

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**  
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FILER

**SCOTSMAN HOLDINGS INC**

CIK: **923144** | IRS No.: **521862719** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **033-78954** | Film No.: **04970972**  
SIC: **7359** Equipment rental & leasing, nec

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

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: 033-78954

SCOTSMAN HOLDINGS, INC.  
(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

52-1862719  
(I.R.S. Employer  
Identification No.)

8211 Town Center Drive  
Baltimore, Maryland  
(Address of principal executive offices)

21236  
(Zip Code)

(410) 931-6000  
(Registrant's telephone number, including area code)

None  
(Former name, former address and former fiscal year - if  
changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Act). Yes  No

As of August 12, 2004, 6,194,799 shares of common stock ("Common Stock") of  
the Registrant were outstanding.

SCOTSMAN HOLDINGS, INC.

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FORM 10-Q

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SAFE HARBOR STATEMENT - CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this Form 10-Q for the quarter ended June 30, 2004 constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from future results expressed or implied by these forward-looking statements. These factors include, among others, the following: substantial leverage and our ability to service debt; changing market trends in the mobile office industry; general economic and business conditions including a prolonged or substantial recession; our ability to finance fleet and branch expansion and to locate and finance acquisitions; our ability to implement our business and growth strategy and maintain and enhance our competitive strengths; our ability to obtain financing for general corporate purposes; intense industry competition; availability of key personnel; industry over-capacity; and changes in, or the failure to comply with, government regulations. No assurance can be given as to future results and neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Consequently, you should not place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I - FINANCIAL INFORMATION  
Item 1. Financial Statements.  
SCOTSMAN HOLDINGS, INC. AND SUBSIDIARY  
Consolidated Balance Sheets  
(dollars in thousands)

<TABLE> <CAPTION> <S>	<C>	<C>
	June 30, 2004	December 31, 2003
	----- (Unaudited)	-----
Assets		
Cash	\$ 397	\$ 387
Trade accounts receivable, net of allowance for doubtful accounts of \$946 in 2004 and \$862 in 2003	68,864	55,841
Prepaid expenses and other current assets	33,662	33,741
Rental equipment, net of accumulated depreciation of \$240,264 in 2004 and \$224,794 in 2003	866,412	828,078
Property and equipment, net of accumulated depreciation of \$49,220 in 2004 and \$45,141 in 2003	79,727	80,750
Deferred financing costs, net	19,498	22,868
Goodwill, net	169,885	169,913
Other intangible assets, net of accumulated amortization of \$2,450 in 2004 and \$2,127 in 2003	2,991	2,575
Other assets	13,013	10,958
	----- \$1,254,449 =====	----- \$1,205,111 =====
Liabilities and stockholder's equity		
Accounts payable	\$ 40,758	\$ 29,505
Accrued expenses	32,436	29,377
Rents billed in advance	20,673	18,295
Revolving credit facility	94,099	54,940
Long-term debt, net	906,734	907,238
Deferred income taxes	145,667	147,392
	----- 1,240,367 -----	----- 1,186,747 -----
Total liabilities		
Stockholder's equity		
Common stock, \$.01 par value. Authorized 10,000,000 shares; issued 9,507,407 shares in 2004 and 2003	95	95
Additional paid-in capital	240,459	240,005
Cumulative foreign currency translation adjustment	6,055	8,621
Retained earnings	63,411	65,581
	----- 310,020	----- 314,302
Less treasury stock, - 3,312,608 common shares in 2004 and 2003, at cost	(295,938)	(295,938)
	----- 14,082	----- 18,364
Net stockholder's equity	\$1,254,449 =====	\$1,205,111 =====

</TABLE>

See accompanying notes to consolidated financial statements.

