accompanying notes. F-3 COLUMBUS MCKINNON CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS --- YEAR ENDED MARCH 31, --- 2006 2005 2004 ---- ---- ---- (IN THOUSANDS, EXCEPT PER SHARE DATA) Net sales... $ 556,007 $ 514,752 $ 444,591 Cost of products sold... 408,385 388,844 339,745 --- Gross profit.. 147,622 125,908 104,846 Selling expenses.. 54,255 52,291 48,331 General and administrative expenses............................... 33,640 31,730 25,026 Restructuring charges... 1,609 910 1,239 Amortization of intangibles....................................... 249 312 383 --- Income from operations.. 57,869 40,665 29,867 Interest and debt expense... 24,667 27,620 28,856 Other (income) and expense, net.................................. 5,048 (5,218) (4,191) --- Income from continuing operations before income tax (benefit) expense.. 28,154 18,263 5,202 Income tax (benefit) expense...................................... (30,946) 2,196 4,009 --- Income from continuing operations................................. 59,100 16,067 1,193 Income from discontinued operations (net of tax).................. 696 643 - --- Net income... $ 59,796 $ 16,710 $ 1,193 === Average basic shares outstanding................................. 16,052 14,594 14,553 Average diluted shares outstanding................................ 16,628 14,803 14,554 Basic income per share: Income from continuing operations............................ $ 3.69 $ 1.10 $ 0.08 Income from discontinued operations.......................... 0.04 0.04 - --- Basic income per share...................................... $ 3.73 $ 1.14 $ 0.08 === Diluted income per share: Income from continuing operations............................ $ 3.56 $ 1.09 $ 0.08 Income from discontinued operations.......................... 0.04 0.04 - --- Diluted income per share..................................... $ 3.60 $ 1.13 $ 0.08 === See accompanying notes. F-4 COLUMBUS MCKINNON CORPORATION CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) COMMON ADDI- RETAINED ACCUMULATED STOCK TIONAL EARNINGS ESOP UNEARNED OTHER TOTAL ($.01 PAID-IN (ACCUMULATED DEBT RESTRICTED COMPREHENSIVE SHAREHOLDERS' PAR VALUE) CAPITAL DEFICIT) GUARANTEE STOCK LOSS EQUITY -- Balance at March 31, 2003.......... $ 149 $104,412 $ (26,547) $ (5,709) $ (208) $ (19,390) $ 52,707 Comprehensive income: Net income 2004.................... -- -- 1,193 -- -- -- 1,193 Change in foreign currency translation adjustment........... -- -- -- -- -- 6,389 6,389 Net unrealized gain on investments, net of tax of $918.. -- -- -- -- -- 1,706 1,706 Net change in unrealized loss on derivatives qualifying as hedges, net of tax of $127....... -- -- -- -- -- 191 191 Change in minimum pension liability adjustment, net of tax of $352..................... -- -- -- -- -- 528 528 --------- Total comprehensive income......... 10,007 Earned 37,049 ESOP shares.......... -- (393) -- 593 -- -- 200 Earned portion and adjustment of restricted shares................ -- (105) -- -- 169 -- 64 -- Balance at March 31, 2004.......... $ 149 $103,914 $ (25,354) $ (5,116) $ (39) $ (10,576) $ 62,978 Comprehensive income: Net income 2005.................... -- -- 16,710 -- -- -- 16,710 Change in foreign currency translation adjustment........... -- -- -- -- -- 2,830 2,830 Net unrealized loss on investments, net of tax benefit of $70.......................... -- -- -- -- -- (131) (131) Change in minimum pension liability adjustment, net of tax benefit of $27.............. -- -- -- -- -- (1,379) (1,379) --------- Total comprehensive income......... 18,030 Earned 35,108 ESOP shares.......... -- (266) -- 562 -- -- 296 Stock options exercised, 52,000 shares.......................... -- 428 -- -- -- -- 428 Earned portion of restricted shares -- 2 -- -- 33 -- 35 -- Balance at March 31, 2005.......... $ 149 $104,078 $ (8,644) $ (4,554) $ (6) $ (9,256) $ 81,767 Comprehensive income: Net income 2006.................... -- -- 59,796 -- -- -- 59,796 Change in foreign currency translation adjustment........... -- -- -- -- -- (1,846) (1,846) Net unrealized gain on investments, net of tax of $354.. -- -- -- -- -- 658 658 Change in minimum pension liability adjustment, net of tax benefit of $1,681........... -- -- -- -- -- (2,535) (2,535) --------- Total comprehensive income......... 56,073 Common stock issued, 3,000,000 shares.......................... 30 56,589 -- -- -- -- 56,619 Stock options exercised, 626,282 shares.......................... 6 7,143 -- -- -- -- 7,149 Tax benefit from exercise of stock options.................. -- 2,154 -- -- -- -- 2,154 Earned 34,874 ESOP shares.......... -- 95 -- 558 -- -- 653 Restricted common stock granted, 1,000 shares............ -- 22 -- -- (22) -- -- Earned portion of restricted shares -- -- -- -- 6 -- 6 -- Balance at March 31, 2006.......... $ 185 $170,081 $ 51,152 $ (3,996) $ (22) $ (12,979) $ 204,421 == See accompanying notes. F-5 COLUMBUS MCKINNON CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS --- YEAR ENDED MARCH 31, --- 2006 2005 2004 ---- ---- ---- (IN THOUSANDS) OPERATING ACTIVITIES: Income from continuing operations...................................... $ 59,100 $ 16,067 $ 1,193 Adjustments to reconcile income from continuing operations to net cash provided by operating activities: Depreciation and amortization.................................... 8,824 9,171 10,126 Deferred income taxes.. (36,968) (971) 6,413 Loss on divestitures... 87 330 3,875 Gain on sale of real estate/investments........................... (2,100) (4,632) (5,143) Loss (gain) on early retirement of bonds.......................... 7,083 40 (5,590) Amortization/write-off of deferred financing costs................ 3,297 1,575 6,613 Tax benefit from exercise of stock options........................ 2,154 -- -- Other.. -- -- 67 Changes in operating assets and liabilities net of effects of business divestitures: Trade accounts receivable and unbilled revenues............. (11,025) (6,896) 1,140 Inventories.. 2,518 (6,834) 8,351 Prepaid expenses.. (2,026) 1,796 (1,332) Other assets.. 207 10 (181) Trade accounts payable....................................... 6,099 3,192 (976) Accrued and non-current liabilities.......................... 11,267 4,313 1,813 --- Net cash provided by operating activities.............................. 48,517 17,161 26,369 --- INVESTING ACTIVITIES: (Purchase) sale of marketable securities, net.......................... (888) 1,314 110 Capital expenditures.. (8,430) (5,925) (3,619) Proceeds from sale of facilities and surplus real estate................ 2,091 6,742 4,015 Proceeds from sale of property, plant, and equipment................... -- -- 387 Proceeds from net assets held for sale................................. -- 375 3,376 Proceeds from discontinued operations note receivable - revised......... 857 643 -- --- Net cash (used) provided by investing activities....................... (6,370) 3,149 4,269 --- FINANCING ACTIVITIES: Proceeds from issuance of common stock................................. 56,619 -- -- Proceeds from exercise of stock options................................ 7,149 428 -- Payments under revolving line-of-credit agreements...................... (47,669) (345,664) (332,218) Borrowings under revolving line-of-credit agreements................... 49,030 344,541 325,326 Repayment of debt... (205,167) (21,745) (125,764) Proceeds from issuance of long-term debt............................... 136,000 -- 115,000 Payment of deferred financing costs.................................... (2,877) (24) (4,432) Change in ESOP debt guarantee.. 558 562 593 --- Net cash used in financing activities.................................. (6,357) (21,902) (21,495) EFFECT OF EXCHANGE RATE CHANGES ON CASH................................ 329 (30) 15 --- Net change in cash and cash equivalents................................ 36,119 (1,622) 9,158 Cash and cash equivalents at beginning of year......................... 9,479 11,101 1,943 --- Cash and cash equivalents at end of year............................... $ 45,598 $ 9,479 $ 11,101 === Supplementary cash flows data: Interest paid... $ 26,565 $ 28,133 $ 30,002 Income taxes paid (received), net................................. $ 5,035 $ 2,029 $ (9,683) See accompanying notes. F-6 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (TABULAR AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA) 1. DESCRIPTION OF BUSINESS Columbus McKinnon Corporation (the Company) is a leading U.S. designer and manufacturer of material handling products, systems and services which efficiently and ergonomically move, lift, position and secure material. Key products include hoists, cranes, chain and forged attachments. The Company's material handling products are sold, domestically and internationally, principally to third party distributors through diverse distribution channels, and to a lesser extent directly to end-users. The Company's integrated material handling solutions businesses deal primarily with end users and sales are concentrated, domestically and internationally (primarily Europe), in the consumer products, manufacturing, warehousing and, to a lesser extent, the steel, construction, automotive and other industrial markets. During fiscal 2006, approximately 64% of sales were to customers in the United States. 2. ACCOUNTING PRINCIPLES AND PRACTICES ADVERTISING Costs associated with advertising are expensed in the year incurred and are included in selling expense in the statement of operations. Advertising expenses were $3,343,000, $2,521,000, and $2,406,000 in fiscal 2006, 2005, and 2004, respectively. CASH AND CASH EQUIVALENTS The Company considers as cash equivalents all highly liquid investments with an original maturity of three months or less. CONCENTRATIONS OF LABOR Approximately 23% of the Company's employees are represented by seven separate domestic and Canadian collective bargaining agreements which terminate at various times between August 2006 and May 2009. Approximately 10% of the labor force is covered by collective bargaining agreements that will expire within one year. CONSOLIDATION These consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries; all significant intercompany accounts and transactions have been eliminated. DERIVATIVES AND FINANCIAL INSTRUMENTS Derivative instruments held by the Company that have high correlation with the underlying exposure and are highly effective in offsetting underlying price movements are designated as hedges. Accordingly, gains and losses from changes in derivatives fair values are deferred until the underlying transaction occurs at which point they are then recognized in the statement of operations. When derivatives are not designated as hedges, the gains and losses from changes in fair value are recorded currently in the statement of operations. All derivates are carried at fair value in the balance sheet. The fair values of derivatives are determined by reference to quoted market prices. The Company's use of derivative instruments has historically been limited to cash flow hedges of certain interest rate risks. The carrying value of the Company's current assets and current liabilities approximate their fair values based upon the relatively short maturity of those instruments. For the fair value of the Company's marketable securities and debt instruments, see Notes 6 and 10, respectively. F-7 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) FOREIGN CURRENCY TRANSLATIONS The Company translates foreign currency financial statements as described in Financial Accounting Standards (FAS) No. 52. Under this method, all items of income and expense are translated to U.S. dollars at average exchange rates for the year. All assets and liabilities are translated to U.S. dollars at the year-end exchange rate. Gains or losses on translations are recorded in accumulated other comprehensive loss in the shareholders' equity section of the balance sheet. The functional currency is the foreign currency in which the foreign subsidiaries conduct their business. Gains and losses from foreign currency transactions are reported in other income and expense, net. There was an approximate $100,000 loss, $200,000 gain and $600,000 loss on transactions with foreign subsidiaries in fiscal 2006, 2005 and fiscal 2004, respectively. GOODWILL Goodwill is not amortized but is periodically tested for impairment, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." 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 regularly reviewed, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. As a result of this analysis, the reporting units identified under SFAS No. 142 were at the component level, or one level below the reporting segment level as defined under SFAS No. 131. The Products segment was subdivided into three reporting units and the Solutions segment was subdivided into two reporting units. 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 and not amortized until their lives are determined to be finite. See Note 8 for further discussion of goodwill and intangible assets. INVENTORIES Inventories are valued at the lower of cost or market. Cost of approximately 58% of inventories at March 31, 2006 (57% in 2005) has been determined using the LIFO (last-in, first-out) method. Costs of other inventories have been determined using the FIFO (first-in, first-out) or average cost method. FIFO cost approximates replacement cost. MARKETABLE SECURITIES All of the Company's marketable securities, which consist of equity securities and corporate and governmental obligations, 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 within shareholders' equity unless unrealized losses are deemed to be other than temporary. In such instance, the unrealized losses are reported in the statement of operations within other (income) and expense, net. Estimated fair value is based on published trading values at the balance sheet dates. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The cost of securities sold is based on the specific identification method. Interest and dividend income are included in other (income) and expense, net in the consolidated statements of operations. The 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. F-8 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) PROPERTY, PLANT, AND EQUIPMENT Property, plant, and equipment are stated at cost and depreciated principally using the straight-line method over their respective estimated useful lives (buildings and building equipment--15 to 40 years; machinery and equipment--3 to 18 years). When depreciable assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operating results. RECLASSIFICATION/REVISIONS Certain prior year amounts have been reclassified to conform to the current year presentation. In 2006, the Company has disclosed the investing portions of the cash flows attributable to its discontinued operations within the investing section of the consolidated statements of cash flows, whereas in prior years they were reported as a separate component on the consolidated statements of cash flows. RESEARCH AND DEVELOPMENT Research and development costs as defined in FAS No. 2, for the years ended March 31, 2006, 2005 and 2004 were $1,614,000, $1,289,000 and $1,625,000, respectively and are classified as general and administrative expense in the consolidated statements of operations. REVENUE RECOGNITION AND CONCENTRATION OF CREDIT RISK Sales are recorded when title passes to the customer which is generally at time of shipment to the customer, except for long-term construction contracts as described below. The Company performs ongoing credit evaluations of its customers' financial condition, but generally does not require collateral to support customer receivables. The credit risk is controlled through credit approvals, limits and monitoring procedures. Accounts receivable are reported at net realizable value and do not accrue interest. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other factors. Accounts receivable are charged against the allowance for doubtful accounts once all collection efforts have been exhausted. The Company does not routinely permit customers to return product. However, sales returns are permitted in specific situations and typically include a restocking charge or the purchase of additional product. The Company has established an allowance for returns based upon historical trends. The Company recognizes contract revenues under the percentage of completion method, measured by comparing direct costs incurred to total estimated direct costs. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. In the event that a loss is anticipated on an uncompleted contract, a provision for the estimated loss is made at the time it is determined. Billings on contracts may precede or lag revenues earned, and such differences are reported in the balance sheet as current liabilities (accrued liabilities) and current assets (unbilled revenues), respectively. F-9 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) SALE-LEASEBACK TRANSACTIONS On January 28, 2005, the Company sold its corporate headquarters property and entered into a leaseback for a portion of the facility under a 10-year lease agreement. Net proceeds to the Company for the sale of the property were approximately $2.7 million and the gain on the transaction was $2.2 million. Of the total gain, $1.0 million was recognized in 2005 under the caption other income, and $1.2 million was deferred and will be recognized as income over the 10-year leaseback period. Additionally, $0.5 million of non-cash value (rent abatement) will be recognized on a straight-line basis as lower operating expenses over the 10-year leaseback period. SHIPPING AND HANDLING COSTS Shipping and handling costs are a component of cost of products sold. STOCK-BASED COMPENSATION At March 31, 2006, the Company has two stock-based employee compensation plans in effect, which are described more fully in Note 14. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. No stock based employee compensation cost is reflected in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant and the number of options granted was fixed. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition of SFAS No. 123 "Accounting for Stock-Based Compensation", to stock-based employee compensation:

