UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

# FORM 10-Q

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from _____ to

Commission File Number: 0-27618

# Columbus McKinnon Corporation

| (Exact name of registrant as specified in its charter) | | | |
|---|---|---|---|
| New York | | | 16-0547600 |
| (State or other jurisdiction of incorporation or organization) | | | (I.R.S. Employer Identification No.) |
| 205 Crosspoint Parkway | Getzville | NY | 14068 |
| (Address of principal executive offices) | | | (Zip code) |
| (716) 689-5400 | | | |
| (Registrant's telephone number, including area code) | | | |
| (Former name, former address and former fiscal year, if changed since last report.) | | | |

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, $0.01 par value per share** | **CMCO** | **NASDAQ Global Select Market** |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| Large accelerated filer | ☒ | Accelerated filer | ☐ | Non-accelerated filer | ☐ | Smaller reporting company | ☐ | Emerging growth company | ☐ |
|---|---|---|---|---|---|---|---|---|---|

If an Emerging Growth Company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No
The number of shares of common stock outstanding as of October 26, 2020 was: 23,898,867 shares.

**FORM 10-Q INDEX**
**COLUMBUS McKINNON CORPORATION**
**September 30, 2020**


| | | Page # |
|---|---|---|
| **Part I. Financial Information** | | |
| Item 1. | Condensed Consolidated Financial Statements (Unaudited) | |
| | Condensed consolidated balance sheets - September 30, 2020 and March 31, 2020 | 3 |
| | Condensed consolidated statements of operations - Three and six months ended September 30, 2020 and September 30, 2019 | 4 |
| | Condensed consolidated statements of comprehensive income (loss) - Three and six months ended September 30, 2020 and September 30, 2019 | 5 |
| | Condensed consolidated statements of shareholders' equity - Three and six months ended September 30, 2020 and September 30, 2019 | 6 |
| | Condensed consolidated statements of cash flows - Six months ended September 30, 2020 and September 30, 2019 | 8 |
| | Notes to condensed consolidated financial statements - September 30, 2020 | 9 |
| Item 2. | Management's Discussion and Analysis of Results of Operations and Financial Condition | 29 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 36 |
| Item 4. | Controls and Procedures | 36 |
| **Part II. Other Information** | | |
| Item 1. | Legal Proceedings – none. | 37 |
| Item 1A. | Risk Factors | 37 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds – none. | 37 |
| Item 3. | Defaults upon Senior Securities – none. | 37 |
| Item 4. | Mine Safety Disclosures. | 37 |
| Item 5. | Other Information – none. | 37 |
| Item 6. | Exhibits | 38 |

**Part I. Financial Information**

Item 1. Condensed Consolidated Financial Statements (Unaudited)

**COLUMBUS McKINNON CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2020 | March 31, 2020 |
|---|---|---|
| | (unaudited) | |
| **ASSETS:** | **(In thousands)** | |
| Current assets: | | |
| Cash and cash equivalents | $ 186,556 | $ 114,450 |
| Trade accounts receivable, less allowance for doubtful accounts ($6,295 and $5,056, respectively) | 92,540 | 123,743 |
| Inventories | 112,095 | 127,373 |
| Prepaid expenses and other | 18,124 | 17,180 |
| Total current assets | 409,315 | 382,746 |
| Property, plant, and equipment, net | 72,782 | 79,473 |
| Goodwill | 330,859 | 319,679 |
| Other intangibles, net | 219,434 | 217,962 |
| Marketable securities | 8,534 | 7,322 |
| Deferred taxes on income | 27,798 | 26,281 |
| Other assets | 63,212 | 59,809 |
| Total assets | $ 1,131,934 | $ 1,093,272 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY:** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 37,724 | $ 57,289 |
| Accrued liabilities | 88,679 | 93,585 |
| Current portion of long term debt | 29,450 | 4,450 |
| Total current liabilities | 155,853 | 155,324 |
| Term loan and revolving credit facility | 245,680 | 246,856 |
| Other non current liabilities | 250,445 | 227,507 |
| Total liabilities | 651,978 | 629,687 |
| Shareholders' equity: | | |
| Voting common stock; 50,000,000 shares authorized; 23,898,468 and 23,771,620 shares issued and outstanding | 239 | 238 |
| Additional paid in capital | 290,690 | 287,256 |
| Retained earnings | 281,935 | 290,441 |
| Accumulated other comprehensive loss | (92,908) | (114,350) |
| Total shareholders' equity | 479,956 | 463,585 |
| Total liabilities and shareholders' equity | $ 1,131,934 | $ 1,093,272 |

*See accompanying notes.*

**COLUMBUS McKINNON CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| | (In thousands, except per share data) | | | |
| Net sales | $ 157,790 | $ 207,609 | $ 296,860 | $ 420,321 |
| Cost of products sold | 101,765 | 134,116 | 196,038 | 271,216 |
| Gross profit | 56,025 | 73,493 | 100,822 | 149,105 |
| | | | | |
| Selling expenses | 18,563 | 22,877 | 37,258 | 45,632 |
| General and administrative expenses | 15,554 | 19,153 | 33,983 | 38,753 |
| Research and development expenses | 2,896 | 2,999 | 5,665 | 5,791 |
| Loss on sales of businesses | — | 7 | — | 176 |
| Amortization of intangibles | 3,192 | 3,226 | 6,307 | 6,479 |
| | 40,205 | 48,262 | 83,213 | 96,831 |
| | | | | |
| Income from operations | 15,820 | 25,231 | 17,609 | 52,274 |
| Interest and debt expense | 3,018 | 3,759 | 6,206 | 7,611 |
| Investment (income) loss | (357) | (229) | (934) | (531) |
| Foreign currency exchange (gain) loss | 397 | (296) | 481 | (706) |
| Other (income) expense, net | 16,911 | 257 | 19,937 | 419 |
| Income (loss) before income tax expense (benefit) | (4,149) | 21,740 | (8,081) | 45,481 |
| Income tax expense (benefit) | (45) | 5,141 | (1,008) | 10,303 |
| Net income (loss) | $ (4,104) | $ 16,599 | $ (7,073) | $ 35,178 |
| | | | | |
| Average basic shares outstanding | 23,883 | 23,631 | 23,843 | 23,532 |
| Average diluted shares outstanding | 23,883 | 23,926 | 23,843 | 23,832 |
| | | | | |
| Basic income (loss) per share: | $ (0.17) | $ 0.70 | $ (0.30) | $ 1.49 |
| | | | | |
| Diluted income (loss) per share: | $ (0.17) | $ 0.69 | $ (0.30) | $ 1.48 |
| | | | | |
| Dividends declared per common share | $ 0.06 | $ 0.06 | $ 0.06 | $ 0.06 |

*See accompanying notes.*

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| | (In thousands) | | | |
| Net income (loss) | $ (4,104) | $ 16,599 | $ (7,073) | $ 35,178 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 6,631 | (8,470) | 9,433 | (7,075) |
| Change in derivatives qualifying as hedges, net of taxes of $(24), $69, $(20), $322 | 82 | (206) | 69 | (964) |
| Change in pension liability and postretirement obligation, net of taxes of $(2,817), $(96), $(3,339), $(62) | 10,071 | 282 | 11,940 | 183 |
| Total other comprehensive income (loss) | 16,784 | (8,394) | 21,442 | (7,856) |
| Comprehensive income (loss) | $ 12,680 | $ 8,205 | $ 14,369 | $ 27,322 |

*See accompanying notes.*

**COLUMBUS McKINNON CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(UNAUDITED)**

| | (In thousands, except share data) | | | | |
|---|---|---|---|---|---|
| | **Common Stock ($0.01 par value)** | **Additional Paid-in Capital** | **Retained Earnings** | **Accumulated Other Comprehensive Loss** | **Total Shareholders' Equity** |
| Balance at March 31, 2020 | $ 238 | $ 287,256 | $ 290,441 | $ (114,350) | $ 463,585 |
| Net income (loss) | — | — | (2,969) | — | (2,969) |
| Change in foreign currency translation adjustment | — | — | — | 2,802 | 2,802 |
| Change in derivatives qualifying as hedges, net of tax of $4 | — | — | — | (13) | (13) |
| Change in pension liability and postretirement obligations, net of tax of $(537) | — | — | — | 1,869 | 1,869 |
| Stock options exercised, 11,236 shares | | 183 | — | — | 183 |
| Stock compensation expense | — | 2,071 | — | — | 2,071 |
| Restricted stock units released, 68,369 shares, net of shares withheld for minimum statutory tax obligation | 1 | (927) | — | — | (926) |
| Balance at June 30, 2020 | $ 239 | $ 288,583 | $ 287,472 | $ (109,692) | $ 466,602 |
| Net income (loss) | — | — | (4,104) | — | (4,104) |
| Dividends declared | — | — | (1,433) | — | (1,433) |
| Change in foreign currency translation adjustment | — | — | — | 6,631 | 6,631 |
| Change in derivatives qualifying as hedges, net of tax of $(24) | — | — | — | 82 | 82 |
| Change in pension liability and postretirement obligations, net of tax of $(2,817) | — | — | — | 10,071 | 10,071 |
| Stock compensation - directors | — | 269 | — | — | 269 |
| Stock options exercised, 12,220 shares | — | 243 | — | — | 243 |
| Stock compensation expense | — | 1,649 | — | — | 1,649 |
| Restricted stock units released, 35,023 shares, net of shares withheld for minimum statutory tax obligation | — | (54) | — | — | (54) |
| Balance at September 30, 2020 | $ 239 | $ 290,690 | $ 281,935 | $ (92,908) | $ 479,956 |

*See accompanying notes.*

**COLUMBUS McKINNON CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(UNAUDITED)**

| | (In thousands, except share data) | | | | |
|---|---|---|---|---|---|
| | **Common Stock ($0.01 par value)** | **Additional Paid-in Capital** | **Retained Earnings** | **Accumulated Other Comprehensive Loss** | **Total Shareholders' Equity** |
| Balance at March 31, 2019 | $ 234 | $ 277,518 | $ 236,459 | $ (83,052) | $ 431,159 |
| Net income | — | — | 18,579 | — | 18,579 |
| Change in foreign currency translation adjustment | — | — | — | — | — |
| Change in net unrealized gain on investments | — | — | — | 1,395 | 1,395 |
| Change in derivatives qualifying as hedges, net of tax of $252 | — | — | — | (758) | (758) |
| Change in pension liability and postretirement obligations, net of tax of $33 | — | — | — | (99) | (99) |
| Stock options exercised, 102,344 shares | 1 | 979 | — | — | 980 |
| Stock compensation expense | — | 1,556 | — | — | 1,556 |
| Restricted stock units released, 41,370 shares, net of shares withheld for minimum statutory tax obligation | — | (519) | — | — | (519) |
| Balance at June 30, 2019 | $ 235 | $ 279,534 | $ 255,038 | $ (82,514) | $ 452,293 |
| Net income | — | — | 16,599 | — | 16,599 |
| Dividends declared | — | — | (1,419) | — | (1,419) |
| Change in foreign currency translation adjustment | — | — | — | (8,470) | (8,470) |
| Change in derivatives qualifying as hedges, net of tax of $69 | — | — | — | (206) | (206) |
| Change in pension liability and postretirement obligations, net of tax of $(96) | — | — | — | 282 | 282 |
| Stock compensation - directors | — | 240 | — | — | 240 |
| Stock options exercised, 100,482 shares | 2 | 2,802 | — | — | 2,804 |
| Stock compensation expense | — | 1,715 | — | — | 1,715 |
| Restricted stock units released, 25,245 shares, net of shares withheld for minimum statutory tax obligation | — | (20) | — | — | (20) |
| Balance at September 30, 2019 | $ 237 | $ 284,271 | $ 270,218 | $ (90,908) | $ 463,818 |