SCOTSMAN HOLDINGS, INC. AND SUBSIDIARY  
Consolidated Statements of Operations  
Three and six months ended June 30, 2004 and 2003  
(Unaudited)

<TABLE>	<C>	<C>	<C>	<C>
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	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
(In thousands except share and per share amounts)				
Revenues				
Leasing	\$ 54,838	\$ 53,560	\$107,665	\$107,034
Sales:				
New units	24,715	18,027	43,806	32,677
Rental equipment	5,798	5,236	11,010	9,653
Delivery and installation	28,832	21,374	49,246	40,302
Other	10,051	9,131	19,418	17,910
Total revenues	124,234	107,328	231,145	207,576
Costs of sales and services				
Leasing:				
Depreciation and amortization	11,988	12,667	23,768	24,990
Other direct leasing costs	12,927	10,932	24,015	20,903
Sales:				
New units	21,360	15,274	36,876	27,196
Rental equipment	4,701	4,223	8,798	7,776
Delivery and installation	24,502	18,024	42,886	34,823
Other	2,607	1,852	4,837	3,574
Total costs of sales and services	78,085	62,972	141,180	119,262
Gross profit	46,149	44,356	89,965	88,314
Selling, general and administrative expenses	20,142	17,969	40,924	37,785
Other depreciation and amortization	3,680	3,574	7,094	6,959
Interest, including amortization of deferred financing costs	22,818	20,259	45,445	40,906
Total operating expenses	46,640	41,802	93,463	85,650
(Loss) income before income taxes	(491)	2,554	(3,498)	2,664
Income tax (benefit) expense	(186)	1,022	(1,328)	1,067
Net (loss) income	\$ (305)	\$ 1,532	\$ (2,170)	\$ 1,597
(Loss) earnings per common share	\$ (0.05)	\$ 0.25	\$ (0.35)	\$ 0.26
(Loss) earnings per common share, assuming dilution	\$ (0.05)	\$ 0.23	\$ (0.35)	\$ 0.24

</TABLE>

See accompanying notes to consolidated financial statements.

SCOTSMAN HOLDINGS, INC. AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
(In thousands)  
(Unaudited)

<TABLE>  
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Six months ended June 30

	2004	2003
Cash flows from operating activities		
Net (loss) income	\$ (2,170)	\$ 1,597
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	34,289	34,896
Bond discount amortization	178	178
Provision for bad debts	1,251	1,060
Deferred income tax (benefit) expense	(1,610)	971
Non-cash stock option compensation expense	454	504
Gain on sale of rental equipment	(2,212)	(1,877)
(Gain) loss on sale of fixed assets	(5)	164
(Increase) decrease in trade accounts receivable	(14,471)	8,277
Increase in accounts payable and accrued expenses	14,395	9,040
Other	(2,209)	2,386
Net cash provided by operating activities	27,890	57,196
Cash flows from investing activities		
Rental equipment additions	(30,237)	(25,447)
Proceeds from sales of rental equipment	11,010	9,653
Purchases of property and equipment, net	(3,425)	(4,582)
Acquisition of businesses, net of cash acquired	--	(3,326)
Fleet acquisitions	(43,470)	--
Net cash used in investing activities	(66,122)	(23,702)
Cash flows from financing activities		
Proceeds from debt	266,941	189,218
Repayment of debt	(228,464)	(221,088)
Increase in deferred financing costs	(57)	(777)
Net cash provided by (used in) financing activities	38,420	(32,647)
Net effect of change in exchange rates	(178)	254
Net increase in cash	10	1,101
Cash at beginning of period	387	429
Cash at end of period	\$ 397	\$ 1,530
Supplemental cash flow information:		
Cash paid for income taxes	\$ 526	\$ 577
Cash paid for interest	\$ 42,098	\$ 38,005

</TABLE>

See accompanying notes to consolidated financial statements.

SCOTSMAN HOLDINGS, INC. AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
(Unaudited)

(Dollars in thousands, except share and per share amounts)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Scotsman Holdings, Inc. ("Holdings" or "the Company" when including Williams Scotsman, Inc.) was organized in November 1993 for the purpose of acquiring Williams Scotsman, Inc. (Scotsman). Holdings conducts business solely as a holding company, the only significant asset of which is the capital stock of

Scotsman. Therefore, any cash dividends to be paid on Holdings' common stock, or cash interest to be paid on the debt of the Company are dependent upon the cash flow of Scotsman.

The operations of the Company consist primarily of the leasing and sale of mobile offices, modular buildings and storage products (equipment) and their delivery and installation throughout the United States, Canada, and certain parts of Mexico.

