MANITOWOC CO INC
Form DEF 14A
March 26, 2009

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

The Manitowoc Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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2) Aggregate number of securities to which transaction applies:

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

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4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

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THE MANITOWOC COMPANY, INC.
2400 South 44th Street
P.O. Box 66
Manitowoc, Wisconsin 54221-0066
(920) 684-4410

March 26, 2009

Dear Shareholder:

You are cordially invited to attend the 2009 Annual Meeting of Shareholders of The Manitowoc Company, Inc. which will be held at the Holiday Inn Manitowoc, located at 4601 Calumet Avenue, Manitowoc, Wisconsin 54220, on Tuesday, May 5, 2009, at 9:00 a.m. (CDT).

As set forth in the enclosed proxy materials, the following matters of business are scheduled to be acted upon at the meeting:

1. The election of two directors.

2. The ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009.

3. Such other business as may properly come before the annual meeting.

The Board of Directors of the Company recommends a vote **FOR** election of the two directors named in the enclosed proxy materials, each of whom will serve a term expiring at the annual meeting of the shareholders in 2012; and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009.

Whether or not you are able to attend the 2009 Annual Meeting, we welcome your questions and comments about the Company. To make the best use of time at the meeting, we would appreciate receiving your questions or comments, in writing, in advance of the meeting, so they can be answered as completely as possible at the meeting. If you wish to make a comment or ask a question in writing, we would appreciate receiving it by April 27, 2009.

It is important that your shares be represented and voted at the meeting. You should have already received an Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting with instructions on how to access the proxy materials and vote. As indicated in that notice, you may view the proxy materials online at www.proxydocs.com/mtw and you may also access and complete the proxy card online at www.proxypush.com/mtw. Or if you prefer you may obtain a copy of the proxy materials, including a hard copy of the proxy card, through the website www.investorelections.com/mtw, by phone at 1-866-648-8133, or by email at paper@investorelections.com.

To help us plan for the meeting, please mark your proxy card telling us if you will be attending personally.

Sincerely,

Glen E. Tellock
CEO and President

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THE MANITOWOC COMPANY, INC.
2400 South 44th Street
P.O. Box 66
Manitowoc, Wisconsin 54221-0066
(920) 684-4410

March 26, 2009

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on Tuesday, May 5, 2009.

This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.

The proxy statement and annual report to shareholders are available at www.proxydocs.com/mtw.

If you want to receive a paper or email copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed below on or before April 27, 2009 to facilitate timely delivery.

To the Shareholders of
THE MANITOWOC COMPANY, INC.

The Annual Meeting of the Shareholders of The Manitowoc Company, Inc. will be held as follows:

Meeting date:	Tuesday, May 5, 2009
Meeting time:	9:00 a.m. Central Daylight Time
Meeting place:	Holiday Inn, 4601 Calumet Avenue, Manitowoc, Wisconsin 54220
Materials available:	Proxy Statement, Proxy Card and Annual Report
View Materials:	www.proxydocs.com/mtw
Request materials:	Internet: www.investorelections.com/mtw Phone: 1-866-648-8133 Email: paper@investorelections.com

The Annual Meeting of Shareholders of The Manitowoc Company, Inc. will be held for the following purposes:

1. To elect two directors of The Manitowoc Company, Inc., all as set forth and described in the accompanying Proxy Statement.

2. To ratify the appointment of PricewaterhouseCoopers LLP, as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009.

3. To transact such other business as may properly come before the Annual Meeting.

Shareholders of record as of the close of business on February 27, 2009, are cordially invited to attend and are entitled to vote at the Annual Meeting. However, whether or not you expect to attend the Annual Meeting in

person, you are requested to properly complete the proxy card on line at www.proxypush.com/mtw or to obtain, complete, date, sign, and promptly return a hard copy of the proxy card which can be obtained by request through the website, toll free number or the email address noted above.

By Order of the Board of Directors

MAURICE D. JONES
Senior Vice President, General Counsel
and Secretary

Manitowoc, Wisconsin

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PROXY STATEMENT

THE MANITOWOC COMPANY, INC.
2400 South 44th Street
P.O. Box 66
Manitowoc, Wisconsin 54221-0066
(920) 684-4410

SOLICITATION AND VOTING

This Proxy Statement is furnished by the Board of Directors (the Board of Directors) of The Manitowoc Company, Inc., a Wisconsin corporation (referred to in this Proxy Statement as we or the Company), to the shareholders of the Company in connection with a solicitation of proxies for use at the Annual Meeting of Shareholders (the Annual Meeting) to be held at 9:00 a.m., Central Daylight Time, on Tuesday, May 5, 2009, at the Holiday Inn Manitowoc located at 4601 Calumet Avenue, Manitowoc, Wisconsin 54220, and at any and all adjournments thereof. This Proxy Statement and the accompanying materials are being provided to shareholders on or about March 25, 2009.

On February 27, 2009, the record date for determining shareholders entitled to vote at the Annual Meeting, there were outstanding 130,550,954 shares of Company Common Stock, $0.0l par value per share (the Common Stock). Each share outstanding on the record date is entitled to one vote on all matters presented at the meeting.

Any shareholder entitled to vote may vote in person or by duly executed proxy. Shareholders of record will have the option to vote by written proxy or electronically via either the Internet or a touch-tone telephone. Proxy voting through electronic means is valid under Wisconsin law, and the Company is offering electronic services both as a convenience to its shareholders and as a step towards reducing costs. Shareholders not wishing to utilize electronic voting methods may continue to cast votes by returning their signed and dated proxy card.

For this year s Annual Meeting, the Company has elected to use the Securities and Exchange Commission s (SEC) Notice and Access model for distribution of proxy materials. Accordingly, all proxy materials for the 2009 Annual Meeting, including this Proxy Statement, are available on the Internet. All shareholders have been separately provided with an Important Notice Regarding the Availability of Proxy Materials. As indicated in that notice, the proxy materials, including this Proxy Statement and the Annual Report to Shareholders, are available online at www.proxydocs.com/mtw. Also as indicated in that notice, if you want to receive a paper or email copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request as instructed in that notice on or before April 27, 2009 to facilitate timely delivery.

A proxy may be revoked at any time before it is exercised by filing a written notice of revocation with the Secretary of the Company, by delivering a duly executed proxy bearing a later date, or by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not in itself constitute revocation of a proxy. The shares represented by all properly executed unrevoked proxies received in time for the Annual Meeting will be voted as specified on the proxies. Shares held for the accounts of participants in the Company Dividend Reinvestment Plan and The Manitowoc Company, Inc. 401(k) Retirement Plan (for which the proxies will serve as voting instructions for the shares) will be voted in accordance with the instructions of participants or otherwise in accordance with the terms of those Plans. If no direction is given on a properly executed unrevoked proxy, it will be voted **FOR** each of the two director nominees, and **FOR** ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ended December 31, 2009.

The cost of soliciting proxies will be borne by the Company. Solicitation will be made principally by distribution via mail and the Internet pursuant to the Notice and Access rules, but also may be made by e-mail, telephone, facsimile, or other means of communication by certain directors, officers, employees, and agents of the Company. The directors, officers, and employees will receive no compensation for these proxy solicitation efforts in addition to their regular compensation but may be reimbursed for reasonable out-of-pocket expenses in connection with the solicitation. The Company will request persons holding shares in their names for the benefit of others or in the names of their nominees to send proxy material to and obtain proxies from their principals and will reimburse such persons for their expenses in so doing.

To be effective, a matter presented for a vote of shareholders at the Annual Meeting must be acted upon by a quorum (i.e., a majority of the votes entitled to be cast represented at the Annual Meeting in person or by proxy). Abstentions, shares for which authority is withheld to vote for director nominees, and broker non-votes (i.e., proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owners or other persons entitled to vote shares as to a matter with respect to which the brokers or nominees do not have discretionary power to vote) will be considered present for the purpose of establishing a quorum. Once a share is represented at the Annual Meeting, it is deemed present for quorum purposes throughout the meeting or any adjourned meeting, unless a new record date is or must be set for the adjourned meeting.

Required Vote

Proposal 1: Election of Directors. Directors are elected by a plurality of the votes cast by the holders of shares entitled to vote in the election at a meeting at which a quorum is present. A plurality means that the individuals who receive the largest number of votes are elected as directors up to the maximum number of directors to be chosen at the election (two at the Annual Meeting). Votes attempted to be cast against a director nominee are not given legal effect and are not counted as votes cast in an election of directors. Any shares not voted, whether by withheld authority, broker non-vote or otherwise, will have no effect on the election of directors except to the extent that the failure to vote for an individual results in another nominee receiving a larger number of votes.

Proposal 2: Ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009. Ratification of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009, will be effective if the number of valid votes FOR ratification exceed the number of votes cast AGAINST ratification, provided that a majority of the outstanding shares of the Company s Common Stock are voted on the proposal. Assuming this proviso is met, any shares not voted (whether by broker non-vote or otherwise, except abstentions) have no impact on the vote. Shares of Common Stock as to which holders abstain from voting will be treated as votes against ratification.

The Board of Directors recommends a vote **FOR** the election of the two directors named in the proposal and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm.

1. PROPOSALS REQUIRING YOUR VOTE

PROPOSAL 1 ELECTION OF DIRECTORS

Two directors are to be elected at the Annual Meeting. The names of the nominees to the Board are set forth below, along with additional information regarding each nominee and the other directors continuing in office. If elected, Ms. Egnotovich and Mr. Packard will hold office for a three-year term expiring in the year 2012, or until their respective successors are duly elected and qualified. Ms. Egnotovich and Mr. Packard are presently serving as directors of the Company. Pursuant to the Company s Corporate Governance Guidelines, no director will stand for reelection if he/she will have reached the age of 72 by the date of the next annual meeting and in such event the director will resign from the Board effective as of the date of such next annual meeting. Because Mr. Daniel W. Duval has reached the age of 72 and his term as a director also expires at the upcoming Annual Meeting, Mr. Duval will not be nominated for re-election to the Board. Instead, Mr. Duval s service as a director of the company will end as of the date of the Annual Meeting on May 5, 2009. As previously announced, Mr. Growcock retired as Chairman of the Board and a director of the company as of December 31, 2008.

The election will be determined by a plurality of the votes duly cast. Shares represented by proxies in the accompanying form will be voted for the election of the nominees listed below, unless a contrary direction is indicated. The two nominees have indicated that they are able and willing to serve as directors. However, if any of the nominees should be unable to serve, an eventuality which management does not contemplate, it is intended that the proxies will vote for the election of such other person or persons as management may recommend.

The Board of Directors Recommends Election of the Nominees Whose Names Follow

Both nominees were recommended to the Board by the Corporate Governance Committee, and both are incumbent directors.

Nominees for Three-Year Terms Expiring at the Annual Meeting to be Held in the Year 2012

Cynthia M. Egnotovich, 51 Vice President (2002 to present) Goodrich Corporation and Segment President, Nacelles and Interior Systems (2007 to present) of Goodrich Corporation. Goodrich Corporation is a leading aerospace manufacturer located in Charlotte, NC. Previously with Goodrich Corporation, Segment President, Engine Systems (2005 to 2007); Segment President, Electronic Systems (2003 to 2005); Segment President, Engine and Safety Systems (2002 to 2003). Previous to 2002, Ms. Egnotovich held other positions of increasing responsibility with Goodrich Corporation since she joined the company in 1986. A member of The Manitowoc Company, Inc. Board of Directors since 2008. ***(1)***

James L. Packard, 66, Retired Executive Chairman (4/05 to 12/06), Chairman of the Board (1986 to 4/05), President (1980-2002) and Chief Executive Officer (1984-2005) of Regal-Beloit Corporation. Regal-Beloit is a worldwide manufacturer of mechanical power transmission equipment, electric motors and controls, and electric power generators headquartered in Beloit, WI. Also a director of Clarcor, Inc., Nashville, TN, and First National Bank and Trust, Beloit, WI. A member of The Manitowoc Company, Inc. s Board of Directors since 2000. ***(2)***

Members of the Board of Directors Continuing In Office

Terms Expiring at the Annual Meeting to be Held in the Year 2010

Virgis W. Colbert, 69, Senior adviser to MillerCoors Brewing Company, a leading beer brewer headquartered in Milwaukee, WI. Retired Executive Vice President (1997-2005) of Miller Brewing Company. Also a director of Bank of America, Charlotte, NC, Stanley Works, New Britain, CT, Sara Lee Corporation, Downers Grove, IL, and Lorillard, Inc., Greensboro, NC. A member of The Manitowoc Company, Inc. s Board of Directors since 2001. ***(2)(3)***

Kenneth W. Krueger, 52, Chief Operating Officer (5/06 to present) and former executive vice president (12/05 to 5/06) of Bucyrus International, Inc., a global leader in surface mining equipment manufacturing headquartered in South Milwaukee, WI. Former Sr. Vice President and Chief Financial Officer of A. O. Smith Corporation (8/00-6/05), a global manufacturer of electric motors and water heaters in Milwaukee, WI. Former Vice President Finance and Planning, Hydraulics, Semiconductor Equipment and Specialty Controls Group, Eaton Corporation, Cleveland, OH (7/99-8/00). A member of The Manitowoc Company, Inc. s Board of Directors since 2004. ***(1)(2)***

Robert C. Stift, 67, current director and retired Chairman, President and Chief Executive Officer (3/00-12/01) of Strategic Industries, LLC, Edison, NJ, a manufacturer of industrial and consumer products. A member of The Manitowoc Company, Inc. s Board of Directors since 1998. ***(1)***

Terms Expiring at the Annual Meeting to be Held in the Year 2011

Dean H. Anderson, 68, President, director and Owner (2001 to present) of Dynamic Specialties Inc. (privately held), located in Houston, TX specializing in the sale of equipment and systems to the factory and process automation markets located the southwestern United States. Previously (retired) Senior Vice President Strategic Development (7/97-3/01) and Vice President Strategic Development (2/95-7/97) of ABB Vetco Gray Inc., an oilfield equipment manufacturer headquartered in Houston, TX. A director of Array Holdings, Inc., Muskego, OK (privately held). A

member of The Manitowoc Company, Inc. s Board of Directors since 1992. ***(1)(3)***

Keith D. Nosbusch, 58, Chairman (02/05 to present), President and Chief Executive Officer of Rockwell Automation, Inc. (2/04 to present). Rockwell Automation is a leading global provider of industrial automation power, control and information solutions. Also a director of Rockwell Automation, Inc. (2/04 to present). Previously President, Control Systems, a business unit of Rockwell Automation, Inc., and Senior Vice President

of Rockwell Automation, Inc. (11/98-2/04). A member of The Manitowoc Company, Inc. s Board of Directors since 2003. ***(3)***

Glen E. Tellock, 48, President and Chief Executive Officer of The Manitowoc Company, Inc. (May 2007 to present). Previously the Senior Vice President of The Manitowoc Company, Inc. (1999-2007), President of the Manitowoc Crane Group (2002-2007) and Chief Financial Officer (1999 2002). Mr. Tellock also serves as an Emeritus Board member of the University of Wisconsin-Madison School of Business Dean s Advisory Board, Board member and Chairman of the Association of Equipment Manufacturers (AEM), and a Board member of Astec Industries, Inc. A member of The Manitowoc Company, Inc. s Board of Directors since 2007.

(1) Audit Committee

(2) Compensation Committee

(3) Corporate Governance Committee

PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY S REGISTERED INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2009

The Audit Committee and the Board of Directors have appointed PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009, and asks that the shareholders ratify that appointment. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement if he or she desires to do so. Although ratification is not required by the Company s Bylaws or otherwise, the Board of Directors is submitting the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year December 31, 2009 to its shareholders for ratification as a matter of good corporate practice and because the Board values the input of its shareholders on this matter. As previously pointed out, ratification of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ended December 31, 2009, will be effective if the number of valid votes FOR ratification exceeds the number of votes cast AGAINST ratification, provided that a majority of the outstanding shares of the Company s Common Stock are voted on the proposal. If the shareholders fail to ratify the appointment of PricewaterhouseCoopers LLP, the Audit Committee will consider it as a direction by shareholders to consider the appointment of a different audit firm. Nevertheless, the Audit Committee will still have the discretion to determine who to appoint as the Company s independent registered public accounting firm for the December 31, 2009, fiscal year. Even if the appointment of PricewaterhouseCoopers LLP is ratified, the Audit Committee, in its discretion, may select a different independent public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company.

The Board of Directors recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009.

2. GOVERNANCE OF THE BOARD AND ITS COMMITTEES

Governance of the Company

Currently the Board is comprised of nine directors; however, pursuant to the Company s Corporate Governance Guidelines, no director will stand for reelection if he/she will have reached the age of 72 by the date of the next annual meeting and in such event the director will resign from the Board effective as of the date of such next annual meeting. Because Mr. Daniel W. Duval has reached the age of 72 and his term as a director also expires at the upcoming Annual Meeting, Mr. Duval will not be nominated for re-election to the Board. Instead, Mr. Duval s service as a director of the company will end as of the date of the Annual Meeting on May 5, 2009. The Board of Directors has determined that none of the current eight non-employee directors has a material relationship with the Company and that each non-employee director (viz., Dean H. Anderson, Virgis W. Colbert, Daniel W. Duval,

Cynthia M. Egnotovich, Kenneth W. Krueger, Keith D. Nosbusch, James L. Packard and Robert C. Stift) is independent as defined in the Company s Corporate Governance Guidelines (which may be viewed on the Company s website at www.manitowoc.com), under applicable law and the New York Stock Exchange listing standards. In determining whether a director has a material relationship with the Company, the Board has adopted nine criteria. Those criteria may be viewed on the Company s website at www.manitowoc.com. Any director who meets all of the nine criteria will be presumed by the Board to have no material relationship with the Company. All eight non-employee directors meet all nine of the criteria.