*See accompanying notes.*

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

| | Six Months Ended | |
|---|---|---|
| | **September 30, 2020** | **September 30, 2019** |
| | **(In thousands)** | |
| **OPERATING ACTIVITIES:** | | |
| Net income (loss) | (7,073) | 35,178 |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 14,210 | 14,747 |
| Deferred income taxes and related valuation allowance | (6,745) | 748 |
| Net loss (gain) on sale of real estate, investments and other | (557) | (446) |
| Stock based compensation | 3,989 | 3,511 |
| Amortization of deferred financing costs | 1,327 | 1,327 |
| Loss on sales of businesses | — | 176 |
| Non-cash pension settlement expense (See Note 10) | 19,046 | — |
| Gain on sale of building (See Note 2) | (2,638) | — |
| Non-cash lease expense | 3,785 | 4,223 |
| Changes in operating assets and liabilities, net of effects of business acquisitions and divestitures: | | |
| Trade accounts receivable | 33,594 | (2,648) |
| Inventories | 18,987 | 1,400 |
| Prepaid expenses and other | (1,627) | (2,883) |
| Other assets | 570 | (171) |
| Trade accounts payable | (20,078) | 332 |
| Accrued liabilities | (7,895) | (8,230) |
| Non-current liabilities | (1,952) | (9,384) |
| Net cash provided by (used for) operating activities | 46,943 | 37,880 |
| **INVESTING ACTIVITIES:** | | |
| Proceeds from sales of marketable securities | 1,034 | 1,928 |
| Purchases of marketable securities | (1,759) | (2,581) |
| Capital expenditures | (2,779) | (4,843) |
| Proceeds from sale of building, net of transaction costs | 5,453 | — |
| Dividend received from equity method investment | 587 | — |
| Proceeds from sale of equipment | — | 51 |
| Net (payments) proceeds from the sale of businesses | — | (214) |
| Net cash provided by (used for) investing activities | 2,536 | (5,659) |
| **FINANCING ACTIVITIES:** | | |
| Proceeds from the issuance of common stock | 429 | 3,784 |
| Borrowings under line-of-credit agreements | 25,000 | — |
| Repayment of debt | (2,225) | (30,000) |
| Fees paid for revolver extension (See Note 9) | (826) | — |
| Payment of dividends | (2,860) | (2,824) |
| Other | (982) | (544) |
| Net cash provided by (used for) financing activities | 18,536 | (29,584) |
| **Effect of exchange rate changes on cash** | 4,091 | (1,751) |
| Net change in cash and cash equivalents | 72,106 | 886 |
| Cash, cash equivalents, and restricted cash at beginning of year | 114,700 | 71,343 |
| Cash, cash equivalents, and restricted cash at end of period | $ 186,806 | $ 72,229 |
| Supplementary cash flow data: | | |
| Interest paid | $ 7,438 | $ 5,926 |
| Income taxes paid (refunded), net | $ 1,234 | $ 2,878 |
| Restricted cash presented in Other assets | $ 250 | $ 250 |

*See accompanying notes.*

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(UNAUDITED)**
**September 30, 2020**

## 1. Description of Business

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of Columbus McKinnon Corporation ("the Company") at September 30, 2020, the results of its operations for the three and six month periods ended September 30, 2020 and September 30, 2019, and cash flows for the six months ended September 30, 2020 and September 30, 2019, have been included. Results for the period ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending March 31, 2021. The balance sheet at March 31, 2020 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Columbus McKinnon Corporation annual report on Form 10-K for the year ended March 31, 2020.

The Company is a leading worldwide designer, manufacturer and marketer of motion control products, technologies, systems and services that efficiently and ergonomically move, lift, position and secure materials. Key products include hoists, actuators, rigging tools, light rail work stations and digital power and motion control systems. We are focused on commercial and industrial applications that require the safety and quality provided by our superior design and engineering know-how. The Company's targeted market verticals include general industrial, construction and infrastructure, mining, oil & gas, energy, aerospace, transportation, automotive, heavy equipment manufacturing, and entertainment.

The Company's material handling products are sold globally, principally to third party distributors and crane builders through diverse distribution channels, and to a lesser extent directly to end-users. During the three and six month periods ended September 30, 2020, sales to customers in the United States were approximately 54% and 55% during the three and six month periods ended September 30, 2019.

## 2. Disposals

As part of its business strategy, the Company is consolidating its manufacturing footprint. The Company previously announced in fiscal 2019 the closure of its Salem, Ohio facility. In fiscal 2020 the Company announced its plans to consolidate its hoist manufacturing facility in Lisbon, Ohio with its Wadesboro, North Carolina and Damascus, Virginia facilities in fiscal 2021. The Salem, Ohio facility consolidation was completed during the first quarter of fiscal 2020 and the Lisbon, Ohio consolidation was completed during the current quarter ended September 30, 2020. In total, $493,000 and $1,606,000 during the three and six months ended September 30, 2020 and $249,000 and $755,000 during the three and six months ended September 30, 2019 are included in Cost of products sold on the Condensed Consolidated Statements of Operations related to the consolidation of the Salem and Lisbon facilities. Costs incurred include accelerated depreciation, accelerated lease costs, severance and other payroll related costs, costs to relocate inventory and machinery and equipment, and a potential payment of a previously recorded tax credit which may need to be refunded to the state.

Further, the Company is closing one of its facilities located in France and consolidating these operations into one of its German facilities. $94,000 of costs were included in General and administrative expenses on the Condensed Consolidated Statements of Operations during the three months ended September 30, 2020. In addition, $815,000 of costs are included in Cost of products sold, $327,000 in General and administrative expenses, and $94,000 included in Selling expenses on the Condensed Consolidated Statements of Operations during the six months ended September 30, 2020, related to this consolidation, which primarily are severance and legal costs.

The Company sold one of its owned manufacturing facilities in China as a result of its plan to consolidate two of its Hangzhou, China manufacturing facilities into one and reorganize its Asia Pacific operations. During the six months ended September 30, 2020, the Company received cash in the amount of 45 million RMB (approximately $6,363,000) from the buyer to purchase the facility which resulted in a gain of $2,638,000, of which $2,189,000 is included in Cost of products sold and $449,000 is included in General and administrative expenses on the Condensed Consolidated Statements of Operations during the three and six months ended September 30, 2020.

## 3. Revenue & Receivables

*Revenue Recognition:*

*Performance obligations*

The Company has contracts with customers for standard products and custom engineered products and determines when and how to recognize revenue for each performance obligation based on the nature and type of contract.

Revenue from contracts with customers for standard products is recognized when legal title and significant risk and rewards has transferred to the customer, which is generally at the time of shipment. This is the point in time when control is deemed to transfer to the customer. The Company sells standard products to customers utilizing purchase orders. Payment terms for these types of contracts generally require payment within 30-60 days. Each standard product is deemed to be a single performance obligation and the amount of revenue recognized is based on the negotiated price. The transaction price for standard products is based on the price reflected in each purchase order. Sales incentives are offered to customers who purchase standard products and include offers such as volume-based discounts, rebates for priority customers, and discounts for early cash payments. These sales incentives are accounted for as variable consideration included in the transaction price. Accordingly, the Company reduces revenue for these incentives in the period which the sale occurs and is based on the most likely amount method for estimating the amount of consideration the Company expects to receive. These sales incentive estimates are updated each reporting period as additional information becomes available.

The Company also sells custom engineered products and services which are contracts that are typically completed within one quarter but can extend beyond one year in duration. For custom engineered products, the transaction price is based upon the price stated in the contract. Variable consideration has not been identified as a significant component of transaction price for custom engineered products and services. The Company generally recognizes revenue for custom engineered products upon satisfaction of its performance obligation under the contract which typically coincides with project completion which is when the products and services are controlled by the customer. Control is typically achieved at the later of when legal title and significant risk and rewards have transferred to the customer or the customer has accepted the asset. These contracts often require either up front or installment payments. These types of contracts are generally accounted for as one performance obligation as the products and services are not separately identifiable. The promised services (such as inspection, commissioning, and installation) are essential in order for the delivered product to operate as intended on the customer's site and the services are therefore highly interrelated with product functionality.

For most custom engineered products contracts, the Company determined that while there is no alternative use for the custom engineered products, the Company does not have an enforceable right to payment (which must include a reasonable profit margin) for performance completed to date in order to meet the over time revenue recognition criteria. Therefore, revenue is recognized at a point in time (when the contract is complete). For custom engineered products contracts that contain an enforceable right to payment (including reasonable profit margin) the Company satisfies the performance obligation over time and recognizes revenue based on the extent of progress towards completion of the performance obligation. The cost-to-cost measure of progress is an appropriate measure of progress toward satisfaction of performance obligations as this measure most accurately depicts the progress of work performed and transfer of control to the customers. Under the cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recognized proportionally as costs are incurred.

Sales and other taxes collected with revenue are excluded from revenue, consistent with the previous revenue standard. Shipping and handling costs incurred prior to shipment are considered activities required to fulfill the Company's promise to transfer goods, and do not qualify as a separate performance obligation. Additionally, the Company offers standard warranties which are typically 12 months in duration for standard products and 24 to 36 months for custom engineered products. These types of warranties are included in the purchase price of the product and are deemed to be assurance-type warranties which are not accounted for as a separate performance obligation. Other performance obligations included in a contract (such as drawings, owner's manuals, and training services) are immaterial in the context of the contract and are not recognized as a separate performance obligation.

For additional information on the Company's revenue recognition policy refer to the consolidated financial statements included in the 2020 10-K.

*Reconciliation of contract balances*

The Company records a contract liability when cash is received prior to recording revenue. Some standard contracts require a down payment while most custom engineered contracts require installment payments. Installment payments for the custom engineered contracts typically require a portion due at inception while the remaining payments are due upon completion of certain performance milestones. For both types of contracts, these contract liabilities, referred to as customer advances, are recorded at the time payment is received and are included in Accrued liabilities on the Condensed Consolidated Balance Sheets. When the related performance obligation is satisfied and revenue is recognized, the contract liability is released into income.

The following table illustrates the balance and related activity for customer advances in the six months ending September 30, 2020 and September 30, 2019 (in thousands):

| **Customer advances (contract liabilities)** | **September 30, 2020** | **September 30, 2019** |
|---|---|---|
| March 31, beginning balance | $ 10,796 | $ 11,501 |
| Additional customer advances received | 18,533 | 19,596 |
| Revenue recognized from customer advances | (15,754) | (17,141) |
| Other (1) | 709 | (326) |
| September 30, ending balance | $ 14,284 | $ 13,630 |

(1) Other includes the impact of foreign currency translation

During the six months ended September 30, 2020, revenue was recognized prior to the right to invoice the customer which resulted in a contract asset balance in the amount of $3,782,000 and $2,361,000 as of September 30, 2020 and March 31, 2020, respectively. Contract assets are included in Prepaid expenses and other assets on the Condensed Consolidated Balance Sheets.

*Remaining Performance Obligations*

As of September 30, 2020, the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) was approximately $5,962,000. We expect to recognize approximately 83% of these sales over the next twelve months.

*Disaggregated revenue*

In accordance with ASC 606, the Company is required to disaggregate revenue into categories that depict how economic factors affect the nature, amount, timing and uncertainty of revenue and cash flows. The following table illustrates the disaggregation of revenue by product grouping for the three and six months ending September 30, 2020 and September 30, 2019 (in thousands):

| | **Three Months Ended** | | **Six Months Ended** | |
|---|---|---|---|---|
| **Net Sales by Product Grouping** | **September 30, 2020** | **September 30, 2019** | **September 30, 2020** | **September 30, 2019** |
| Industrial Products | $ 67,321 | $ 89,902 | $ 121,038 | $ 183,392 |
| Crane Solutions | 71,643 | 96,597 | $ 140,632 | $ 195,240 |
| Engineered Products | 18,830 | 21,101 | $ 35,157 | $ 41,661 |
| All other | (4) | 9 | $ 33 | $ 28 |
| Total | $ 157,790 | $ 207,609 | $ 296,860 | $ 420,321 |

Industrial products include: manual chain hoists, electrical chain hoists, rigging/ clamps, industrial winches, hooks, shackles, and other forged attachments. Crane solutions products include: wire rope hoists, drives and controls, crane kits and components, and workstations. Engineered products include: linear and mechanical actuators, lifting tables, rail projects, and actuations systems. The All other product grouping includes miscellaneous revenue. The prior year net sales have been reclassified to be consistent with the current period presentation.

*Practical expedients*

Incremental costs to obtain a contract incurred by the Company primarily relate to sales commissions for contracts with a duration of one year or less. Therefore, these costs are expensed as incurred and are recorded in Selling expenses on the Condensed Consolidated Statements of Operations.