	YEAR ENDED MARCH 31, 2006	2005	2004
Net income, as reported	$ 59,796	$ 16,710	$ 1,193
Deduct: Total stock based employee compensation expenses determined under fair value based method for all awards, net of related tax effects	(577)	(1,135)	(504)
Net income, pro forma	$ 59,219	$ 15,575	$ 689
Basic income per share: As reported	$ 3.73	$ 1.14	$ 0.08
Pro forma	$ 3.69	$ 1.07	$ 0.05
Diluted income per share: As reported	$ 3.60	$ 1.13	$ 0.08
Pro forma	$ 3.56	$ 1.05	$ 0.05

USE OF ESTIMATES The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Actual results could differ from those estimates. F-10 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) WARRANTIES The Company offers warranties for certain of the products it sells. The specific terms and conditions of those warranties vary depending upon the product sold and the country in which the Company sold the product. The Company generally provides a basic limited warranty, including parts and labor for any product deemed to be defective for a period of one year. The Company estimates the costs that may be incurred under its basic limited warranty, based largely upon actual warranty repair costs history, and records a liability in the amount of such costs in the month that the product revenue is recognized. The resulting accrual balance is reviewed during the year. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rate of warranty claims, and cost per claim. Changes in the Company's product warranty accrual are as follows: -------------------------------- MARCH 31, -------------------------------- 2006 2005 ---- ---- Balance at beginning of year....... $ 832 $ 889 Accrual for warranties issued...... 4,658 2,475 Warranties settled................ (3,358) (2,532) -------------------------------- Balance at end of year............ $ 2,132 $ 832 ================================ 3. DISCONTINUED OPERATIONS In May 2002, the Company sold substantially all of the assets of Automatic Systems, Inc. (ASI). The ASI business was the principal business unit in the Company's former Solutions - Automotive segment. The Company received $20,600,000 in cash and an 8% subordinated note in the principal amount of $6,800,000 which is payable at a rate of $214,000 per quarter over eight years beginning August 2004. Due to the uncertainty surrounding the financial viability of the new organization, the note has been recorded at the estimated net realizable value of $0. Principal payments received on the note are recorded as income from discontinued operations at the time of receipt. All interest and principal payments required under the note have been made to date. The gross value of the note as of March 31, 2006 is approximately $5,100,000. 4. UNBILLED REVENUES AND EXCESS BILLINGS -------------------- MARCH 31, -------------------- 2006 2005 ---- ---- Costs incurred on uncompleted contracts........... $ 52,615 $ 34,154 Estimated earnings............................... 15,361 11,498 -------------------- Revenues earned to date........................... 67,976 45,652 Less billings to date............................ 56,331 37,133 -------------------- $ 11,645 $ 8,519 ==================== The net amounts above are included in the consolidated balance sheets under the following captions: -------------------- MARCH 31, -------------------- 2006 2005 ---- ---- Unbilled revenues.................................. $ 12,061 $ 8,848 Accrued liabilities................................ (416) (329) -------------------- $ 11,645 $ 8,519 ==================== F-11 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 5. INVENTORIES Inventories consisted of the following: ---------------------------- MARCH 31, ---------------------------- 2006 2005 ---- ---- At cost--FIFO basis: Raw materials......................... $ 41,134 $ 42,283 Work-in-process....................... 12,199 10,238 Finished goods........................ 33,424 35,800 ---------------------------- 86,757 88,321 LIFO cost less than FIFO cost.............. (11,912) (10,695) ---------------------------- Net inventories........................... $ 74,845 $ 77,626 ============================ 6. MARKETABLE SECURITIES Marketable securities are held for the settlement of the Company's general and products liability insurance claims filed through the Company's subsidiary, CM Insurance Company, Inc. (see Notes 2 and 15). On a quarterly basis, the Company reviews its marketable securities for declines in market value that may be considered other than temporary. The Company considers market value declines to be other than temporary if they are declines for a period longer than six months and in excess of 20% of original cost. The following is a summary of available-for-sale securities at March 31, 2006: GROSS GROSS ESTIMATED UNREALIZED UNREALIZED FAIR COST GAINS LOSSES VALUE --- Government securities................................ $ 10,859 $ 150 $ 25 $ 10,984 Equity securities................................... 13,828 3,013 229 16,612 --- $ 24,687 $ 3,163 $ 254 $ 27,596 === As of March 31, 2006, in accordance with FAS No. 115, the Company reduced the cost bases of certain equity securities since it was determined that the unrealized losses on those securities were other than temporary in nature. This determination resulted in the recognition of a pre-tax charge to earnings of $78,000 for the year ended March 31, 2006, classified within other (income) and expense, net. The above schedule reflects the reduced cost bases. The aggregate fair value of investments and unrealized losses on available-for-sale securities in an unrealized loss position at March 31, 2006 are as follows: AGGREGATE UNREALIZED FAIR VALUE LOSSES -- Equity securities held for less than 12 months in a loss position $ 1,553 $ 154 Equity securities held for more than 12 months in a loss position 1,012 75 --- $ 2,565 $ 229 == The net gain related to sales of marketable securities totaled $1,436,000, $706,000 and $1,861,000 in fiscal 2006, 2005 and 2004, respectively. F-12 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) The following is a summary of available-for-sale securities at March 31, 2005: GROSS GROSS ESTIMATED UNREALIZED UNREALIZED FAIR COST GAINS LOSSES VALUE -- Government securities............................... $ 7,967 $ 251 $ - $ 8,218 Equity securities................................... 14,751 2,076 430 16,397 -- $ 22,718 $ 2,327 $ 430 $ 24,615 === As of March 31, 2005, in accordance with FAS No. 115, the Company reduced the cost bases of certain equity securities since it was determined that the unrealized losses on those securities were other than temporary in nature. This determination resulted in the recognition of a pre-tax charge to earnings of $280,000 and $110,000 for the years ended March 31, 2005 and 2004, respectively, classified within other (income) and expense, net. The above schedule reflects the reduced cost bases. The amortized cost and estimated fair value of debt and equity securities at March 31, 2006, by contractual maturity, are shown below: ESTIMATED FAIR COST VALUE --------------------- Due in one year or less........................... $ 5,064 $ 5,068 Due in one to five years.......................... 2,008 2,015 Due in five to ten years.......................... 3,787 3,901 --------------------- 10,859 10,984 Equity securities................................. 13,828 16,612 --------------------- $ 24,687 $ 27,596 ===================== Net unrealized gain included in the balance sheet amounted to $2,909,000 at March 31, 2006 and $1,897,000 at March 31, 2005. The amounts, net of related income taxes of $1,018,000 and $664,000 at March 31, 2006 and 2005, respectively, are reflected as a component of accumulated other comprehensive loss within shareholders' equity. 7. PROPERTY, PLANT, AND EQUIPMENT Consolidated property, plant, and equipment of the Company consisted of the following: -------------------------- MARCH 31, -------------------------- 2006 2005 ---- ---- Land and land improvements... $ 4,564 $ 5,183 Buildings... 33,755 33,991 Machinery, equipment, and leasehold improvements.................................. 102,485 99,147 Construction in progress... 1,736 2,089 -------------------------- 142,540 140,410 Less accumulated depreciation... 87,408 83,173 -------------------------- Net property, plant, and equipment... $ 55,132 $ 57,237 =========================== Depreciation expense was $8,575,000, $8,859,000, and $9,743,000 for the years ended March 31, 2006, 2005 and 2004, respectively. F-13 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 8. GOODWILL AND INTANGIBLE ASSETS As discussed in Note 2, goodwill is not amortized but is periodically tested for impairment, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." 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 regularly reviewed, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. As a result of this analysis, the reporting units identified under SFAS No. 142 were at the component level, or one level below the reporting segment level as defined under SFAS No. 131. The Products segment was subdivided into three reporting units and the Solutions segment was subdivided into two reporting units. 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 and not amortized until their lives are determined to be finite. No impairment charges were recorded during fiscal 2006, 2005 or 2004. A summary of changes in goodwill during the years ended March 31, 2006 and 2005 by business segment is as follows: PRODUCTS SOLUTIONS TOTAL --- Balance at March 31, 2004............................ $ 184,994 $ - $ 184,994 Currency translation................................ 449 - 449 --- Balance at March 31, 2005............................ $ 185,443 $ - $ 185,443 Currency translation................................ (526) - (526) --- Balance at March 31, 2006............................ $ 184,917 $ - $ 184,917 == Other intangibles, net consists of the following: ------------------- MARCH 31, ------------------- 2006 2005 ---- ---- Intangible pension assets............................ $ 2,148 $