## (2) FINANCIAL STATEMENTS

In the opinion of management, the unaudited financial statements contain all adjustments (consisting only of normal, recurring adjustments) necessary to present fairly the Company's financial position as of June 30, 2004, the consolidated statements of operations for the three and six month periods ended June 30, 2004 and 2003, and the consolidated statements of cash flows for the six months ended June 30, 2004 and 2003. The results of operations for the periods ended June 30, 2004 are not necessarily indicative of the operating results expected for the full year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

## SCOTSMAN HOLDINGS, INC. AND SUBSIDIARY Notes to Consolidated Financial Statements (Continued)

### (3) ACCOUNTING CHANGE

During the fourth quarter of 2003, the Company adopted the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation, retroactively effective January 1, 2003, using the modified prospective method described in SFAS 148, Accounting for Stock-Based Compensation--Transition and Disclosure. Under the fair value recognition provisions of SFAS 123, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. The impact of this change resulted in an \$840, a \$0.14, and a \$0.13 increase in net income, earnings per share basic, and earnings per share, assuming dilution, respectively, for the three month period ended June 30, 2003, as well as a \$720, a \$0.12, and a \$0.11 increase in net income, earnings per share basic, and earnings per share, assuming dilution, respectively, for the six month period ended June 30, 2003.

### (4) PURCHASE OF CALIFORNIA CLASSROOM UNITS

On March 26, 2004, the Company acquired nearly 3,800 relocatable DSA classroom units located in the state of California from Transport International Pool, Inc. (d/b/a GE Modular Space) for approximately \$43.5 million. The assets were acquired using available funds under the Company's revolving credit facility.

The acquisition included the purchase of units, equipment associated with these classroom units as well as rights under all outstanding leases related to these classroom units and certain other assets. The Company did not acquire employees, physical facilities, sales force, or other business related items. In addition, the customer base, which is primarily related to public and private educational

institutions in the State of California, is similar to, and in many cases duplicative of, the Company's existing customer base. As a result, the Company considers the purchase of these assets an asset purchase rather than an acquisition of a business.

(5) REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

Debt consists of the following:

	June 30, 2004	December 31, 2003
	-----	-----
Borrowings under revolving credit facility	\$ 94,099	\$ 54,940
Term loan	207,367	208,428
Capital lease obligations	378	--
9.875% senior notes, net of unamortized discount of \$1,011 in 2004 and \$1,189 in 2003	548,989	548,810
10.0% senior secured notes	150,000	150,000
	-----	-----
	\$1,000,833	\$ 962,178
	=====	=====

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<TABLE>

SCOTSMAN HOLDINGS, INC. AND SUBSIDIARY  
Notes to Consolidated Financial Statements (Continued)

(6) COMPREHENSIVE (LOSS) INCOME

Total comprehensive (loss) income was \$(2,175) and \$5,998 for the three months ended June 30, 2004 and 2003, respectively, and \$(4,736) and \$9,198 for the six months ended June 30, 2004 and 2003, respectively, which includes net (loss) income and the change in the foreign currency translation adjustment. A summary of the components of comprehensive (loss) income for the three and six month periods ended June 30, 2004 and 2003 is presented below.

<CAPTION>

<S>	<C>	<C>	<C>	<C>
	Three Months Ended June 30,		Six Months Ended June 30,	
	-----	-----	-----	-----
	2004	2003	2004	2003
	----	----	----	----
Net (loss) income	\$ (305)	\$1,532	\$ (2,170)	\$1,597
Change in currency translation	(1,870)	4,466	(2,566)	7,601
	-----	-----	-----	-----
Comprehensive (loss) income	\$ (2,175)	\$5,998	\$ (4,736)	\$9,198
	=====	=====	=====	=====

(7) EARNINGS AND DIVIDENDS PER SHARE

Earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the periods.

The following table sets forth the components of the weighted-average shares outstanding for the basic and diluted earnings per share computations:

<CAPTION>

<S>	<C>	<C>	<C>	<C>
	Three months ended June 30,		Six months ended June 30,	
	-----	-----	-----	-----
	2004	2003	2004	2003
	----	----	----	----



Weighted-average shares - basic earnings per share	6,194,799	6,194,799	6,194,799	6,194,799
Effect of employee stock options	--	347,400	--	347,474
Weighted-average shares - diluted earnings per share	6,194,799	6,542,199	6,194,799	6,542,273

Common stock equivalents of approximately 331,000 were excluded from the weighted average shares-diluted total for both the quarter and six month period ended June 30, 2004, due to their anti-dilutive nature, which resulted from the Company's net loss for such periods.