The Company has adopted Corporate Governance Guidelines in order to set forth internal Board policies and procedures. A copy of the current Corporate Governance Guidelines may be viewed on the Company s website at www.manitowoc.com. A copy of the Corporate Governance Guidelines is also available in print to any shareholder who requests a copy.

As set forth in the Corporate Governance Guidelines, all directors are strongly encouraged to attend all annual shareholder meetings of the Company. All of the directors attended the annual shareholders meeting in 2008.

The Company has a Code of Business Conduct that includes a Global Ethics Policy that pertains to all employees. The Company has adopted a code of ethics that applies to the Company s principal executive officer, principal financial officer, and controller, which is part of the Company s Code of Business Conduct and Global Ethics Policy. A copy of these policies can be viewed at the Company s website at www.manitowoc.com and is also available in print to any shareholder who requests a copy.

During the fiscal year ended December 31, 2008, the Board of Directors met eight times. All members of the Board attended at least 75 percent of the meetings held by the Board and the committees on which they served. As required in the Corporate Governance Guidelines, the Board met in executive session at each regular Board meeting during 2008. The Corporate Governance Guidelines provide that the chairperson of the Corporate Governance Committee will serve as the presiding director for the executive session. If for any reason the chairperson of the Corporate Governance Committee is unable to attend or perform the presiding role at a particular executive session, he/she will designate the chairperson of either the Compensation Committee or the Audit Committee to assume the role of the presiding director for the particular executive session.

The Company has standing Corporate Governance, Audit, and Compensation Committees of the Board of Directors, comprised as follows:

Corporate Governance Committee	**Audit Committee**	**Compensation Committee**
Keith D. Nosbusch, Chairman	Robert C. Stift, Chairman	James L. Packard, Chairman
Dean H. Anderson	Dean H. Anderson	Virgis W. Colbert
Virgis W. Colbert	Daniel W. Duval	Kenneth W. Krueger
Daniel W. Duval	Cynthia M. Egnotovich	
	Kenneth W. Krueger	

Transactions with Related Persons

The Company s policies and procedures regarding the review, approval and ratification of related party transactions are circumscribed in the director independence criteria adopted by the Board and may be viewed on the Company s website at www.manitowoc.com, and in the Company s Code of Business Conduct and Code of Ethics which also may be viewed on the Company s website at www.manitowoc.com. The Company s code of ethics specifically required that

(a) without the prior approval of the Chief Executive Officer, the Chief Financial Officer or General Counsel of the Company no officer or employee will enter into any transaction for or on behalf of the Company with any other person or entity in which the employee or officer has a direct or indirect interest; (b) directors and officers of the Company are required to report annually on a director and officer questionnaire circulated by the Company, any material interest that such director or officer has in any business enterprise with which the Company conducts business; and (c) any transactions or agreements relating to transactions between the Company and any such business enterprise must be approved by those members of the Company s Board of Directors who have no interest in the business enterprise, which approval may be a continuing approval. There were no reportable transactions with related parties during 2008.

Corporate Governance Committee

The Corporate Governance Committee is also the Company s nominating committee. The purpose of the Corporate Governance Committee is to assist the Board in its corporate governance responsibilities, including to identify individuals qualified to become Board members, to recommend to the Board for the Board s selection director nominees, and to recommend to the Board the corporate governance principles and guidelines. The Corporate Governance Committee has a charter that may be viewed on the Company s website at www.manitowoc.com and is available in print to any shareholder who requests a copy.

All members of the Corporate Governance Committee are independent as defined in the Company s Corporate Governance Guidelines (which may be viewed at the Company s website at www.manitowoc.com), applicable law, and the corporate governance listing standards of the New York Stock Exchange.

There were four meetings of the Corporate Governance Committee during the Company s fiscal year ended December 31, 2008. For further information see the Corporate Governance Committee Report below.

Audit Committee

The purpose of the Audit Committee, which is established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, is to (A) assist the Board of Directors in fulfilling its oversight of (1) the integrity of the Company s financial statements, (2) the Company s compliance with legal and regulatory requirements, (3) the independent auditor s qualifications and independence, (4) the performance of the Company s internal audit function and independent auditors, (5) the Company s compliance with ethical standards established by law, rule, regulation, and Company policy, and (6) the Company s disclosure processes and procedures; and (B) prepare the report that SEC rules require be included in the Company s annual Proxy Statement. The Audit Committee has a charter, which may be viewed on the Company s website at www.manitowoc.com and is available in print to any shareholder who requests a copy.

All the members of the Audit Committee are independent, as defined in the Company s Corporate Governance Guidelines (which may be viewed on the Company s website at www.manitowoc.com), applicable law, and the corporate governance listing standards of the New York Stock Exchange relating to audit committees. The Board has designated Messrs. Anderson, Krueger, and Stift and Ms. Egnotovich as audit committee financial experts as defined in the Company s Audit Committee Charter and in the Securities and Exchange Commission regulations. The Board has further determined that all members of the Audit Committee are financially literate and that the designation of Messrs. Anderson, Krueger, and Stift and Ms. Egnotovich as audit committee financial experts does not mean that the other Audit Committee members do not meet the qualifications of a financial expert.

During the fiscal year ended December 31, 2008, the Audit Committee met five times. For further information see the Audit Committee Report below.

Compensation Committee

The Compensation Committee provides assistance to the Board of Directors in fulfilling its responsibility to achieve the Company s purpose of maximizing the long-term total return to shareholders by ensuring that officers, directors, and employees are compensated in accordance with the Company s philosophy, objectives, and policies. The Compensation Committee reviews and approves compensation and benefits policies, strategies, and pay levels necessary to support corporate objectives and provides an annual report on executive compensation for inclusion in the Company s Proxy Statement, in accordance with applicable rules and regulations. A copy of the Compensation

Committee Charter can be viewed on the Company s website at www.manitowoc.com and is available in print to any shareholder who requests a copy.

The Compensation Committee is primarily responsible for administering the Company s executive compensation program. As such, the Compensation Committee reviews and approves all elements of the executive compensation program that cover the named executive officers. Management is responsible for making recommendations to the Compensation Committee (except with respect to compensation paid to the CEO) and effectively implementing the executive compensation program, as established by the Compensation Committee. To assist the Compensation Committee with its responsibilities regarding the executive compensation program, the Committee has retained Towers Perrin as its independent compensation consultant.

The Compensation Committee s responsibilities include:

Acting on behalf of the Board of Directors in setting compensation policy, administering compensation plans and making decisions with respect to the compensation of key Company executives, including the review and approval of merit/other compensation budgets and payouts under incentive plans.

Reviewing and approving annual base salary levels, short-term and long-term incentive opportunity levels, executive perquisites, employment agreements (if and when appropriate), benefits and supplemental benefits of the CEO and other key executives of the corporation.

Annually appraising the performance of the chief executive officer and providing developmental feedback to the CEO and, when appropriate, to other key executives of the organization.

Annually evaluating CEO and other key executives compensation levels and payouts against (1) pre-established, measurable performance goals and objectives; and (2) an appropriate comparison group.

Reviewing and recommending pay levels for non-employee directors for vote by the full Board.

There were six meetings of the Compensation Committee during fiscal year ended December 31, 2008. For further information see the Compensation Discussion and Analysis and Compensation Committee Report below.

3. CORPORATE GOVERNANCE COMMITTEE REPORT

The Corporate Governance Committee has adopted the following policies and procedures regarding consideration of candidates for the Board.

Consideration of Candidates for the Board of Directors Submitted by Shareholders. The Corporate Governance Committee will only review recommendations for director nominees from any shareholder beneficially owning, or group of shareholders beneficially owning in the aggregate, at least 5% of the issued and outstanding Common Stock of the Company for at least one year as of the date that the recommendation was made (a Qualified Shareholder). Any Qualified Shareholder must submit its recommendation no later than the 120th calendar day before the date of the Company s proxy statement released to the shareholders in connection with the previous year s annual meeting, for the recommendation to be considered by the Corporate Governance Committee. Any recommendation must be submitted in accordance with the policy in the Corporate Governance Guidelines captioned Shareholder/Interested Person Communications. In considering any timely submitted recommendation from a Qualified Shareholder, the Corporate Governance Committee shall have sole discretion as to whether to nominate the individual recommended by the Qualified Shareholder, except that in no event will a candidate recommended by a Qualified Shareholder who is not independent as defined in the Company s Corporate Governance Guidelines and who does not meet the minimum expectations for a director set forth in the Company s Corporate Governance Guidelines, be recommended for nomination by the Corporate Governance Committee.

The Corporate Governance Committee did not receive, prior to the deadline noted in the foregoing policy, any recommendations for director nominees from any Qualified Shareholder (as defined in the foregoing policy).

Consideration of Candidates for Board that are Incumbent Directors. The process of evaluating directors for re-election will include a peer review of each director wishing to stand for re-election at the expiration of his/her current term. The Corporate Governance Committee may engage an independent third party professional to assist in the process. The Corporate Governance Committee may also interview each candidate individually. The Corporate Governance Committee will make a recommendation to the Board for the Board s final decision on each candidate

seeking re-election. The Corporate Governance Committee shall have sole authority to retain and terminate any search firm to be used to identify director candidates and any independent third party professional consultant used in the evaluation process for directors wishing to stand for re-election. Such authority shall include the sole authority to approve the search firm s and third party professional s fees and other retention terms.

Consideration of Candidates for Board that are Non-incumbent Directors. In the event of a vacancy in the Board of Directors that the Corporate Governance Committee anticipates will not be filled by an incumbent director, the Corporate Governance Committee will manage the process of searching for a suitable director. The Corporate Governance Committee will be free to use its judgment in structuring and carrying out the search process based on the Corporate Governance Committee s and the Board s perception as to what qualifications would best suit the Board s needs for each particular vacancy. The process may include the consideration of candidates recommended by officers, Board members, shareholders, and/or a third party professional search firm retained by

the Corporate Governance Committee. The Corporate Governance Committee shall have sole authority to retain and terminate any third party to be used to identify director candidates and/or evaluate any director candidates. Any candidate should meet the expectations for directors set forth in the Company s Corporate Governance Guidelines. Strong preference should be given to candidates who are independent, as that term is defined in the Corporate Governance Guidelines and the New York Stock Exchange rules, and to candidates who are sitting or former executives of companies whose securities are listed on a national securities exchange and registered pursuant to the Securities Exchange Act of 1934. The Corporate Governance Committee is not required to consider candidates recommended by a shareholder except in accordance with the Policy captioned Consideration of Candidates for the Board of Directors Submitted by Shareholders, set forth in the Corporate Governance Committee Charter. If the Corporate Governance Committee determines to consider a candidate recommended by a shareholder, the Committee will be free to use its discretion and judgment as to what deference will be given in considering any such candidate.

Shareholder/Interested Person Communications. As set forth in the Company s Corporate Governance Guidelines, which may be viewed on the Company s website at www.manitowoc.com, any shareholder or interested person may communicate with the Board of Directors in accordance with the following process. If an interested party desires to communicate with the Board of Directors or any member of the Board of Directors, the interested party may send such communication in writing to the Company to the attention of the Director of Investor Relations and/or the General Counsel. Such communication must include the following information in order to be considered for forwarding on to the Board of Directors or the applicable director:

1. The name, address, and phone number of the interested party.

2. The basis of the party s interest in the Company, e.g., if the interested party is a shareholder, a statement to that effect with the number of shares owned by the shareholder and the length of time that such shares have been beneficially owned.

3. The identity of the director or directors for whom such communication is intended.

4. The address where any reply or questions may be sent by the Company, the Board or any Board member.

5. Whether such interested party requests that the Company let the interested party know whether or not such communication has been forwarded to the Board or the particular Board member.

6. Such other information that the Company may subsequently request in order to verify the foregoing information or to clarify the communication.

Any communication which the Company s Director of Investor Relations or General Counsel determines, in his or her discretion, to be or to contain any language which is offensive or to be dangerous, harmful, illegal, illegible, not understandable, or nonsensical, may, at the option of such person, not be forwarded to the Board or any particular director. Any communication from an interested party shall not be entitled to confidential treatment and may be disclosed by the Company or by any Board member as the Company or the Board member sees fit. Neither the Company nor the Board nor any Board member shall be obligated to send any reply or response to the interested party, except to indicate to the interested party (but only if the interested party specifically requested such an indication) whether or not the interested party s communication was forwarded to the Board or the applicable Board member.

Corporate Governance Committee
Keith D. Nosbusch, Chairman
Dean H. Anderson

Virgis W. Colbert
Daniel W. Duval

4. AUDIT COMMITTEE REPORT

In connection with its function to oversee and monitor the financial reporting process of the Company, the Audit Committee has done the following:

- reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2008, with the Company s management;

- discussed with PricewaterhouseCoopers LLP, the Company s independent registered public accounting firm, those matters required to be discussed by Statement on the Auditing Standards No. 114 (The Auditor s Communication With Those Charged With Governance); and

- received the written disclosure and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), considered whether the provisions of non-audit services by PricewaterhouseCoopers LLP is compatible with maintaining PricewaterhouseCoopers LLP s independence, and discussed with PricewaterhouseCoopers LLP its independence.

Based on the foregoing, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company s annual report on Form 10-K for the fiscal year ended December 31, 2008.

Fees Billed to the Company by PricewaterhouseCoopers LLP during Fiscal 2008 and 2007

Fees billed or expected to be billed by PricewaterhouseCoopers LLP for each of the last two years are listed in the following table.

Year Ended December 31	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees
2008	$ 2,368,100	$ 528,500	$ 178,600	$ 1,500
2007	$ 1,761,800	$ 212,900	$ 166,600	$ 1,500

Audit fees include fees for services performed to comply with Generally Accepted Auditing Standards (GAAS), including the recurring audit of the Company s consolidated financial statements. This category also includes fees for audits provided in connection with statutory filings or services that generally only the principal auditor reasonably can provide to a client, such as procedures related to consents and assistance with a review of documents filed with the Securities and Exchange Commission (SEC).

Audit related fees include fees associated with assurance and related services that are reasonably related to the performance of the audit or review of the Company s financial statements. This category includes fees related to assistance in financial due diligence related to mergers and acquisitions.

Tax fees primarily include fees associated with tax compliance, tax consulting, as well as domestic and international tax planning.

All other fees primarily include fees associated with a work force diagnostic review.

The Company s policy and procedures for pre-approval of non-audit services to be performed by the Company s independent registered public accounting firm are set forth in Section III of the Audit Committee Charter. A copy of the Audit Committee Charter may be viewed on the Company s website at www.manitowoc.com and is available in print to any shareholder who requests a copy. All services performed by PricewaterhouseCoopers LLP that are encompassed in the audit related fees, tax fees, and all other fees were approved by the Audit Committee in advance in accordance with the pre-approval policy and process set forth in the Audit Committee Charter.

Independent Registered Public Accounting Firm

In accordance with the recommendation of the Audit Committee, and at the direction of the Board of Directors, the Company has retained PricewaterhouseCoopers LLP as its independent registered public accounting firm for the fiscal year ending December 31, 2009. As set forth in this Proxy Statement, the appointment of PricewaterhouseCoopers LLP is being submitted to the shareholders for ratification at the upcoming Annual Meeting. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement if he or she desires to do so.

Audit Committee
Robert C. Stift, Chairman
Dean H. Anderson
Daniel W. Duval
Cynthia M. Egnotovich
Kenneth W. Krueger

5. EQUITY COMPENSATION PLANS

The following table summarizes, as of December 31, 2008, the number of shares of the Company s Common Stock that may be issued under the Company s equity compensation plans and the number of shares available under such plans pursuant to which grants of options, warrants, and rights to acquire shares may be made from time to time.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (A)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) (C)
Equity compensation plans not approved by security holders[1][3]	941,150(2)	$5.6894(2)	0(2)
Equity compensation plans approved by security holders[4]	2,937,626(4(a)) 186,800(4(b)) 216,000(4(c))(2)	$22.47(4(a)) $22.78(4(b)) $6.66(4(c))(2)	8,929,366(4(a)) 589,000(4(b)) 0(4(c))(2)
Total[3]	4,281,576		9,518,366

(1) Consists of the Company s 1995 Stock Plan (which is the predecessor to the 2003 Incentive Stock and Awards Plan) and Deferred Compensation Plan. No additional awards are available for issuance under the 1995 Stock Plan. For a description of the key provisions of the Deferred Compensation Plan, see the discussion contained in

this Proxy Statement under section 8 - Compensation Discussion and Analysis and Compensation Committee Report under the subsection captioned *Deferred Compensation* and the discussion contained under section 7 Non-Employee Director Compensation.