1,537 Patents and other, net................................ 262 305 ------------------ Other intangibles, net................................ $ 2,410 $ 1,842 ================== Only the patents and other, net is subject to amortization. Based on the current amount of patents and other, net, the estimated amortization expense for each of the succeeding five years is expected to be $100,000, $75,000, $50,000, $28,000, and 9,000, respectively. F-14 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 9. ACCRUED LIABILITIES AND OTHER NON-CURRENT LIABILITIES Consolidated accrued liabilities of the Company consisted of the following: ----------------------- MARCH 31, ----------------------- 2006 2005 ---- ---- Accrued payroll................................. $ 18,736 $ 15,895 Accrued pension cost............................ 5,987 4,325 Interest payable................................ 6,199 8,097 Accrued workers compensation.................... 2,959 2,959 Accrued income taxes payable..................... 6,493 4,237 Accrued postretirement benefit obligation........ 1,620 2,100 Accrued health insurance......................... 2,891 2,550 Accrued general and product liability costs...... 4,000 3,500 Other accrued liabilities....................... 12,379 8,665 ----------------------- $ 61,264 $ 52,328 ======================= Consolidated other non-current liabilities of the Company consisted of the following: ----------------------- MARCH 31, ----------------------- 2006 2005 ---- ---- Accumulated postretirement benefit obligation.... $ 4,856 $ 5,273 Accrued general and product liability costs...... 16,969 12,594 Accrued pension cost............................ 20,285 18,637 Accrued workers compensation.................... 5,383 3,134 Other non-current liabilities................... 2,996 2,365 ----------------------- $ 50,489 $ 42,003 ======================= F-15 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 10. DEBT Consolidated debt of the Company consisted of the following: ------------------------------ MARCH 31, ------------------------------ 2006 2005 ---- ---- Revolving Credit Facility due February 22, 2010.................................... $ - $ - Previous Term Loan repaid and retired April 2005................................... - 5,819 10% Senior Secured Notes due August 1, 2010 with interest payable in semi-annual installments .... 67,384 115,000 Other senior debt.. 584 735 ------------------------------ Total senior debt.. 67,968 121,554 8 7/8% Senior Subordinated Notes due November 1, 2013 with interest payable in semi-annual installments... 136,000 - 8 1/2% Senior Subordinated Notes repaid and retired in October 2005................ - 144,548 ------------------------------ Total.. 203,968 266,102 Less current portion.. 127 5,819 ------------------------------ $ 203,841 $ 260,283 ============================== On March 16, 2006, the Company amended and expanded its revolving credit facility. The Revolving Credit Facility provides availability up to a maximum of $75,000,000. Provided there is no default, the Company may on a one-time basis, request an increase in the availability of the Revolving Credit Facility by an amount not exceeding $50,000,000 if all Senior Secured Notes have been repaid in full or will be repaid in full contemporaneously with such increase, or $25,000,000 in the event that any Senior Secured Notes remain outstanding. The unused Revolving Credit Facility totaled $64,800,000, net of outstanding borrowings of $0 and outstanding letters of credit of $10,200,000. Interest on the revolver is payable at varying Eurodollar rates based on LIBOR or prime plus a spread determined by our leverage ratio amounting to 100 or 0 basis points, respectively, at March 31, 2006. The Revolving Credit Facility is secured by all domestic inventory, receivables, equipment, real property, subsidiary stock (limited to 65% for foreign subsidiaries) and intellectual property. On September 2, 2005, the Company issued $136,000,000 of 8 7/8% Senior Subordinated Notes (8 7/8% Notes) due November 1, 2013. Proceeds from the 8 7/8% Notes and cash on hand were used to repurchase all of the outstanding 8 1/2% Senior Subordinated Notes (8 1/2% Notes). The repurchase of the 8 1/2% Notes occurred at a premium resulting in a pre-tax loss on early extinguishment of debt of $2,298,000. As a result of the repurchase of the 8 1/2% Notes, $922,000 of pre-tax deferred financing costs and $110,000 of the original issue discount were written-off. The net effect of these items, a $3,330,000 pre-tax loss in fiscal 2006, is shown as part of other (income) and expense, net. On July 22, 2003, the Company issued $115,000,000 of 10% Senior Secured Notes (10% Notes) due August 1, 2010. Proceeds from this offering were used for the repayment of various outstanding debt instruments including the repurchase of $35,700,000 of the 8 1/2% Notes at a discount ($30,060,000). The redemption in fiscal 2004 of the 8 1/2% Notes occurred at a discount resulting in a $5,640,000 pre-tax gain on early extinguishment of debt. As a result of the repayment of the various outstanding debt instruments including the 8 1/2% Notes, $4,925,000 of pre-tax deferred financing costs were written-off in fiscal 2004. The net effect of these two items, a $715,000 pre-tax gain, is shown as part of other (income) and expense, net. During fiscal 2006, the Company used a portion of the proceeds from its stock offering (see Note 14) to repurchase $47,616,000 of the outstanding 10% Notes. The repurchase of the 10% Notes occurred at a premium resulting in a pre-tax loss on early extinguishment of debt of $4,786,000. As a result of the repurchase of the 10% Notes, $1,085,000 of pre-tax deferred financing costs was written-off. The net effect of these items, a $5,871,000 pre-tax loss in fiscal 2006, is shown as part of other (income) and expense, net. During April and May of 2006, the Company repurchased an additional $32,128,000 of the outstanding 10% Notes (see Note 24). F-16 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) The corresponding credit agreement associated with the Revolving Credit Facility places certain debt covenant restrictions on the Company, including certain financial requirements and a restriction on dividend payments, with which the Company was in compliance as of March 31, 2006. From time to time, the Company manages its debt portfolio by using interest rate swaps to achieve an overall desired position of fixed and floating rates. In June 2001, the Company entered into an interest rate swap agreement to effectively convert $40,000,000 of variable-rate debt to fixed-rate debt, which matured in June 2003. This cash flow hedge was considered effective and the gain or loss on the change in fair value was reported in other comprehensive income, net of tax. In August 2003, the Company entered into an interest rate swap agreement to convert $93,500,000 of fixed-rate debt (10%) to variable-rate debt (LIBOR plus 578.2 basis points) through August 2008 and $57,500,000 from August 2008 through August 2010. This interest rate swap was considered an ineffective hedge and therefore the change in fair value was recognized in income as a gain. The swap was terminated in January 2004 and a pre-tax gain of $1,900,000 was recognized as other income as a result of changes in the fair value of the swap. Provisions of the 8 7/8% Notes include, without limitation, restrictions on indebtedness, asset sales, and dividends and other restricted payments. Until November 1, 2008, the Company may redeem up to 35% of the outstanding notes at a redemption price of 108.875% with the proceeds of equity offerings, subject to certain restrictions. The 8 7/8% Notes are redeemable at the option of the Company, in whole or in part, at prices declining annually from the Make-Whole Price (as defined in the 8 7/8% Notes agreement) to 100% on and after November 1, 2011. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 8 7/8% Notes may require us to repurchase all or a portion of such holder's 8 7/8% Notes at a purchase price equal to 101% of the principal amount thereof. The 8 7/8% Notes are guaranteed by certain existing and future domestic subsidiaries and are not subject to any sinking fund requirements. Provisions of the 10% Notes include, without limitation, restrictions on liens, indebtedness, asset sales, and dividends and other restricted payments. The 10% Notes are redeemable at the option of the Company, in whole or in part, at prices declining annually from the Make-Whole Price (as defined in the 10% Notes agreement) to 100% on and after August 1, 2009. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the 10% Notes may require the Company to repurchase all or a portion of such holder's 10% Notes at a purchase price equal to 101% of the principal amount thereof. The 10% Notes are guaranteed by certain existing and future domestic subsidiaries and are not subject to any sinking fund requirements. The 10% Notes are also secured, in a second lien position, by all domestic inventory, receivables, equipment, real property, subsidiary stock (limited to 65% for foreign subsidiaries) and intellectual property. The carrying amount of the Company's revolving credit facility approximates the fair value based on current market rates. The Company's Senior Secured Notes and Senior Subordinated Notes have an approximate fair market value of $74,207,000 and $142,800,000, respectively, based on quoted market prices, the total of which is more than their aggregate carrying amount of $203,384,000. The principal payments scheduled to be made as of March 31, 2006 on the above debt, for the next five annual periods subsequent thereto, are as follows (in thousands): 2007 $ 127 2008 117 2009 53 2010 33 2011 67,411 F-17 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 11. RETIREMENT PLANS The Company provides defined benefit pension plans to certain employees. The Company uses December 31 as the measurement date for all of its pension plans. The following provides a reconciliation of benefit obligation, plan assets, and funded status of the plans: --------------------------------- MARCH 31, --------------------------------- 2006 2005 ---- ---- Change in benefit obligation: Benefit obligation at beginning of year.................................... $ 120,634 $ 110,865 Service cost.. 4,004 4,285 Interest cost.. 7,213 6,718 Actuarial loss.. 7,003 2,888 Benefits paid.. (4,860) (4,410) Foreign exchange rate changes.. 154 288 --------------------------------- Benefit obligation at end of year.. $ 134,148 $ 120,634 =================================== Change in plan assets: Fair value of plan assets at beginning of year............................. $ 91,323 $ 80,564 Actual gain on plan assets... 5,795 5,250 Employer contribution.. 7,816 9,673 Benefits paid... (4,860) (4,410) Foreign exchange rate changes... 132 246 --------------------------------- Fair value of plan assets at end of year.................................. $ 100,206 $ 91,323 =================================== Funded status .... $ (33,942) $ (29,311) Unrecognized actuarial loss... 35,282 29,744 Unrecognized prior service cost.. 2,148 1,537 --------------------------------- Net amount recognized... $ 3,488 $ 1,970 =================================== Amounts recognized in the consolidated balance sheets are as follows: --------------------------------- MARCH 31, --------------------------------- 2006 2005 ---- ---- Intangible asset.. $ 2,148 $ 1,537 Accrued liabilities... (5,987) (4,325) Other non-current liabilities.. (20,284) (18,637) Deferred tax effect of accumulated other comprehensive loss................ 11,038 8,823 Accumulated other comprehensive loss...................................... 16,573 14,572 --------------------------------- Net amount recognized... $ 3,488 $ 1,970 =================================== Net periodic pension cost included the following components: --- YEAR ENDED MARCH 31, --- 2006 2005 2004 ---- ---- ---- Service costs--benefits earned during the period................... $ 4,004 $ 4,285 $ 3,921 Interest cost on projected benefit obligation...................... 7,213 6,719 6,711 Expected return on plan assets.................................... (6,753) (6,666) (5,404) Net amortization.. 2,518 4,033 1,978 --- Net periodic pension cost... $ 6,982 $ 8,371 $ 7,206 === The fiscal 2005 pension expense includes a one-time, non-cash charge of $2,037,000 relating to a defined benefit plan at one of our foreign operations. The accumulated benefit obligation for all defined benefit plans was $126,196,000 and $113,486,000 as of March 31, 2006 and 2005, respectively. F-18 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) Information for pension plans with a projected benefit obligation in excess of plan assets is as follows: ------------------------- MARCH 31, ------------------------- 2006 2005 ---- ---- Projected benefit obligation.............. $ 134,148 $ 120,634 Fair value of plan assets................ 100,206 91,323 Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follows: ------------------------- MARCH 31, ------------------------- 2006 2005 ---- ---- Accumulated benefit obligation............ $ 126,196 $ 113,486 Fair value of plan assets................ 100,206 91,323 Unrecognized gains and losses are amortized on a straight-line basis over the average remaining service period of active participants. The weighted-average assumptions in the following table represent the rates used to develop the actuarial present value of the projected benefit obligation for the year listed and also net periodic pension cost for the following year: MARCH 31, --- 2006 2005 2004 2003 --- Discount rate....................................... 5.75% 6.00% 6.25% 6.75% Expected long-term rate of return on plan assets..... 7.50 8.25 8.40 8.50 Rate of compensation increase....................... 4.00 4.00 4.00 4.00 The expected rate of return on plan asset assumptions are determined considering historical averages and real returns on each asset class. The Company's retirement plan target and actual asset allocations are as follows: MARCH 31, --- TARGET ACTUAL -------------- ---------------------------- 2007 2006 2005 -------------- ---------------------------- Equity securities.................................. 70% 56% 55% Fixed income.. 30 44 45 -------------- ---------------------------- Total plan assets.................................. 100% 100% 100% ============== ============================ The Company has an investment objective for domestic pension plans to adequately provide for both the growth and liquidity needed to support all current and future benefit payment obligations. The investment strategy is to invest in a diversified portfolio of assets which are expected to satisfy the aforementioned objective and produce both absolute and risk adjusted returns competitive with a benchmark that is a blend of the S&P 500 and an aggregate bond fund. The shift to the targeted allocation is the result of management's re-evaluation of its investment allocation. The targeted allocation will be accomplished as some plan assets governed by collective bargaining contracts will be transferred from fixed income into equity securities, as well as reallocation of remaining assets to achieve the desired balance during fiscal 2007. The Company's funding policy with respect to the defined benefit pension plans is to contribute annually at least the minimum amount required by the Employee Retirement Income Security Act of 1974

(ERISA). Additional contributions may be made to minimize PBGC premiums. The Company expects to contribute $5,987,000 to its pension plans in fiscal 2007. F-19 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) Information about the expected benefit payments for the Company's defined benefit plans is as follows: 2007 $ 5,079 2008 6,174 2009 5,888 2010 6,487 2011 7,084 2012-2016 46,221 The Company also sponsors defined contribution plans covering substantially all domestic employees. Participants may elect to contribute basic contributions. These plans provide for employer contributions based primarily on employee participation. The Company recorded a charge for such contributions of approximately $1,476,000, $673,000 and $635,000 for the years ended March 31, 2006, 2005 and 2004, respectively. 12. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) The AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" requires that compensation expense for ESOP shares be measured based on the fair value of those shares when committed to be released to employees, rather than based on their original cost. Also, dividends on those ESOP shares that have not been allocated or committed to be released to ESOP participants are not reflected as a reduction of retained earnings. Rather, since those dividends are used for debt service, a charge to compensation expense is recorded. Furthermore, ESOP shares that have not been allocated or committed to be released are not considered outstanding for purposes of calculating earnings per share. The obligation of the ESOP to repay borrowings incurred to purchase shares of the Company's common stock is guaranteed by the Company; the unpaid balance of such borrowings, if any, would be reflected in the consolidated balance sheet as a liability. An amount equivalent to the cost of the collateralized common stock and representing deferred employee benefits has been recorded as a deduction from shareholders' equity. Substantially all of the Company's domestic non-union employees are participants in the ESOP. Contributions to the plan result from the release of collateralized shares as debt service payments are made. Compensation expense amounting to $653,000, $296,000 and $200,000 in fiscal 2006, 2005 and 2004, respectively, is recorded based on the guaranteed release of the ESOP shares at their fair market value. Dividends on allocated ESOP shares, if any, are recorded as a reduction of retained earnings and are applied toward debt service. At March 31, 2006 and 2005, 723,618 and 795,791 of ESOP shares, respectively, were allocated or available to be allocated to participants' accounts. At March 31, 2006 and 2005, 249,821 and 284,695 of ESOP shares were pledged as collateral to guarantee the ESOP term loans. The fair market value of unearned ESOP shares at March 31, 2006 amounted to $6,728,000. 13. POSTRETIREMENT BENEFIT OBLIGATION The Company sponsors defined benefit postretirement health care plans that provide medical and life insurance coverage to certain domestic retirees and their dependents of one of its subsidiaries. Prior to the acquisition of this subsidiary, the Company did not sponsor any postretirement benefit plans. The Company pays the majority of the medical costs for certain retirees and their spouses who are under age 65. For retirees and dependents of retirees who retired prior to January 1, 1989, and are age 65 or over, the Company contributes 100% toward the American Association of Retired Persons ("AARP") premium frozen at the 1992 level. For retirees and dependents of retirees who retired after January 1, 1989, the Company contributes $35 per month toward the AARP premium. The life insurance plan is noncontributory. F-20 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) On December 8, 2003, Congress passed the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("Medicare Act"). In March 2004, the FASB issued Staff Position No FAS 106-2 "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003 ("FSP No 106-2")," which provides accounting guidance on how to account for the effects of the Medicare Act on postretirement plans that provide prescription drug benefits. The Medicare Act also requires certain disclosures regarding the effect of the subsidy provided by the Medicare Act. Additionally, FSP 106-2 provides two transition methods - retroactive to the date of enactment or prospective from the date of adoption. The Company elected to adopt FAS 106-2 and apply the prospective transition method in the second quarter of fiscal 2005. The accumulated post retirement benefit obligation decreased $2,339,000 as of July 4, 2004 and net periodic postretirement benefit cost decreased by $225,000 for fiscal 2005. As a result of delays in filing the required paperwork to receive the prescription drug benefits under the Medicare Act, the benefit obligation has been adjusted at March 31, 2006 to reflect an increase in the liability that will be charged to net periodic postretirement benefit cost over the average remaining service period of the participants. The Company still expects to file the required paperwork at some point in the future to receive the benefit. The impact of the delayed filing was not material to the benefit obligation at March 31, 2006 or net periodic postretirement benefit cost for the year end March 31, 2006. The Company's postretirement health benefit plans are not funded. In accordance with FAS No. 132 "Employers'