</TABLE>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements included elsewhere in this report. The terms "company," "we," "our," and "us" refer to Scotsman Holdings, Inc. and its subsidiary Williams Scotsman ("Scotsman"). "Holdings" refers to the parent company. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those contained in our Annual Report on Form 10-K for the year ended December 31, 2003 under the headings "Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in that report. See the Safe Harbor Statement at the beginning of this report.

Critical Accounting Policies and Estimates

General. This discussion and analysis of our financial condition and results of operations is based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, we evaluate estimates, including those related to depreciation of rental equipment, bad debts, contingencies and litigation, intangible assets, stock-based compensation, foreign currency translation, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the unaudited consolidated financial statements. A critical accounting policy is one which is both important to the portrayal of a company's financial condition and results, and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Depreciation of rental equipment. We depreciate rental equipment over its estimated useful life, after giving effect to an estimated salvage value. The useful life of our rental equipment is determined based on our estimate of the period over which the asset will generate revenue (generally 20 years), and the residual value (typically 50% of original cost) is determined based on our estimate of the expected value we could realize from the asset after this period. The lives and residual values are subject to periodic evaluation and may

be affected by, among other factors, changes in building codes, legislation, regulations, local permitting and internal factors which may include, but are not limited to, changes in equipment specifications or maintenance policies. If these estimates change in the future, we may be required to recognize increased or decreased depreciation expense for these assets.

Allowance for doubtful accounts. We are required to estimate the collectibility of our trade receivables. Accordingly, allowances for doubtful

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accounts are maintained for estimated losses resulting from the inability of our customers to make required payments. We evaluate a variety of factors in assessing the ultimate realization of these receivables including the current credit-worthiness of customers. The allowance for doubtful accounts is determined based on historical collection results, days sales outstanding trends, and an ongoing review of specific customers. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, resulting in decreased net income.

Contingencies. We are subject to proceedings, lawsuits, and other claims related to environmental, product and other matters, and are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after analysis of each individual matter. The required reserves may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters.

Goodwill and Other Intangible Asset Impairment. We have significant intangible assets related to goodwill and other acquired intangibles. We periodically evaluate our long lived assets and intangible assets for potential impairment indicators. The determination of whether or not these assets are impaired involves significant judgments regarding estimated future cash flows, market conditions, operational performance, and/or legal factors. Goodwill, in particular, is evaluated on an annual basis on October 1st. Based on the most recent valuation of goodwill completed during the fourth quarter of 2003, we determined that goodwill was not impaired. Future changes in strategy and/or market conditions could significantly impact these judgments and require adjustments to recorded asset balances.

Foreign Currency Translation. We use the exchange rate effective at the close of business on the balance sheet date to translate Scotman's foreign subsidiaries' balance sheets and an average rate for the reporting period to translate the results of operations. The cumulative effect of changes in exchange rates is recognized in a separate line in the equity section of the consolidated balance sheet.

Stock-based Compensation. Prior to 2003, we accounted for our issuance of stock options and any modifications thereof using variable plan accounting and the intrinsic value method under Accounting Principles Board Opinion No. 25 - Accounting for Stock Issued to Employees (APB No. 25) and related interpretations. Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123 - Accounting for Stock-Based Compensation. We selected the modified prospective method of adoption described in SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS No. 148). Under SFAS No. 148 stock compensation expense related to the fair value of our outstanding options must be recognized using estimates of the risk free interest rate, estimated option life, volatility, dividend yield, and the exercise price. No significant changes have been made in the first half of 2004 regarding these input variables that were presented in our annual report for the year ended December 31, 2003.

Income Taxes. We are required to estimate income taxes in each of the jurisdictions in which we operate. The process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These timing differences result in deferred tax assets and liabilities, which are included in our unaudited consolidated balance sheet. We record a valuation allowance to reduce

our deferred tax assets to the amount that is more likely than not to be realized. We have considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. If our estimates of future taxable income were to change, we may be also required to increase the deferred tax asset valuation allowance, thereby increasing our reported income

tax expense.