Unsatisfied performance obligations for contracts with an expected length of one year or less are not disclosed. Further, revenue from contracts with customers do not include a significant financing component as payment is generally expected within one year from when the performance obligation is controlled by the customer.

*Accounts Receivable:*

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The Company adopted this standard effective April 1, 2020 under the modified retrospective method whereas comparative period information is not restated. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements, therefore no cumulative effect or catch up adjustment to the opening balance of retained earnings was recorded. Additionally, the Company identified and implemented appropriate changes to it's allowance for doubtful accounts policy and internal controls to support reporting and disclosures.

Under ASU 2016-13, the Company is required to remeasure expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. In addition to these factors, the Company establishes an allowance for doubtful accounts based upon 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. Due to the short-term nature of such accounts receivable, the estimated amount of accounts receivable that may not be collected is based on aging of the accounts receivable balances. In response to COVID-19, the Company continues to monitor the impact that COVID-19 is having on our customers and their outstanding receivable balances and is taking preventative measures, such as reducing credit limits and increasing bad debt expense, as necessary.

The following table illustrates the balance and related activity for the allowance for doubtful accounts that is deducted from accounts receivable to present the net amount expected to be collected in the six months ending September 30, 2020 (in thousands):

| **Allowance for doubtful accounts** | | **September 30, 2020** |
|---|---|---|
| March 31, beginning balance | $ | 5,056 |
| Bad debt expense | | 2,364 |
| Less uncollectible accounts written off, net of recoveries | | (1,218) |
| Other (1) | | 93 |
| September 30, ending balance | $ | 6,295 |

(1) Other includes the impact of foreign currency translation

**4. Fair Value Measurements**

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

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

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

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

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

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

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

The Company uses quoted market prices when valuing its marketable securities and, consequently, the fair value is based on Level 1 inputs. These marketable securities consist of equity and fixed income securities. The Company's terminated pension assets consist of money market funds which are valued using quoted market prices, and consequently, the fair value is based on Level 1 inputs. Refer to Note 10 for more information regarding the Company's terminated pension. The Company primarily uses readily observable market data in conjunction with internally developed discounted cash flow valuation models when valuing its derivative portfolio and, consequently, the fair value of the Company’s derivatives is based on Level 2 inputs. The carrying amount of the Company's pension-related annuity contract is recorded at net asset value of the contract and, consequently, its fair value is based on Level 2 inputs and is included in Other assets on the Condensed Consolidated Balance Sheets. The carrying value of the Company’s Term Loan approximates fair value based on current market interest rates for debt instruments of similar credit standing and, consequently, their fair values are based on Level 2 inputs.

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

| | | Fair value measurements at reporting date using | | |
|---|---|---|---|---|
| Description | September 30, 2020 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets/(Liabilities) measured at fair value: | | | | |
| Marketable securities | $ 8,534 | $ 8,534 | $ — | $ — |
| Annuity contract | 2,107 | — | 2,107 | — |
| Terminated pension assets | 3,790 | 3,790 | | |
| Derivative Assets (Liabilities): | | | | |
| Foreign exchange contracts | 24 | — | 24 | — |
| Interest rate swap liability | (2,875) | — | (2,875) | — |
| Cross currency swap liability | (14,289) | — | (14,289) | — |
| Cross currency swap asset | 197 | — | 197 | — |
| | | | | |
| Disclosed at fair value: | | | | |
| Term loan | $ (256,482) | $ — | $ (256,482) | $ — |

| Description | March 31, 2020 | Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Assets/(Liabilities) measured at fair value: | | | | |
| Marketable securities | $ 7,322 | $ 7,322 | $ — | $ — |
| Annuity contract | 2,059 | — | 2,059 | — |
| Derivative assets (liabilities): | | | | |
| Foreign exchange contracts | 285 | — | 285 | — |
| Interest rate swap asset | (3,296) | — | (3,296) | — |
| Cross currency swap liability | (5,254) | — | (5,254) | — |
| Cross currency swap asset | 1,750 | — | 1,750 | — |
| | | | | |
| Disclosed at fair value: | | | | |
| Term loan | $ (239,899) | $ — | $ (239,899) | $ — |

The Company does not have any non-financial assets and liabilities that are recognized at fair value on a recurring basis. At September 30, 2020, the Term loan has been recorded at carrying value which approximates fair value.

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

Please refer to the 2020 10-K for a full description of the assets and liabilities measured on a non-recurring basis that are included in the Company's March 31, 2020 balance sheet.

**5. Inventories**

Inventories consisted of the following (in thousands):

| | **September 30, 2020** | **March 31, 2020** |
|---|---|---|
| At cost - FIFO basis: | | |
| Raw materials | $ 80,206 | $ 85,452 |
| Work-in-process | 22,761 | 25,876 |
| Finished goods | 28,107 | 33,216 |
| Total at cost FIFO basis | 131,074 | 144,544 |
| LIFO cost less than FIFO cost | (18,979) | (17,171) |
| Net inventories | $ 112,095 | $ 127,373 |

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

**6. Marketable Securities and Other Investments**

In accordance with ASU 2016-01 “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” adopted by the Company on April 1, 2018, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) are measured at fair value through earnings.

The Company's marketable securities are recorded at their fair value, with unrealized changes in market value realized within Investment (income) loss on the Condensed Consolidated Statements of Operations. The impact on earnings for unrealized gains and losses was a gain of $146,000 and $37,000 in the three months ended September 30, 2020 and September 30, 2019, respectively. The impact on earnings for unrealized gains and losses was a gain of $487,000 and $174,000 in the six months ended September 30, 2020 and September 30, 2019, respectively.

Consistent with prior periods, the estimated fair value is based on quoted market prices at the balance sheet dates. The cost of securities sold is based on the specific identification method. Interest and dividend income are included in Investment (income) loss in the Condensed Consolidated Statements of Operations.

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

Net realized gains related to sales of marketable securities were not material in the three and six months ended September 30, 2020 and September 30, 2019, respectively.

The Company owns a 49% ownership interest in Eastern Morris Cranes Company Limited ("EMC"), a limited liability company organized and existing under the laws and regulations of the Kingdom of Saudi Arabia. The Company's ownership represents an equity investment in a strategic customer of STAHL serving the Kingdom of Saudi Arabia. The investment's carrying value is presented in Other assets in the Condensed Consolidated Balance Sheets in the amount of $2,695,000 and $3,402,000 as of September 30, 2020 and March 31, 2020, respectively, and has been accounted for as an equity method investment. The investment value was increased for the Company's ownership percentage of income earned by EMC in the amount of $168,000 and $140,000 in the three months ended September 30, 2020 and September 30, 2019, respectively, and by $371,000 and $260,000 in the six months ended September 30, 2020 and September 30, 2019, respectively, recorded in Investment (income) loss on the Condensed Consolidated Statements of Operations. Further, in September 2020, EMC distributed a cash dividend which the Company received 49% of pursuant to its ownership interest. The investment value was decreased for the Company's share of EMC's cash dividend in the amount of $1,290,000 as of September 30, 2020 as it was determined to be a return of the Company's investment. A portion of the dividend is included in investing activities on the Condensed Consolidated Statements of Cash Flows in the amount of $587,000, to the extent the distribution received exceeded cumulative equity in earnings, under the cumulative earnings approach. The balance of the cash dividend is included in operating activities on the Condensed Consolidated Statements of Cash Flows. The September 30, 2020 and March 31, 2020 trade accounts receivable balance due from EMC are $2,224,000 and $4,166,000, respectively, and are comprised of amounts due for the sale of goods and services in the ordinary course of business.

**7. Goodwill and Intangible Assets**

Goodwill and indefinite lived trademarks are not amortized but are tested for impairment at least annually, in accordance with the provisions of ASC Topic 350-20-35-1. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The fair value of a reporting unit is determined using a discounted cash flow methodology. The Company’s reporting units are determined based upon whether discrete financial information is available and reviewed regularly, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. The Company’s reporting units identified under ASC Topic 350-20-35-33 are at the component level, or one level below the operating segment level as defined under ASC Topic 280-10-50-10 “Segment Reporting - Disclosure.” The Company has two reporting units as of September 30, 2020 and March 31, 2020. The Duff-Norton reporting unit (which designs, manufactures and sources mechanical and electromechanical actuators and rotary unions) had goodwill of $9,661,000 and $9,593,000 at September 30, 2020 and March 31, 2020 and the Rest of Products reporting unit (representing the hoist, chain, forgings, digital power, motion control, manufacturing, and distribution businesses) had goodwill of $321,198,000 and $310,086,000 at September 30, 2020 and March 31, 2020, respectively.

Refer to the 2020 10-K for information regarding our annual goodwill and indefinite lived trademark impairment evaluation. Future impairment indicators, such as declines in forecasted cash flows, may cause impairment charges. Impairment charges could be based on such factors as the Company’s stock price, forecasted cash flows, assumptions used, control premiums or other variables. There were no such indicators during the quarter ended September 30, 2020.

A summary of changes in goodwill during the six months ended September 30, 2020 is as follows (in thousands):

| | | |
|---|---|---|
| Balance at April 1, 2020 | $ | 319,679 |
| Currency translation | | 11,180 |
| Balance at September 30, 2020 | $ | 330,859 |

Goodwill is recognized net of accumulated impairment losses of $113,174,000 as of September 30, 2020 and March 31, 2020, respectively.

Identifiable intangible assets acquired in a business combination are amortized over their estimated useful lives. Identifiable intangible assets are summarized as follows (in thousands):

| | September 30, 2020 | | | March 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Trademark | $ 6,372 | $ (4,616) | $ 1,756 | $ 6,016 | $ (4,238) | $ 1,778 |
| Indefinite lived trademark | 47,841 | — | 47,841 | 46,670 | — | 46,670 |
| Customer relationships | 188,337 | (51,007) | 137,330 | 179,882 | (44,216) | 135,666 |
| Acquired technology | 46,841 | (14,766) | 32,075 | 46,669 | (13,306) | 33,363 |
| Other | 3,342 | (2,910) | 432 | 3,143 | (2,658) | 485 |
| Total | $ 292,733 | $ (73,299) | $ 219,434 | $ 282,380 | $ (64,418) | $ 217,962 |

The Company's intangible assets that are considered to have finite lives are amortized. The weighted-average amortization periods are 15 years for trademarks, 18 years for customer relationships, 18 years for acquired technology, 5 years for other, and 18 years in total. Trademarks with a carrying value of $47,841,000 as of September 30, 2020 have an indefinite useful life and are therefore not being amortized.

Total amortization expense was $3,192,000 and $3,226,000 for the three month periods ended September 30, 2020 and 2019, respectively. Total amortization expense was $6,307,000 and $6,479,000 for the six month periods ended September 30, 2020 and 2019, respectively. Based on the current amount of identifiable intangible assets and current exchange rates, the estimated annual amortization expense for each of the succeeding five years is expected to be approximately $12,600,000.

## 8. Derivative Instruments

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

The Company is exposed to credit losses in the event of non-performance by the counterparties on its financial instruments. The counterparties have investment grade credit ratings. The Company anticipates that these counterparties will be able to fully satisfy their obligations under the contracts. The Company has derivative contracts with three counterparties as of September 30, 2020.

The Company's agreements with its counterparties contain provisions pursuant to which the Company could be declared in default of its derivative obligations. As of September 30, 2020, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions as of September 30, 2020, it could have been required to settle its obligations under these agreements at amounts which approximate the September 30, 2020 fair values reflected in the table below. During the six months ended September 30, 2020, the Company was not in default of any of its derivative obligations.

As of September 30, 2020, the Company had no derivatives designated as net investments or fair value hedges in accordance with ASC Topic 815, “Derivatives and Hedging.”

The Company has a cross currency swap agreement that is designated as a cash flow hedge to hedge changes in the value of an intercompany loan to a foreign subsidiary due to changes in foreign exchange rates. This intercompany loan is related to the acquisition of STAHL. The notional amount of this derivative is $170,455,000, and this contract matures by January 31, 2022. From its September 30, 2020 balance of AOCL, the Company expects to reclassify approximately $148,000 out of AOCL, and into foreign currency exchange loss (gain), during the next 12 months based on the contractual payments due under this intercompany loan.