(2) Column (A) does not include 302,897 Common Stock units issued under the Deferred Compensation Plan as of December 31, 2008. Each Common Stock unit under the Deferred Compensation Plan represents the right to receive one share of Company Common Stock following the participant s death, disability, termination of service as a director or employee, a date specified by the participant, or the earlier of any such events to occur. Since the Common Stock units are acquired by participants through a deferral of fees or compensation, there is no exercise price associated with the Common Stock units. As a result, the weighted-average exercise price in column (B) is calculated solely on the basis of outstanding options issued under the 1995 Stock Plan, the 1999 Non-Employee Director Stock Option Plan, the 2003 Incentive Stock and Awards Plan, and the 2004 Non-Employee Director Stock and Awards Plan, and does not take into account the Common Stock units issued

under the Deferred Compensation Plan. The operation of the Deferred Compensation Plan requires the plan trustees to make available as and when needed a sufficient number of shares of Company Common Stock to meet the needs of the plan. Accordingly, since there is no specific number of shares reserved for issuance under the Deferred Compensation Plan, column (C) includes only those shares remaining available for issuance under the 1995 Stock Plan, the 1999 Non-Employee Director Stock Option Plan, the 2003 Incentive Stock and Awards Plan, and the 2004 Non-Employee Director Stock and Awards Plan.

(3) Does not include the 8,660 shares underlying the outstanding stock options issued under the Grove Investors, Inc. 2001 Stock Incentive Plan, which were assumed by the Company in connection with the acquisition of Grove Investors, Inc. Those options have a weighted average exercise price of $4.575. No additional options may be granted under the Grove Investors, Inc. 2001 Stock Incentive Plan.

(4) Consists of (a) the Company s 2003 Incentive Stock and Awards Plan, (b) the 2004 Non-Employee Director Stock and Awards Plan, and (c) the 1999 Non-Employee Director Stock Option Plan. The 1999 Non-Employee Director Stock Option Plan (the 1999 Director Stock Plan) is the predecessor to the 2004 Non-Employee Director Stock and Awards Plan (the 2004 Director Stock Plan). Upon the effective date of the 2004 Director Stock Plan no further awards can be made from the 1999 Director Stock Plan and all shares that would otherwise have been available for new grants under the 1999 Director Stock Plan are no longer available for granting. For a description of the key provisions of the 2003 Incentive Stock and Awards plan, see the discussion contained in this Proxy Statement under section 8 Compensation Discussion and Analysis and Compensation Committee Report under the subsection captioned *Long-Term Incentives* . For a description of the key provisions of the 2004 Director Stock Plan, see the discussion contained in this Proxy Statement under section 7 Non-Employee Director Compensation.

6. OWNERSHIP OF SECURITIES

Stock Ownership of Beneficial Owners of More than Five Percent

The following table sets forth information regarding the beneficial ownership of each person or entity known by the Company to have beneficial ownership of more than 5% of the Company s outstanding Common Stock as of December 31, 2008.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Barclays Global Investors, NA.[1] 45 Fremont Street San Francisco, California 94105	8,646,923	6.63%

(1) This information is based solely on a Schedule 13G, filed with the SEC by Barclays Global Investors, NA. (Barclays) on February 5, 2009. The Schedule 13G was filed jointly with the following Barclay affiliates: Barclays Global Fund Advisors, Barclays Global Investors, Ltd., Barclays Global Investors Japan Limited, Barclays Global Investors Canada Limited, Barclays Global Investors Australia Limited and Barclays Global Investors (Deutschland) AG. In that Schedule 13G, Barclays reported that it and its affiliates had sole voting power as to 7,379,954 shares and sole dispositive power as to 8,646,923 shares of common stock.

Stock Ownership of Directors and Management

The following table sets forth information regarding the beneficial ownership of Common Stock by each director and director nominee of the Company, by each executive officer of the Company named in the Summary Compensation Table below, and by the directors and executive officers of the Company as a group. Unless otherwise indicated, the information is provided as of February 27, 2009. Each of the persons listed below is the beneficial owner of less than 1% of the outstanding shares of Common Stock and the executive officers and directors as a group own less than 2% of the outstanding shares of Common Stock. The table also reflects for each person the number of Common Stock units associated with compensation deferred under the Company s Deferred Compensation Plan. None of the persons named below has pledged any of their shares as security.

Name	Number of Shares of Common Stock Beneficially Owned(1)	Number of Deferred Common Stock Units Beneficially Owned(2)
Dean H. Anderson	65,632(5)	32,798
Virgis W. Colbert	107,300(6)	16,353
Daniel W. Duval	37,182(7)	16,185
Cynthia M. Egnotovich	5,000(8)	0
Terry D. Growcock	513,651(9)	0
Maurice D. Jones	140,699(3)(4)(10)	8,218
Kenneth W. Krueger	62,700(11)	12,194
Carl J. Laurino	164,002(3)(4)(12)	540
Thomas G. Musial	274,035(3)(4)(13)	8587
Keith D. Nosbusch	78,700(14)	10,966
James L. Packard	109,200(15)	25,719
Robert C. Stift	106,700(16)	26,943
Glen E. Tellock	346,300(3)(4)(17)	9,800
Total of all above-named executive officers and directors	2,011,10	168,303
Total of all executive officers and directors as a group (17 persons)	5,297,366(18)	307,493(19)

(1) Unless otherwise noted, the specified persons have sole voting power and sole dispositive power as to the indicated shares.

(2) The Company has the sole right to vote all shares of Common Stock underlying the Common Stock units held in the Deferred Compensation Plan Trust. The independent trustee of the Trust has dispositive power as to such shares.

(3) For the following current executive officers, includes the indicated number of shares which were held in their respective 401(k) Retirement Plan accounts as of December 31, 2008, as to which they have sole voting power and shared investment power: Glen E. Tellock 17,187, Carl J. Laurino 29,204, Terry D. Growcock 8,257, Thomas G. Musial 20,805, and Maurice D. Jones 3,948.

(4)

Reflects shares beneficially owned as of December 31, 2008, under the 401(k) Retirement Plan, as amended effective April 1, 1999, to provide that, after July 1, 1999, Plan accounts are valued on a daily basis.

(5) Includes 20,600 shares which Mr. Anderson has the right to acquire pursuant to the 1999 Non-Employee Director Stock Option Plan and/or the 2004 Non-Employee Director Stock and Awards Plan within sixty days following the record date for the Annual Meeting. Excludes 6,000 shares held in an IRA for Mr. Anderson s spouse and 2,520 shares held in trusts for the benefit of Mr. Anderson s grandchildren.

(6) Includes 55,200 shares which Mr. Colbert has the right to acquire pursuant to the 1999 Non-Employee Director Stock Option Plan and/or the 2004 Non-Employee Director Stock and Awards Plan within sixty days following the record date for the Annual Meeting.

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(7) Includes 15,600 shares which Mr. Duval has the right to acquire pursuant to the 1999 Non-Employee Director Stock Option Plan and/or the 2004 Non-Employee Director Stock and Awards Plan within sixty days following the record date for the Annual Meeting. Excludes 12,000 shares as to which voting and investment power is shared with spouse.

(8) Includes 2,000 shares which Ms. Egnotovich has the right to acquire pursuant to the 2004 Non-Employee Director Stock and Awards Plan within sixty days following the record date for the Annual Meeting.

(9) Includes 212,359 shares held in a joint revocable trust as to which voting and investment power is shared with Mr. Growcock s spouse. Also includes 239,846 shares that Mr. Growcock has the right to acquire pursuant to the 1995 Stock Plan and/or the 2003 Incentive Stock and Awards Plan within sixty days following the record date for the Annual Meeting.

(10) Includes 100,400 shares which Mr. Jones has the right to acquire pursuant to the 1995 Stock Plan and/or the 2003 Incentive Stock and Awards Plan within sixty days following the record date for the Annual Meeting.

(11) Includes 37,200 shares which Mr. Krueger has the right to acquire pursuant to the 1999 Non-Employee Director Stock Option Plan and/or the 2004 Non-Employee Director Stock and Awards Plan within sixty days following the record date for the Annual Meeting.

(12) Includes 86,786 shares which Mr. Laurino has the right to acquire pursuant to the 1995 Stock Plan and/or the 2003 Incentive Stock and Awards Plan within sixty days following the record date for the Annual Meeting. Also, excludes 1,200 shares owned by Mr. Laurino s spouse.

(13) Includes 157,574 shares which Mr. Musial has the right to acquire pursuant to the 1995 Stock Option Plan and/or the 2003 Incentive Stock and Awards Plan within sixty days following the record date for the Annual Meeting.

(14) Includes 57,200 shares which Mr. Nosbusch has the right to acquire pursuant to the 1999 Non-Employee Director Stock Option Plan and/or 2004 Non-Employee Director Stock and Awards Plan within sixty days following the record date for the Annual Meeting.

(15) Includes 109,200 shares which Mr. Packard has the right to acquire pursuant to the 1999 Non-Employee Director Stock Option Plan and/or 2004 Non-Employee Director Stock and Awards Plan within sixty days following the record date for the Annual Meeting.

(16) Includes 85,200 shares which Mr. Stift has the right to acquire pursuant to the 1999 Non-Employee Director Stock Option Plan and/or 2004 Non-Employee Director Stock and Awards Plan within sixty days following the record date for the Annual Meeting. Also, excludes 4,000 shares held by Mr. Stift s spouse in a revocable trust as to which Mr. Stift disclaims beneficial ownership.

(17) Includes 17,827 shares as to which voting and investment power is shared with Mr. Tellock s spouse. Also includes 251,100 shares which Mr. Tellock has the right to acquire pursuant to the 1995 Stock Plan and/or the 2003 Incentive Stock and Awards Plan within sixty days following the record date for the Annual Meeting. Also excludes 600 shares held by Mr. Tellock s spouse as custodian for their daughter.

(18) Includes 230,186 shares of Common Stock as to which voting and investment power are shared, and 3,175,915 shares, as of February 27, 2009, held by the 401(k) Retirement Plan (persons within the group hold

sole voting power with respect to 79,401 of these shares, and share investment power with respect to all of these shares by virtue of the Plan s administration by an investment committee of benefit management executive officers).

(19) Also includes 139,190 shares, as of February 27, 2009, as to which the Company, through certain officers, have sole voting power under the Deferred Compensation Plan Trust.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s officers and directors and persons owning more than ten percent of the Company s Common Stock to file reports of ownership and changes in ownership of equity and derivative securities of the Company with the Securities and Exchange Commission and the New York Stock Exchange. To the Company s knowledge, based on information provided by the reporting persons, all applicable reporting requirements for fiscal year 2008 were complied with in a timely manner except for a purchase by Mr. Dean Anderson of 2,000 shares of the Company s Common Stock on October 30, 2008, which he inadvertently failed to disclose at that time. This purchase was disclosed pursuant to a filing made on March 17, 2009.

7. NON-EMPLOYEE DIRECTOR COMPENSATION

The annual compensation package for non-employee directors is designed to attract and retain highly experienced and qualified individuals to serve on the Company s Board of Directors.

The 2008 compensation package consisted of cash (Board and committee annual retainers and meeting fees) and equity (stock options and restricted stock) awards. Directors are also entitled to reimbursement of their reasonable out-of-pocket expenses in connection with their travel to and from and attendance at Board and committee meetings and other Company events. The compensation package is intended to be competitive relative to general industrial companies of comparable size to the Company. The Compensation Committee typically reviews the market competitiveness of the non-employee director compensation program every two years. The last review of the program was conducted in 2008.

Approximately two-thirds of the target annual compensation package is delivered in the form of equity, which is designed to promote a greater alignment of interest between the Company s non-employee directors and its shareholders. In 2008, the Compensation Committee with the assistance of its compensation consultant, Towers Perrin, undertook an analysis of its non-employee director compensation. As a result of that analysis, upon recommendation from the Compensation Committee, the full Board approved changes to the non-employee director compensation to bring the compensation more in line with market median practices. These changes are summarized in the table below. In 2008, the equity grant was set based on the Company s recent average stock price ending in January 2008. The actual grant price and accounting expense was determined at the date of grant (February 15, 2008). An individual director s actual annual compensation will vary based on committee memberships, committee chair responsibilities, and the number of Board and committee meetings attended.

Stock awards in 2008 were granted out of the 2004 Non-Employee Director Stock and Awards Plan (the 2004 Director Stock Plan). The purpose of the 2004 Director Stock Plan is three-fold: (i) to promote the long-term growth and financial success of the Company; (ii) to attract and retain highly experienced and qualified individuals to serve on the Company s Board of Directors; and (iii) to assist the Company in promoting a greater alignment of interest between the Company s non-employee directors and its shareholders. The 2004 Director Stock Plan is designed to achieve these goals by providing non-employee directors of the Company with incentives to increase shareholder value by offering them the opportunity to acquire shares of the Company s Common Stock, receive incentives based on the value of such Common Stock, or receive other equity-based incentives as provided in the 2004 Director Stock Plan. Only non-employee directors of the Company are eligible to receive awards under the 2004 Director Stock Plan. The Compensation Committee of the Company s Board of Directors may, in its discretion, grant awards from time to time in such amounts as it determines and to such non-employee directors as it selects.

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The following tables summarize the 2008 compensation elements provided to the Company s non-employee directors. At its May 5, 2008 meeting, as reflected in the table below, the Board of Directors increased the annual Board member cash retainer and increased the annual chairperson retainer for the Audit Committee chairperson and the Compensation Committee chairperson. Commencing in 2009, the equity grant guidelines for non-employee director compensation will be targeted to provide an annual equity value of $100,000.

Element	Amount Previous to May 5, 2008	Amount as of May 5, 2008
Annual Board Member Cash Retainer	$30,000	$60,000
Board Per-Meeting Fee	$1,500	$1,500
Committee Per-Meeting Fee	$1,500	$1,500
Audit Committee Chairperson Annual Retainer	$7,500	$15,000
Compensation Committee Chairperson Annual Retainer	$7,500	$9,000
Governance Committee Chairperson Annual Retainer	$7,500	$7,500
Annual Stock Option Grant(1)	2,600 options	no change
Annual Restricted Stock Grant(2)	1,200 shares	no change

(1) Stock options were granted to all non-employee directors other than Ms. Egnotovich on February 15, 2008. Ms. Egnotovich joined the board effective July 24, 2008. Ms. Egnotovich was awarded options for 2,000 shares on October 20, 2008. All options granted to non-employee directors in 2008 were granted with an exercise price equal to the fair market value on the grant date. The options fully vested upon granting and have a 10-year exercise term.

(2) The restricted stock was granted to all non-employee directors other than Ms. Egnotovich on February 15, 2008. Ms. Egnotovich joined the Board effective July 24, 2008. Ms. Egnotovich was awarded 1,000 shares of restricted stock on October 20, 2008. The restrictions on all the shares of restricted stock granted to non-employee directors lapse on the third anniversary of the grant date.

Effective in 2005, the Board implemented stock ownership guidelines for non-employee directors, which require a non-employee director to acquire an amount of the Company s Common Stock with a value equal to five times such director s total annual Board member cash retainer (does not include meeting fees or the annual committee chairperson retainers). The guideline requires the stock ownership amount to be met by the later of the end of 2009 or the end of the fifth full calendar year after the director is first elected to the Board. As of December 31, 2007, each of the non-employee directors was in compliance or projected to be in compliance with his/her respective ownership guideline. However, due to the significant decline in the price of common stock of the Company as of December 31, 2008 when compared to the price as of December 31, 2007, several non-employee directors would no longer meet the guideline if it were required to have been met as of December 31, 2008.

In addition, under the Company s Deferred Compensation Plan, each non-employee director may elect to defer all or any part of the director s annual retainer and meeting fees for future payment upon death, disability, termination of service as a director, a date specified by the participant, or the earlier of any such date to occur. A director may use the Deferred Compensation Plan as a means of achieving the director s stock ownership guideline by electing to defer a portion of his/her compensation under the Company s Deferred Compensation Plan and investing in stock units (value equivalent to Manitowoc s stock price).

In 2008, stock options and restricted stock were granted at the February meeting of the Board of Directors. Stock options are granted with an exercise price equal to the closing stock price on the date of grant. The stock options have

a 10-year term and vest immediately. The restrictions on the restricted stock awards lapse on the third anniversary of the grant date. The restrictions provide that, unless the Compensation Committee in its discretion determines otherwise, (i) the restricted shares will be immediately forfeited if the director ceases to be a member of the Board prior to the restriction lapse date for any reason other than the director s retirement (due to reaching the mandatory retirement age established by the Board), death or disability; and (ii) the restricted shares are generally transferable, but may not be assigned, pledged or mortgaged prior to the restriction lapse date.

Non-Employee Directors Compensation

The following table sets forth the total compensation earned by non-employee directors during the fiscal year ending December 31, 2008.

Name	Fees Earned or Paid in Cash[1]	Stock Awards[3]	Option Awards[4]	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation[5]	Total
Dean H. Anderson	$ 79,500	$69,235	$ 52,719	$ 0	$ 0	$201,454
Virgis W. Colbert	$ 81,000	$69,235	$ 52,719	$ 0	$ 0	$202,954
Daniel W. Duval	$ 82,500	$69,235	$ 52,719	$ 0	$ 0	$204,454
Cynthia M. Egnotovich	$ 37,500	$681	$ 10,120	$ 0	$ 0	$48,301
Kenneth W. Krueger	$ 82,500	$69,235	$ 55,173	$ 0	$ 0	$206,908
Keith D. Nosbusch	$ 79,500(2)	$69,235	$ 52,719	$ 0	$ 0	$201,454
James L. Packard	$ 83,625(2)	$69,235	$ 52,719	$ 0	$ 0	$205,579
Robert C. Stift	$ 89,828(2)	$69,235	$ 52,719	$ 0(6)	$ 0(6)	$211,782

(1) Includes meeting fees for the December 2008 Board and Committee meetings which were paid in January 2009.