Disclosures about Pensions and Other Postretirement Benefits," the following sets forth a reconciliation of benefit obligation and the funded status of the plan: --------------------------------- MARCH 31, --------------------------------- 2006 2005 ---- ---- Change in benefit obligation: Benefit obligation at beginning of year................................ $ 12,927 $ 15,984 Service cost... 6 17 Interest cost... 751 834 Amendment.. - (2,339) Actuarial loss.. 601 460 Benefits paid... (2,064) (2,029) --------------------------------- Benefit obligation at end of year.................................. $ 12,221 $ 12,927 ==================================== Funded status .... $ (12,221) $ (12,927) Unrecognized actuarial loss... 5,745 5,554 --------------------------------- Net amount recognized in accrued and other non-current liabilities...... $ (6,476) $ (7,373) ==================================== Net periodic postretirement benefit cost included the following: ------------------------------------- YEAR ENDED MARCH 31, ------------------------------------- 2006 2005 2004 ---- ---- ---- Service cost--benefits attributed to service during the period.......... $ 6 $ 17 $ 11 Interest cost... 751 834 869 Amortization of prior service gain.................................... - - (153) Amortization of plan net losses....................................... 411 460 643 ------------------------------------- Net periodic postretirement benefit cost.......................... $1,168 $1,311 $1,370 ======================================= For measurement purposes, healthcare costs were assumed to increase 9% in fiscal 2007, grading down over time to 5% in seven years. The discount rate used in determining the accumulated postretirement benefit obligation was 5.75% and 6.00% as of March 31, 2006 and 2005, respectively. F-21 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) Information about the expected benefit payments for the Company's postretirement health benefit plans is as follows: 2007 $ 1,620 2008 1,529 2009 1,441 2010 1,323 2011 1,315 2012-2016 5,250 Assumed medical claims cost trend rates have an effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects: ONE PERCENTAGE ONE PERCENTAGE POINT INCREASE POINT DECREASE --- Effect on total of service and interest cost components........ $ 40 $ (36) Effect on postretirement obligation........................... 724 (656) 14. EARNINGS PER SHARE AND STOCK PLANS EARNINGS PER SHARE The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS No. 128). Basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share includes any dilutive effects of stock options. The following table sets forth the computation of basic and diluted earnings per share: --- YEAR ENDED MARCH 31, --- 2006 2005 2004 ---- ---- ---- Numerator for basic and diluted earnings per share: Income from continuing operations.......................... $ 59,100 $ 16,067 $ 1,193 Income from discontinued operations......................... 696 643 - --- Net income .... $ 59,796 $ 16,710 $ 1,193 === Denominators: Weighted-average common stock outstanding-- denominator for basic EPS................................ 16,052 14,594 14,553 Effect of dilutive employee stock options.................. 576 209 1 --- Adjusted weighted-average common stock outstanding and assumed conversions-- denominator for diluted EPS.............................. 16,628 14,803 14,554 === The weighted-average common stock outstanding shown above is net of unallocated ESOP shares (see Note 12). During fiscal 2006, the Company registered an additional 3,350,000 shares of its common stock which were sold at $20.00 per share. The number of shares offered by the Company was 3,000,000 and 350,000 were offered by a selling shareholder. The Company did not receive any proceeds from the sale of shares by the selling shareholder. This stock offering increased the Company's weighted average common stock outstanding by 1,134,000 shares for fiscal 2006. A portion of the proceeds received by the Company were used to redeem $47,616,000 principal amount of the Company's outstanding 10% Senior Secured Notes. The balance of the proceeds is available for other general corporate purposes to advance the Company's strategy of global growth, additional debt repayment, investments and acquisitions. F-22 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) STOCK PLANS The Company maintains two stock option plans, a Non-Qualified Stock Option Plan (Non-Qualified Plan) and an Incentive Stock Option Plan (Incentive Plan). Under the Non-Qualified Plan, options may be granted to officers and other key employees of the Company as well as to non-employee directors and advisors. As of March 31, 2006, no options have been granted to non-employees. Options granted under the Non-Qualified and Incentive Plans become exercisable over a four-year period at the rate of 25% per year commencing one year from the date of grant at an exercise price of not less than 100% of the fair market value of the common stock on the date of grant. Any option granted under the Non-Qualified plan may be exercised not earlier than one year from the date such option is granted. Any option granted under the Incentive Plan may be exercised not earlier than one year and not later than 10 years from the date such option is granted. A summary of option transactions during each of the three fiscal years in the period ended March 31, 2006 is as follows: WEIGHTED-AVERAGE SHARES EXERCISE PRICE -- Balance at March 31, 2003...................................... 1,311,750 $ 14.05 Granted... 45,000 6.92 Cancelled... (126,900) 14.28 -- Balance at March 31, 2004...................................... 1,229,850 $ 13.77 Granted... 741,500 6.41 Exercised... (52,000) 8.25 Cancelled... (116,550) 13.82 -- Balance at March 31, 2005...................................... 1,802,800 $ 10.89 Granted... 45,000 21.61 Exercised... (626,282) 11.41 Cancelled... (89,400) 7.76 -- Balance at March 31, 2006...................................... 1,132,118 $ 11.28 == A summary of exercisable and available for grant options is as follows: -- YEAR ENDED MARCH 31, -- 2006 2005 2004 ---- ---- ---- Exercisable at end of year.. 605,243 926,050 851,425 Available for grant at end of year.................................. 172,100 127,700 752,650 Exercise prices for options outstanding as of March 31, 2006, ranged from $5.46 to $29.00. The following table provides certain information with respect to stock options outstanding at March 31, 2006: WEIGHTED-AVERAGE STOCK OPTIONS WEIGHTED-AVERAGE REMAINING CONTRACTUAL RANGE OF EXERCISE PRICES OUTSTANDING EXERCISE PRICE LIFE ---------------------- ---------- ------------- ---- Up to $10.00...................... 702,000 $ 6.91 7.3 $10.01 to $20.00................. 175,568 14.32 4.9 $20.01 to $30.00................. 254,550 21.25 4.1 --- 1,132,118 $ 11.28 6.2 === The following table provides certain information with respect to stock options exercisable at March 31, 2006: STOCK OPTIONS WEIGHTED-AVERAGE RANGE OF EXERCISE PRICES OUTSTANDING EXERCISE PRICE ---------------------- ---------- ------------- Up to $10.00.. 276,375 $ 8.95 $10.01 to $20.00.. 119,318 14.51 $20.01 to $30.00.. 209,550 21.18 ------------------------ 605,243 $ 14.28 ============= =========== F-23 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the grant date and the number of options granted is fixed, no compensation expense is recognized. Pro forma information regarding net income and earnings per share is required by FAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The fair value for issued options in fiscal 2006, 2005 and 2004 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: YEAR ENDED YEAR ENDED YEAR ENDED MARCH 31, 2006 MARCH 31, 2005 MARCH 31, 2004 -- Assumptions: Risk-free interest rate................... 4.5 % 4.9 % 4.5