The Company has foreign currency forward agreements that are designated as cash flow hedges to hedge a portion of forecasted inventory purchases denominated in foreign currencies. The notional amount of those derivatives is $1,644,000, and all contracts mature by March 31, 2021. From its September 30, 2020 balance of AOCL, the Company expects to reclassify approximately $25,000 out of AOCL during the next 12 months based on the expected sales of the goods purchased.

The Company has foreign currency forward agreements that are not designated as cash flow hedges. The notional amount of these derivatives is $2,065,000, and all contracts mature by December 31, 2020.

The Company's policy is to maintain a capital structure that is comprised of 50-70% of fixed rate long term debt and 30-50% of variable rate long term debt. The Company has two interest rate swap agreements in which the Company receives interest at a variable rate and pays interest at a fixed rate. These interest rate swap agreements are designated as cash flow hedges to hedge changes in interest expense due to changes in the variable interest rate of the senior secured term loan. The amortizing interest rate swaps mature by December 31, 2023 and have a total notional amount of $142,755,000 as of September 30, 2020. The changes in fair values of the interest rate swaps is reported in AOCL and will be reclassified to interest expense over the life of the swap agreements. From its September 30, 2020 balance of AOCL, the Company expects to reclassify approximately $1,064,000 out of AOCL, and into interest expense, during the next 12 months.

The following is the effect of derivative instruments on the Condensed Consolidated Statements of Operations for the three months ended September 30, 2020 and 2019 (in thousands):

| Derivatives Designated as Cash Flow Hedges | Type of Instrument | Amount of Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives | Location of Gain or (Loss) Recognized in Income on Derivatives | Amount of Gain or (Loss) Reclassified from AOCL into Income |
|---|---|---|---|---|
| September 30, 2020 | Foreign exchange contracts | $ (36) | Cost of products sold | $ 70 |
| September 30, 2020 | Interest rate swaps | (194) | Interest expense | (425) |
| September 30, 2020 | Cross currency swaps | (5,667) | Foreign currency exchange (gain) loss | (5,623) |
| | | | | |
| September 30, 2019 | Foreign exchange contracts | 49 | Cost of products sold | 7 |
| September 30, 2019 | Interest rate swap | (313) | Interest expense | 112 |
| September 30, 2019 | Cross currency swaps | 6,605 | Foreign currency exchange (gain) loss | 6,428 |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |
|---|---|---|
| September 30, 2020 | Foreign currency exchange (gain) loss | $ 17 |
| September 30, 2019 | Foreign currency exchange (gain) loss | (42) |

The following is the effect of derivative instruments on the Condensed Consolidated Statements of Operations for the six months ended September 30, 2020 and 2019 (in thousands):

| Derivatives Designated as Cash Flow Hedges | Type of Instrument | Amount of Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives | Location of Gain or (Loss) Recognized in Income on Derivatives | Amount of Gain or (Loss) Reclassified from AOCL into Income |
|---|---|---|---|---|
| September 30, 2020 | Foreign exchange contracts | $ (161) | Cost of products sold | $ 78 |
| September 30, 2020 | Interest rate swaps | (367) | Interest expense | (687) |
| September 30, 2020 | Cross currency swaps | (7,940) | Foreign currency exchange (gain) loss | (7,928) |
| | | | | |
| September 30, 2019 | Foreign exchange contracts | 49 | Cost of products sold | 8 |
| September 30, 2019 | Interest rate swap | (1,726) | Interest expense | 359 |
| September 30, 2019 | Cross currency swaps | 5,604 | Foreign currency exchange (gain) loss | 4,524 |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |
|---|---|---|
| September 30, 2020 | Foreign currency exchange (gain) loss | $ (1) |
| September 30, 2019 | Foreign currency exchange (gain) loss | (7) |

The following is information relative to the Company’s derivative instruments in the Condensed Consolidated Balance Sheets (in thousands):

| | | Fair Value of Asset (Liability) | |
|---|---|---|---|
| Derivatives Designated as Hedging Instruments | Balance Sheet Location | September 30, 2020 | March 31, 2020 |
| Foreign exchange contracts | Prepaid expenses and other | $ 25 | $ 318 |
| Foreign exchange contracts | Accrued liabilities | — | (33) |
| Interest rate swap | Accrued liabilities | (1,399) | (1,402) |
| Interest rate swap | Other non current liabilities | (1,476) | (1,894) |
| Cross currency swap | Prepaid expenses and other | 197 | 1,750 |
| Cross currency swap | Accrued liabilities | — | — |
| Cross currency swap | Other non current liabilities | (14,289) | (5,254) |

| Derivatives Not Designated as Hedging Instruments | Balance Sheet Location | September 30, 2020 | March 31, 2020 |
|---|---|---|---|
| Foreign exchange contracts | Accrued Liabilities | (1) | — |

**9. Debt**

On January 31, 2017 the Company entered into a Credit Agreement ("Credit Agreement") and $545,000,000 of new debt facilities ("Facilities") in connection with the STAHL acquisition. The Facilities consist of a Revolving Facility ("Revolver") in the amount of $100,000,000 and a $445,000,000 1st Lien Term Loan ("Term Loan"). The Term Loan has a seven-year term maturing in 2024. On August 26, 2020, the Company entered into a Second Amendment to the Credit Agreement (as amended by the First Amendment, dated as of February 26, 2018). The Second Amendment extends the $100,000,000 secured Revolver which was originally set to expire on January 31, 2022 to August 25, 2023.

During the three months ended June 30, 2020, the Company drew $25,000,000 from the Revolver for liquidity and working capital purposes. The borrowings on the Revolver triggered the debt covenant provision which requires the Total Leverage Ratio not to exceed 3.00:1.00 as of December 31, 2019 and thereafter. As of September 30, 2020, the Company's Total

Leverage Ratio was below the allowed maximum, therefore, this Company is in compliance with the provision of the Credit Agreement. Subsequent to September 30, 2020, the Company repaid the $25,000,000 from the Revolver and associated interest.

The outstanding principal balance of the Term Loan was $257,125,000 as of September 30, 2020. The Company repaid $1,113,000 and $2,225,000 of required principal payments on the Term Loan during the three and six months ended September 30, 2020. The Company is obligated to make $4,450,000 of principal payments over the next 12 months. In response to COVID-19 the Company is seeking to take all appropriate measures to protect the cash flow and liquidity of the Company. As such, only the required principal amount has been recorded within the current portion of long-term debt on the Company's Condensed Consolidated Balance Sheet with the remaining balance recorded as long-term debt.

There were $25,000,000 in outstanding borrowings and $16,729,000 in outstanding letters of credit issued against the Revolver as of September 30, 2020. The $25,000,000 in outstanding borrowings is recorded within the current portion of long term debt on the Company's Condensed Consolidated Balance Sheet. The outstanding letters of credit as of September 30, 2020 consisted of $0 in commercial letters of credit and $16,729,000 of standby letters of credit.

The gross balance of deferred financing costs on the Term Loan was $14,690,000 as of September 30, 2020 and March 31, 2020. The accumulated amortization balances were $7,695,000 and $6,645,000 as of September 30, 2020 and March 31, 2020, respectively.

The gross balance of deferred financing costs associated with the Revolver is $3,615,000 as of September 30, 2020 and $2,789,000 as of March 31, 2020, which is included in other assets on the Condensed Consolidated Balance Sheet. The accumulated amortization balances were $2,044,000 and $1,766,000 as of September 30, 2020 and March 31, 2020, respectively.

Unsecured and uncommitted lines of credit are available to meet short-term working capital needs for certain of our subsidiaries operating outside of the U.S. The lines of credit are available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between our subsidiaries and the local bank at the time of each specific transaction. As of September 30, 2020, unsecured credit lines totaled approximately $2,578,000, of which $0 was drawn. In addition, unsecured lines of $15,749,000 were available for bank guarantees issued in the normal course of business of which $12,048,000 was utilized.

Refer to the Company’s consolidated financial statements included in its 2020 10-K for further information on its debt arrangements.

**10. Net Periodic Benefit Cost**

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| Service costs | $ 292 | $ 248 | $ 553 | $ 515 |
| Interest cost | 2,916 | 3,676 | 6,031 | 7,375 |
| Expected return on plan assets | (3,229) | (3,972) | (6,707) | (7,945) |
| Net amortization | 851 | 571 | 1,732 | 1,140 |
| Settlement | 16,324 | — | 19,046 | — |
| Net periodic pension (benefit) cost | $ 17,154 | $ 523 | $ 20,655 | $ 1,085 |

During the six months ended September 30, 2020, the Company settled the liabilities for one of its U.S. pension plans through a combination of (i) lump sum payments to eligible participants who elected to receive them and (ii) the purchase of annuity contracts for participants who did not elect lump sums. The lump sum payments were paid during the three months ending June 30, 2020 and resulted in a settlement charge of $2,722,000 which was recorded in Other (income) expense, net on the Condensed Consolidated Statements of Operations. During the quarter ended September 30, 2020, the Company purchased annuity contracts to settle the remaining liabilities of the terminated plan. The annuity contract purchase resulted in a settlement charge of $16,324,000 which was recorded in Other (income) expense, net on the Condensed Consolidated Statements of

Operations during the six months ending September 30, 2020. The remaining surplus of the terminated plan of $3,790,000 will be used, as prescribed in the applicable regulations, to fund obligations associated with the Company's U.S. defined contribution plans.

The Company currently plans to contribute approximately $5,169,000 to its pension plans in fiscal 2021.

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| Interest cost | $ 14 | $ 20 | $ 28 | $ 40 |
| Amortization of plan net losses | (52) | (40) | (104) | (80) |
| Net periodic postretirement (benefit) cost | $ (38) | $ (20) | $ (76) | $ (40) |

For additional information on the Company's defined benefit pension and postretirement benefit plans, refer to the consolidated financial statements included in the 2020 10-K.

## 11. Earnings Per Share

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| Numerator for basic and diluted earnings per share: | | | | |
| Net income | $ (4,104) | $ 16,599 | $ (7,073) | $ 35,178 |
| Denominators: | | | | |
| Weighted-average common stock outstanding – denominator for basic EPS | 23,883 | 23,631 | 23,843 | 23,532 |
| Effect of dilutive employee stock options and other share-based awards | — | 295 | — | 300 |
| Adjusted weighted-average common stock outstanding and assumed conversions – denominator for diluted EPS | 23,883 | 23,926 | 23,843 | 23,832 |

Stock options, restricted stock units, and performance shares with respect to 1,149,000 common shares for the three and six months ended September 30, 2020 were not included in the computation of diluted income per share because they were antidilutive as a result of the Company's net loss. Stock options, restricted stock units, and performance shares with respect to 288,000 common shares for the three and six months ended September 30, 2019 were not included in the computation of diluted loss per share because they were antidilutive. For the three and six months ended September 30, 2019, 70,000 contingently issuable common shares were excluded because a performance condition had not yet been met.

The Company grants share based compensation to eligible participants under the 2016 Long Term Incentive Plan, as Amended and Restated in June 2019 ("2016 LTIP"). The total number of shares of common stock with respect to which awards may be granted under the 2016 LTIP were increased by 2,500,000 as a result of the June 2019 amendment. Shares not previously authorized for issuance under any of the prior stock plans and any shares not issued or subject to outstanding awards under the prior stock plans are still available for issuance.

During the first six months of fiscal 2021, there were 23,000 shares of stock issued upon the exercising of stock options related to the Company's stock option plans. During the fiscal year ended March 31, 2020, 106,792 shares of restricted stock units vested and were issued.

On October 18, 2020 the Company's Board of Directors declared a dividend of $0.06 per common share. The dividend will be paid on November 16, 2020 to shareholders of record on November 6, 2020. The dividend payment is expected to be approximately $1,440,000.

Refer to the Company's consolidated financial statements included in its 2020 10-K for further information on its earnings per share and stock plans.

**12. 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.

Accrued general and product liability costs are actuarially estimated reserves based on amounts determined from loss reports, individual cases filed with the Company, and an amount for losses incurred but not reported. The aggregate amounts of reserves were $20,740,000 (gross of estimated insurance recoveries of $6,955,000 recorded in Other assets on the Condensed Consolidated Balance Sheet) as of September 30, 2020, of which $17,240,000 is included in Other non current liabilities and $3,500,000 in Accrued liabilities. The liability for accrued general and product liability costs are funded by investments in marketable securities (see Note 6).