(2) Includes committee chairperson annual retainer of $7,500 prior to May 5, 2008 and committee chairperson annual retainers in the following amounts as of May 5, 2008, Audit $15,000, Compensation $9,000 and Corporate Governance $7,500. Mr. Nosbusch served as chair of the Corporate Governance Committee, Mr. Packard served as chair of the Compensation Committee, and Mr. Stift served as chair of the Audit Committee.

(3) Reflects the FAS 123R expense during 2008 for outstanding restricted stock awards as to which the restrictions had not lapsed at the beginning of 2008 (includes outstanding awards made in prior years (2005, 2006 and 2007)). The restrictions on restricted stock awards lapse on the third anniversary of the grant date. At year end, each non-employed director other than Ms. Egnotovich had 11,800 shares of restricted stock outstanding. At year end, Ms. Egnotovich had 1,000 shares of restricted stock outstanding.

(4) Reflects the FAS 123R expense during 2008 for outstanding stock option awards (includes outstanding awards made in prior years). The options expire ten years from the grant date. Options granted in 2005, 2006, 2007 and 2008 vest immediately. Options granted prior to 2005 vest in 25% increments annually beginning on the first anniversary of the grant date and continuing on each subsequent anniversary until the fourth anniversary. At year end, the directors had the following options outstanding: Dean H. Anderson 20,600, Virgis W. Colbert 55,200, Daniel W. Duval 15,600, Cynthia M. Egnotovich 2,000, Kenneth W. Krueger 37,200, Keith D. Nosbusch 57,200, James L. Packard 109,200, Robert C. Stift 85,200.

(5) Not included in these numbers are travel-related expenses of the director s spouse. From time to time, spouses may be invited to accompany the directors at a Company function at the Company s expense. During 2008, spouses of directors were invited to attend the February Board meeting and the October Board meeting. Mr. Nosbusch s spouse did not attend either event and Mr. Anderson s spouse did not attend the October event. Thus, there were no expenses incurred or reimbursed for those spouses at those events. At the February event the company reimbursed air fares for the spouses of Mr. Anderson, Mr. Colbert and Mr. Krueger at an average of $732 per spouse. Meals and other expenses (other than airfare) reimbursed for the spouses attending the February event averaged $250 per spouse. At the October event, the Company reimbursed air fares for the spouses of all directors other than Mr. Anderson and Mr. Nosbusch at an average of $12,535 per spouse. Meals and other expenses (other than airfare) reimbursed for spouses attending the October event averaged $3,500 per spouse.

(6) Amounts do not include $89,235.48 paid to Mr. Stift during 2008 pursuant to the terms of a Supplemental Executive Retirement Plan of Grove North America, Division of Kidde Industries, Inc. (the predecessor of

Grove Investors, Inc.) (Grove). Prior to becoming a member of the Board of the Company, Mr. Stift served as an officer of Grove until his retirement in April 1998, and was a participant in the plan when Grove was acquired by the Company in 2002. The benefits Mr. Stift receives under the plan relate solely to his prior service as an officer of Grove and do not relate to his service as a member of the Board of Directors of the Company.

8. COMPENSATION DISCUSSION AND ANALYSIS AND COMPENSATION COMMITTEE REPORT

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The discussion and analysis below is designed to assist you with understanding the objectives of our executive compensation program (the executive compensation program), the different components of compensation paid to our named executive officers (the CEO, CFO, and three other most highly compensated executive officers other than the CEO and CFO) and the basis for our compensation decisions. This discussion and analysis should be read together with the compensation tables located elsewhere in this Proxy Statement.

Compensation Program Administration

The Compensation Committee of the Board of Directors (Compensation Committee) is primarily responsible for administering the Company s executive compensation program. As such, the Compensation Committee reviews and approves all elements of the executive compensation program that cover the named executive officers. Additional information about the role and processes of the Compensation Committee is presented in the *Governance of the Board and its Committees Compensation Committee* section.

Compensation Program Objectives and Philosophy

Our executive compensation program aligns the interests of our executives with the interests of our shareholders and motivates our executives to maximize long-term total returns to our shareholders. In addition, our executive compensation program provides competitive total compensation opportunities, at a reasonable cost, in order to attract, motivate and retain highly-qualified executives critical to the achievement of the Company s financial and strategic goals.

Our compensation program is intended to motivate executives by:

Paying for performance. A significant portion of the compensation paid to an executive is variable and at risk, and is earned based on the achievement of the Company s financial goals and/or stock price appreciation.

Providing market competitive compensation. Compensation opportunities for executives are established based on a review of compensation offered to executives in comparable positions at general industrial companies of similar size.

Encouraging long service. The Company offers several retirement and savings plans, which are payable after retirement from the Company and provide employees with the opportunity to earn Company contributions or save pre-tax dollars for retirement.

Facilitating executive stock ownership. Long-term incentive awards are paid solely in Company stock, and executive officers are subject to minimum stock ownership guidelines.

It is the Compensation Committee s philosophy to set overall compensation and each element of compensation paid to our named executive officers and other executive officers to be within a competitive range of market median practices. In connection with its executive compensation determinations, the Company reviews survey data among comparable companies and broader market trends/developments, as provided by the Compensation Committee s compensation consultant, Towers Perrin. Given the range of its businesses, the Company reviews market pay data among comparably-sized general industrial companies; a specific peer group for pay benchmarking is not used.

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Survey data of comparable positions are analyzed annually in considering adjustments to base salaries and target short-term and long-term incentive award opportunities. Survey data are reviewed periodically for other elements of compensation.

Total Compensation

Overall target compensation for named executive officers is set to be within a competitive range of market median practices. In setting an individual executive s salary and target incentive award opportunities, the CEO (with respect to his team) and Compensation Committee also consider experience, length of service, individual and Company performance, current market practices, internal equity, and business/people needs. Actual total compensation can vary from target compensation based on the individual s and the Company s performance.

Compensation Elements

We believe the executive compensation program described below, by element and in total, best achieves our objectives.

Element	Purpose	Characteristics
Base Salary	Establish a certain element of pay for an individual s competencies, skills, experience and performance	Not at risk; eligible for annual merit increases and adjustments for changes in job responsibilities
Short-Term Incentives	Motivate and reward the achievement of annual Company financial goals, as assessed by Economic Value Added (EVA®) results, relative to targeted levels	Performance-based (variable) cash opportunity; amount earned will vary based on actual results achieved
Long-Term Incentives	Motivate and reward the achievement of stock price appreciation over time	Majority is performance-based opportunity; amount realized by the executive is dependent upon stock price performance
Retirement Benefits	Facilitate long service with the Company by providing a targeted replacement income level upon retirement	Both fixed and variable aspects; contributions drive growth of funds and future payments
Benefits and Perquisites	Provide additional financial security and other enhanced benefits for executives	Generally fixed; actual cost is based on participation and usage
Change in Control (CIC) Continued Employment and Severance Benefits	Provide continuity of the leadership team leading up to and after a change in control	Contingent component; provides for continued employment upon a CIC and severance benefits if an executive s employment is terminated following a CIC

In setting total compensation, a consistent approach is applied for all executive officers. Executive officers may also receive pay increases at the time of promotions, which, on May 1, 2007, occurred for Mr. Tellock (promoted to President and Chief Executive Officer) and Mr. Etchart (promoted to President Manitowoc Crane Group). In connection with those promotions, the Compensation Committee increased base salary and target short-term incentive

award percentages, and made additional long-term incentive grants. Additional detail regarding each pay element is presented below. Other than the Change in Control Severance Arrangements (Contingent Employment Agreements) described below, the Company does not have employment agreements with any of the named executive officers.

Base Salary. Salaries are reviewed annually, and adjustments, if any, are based on consideration of the Company s overall budget for base salaries for the year, individual factors (competencies, skills, experience, and performance), internal equity, and market pay data. In 2008, based on consideration of the above mentioned factors, the annualized base salaries of our named executive officers in the same position as the prior year were increased, on

average, by 7% from 2007. Based upon the survey data provided by the Compensation Committee s compensation consultant, the base salaries paid to the named executive officers in 2008, on average, approximated the median base salaries of comparable positions in considering an individual s experience, performance and other factors.

Short-Term Incentives. The Short-Term Incentive Plan (STIP) rewards eligible participants for maximizing shareholder value. The Company believes the creation of shareholder value is best measured by EVA®, a technique developed by Stern Stewart & Co., which measures the economic profit generated by a business. EVA® is equal to the difference between:

i. Net operating profit after tax (for certain participants who are likely to directly affect improvements in the Company s tax rate) or net operating profit before tax (for participants who are not likely to directly affect improvements in the Company s tax rate), defined as operating earnings adjusted to eliminate the impact of, among other things, certain accounting charges such as bad debt and inventory reserve expenses, and research and development costs; and

ii. A capital charge, defined as capital employed multiplied by the weighted average cost of capital.

The weighting of an EVA® center for a particular executive depends upon the executive s primary operating unit responsibilities. The 2008 weightings for the named executive officers were as follows:

Corporate Officers: awards based 100% on Corporate EVA® performance

Business Segment Presidents: awards based 50% on Business Segment and 50% on Corporate EVA® performance

Participants under the STIP are divided into thirteen classifications, which in 2008 had target incentive award levels ranging from 5% to 80% of base salary. The classification assignment corresponds with what the Company believes is the relative effect of a participant s job on the Company s performance.

Awards under the STIP are based on results relative to target EVA® for the participant s EVA® center (or combination of centers in the case of business segment presidents). The target EVA® for 2008 varied among the various business units (or participating groups); in total in 2008 there were seven participating groups. The named executive officers were in either the Corporate or the Crane Group, or a combination of the Corporate and the Crane Group. For 2008 the target EVA® for all participating groups was determined by the actual EVA® achieved for the respective participating groups in 2007 plus the expected improvement in EVA® for 2008. For all participating groups in 2008, the Plan also set forth a maximum EVA® that could be earned which is determined by the actual EVA® achieved in the preceding year, plus the expected improvement in EVA® for the performance year and an amount equal to 150% of the leverage factor for the performance year.

Probabilities of achievement are considered in calibrating the expected improvement and leverage factors. The leverage factor is the amount of EVA® above the target EVA® that must be achieved before an incentive award of two times the target incentive award percentage is earned, or stated in the converse, it is the minimum amount of EVA® below the target EVA® that would result in a zero incentive award being earned. The expected improvement and leverage factors are evaluated and recalibrated no less than every three years, and were recalibrated in 2008 for 2009 performance. The Company retained the services of Stern Stewart & Co. to assist with the recalibration for 2009 performance.

The 2008 target annual incentive award percentages assigned to the Company s named executive officers ranged from 50% to 80% of the applicable officer s base salary, and based on the position s responsibilities and business impact.

Awards earned under the STIP can range from 0% to 250% of an individual s target award opportunity based on actual EVA® results versus the target EVA® for the year. Earned awards, if any, will be fully paid out after the end of the year.

2008 Awards Reflect Excellent Performance. The Company s actual 2008 EVA® performance for the Corporate and the Crane Group was above target EVA® levels resulting in STIP payouts for 2008 performance for the named executive officers equal to the maximum potential award of 250% of their respective award targets. Presented below are the 2008 actual EVA® performance for the EVA® centers applicable to named executive officers and the award earned.

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EVA® Center	2008 Target EVA®	2008 Actual EVA®	Award Earned (As a % of Target Opportunity)
Corporate	$211,373,000	$268,087,000	250%

The actual incentive award payouts for the named executive officers are presented in the Summary Compensation Table, in the column, Non-Equity Incentive Plan Compensation. The potential dollar range of the 2008 annual incentive awards, by named executive officer, is presented in the Grants of Plan-Based Awards table.

Use of Discretion. The Compensation Committee does not use discretion to pay awards under the STIP that would not have otherwise been earned. However, on May 1, 2007, Mr. Tellock was promoted to President and Chief Executive Officer of the Company. In connection with that promotion, the Compensation Committee increased his base salary and target incentive award percentage. The effect of this incentive award was to provide Mr. Tellock with total short-term incentive compensation for 2007 as if his target award percentage were increased to 80% as of January 1 and was calculated as if his base salary had been increased as of January 1, rather than May 1. The STIP does include certain discretionary elements. The STIP allows the Compensation Committee to apply discretion in considering potential adjustments (e.g., certain accounting charges such as bad debt and inventory reserve expenses and research and development costs) presented by management in order to assess performance of continuing operations. In practice, the Compensation Committee has made a limited number of adjustments, which, for awards to be earned by executives during a particular year, must be determined no later than the Compensation Committee s February meeting. The Compensation Committee reviews the actual results for a year and considers and approves potential adjustments in accordance with the STIP. With respect to the officers of the Company, these adjustments for a plan year must be made no later than the February Compensation Committee meeting of that year.

Long-Term Incentives. Long-term incentive awards are granted under the Company s 2003 Incentive Stock and Awards Plan. The 2003 Incentive Stock and Awards Plan allows the Company to grant incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance share awards, and performance units. The Compensation Committee has full authority to make awards to executive officers of the Company under the 2003 Incentive Stock and Awards Plan. It determines the type, the number of shares, and the other terms of the awards.

Long-term incentive awards are granted to align the interests of executives with those of shareholders by allowing executives to share in the growth and financial success of the Company, as reflected in Manitowoc s stock price. In addition, long-term incentive awards facilitate the attraction, retention and motivation of executives and key employees.

In 2008, in order to achieve the executive compensation program s objectives, the Company granted officers (including named executive officers) 75% of their total long-term awards in stock options and the remaining 25% in restricted stock. Other employees received grants of stock options and/or restricted stock.

Stock Options. Stock options align executives interests with those of shareholders, since options only have realizable value if the price of Manitowoc stock increases relative to the grant/exercise price.

Stock options granted to the named executive officers and other employees during fiscal 2008 have the following terms:

Exercise price is the closing trading price on the grant date.

Vest annually in 25% increments beginning on the second anniversary of the grant date and continuing on each subsequent anniversary until the fifth anniversary.

Expire 10 years from the grant date.

Restricted Stock. Restricted stock is granted to executives to facilitate retention and, for newly hired executives, recruitment. The restrictions on the restricted stock awards granted to executives in 2008 lapse on the third anniversary of the grant date. During the restrictive period, the executive is entitled to any dividends paid on the restricted stock. The restrictions generally provide that, unless the Compensation Committee in its discretion determines otherwise, during the term of the restrictions the shares may not be sold or otherwise transferred, and the

shares will be immediately forfeited in the event of the executive s termination of employment for any reason other than death, disability or retirement.

The Compensation Committee sets award guidelines for each officer and job classification level based upon market median levels and the Company s recent average stock price. [In 2008, equity grant guidelines were set based on the Company s 90-day average stock price ending January 2008. The actual grant price and accounting expense was determined at the date of grant (February 13, 2008)]. Grant guidelines for stock options and restricted stock awards are determined based on a methodology used in the consultant s survey data, which is consistently applied for market comparison purposes. This methodology is similar to, but not the same as, the accounting methodology used for determining the FAS 123R fair value that is disclosed in the Summary Compensation Table and Grants of Plan-Based Awards table.

The grant date accounting (FAS 123R) fair value of the 2008 stock option grants and restricted stock awards is presented in the Grants of Plan-Based Awards Table. The ultimate value, if any, which will be realized, is not determinable at the date of grant.

Stock Ownership Guidelines

Effective beginning in fiscal 2005, the Compensation Committee approved stock ownership guidelines for executive officers. The guidelines provide that by the end of 2009 (or within 5 years after the date that the executive officer commenced employment as an officer (or as CEO), whichever is later) each executive officer should hold an amount of stock with a value at least equal to the following:

CEO: 5x base salary

Other executive officers: 3x base salary

Stock ownership includes shares owned outright, restricted stock, and stock equivalents held in deferred compensation/retirement arrangements. Additionally, one-half of the guideline amounts can be met by vested, in-the-money stock options held by the executive. As of December 31, 2007, each of the named executive officers was in compliance or projected to be in compliance with his/her respective ownership guideline. However, due to the significant decline in the price of common stock of the Company as of December 31, 2008 when compared to the price on December 31, 2007, several officers would no longer meet the guideline if it were required to have been met as of December 31, 2008, notwithstanding an increase by each such officer of the number of shares held.

If an executive does not meet his/her ownership requirement measured as of the end of any given year (commencing in 2009 or the fifth anniversary of the date the executive officer was named an officer or became CEO), the executive may be required to acquire during the subsequent year, shares of the Company s stock having a dollar value equal to, at the time of acquisition, 50% of any earned STIP awards payable during such subsequent year, determined after tax, until compliance is achieved.