% Dividend yield--Incentive Plan............. 0.0 % 0.0 % 0.0 % Volatility factor......................... 0.615 0.569 0.567 Expected life--Incentive Plan.............. 5 years 5 years 5 years The weighted-average fair value of options granted in 2006, 2005 and 2004 was $12.13, $3.45 and $3.68 per share, respectively. The Company maintains a Restricted Stock Plan, under which the Company had 48,000 and 49,000 shares reserved for issuance at March 31, 2006 and 2005, respectively. The Company charges unearned compensation, a component of shareholders' equity, for the market value of shares, as they are issued. It is then ratably amortized over the restricted period. Grantees that remain continuously employed with the Company become vested in their shares five years after the date of the grant. 1,000 shares were issued during the year ended March 31, 2006. No shares were issued during the years ended March 31, 2005 or 2004. 15. LOSS CONTINGENCIES From time to time, the Company is named a defendant in legal actions arising out of the normal course of business. The Company is not a party to any pending legal proceeding other than ordinary, routine litigation incidental to our business. The Company does not believe that any of our pending litigation will have a material impact on its business. GENERAL AND PRODUCT LIABILITY-- During the fourth quarter of fiscal 2006, the Company reevaluated the predictability of future cash flows associated with its self-insured product liability and asbestos reserves and concluded that future cash payments related to reserves for nonasbestos claims could no longer be discounted due to their underlying uncertainty. Reserves for asbestos claims continue to be discounted at a risk free rate. This change in estimate resulted in a reduction in the discount recorded by the company of approximately $1,578,000 ($0.09 diluted EPS impact for fiscal 2006). The gross reserves as of March 31, 2006 and 2005 were $23,329,000 and $19,653,000, respectively. This liability is funded by investments in marketable securities (see Notes 2 and 6). F-24 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) The following table provides a reconciliation of the beginning and ending balances for accrued general and product liability: --- YEAR ENDED MARCH 31, --- 2006 2005 2004 ---- ---- ---- Accrued general and product liability, beginning of year.. $ 16,094 $ 15,930 $ 14,439 Add impact of change in discount estimate................. 1,578 - - Add provision for claims................................. 6,342 5,780 5,398 Deduct payments for claims............................... (3,045) (5,616) (3,907) --- Accrued general and product liability, end of year........ $ 20,969 $ 16,094 $ 15,930 === The per occurrence limits on our self-insurance for general and product liability coverage to Columbus McKinnon were $2,000,000 from inception through fiscal 2003 and $3,000,000 for fiscal 2004 and thereafter. In addition to the per occurrence limits, the Company's coverage is also subject to an annual aggregate limit, applicable to losses only. These limits range from $2,000,000 to $6,000,000 for each policy year from inception through fiscal 2006. Along with other manufacturing companies, the Company is subject to various federal, state and local laws relating to the protection of the environment. To address the requirements of such laws, the Company has adopted a corporate environmental protection policy which provides that all of its owned or leased facilities shall, and all of its employees have the duty to, comply with all applicable environmental regulatory standards, and the Company has initiated an environmental auditing program for our facilities to ensure compliance with such regulatory standards. The Company has also established managerial responsibilities and internal communication channels for dealing with environmental compliance issues that may arise in the course of our business. Because of the complexity and changing nature of environmental regulatory standards, it is possible that situations will arise from time to time requiring the Company to incur expenditures in order to ensure environmental regulatory compliance. However, the Company is not aware of any environmental condition or any operation at any of its facilities, either individually or in the aggregate, which would cause expenditures having a material adverse effect on its results of operations, financial condition or cash flows and, accordingly, has not budgeted any material capital expenditures for environmental compliance for fiscal 2007. 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. F-25 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) Based on actuarial information, the Company has estimated its asbestos-related aggregate liability through March 31, 2031 and March 31, 2082 to range between $5,500,000 and $19,000,000 using actuarial parameters of continued claims for a period of 25 to 76 years. The Company's estimation of its asbestos-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles, is through March 31, 2031 and ranges from $5,500,000 to $6,500,000 as of March 31, 2006. The range of probable and estimable liability reflects 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. Based on the underlying actuarial information, the Company has reflected $6,300,000 as a liability in the consolidated financial statements in accordance with U.S. generally accepted accounting principles. The increase in the recorded liability from the amount of $4,800,000 at March 31, 2005 is due to a change in actuarial parameters used to calculate required asbestos liability reserve levels. The recorded liability does not consider the impact of any potential favorable federal legislation such as the "FAIR Act." Of this amount, management expects to incur asbestos liability payments of approximately $500,000 over the next 12 months. Because payment of the liability is likely to extend over many years, management believes that the potential additional costs for claims will not have a material after-tax effect on the financial condition of the Company or its liquidity, although the net after-tax effect of any future liabilities recorded could be material to earnings in a future period. 16. RESTRUCTURING CHARGES The Company has analyzed its global capacity requirements and, as a result, began a series of facility rationalization projects in early fiscal 2002. The decision to close or significantly reorganize the facilities identified was based upon the cost structure of those facilities relative to others within the Company. Production operations were transferred to other facilities within the same reporting segment, to better utilize their available capacity. During fiscal 2006, the Company recorded restructuring costs of $1,609,000 related to environmental remediation charges, inventory disposal costs, and facility costs as a result of the continued closure, merging and reorganization of the Company. $1,000,000 and $600,000 of these costs are related to the Products and Solutions segments, respectively. The charges primarily relate to the cost of removal of certain environmentally hazardous materials in accordance with SFAS No. 143 "Accounting for Asset Retirement Obligations" and FIN 47 ($600,000) and inventory disposal related to the rationalization of certain product families within our mechanical jacks line ($400,000). In addition, we have accrued additional costs of maintenance of a non-operating facility based on anticipated sale date ($300,000). The costs associated with the disposal of this facility were originally accrued as a result of the restructuring occurring prior to the adoption of SFAS No. 146 SFAS No. 146 "Accounting for the Costs Associated with Exit or Disposal Activities." As of March 31, 2006, the liability primarily consists of costs associated with the preparation and maintenance of a non-operating facility and environmental remediation costs which were accrued in accordance with SFAS No. 143. The Company has one facility that is completely closed and prepared for disposal. During fiscal 2005, the Company recorded restructuring costs of $910,000 related to various employee termination benefits and facility costs as a result of the continued closure, merging and reorganization of the Company. $600,000 and $300,000 of these costs are related to the Products and Solutions segments, respectively. The charges primarily relate to the maintenance of facilities being expensed on an as incurred basis in accordance with SFAS No. 146. As of March 31, 2005, the liability primarily consisted of costs associated with the preparation and maintenance of a non-operating facility prior to disposal which were accrued prior to the adoption of SFAS No. 146. Due to changes in the real estate market and a reassessment of the fair value of the property, the asset was written-down by $300,000 during fiscal 2005. During fiscal 2004, the Company recorded restructuring costs of $1,239,000 related to various employee termination benefits and facility costs as a result of the continued closure, merging and reorganization of the Company and completion of the two open projects from fiscal 2003. $800,000 and $400,000 of these costs are related to the Products and Solutions segments, respectively. Approximately 130 employees were terminated at the various facilities. As of March 31, 2004, the liability consisted of severance payments and costs associated with the preparation and maintenance of non-operating facilities prior to disposal which were accrued prior to the adoption of SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." F-26 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) The following provides a reconciliation of the activity related to restructuring reserves: -------------------------------------- EMPLOYEE FACILITY TOTAL Reserve at March 31, 2003... $ 922 $ 1,409 $ 2,331 Fiscal 2004 restructuring charges....................................... 1,005 234 1,239 Cash payments.. (1,766) (1,243) (3,009) ------------------------------------- Reserve at March 31, 2004... $ 161 $ 400 $ 561 Fiscal 2005 restructuring charges....................................... 81 829 910 Cash payments.. (226) (801) (1,027) Write-down of non-operating property..................................... - (300) (300) ------------------------------------- Reserve at March 31, 2005... $ 16 $ 128 $ 144 Fiscal 2006 restructuring charges....................................... 358 1,251 1,609 Cash payments... (315) (645) (960) ------------------------------------- Reserve at March 31, 2006... $ 59 $ 734 $ 793 == 17. INCOME TAXES The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income from continuing operations before income tax expense. The sources and tax effects of the difference were as follows: --- YEAR ENDED MARCH 31, --- 2006 2005 2004 ---- ---- ---- Expected tax at 35%.. $ 9,854 $ 6,617 $ 1,821 State income taxes net of federal benefit........................... 705 363 614 Foreign taxes greater (less) than statutory provision............... 41 (579) 905 Permanent items.. 370 - - Benefit of worthless stock deduction................................ - - (44,815) Research and development credit.................................... - - (1,058) Valuation allowance... (44,237) (4,435) 46,974 Other.. 2,321 230 (432) -- Actual tax (benefit) provision...................................... $ (30,946) $ 2,196 $ 4,009 == The provision for income tax (benefit) expense consisted of the following: -- YEAR ENDED MARCH 31, -- 2006 2005 2004 ---- ---- ---- Current income tax expense (benefit): United States Federal... $ 856 $ (426) $ 147 State taxes.. 1,084 559 928 Foreign.. 4,082 3,034 2,779 Deferred income tax (benefit) expense: United States.. (37,099) - 880 Foreign.. 131 (971) (725) -- $ (30,946) $ 2,196 $ 4,009 == F-27 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) The Company applies the liability method of accounting for income taxes as required by FAS Statement No. 109, "Accounting for Income Taxes." The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows: --------------------------------- MARCH 31, --------------------------------- 2006 2005 ---- ---- Deferred tax assets: Federal net operating loss carryforwards.................................. $ 29,075 $ 34,292 State net operating loss carryforwards..................................... 6,301 6,750 Employee benefit plans... 9,518 7,929 Asset reserves.. 2,384 2,596 Insurance reserves... 7,283 6,558 Accrued vacation and incentive costs....................................... 1,980 2,077 Capital loss carryforwards.. - 708 Other.. 6,337 6,543 Valuation allowance.. (6,301) (50,538) --------------------------------- Gross deferred tax assets 56,577 16,915 --------------------------------- Deferred tax liabilities: Inventory reserves.. (3,398) (3,050) Property, plant, and equipment.. (2,822) (4,321) --------------------------------- Gross deferred tax liabilities... (6,220) (7,371) --------------------------------- Net deferred tax assets... $ 50,357 $ 9,544 ===================================== As of March 31, 2006, the Company had U.S. federal net operating loss carryforwards of approximately $83,070,000. The net operating loss carryforwards arose in fiscal 2004 primarily as a result of a worthless stock deduction taken on the Company's March 31, 2003 federal income tax return relating to the sale of substantially all of the assets of a domestic subsidiary. If not utilized, these carryforwards will expire in fiscal years 2023 and 2024. A valuation allowance of $50,538,000 existed at March 31, 2005 due to the uncertainly of whether the Company's operating loss carryforwards, deferred tax assets and capital loss carryforwards might ultimately be realized. We were able to utilize $14,906,000 of the federal operating loss carryforwards in fiscal 2006 which reduced the valuation allowance by $5,217,000. As a result of the increased operating performance of the Company over the past several years, the Company reevaluated the certainty as to whether the Company's remaining net operating loss carryforwards and other deferred tax assets may ultimately be realized. As a result of the determination that it is more likely than not that all of the remaining deferred tax assets will be realized with the exception of state net operating loss carryforwards, a significant portion of the remaining valuation allowance was reversed in fiscal 2006. Deferred income taxes are classified within the consolidated balance sheets based on the following breakdown: ------------------------- MARCH 31, ------------------------- 2006 2005 ---- ---- Net current deferred tax asset............... $ 6,513 $ 4,977 Net non-current deferred tax asset........... 46,065 6,122 Net current deferred tax liability........... (1,189) (816) Net non-current deferred tax liability........ (1,032) (739) ------------------------- Net deferred tax asset.................. $ 50,357 $ 9,544 ========================= The net current deferred tax asset, net current deferred tax liability, and net non-current deferred tax liability are included in prepaid expenses, accrued liabilities, and other non-current liabilities, respectively. F-28 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) Income from continuing operations before income tax (benefit) expense includes foreign subsidiary income of $13,034,000, $8,588,000 and $3,687,000 for the years ended March 31, 2006, 2005, and 2004, respectively. As of March 31, 2006, the Company had unrecognized deferred tax liabilities related to approximately $24 million of cumulative undistributed earnings of foreign subsidiaries. These earnings are considered to be permanently invested in operations outside the United States. Determination of the amount of unrecognized deferred U.S. income tax liability with respect to such earnings is not practicable. In the year ended March 31, 2006, 581,064 shares of common stock were issued through the exercise of non-qualified stock options or through the disqualifying disposition of incentive stock options. The total tax benefit to the Company from these transactions, which is credited to additional paid-in capital rather than recognized as a reduction of income tax expense, was $2,154,000 in 2006. This tax benefit has also been recognized in the consolidated balance sheet as a reduction of deferred income taxes payable. The Company reviewed the provisions of the American Jobs Creation Act of 2004. The American Jobs Creation Act had no material impact on the operations of the Company for fiscal year 2006. 18. RENTAL EXPENSE AND LEASE COMMITMENTS Rental expense for the years ended March 31, 2006, 2005 and 2004 was $3,914,000, $3,718,000, and $3,594,000, respectively. The following amounts represent future minimum payment commitments as of March 31, 2006 under non-cancelable operating leases extending beyond one year: VEHICLES AND YEAR ENDED MARCH 31, REAL PROPERTY EQUIPMENT TOTAL ------------------- ------------ --------- ----- 2007................... $ 1,279 $ 2,156 $ 3,435 2008................... 1,333 1,645 2,978 2009................... 1,267 1,305 2,572 2010................... 1,108 975 2,083 2011................... 704 676 1,380 F-29 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 19. SUMMARY FINANCIAL INFORMATION The following information sets forth the condensed consolidating summary financial information of the parent and guarantors, which guarantee the 10% Senior Secured Notes and the 8 7/8% Senior Subordinated Notes, and the nonguarantors. The guarantors are wholly owned and the guarantees are full, unconditional, joint and several. As of and for the year ended March 31, 2006: NON PARENT GUARANTORS GUARANTORS ELIMINATIONS CONSOLIDATED -- AS OF MARCH 31, 2006: Current assets: Cash.................................. $ 27,531 $ (1,461) $ 19,528 $ -- $ 45,598 Trade accounts receivable and unbilled revenues............................ 60,808 157 46,822 -- 107,787 Inventories............................ 32,708 18,177 26,325 (2,365) 74,845 Prepaid expenses....................... 4,777 1,446 8,903 550 15,676 -- Total current assets................ 125,824 18,319 101,578 (1,815) 243,906 Net property, plant, and equipment........... 24,651 11,703 18,778 -- 55,132 Goodwill and other intangibles, net.......... 89,808 58,036 39,483 -- 187,327 Intercompany balances....................... 92,325 (93,637) (73,697) 75,009 -- Other non-current assets.................... 96,548 197,328 25,939 (240,136) 79,679 -- Total assets......................... $ 429,156 $ 191,749 $ 112,081 $ (166,942) $ 566,044 == Current liabilities......................... $ 48,146 $ 15,368 $ 43,306 $ 473 $ 107,293 Long-term debt, less current portion......... 203,384 -- 457 -- 203,841 Other non-current liabilities............... 16,305 8,676 25,508 -- 50,489 -- Total liabilities.................... 267,835 24,044 69,271 473 361,623 Shareholders' equity........................ 161,321 167,705 42,810 (167,415) 204,421 -- Total liabilities and shareholders' equity.........................

$ 429,156 $ 191,749 $ 112,081 $ (166,942) $ 566,044 == FOR THE YEAR ENDED MARCH 31, 2006: Net sales.................................. $ 268,570 $ 152,181 $ 163,787 $ (28,531) $ 556,007 Cost of products sold....................... 200,639 114,042 120,842 (27,138) 408,385 -- Gross profit................................ 67,931 38,139 42,945 (1,393) 147,622 -- Selling, general and administrative expenses. 40,811 16,003 31,081 -- 87,895 Restructuring charges....................... 1,635 -- (26) -- 1,609 Amortization of intangibles................. 179 3 67 -- 249 -- Income from operations...................... 25,306 22,133 11,823 (1,393) 57,869 Interest and debt expense................... 19,558 4,876 233 -- 24,667 Other (income) and expense, net............. 8,055 20 (3,027) -- 5,048 -- (Loss) income from continuing operations before income tax (benefit) expense....... (2,307) 17,237 14,617 (1,393) 28,154 Income tax (benefit) expense................ (37,950) 2,912 4,263 (171) (30,946) -- Income from continuous operations............ 35,643 14,325 10,354 (1,222) 59,100 Income from discontinued operations.......... 696 -- -- -- 696 -- Net income.................................. $ 36,339 $ 14,325 $ 10,354 $ (1,222) $ 59,796 == F-30 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) NON PARENT GUARANTORS GUARANTORS ELIMINATIONS CONSOLIDATED -- FOR THE YEAR ENDED MARCH 31, 2006: OPERATING ACTIVITIES: Cash provided by operating activities........ $ 28,512 $ 8,418 $ 11,587 $ -- $ 48,517 INVESTING ACTIVITIES: Purchases of marketable securities, net...... -- -- (888) -- (888) Capital expenditures........................ (4,759) (800) (2,871) -- (8,430) Proceeds from sale of businesses and surplus real estate.............................. -- 468 1,623 -- 2,091 Proceeds from discontinued operations note receivable - revised..................... 857 -- -- -- 857 -- Net cash used in investing activities........ (3,902) (332) (2,136) -- (6,370) FINANCING ACTIVITIES: Proceeds from issuance of common stock....... 56,619 -- -- -- 56,619 Proceeds from exercise of stock options...... 7,149 -- -- -- 7,149 Net borrowings under revolving line-of-credit agreements............................... 240 -- 1,121 -- 1,361 Repayment of debt........................... (204,832) -- (335) -- (205,167) Proceeds from issuance of long-term debt..... 136,000 -- -- -- 136,000 Deferred financing costs incurred........... (2,877) -- -- -- (2,877) Dividends paid.............................. 9,067 (8,854) (213) -- -- Other....................................... 558 -- -- -- 558 -- Net cash provided by (used in) financing activities............................... 1,924 (8,854) 573 -- (6,357) EFFECT OF EXCHANGE RATE CHANGES ON CASH...... -- 4 325 -- 329 -- Net change in cash and cash equivalents...... 26,534 (764) 10,349 -- 36,119 Cash and cash equivalents at beginning of year....................... 997 (697) 9,179 -- 9,479 -- Cash and cash equivalents at end of year..... $ 27,531 $ (1,461) $ 19,528 $ -- $ 45,598 == As of and for the year ended March 31, 2005: AS OF MARCH 31, 2005: Current assets: Cash.................................. $ 1,019 $ (697) $ 9,157 $ -- $ 9,479 Trade accounts receivable and unbilled revenues............................ 57,707 197 39,918 -- 97,822 Inventories............................ 33,651 18,919 26,028 (972) 77,626 Prepaid expenses....................... 7,297 973 5,928 -- 14,198 -- Total current assets................ 99,674 19,392 81,031 (972) 199,125 Net property, plant, and equipment........... 25,107 12,847 19,283 -- 57,237 Goodwill and other intangibles, net.......... 90,027 57,287 39,971 -- 187,285 Intercompany balances....................... 98,964 (102,189) (70,216) 73,441 -- Other non-current assets.................... 55,396 197,864 24,159 (240,195) 37,224 -- Total assets........................ $ 369,168 $ 185,201 $ 94,228 $ (167,726) $ 480,871 == Current liabilities......................... $ 47,189 $ 14,450 $ 36,653 $ (1,474) $ 96,818 Long-term debt, less current portion......... 259,520 -- 763 -- 260,283 Other non-current liabilities............... 11,032 8,199 22,772 -- 42,003 -- Total liabilities................... 317,741 22,649 60,188