The following table provides a reconciliation of the beginning and ending balances for accrued general and product liability:

| | September 30, 2020 | March 31, 2020 |
|---|---|---|
| Accrued general and product liability, beginning of period | $ 11,902 | $ 12,686 |
| Estimated insurance recoveries | 6,955 | — |
| Add provision for claims | 2,655 | 3,233 |
| Deduct payments for claims | (772) | (3,975) |
| Accrued general and product liability, end of period | $ 20,740 | $ 11,944 |
| | | |
| Estimated insurance recoveries | (6,955) | — |
| Net accrued general and product liability, end of period | $ 13,785 | $ 11,944 |

The per occurrence limits on the self-insurance for general and product liability coverage to the Columbus McKinnon through its wholly-owned captive insurance company 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 2021.

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 utilizes an environmental auditing program for its 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 its 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 2021.

We have entered a voluntary environmental cleanup program in certain states where we operate and believe that our current reserves are sufficient to remediate these locations. For all of the currently known environmental matters, we have accrued as of September 30, 2020 a total of $765,000 which, in our opinion, is sufficient to deal with such matters. 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 to have 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 2021.

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

Based on actuarial information, the Company has estimated its net asbestos-related aggregate liability including related legal costs to range between $5,100,000 and $9,400,000 using actuarial parameters of continued claims for a period of 37 years from June 30, 2020. The Company's estimation of its net asbestos-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles approximates $5,941,000, which has been reflected as a liability in the Condensed Consolidated Balance Sheet as of September 30, 2020. The recorded liability does not consider the impact of any potential favorable federal legislation. This liability will fluctuate based on the uncertainty in the number of future claims that will be filed and the cost to resolve those claims, which may be influenced by a number of factors, including the outcome of the ongoing broad-based settlement negotiations, defensive strategies, and the cost to resolve claims outside the broad-based settlement program. Of this amount, management expects to incur asbestos liability payments of approximately $2,000,000 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 effect on the financial condition of the Company or its liquidity, although the effect of any future liabilities recorded could be material to earnings in a future period.

A share of the Company’s previously incurred asbestos-related expenses and future asbestos-related expenses are covered by pre-existing insurance policies. The Company had been engaged in a legal action against the insurance carriers for those policies to recover past expenses and future costs incurred. In March of fiscal 2020, the Company came to a tentative agreement with the insurance carriers to settle its case against them for recovery of a portion of past costs and future costs for asbestos-related legal defense costs. The agreement was finalized during the quarter ended September 30, 2020. The terms of the settlement require the carriers to pay gross defense costs prior to retro-premiums of 65% for future asbestos-related defense costs subject to an annual cap of $1,650,000 for claims covered by the settlement. The reimbursement net of retro-premiums is approximately 47% which resulted in a $1,830,000 increase to the Company’s asbestos liability during the quarter.

In addition, the insurance carriers are required to reimburse the Company for past defense costs through the date of the settlement amounting to $3,006,000. Of this amount, $2,450,000 has been paid prior to September 30, 2020 with the remaining expected to be paid before the end of fiscal 2021. The reimbursement for past cost is recorded net of a contingent legal fee estimated at approximately $1,200,000 which is recorded within accrued liabilities and is expected to be paid in the third quarter of fiscal 2021. Further, the insurance carriers accept 100% coverage for indemnity costs related to all covered cases. Estimates of the future cost sharing have been included in the loss reserve calculation as of June 30, 2020 and March 31, 2020. The Company has recorded a receivable for the estimated future cost sharing in Other assets in the Condensed Consolidated Balance Sheet at September 30, 2020 in the amount of $6,955,000, which offsets its asbestos reserves.

The Company is also involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability. The Company's estimation of its product-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles approximates $7,153,000, which has been reflected as a liability in the Condensed Consolidated Statement of Operations as of September 30, 2020. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. Management believes that the potential additional costs for claims will not have a material effect on the financial condition of the Company or its liquidity, although the effect of any future liabilities recorded could be material to earnings in a future period.

The following loss contingencies relate to the Company’s Magnetek subsidiary:

*Product Liability*
Magnetek has been named, along with multiple other defendants, in asbestos-related lawsuits associated with business operations previously acquired but which are no longer owned. During Magnetek's ownership, none of the businesses produced or sold asbestos-containing products. For such claims, Magnetek is uninsured and either contractually indemnified against

liability, or contractually obligated to defend and indemnify the purchaser of these former business operations. The Company aggressively seeks dismissal from these proceedings. Based on actuarial information, the asbestos-related liability including legal costs is estimated to be approximately $667,000 which has been reflected as a liability in the Condensed Consolidated Balance Sheet at September 30, 2020.

*Litigation-Other*

In October 2010, Magnetek received a request for indemnification from Power-One, Inc. ("Power-One") for an Italian tax matter arising out of the sale of Magnetek's power electronics business to Power-One in October 2006. With a reservation of rights, Magnetek affirmed its obligation to indemnify Power-One for certain pre-closing taxes. The sale included an Italian company, Magnetek, S.p.A., and its wholly owned subsidiary, Magnetek Electronics (Shenzhen) Co. Ltd. (the "Power-One China Subsidiary"). The tax authority in Arezzo, Italy, issued a notice of audit report in September 2010 wherein it asserted that the Power-One China Subsidiary had its administrative headquarters in Italy with fiscal residence in Italy and, therefore, is subject to taxation in Italy. In November 2010, the tax authority issued a notice of tax assessment for the period of July 2003 to June 2004, alleging that taxes of approximately $2,200,000 (Euro 1,900,000) were due in Italy on taxable income earned by the Power-One China Subsidiary during this period. In addition, the assessment alleges potential penalties together with interest in the amount of approximately $3,000,000 (Euro 2,600,000) for the alleged failure of the Power-One China Subsidiary to file its Italian tax return. The Power-One China Subsidiary filed its response with the provincial tax commission of Arezzo, Italy in January 2011. A hearing before the Tax Court was held in July 2012 on the tax assessment for the period of July 2003 to June 2004. In September 2012, the Tax Court ruled in favor of the Power-One China Subsidiary dismissing the tax assessment for the period of July 2003 to June 2004. In February 2013, the tax authority filed an appeal of the Tax Court's September 2012 ruling. The Regional Tax Commission of Florence heard the appeal of the tax assessment dismissal for the period of July 2003 to June 2004 and thereafter issued its ruling finding in favor of the tax authority. Magnetek believes the court's decision was based upon erroneous interpretations of the applicable law and appealed the ruling to the Italian Supreme Court in April 2015.

The tax authority in Arezzo, Italy also issued a tax inspection report in January 2011 for the periods July 2002 to June 2003 and July 2004 to December 2006 claiming that the Power-One China Subsidiary failed to file Italian tax returns for the reported periods. In August 2012, the tax authority in Arezzo, Italy issued notices of tax assessment for the periods July 2002 to June 2003 and July 2004 to December 2006, alleging that taxes of approximately $7,900,000 (Euro 6,700,000) were due in Italy on taxable income earned by the Power-One China Subsidiary together with an allegation of potential penalties in the amount of approximately $3,300,000 (Euro 2,800,000) for the alleged failure of the Power-One China Subsidiary to file its Italian tax returns. On June 3, 2015, the Tax Court ruled in favor of the Power-One China Subsidiary dismissing the tax assessments for the periods of July 2002 to June 2003 and July 2004 to December 2006. On July 27, 2015, the tax authority filed an appeal of the Tax Court's ruling of June 3, 2015. In May 2016, the Regional Tax Court of Florence rejected the appeal of the tax authority and at the same time canceled the notices of assessment for the fiscal years of 2004/2005 and 2005/2006. The tax authority had up to six months to appeal the decision. In December 2016, Magnetek was served by the Italian Revenue Service with two appeals to the Italian Supreme Court regarding the two positive judgments on the tax assessments for the fiscal periods 2004/2005 and 2005/2006. In March 2017, the tax authority rejected the appeal of the assessment for 2005/2006 fiscal year. The tax authority had until October 2017 to appeal this decision. In October 2017, Magnetek was served by the Italian Revenue Service with an appeal to the Italian Supreme Court against the positive judgment on the tax assessment for fiscal year 2005/2006. In November 2017 Magnetek filed a memorandum with the Italian Revenue Service and the Italian Supreme Court in response to the appeal made by the tax authority. In February 2018 an appeal hearing was held at the Regional Tax Court of Florence regarding the Italian tax authority's claim for taxes due for fiscal 2002/2003. In October 2018 Magnetek was served by the Italian Revenue Service with an appeal to the Italian Supreme Court against the positive judgment on the tax assessment for fiscal year 2002/2003. In November 2018 Magnetek filed a memorandum with the Italian Supreme Court in response to the appeal made by the tax authority.

The Company believes it will be successful and does not expect to incur a liability related to these assessments.

*Environmental Matters*

From time to time, Magnetek has taken action to bring certain facilities associated with previously owned businesses into compliance with applicable environmental laws and regulations. Upon the subsequent sale of certain businesses, Magnetek agreed to indemnify the buyers against environmental claims associated with the divested operations, subject to certain conditions and limitations. Remediation activities, including those related to indemnification obligations, did not involve material expenditures during the first six months of fiscal year 2021.

Magnetek has also been identified by the United States Environmental Protection Agency and certain state agencies as a potentially responsible party for cleanup costs associated with alleged past waste disposal practices at several previously utilized, owned or leased facilities and offsite locations. Its remediation activities as a potentially responsible party were not material in the first six months of fiscal year 2021. Although the materiality of future expenditures for environmental activities

may be affected by the level and type of contamination, the extent and nature of cleanup activities required by governmental authorities, the nature of Magnetek's alleged connection to the contaminated sites, the number and financial resources of other potentially responsible parties, the availability of indemnification rights against third parties and the identification of additional contaminated sites, Magnetek's estimated share of liability, if any, for environmental remediation, including its indemnification obligations, is not expected to be material.

In 1986, Magnetek acquired the stock of Universal Manufacturing Corporation ("Universal") from a predecessor of Fruit of the Loom ("FOL"), and the predecessor agreed to indemnify Magnetek against certain environmental liabilities arising from pre-acquisition activities at a facility in Bridgeport, Connecticut. Environmental liabilities covered by the indemnification agreement included completion of additional cleanup activities, if any, at the Bridgeport facility and defense and indemnification against liability for potential response costs related to offsite disposal locations. Magnetek's leasehold interest in the Bridgeport facility was assigned to the buyer in connection with the sale of Magnetek's transformer business in June 2001. FOL, the successor to the indemnification obligation, filed a petition for Reorganization under Chapter 11 of the Bankruptcy Code in 1999 and Magnetek filed a proof of claim in the proceeding for obligations related to the environmental indemnification agreement. Magnetek believes that FOL had substantially completed the clean-up obligations required by the indemnification agreement prior to the bankruptcy filing. In November 2001, Magnetek and FOL entered into an agreement involving the allocation of certain potential tax benefits and Magnetek withdrew its claims in the bankruptcy proceeding. Magnetek further believes that FOL's obligation to the state of Connecticut was not discharged in the reorganization proceeding.

In January 2007, the Connecticut Department of Environmental Protection ("DEP") requested parties, including Magnetek, to submit reports summarizing the investigations and remediation performed to date at the site and the proposed additional investigations and remediation necessary to complete those actions at the site. DEP requested additional information relating to site investigations and remediation. Magnetek and the DEP agreed to the scope of the work plan in November 2010. The Company has recorded a liability of $283,000 included in the amount specified above, related to the Bridgeport facility, representing the best estimate of future site investigation costs and remediation costs which are expected to be incurred in the future.

The Company has recorded total liabilities of $453,000 for all environmental matters related to Magnetek in the consolidated financial statements as of September 30, 2020 on an undiscounted basis.