Other Pay Elements

The Company s executive officers are eligible to participate in the following other pay elements:

Retirement benefits

Deferred compensation

Perquisites/Other benefits

Change in control severance arrangements

Retirement Benefits. In order to facilitate the long service of highly-qualified executives, the Company provides retirement benefits. Executives may be selected by the Compensation Committee to be eligible to participate in the nonqualified Supplemental Executive Retirement Plan (SERP). An executive is not eligible to participate in the SERP until the executive has at least five years of credited service with the Company and/or its subsidiaries; additional criteria for participation may be considered by the Compensation Committee. As of

January 1, 2008, all of the named executive officers were eligible to participate in the SERP. Benefits provided under the SERP are intended to provide a life annuity equal to 55% of a participant s five-year final average pay (salary plus STIP-related awards). When a participant becomes eligible for a distribution from the SERP, the participant may elect to receive the distribution in a single lump sum or over a period not to exceed ten years. As amended effective January 1, 2009 for any executive who becomes a participant after December 31, 2008 and whose projected total service at his or her target retirement date is less than 25 years, the 55% target retirement benefit will be prorated bases on the projected total service years divided by 25.

In addition, active, regular, full-time, non-union, U.S.-based employees (including the named executive officers) are eligible to participate in The Manitowoc Company, Inc. 401(k) Retirement Plan, which allows employees to build retirement savings on a tax-deferred basis. The plan has a tax-qualified defined contribution savings component, the 401(k) Savings Feature, in which participating employees receive a Company match. In addition, the plan has a Retirement Plan feature, in which the Company provides an annual contribution of at least 3% of eligible compensation to another defined contribution account. There are no employee contributions to the Retirement Plan feature. Contributions under the Retirement Plan feature are based on an EVA® formula, subject to a cap, and are reviewed and approved by the retirement committee.

The actuarial change from 2007 in the named executive officers SERP benefits and the value of Company annual contributions to The Manitowoc Company, Inc. 401(k) Retirement Plan are presented in the Summary Compensation Table. Detailed information about the SERP is presented in the Pension Benefits Table.

Deferred Compensation. In order to further help in attracting and retaining highly-qualified employees, to facilitate stock ownership and to encourage saving for retirement, executive officers and other key employees are eligible to participate in the Deferred Compensation Plan. Eligible participants may elect to defer up to 40% of base salary and up to 100% of awards under the STIP.

Credits to deferred compensation accounts for key employees will also include a contribution by the Company. This contribution equals the amount of compensation deferred by the key employee for the plan year (subject to a maximum of 25% of eligible compensation) multiplied by a rate equal to the greater of 3% or the rate of variable retirement plan contributions that the participant has received from the Company for the year under the 401(k) Retirement Plan plus one percent.

Deferred amounts can be invested into a variety of accounts, which mirror the performance of several different mutual funds offered in the 401(k) Retirement Plan, as well as the Company Stock Fund (which includes only Common Stock of the Company). Transfers between the Company Stock Fund and the other funds are not permitted. Key employee participants are not required to direct any minimum amount of deferred compensation into the Company Stock Fund.

The value of the Company s annual contributions in 2008 to the Deferred Compensation Plan is presented in the Summary Compensation Table. Detailed information about this Plan is presented in the Non-Qualified Deferred Compensation Table.

Perquisites/Other Benefits. In order to provide a market competitive total compensation package, the Company provides certain perquisites to executives. In 2008, Manitowoc provided the following perquisites and supplemental benefits:

> Supplemental long-term disability insurance: The Company paid for the amount of the annual premium for long-term disability coverage for each executive above the basic coverage amount.

Tax preparation: The Company paid for the fees incurred by the executive in preparing his or her tax return and in planning for the subsequent year.

Club membership: The Company paid for the executive s personal use of corporate memberships and in certain cases the executive s membership in a local country club that may be beneficial to the executive in fulfilling his or her responsibilities to meet with and/or entertain others in connection with his or her employment responsibilities. The taxable amount of this benefit is disclosed in the All Other Compensation Table.

Car allowance: The Company paid each executive a car allowance in the amounts noted under the All Other Compensation Table.

Internet access: In order to facilitate the performance of his or her responsibilities, the Company will pay for internet access fees for the executive at one remote location.

Spousal travel: The Company paid for the expense of the executive s spouse in accompanying the executive at the February Board meeting and at certain other limited events.

The value of perquisites and supplemental benefits, in total and itemized, provided in 2008 are presented in the Summary Compensation Table and All Other Compensation Table.

Change in Control Severance Arrangements. In order to facilitate attraction and retention of highly-qualified executives, the Company has arrangements (Contingent Employment Agreements) with certain key executives (including the named executive officers) which provide for the executives continued employment (for a period ranging from one to three years) upon a change in control. All Contingent Employment Agreements with named executive officers are for a period of three years. In addition, the arrangements provide for certain severance benefits in the event the executive is terminated without cause (as defined in the agreements) prior to the end of the employment period. For some named executive officers (Growcock, Tellock, Musial, Laurino and Jones) certain benefits are payable if the executive elects to terminate employment within 90 days of the change in control. Further detail regarding these agreements is presented in the Post-Employment Compensation section.

The Company does not have a formal severance plan for other forms of employment termination for the named executive officers. Whether and to what extent the Company will provide severance benefits to named executive officers upon termination (other than due to a change in control) depends upon the facts and circumstances.

Other Executive Compensation Policies

Stock Option Granting Policy. In 2008, based on the approval of the Compensation Committee, the Company granted stock awards (stock options and restricted stock) to its executive officers and other key employees. Stock awards were granted to key employees in February. Stock awards are also used to attract executives and key employees, and as such, stock awards are often made to executives and key employees at the time they become employees or officers of the Company. In such cases, the grant date would be the date employment commences or the date the Compensation Committee approves the awards. In all cases, the exercise price of stock options is the closing trading price on the grant date.

Securities Trading Policy. The Company maintains an Insider Trading Policy which imposes specific standards on directors, officers and key employees of the Company. The policy is intended not only to forbid such persons from trading in Company stock on the basis of inside information, but to avoid even the appearance of improper conduct on the part of such persons. In addition to the specific restrictions set forth in the policy, the policy requires that all transactions in Company stock by such persons and by others in their households be pre-cleared by the Corporate Secretary s office. The only exception to the pre-clearance requirement is regular, ongoing acquisitions of Company stock resulting from continued participation in employee benefit plans that the Company or its agents administer.

Tax Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), limits the Company s federal income tax deduction to $1,000,000 per year for compensation to its CEO and certain other highly compensated executive officers. Qualified performance-based compensation for the CEO and certain covered officers is not, however, subject to the deduction limit, provided certain requirements of

Section 162(m) are satisfied. Certain awards under the 1995 Stock Plan, the 2003 Incentive Stock and Awards Plan, and the Short-Term Incentive Plan (as amended effective January 1, 2008) are intended to qualify for the performance-based compensation exception under Section 162(m). It is the Compensation Committee s intent to preserve the deductibility of executive compensation to the extent reasonably practicable and consistent with the best interests of the Company and its shareholders. All of the named executive officers met the requirements of a covered officer under Section 162(m) in 2008.

COMPENSATION COMMITTEE REPORT

Management of the Company has prepared the foregoing Compensation Discussion and Analysis of the compensation program for named executive officers. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis for fiscal year 2008 (included in this proxy statement) with the Company s management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors of the Company, and the Board has approved, that the Compensation Discussion and Analysis be included in the Company s proxy statement for the fiscal year ended December 31, 2008, for filing with the Securities and Exchange Commission.

Compensation Committee
James L. Packard, Chairman
Virgis W. Colbert
Kenneth W. Krueger

9. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth the total compensation earned by our named executive officers during the fiscal year ending December 31, 2008. Actual payouts are presented in the Salary (before deferrals) and Non-Equity Incentive Plan Compensation columns. The accounting expense attributed during the year to equity-based grants in 2007 and prior years is shown in the Stock Awards and Options Awards columns. The actuarial change in the pension value from last year is presented in the Change in Pension Value column; the Company does not provide above market earnings on nonqualified deferred compensation.

al	Year	Salary	Bonus	Stock Awards[1]	Option Awards[2]	Non-Equity Incentive Plan Compensation[3]	Change in Pension Value & Nonqualified Deferred Compensation Earnings[4]	All Other Compensation
	2008	$700,000	$0	$306,961	$1,340,585	$1,400,000	$934,329	$69,652
	2007	$492,308	$550,000(6)	$208,289	$506,101	$564,696	$886,824	$56,958
	2006	$365,000	$0	$110,144	$378,647	$516,571	$227,270	$57,528
	2008	$305,000	$0	$141,353	$476,628	$457,500	$200,010	$50,838
	2007	$290,000	$0	$127,783	$239,273	$371,419	$158,143	$62,372
	2006	$275,000	$0	$77,488	$168,373	$352,669	$0	$53,985
k[7]	2008	$850,000	$0	$518,191	$1,087,028	$1,700,000	$1,791,258	$97,151
&	2007	$850,000	$0	$619,124	$1,419,877	$1,831,933	$3,080648	$102,148

	2006	$800,000	$0	$381,488	$1,113,144	$1,631,933	$990,534	$70,122
l	2008	$350,000	$0	$132,965	$456,498	$525,000	$528,740	$54,941
	2007	$330,000	$0	$122,476	$318,510	$419,933	$263,655	$62,244
&	2006	$315,000	$0	$77,680	$275,682	$401,183	$241,884	$52,629
	2008	$340,000	$0	$121,039	$423,541	$510,000	$235,290	$58,919
	2007	$320,000	$0	$108,468	$247,827	$413,397	$266,342	$55,743
&	2006	$290,000	$0	$67,632	$197,931	$375,897	$120,379	$59,178

(1) Reflects the FAS 123R expense during the year indicated for outstanding restricted stock awards as to which the restrictions have not lapsed. The restrictions on restricted stock awards lapse on the third anniversary of the grant date.

(2) Reflects the FAS 123R expense during the year indicated for outstanding stock option awards. The options expire ten years from the grant date and vest in 25% increments annually beginning on the second anniversary of the grant date and continuing on each subsequent anniversary until the fifth anniversary.

(3) Consists of cash awards made under the Company s Short-Term Incentive Plan. The amount reflects (i) the amount earned for performance during the year indicated but not paid until the next year, and (ii) for 2006 and 2007 the individual s remaining portion of his positive bonus bank balance that existed at the commencement of the Company s 2005 fiscal year following the payment of the awards for the 2004 fiscal year. There were no bonus bank balances remaining after the payment of the 2007 award. Previous to fiscal year 2005, the Company s short-term incentive plan contained a bonus bank feature, which held back a portion of target incentive compensation awards or credited negative balances (if actual performance improvement was negative) to be applied to future awards. Previously accrued bonus bank balances were paid out/settled over a three-year period (fiscal year 2005 through fiscal year 2007, with the final settlements made with the incentive award payment for fiscal year 2007).

(4) Consists of the change in the actuarial present value of the individual s accumulated benefit under the Company s Supplemental Executive Retirement Plan from December 31, 2007 to December 31, 2008. The Company does not provide above-market earnings on non-qualified deferred compensation.

(5) Consists of compensation included in the All Other Compensation Table which follows this table.

(6) On May 1, 2007, Mr. Tellock was promoted to President and Chief Executive Officer of the Company. In connection with that promotion, the Compensation Committee increased his base salary as of May 1 and increased his target incentive award percentage effective January 1 to 80% but calculated as if his base salary had been increased as of January 1, rather than May 1. Because the Short Term Incentive Plan does not allow for an increase in the incentive compensation subsequent to the February meeting of the Compensation Committee, a supplemental award was made to Mr. Tellock. The effect of the supplemental award was provided to Mr. Tellock with total short-term incentive compensation for 2007 as if his target incentive award percentage was increased to 80% as of January 1, 2007 and was calculated as if his base salary had been increased as of January 1, 2007, rather than May 1, 2007.

(7) Mr. Growcock retired as President and Chief Executive Officer as of May 1, 2007, and he retired as Chairman of the Board as of December 31, 2008.

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ALL OTHER COMPENSATION TABLE

The following table sets forth the specific items included in the All Other Compensation column of the Summary Compensation Table.

Name	Year	Registrant Contributions to Defined Contribution Plans[(1)]	Registrant Contributions to Deferred Compensation Account[(2)]	Insurance Premiums	Tax Preparation Fee Reimbursement	Car Allowance	Other[(3)]	Total
Glen E. Tellock	2008	$34,418	$3,901	$4,496	$9,873	$15,600	$1,364	$69,652
	2007	$31,371	$1,808	$4,675	$1,290	$14,000	$3,814	$56,958
	2006	$35,039	$2,480	$4,675	$787	$10,800	$3,747	$57,528
Carl J. Laurino	2008	$34,418	$3,667	$999	$0	$10,800	$954	$50,838
	2007	$31,371	$3,484	$987	$7,765	$10,800	$7,965	$62,372
	2006	$36,537	$4,711	$987	$0	$10,800	$950	$53,985
Terry D. Growcock	2008	$34,418	$0	$4,679	$44,534	$13,200	$320	$97,151
	2007	$31,371	$0	$4,866	$52,711	$13,200	$7,965	$102,148
	2006	$33,815	$0	$4,866	$16,166	$13,200	$2,075	$70,122
Thomas G. Musial	2008	$34,418	$0	$6,807	$2,916	$10,800	$0	$54,941
	2007	$31,371	$0	$7,079	$2,800	$10,800	$10,194	$62,244
	2006	$33,815	$0	$7,079	$608	$10,800	$327	$52,629
Maurice D. Jones	2008	$34,418	$2,637	$2,193	$5,060	$10,800	$3,811	$58,919
	2007	$31,371	$2,436	$2,280	$4,045	$10,800	$4,811	$55,743
	2006	$36,122	$3,168	$2,280	$2,013	$10,800	$4,795	$59,178

(1) Consists of contributions made by the Company during the year indicated under The Manitowoc Company, Inc. 401(k) Retirement Plan. As explained in the Compensation Discussion and Analysis, this Plan includes both a tax-qualified defined contribution savings component in which the participant receives a Company match, and a retirement plan feature in which the Company provides an annual contribution of at least 3% of eligible compensation to another defined contribution account.

(2) Consists of contributions made by the Company in the year subsequent to the year indicated, based on performance in the year indicated, to the Company s Deferred Compensation Plan and credited to the executive s account. The amount is equal to the amount of deferred compensation of the key employee for the plan year (subject to a maximum of 25% of eligible compensation) multiplied by a rate equal to the greater of 3% or the rate of variable retirement account contributions that the participant has received from the Company for the year under the 401(k) Retirement Plan plus one percent.

(3) For 2006, includes (a) estimate of $200 each for meals and other related expenses for spouse of each executive (other than Thomas G. Musial) accompanying the executive at the February Board meeting. Spouses of

executives were invited to attend the February Board meeting with the executive, at the Company s expense; (b) reimbursed club membership fees and/or the executive s personal use of a corporate club membership: Glen E. Tellock $3,547, Carl J. Laurino $750, Terry D. Growcock $750, Thomas G. Musial $0, and Maurice D. Jones $4,595; and (c) internet access fees: Glen E. Tellock $0, Carl J. Laurino $0, Terry D. Growcock $1,125, Thomas G. Musial $327, and Maurice D. Jones $0.

For 2007, includes (a) estimate of $200 each for meals and other related expenses for spouse of each executive (other than Thomas G. Musial) accompanying the executive at the February Board meeting. Spouses of executives were invited to attend the February Board meeting with the executive, at the Company s expense; and (b) reimbursed club membership fees and/or the executive s personal use of a corporate club membership: Glen E. Tellock $3,614, Carl J. Laurino $7,765, Terry D. Growcock $7,765, Thomas G. Musial $9,815, and Maurice D. Jones $4,611.

For 2008, does not include: (a) estimate of $250 each for meals and other related expenses for spouse of each executive (other than Thomas G. Musial) accompanying the executive at the February Board meeting. Spouses of executives were invited to attend the February Board meeting with the executive, at the Company s expense;

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and (b) airfare for spouses attending the October Board meeting Glen E. Tellock $17,707, Carl J. Laurino $0, Terry D. Growcock $18,000, Thomas J. Musial $0, and Maurice D. Jones $0; and estimated expenses for meals and entertainment of spouses attending the October Board meeting: Glen E. Tellock $3,500, Carl J. Laurino $3,500, Terry D. Growcock $3,500, Thomas G. Musial $0, and Maurice D. Jones $0.

GRANTS OF PLAN-BASED AWARD

The following table sets forth the 2008 awards under the Company s Short-Term Incentive Plan (STIP) and the 2003 Incentive Stock and Awards Plan (stock options and restricted stock). Awards under the STIP were earned in 2008 and paid in 2009. Other than the stock option awards and the restricted stock awards, which are disclosed below, there were no equity-based incentive awards granted to the named executive officers.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Gr D Fair of S a Op Awar
ne	Award Type	Grant Date	Threshold ($)	Target ($)	Maximum ($)				
. k	STIP		-0-	$560,000	$1,400,000				
	Stock Option	2-15-08					63,400	$39 .13	$97
	Restricted Stock	2-15-08				9,500			$37
o	STIP		-0-	$183,000	$457,500				
	Stock Option	2-15-08					18,400	$39 .13	$28
	Restricted Stock	2-15-08				2,800			$10
D. ock	STIP		-0-	$680,000	$1,700,000				
	Stock Option	2-15-08					-0-	$39 .13	
	Restricted Stock	2-15-08				-0-			
s G.	STIP		-0-	$210,000	$525,000				
	Stock Option	2-15-08					17,900	$39 .13	$27
	Restricted Stock	2-15-08				2,700			$10

ce es	STIP		-0-	$204,000	$510,000				
	Stock Option	2-15-08					17,400	$39 .13	$26
	Restricted Stock	2-15-08				2,600			$10

(1) Reflects the FAS 123R expense over the life of the stock option awards. The options expire ten years from the grant date and vest in 25% increments annually beginning on the second anniversary of the grant date and continuing on each subsequent anniversary until the fifth anniversary.