#### Overview

In the first half of 2004, revenues were \$231.1 million, a 11.4% increase above the same period of 2003, primarily driven by increased new unit sales and related delivery and installation activity. Gross profit for the first half of 2004 of \$90.0 million represented only a 1.9% increase above the same period 2003 primarily due to lower gross profit margins resulting from increased refurbishment and maintenance costs on leased units as well as competitive pricing pressures. Operating expenses increased \$7.8 million, a 9.1% increase over the first half of 2003. Net loss for the first half 2004 was \$2.2 million as compared to net income of \$1.6 million for the first half of 2003.

#### Purchase of California Classroom Units

On March 26, 2004, we acquired nearly 3,800 relocatable DSA classroom units located in the state of California from Transport International Pool, Inc. (d/b/a GE Modular Space) for approximately \$43.5 million. The assets were acquired using available funds under our revolving credit facility. The acquisition included the purchase of units, equipment associated with these classroom units as well as rights under all outstanding leases related to these classroom units and certain other assets. We did not acquire employees, physical facilities, sales force, or other business related items. In addition, the customer base, which is primarily related to public and private educational institutions in the State of California, is similar to, and in many cases duplicative of, our existing customer base. As a result, we consider the purchase of these assets an asset purchase rather than an acquisition of a business.

We estimate the resulting transaction would result in annual increases to revenues, income before income taxes, and operating cash flows of approximately \$10.2 million, \$4.4 million and \$4.5 million, respectively. The estimated income before income taxes would be, after interest and depreciation expenses, \$2.0 million and \$1.7 million, respectively. The average age of the units acquired is approximately 6 years while the remaining depreciable lives range from 2 to 19 years with an average remaining life of approximately 14 years. Operating leases assumed in the transaction have an average contractual life of less than two years, however, we expect a significant number of these units to either continue on a month-to-month basis or be re-leased.

#### Results of Operations

Three Months Ended June 30, 2004 Compared with Three Months Ended June 30, 2003.

Revenues in the quarter ended June 30, 2004 were \$124.2 million; a \$16.9 million or 15.8% increase from revenues of \$107.3 million in the same period of 2004. The increase resulted primarily from a \$7.5 million or 34.9% increase in delivery and installation revenues, a \$6.7 million or 37.1% increase in sales of new units, a \$1.3 million or 2.4% increase in leasing revenue, a \$0.6 million or 10.7% increase in sales of rental equipment, and a \$0.9 million or 10.1% increase in other revenue, from the same period in 2003. The increases in sales of new units and corresponding increase in delivery and installation revenues are largely due to continued growth in the education industry we serve, particularly in the West and Southeast regions of the country. The 2.4% increase in leasing revenue for the quarter ended June 30, 2004 resulted primarily from our purchase of 3,800 California classroom units in March, 2004 and an increase in average fleet utilization partially offset by a decrease in our average rental rate. Average fleet utilization of approximately 80% for the quarter ended June 30, 2004 was up approximately 4% from the same period of the prior

year. Of this increase, 2.5% is attributed to the Company's strategic initiative to dispose of selected rental units in our lease fleet, as disclosed in Note 10 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. Competitive pricing pressures served to decrease our average monthly rental rate by 1.3% to \$247 for the quarter ended June 30, 2004.

Gross profit for the quarter ended June 30, 2004 was \$46.1 million, a \$1.8 million or 4.0% increase from the second quarter of 2003 gross profit. This increase was primarily driven by the increased sales of new units and delivery and installation revenues described above. Gross profit from sales of new units and rental equipment increased by \$0.7 million or 18.2% compared to the same period of the prior year while delivery and installation gross profit increased \$1.0 million or 29.3% as compared to the three months ended June 2003. Gross profit margin percentage from the sales of new units, rental equipment and delivery and installation decreased by 1.7%, 0.4%, and 0.7%, respectively, primarily due to competitive pricing pressures. Leasing gross profit for the quarter ended June 30, 2004 was flat as compared to the prior year quarter. Increases in leasing revenue for the second quarter were partially offset by increases in cost of leasing primarily due to increased refurbishment and maintenance costs. These factors resulted in a decrease in leasing gross profit margin percentage of 1.4% for the quarter ended June 30, 2004 as compared to the corresponding prior year period.