In September of 2017, Magnetek received a request for defense and indemnification from Monsanto Company, Pharmacia, LLC, and Solutia, Inc. (collectively, "Monsanto") with respect to: (1) lawsuits brought by plaintiffs claiming that Monsanto manufactured polychlorinated biphenyls ("PCBs"), exposure to which allegedly caused injury to plaintiffs; and (2) lawsuits brought by municipalities and municipal entities claiming that Monsanto should be responsible for a variety of damages due to the presence of PCBs in bodies of water in those municipalities and/or in water treated by those municipal entities. Monsanto claims to be entitled to defense and indemnification from Magnetek under a so-called "Special Undertaking" apparently executed by Universal in January of 1972, which purportedly required Universal to defend and indemnify Monsanto from liabilities "arising out of or in connection with the receipt, purchase, possession, handling, use, sale or disposition of" PCBs by Universal.

Magnetek has declined Monsanto's tender, and believes that it has meritorious legal and factual defenses to the demands made by Monsanto. Magnetek is vigorously defending against those demands and has commenced litigation to, among other things, declare the Special Undertaking void and unenforceable. Monsanto has, in turn, commenced an action to enforce the Special Undertaking. Magnetek intends to continue to vigorously prosecute its declaratory judgment action and to defend against Monsanto's action against it. We cannot reasonably estimate a potential range of loss with respect to Monsanto's tender because there is insufficient information regarding the underlying matters. Management believes, however, that the potential additional legal costs related to such matters will not have a material effect on the financial condition of the Company or its liquidity, although the effect of any future liabilities recorded could be material to earnings in a future period. As of September 30, 2020, the Company has recorded a reserve of $80,000 for legal costs incurred to date and expected to be incurred related to this matter.

Separately, the Company previously filed suit against Travelers in District Court seeking coverage under insurance policies in the name of Magnetek's predecessor Universal Manufacturing. In July 2019, the District Court ruled that Travelers is obligated to defend Magnetek under these policies in connection with Magnetek's litigation against Monsanto. The Court held that Monsanto's claims against Magnetek fall within the insuring agreement of the Travelers policies and that none of the policy exclusions precluded the possibility of coverage. The Court also held that Travelers prior settlements with other insureds under the policies did not cut off or release Magnetek's rights under the policies. Travelers moved for reconsideration and has sought discovery from Magnetek and Monsanto in connection with that motion. On September 22, 2020, the Court issued an order

denying the motion to reconsider and denying the motion to compel discovery from Magnetek. The result is that the Court's prior order granting Magnetek partial summary judgment and requiring Travelers' to reimburse Magnetek's defense costs to date and fund its defense costs moving forward is now binding, subject to Travelers right to appeal.

The Company is also engaged in similar coverage litigation against Transportation Insurance Company in the Circuit Court of Cook County, Illinois. The Company has sought a ruling that Transportation Insurance Company is also obligated to reimburse Magnetek's defense costs to date, and fund its defense costs moving forward. That motion is not yet fully briefed.

**13. Income Taxes**

Income tax expense (benefit) as a percentage of income (loss) from continuing operations before income tax expense was 1% and 24% in the quarters ended September 30, 2020 and September 30, 2019, respectively, and 12% and 23% for the six-month periods then ended, respectively. Typically these percentages vary from the U.S. statutory rate of 21% primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries.

For both the three months and six months ended September 30, 2020, the rates are lower than the U.S. statutory rate as a result of the impacts associated with pre-tax losses in the U.S. related to the pension settlement expense recorded in the U.S. of $16,324,000 for the quarter and $19,046,000 for the year, respectively, the U.S. R&D credit, and the utilization of net operating losses that previously had a full valuation allowance against them.

The Company estimates that the effective tax rate related to continuing operations will be approximately 10% to 12% for fiscal 2021.

Refer to the Company's consolidated financial statements included in its 2020 10-K for further information on income taxes.

**14. Changes in Accumulated Other Comprehensive Loss**

Changes in AOCL by component for the three and six-month period ended September 30, 2020 are as follows (in thousands):

| | Three months ended September 30, 2020 | | | |
|---|---|---|---|---|
| | Retirement Obligations | Foreign Currency | Change in Derivatives Qualifying as Hedges | Total |
| Beginning balance net of tax | $ (77,172) | $ (31,557) | $ (963) | $ (109,692) |
| Other comprehensive income (loss) before reclassification | (3,348) | 6,631 | (5,896) | (2,613) |
| Amounts reclassified from other comprehensive loss | 13,419 | — | 5,978 | 19,397 |
| Net current period other comprehensive income (loss) | 10,071 | 6,631 | 82 | 16,784 |
| Ending balance net of tax | $ (67,101) | $ (24,926) | $ (881) | $ (92,908) |

| | Six months ended September 30, 2020 | | | |
|---|---|---|---|---|
| | Retirement Obligations | Foreign Currency | Change in Derivatives Qualifying as Hedges | Total |
| Beginning balance net of tax | $ (79,041) | $ (34,359) | $ (950) | $ (114,350) |
| Other comprehensive income (loss) before reclassification | (4,253) | 9,433 | (8,468) | (3,288) |
| Amounts reclassified from other comprehensive loss | 16,193 | — | 8,537 | 24,730 |
| Net current period other comprehensive income (loss) | 11,940 | 9,433 | 69 | 21,442 |
| Ending balance net of tax | $ (67,101) | $ (24,926) | $ (881) | $ (92,908) |

Details of amounts reclassified out of AOCL for the three-month period ended September 30, 2020 are as follows (in thousands):

| Details of AOCL Components | Amount reclassified from AOCL | Affected line item on Condensed Consolidated Statement of Operations |
|---|---|---|
| Net amortization of prior service cost and pension settlement expense (2) | | |
| | $ 17,172 | (1) |
| | 17,172 | Total before tax |
| | (3,753) | Tax (benefit) expense |
| | $ 13,419 | Net of tax |
| | | |
| Change in derivatives qualifying as hedges | | |
| | $ (90) | Cost of products sold |
| | 548 | Interest expense |
| | 7,254 | Foreign currency |
| | 7,712 | Total before tax |
| | (1,734) | Tax (benefit) expense |
| | $ 5,978 | Net of tax |

Details of amounts reclassified out of AOCL for the six-month period ended September 30, 2020 are as follows (in thousands):

| Details of AOCL Components | Amount reclassified from AOCL | Affected line item on Condensed Consolidated Statement of Operations |
|---|---|---|
| Net amortization of prior service cost and pension settlement expense (2) | | |
| | $ 20,722 | (1) |
| | 20,722 | Total before tax |
| | (4,529) | Tax (benefit) expense |
| | $ 16,193 | Net of tax |
| | | |
| Change in derivatives qualifying as hedges | | |
| | $ (101) | Cost of products sold |
| | 886 | Interest expense |
| | 10,227 | Foreign currency |
| | 11,012 | Total before tax |
| | (2,475) | Tax (benefit) expense |
| | $ 8,537 | Net of tax |

(1) These AOCL components are included in the computation of net periodic pension cost. (See Note 10 — Net Periodic Benefit Cost for additional details.)

(2) During the quarter ended September 30, 2020, the Company terminated one of it's U.S. pension plans which resulted in an adjustment to other comprehensive income (See Note 10 — Net Periodic Benefit Cost).

**15. Leases**

The Company's leases are classified as operating leases and consist of manufacturing facilities, sales offices, distribution centers, warehouses, vehicles, and equipment. For leases with terms greater than twelve months, at lease commencement the Company recognizes a right-of-use ("ROU") asset and a lease liability. The initial lease liability is recognized at the present

value of remaining lease payments over the lease term. Leases with an initial term of twelve months or less are not recorded on the Company's Condensed Consolidated Balance Sheet. The Company recognizes lease expense for operating leases on a straight-line basis over the lease term.

The Company's leases have lease terms ranging from 1 to 15 years, some of which include options to extend or terminate the lease. The exercise of lease renewal options is at the Company's sole discretion. When deemed reasonably certain of exercise, the renewal options are included in the determination of the lease term. The Company's lease agreements do not contain material residual value guarantees or any material restrictive covenants.

The following table illustrates the balance sheet classification for ROU assets and lease liabilities (in thousands):

| | Balance sheet classification | September 30, 2020 | March 31, 2020 |
|---|---|---|---|
| **Assets** | Other assets | $ 37,161 | $ 38,125 |
| | | | |
| Current | Accrued liabilities | 7,341 | 6,924 |
| Non-current | Other non current liabilities | 30,504 | 31,629 |
| **Total liabilities** | | $ 37,845 | $ 38,553 |

Operating lease expense of $2,251,000 and $4,485,000 and $2,297,000 and $4,572,000 for the three six months ending September 30, 2020 and September 30, 2019, respectively, is included in income from operations on the Condensed Consolidated Statements of Operations. Short-term lease expense, sublease income, and variable lease expenses were not material for the three and six months ending September 30, 2020 and September 30, 2019.

Supplemental cash flow information related to operating leases is as follows (in thousands):

| | Six months ended | |
|---|---|---|
| | September 30, 2020 | September 30, 2019 |
| Cash paid for amounts included in the measurement of operating lease liabilities | $ 4,344 | $ 4,447 |
| ROU assets obtained in exchange for new operating lease liabilities | $ 1,986 | $ 311 |

**16. Effects of New Accounting Pronouncements**

*ASU 2016-13 (Topic 326) - Adopted in fiscal 2021*

In November 2019, the FASB issued ASU No. 2019-11, "Codification Improvements to Topic 326: Financial Instruments - Credit Losses." The ASU allows, among other aspects, companies to make accounting policy elections to simplify certain aspects of the presentation and measurement of accrued interest on receivables as well as certain practical expedients for disclosure of accrued interest and financial assets secured by collateral maintenance provisions. The ASU was adopted in connection with the adoption of ASU 2016-13 described below.

In May 2019, the FASB issued ASU No. 2019-05, "Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief." The ASU allows companies to elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that were previously recorded at amortized cost and are within the scope of ASC 326-20 if the instruments are eligible for the fair value option under ASC 825-10. The ASU was adopted in connection with the adoption of ASU 2016-13 described below.

In November 2018, the FASB issued ASU No. 2018-19, "Codification Improvements to Topic 326: Financial Instruments - Credit Losses." The ASU changes the effective date of ASU 2016-13, Financial Instruments - Credit Losses, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company adopted this standard and all related standards effective April 1, 2020. Refer to Note 3 (Revenue & Receivables) for the transition impact and further details.

*Other Topics adopted in fiscal 2021*

In August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)." The ASU changes the fair value measurement disclosure requirements including new, eliminated, and modified disclosure requirements of ASC 820. For instance, the ASU requires the addition of disclosures for Level 3 fair value measurements with unrealized gains and losses included in other comprehensive income and disclosure of the range of the weighted average used to develop significant unobservable inputs for Level 3 measurements. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years, with early adoption permitted for any eliminated or modified disclosures. The Company adopted this standard effective April 1, 2020 and the standard did not have a material impact on the financial statements for the three and six months ended September 30, 2020.

*Other Topics not yet adopted*

In August 2020, the U.S. Securities and Exchange Commission ("SEC") issued its rule Modernization of Regulation S-K Items, which modernizes the disclosure requirements in Regulation S-K, Item 101, “Description of Business”; Item 103, “Legal Proceedings”; and Item 105, “Risk Factors.” The SEC stated that the final rule is intended to improve the readability of disclosures, reduce repetition, and eliminate immaterial information, thereby simplifying compliance for registrants and making disclosures more meaningful for investors. The SEC rule is effective November 9, 2020 and the Company will adopt the rule in conjunction with its Form 10-K.

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The ASU is elective and is relief to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. Optional expedients are provided for contract modification accounting under topics such as debt, leases, and derivatives. The optional amendments are effective for all entities as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 through December 31, 2022. We are currently evaluating the impact the standard will have on our consolidated financial statements if we chose to elect.

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

EXECUTIVE OVERVIEW

The Company is a leading worldwide designer, manufacturer and marketer of motion control products, technologies, systems and services that efficiently and ergonomically move, lift, position and secure materials. Key products include hoists, actuators, rigging tools, light rail work stations and digital power and motion control systems. We are focused on commercial and industrial applications that require the safety and quality provided by our superior design and engineering know-how.