(2) Reflects the FAS 123R expense over the life of the restricted stock awards. The restrictions on restricted stock awards lapse on the third anniversary of the grant date.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth the stock option awards previously granted to the named executive officers (in any year prior to 2009), which were outstanding at the end of 2008 either due to the award not yet being vested or due to the executive s decision not to exercise vested awards. The table also sets forth the restricted stock awards previously granted to the named executive offers (in any year prior to 2009) for which the restrictions have not yet lapsed.

	Option Awards[1]				**Stock Awards[2]**	
Name	*Number of Securities Underlying Unexercised Options (#) Exercisable*	*Number of Securities Underlying Unexercised Options (#) Unexercisable*	*Option Exercise Price ($)*	*Option Expiration Date*	*Number of Shares or Units of Stock That Have Not Vested (#)*	*Market Value of Shares or Units of Stock That Have Not Vested ($)*
Glen E. Tellock	180,000	0	$6.3075	October 15, 2012		
	45,200	45,200	$10.14	May 3, 2015		
	16,550	49,650	$26.10	May 3, 2016		
	0	37,400	$29.515	February 27, 2017		
	0	27,000	$36.04	May 1, 2017		
	0	63,400	$39.13	February 15, 2018	27,500	$238,150
Carl J. Laurino	31,400	31,400	$10.14	May 3, 2015		
	11,800	35,400	$26.10	May 3, 2016		
	0	27,600	$29.515	February 27, 2017		
	0	18,400	$39.13	February 15, 2018	13,200	$114,312
Terry D. Growcock	114,652	0	$6.3075	October 15, 2012	49,800	$431,208
	67,344	154,200	$10.14	May 3, 2015		
	57,850	173,350	$26.10	May 3, 2016		
	0	129,000	$29.515	February 27, 2017		
Thomas G. Musial	18,274	0	$6.3959	February 16, 2009		
	16,810	0	$6.3125	February 15, 2010		
	864	0	$4.875	October 17, 2010		
	90,600	0	$6.3075	October 15, 2012		
	32,000	32,000	$10.14	May 3, 2015		
	11,550	34,650	$26.10	May 3, 2016		
	0	23,000	$29.515	February 27, 2017		
	0	17,900	$39.13	February 15, 2018	12,300	$106,518
Maurice D. Jones	57,300	0	$6.3075	October 15, 2012	11,200	$96,992
	27,800	27,800	$10.14	May 3, 2015		

10,000	30,000	$26.10	May 3, 2016
0	21,200	$29.515	February 27, 2017
0	17,400	$39.13	February 15, 2018

(1) Consists of incentive and non-qualified options to purchase Common Stock of the Company under The Manitowoc Company, Inc. 1995 Stock Plan or the Company s 2003 Incentive Stock and Awards Plan.

(2) Consists of restricted stock awarded under the Company s 2003 Incentive Stock and Awards Plan. Market value calculated based on the closing stock price on December 31, 2008 of $8.66.

OPTION EXERCISES AND STOCK VESTED

The following table presents, for each named executive officer, the stock options exercised and the number of restricted shares as to which restrictions lapsed during 2008. The value realized from the exercise of stock options reflects the total pre-tax value realized by the officers (stock price at exercise minus the option s exercise price). Value from these option exercises was only realized to the extent Manitowoc s stock price increased relative to the stock price at grant (exercise price). These options were granted to the named executive officers prior to 2008, and options vest in 25% increments annually commencing on the second anniversary of the grant date. Consequently, the value realized by the executives upon exercise of the options was actually earned over several years.

	Option Awards[1]		**Stock Awards**[2]	
Name	*Number of Shares Acquired on Exercise (#)*	*Value Realized on Exercise ($)*	*Number of Shares Acquired on Vesting (#)*	*Value Realized on Vesting ($)*
Glen E. Tellock	79,964	$1,548,415	16,800	$664,776
Carl J. Laurino	56,314	$1,869,127	11,600	$459,012
Terry D. Growcock	25,356	$776,373	57,600	$2,279,232
Thomas G. Musial	0	$0	12,000	$474,840
Maurice D. Jones	32,700	$1,167,462	10,400	$411,528

(1) The dollar value realized by stock option exercises in 2008 represents the total pre-tax value realized by the named executive officers upon exercise.

(2) Represents the number of shares of restricted stock as to which restrictions lapsed and valued as at market value of $39.57 which is the closing stock price on the lapse date.

RETIREMENT AND NON-QUALIFIED DEFERRED COMPENSATION PLANS

Pension Benefits
(Supplemental Executive Retirement Plan)

The following table sets forth information with respect to the Supplemental Executive Retirement Plan as of December 31, 2008.

Name	**Plan Name**	**Number of Years Credited Service**[1] **(#)**	**Present Value of Accumulated Benefit ($)**	**Payments During Last Fiscal Year ($)**
Glen E. Tellock	SERP	8.58	$2,740,432	$ 0
Carl J. Laurino	SERP	2.00	$358,153	$ 0
Terry D. Growcock	SERP	8.58	$8,542,274	$ 0

Thomas G. Musial	SERP	8.58	$3,721,890	$ 0
Maurice D. Jones	SERP	4.00	$711,048	$ 0

(1) Reflects the number of years since the participant began participating in the plan. The plan was adopted by the Company in May of 2000. Currently an executive of the Company is not eligible to participate under the plan until the executive has at least five credited years of service with the Company. Mr. Growcock, Mr. Tellock and Mr. Musial became plan participants at the time of the plan s adoption in 2000. Mr. Jones began participating in the plan as of January 1, 2005. Mr. Laurino began participating under the plan as of January 1, 2007. As of December 31, 2008, the named executive officers had the following actual years of service with the Company: Glen E. Tellock 17.98 years, Carl J. Laurino 8.99 years, Terry D. Growcock 14.46 years, Thomas G. Musial 31.42 years, and Maurice D. Jones 9.46 years.

Under the Company s Supplemental Executive Retirement Plan, eligible executives are entitled to receive retirement benefits which are intended to fund a life annuity equal to 55% of a participant s final average pay at the

earlier of normal retirement (age 65) or the first of the month following the date on which the participant s attained age plus years of service with the Company equals eighty (80). A participant s final five-year average pay is computed by averaging the participant s projected base salary (including elective deferrals) and STIP-related awards payable for each year (short-term incentive compensation plus LTIP payments for the year) for the five consecutive calendar year period when the participants receives or is projected to receive his or her highest average compensation prior to the earlier of normal retirement (age 65) or the first of the month following the date on which the participant s attained age plus years of service with the Company equals eighty (80). Benefits are computed using a straight-life annuity and are not reduced for social security or other offsets. Under the Plan, an account balance is maintained for each participant, which account reflects (a) an annual contribution credit that is determined by calculating the present value of the lump sum actuarial equivalent of fifty-five percent (55%) of the participant s five-year final average pay payable as a life annuity, at the earlier of (i) normal retirement (age 65) or (ii) the first of the month following the date on which the participant s attained age plus years of service with the Company equals eighty (80); and (b) an annual increase in the account balance at the end of each year equal to nine percent (9%) of the account balance at the beginning of the year. When a participant becomes eligible for a distribution under the plan, the participant may elect to receive his/her account balance in a lump sum or over a fixed number of years not to exceed ten (10) years. Currently, the Compensation Committee has determined that an executive will not be eligible to participate under the plan until the executive has five credited years of service with the Company and/or its subsidiaries. Additionally, as amended effective January 1, 2009 for any executive who becomes a participant after December 31, 2008 and whose projected total service at his or her target retirement date is less than 25 years, the 55% target retirement benefit will be prorated based on the projected total service years divided by 25.

Non-Qualified Deferred Compensation

The following table sets forth information with respect to the Company s Deferred Compensation Plan, a non-qualified plan, as of December 31, 2008.

Name	Executive Contributions in Last FY[(1)]	Registrant Contributions in Last FY[(2)]	Aggregate Earnings in Last FY	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE[(3)]
Glen E. Tellock	$55,735	$3,901	$(505,933)	$0	$253,122
Carl J. Laurino	$52,392	$3,667	$(92,083)	$0	$137,319
Terry D. Growcock	$0	$0	$(186,144)	$2,108,255	$0
Thomas G. Musial	$0	$0	$(605,338)	$0	$1,001,513
Maurice D. Jones	$37,670	$2,637	$(254,786)	$0	$139,263

(1) Reflects elective deferrals of compensation earned or payable in 2008. These amounts were also included in the Salary, Bonus and Non-Equity Incentive Plan Compensation columns in the Summary Compensation Table.

(2) Consists of contributions made by the Company in early 2009, based on 2008 performance, to the Company s Deferred Compensation Plan and credited to the executive s account. The amount is equal to the amount of deferred compensation of the key employee for the plan year (subject to a maximum of 25% of eligible compensation) multiplied by a rate equal to the greater of 3% or the rate of variable profit sharing contributions that the participant has received from the Company for the year under the 401(k) Retirement Plan plus one percent. The contributions made in 2008 based on 2007 performance were $1,808 for Glen E. Tellock, $3,484 for Carl J. Laurino, $0 for Terry D. Growcock , $0 for Thomas G. Musial, and $2,436 for Maurice D. Jones. These amounts were also included in the All Other Compensation column in the Summary Compensation Table.

Post-Employment Compensation

The Company has entered into Contingent Employment Agreements (the Contingent Employment Agreements) with the named executive officers (and certain other key executives and employees of the Company and certain subsidiaries). The Contingent Employment Agreements provide generally that in the event of a change in control (as defined in the Agreements) of the Company, each executive will continue to be employed by the Company for a period ranging from one to three years. Under the Contingent Employment Agreements, each executive will remain employed at the same position held as of the change in control date, and will receive a salary at least equal to the salary in effect as of such date, plus all bonuses, incentive compensation, and other benefits extended by the Company to its executive officers and key employees. After a change in control, the executive s compensation would be subject to upward adjustment at least annually based upon his contributions to the Company s operating efficiency, growth, production, and profits. Each Contingent Employment Agreement terminates prior to the end of the applicable employment period, if the executive first attains the age of 65, voluntarily retires from the Company, or is terminated by the Company for cause, as defined in the Contingent Employment Agreement.

In the event the executive is terminated by the Company without cause, the executive would be entitled to receive a monthly amount equal to the base salary and benefits the executive would have otherwise been paid but for the termination, and the annual incentive compensation the executive would have otherwise been paid but for the termination, through the end of the applicable employment period. Upon a change in control, accelerated vesting of stock options and accelerated lapsing of restrictions on restricted stock is specified in the 2003 Incentive Stock and Awards Plan and the Contingent Employment Agreement. In the event the executive is terminated by the Company for cause, the executive is only entitled to the salary and benefits accrued and vested as of the effective date of the termination. A Contingent Employment Agreement is terminable by either party at any time prior to a change in control. There are two categories of Contingent Employment Agreements. These categories are:

Level A. This category provides, in addition to the other general rights that are common among all the Contingent Employment Agreements, (i) the executive has the right to terminate his or her employment at any time within ninety days following a change in control and receive an immediate payout essentially equal to three times the executive s base salary and three times the executive s average incentive compensation over the previous three years, (ii) if any of the payments to the executive constitute an excess parachute payment under Section 4999 of the Internal Revenue Code, the Company will pay the executive an amount necessary to offset any excise taxes or additional taxes resulting from the payment of any excess parachute payment, and (iii) if the executive exercises his/her rights outlined in clause (i) above, the executive will be prohibited from competing with the Company for the balance of the three-year period.

Level B. The Level B form is the basic Contingent Employment Agreement without the special rights and non-competition obligations described above for the Level A form. The employment period for executives under the Level B form may be for any agreed upon period up to three years.

Messrs. Tellock, Laurino, Growcock, Musial and Jones have Contingent Employment Agreements with the rights described in Level A.

Estimated Payments Upon A Change In Control

The following table presents the estimated payouts that would be made upon a change in control coupled with an executive s termination of employment (other than for cause or retirement), assuming the change in control occurred as of December 31, 2008. The calculations are intended to provide reasonable estimates, based on the noted assumptions, of the potential benefits payable. The actual amount of severance benefits, including excise tax gross-ups (if any); will depend upon the executive s pay, terms of a change in control transaction and the subsequent impact on the executive s employment.

Name	Base Salary(1)	Annual Incentive-Based Compensation(2)	Stock Options(3)	Restricted Stock Awards(4)	Benefits(5)	Excise Tax Gross Up(6)	Total
Glen E. Tellock	$2,100,000	$3,001,875	$0	$238,150	$5,076,081	$4,427,338	$14,843,444
Carl J. Laurino	$915,000	$1,163,750	$0	$114,312	$2,074,869	$2,042,742	$6,310,673
Terry D. Growcock	$2,550,000	$4,900,000	$0	$431,268	$1,492,843	$0	$9,374,111
Thomas G. Musial	$1,050,000	$1,331,250	$0	$106,518	$194,304	$0	$2,682,072
Maurice D. Jones	$1,020,000	$1,272,500	$0	$96,992	$2,004,483	$0	$4,393,975

(1) Represents 3 times the executive s base salary at the end of December 31, 2008.

(2) Represents 3 times the executive s average earned incentive compensation under the Company s Short-Term Incentive Plan during the most recently completed 3 fiscal years (2006 through 2008) and in the case of Mr. Tellock, includes the supplemental bonus for 2007 as disclosed on the Summary Compensation Table.

(3) Intrinsic value of unvested stock options based on the closing trading price ($8.66) of the Company s Common Stock at December 31, 2008.

(4) Represents the value of unvested restricted stock, on which restrictions would lapse upon a change in control, based on the closing price ($8.66) of the Company s common stock at December 31, 2008.

(5) Represents 3 times the value of the annual benefits provided to the executive and 3 years additional credited service under the SERP. Mr. Musial would not receive additional benefits under the SERP as Mr. Musial s benefit is fully accrued.

(6) Represents the estimated amount payable for excise and related income taxes owed on potential severance-related payments following a change in control and termination of employment, as of December 31, 2008. The estimate was developed based on applicable provisions of the Internal Revenue Code.

As stated in the Compensation Discussion and Analysis, the Company does not have a formal severance plan or other forms of employment termination for any of the named executive officers. Whether and to what extent the Company will provide severance benefits to named executive officers upon termination (other than due to a change in control) depends upon the facts and circumstances. As such, the Company is unable to estimate the potential payouts under other employment termination scenarios.

10. MISCELLANEOUS

Other Matters

Management knows of no business which will be presented for action at the Annual Meeting other than as set forth in the Notice of Annual Meeting accompanying this Proxy Statement. If other matters do properly come before the Annual Meeting, proxies will be voted in accordance with the best judgment of the person or persons exercising authority conferred by such proxies.

Shareholder Proposals

Shareholder proposals for the Annual Meeting of Shareholders in 2010 must be received no later than November 26, 2009, at the Company s principal executive offices, 2400 South 44th Street, P.O. Box 66, Manitowoc, Wisconsin 54221-0066, directed to the attention of the Secretary, in order to be considered for inclusion in next year s Annual Meeting proxy material under the Securities and Exchange Commission s proxy rules.

Under the Company s Bylaws, written notice of shareholder proposals for the 2010 Annual Meeting of Shareholders of the Company which are not intended to be considered for inclusion in next year s Annual Meeting proxy material (shareholder proposals submitted outside the processes of Rule 14a-8) must be received not less than 50 nor more than 75 days prior to March 26, 2010, directed to the attention of the Secretary, and such notice must contain the information specified in the Company s Bylaws.

Annual Report

A copy (without exhibits) of the Company s Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2008 is available online at www.proxydocs.com/mtw and also through the Company s website: www.manitowoc.com. In addition, the Company will provide to any shareholder, without charge, upon written request of such shareholder, an additional copy of such Annual Report and a copy of any other document referenced in this Proxy Statement as being available to a shareholder upon request. Such requests should be addressed to Maurice D. Jones, Senior Vice President, General Counsel and Secretary, The Manitowoc Company, Inc., P.O. Box 66, Manitowoc, Wisconsin 54221-0066.

Householding Information

We have adopted a procedure approved by the SEC called householding. Under this procedure, shareholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our Annual Report and Proxy Statement unless one or more of these shareholders notifies us that they wish to continue receiving individual copies. This procedure will reduce our printing costs and postage fees. Shareholders who participate in householding will continue to receive separate proxy cards. Also, householding will not in any way affect dividend check mailings. If you and other shareholders of record with whom you share an address currently receive multiple copies of Annual Reports and/or Proxy Statements, or if you hold stock in more than one account and in either case, you wish to receive only a single copy of the Annual Report or Proxy Statement for your household, please contact Maurice D. Jones, Senior Vice President, General Counsel and Secretary (in writing: The Manitowoc Company, Inc., 2400 South 44th Street, P. O. Box 66, Manitowoc, Wisconsin 54221-0066, by telephone: 920-652-1741) with the names in which all accounts are registered.