(1,474) 399,104 Shareholders' equity......................... 51,427 162,552 34,040 (166,252) 81,767 -- Total liabilities and shareholders' equity.......................... $ 369,168 $ 185,201 $ 94,228 $ (167,726) $ 480,871 == F-31

COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) NON PARENT GUARANTORS GUARANTORS ELIMINATIONS CONSOLIDATED -- FOR THE YEAR ENDED MARCH 31, 2005: Net sales.................................... $ 245,166 $ 141,324 $ 151,741 $ (23,479) $ 514,752 Cost of products sold........................ 188,499 110,455 113,369 (23,479) 388,844 -- Gross profit................................ 56,667 30,869 38,372 -- 125,908 -- Selling, general and administrative expenses. 34,290 18,957 30,774 -- 84,021 Restructuring charges........................ 782 -- 128 -- 910 Amortization of intangibles.................. 242 3 67 -- 312 -- Income from operations....................... 21,353 11,909 7,403 -- 40,665 Interest and debt expense.................... 23,916 3,378 326 -- 27,620 Other income, net............................ (1,562) (2,560) (1,096) -- (5,218) -- (Loss) income from continuing operations before income tax (benefit) expense....... (1,001) 11,091 8,173 -- 18,263 Income tax (benefit) expense................. (1,424) 1,487 2,133 -- 2,196 -- Income from continuous operations............ 423 9,604 6,040 -- 16,067 Income from discontinued operations.......... 643 -- -- -- 643 -- Net income.................................. $ 1,066 $ 9,604 $ 6,040 $ -- $ 16,710 == FOR THE YEAR ENDED MARCH 31, 2005: OPERATING ACTIVITIES: Cash (used in) provided by operating activities................................ $ (54,146) $ 64,479 $ 6,828 $ -- $ 17,161 INVESTING ACTIVITIES: Proceeds from marketable securities, net..... 705 -- 609 -- 1,314 Capital expenditures......................... (3,718) (610) (1,597) -- (5,925) Proceeds from sale of businesses and surplus real estate.............................. 3,439 3,303 -- -- 6,742 Net assets held for sale..................... -- 375 -- -- 375 Proceeds from discontinued operations note receivable - revised...................... 643 -- -- -- 643 -- Net cash provided by (used in) investing activities................................ 1,069 3,068 (988) -- 3,149 FINANCING ACTIVITIES: Proceeds from exercise of stock options...... 428 -- -- -- 428 Net payments under revolving line-of-credit agreements................................ (219) -- (904) -- (1,123) Repayment of debt............................ (21,666) -- (79) -- (21,745) Deferred financing costs incurred............ (24) -- -- -- (24) Dividends paid.............................. 68,168 (68,000) (168) -- -- Other....................................... 562 -- -- -- 562 -- Net cash provided by (used in) financing activities................................ 47,249 (68,000) (1,151) -- (21,902) EFFECT OF EXCHANGE RATE CHANGES ON CASH...... (134) 85 19 -- (30) -- Net change in cash and cash equivalents...... (5,962) (368) 4,708 -- (1,622) Cash and cash equivalents at beginning of year....................... 6,981 (329) 4,449 -- 11,101 -- Cash and cash equivalents at end of year..... $ 1,019 $ (697) $ 9,157 $ -- $ 9,479 == F-32

COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) For the year ended March 31, 2004: NON PARENT GUARANTORS GUARANTORS ELIMINATIONS CONSOLIDATED -- FOR THE YEAR ENDED MARCH 31, 2004: Net sales.................................... $ 226,631 $ 114,987 $ 124,116 $ (21,143) $ 444,591 Cost of products sold........................ 173,269 94,677 93,785 (21,986) 339,745 -- Gross profit................................ 53,362 20,310 30,331 843 104,846 -- Selling, general and administrative expenses. 35,046 12,854 25,457 -- 73,357 Restructuring charges........................ 1,281 -- (42) -- 1,239 Amortization of intangibles.................. 245 3 135 -- 383 -- Income from operations....................... 16,790 7,453 4,781 843 29,867 Interest and debt expense.................... 28,390 (263) 729 -- 28,856 Other (income) and expense, net............. 888 (12,573) (1,456) 8,950 (4,191) -- (Loss) income from continuing operations before income tax (benefit) expense....... (12,488) 20,289 5,508 (8,107) 5,202 Income tax (benefit) expense................. (1,306) 3,181 2,134 -- 4,009 -- Net (loss) income........................... $ (11,182) $ 17,108 $ 3,374 $ (8,107) $ 1,193 == FOR THE YEAR ENDED MARCH 31, 2004: OPERATING ACTIVITIES: Cash provided by (used in) operating activities................................ $ 19,359 $ (2,644) $ 18,623 $ (8,969) $ 26,369 INVESTING ACTIVITIES: Proceeds from marketable securities, net..... -- -- 110 -- 110 Capital expenditures........................ (2,635) (700) (284) -- (3,619) Proceeds from sale of businesses............ 4,015 -- -- -- 4,015 Proceeds from sale of property, plant and equipment................................ -- 387 -- -- 387 Net assets held for sale.................... -- 3,376 -- -- 3,376 -- Net cash provided by (used in) investing activities................................ 1,380 3,063 (174) -- 4,269 FINANCING ACTIVITIES: Proceeds from issuance of common stock....... -- -- (19) 19 -- Net (payments) borrowings under revolving line-of-credit agreements................ (9,925) -- 3,033 -- (6,892) Repayment of debt........................... (115,147) -- (10,617) -- (125,764) Proceeds from issuance of long term debt..... 115,000 -- -- -- 115,000 Deferred financing costs incurred............ (4,432) -- -- -- (4,432) Dividends paid.............................. 174 -- (9,124) 8,950 -- Other...................................... 593 -- -- -- 593 -- Net cash (used in) provided by financing activities................................ (13,737) -- (16,727) 8,969 (21,495) EFFECT OF EXCHANGE RATE CHANGES ON CASH...... (78) 72 21 -- 15 -- Net change in cash and cash equivalents...... 6,924 491 1,743 -- 9,158 Cash and cash equivalents at beginning of year....................... 57 (820) 2,706 -- 1,943 -- Cash and cash equivalents at end of year..... $ 6,981 $ (329) $ 4,449 $ -- $ 11,101 == F-33 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 20. BUSINESS SEGMENT INFORMATION As a result of the way the Company manages the business, its reportable segments are strategic business units that offer products with different characteristics. The most defining characteristic is the extent of customized engineering required on a per-order basis. In addition, the segments serve different customer bases through differing methods of distribution. The Company has two reportable segments: Products and Solutions. The Company's Products segment sells hoists, industrial cranes, chain, attachments, and other material handling products principally to third party distributors through diverse distribution channels, and to a lesser extent directly to end-users. The Solutions segment sells engineered material handling systems such as conveyors and lift tables primarily to end-users in the consumer products, manufacturing, warehousing, and, to a lesser extent, the steel, construction, automotive, and other industrial markets. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales are not significant. The Company evaluates performance based on the operating earnings of the respective business units. Segment information as of and for the years ended March 31, 2006, 2005 and 2004 is as follows: --- YEAR ENDED MARCH 31, 2006 -- PRODUCTS SOLUTIONS TOTAL -------- --------- ----- Sales to external customers...... $ 493,896 $ 62,111 $ 556,007 Income from operations........... 55,849 2,020 57,869 Depreciation and amortization.... 7,805 1,019 8,824 Total assets..................... 530,600 35,444 566,044 Capital expenditures............. 7,931 499 8,430 -- YEAR ENDED MARCH 31, 2005 -- PRODUCTS SOLUTIONS TOTAL -------- --------- ----- Sales to external customers...... $ 453,105 $ 61,647 $ 514,752 Income from operations........... 39,392 1,273 40,665 Depreciation and amortization.... 8,092 1,079 9,171 Total assets..................... 449,284 31,587 480,871 Capital expenditures............. 4,203 1,722 5,925 -- YEAR ENDED MARCH 31, 2004 -- PRODUCTS SOLUTIONS TOTAL -------- --------- ----- Sales to external customers...... $ 394,160 $ 50,431 $ 444,591 Income from operations........... 32,326 (2,459) 29,867 Depreciation and amortization.... 8,996 1,130 10,126 Total assets..................... 446,069 27,294 473,363 Capital expenditures............. 3,362 257 3,619 F-34 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) Financial information relating to the Company's operations by geographic area is as follows: --- YEAR ENDED MARCH 31, --- 2006 2005 2004 ---- ---- ---- NET SALES: United

States... $ 394,657 $ 360,917 $ 319,815 Europe... 112,868 108,717 86,518 Canada... 30,492 28,778 27,736 Other... 17,990 16,340 10,522 -- Total... $ 556,007 $ 514,752 $ 444,591 == -- YEAR ENDED MARCH 31, -- 2006 2005 2004 ---- ---- ---- TOTAL ASSETS: United States.. $ 411,199 $ 341,645 $ 347,488 Europe... 123,694 115,241 105,120 Canada... 20,444 17,442 14,628 Other... 10,707 6,543 6,127 -- Total... $ 566,044 $ 480,871 $ 473,363 == -- YEAR ENDED MARCH 31, -- 2006 2005 2004 ---- ---- ---- LONG-LIVED ASSETS: United States.. $ 184,448 $ 185,518 $ 187,202 Europe... 53,357 54,181 53,051 Canada... 1,869 2,672 3,283 Other... 2,785 2,151 1,979 -- Total... $ 242,459 $ 244,522 $ 245,515 == Sales by major product group are as follows: -- YEAR ENDED MARCH 31, -- 2006 2005 2004 ---- ---- ---- Hoists .... $ 258,082 $ 227,789 $ 197,400 Chain and forged attachments... 134,301 127,300 110,681 Industrial cranes... 61,967 62,468 53,276 Other... 101,657 97,195 83,234 -- Total... $ 556,007 $ 514,752 $ 444,591 == F-35 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 21. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) Below is selected quarterly financial data for fiscal 2006 and 2005: --- THREE MONTHS ENDED --- JULY 3, OCTOBER 2, JANUARY 1, MARCH 31, 2005 2005 2006 2006 ---- ---- ---- ---- Net sales............................... $ 140,877 $ 134,712 $ 133,322 $ 147,096 Gross profit............................ 36,543 35,158 34,931 40,990 Income from operations.................. 14,622 13,267 13,114 16,866 Net income.............................. $ 7,322 $ 3,263 $ 1,413 $ 47,798 === Net income per share - basic............ $ 0.50 $ 0.22 $ 0.09 $ 2.63 === Net income per share - diluted........... $ 0.49 $ 0.21 $ 0.08 $ 2.53 === Results include pre-tax losses on early extinguishment of debt of $3,341,000, $4,950,000 and $920,000 for the quarters ended October 2, 2005, January 1, 2006 and March 31, 2006 respectively. Net income includes tax benefit due to the reversal of a valuation allowance of $38,571,000 for the quarter ended March 31, 2006. --- THREE MONTHS ENDED --- JULY 4, OCTOBER 3, JANUARY 2, MARCH 31, 2004 2004 2005 2005 ---- ---- ---- ---- Net sales............................... $ 121,658 $ 122,711 $ 125,913 $ 144,470 Gross profit............................ 31,451 29,943 29,999 34,515 Income from operations.................. 11,156 9,896 9,456 10,157 Net income.............................. $ 3,362 $ 2,594 $ 2,405 $ 8,349 === Net income per share - basic............ $ 0.23 $ 0.18 $ 0.16 $ 0.57 === Net income per share - diluted........... $ 0.23 $ 0.18 $ 0.16 $ 0.56 === Results for the quarter ended March 31, 2005 include a one-time, non-cash charge of $2,037,000 ($1,170,000 net of tax) relating to a defined benefit plan at one of our foreign operations and $3,919,000 of gains from the sale of surplus real estate. F-36

COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 22. ACCUMULATED OTHER COMPREHENSIVE LOSS The components of accumulated other comprehensive loss are as follows: ------------------------------- MARCH 31, ------------------------------- 2006 2005 ------------------------------- Net unrealized investment gains - net of tax................................ $ 1,891 $ 1,233 Minimum pension liability adjustment - net of tax........................... (17,107) (14,572) Foreign currency translation adjustment.................................... 2,237 4,083 ------------------------------- Accumulated other comprehensive loss....................................... $ (12,979) $ (9,256) =============================== The deferred taxes associated with the items included in accumulated other comprehensive loss were $9,486,000 and $8,159,000 for 2006 and 2005, respectively. As a result of the recording of a deferred tax asset valuation allowance in fiscal 2005, the Company recorded as an offsetting entry a $534,000 charge in the minimum pension liability component of other comprehensive income. With the reversal of that valuation allowance in fiscal 2006 (see Note 17), the Company recorded the reversal of the valuation allowance as a reduction of income taxes in the statement of operations. This is in accordance with FASB Statement No. 109, "Accounting for Income Taxes," even though the valuation allowance was initially established by a charge against comprehensive income. This amount will remain indefinitely as a component of minimum pension liability adjustment. The activity by year related to investments, including reclassification adjustments for activity included in earnings is as follows (all items shown net of tax): --- YEAR ENDED MARCH 31, --- 2006 2005 2004 --- Net unrealized investment gains (losses) at beginning of year..... $ 1,233 $ 1,364 $ (342) Unrealized holdings gains arising during the period............ 1,591 328 2,916 Reclassification adjustments for (gains) included in earnings....................................... (933) (459) (1,210) --- Net change in unrealized gains (losses) on investments............ 658 (131) 1,706 --- Net unrealized investment gains at end of year.................... $ 1,891 $ 1,233 $ 1,364 === F-37 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 23. EFFECTS OF NEW ACCOUNTING PRONOUNCEMENTS In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs," as an amendment to ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage). This Statement requires that these items be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. This Statement becomes effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 151 to have a material impact on the Company's consolidated financial statements. In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) was to be adopted for interim or annual periods beginning after June 15, 2005. On April 14th, 2005, the SEC announced that it would provide for a phased-in implementation process for FASB statement No. 123(R). The SEC is requiring that registrants adopt statement 123(R)'s fair value method of accounting for share-based payments to employees no later than the beginning of the first fiscal year beginning after June 15, 2005. We expect to adopt 123(R) in the first quarter of Fiscal 2007. Statement 123(R) permits public companies to adopt its requirements using one of two methods: 1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123(R) for all share-based payments granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date. 2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption. The Company is still evaluating the method it plans to use when it adopts statement 123(R). As permitted by Statement 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, recognizes no compensation cost for employee stock options. Accordingly, adoption of Statement 123(R)'s fair value method will have an impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of 123(R) cannot be predicted at this time because it will depend on levels of share based payments granted in the future. However, had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 to the Company's consolidated financial statements. In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" which replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for and reporting of a change in accounting principle. This Statement becomes effective for changes in accounting methods during fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS No. 154 will have a material impact on the Company's consolidated results of operations and financial condition. F-38 COLUMBUS MCKINNON CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) 24. SUBSEQUENT EVENTS During April and May of 2006, the Company repurchased $32,128,000 of the outstanding 10% Senior Secured Notes. The repurchase of the 10% Notes occurred at a premium resulting in a pre-tax loss on early extinguishment of debt of $3,194,000. As a result of the repurchase of the 10% Notes, approximately $671,000 of pre-tax deferred financing costs was written-off. The net effect of these items, a $3,865,000 pre-tax loss will be shown as part of other (income) and expense, net for the first quarter of fiscal 2007. F-39 COLUMBUS MCKINNON CORPORATION SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS MARCH 31, 2006, 2005 AND 2004 DOLLARS IN THOUSANDS ADDITIONS -------------------------- BALANCE AT CHARGED TO CHARGED TO BALANCE AT BEGINNING COSTS AND OTHER END OF DESCRIPTION OF PERIOD EXPENSES ACCOUNTS DEDUCTIONS PERIOD -- Year ended March 31, 2006: Deducted from asset accounts: Allowance for doubtful accounts $ 3,015 $ 1,628 $ -- $ 1,226 (1) $ 3,417 Slow-moving and obsolete inventory 6,413 2,617 -- 1,395 (2) 7,635 Deferred tax asset valuation allowance 50,538 (38,571) -- 5,666 6,301 -------- ---------- -------- ------- -------- Total $ 59,966 $ (34,326) $ -- $ 8,287 $ 17,353 ======== ========== ======== ======= ======== Reserves on balance sheet: Accrued general and product liability costs $ 16,094 $ 7,920 $ -- $ 3,045 (3) $ 20,969 ======== ========== ======== ======= ======== Year ended March 31, 2005: Deducted from asset accounts: Allowance for doubtful accounts $ 2,811 $ 2,191 $ -- $ 1,987 (1) $ 3,015 Slow-moving and obsolete inventory 5,878 1,182 -- 647 (2) 6,413 Deferred tax asset valuation allowance 55,456 1,175 -- 6,093 50,538 -------- ---------- -------- ------- -------- Total $ 64,145 $ 4,548 $ -- $ 8,727 $ 59,966 ======== ========== ======== ======= ======== Reserves on balance sheet: Accrued general and product liability costs $ 15,930 $ 5,780 $ -- $ 5,616 (3) $ 16,094 ======== ========== ======== ======= ======== Year ended March 31, 2004: Deducted from asset accounts: Allowance for doubtful accounts $ 2,743 $ 1,761 $ -- $ 1,693 (1) $ 2,811 Slow-moving and obsolete inventory 5,699 2,333 (126) (4) 2,028 (2) 5,878 Deferred tax asset valuation allowance -- 55,456 -- -- 55,456 -------- ---------- -------- ------- -------- Total $ 8,442 $ 59,550 $ (126) $ 3,721 $ 64,145 ======== ========== ======== ======= ======== Reserves on balance sheet: Accrued general and product liability costs $ 14,439 $ 5,398 $ -- $ 3,907 (3) $ 15,930 ======== ========== ======== ======= ======== -------- (1) Uncollectible accounts written off, net of recoveries (2) Obsolete inventory disposals (3) Insurance claims and expenses paid (4) Reserves at date of disposal of subsidiary F-40 ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES None. ITEM 9A. CONTROLS AND PROCEDURES MANAGEMENT'S EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES As of March 31, 2006, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2006. There were no changes in our internal controls or in other factors during our fourth quarter ended March 31, 2006. MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2006 based on the framework in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of March 31, 2006. Management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM The Board of Directors and Shareholders of Columbus McKinnon Corporation We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Columbus McKinnon Corporation and subsidiaries maintained effective internal control over financial reporting as of March 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Columbus McKinnon Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. 31 Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, management's assessment the Columbus McKinnon Corporation maintained effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Columbus McKinnon Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2006, based on the COSO criteria. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Columbus McKinnon Corporation and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006 of Columbus McKinnon Corporation and subsidiaries, and our report dated June 1, 2006 expressed an unqualified opinion thereon. /s/ Ernst & Young LLP June 1, 2006 Buffalo, New York ITEM 9B. OTHER INFORMATION None. PART III -------- ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT The information regarding Directors and Executive Officers of the Registrant will be included in a Proxy Statement to be filed with the Commission prior to July 29, 2006 and upon the filing of such Proxy Statement, is incorporated by reference herein. The charters of our Audit Committee, Compensation Committee, Nomination/Succession Committee and Governance Committee are available on our website at WWW.CMWORKS.COM and are available to any shareholder upon request to the Corporate Secretary. The information on the Company's website is not incorporated by reference into this Annual Report on Form 10-K. We have adopted a code of ethics that applies to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer, as well as our directors. Our code of ethics, the Columbus

McKinnon Corporation Legal Compliance & Business Ethics Manual, is available on our website at WWW.CMWORKS.COM. We intend to disclose any amendment to, or waiver from, the code of ethics that applies to our principal executive officer, principal financial officer or principal accounting officer otherwise required to be disclosed under Item 10 of Form 8-K by posting such amendment or waiver, as applicable, on our website. ITEM 11. EXECUTIVE COMPENSATION The information regarding Executive Compensation will be included in a Proxy Statement to be filed with the Commission prior to July 29, 2006 and upon the filing of such Proxy Statement, is incorporated by reference herein. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The information regarding Security Ownership of Certain Beneficial Owners and Management will be included in a Proxy Statement to be filed with the Commission prior to July 29, 2006 and upon the filing of such Proxy Statement, is incorporated by reference herein. 32 ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The information regarding Certain Relationships and Related Transactions will be included in a Proxy Statement to be filed with the Commission prior to July 29, 2006 and upon the filing of such Proxy Statement, is incorporated by reference herein. ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES The information regarding Principal Accountant Fees and Services will be included in a Proxy Statement to be filed with the Commission prior to July 29, 2006 and upon the filing of such Proxy Statement, is incorporated by reference herein. PART IV ------- ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (1) FINANCIAL STATEMENTS: The following consolidated financial statements of Columbus McKinnon Corporation are included in Item 8: REFERENCE PAGE NO. --------- -------- Report of Independent Registered Public Accounting Firm F-2 Consolidated balance sheets - March 31, 2006 and 2005 F-3 Consolidated statements of operations - Years ended March 31, 2006, 2005 and 2004 F-4 Consolidated statements of shareholders' equity - Years ended March 31, 2006, 2005 and 2004 F-5 Consolidated statements of cash flows - Years ended March 31, 2006, 2005 and 2004 F-6 Notes to consolidated financial statements F-7 to F-39 (2) FINANCIAL STATEMENT SCHEDULE: PAGE NO. Schedule II - Valuation and qualifying accounts F-40 All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted. (3) EXHIBITS: EXHIBIT NUMBER EXHIBIT ------ ------- 3.1 Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). 3.2 Amended By-Laws of the Registrant (incorporated by reference to Exhibit 3 to the Company's Current Report on Form 8-K dated May 17, 1999). 4.1 Specimen common share certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995.) 33 4.2 First Amendment and Restatement of Rights Agreement, dated as of October 1, 1998, between Columbus McKinnon Corporation and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2003). 4.3 Indenture, dated as of March 31, 1998, among Columbus McKinnon Corporation, the guarantors named on the signature pages thereto and State Street Bank and Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 9, 1998). 4.4 Supplemental Indenture among LICO, Inc., Automatic Systems, Inc., LICO Steel, Inc., Columbus McKinnon Corporation, Yale Industrial Products, Inc., Mechanical Products, Inc., Minitec Corporation and State Street Bank and Trust Company, N.A., as trustee, dated March 31, 1998 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on form 8-K dated April 9, 1998). 4.5 Second Supplemental Indenture among Abell-Howe Crane, Inc., LICO, Inc., Automatic Systems, Inc. LICO Steel, Inc., Columbus McKinnon Corporation, Yale Industrial Products Inc. and State Street Bank and Trust Company, N.A., as trustee, dated as of February 12, 1999 (incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999). 4.6 Third Supplemental Indenture among G.L. International, Inc., Gaffey, Inc., Handling Systems and Conveyors, Inc., Larco Material Handling Inc., Abell-Howe Crane, Inc., LICO, Inc., Automatic Systems, Inc., LICO Steel, Inc., Columbus McKinnon Corporation, Yale Industrial Products, Inc. and State Street Bank and Trust Company, N.A., as trustee, dated as of March 1, 1999 (incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999). 4.7 Fourth Supplemental Indenture among Washington Equipment Company, G.L. International, Inc., Gaffey, Inc., Handling Systems and Conveyors, Inc., Larco Material Handling Inc., Abell-Howe Crane, Inc., Automatic Systems, Inc., LICO Steel, Inc., Columbus McKinnon Corporation, Yale Industrial Products, Inc. and State Street Bank and Trust Company, N.A., as trustee, dated as of November 1, 1999 (incorporated by reference to Exhibit 10.2 to the