Founded in 1875, we have grown to our current size and leadership position through organic growth and acquisitions. We developed our leading market position over our 145-year history by emphasizing technological innovation, manufacturing excellence and superior customer service. In addition, acquisitions significantly broadened our product lines and services and expanded our geographic reach, end-user markets and customer base. In accordance with our Blueprint for Growth Strategy, we are simplifying the business utilizing our 80/20 process, improving our operational excellence, and ramping the growth engine by investing in new product development and a digital platform to grow profitably. Shareholder value will be enhanced by expanding EBITDA margins and return on invested capital ("ROIC").

Our revenue base is geographically diverse with approximately 46% derived from customers outside the U.S. for the six months ended September 30, 2020. Our expansion within the European market with the acquisition of STAHL further expands our geographic diversity. We believe this will help balance the impact of changes that will occur in local economies, as well as benefit the Company from growth in emerging markets. We monitor both U.S. and Eurozone Industrial Capacity Utilization statistics as indicators of anticipated demand for our products. In addition, we continue to monitor the potential impact of other global and U.S. trends including, industrial production, trade tariffs, raw material cost inflation, interest rates, foreign currency exchange rates, and activity of end-user markets around the globe.

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

Regardless of the economic climate and point in the economic cycle, we constantly explore ways to increase operating margins as well as further improve our productivity and competitiveness. We have specific initiatives to reduce quote lead-times, improve on-time deliveries, reduce warranty costs, and improve material and factory productivity. The initiatives are being driven by the implementation of our business operating system E-PAS™. We are working to achieve these strategic initiatives through business simplification, operational excellence, and profitable growth initiatives. We believe these initiatives will enhance future operating margins.

Our principal raw materials and components purchases were approximately $318 million in fiscal 2020 (or 60% of Cost of product sold) and include steel, consisting of rod, wire, bar, structural, and other forms of steel; electric motors; bearings; gear reducers; castings; steel and aluminum enclosures and wire harnesses; electro-mechanical components and standard variable drives. These commodities are all available from multiple sources. We purchase most of these raw materials and components from a limited number of strategic and preferred suppliers under agreements which are negotiated on a company-wide basis through our global purchasing group to take advantage of volume discount. Generally, as we experience fluctuations in our costs, we reflect them as price increases to our customers with the goal of being margin neutral.

We operate in a highly competitive and global business environment. We face a variety of opportunities in those markets and geographies, including trends toward increasing productivity of the global labor force and the expansion of market opportunities in Asia and other emerging markets. While we execute our long-term growth strategy, we are supported by our strong free cash flow as well as our liquidity position and flexible debt structure.

Like many global companies, we are being affected by COVID-19. While the severity and duration of this global pandemic is not known at this time, we are seeking to take all appropriate measures to protect the cash flow and liquidity of the Company. This includes reducing our cost base, reducing working capital needs, and reducing capital expenditures. We have a flexible capital structure composed of a Credit Agreement that includes a Term Loan that requires quarterly principal payments of $1.1 million and a $100 million Revolver. On August 26, 2020, the Company entered into a Second Amendment to the Credit Agreement, which extends the $100 million Revolver which was originally set to expire on January 31, 2022 to August 25,

2023. During the quarter ended June 30, 2020, the Company drew $25 million from the Revolver for liquidity and working capital purposes demonstrating it has a strong, supportive bank group. Subsequent to September 30, 2020, the Company repaid the $25 million and the associated interest on the Revolver.

**Results of Operations**

*Three Months Ended September 30, 2020 and September 30, 2019*

Net sales in the fiscal 2021 quarter ended September 30, 2020 were $157,790,000, down $49,819,000 or 24.0% from the fiscal 2020 quarter ended September 30, 2019 net sales of $207,609,000. Net sales were negatively impacted $54,308,000 due to decreased sales volume as a result of the COVID-19 pandemic, offset by price increases which positively impacted sales by $2,315,000. Foreign currency translation favorably impacted sales by $2,174,000 for the three months ended September 30, 2020.

Gross profit in the fiscal 2021 quarter ended September 30, 2020 was $56,025,000, a decrease of $17,468,000 or 23.8% from the fiscal 2020 quarter ended September 30, 2019 gross profit of $73,493,000. Gross profit margin was 35.5% in the fiscal 2021 three months ended September 30, 2020 compared to 35.4% in fiscal 2020. The decrease in gross profit was due to lower sales volume which reduced gross profit by $19,418,000, $3,846,000 in decreased productivity net of other cost changes, and $244,000 in higher costs incurred in factory closures in the quarter ended September 30, 2020. These gross profit decreases were offset by $2,262,000 of price increases net of material inflation, $2,189,000 from a gain recorded for a building sold in China, $629,000 in decreased tariffs, and $140,000 in business realignment costs. The translation of foreign currencies had a $820,000 favorable impact on gross profit in the three months ended September 30, 2020.

Selling expenses were $18,563,000 and $22,877,000 in the fiscal 2021 and 2020 second quarters ended September 30, 2020 and 2019, respectively. As a percentage of consolidated net sales, selling expenses were 11.8% and 11.0% in the fiscal 2021 and 2020 three months ended September 30, 2020 and 2019, respectively. Selling expense decreased primarily due to costs measures put in place as a result of COVID-19 in the three months ended September 30, 2020. Foreign currency translation had a $310,000 unfavorable impact on selling expenses.

General and administrative expenses were $15,554,000 and $19,153,000 in the fiscal 2021 and 2020 second quarters ended September 30, 2020 and 2019, respectively. As a percentage of consolidated net sales, general and administrative expenses were 9.9% in the three months ended September 30, 2020 and 9.2% in the three months ended September 30, 2019. The decrease in general and administrative expenses was primarily due to $1,349,000 of lower incentive compensation expense and $924,000 in reduced bad debt expense. A reduction in travel related business expenses and professional services in response to COVID-19 further contributed to the reduction in general and administrative expenses. Foreign currency translation had a $132,000 unfavorable impact on general and administrative expenses.

Research and development expenses remained consistent at $2,896,000 and $2,999,000 in the fiscal 2021 and 2020 second quarters ended September 30, 2020 and 2019, respectively. As a percentage of consolidated net sales, research and development expenses were 1.8% and 1.4% in the fiscal 2021 and 2020 three months ended September 30, 2020 and 2019.

Amortization of intangibles was $3,192,000 and $3,226,000 in the fiscal 2021 and 2020 second quarters ended September 30, 2020 and 2019, respectively, with the decrease related to currency and certain intangible assets that are now fully amortized.

Interest and debt expense was $3,018,000 in the second quarter ended September 30, 2020 compared to $3,759,000 in the second quarter ended September 30, 2019 and primarily related to a decrease in interest and debt expense on the Company's Term Loan due to lower average borrowings outstanding during the fiscal 2021 period, offset by interest on the Revolver borrowings.
Investment income of $357,000 and $229,000 in the second quarters ended September 30, 2020 and 2019, respectively, related to earnings on marketable securities held in the Company’s wholly owned captive insurance subsidiary and the Company's equity method investment in EMC, described in Note 6.

Other expense was $16,911,000 in the second quarter ended September 30, 2020 compared to $257,000 in the second quarter ended September 30, 2019. The increase primarily related to a $16,324,000 settlement charge as a result to steps taken to terminate one of the Company's U.S. pension plans, as described in Note 10.

Income tax expense as a percentage of income from continuing operations before income tax expense was 1% and 24% in the quarters ended September 30, 2020 and September 30, 2019, respectively. Typically these percentages vary from the U.S.

statutory rate of 21% primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries. For the quarter ended September 30, 2020, the rate is lower than the U.S. statutory rate as a result of the impacts associated with pre-tax losses in the U.S. related to the pension settlement expense described above, the U.S. R&D credit, and the utilization of net operating losses that previously had a full valuation allowance against them.

The Company estimates that the effective tax rate related to continuing operations will be approximately 10% to 12% for fiscal 2021.

*Six Months Ended September 30, 2020 and September 30, 2019*

Net sales in the fiscal 2021 six months ended September 30, 2020 were $296,860,000, down $123,461,000 or 29.4% from the fiscal 2020 six months ended September 30, 2019 net sales of $420,321,000. Net sales were negatively impacted $128,434,000 due to decreased sales volume as a result of the COVID-19 pandemic, offset by price increases which positively impacted sales by $4,750,000. Foreign currency translation favorably impacted sales by $223,000 for the six months ended September 30, 2020.

Gross profit in the fiscal 2021 six months ended September 30, 2020 was $100,822,000, a decrease of $48,283,000 or 32.4% from the fiscal 2020 six months ended September 30, 2019 gross profit of $149,105,000. Gross profit margin was 34.0% in the fiscal 2021 six months ended September 30, 2020 compared to 35.5% in fiscal 2020. The decrease in gross profit was due to lower sales volume which reduced gross profit by $46,411,000, $8,142,000 in decreased productivity net of other cost changes, $1,666,000 in net costs incurred in factory closures, $189,000 in incremental current year severance costs, and $290,000 received in the prior year from an insurance settlement which did not reoccur in the six months ended September 30, 2020. These gross profit decreases were offset by $4,653,000 of price increases net of material inflation, $2,189,000 from a gain recorded for a building sold in China classified as Cost of products sold, and $1,365,000 in decreased tariffs. The translation of foreign currencies had a $208,000 favorable impact on gross profit in the six months ended September 30, 2020.

Selling expenses were $37,258,000 and $45,632,000 in the six months ended September 30, 2020 and 2019, respectively. As a percentage of consolidated net sales, selling expenses were 12.6% and 10.9% in the fiscal 2021 and 2020 six months ended September 30, 2020 and 2019, respectively. Selling expense decreased primarily due to cost measures put in place as a result of COVID-19 in the six months ended September 30, 2020. Foreign currency translation had a $15,000 unfavorable impact on selling expenses.

General and administrative expenses were $33,983,000 and $38,753,000 in the fiscal 2021 and 2020 six months ended September 30, 2020 and 2019, respectively. As a percentage of consolidated net sales, general and administrative expenses were 11.4% in the six months ended September 30, 2020 and 9.2% in the six months ended September 30, 2019. The decrease in general and administrative expenses was primarily due to $2,153,000 of lower incentive compensation expense offset by $666,000 in stock compensation expense primarily related to stock granted to the Company's Chief Executive Officer. A reduction in travel related business expenses and professional services in response to COVID-19 further contributed to the reduction in general and administrative expenses which more than offset $146,000 of incremental bad debt expense. Foreign currency translation had a $120,000 favorable impact on general and administrative expenses.

Research and development expenses remained consistent at $5,665,000 and $5,791,000 in the fiscal 2021 and 2020 six months ended September 30, 2020 and 2019, respectively. As a percentage of consolidated net sales, research and development expenses were 1.9% and 1.4% in the fiscal 2021 and 2020 six months ended September 30, 2020 and 2019.

A Loss on sales of businesses in the amount of $176,000 was recorded in the six months ended September 30, 2019 primarily as a result of a final working capital adjustment from sold businesses.

Amortization of intangibles was $6,307,000 and $6,479,000 in the six months ended September 30, 2020 and 2019, respectively, with the decrease related to currency and certain intangible assets that are now fully amortized.

Interest and debt expense was $6,206,000 in the six months ended September 30, 2020 compared to $7,611,000 in the six months ended September 30, 2019 and primarily related to a decrease in interest and debt expense on the Company's Term Loan due to lower average borrowings outstanding during the fiscal 2021 period, offset by interest on the Revolver borrowings.
Investment income of $934,000 and $531,000 in the six months ended September 30, 2020 and 2019, respectively, related to earnings on marketable securities held in the Company’s wholly owned captive insurance subsidiary and the Company's equity method investment in EMC, described in Note 6.

Other expense was $19,937,000 in the six months ended September 30, 2020 compared to $419,000 in the six months ended September 30, 2019. The increase primarily related to a $19,046,000 settlement charge as a result to steps taken to terminate one of the Company's U.S. pension plans, as described in Note 10.

Income tax expense as a percentage of income from continuing operations before income tax expense was 12% and 23% in the six months ended September 30, 2020 and September 30, 2019, respectively. Typically these percentages vary from the U.S. statutory rate of 21% primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries. For the six months ended September 30, 2020, the rate is lower than the U.S. statutory rate as a result of the impacts associated with pre-tax losses in the U.S. related to the pension settlement expense described above, the U.S. R&D credit, and the utilization of net operating losses that previously had a full valuation allowance against them.