If you participate in householding and wish to receive a separate copy of the 2008 Annual Report or this Proxy Statement, please contact Maurice D. Jones at the above address or phone number. We will deliver the requested documents to you promptly upon your request. Beneficial shareholders can request information about householding from their banks, brokers, or other holders of record.

It is important that proxies be returned promptly. Whether or not you expect to attend the Annual Meeting in person, you are requested to complete, date, sign, and return the proxy card as soon as possible.

By Order of the Board of Directors

MAURICE D. JONES
Senior Vice President, General Counsel and Secretary

Manitowoc, Wisconsin
March 26, 2009

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The Manttowoc Company, Inc. ANNUAL MEETING OF THE MANITOWOC COMPANY, INC. Wisconsin Annual Meeting of the Shareholders of The Manitowoc Company, Inc. See Voting Instruction on Reverse Side. to be held Tuesday, May 5, 2009 Please make your marks like this: BU Use dark black pencil or pen only for Shareholders Of records Of February 27, 2009 The Board of Directors Recommends a Vote FOR the listed nominees in Proposal 1 and FOB Proposal 2.TELEPHONE 1-Election of Directors GoTo 866-390-5369 1 election ot Directors www.proxypush.com/rntw For withhold Cast your vote online. Use any touch-tone telephone. 01 Cynthia M. Egnotovich View Meeting Documents. Have your Voting Instruction Form ready. Follow the simple recorded instructions. 02 James L Packard OR Mark, sign and date your Voting Instruction Form. Detach your Voting Instruction Form. 2: Issues Return your Voting Instruction Form in the Ratification of the postage-paid envelope provided. All votes must be received by 5:00 p.m., Eastern Time May 4,2009. LLP, as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009. 3; In their discretion, to transact such other business as may properly come before the Annual Meeting. Comments: Please print your comments below. PROXY TABULATOR FOR THE MANiTOWOC COMPANY, INC. PO BOX 8016 GARY, NC 27512-9903 Please mark this box if you plan to attend the meeting In person. Authorized Signatures-This section must be completed for your Instructions to be executed. OFFICE # Please Sign Here Please Dale Above Please Sign Here Please Date Above

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Proxy The Mlariitowoc Company, inc. Proxy/Voting Instructions Solicited on Behalf of the Board of Directors for the Annual R/Seeting of Shareholders on May 5,2009. The undersigned appoints Glen E. Tellock and Maurice D. Jones or either of them as proxies for the undersigned, with full power of substitution to vote the sharesof stock of The Manitowoc Company, Inc. (the Company), of the undersigned at the Annual Meeting of Shareholders of the Company to be held at the Holiday Inn Manitowoc located at 4601 Calumet Ave., Manitowoc, Wisconsin on Tuesday, May 5, 2009 at 9:00 a.m. (CDT). 1. Election of Directors Nominees: Cynthia M. Egnotovich and James L. Packard 2. Ratification of the appointment of PricewaterhouseCoopers, LLR as theCompany s independent registered public accounting firm for the fiscal year ending December 31, 2009. . their discretion, upon such other business as may properly come before the Annual Meeting or any adjournment thereof, all as set forth in the Notice and Proxy Statement relating to the Annual Meeting, receipt of which is g.hereby acknowledged. you hold shares of Company Common Stock in the Dividend Reinvestment Plan or The Manitowoc Company, inc. 401 (k) Retirement Plan, this proxy constitutes voting instructions for any shares so held by the undersigned. The Board of Directors of the Company recommends a vote FOR the election of the two directors named in the proxy materials, each of whom will serve a term expiring at the annual meeting of the shareholders in 2012; and FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s registered independent public accountants for the fiscal year ending December 31, 2009. This proxy, when properly executed, will be voted in the manner directed herein. If no direction is made, this proxy will be voted FOR Proposals 1 and 2. You are encouraged to specify your choice by marking the appropriate box (SEE REVERSE SIDE) but you need not mark any box if you wish to vote in accordance with the Board of Directors recommendation.The proxies cannot vote your shares unless you sign and return this card.

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$
75,708

Nonrecurring:

Assets:

Loans held for investment	—	—	4,420	4,420
REO	—	—	1,818	1,818
Total Nonrecurring Assets at fair value	$ —	$ —	$ 6,238	$ 6,238

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The following tables present additional information about assets and liabilities measured at fair value on a recurring basis for which Farmer Mac has used significant unobservable inputs to determine fair value. Net transfers in and/or out of level 3 are based on the fair values of the assets and liabilities as of the beginning of the reporting period.

Table 8.2

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2014

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$64,963	$—	$(12,125)	$—	$ (375)	$ 2,513	$54,976
Floating rate Government/GSE guaranteed mortgage-backed securities	203	—	—	(7)	—	(1)	195
Total available-for-sale	65,166	—	(12,125)	(7)	(375)	2,512	55,171
Trading:							
Floating rate asset-backed securities (1)	923	—	—	(131)	88	—	880
Total trading	923	—	—	(131)	88	—	880
Total Investment Securities	66,089	—	(12,125)	(138)	(287)	2,512	56,051
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	3,467,655	295,775	—	(356,319)	3,818	5,583	3,416,512
Farmer Mac Guaranteed USDA Securities	21,608	—	—	(191)	—	(373)	21,044
Total Farmer Mac Guaranteed Securities	3,489,263	295,775	—	(356,510)	3,818	5,210	3,437,556
USDA Securities:							
Available-for-sale	1,600,659	90,785	—	(59,640)	—	5,126	1,636,930
Trading (2)	51,102	—	—	(4,843)	(160)	—	46,099
Total USDA Securities	1,651,761	90,785	—	(64,483)	(160)	5,126	1,683,029
Total Assets at fair value	$5,207,113	$386,560	$(12,125)	$(421,131)	$ 3,371	$ 12,848	$5,176,636
Liabilities:							
Financial derivatives	$(161)	$—	$—	$—	$ 161	$ —	$—
Total Liabilities at fair value	$(161)	$—	$—	$—	$ 161	$ —	$—

(1) Unrealized gains are attributable to assets still held as of June 30, 2014 and are recorded in "Gains/(losses) on trading securities."

(2) Includes immaterial unrealized gains attributable to assets still held as of June 30, 2014 that are recorded in "Gains/(losses) on trading securities."

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2013

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/ (Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$65,213	$—	$—	$—	$—	$ (125)	$65,088
Floating rate Government/GSE guaranteed mortgage-backed securities	233	—	—	(9)	—	(2)	222
Total available-for-sale	65,446	—	—	(9)	—	(127)	65,310
Trading:							
Floating rate asset-backed securities (1)	1,129	—	—	(186)	121	—	1,064
Total trading	1,129	—	—	(186)	121	—	1,064
Total Investment Securities	66,575	—	—	(195)	121	(127)	66,374
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	5,072,882	200,000	—	(206,519)	(14,730)	(18,574)	5,033,059
Farmer Mac Guaranteed USDA Securities	27,198	—	—	(515)	—	(889)	25,794
Total Farmer Mac Guaranteed Securities	5,100,080	200,000	—	(207,034)	(14,730)	(19,463)	5,058,853
USDA Securities:							
Available-for-sale	1,569,160	110,897	—	(76,364)	—	(59,929)	1,543,764
Trading (2)	87,271	—	—	(13,231)	(448)	—	73,592
Total USDA Securities	1,656,431	110,897	—	(89,595)	(448)	(59,929)	1,617,356
Total Assets at fair value	$6,823,086	$310,897	$—	$(296,824)	$(15,057)	$ (79,519)	$6,742,583
Liabilities:							
Financial derivatives (3)	$(532)	$—	$—	$—	$142	$ —	$(390)
Total Liabilities at fair value	$(532)	$—	$—	$—	$142	$ —	$(390)

(1) Unrealized gains are attributable to assets still held as of June 30, 2013 and are recorded in "Gains/(losses) on trading securities."

(2) Includes unrealized losses of $0.3 million attributable to assets still held as of June 30, 2013 that are recorded in "Gains/(losses) on trading securities."

(3) Unrealized gains are attributable to liabilities still held as of June 30, 2013 and are recorded in "(Losses)/gains on financial derivatives and hedging activities."

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Level 3 Assets and Liabilities Measured at Fair Value for the Six Months Ended June 30, 2014

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Transfers Out	Ending Balance
	(in thousands)							
Recurring:								
Assets:								
Investment Securities:								
Available-for-sale:								
Floating rate auction-rate certificates backed by Government guaranteed student loans	$65,285	$—	$(12,125)	$—	$ (375)	$ 2,191	$—	$54,976
Floating rate Government/GSE guaranteed mortgage-backed securities	205	—	—	(11)	—	1	—	195
Total available-for-sale	65,490	—	(12,125)	(11)	(375)	2,192	—	55,171
Trading:								
Floating rate asset-backed securities (1)	928	—	—	(414)	366	—	—	880
Total trading	928	—	—	(414)	366	—	—	880
Total Investment Securities	66,418	—	(12,125)	(425)	(9)	2,192	—	56,051
Farmer Mac Guaranteed Securities:								
Available-for-sale:								
AgVantage	5,070,366	465,775	—	(532,588)	6,568	18,477	(1,612,086)	3,416,512
Farmer Mac Guaranteed USDA Securities	21,234	—	—	(362)	—	172	—	21,044
Total Farmer Mac Guaranteed Securities	5,091,600	465,775	—	(532,950)	6,568	18,649	(1,612,086)	3,437,556
USDA Securities:								
Available-for-sale	1,553,669	158,769	—	(120,095)	—	44,587	—	1,636,930
Trading (2)	58,344	—	—	(12,462)	217	—	—	46,099
	1,612,013	158,769	—	(132,557)	217	44,587	—	1,683,029

Total USDA Securities								
Total Assets at fair value	$6,770,031	$624,544	$(12,125)	$(665,932)	$6,776	$65,428	$(1,612,086)	$5,176,636
Liabilities:								
Financial derivatives	$(235)	$—	$—	$—	$235	$—	$—	$—
Total Liabilities at fair value	$(235)	$—	$—	$—	$235	$—	$—	$—

(1) Unrealized gains are attributable to assets still held as of June 30, 2014 and are recorded in "Gains/(losses) on trading securities."

(2) Includes unrealized gains of $0.7 million attributable to assets still held as of June 30, 2014 that are recorded in "Gains/(losses) on trading securities."

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Level 3 Assets and Liabilities Measured at Fair Value for the Six Months Ended June 30, 2013

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/ (Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$63,159	$—	$—	$—	$—	$ 1,929	$65,088
Floating rate Government/GSE guaranteed mortgage-backed securities	—	233	—	(9)	—	(2)	222
Total available-for-sale	63,159	233	—	(9)	—	1,927	65,310
Trading:							
Floating rate asset-backed securities (1)	1,247	—	—	(500)	317	—	1,064
Total trading	1,247	—	—	(500)	317	—	1,064
Total Investment Securities	64,406	233	—	(509)	317	1,927	66,374
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	4,739,577	625,000	—	(284,452)	(17,868)	(29,198)	5,033,059
Farmer Mac Guaranteed USDA Securities	26,681	—	—	(898)	—	11	25,794
Total Farmer Mac Guaranteed Securities	4,766,258	625,000	—	(285,350)	(17,868)	(29,187)	5,058,853
USDA Securities:							
Available-for-sale	1,486,595	233,084	—	(145,566)	—	(30,349)	1,543,764
Trading (2)	104,188	—	—	(30,162)	(434)	—	73,592
Total USDA Securities	1,590,783	233,084	—	(175,728)	(434)	(30,349)	1,617,356
Total Assets at fair value	$6,421,447	$858,317	$—	$(461,587)	$(17,985)	$ (57,609)	$6,742,583
Liabilities:							
Financial derivatives (3)	$(691)	$—	$—	$—	$301	$ —	$(390)
Total Liabilities at fair value	$(691)	$—	$—	$—	$301	$ —	$(390)

(1) Unrealized gains are attributable to assets still held as of June 30, 2013 and are recorded in "Gains/(losses) on trading securities."

(2) Includes unrealized losses of $0.1 million attributable to assets still held as of June 30, 2013 that are recorded in "Gains/(losses) on trading securities."

(3) Unrealized gains are attributable to liabilities still held as of June 30, 2013 and are recorded in "(Losses)/gains on financial derivatives and hedging activities."

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The following tables present additional information about the significant unobservable inputs, such as discount rates and constant prepayment rates ("CPR"), used in the fair value measurements categorized in level 3 of the fair value hierarchy as of June 30, 2014 and December 31, 2013.

Table 8.3

	As of June 30, 2014			
Financial Instruments	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted-Average)
	(in thousands)			
Assets:				
Investment securities:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$54,976	Indicative bids	Range of broker quotes	82.0% - 96.0% (89.3%)
Floating rate asset-backed securities	$880	Discounted cash flow	Discount rate	12.2% - 21.5% (16.8%)
			CPR	10%
Floating rate Government/GSE guaranteed mortgage-backed securities	$195	Discounted cash flow	Discount rate	1.8% - 1.8% (1.8%)
			CPR	7%
Farmer Mac Guaranteed Securities:				
AgVantage	$3,416,512	Discounted cash flow	Discount rate	0.8% - 2.2% (1.4%)
Farmer Mac Guaranteed USDA Securities	$21,044	Discounted cash flow	Discount rate	0.8% - 3.3% (1.9%)
			CPR	8% - 17% (14%)
USDA Securities	$1,683,029	Discounted cash flow	Discount rate	1.1% - 5.2% (3.2%)
			CPR	0% - 18% (7%)

	As of December 31, 2013			
Financial Instruments	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted-Average)
	(in thousands)			
Assets:				
Investment securities:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$65,285	Indicative bids	Range of broker quotes	82.0% - 92.0% (88.1%)
Floating rate asset-backed securities	$928	Discounted cash flow	Discount rate	13.0% - 22.5% (17.7%)
			CPR	10%
Floating rate Government/GSE guaranteed mortgage-backed securities	$205	Discounted cash flow	Discount rate	1.8% - 1.8% (1.8%)
			CPR	6%
Farmer Mac Guaranteed Securities:				
AgVantage	$5,070,366		Discount rate	0.9% - 3.6% (1.8%)

		Discounted cash flow		
Farmer Mac Guaranteed USDA Securities	$21,234	Discounted cash flow	Discount rate	0.9% - 3.2% (1.9%)
			CPR	7% - 14% (11%)
USDA Securities	$1,612,013	Discounted cash flow	Discount rate	1.2% - 5.3% (3.4%)
			CPR	0% - 23% (5%)
Liabilities:				
Financial Derivatives:				
Basis swaps	$235	Discounted cash flow	Discount rate	0.7% - 2.3% (1.3%)
			CPR	10% - 11% (10%)

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The significant unobservable inputs used in the fair value measurements of Farmer Mac Guaranteed Securities and USDA Securities are prepayment rates and discount rates commensurate with the risks involved. Typically, significant increases (decreases) in any of these inputs in isolation may result in materially lower (higher) fair value measurements. Generally, in a rising interest rate environment, Farmer Mac would expect average discount rates to increase and would likely expect a corresponding decrease in forecasted prepayment rates. Conversely, in a declining interest rate environment, Farmer Mac would expect average discount rates to decrease and would likely expect a corresponding increase in forecasted prepayment rates. Prepayment rates are not presented in the table above for AgVantage securities because they generally do not pay down principal based on amortization schedules but instead typically have fixed maturity dates when the secured general obligations are due.

Disclosures on Fair Value of Financial Instruments

The following table sets forth the estimated fair values and carrying values for financial assets, liabilities, and guarantees and commitments as of June 30, 2014 and December 31, 2013:

Table 8.4

	As of June 30, 2014		As of December 31, 2013	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$384,123	$384,123	$749,313	$749,313
Securities purchased under agreements to resell	1,640,184	1,640,686	—	—
Investment securities	2,316,843	2,316,843	2,484,075	2,484,075
Farmer Mac Guaranteed Securities	5,097,604	5,094,010	5,091,600	5,091,600
USDA Securities	1,683,029	1,683,029	1,612,013	1,612,013
Loans	3,363,595	3,334,417	3,138,932	3,193,248
Financial derivatives	7,318	7,318	19,718	19,718
Guarantee and commitment fees receivable:				
LTSPCs	31,621	28,038	33,807	27,244
Farmer Mac Guaranteed Securities	16,209	15,440	18,470	16,660
Financial liabilities:				
Notes payable:				
Due within one year	6,264,106	6,265,018	7,353,356	7,338,781
Due after one year	5,455,927	5,401,118	4,977,942	5,001,169
Securities sold, not yet purchased	1,673,532	1,673,532	—	—
Debt securities of consolidated trusts held by third parties	373,514	377,518	257,512	261,760
Financial derivatives	78,296	78,296	75,708	75,708
Guarantee and commitment obligations:				
LTSPCs	30,676	27,092	32,856	26,293
Farmer Mac Guaranteed Securities	13,180	12,411	15,185	13,374

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9. BUSINESS SEGMENT REPORTING

After an evaluation of Farmer Mac's overall portfolio of product offerings and reportable segments, Farmer Mac's management has determined that Farmer Mac's operations consist of four reportable operating segments effective January 1, 2014 – Farm & Ranch, USDA Guarantees, Rural Utilities, and Institutional Credit. The Institutional Credit segment comprises Farmer Mac's guarantees of AgVantage securities related to general obligations of lenders that are secured by pools of eligible loans. Prior to January 1, 2014, AgVantage securities were included under either the Farm & Ranch or Rural Utilities line of business, as applicable, depending on the type of loans pledged to secure the AgVantage securities. Because the AgVantage product is priced differently and has different credit characteristics than the loans that Farmer Mac purchases, are pooled in LTSPCs, or underlie non-AgVantage Farmer Mac Guaranteed Securities, Farmer Mac's management determined AgVantage securities should be reported in a separate business segment. All prior period information has been recast to reflect the breakout of the Institutional Credit segment from both the Farm & Ranch and Rural Utilities segments.