Selling, general and administrative expenses for the three month period ended June 30, 2004 increased by approximately \$2.2 million or 12.1% to \$20.1 million from \$18.0 million in the same period of 2003. This increase is primarily associated with increased employee and facility related costs, business insurance, professional fees and marketing related costs.

Interest expense increased by 12.6% to \$22.8 million in the second quarter 2004 from \$20.3 million in the same period 2003, resulting primarily from the incremental interest expense incurred on the additional \$150.0 million of 10.0% senior secured notes. The net proceeds of the notes were used to pay off portions of the term loan and revolving credit facility debt in August 2003. This incremental interest expense was partially offset by the impact of a \$112.9 million or 27.3% decrease in the average credit facility debt over the second quarter 2003.

Income before income taxes decreased \$3.0 million for the three months ended June 30, 2004 to a loss of \$0.5 million compared to income before income taxes of \$2.6 million for the same period 2003. The effective tax rates for the three month periods ended June 30, 2004 and 2003 were approximately 38% and 40%, respectively.

#### Six Months Ended June 30, 2004 Compared with Six Months Ended June 30, 2003.

Revenues for the six months ended June 30, 2004 were \$231.1 million; a \$23.6 million or 11.4% increase from revenues of \$207.6 million in the same period of 2004. The increase resulted primarily from a \$11.1 million or 34.1% increase in sales of new units, a \$8.9 million or 22.2% increase in delivery and installation revenues, a \$1.5 million or 8.4% increase in other revenue, a \$1.4 million or 14.1% increase in sales of rental equipment, and a \$0.6 million or 0.6% increase in leasing revenue, from the same period in 2003. The increases in sales of new units and corresponding increase in delivery and installation revenues are largely due to continued growth in the education industry we serve, particularly in the West and Southeast regions of the country. The 0.6% increase in leasing revenue for the six month period ended June 30, 2004 resulted primarily from our purchase of 3,800 California classroom units in March 2004

and an increase in average fleet utilization, partially offset by a decrease in our average rental rate. Average fleet utilization of approximately 79% for the six months ended June 30, 2004 was up approximately 3% from the same period of

the prior year. Of this increase, 2.5% is attributed to the strategic initiative previously discussed. Competitive pricing pressures served to decrease our average monthly rental rate by 1.7% to \$249 for the six months ended June 30, 2004.

Gross profit for the six months ended June 30, 2004 was \$90.0 million, a \$1.7 million or 1.9% increase from the six months ended June 30, 2003 gross profit. This increase was primarily driven by the increased sales of new units and delivery and installation revenues described above. Gross profit from sales of new units and rental equipment increased by \$1.8 million or 24.2% compared to the same period of the prior year while delivery and installation gross profit increased \$0.9 million or 16.1% as compared to the six months ended June 30, 2003. Gross profit margin percentage from the sales of new units and delivery and installation decreased by 1.0% and 0.7%, respectively, while gross profit margin percentage from sales of rental equipment increased by 0.7%. The Company continues to experience the impact of competitive pricing pressures. Leasing gross profit for the six months ended June 30, 2004 decreased by \$1.3 million as compared to the corresponding prior year period. These decreases resulted primarily from flat revenues and increased refurbishment and maintenance costs as compared to the same period in 2003. These factors resulted in a decrease in leasing gross profit margin percentage of 1.5% for the six months ended June 30, 2004 as compared to the corresponding prior year period.

Selling, general and administrative expenses for the six month period ended June 30, 2004 increased by approximately \$3.1 million or 8.3% to \$40.9 million from \$37.8 million in the same period 2003. This increase is primarily associated with increased employee and facility related costs, business insurance, professional fees and marketing related costs.

Interest expense increased by 11.1% to \$45.4 million in the first half 2004 from \$40.9 million in the same period 2003, resulting primarily from the incremental interest expense incurred on the additional \$150.0 million of 10.0% senior secured notes. The net proceeds of the notes were used to pay off portions of the term loan and revolving credit facility debt in August 2003. This incremental interest expense was partially offset by the impact of a \$139.1 million or 32.9% decrease in the average credit facility debt over the first half 2003.

Income before income taxes decreased \$6.2 million for the six months ended June 30, 2004 to a loss of \$3.5 million compared to income before income taxes of \$2.7 million for the same period in 2003. The effective tax rates for the six month periods ended June 30, 2004 and 2003 were approximately 38% and 40%, respectively.