The Company estimates that the effective tax rate related to continuing operations will be approximately 10% to 12% for fiscal 2021.

**Liquidity and Capital Resources**

Cash, cash equivalents, and restricted cash totaled $186,806,000 at September 30, 2020, an increase of $72,106,000 from the March 31, 2020 balance of $114,700,000.

*Cash flow from operating activities*

Net cash provided by operating activities was $46,943,000 for the six months ended September 30, 2020 compared with net cash used by operating activities of $37,880,000 for the six months ended September 30, 2019. A decrease in trade accounts receivable of $33,594,000, non-cash adjustments to net income of $32,417,000, and a decrease in inventory of $18,987,000 contributed to the increase in cash provided by operating activities for the six months ended September 30, 2020. The decrease in accounts receivable is due to cash collection improvements and the decrease in inventory is due to the Company's initiatives to increase cash flow and improve inventory turns. The most significant non-cash adjustments to net income are depreciation and amortization of $14,210,000 and a $19,046,000 loss recorded for the termination of one of the U.S. pension plans (refer to Note 10 for further details). This increase in cash was offset by an overall net loss of $7,073,000, a decrease in trade accounts payable of $20,078,000 and a decrease in accrued expenses and non-current liabilities of $9,847,000. The decrease in accrued expenses and non-current liabilities primarily consists of the fiscal 2020 annual incentive plan payments which were paid in the quarter ended June 30, 2020 and $4,344,000 in cash paid for amounts included in the measurement of operating lease liabilities during the six months ended September 30, 2020.

The net cash provided by operating activities for the six months ended September 30, 2019 primarily consisted of net income of $35,178,000 and non-cash adjustments to net income of $24,286,000. This was offset by an increase in trade accounts receivable of $2,648,000, a decrease in inventory of $1,400,000, a decrease in accrued expenses and non-current liabilities of $17,614,000, and an increase in trade accounts payable of $332,000. The decrease in accrued expenses and non-current liabilities primarily consists of the fiscal 2020 annual incentive plan payments and $6,650,000 in U.S. pension plan contributions paid during the six months ended September 30, 2019.

*Cash flow from investing activities*

Net cash provided by investing activities was $2,536,000 for the six months ended September 30, 2020 compared with net cash used by investing activities of $5,659,000 for the six months ended September 30, 2019. The most significant source of cash was $5,453,000 net proceeds received from a building sold in China. The most significant use of cash in the fiscal 2021 period was $2,779,000 in capital expenditures

The net cash used by investing activities for the six months ended September 30, 2019 was primarily due to $4,843,000 in capital expenditures.

*Cash flow from financing activities*

Net cash provided by financing activities was $18,536,000 for the six months ended September 30, 2020 compared with net cash used for financing activities of $29,584,000 for the six months ended September 30, 2019. The most significant source of cash was $25,000,000 from borrowings on the Revolver, offset by $2,225,000 in repayments on our Term Loan, dividends paid

in the amount of $2,860,000, and by $553,000 in net outflows from stock related transactions, which includes proceeds of $429,000 from stock options exercised.

The most significant uses of cash for the six months ended September 30, 2019 were $30,000,000 in repayments on our Term Loan and dividends paid in the amount of $2,824,000.

We believe that our cash on hand, cash flows, and borrowing capacity under our Facilities will be sufficient to fund our ongoing operations and debt obligations, and capital expenditures for at least the next twelve months. This belief is dependent upon successful execution of our current business plan and effective working capital utilization. No material restrictions exist in accessing cash held by our non-U.S. subsidiaries. Additionally we expect to meet our U.S. funding needs without repatriating non-U.S. cash and incurring incremental U.S. taxes. As of September 30, 2020, $90,473,000 of cash and cash equivalents were held by foreign subsidiaries.

On January 31, 2017 the Company entered into a Credit Agreement ("Credit Agreement") and $545,000,000 of new debt facilities ("Facilities") in connection with the STAHL acquisition. The Facilities consist of a Revolving Facility ("Revolver") in the amount of $100,000,000 and a $445,000,000 1st Lien Term Loan ("Term Loan"). The Term Loan has a seven-year term maturing in 2024. On August 26, 2020, the Company entered into a Second Amendment to the Credit Agreement (as amended by the First Amendment, dated as of February 26, 2018). The Second Amendment extends the $100,000,000 secured Revolver which was originally set to expire on January 31, 2022 to August 25, 2023.

During the three months ended June 30, 2020, the Company drew $25,000,000 from the Revolver for liquidity and working capital purposes. The borrowings on the Revolver triggered the debt covenant provision which requires the Total Leverage Ratio not to exceed 3.00:1.00 as of December 31, 2019 and thereafter. As of September 30, 2020, the Company's Total Leverage Ratio was below the allowed maximum, therefore, this Company is in compliance with the provision of the Credit Agreement. Subsequent to September 30, 2020, the Company repaid the $25,000,000 from the Revolver and associated interest.

The outstanding principal balance of the Term Loan was $257,125,000 as of September 30, 2020. The Company repaid $1,113,000 and $2,225,0000 of required principal payments on the Term Loan during the three and six months ended September 30, 2020. The Company is obligated to make $4,450,000 of principal payments over the next 12 months. In response to COVID-19 the Company is seeking to take all appropriate measures to protect the cash flow and liquidity of the Company. As such, only the required principal amount has been recorded within the current portion of long-term debt on the Company's Condensed Consolidated Balance Sheet with the remaining balance recorded as long-term debt.

There were $25,000,000 in outstanding borrowings and $16,729,000 in outstanding letters of credit issued against the Revolver as of September 30, 2020. The $25,000,000 in outstanding borrowings is recorded within the current portion of long term debt on the Company's Condensed Consolidated Balance Sheet. The outstanding letters of credit as of September 30, 2020 consisted of $0 in commercial letters of credit and $16,729,000 of standby letters of credit.

The gross balance of deferred financing costs on the Term Loan was $14,690,000 as of September 30, 2020 and March 31, 2020. The accumulated amortization balances were $7,695,000 and $6,645,000 as of September 30, 2020 and March 31, 2020, respectively.

The gross balance of deferred financing costs associated with the Revolver is $3,615,000 as of September 30, 2020 and $2,789,000 as of March 31, 2020, which is included in other assets on the Condensed Consolidated Balance Sheet. The increase of $826,000 for the six months ended September 30, 2020 relates to fees paid to extend the Revolver as described above. The accumulated amortization balances were $2,044,000 and $1,766,000 as of September 30, 2020 and March 31, 2020, respectively.

Unsecured and uncommitted lines of credit are available to meet short-term working capital needs for certain of our subsidiaries operating outside of the U.S. The lines of credit are available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between our subsidiaries and the local bank at the time of each specific transaction. As of September 30, 2020, unsecured credit lines totaled approximately $2,578,000, of which $0 was drawn. In addition, unsecured lines of $15,749,000 were available for bank guarantees issued in the normal course of business of which $12,048,000 was utilized.

**Capital Expenditures**

In addition to keeping our current equipment and plants properly maintained, we are committed to replacing, enhancing and upgrading our property, plant and equipment to support new product development, improve productivity and customer responsiveness, reduce production costs, increase flexibility to respond effectively to market fluctuations and changes, meet environmental requirements, enhance safety and promote ergonomically correct work stations. Consolidated capital expenditures for the six months ended September 30, 2020 and September 30, 2019 were $2,779,000 and $4,843,000, respectively. We expect capital expenditure spending for fiscal 2021 to range from $14,000,000 to $15,000,000, excluding acquisitions and strategic alliances.

**Inflation and Other Market Conditions**

Our costs are affected by inflation in the U.S. economy and, to a lesser extent, in non-U.S. economies including those of Europe, Canada, Mexico, South America, and Asia-Pacific. We 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. However, increases in U.S. employee benefits costs such as health insurance and workers compensation 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 to our customers. We believe we have been successful in instituting price increases to pass on these material cost increases. We will continue to monitor our costs and reevaluate our pricing policies.

**Goodwill Impairment Testing**

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

We test goodwill at the reporting unit level, which is one level below our operating segment. We identify our reporting units by assessing whether the components of our operating segment constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components. We also aggregate components that have similar economic characteristics into single reporting units (for example, similar products and / or services, similar long-term financial results, product processes, classes of customers, etc.). We have two reporting units, the Duff Norton reporting unit and the Rest of Products reporting unit, which have goodwill totaling $9,661,000 and $321,198,000, respectively, at September 30, 2020.

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

Refer to our 2020 10-K for additional information regarding our annual goodwill impairment process.

**Seasonality and Quarterly Results**

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

**Effects of New Accounting Pronouncements**

Information regarding the effects of new accounting pronouncements is included in Note 16 to the accompanying consolidated financial statements included in this quarterly report on form 10-Q.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the market risks as previously disclosed in the Company's 2020 10-K for the year ended March 31, 2020 other than the following which has been modified:

We have been and may continue to be materially and adversely impacted by the effects of COVID-19. In addition to global macroeconomic effects, the COVID-19 outbreak and any other related adverse public health developments will cause disruption to both our domestic and international operations and sales activities. The continued operation of our facilities is subject to local laws and regulations. While all of our facilities have been deemed essential under applicable law there is no guarantee this will continue. Our third-party manufacturers, suppliers, distributors, sub-contractors and customers have been and will continue to be disrupted by worker absenteeism, quarantines and restrictions on their employees' ability to work, office and factory closures, disruptions to ports and other shipping infrastructure, border closures, and other travel or health-related restrictions. Depending on the magnitude of such effects on our manufacturing operations or the operations of our suppliers, third-party distributors, or sub-contractors, our supply chain, manufacturing and product shipments could be delayed, which could adversely affect our business, operations, and customer relationships. In addition, COVID-19 or other disease outbreaks will in the short-run and may over the longer term adversely affect the economies and financial markets of many countries, resulting in an economic downturn that will affect demand for our products and impact our operating results. There can be no assurance that any decrease in sales resulting from the COVID-19 will be offset by increased sales in subsequent periods. Although the magnitude of the impact of the COVID-19 outbreak on our business and operations remains uncertain, the continued spread of the COVID-19 or the occurrence of other epidemics and the imposition of related public health measures and travel and business restrictions will adversely impact our business, financial condition, operating results and cash flows.

Item 4. Controls and Procedures

As of September 30, 2020, an evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2020, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is made known to them on a timely basis, and that these disclosure controls and procedures are effective to ensure such information is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

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

**Part II. Other Information**

Item 1. Legal Proceedings – none.

Item 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in the Company's 2020 10-K for the year ended March 31, 2020.

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

Item 3. Defaults upon Senior Securities – none.

Item 4. Mine Safety Disclosures – Not applicable

Item 5. Other Information – none.

Item 6. Exhibits

| | |
|---|---|
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934; as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934; as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32 | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the three and six months ended September 30, 2020 formatted in iXBRL, as follows: |
| | (i) Condensed Consolidated Balance Sheets September 30, 2020 and March 31, 2020; |
| | (ii) Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2020 and 2019 |
| | (iii) Condensed Consolidated Statements of Shareholders' Equity for the three and six months ended September 30, 2020 and 2019 |
| | (iv) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2020 and 2019 |
| | (v) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2020 and 2019 |
| | (vi) Notes to Condensed Consolidated Financial Statements. |
| Exhibit 104 | Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document) |

**SIGNATURES**

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

COLUMBUS McKINNON CORPORATION
(Registrant)

Date: October 29, 2020

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

**Exhibit 31.1**

**CERTIFICATION**

I, David J. Wilson, Chief Executive Officer, certify that:

1. I have reviewed this report on Form 10-Q of Columbus McKinnon Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/S/ DAVID J. WILSON
David J. Wilson
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**

I, Gregory P. Rustowicz, Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-Q of Columbus McKinnon Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/S/ GREGORY P. RUSTOWICZ

Gregory P. Rustowicz

Vice President Finance and Chief Financial Officer

(Principal Financial Officer)

**Exhibit 32**

**CERTIFICATION**

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Columbus McKinnon Corporation (the "Company") on Form 10-Q for the period ended September 30, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: October 29, 2020

/S/ DAVID J. WILSON
David J. Wilson
Chief Executive Officer
(Principal Executive Officer)

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