Company's quarterly report on form 10-Q for the quarterly period ended October 3, 1999). 4.8 Fifth Supplemental Indenture among Columbus McKinnon Corporation, Crane Equipment & Service, Inc., Automatic Systems, Inc., LICO Steel, Inc., Yale Industrial Products, Inc. and State Street Bank and Trust Company, N.A., as trustee, dated as of April 4, 2002 (incorporated by reference to Exhibit 4.8 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002). 4.9 Sixth Supplemental Indenture among Columbus McKinnon Corporation, Audubon West, Inc., Crane Equipment & Service, Inc., LICO Steel, Inc., Yale Industrial Products, Inc., Audubon Europe S.a.r.l. and State Street Bank and Trust Company, N.A., as trustee, dated as of August 5, 2002 (incorporated by reference to Exhibit 4.9 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002). 4.10 Seventh Supplemental Indenture among Columbus McKinnon Corporation, Crane Equipment & Service, Inc., Yale Industrial Products, Inc., Audubon Europe S.a.r.l. and U.S. Bank National Trust Association, as trustee, dated as of August 30, 2005 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 2, 2005). 4.11 Indenture, dated as of July 22, 2003, among Columbus McKinnon Corporation, the guarantors named on the signature pages thereto and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2003). 4.12 First Supplemental Indenture, dated as of September 19, 2003, among Columbus McKinnon Corporation, the guarantors named on the signature pages thereto and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.13 to Amendment No. 1 to the Company's Registration Statement No. 333-109730 on Form S-4/A dated November 7, 2003). 4.13 Indenture among Columbus McKinnon Corporation, Audubon Europe S.a.r.l., Crane Equipment & Service, Inc., Yale Industrial Products, Inc.. and U.S. Bank National Association., as trustee, dated as of September 2, 2005 (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement No. 33-129142 on Form S-3 dated October 19, 2005). 34 4.14 Registration Rights Agreement among Columbus McKinnon Corporation, Audubon Europe S.a.r.l., Crane Equipment & Service, Inc., Yale Industrial Products, Inc., and Credit Suisse First Boston LLC, acting on behalf of itself and as Representative of the Initial Purchasers, dated as of September 2, 2005 (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement No. 33-129142 on Form S-3 dated October 19, 2005). 10.1 Agreement by and among Columbus McKinnon Corporation Employee Stock Ownership Trust, Columbus McKinnon Corporation and Marine Midland Bank, dated November 2, 1995 (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). #10.2 Columbus McKinnon Corporation Employee Stock Ownership Plan Restatement Effective April 1, 1989 (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). #10.3 Amendment No. 1 to the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated March 2, 1995 (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). #10.4 Amendment No. 2 to the Columbus McKinnon Corporation Employee Stock Ownership Plan, dated October 17, 1995 (incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997). #10.5 Amendment No. 3 to the Columbus McKinnon Corporation Employee Stock Ownership Plan, dated March 27, 1996 (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997). #10.6 Amendment No. 4 of the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated September 30, 1996 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1996). #10.7 Amendment No. 5 to the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated August 28, 1997 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1998). #10.8 Amendment No. 6 to the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated June 24, 1998 (incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1998). #10.9 Amendment No. 7 to the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated April 30, 2000 (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2000). #10.10 Amendment No. 8 to the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated March 26, 2002 (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002). #10.11 Amendment No. 9 to the Columbus McKinnon Corporation Employee Stock

Ownership Plan as Amended and Restated as of April 1, 1989, dated March 27, 2003 (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003). #10.12 Amendment No. 10 to the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated February 28, 2004 (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004). #10.13 Amendment No. 11 to the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated December 19, 2003 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 28, 2003). 35 #10.14 Amendment No. 12 to the Columbus McKinnon Corporation Employee Stock Ownership Plan as Amended and Restated as of April 1, 1989, dated March 17, 2005 (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005). #10.15 Columbus McKinnon Corporation Personal Retirement Account Plan Trust Agreement, dated April 1, 1987 (incorporated by reference to Exhibit 10.25 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). #10.16 Amendment No. 1 to the Columbus McKinnon Corporation Employee Stock Ownership Trust Agreement (formerly known as the Columbus McKinnon Corporation Personal Retirement Account Plan Trust Agreement) effective November 1, 1988 (incorporated by reference to Exhibit 10.26 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). #10.17 Amendment and Restatement of Columbus McKinnon Corporation 1995 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999). #10.18 Second Amendment to the Columbus McKinnon Corporation 1995 Incentive Stock Option Plan, as amended and restated (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2002). #10.19 Columbus McKinnon Corporation Restricted Stock Plan, as amended and restated (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). #10.20 Second Amendment to the Columbus McKinnon Corporation Restricted Stock Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2002). #10.21 Amendment and Restatement of Columbus McKinnon Corporation Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999). #10.22 Columbus McKinnon Corporation Thrift [401(k)] Plan 1989 Restatement Effective January 1, 1998 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 27, 1998). #10.23 Amendment No. 1 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated December 10, 1998 (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999). #10.24 Amendment No. 2 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401 (k)] Plan, dated June 1, 2000 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2000). #10.25 Amendment No. 3 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401 (k)] Plan, dated March 26, 2002 (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002). #10.26 Amendment No. 4 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated May 10, 2002 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2002). #10.27 Amendment No. 5 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated December 20, 2002 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 29, 2002). 36 #10.28 Amendment No. 6 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated May 22, 2003 (incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003). #10.29 Amendment No. 7 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated April 14, 2004 (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004). #10.30 Amendment No. 8 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated December 19, 2003 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 28, 2003). #10.31 Amendment No. 9 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated March 16, 2004 (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004). #10.32 Amendment No. 10 to the 1998 Plan

Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated July 12, 2004 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 4, 2004). #10.33 Amendment No. 11 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated March 31, 2005 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005). #10.34 Amendment No. 12 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Thrift [401(k)] Plan, dated December 27, 2005 (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006). #10.35 Columbus McKinnon Corporation Thrift 401(k) Plan Trust Agreement Restatement Effective August 9, 1994 (incorporated by reference to Exhibit 10.32 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). #10.36 Columbus McKinnon Corporation Monthly Retirement Benefit Plan Restatement Effective April 1, 1998 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 27, 1998). #10.37 Amendment No. 1 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Monthly Retirement Benefit Plan, dated December 10, 1998 (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999). #10.38 Amendment No. 2 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Monthly Retirement Benefit Plan, dated May 26, 1999 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999). #10.39 Amendment No. 3 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Monthly Retirement Benefit Plan, dated March 26, 2002 (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002). #10.40 Amendment No. 4 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Monthly Retirement Benefit Plan, dated December 20, 2002 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 29, 2002). #10.41 Amendment No. 5 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Monthly Retirement Benefit Plan, dated February 28, 2004 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004). #10.42 Amendment No. 6 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Monthly Retirement Benefit Plan, dated March 17, 2005 (incorporated by reference to Exhibit 10.41 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005). 37 #10.43 Amendment No. 7 to the 1998 Plan Restatement of the Columbus McKinnon Corporation Monthly Retirement Benefit Plan, dated December 28, 2005 (incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006). #10.44 Columbus McKinnon Corporation Monthly Retirement Benefit Plan Trust Agreement Effective as of April 1, 1987 (incorporated by reference to Exhibit 10.34 to the Company's Registration Statement No. 33-80687 on Form S-1 dated December 21, 1995). #10.45 Form of Change in Control Agreement as entered into between Columbus McKinnon Corporation and each of Timothy T. Tevens, Derwin R. Gilbreath, Ned T. Librock, Karen L. Howard, Joseph J. Owen, Richard A. Steinberg, and Timothy R. Harvey, (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended March, 31, 1998). 10.46 Intercreditor Agreement dated as of July 22, 2003 among Columbus McKinnon Corporation, the subsidiary guarantors as listed thereon, Fleet Capital Corporation, as Credit Agent, and U.S. Bank Trust National Association, as Trustee (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2003). 10.47 Second Amended and Restated Credit and Security Agreement, dated as of November 21, 2002 and amended and restated as of January 2, 2004, among Columbus McKinnon Corporation, as Borrower, Larco Industrial Services Ltd., Columbus McKinnon Limited, the Guarantors Named Herein, the Lenders Party Hereto From Time to Time, Fleet Capital Corporation, as Administrative Agent, Fleet National Bank, as Issuing Lender, Congress Financial Corporation (Central), Syndication Agent, Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services Inc., as Documentation Agent, and Fleet Securities, Inc., as Arranger (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 28, 2003). #10.48 Columbus McKinnon Corporation Corporate Management Variable Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 3, 2004). 10.49 First Amendment to that certain Second Amended and Restated Credit and Security Agreement, dated as of November 21, 2002 and amended and restated as of January 2, 2004, among Columbus McKinnon Corporation, as Borrower, Larco Industrial Services Ltd., Columbus McKinnon Limited, the Guarantors From Time to Time Party Thereto, the Lenders From Time to Time Party Thereto, Bank of America, N.A. as

Administrative Agent for such Lenders and as Issuing Lender dated April 29, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 29, 2005). 10.50 Second amendment, dated as of August 5, 2005, to that certain Second Amended and Restated Credit and Security Agreement, dated as of November 21, 2002 and amended and restated as of January 2, 2004 (as amended by that certain First Amendment to that certain Second Amended and Restated Credit and Security Agreement, dated as of April 29, 2005, and as further modified and supplemented and in effect from time to time, the "Credit Agreement"), among Columbus McKinnon Corporation, a corporation organized under the laws of New York (the "Borrower"), Larco Industrial Services Ltd., a business corporation organized under the laws of the Province of Ontario, Columbus McKinnon Limited, a business corporation organized under the laws of Canada, the Guarantors from time to time party thereto, the Lenders from time to time party thereto (collectively, the "Lenders"), Bank of America, N.A., as Administrative Agent for such Lenders (the "Agent") and as Issuing Lender (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated October 2, 2005). 38 10.51 Third amendment, dated as of August 22, 2005, to that certain Second Amended and Restated Credit and Security Agreement, dated as of November 21, 2002 and amended and restated as of January 2, 2004 (as amended by that certain First Amendment to that certain Second Amended and Restated Credit and Security Agreement, dated as of April 29, 2005, by that certain Second Amendment to that certain Second Amended and Restated Credit and Security Agreement, dated as of August 5, 2005, and as further modified and supplemented and in effect from time to time, the "Credit Agreement"), among Columbus McKinnon Corporation, a corporation organized under the laws of New York (the "Borrower"), Larco Industrial Services Ltd., a business corporation organized under the laws of the Province of Ontario, Columbus McKinnon Limited, a business corporation organized under the laws of Canada, the Guarantors from time to time party thereto, the Lenders from time to time party thereto (collectively, the "Lenders"), Bank of America, N.A., as Administrative Agent for such Lenders (the "Agent") and as Issuing Lender (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q dated October 2, 2005). 10.52 Fourth amendment, dated as of October 17, 2005, to that certain Second Amended and Restated Credit and Security Agreement, dated as of November 21, 2002 and amended and restated as of January 2, 2004, and amended by that certain First Amendment to the Credit Agreement, dated as of April 29, 2005, and by that certain Second Amendment to the Credit Agreement, dated as of August 5, 2005, and by that certain Third Amendment to the Credit Agreement, dated as of August 22, 2005 (as further amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among Columbus McKinnon Corporation (the "Borrower"), Larco Industrial Services Ltd., Columbus McKinnon Limited, the Guarantors named therein, the lending institutions party thereto, and Bank of America, N.A., as Administrative Agent and Issuing Lender. Capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Credit Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q dated October 2, 2005). 10.53 Third Amended and Restated Credit and Security Agreement, dated as of March 16, 2006 among Columbus McKinnon Corporation, as the Borrower, Bank of America, N.A., as Administrative Agent and Issuing Lender, and Other Lenders Party Hereto, and Bank of America Securities LLC, as Arranger (incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006). 21.1 Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006). *23.1 Consent of Ernst & Young LLP. *31.1 Certification of the principal executive officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. *31.2 Certification of the principal financial officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. *32.1 Certification of the principal executive officer and the principal financial officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended and 18 U.S.C. Section 1350, as adopted by pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The information contained in this exhibit shall not be deemed filed with the Securities and Exchange Commission nor incorporated by reference in any registration statement foiled by the Registrant under the Securities Act of 1933, as amended. ---------------- * Filed herewith # Indicates a Management contract or compensation plan or arrangement 39 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. Date: August 4, 2006 COLUMBUS MCKINNON CORPORATION By: /S/ TIMOTHY T. TEVENS ----------------------------------- Timothy T. Tevens President and Chief Executive Officer Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE TITLE DATE --------- ----- ---- /S/ TIMOTHY T. TEVENS President, Chief Executive August 4, 2006 ------------------------- Officer and Director TIMOTHY T. TEVENS (PRINCIPAL EXECUTIVE OFFICER) /S/ KAREN L. HOWARD Vice President - Finance August 4, 2006 ------------------------- and Chief Financial Officer KAREN L. HOWARD (PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL ACCOUNTING OFFICER) /S/ ERNEST R. VEREBELYI Chairman of the Board of Directors August 4, 2006 ------------------------- ERNEST R. VEREBELYI /S/ CARLOS PASCUAL Director August 4, 2006 ------------------------- CARLOS PASCUAL /S/ RICHARD H. FLEMING Director August 4, 2006 ------------------------- RICHARD H. FLEMING /S/ HERBERT P. LADDS, JR. Director August 4, 2006 ------------------------- HERBERT P. LADDS, JR. /S/ WALLACE W. CREEK Director August 4, 2006 ------------------------- WALLACE W. CREEK /S/ LINDA A. GOODSPEED Director August 4, 2006 ------------------------- LINDA A. GOODSPEED /S/ STEPHEN RABINOWITZ Director August 4, 2006 ------------------------- STEPHEN RABINOWITZ 40