#### Contractual Obligations and Commercial Commitments

During the six months ended June 30, 2004, there was no material change in our contractual obligations and commercial commitments outside of the ordinary course of business.

#### Liquidity and Capital Resources

During the six months ended June 30, 2004, and 2003, cash flow from operating activities were \$27.9 million and \$57.2 million, respectively. These funds were largely generated by the rental of units from our lease fleet, the associated delivery and installation services, and the sales of new mobile office units. The decrease of \$29.3 million resulted primarily from a \$14.5 million increase in accounts receivable over the six month period ended June 30, 2004 as compared to the \$8.3 million decrease over the same period 2003. The increase in outstanding receivables at June 30, 2004 was substantially impacted by large classroom sales in the month of June, particularly in the West and Southeast regions. The 2003 reduction of accounts receivable was accomplished by our significant collection efforts to reduce outstanding receivable balances. Other factors that impacted the decrease in net cash provided by operating activities included increases in selling, general, and administrative and interest expenses and decreases in the change in other assets. See Results of

Operations above for further discussion of selling, general, and administrative and interest expense fluctuations. The changes in other assets resulted primarily from the sale of finance leases during the second quarter 2003 further described in Note 11 to the Notes to Consolidated Financial Statements included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2003. These factors were partially offset by increases in the change in accounts payable and accrued expenses, which resulted primarily from the timing of payments of accounts payable.

Cash used in investing activities was \$66.1 million and \$23.7 million for the six months ended June 30, 2004 and 2003, respectively. In June 2003, acquisition purchases consisted of \$3.3 million for the second quarter purchase of a Canadian acquisition while in June 2004, we acquired nearly 3,800 relocatable classrooms located in the state of California for approximately \$43.5 million. See Note 4 to the Consolidated Financial Statements for further discussion of the California fleet purchase. In addition to acquisitions, our primary capital expenditures are for the discretionary purchase of new units for the lease fleet. We seek to maintain our lease fleet in good condition at all times and generally increase the size of our lease fleet only in those local or regional markets experiencing economic growth and established unit demand. Our fleet acquisition strategy includes increasing our fleet size in accordance with business opportunities.

Net cash provided by financing activities of \$38.4 million for the six month period ended June 30, 2004 consisted of additional net borrowings under our revolving credit facility, which were used to supplement cash flow from operating activities in the funding of capital expenditures for the first half 2004, as well as the \$43.5 million California fleet purchase as described above. Net cash used in financing activities of \$32.6 million for the six month period ended June 30, 2003 consisted primarily of net repayments of debt under our revolving credit facility.

The credit agreement contains restrictions on the amount of dividends that Scotsman can pay to Holdings and requires compliance with certain financial covenants including capital expenditures and ratios. These ratios include a consolidated leverage ratio of 6.75 at June 30, 2004 which declines to 6.60 at September 30, 2004 and decreases thereafter over time to 6.25 at December 31, 2005, a consolidated interest coverage ratio of 1.70 and a minimum average annual utilization rate for our fleet of 74% increasing to 75% after December 31, 2004. The failure to maintain these required ratios would result in us not being able to borrow under the credit agreement and, if not cured within the grace periods, would result in a default under the credit agreement. We are currently in compliance with all financial covenants.

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Our total credit facility (including the term loan and revolver commitment) was \$550.0 million at June 30, 2004. Borrowing base (collateral) availability calculated in accordance with the credit agreement under this facility was \$230.7 million at June 30, 2004. Consolidated Leverage Ratio covenant restrictions further limited our borrowing availability at June 30, 2004 to \$35.1 million. In order to meet our future cash requirements, we intend to use internally generated funds and to borrow under our credit facility. We believe we will have sufficient liquidity under our revolving line of credit and from cash generated from operations to fund our operations for at least the next 12 months. Our credit facility expires December 2006 and our 9.875% and 10.0% senior notes expire in 2007 and 2008, respectively. It is expected that we will refinance outstanding obligations under these agreements prior to their maturities. Until such time, we expect that funds from operations will be sufficient to satisfy debt service requirements related to these obligations.

For the period ended June 30, 2004, our actual Consolidated Leverage Ratio was 6.52 as compared to the maximum covenant requirement of 6.75 and our actual Consolidated Interest Coverage Ratio was 1.79 as compared to the minimum covenant requirement of 1.70. The Consolidated Interest Coverage Ratio was calculated by dividing Consolidated EBITDA (as defined in our credit agreement) of \$147,815 for the twelve month period ended June 30, 2004 by cash interest expense of \$82,445 as defined in the credit agreement. The Consolidated Leverage Ratio was calculated by dividing the June 30, 2004 consolidated debt balance of \$1,000,833 by Consolidated EBITDA for the twelve month period ended June 30,

2004. For Consolidated Leverage Ratio calculation purposes, Consolidated EBITDA for the twelve months ended June 30, 2004 was \$153,476, which in accordance with the credit agreement, was adjusted to also include \$5,661 relating to acquisitions made during the calculation period.

Consolidated EBITDA as defined in our credit agreement represents the trailing 12 months consolidated Scotsman Holdings Inc.'s net income plus consolidated interest, tax, depreciation and amortization expenses, and excludes gains and losses on sales of fixed assets and any other non-cash items. It is used in determining our compliance with the financial ratios required by our agreement. Consolidated EBITDA should not be considered in isolation or as a substitute to cash flow from operating activities, net income or other measures of performance prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity.

Although not required by our credit agreement, if cash flow from operating activities for the twelve months ended June 30, 2004, the most directly comparable GAAP measure to Consolidated EBITDA, were used in these calculations instead of Consolidated EBITDA, our leverage ratio and interest coverage ratio would have been 22.3 and .54, respectively.

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The table below reconciles Consolidated EBITDA, calculated pursuant to the credit agreement, to cash flow from operating activities for the twelve months ended June 30, 2004, the most directly comparable GAAP measure (in thousands).

	Twelve Months Ended June 30, 2004
	-----
Consolidated EBITDA	\$153,476
Increase in net receivables	(13,390)
Increase in accounts payable and accrued expenses	3,963
Interest paid	(74,608)
Increase in other assets	(12,556)
Decrease in other liabilities	(1,605)
Gain on sale of rental equipment	(4,709)
Pro forma EBITDA impact of acquisitions	(5,661)
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Cash flow from operating activities	\$ 44,910
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### Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the year ended December 31, 2003. Our exposures to market risk have not changed materially since December 31, 2003.

### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, as of the end of the

period covered by this report, that our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a - 15(e) and 15d - 15(e)) are (1) effective to ensure that material information required to be disclosed by us in reports filed or submitted by us under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) designed to ensure that material information required to be disclosed by us in such reports is accumulated, organized and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting.

There has been no change in the Company's internal control over financial reporting (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

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PART II - OTHER INFORMATION

Item 5. Other Information

The Company is not required to file reports with the Securities and Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, but is filing this Quarterly Report on Form 10-Q on a voluntary basis. Accordingly, it is not an "issuer" as defined in Section 2(a)(7) of the Sarbanes-Oxley Act of 2002.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

(31.1) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Gerard E. Holthaus, Chief Executive Officer of the Company.

(31.2) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for John C. Cantlin, Chief Financial Officer of the Company.



None.

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.

SCOTSMAN HOLDINGS, INC.

By: /s/ Gerard E. Holthaus  
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Gerard E. Holthaus  
Chief Executive Officer

Dated: August 12, 2004

By: /s/ John C. Cantlin  
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John C. Cantlin  
Chief Financial Officer

Dated: August 12, 2004

Exhibit (31.1)

CERTIFICATION

I, Gerard E. Holthaus, Chief Executive Officer, certify, that:

- (1) I have reviewed this report on Form 10-Q of Scotsman, Holdings Inc.;
- (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)) 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) 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
  - c) 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;

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- (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 function):
  - 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

/s/ Gerard E. Holthaus  
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Gerard E. Holthaus  
Chief Executive Officer

August 12, 2004

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Exhibit (31.2)

CERTIFICATION

I, John C. Cantlin, Chief Financial Officer, certify, that:

- (1) I have reviewed this report on Form 10-Q of Scotsman, Holdings Inc.;
- (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)) 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) 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
- c) 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;

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(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 function):

- 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.

/s/ John C. Cantlin

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John C. Cantlin  
Chief Financial Officer

August 12, 2004

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