Farmer Mac uses these four segments to manage business risk, and each segment is based on distinct products and distinct business activities. In addition to these four operating segments, a corporate segment is presented. That segment represents activity in Farmer Mac's investment portfolio and other corporate activities. The segment financial results include directly attributable revenues and expenses. Corporate charges for administrative expenses that are not directly attributable to an operating segment are allocated based on headcount.

Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings is a useful alternative measure in understanding Farmer Mac's economic performance, transaction economics, and business trends. Core earnings principally differs from net income attributable to common stockholders by excluding the effects of fair value accounting guidance, which are not expected to have a cumulative net impact on financial condition or results of operations reported in accordance with GAAP if the related financial instruments are held to maturity, as is generally expected. Core earnings also differs from net income attributable to common stockholders by excluding specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of Farmer Mac's core business. This non-GAAP financial measure may not be comparable to similarly labeled non-GAAP financial measures disclosed by other companies. Farmer Mac's disclosure of this non-GAAP measure is intended to be supplemental in nature and is not meant to be considered in isolation from, as a substitute for, or as more important than, the related financial information prepared in accordance with GAAP.

The financial information presented below reflects the accounts of Farmer Mac and its subsidiaries on a consolidated basis. Accordingly, the core earnings for Farmer Mac's reportable operating segments will differ from the stand-alone financial statements of Farmer Mac's subsidiaries. These differences will be due to various factors, including the reversal of unrealized gains and losses related to fair value changes of trading assets and financial derivatives, as well as the allocation of certain expenses such as dividends and interest expense related to the issuance of capital and the incurrence of indebtedness managed at the corporate level. The allocation of general and administrative expenses that are not directly attributable to an operating segment may also result in differences. The assets of Farmer Mac's subsidiary Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. As of June 30, 2014, Farmer Mac II LLC held assets with a fair value of $1.7 billion, had debt outstanding of $383.0 million, had preferred stock outstanding

with a liquidation preference of $250.0 million, and had $1.0 billion of common stock outstanding held by Farmer Mac.

The following tables present core earnings for Farmer Mac's reportable operating segments and a reconciliation to consolidated net income for the three and six months ended June 30, 2014 and 2013:

Table 9.1

Core Earnings by Business Segment
For the Three Months Ended June 30, 2014

	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
	(in thousands)						
Interest income (1)	$19,598	$13,307	$6,782	$17,373	$5,185	$(470)	$61,775
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(513)	—	—	—	—	513	—
Interest expense (2)	(11,265)	(9,148)	(3,829)	(10,116)	(1,025)	(7,119)	(42,502)
Net effective spread	7,820	4,159	2,953	7,257	4,160	(7,076)	19,273
Guarantee and commitment fees	3,807	23	—	3,086	—	(513)	6,403
Other income/(expense) (3)	242	9	—	—	(603)	2,913	2,561
Non-interest income/(loss)	4,049	32	—	3,086	(603)	2,400	8,964
Release of allowance for loan losses	1,583	—	—	—	—	—	1,583
Release of reserve for losses	974	—	—	—	—	—	974
Other non-interest expense	(3,914)	(764)	(830)	(492)	(2,830)	—	(8,830)
Non-interest expense (4)	(2,940)	(764)	(830)	(492)	(2,830)	—	(7,856)
Core earnings before income taxes	10,512	3,427	2,123	9,851	727	(4,676)(5)	21,964
Income tax (expense)/benefit	(3,679)	(1,200)	(743)	(3,447)	13,803	1,634	6,368
Core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends	6,833	2,227	1,380	6,404	14,530	(3,042)(5)	28,332

Preferred stock dividends	—	—	—	—	(2,308)	—	(2,308)
Non-controlling interest - preferred stock dividends	—	—	—	—	(5,819)	—	(5,819)
Segment core earnings	$6,833	$2,227	$1,380	$6,404	$6,403	$(3,042) (5)	$20,205
Total assets at carrying value	$2,387,899	$1,721,003	$1,022,421	$5,115,147	$4,423,632	$—	$14,670,102
Total on- and off-balance sheet program assets at principal balance	5,310,664	1,710,335	1,012,313	6,039,230		—	14,072,542

(1) Includes reconciling adjustments for the amortization of premiums and discounts on assets consolidated at fair value to reflect core earnings amounts and interest income related to securities purchased under agreements to resell.

(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps not designated as hedges, which are included in "(Losses)/gains on financial derivatives and hedging activities" on the consolidated financial statements. Includes reconciling adjustments for interest expense related to securities sold, not yet purchased.

(3) Includes interest income and interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased, respectively; reconciling adjustments for the reclassification of expenses related to interest rate swaps not designated as hedges and fair value adjustments on financial derivatives and trading assets; and a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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Core Earnings by Business Segment
For the Three Months Ended June 30, 2013

	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
	(in thousands)						
Interest income (1)	$16,046	$13,157	$8,981	$19,329	$5,471	$(1,239)	$61,745
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(195)					195	—
Interest expense (2)	(7,623)	(8,649)	(5,925)	(13,352)	(1,177)	3,142	(33,584)
Net effective spread	8,228	4,508	3,056	5,977	4,294	2,098	28,161
Guarantee and commitment fees	3,703	42	—	3,209	—	(195)	6,759
Other income (3)	1,299	317	—	—	2,782	15,326	19,724
Non-interest income/(loss)	5,002	359	—	3,209	2,782	15,131	26,483
Release of allowance for loan losses	529	—	—	—	—	—	529
Release of reserve for losses	175					—	175
Other non-interest expense	(3,795)	(708)	(771)	(441)	(2,424)	—	(8,139)
Non-interest expense (4)	(3,620)	(708)	(771)	(441)	(2,424)	—	(7,964)
Core earnings before income taxes	10,139	4,159	2,285	8,745	4,652	17,229 (5)	47,209
Income tax (expense)/benefit	(3,549)	(1,456)	(800)	(3,061)	1,859	(6,029)	(13,036)
Core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends	6,590	2,703	1,485	5,684	6,511	11,200 (5)	34,173
Preferred stock dividends	—	—	—	—	(881)	—	(881)
Non-controlling interest - preferred stock dividends	—	—	—	—	(5,547)	—	(5,547)
Segment core earnings	$6,590	$2,703	$1,485	$5,684	$83	$11,200 (5)	$27,745
	$1,925,419	$1,659,134	$1,091,561	$5,083,860	$3,175,977	$—	$12,935,951

Total assets at carrying value						
Total on- and off-balance sheet program assets at principal balance	4,917,489	1,667,170	1,049,920	5,960,939	—	13,595,518

(1) Includes reconciling adjustments for the amortization of premiums and discounts on assets consolidated at fair value to reflect core earnings amounts.

(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps not designated as hedges, which are included in "(Losses)/gains on financial derivatives and hedging activities" on the consolidated financial statements.

(3) Includes reconciling adjustments for the reclassification of expenses related to interest rate swaps not designated as hedges and fair value adjustments on financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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Core Earnings by Business Segment
For the Six Months Ended June 30, 2014

	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
	(in thousands)						
Interest income (1)	$37,936	$26,266	$14,525	$35,021	$10,420	$(12,675)	$111,493
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(1,044)	—	—	—	—	1,044	—
Interest expense (2)	(21,958)	(18,323)	(9,582)	(21,092)	(2,118)	(4,155)	(77,228)
Net effective spread	14,934	7,943	4,943	13,929	8,302	(15,786)	34,265
Guarantee and commitment fees	7,716	49	—	6,200	—	(1,044)	12,921
Other income/(expense) (3)	373	36	—	—	(1,174)	(3,493)	(4,258)
Non-interest income/(loss)	8,089	85	—	6,200	(1,174)	(4,537)	8,663
Release of allowance for loan losses	1,010	—	—	—	—	—	1,010
Release of reserve for losses	873	—	—	—	—	—	873
Other non-interest expense	(7,466)	(1,495)	(1,607)	(937)	(5,171)	—	(16,676)
Non-interest expense (4)	(6,593)	(1,495)	(1,607)	(937)	(5,171)	—	(15,803)
Core earnings before income taxes	17,440	6,533	3,336	19,192	1,957	(20,323) (5)	28,135
Income tax (expense)/benefit	(6,103)	(2,288)	(1,168)	(6,717)	16,676	7,109	7,509
Core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends	11,337	4,245	2,168	12,475	18,633	(13,214) (5)	35,644
Preferred stock dividends	—	—	—	—	(3,260)	—	(3,260)
Non-controlling interest - preferred stock dividends	—	—	—	—	(11,366)	—	(11,366)
	$11,337	$4,245	$2,168	$12,475	$4,007	$(13,214) (5)	$21,018

Segment core earnings							
Total assets at carrying value	$2,387,899	$1,721,003	$1,022,421	$5,115,147	$4,423,632	$—	$14,670,102
Total on- and off-balance sheet program assets at principal balance	5,310,664	1,710,335	1,012,313	6,039,230		—	14,072,542

(1) Includes reconciling adjustments for the amortization of premiums and discounts on assets consolidated at fair value to reflect core earnings amounts and interest income related to securities purchased under agreements to resell.

(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps not designated as hedges, which are included in "(Losses)/gains on financial derivatives and hedging activities" on the consolidated financial statements. Includes reconciling adjustments for interest expense related to securities sold, not yet purchased.

(3) Includes interest income and interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased, respectively; reconciling adjustments for the reclassification of expenses related to interest rate swaps not designated as hedges and fair value adjustments on financial derivatives and trading assets; and a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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Core Earnings by Business Segment
For the Six Months Ended June 30, 2013

	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments		Consolidated Net Income
	(in thousands)							
Interest income (1)	$31,462	$26,498	$17,970	$38,627	$11,205	$(2,519)		$123,243
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(375)	—	—	—	—	375		—
Interest expense (2)	(14,776)	(17,296)	(11,731)	(26,787)	(2,471)	6,349		(66,712)
Net effective spread	16,311	9,202	6,239	11,840	8,734	4,205		56,531
Guarantee and commitment fees	7,374	75	948	5,349	—	(375)		13,371
Other income/(expense) (3)	1,894	517	—	—	2,220	20,926		25,557
Non-interest income/(loss)	9,268	592	948	5,349	2,220	20,551		38,928
Release of allowance for loan losses	99	—	—	—	—	—		99
Provision for losses	(571)	—	—	—	—	—		(571)
Other non-interest expense	(7,599)	(1,457)	(1,573)	(900)	(4,945)	—		(16,474)
Non-interest expense (4)	(8,170)	(1,457)	(1,573)	(900)	(4,945)	—		(17,045)
Core earnings before income taxes	17,508	8,337	5,614	16,289	6,009	24,756	(5)	78,513
Income tax (expense)/benefit	(6,128)	(2,918)	(1,965)	(5,701)	3,624	(8,664)		(21,752)
Core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends	11,380	5,419	3,649	10,588	9,633	16,092	(5)	56,761
Preferred stock dividends	—	—	—	—	(1,732)	—		(1,732)
Non-controlling interest - preferred stock dividends	—	—	—	—	(11,094)	—		(11,094)
Segment core earnings/(losses)	$11,380	$5,419	$3,649	$10,588	$(3,193)	$16,092	(5)	$43,935
	$1,925,419	$1,659,134	$1,091,561	$5,083,860	$3,175,977	$—		$12,935,951

Total assets at carrying value						
Total on- and off-balance sheet program assets at principal balance	4,917,489	1,667,170	1,049,920	5,960,939	—	13,595,518

(1) Includes reconciling adjustments for the amortization of premiums and discounts on assets consolidated at fair value to reflect core earnings amounts.

(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps not designated as hedges, which are included in "(Losses)/gains on financial derivatives and hedging activities" on the consolidated financial statements.

(3) Includes reconciling adjustments for the reclassification of expenses related to interest rate swaps not designated as hedges and fair value adjustments on financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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

Financial information included in this report is consolidated to include the accounts of Farmer Mac and its two subsidiaries – Farmer Mac Mortgage Securities Corporation and Farmer Mac II LLC. Farmer Mac II LLC is a Delaware limited liability company that operates substantially all of Farmer Mac's USDA Guarantees line of business – primarily the acquisition of USDA Securities. The business operations of Farmer Mac II LLC began in January 2010. Since then, Farmer Mac has operated only that part of the USDA Guarantees line of business that involves the issuance of Farmer Mac Guaranteed Securities backed by USDA Securities to investors other than Farmer Mac or Farmer Mac II LLC. Although Farmer Mac II LLC may issue securities in these transactions, Farmer Mac II LLC does not guarantee any USDA Securities it holds or any Farmer Mac Guaranteed Securities issued by Farmer Mac or Farmer Mac II LLC.

This discussion and analysis of financial condition and results of operations should be read together with: (1) the interim unaudited consolidated financial statements and the related notes that appear elsewhere in this report; and (2) Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 13, 2014, except for Items 1, 7, and 8, which have been amended by Farmer Mac's Current Report on Form 8-K filed on June 6, 2014 (the "Segment Recast 8-K").

FORWARD-LOOKING STATEMENTS

Some statements made in this report, and in particular in this Management's Discussion & Analysis of Financial Condition and Results of Operations, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 pertaining to management's current expectations as to Farmer Mac's future financial results, business prospects, and business developments. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements. These statements typically are accompanied by, and identified with, terms such as "anticipates," "believes," "expects," "intends," "should," and similar phrases. The following management's discussion and analysis includes forward-looking statements addressing Farmer Mac's:

- prospects for earnings;
- prospects for growth in business volume;
- trends in net interest income and net effective spread;
- trends in portfolio credit quality, delinquencies, and provisions for losses;
- trends in expenses;
- trends in investment securities;
- prospects for asset impairments and allowance for losses;
- changes in capital position; and
- other business and financial matters.

Management's expectations for Farmer Mac's future necessarily involve a number of assumptions and estimates and the evaluation of risks and uncertainties. Various factors or events could cause Farmer Mac's actual results to differ materially from the expectations as expressed or implied by the forward-looking statements, including the factors discussed under "Risk Factors" in Part I, Item 1A of Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on

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March 13, 2014 and in Part II, Item 1A of Farmer Mac's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 filed with the SEC on May 12, 2014, and uncertainties regarding:

- the availability to Farmer Mac and Farmer Mac II LLC of debt and equity financing and, if available, the reasonableness of rates and terms;
- legislative or regulatory developments that could affect Farmer Mac or its sources of business, including but not limited to developments related to the implementation of agricultural policies and programs resulting from the recently enacted Agricultural Act of 2014 (referred to as the 2014 Farm Bill), including the elimination of direct payments to agricultural producers by the USDA and increased federal subsidies for enhanced crop insurance programs;
- fluctuations in the fair value of assets held by Farmer Mac and Farmer Mac II LLC;
- the rate and direction of development of the secondary market for agricultural mortgage and rural utilities loans, including lender interest in Farmer Mac credit products and the secondary market provided by Farmer Mac;
- the general rate of growth in agricultural mortgage and rural utilities indebtedness;
- the impact of economic conditions, including the effects of drought and other weather-related conditions and fluctuations in agricultural real estate values, on agricultural mortgage lending and borrower repayment capacity;
- developments in the financial markets, including possible investor, analyst, and rating agency reactions to events involving government-sponsored enterprises, including Farmer Mac;
- changes in the level and direction of interest rates, which could, among other things, affect the value of collateral securing Farmer Mac's agricultural mortgage loan assets; and
- volatility in commodity prices relative to costs of production and/or export demand for U.S. agricultural products.

In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this report. Furthermore, Farmer Mac undertakes no obligation to release publicly the results of revisions to any forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the U.S. Securities and Exchange Commission (the "SEC"). The discussion below is not necessarily indicative of future results.

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Critical Accounting Policies and Estimates

The preparation of Farmer Mac's consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. Actual results could differ from those estimates. The critical accounting policies that are both important to the portrayal of Farmer Mac's financial condition and results of operations and require complex, subjective judgments are the accounting policies for: (1) the allowance for losses, (2) fair value measurement, and (3) other-than-temporary impairment. For a discussion of these critical accounting policies and the related use of estimates and assumptions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in the Segment Recast 8-K.

Overview

During second quarter 2014, Farmer Mac's net effective spread improved $2.6 million compared to first quarter 2014. Farmer Mac's credit performance metrics also improved during the quarter, resulting in a $2.6 million release from Farmer Mac's total allowance for losses primarily due to a declining balance in its ethanol portfolio. Farmer Mac also introduced a cash management and liquidity initiative during second quarter 2014 to position itself for eligibility to participate in the the Federal Reserve's reverse repurchase facility. That initiative resulted in Farmer Mac significantly increasing the size of its investments in repurchase agreements (repos) during the quarter and an $11.6 million tax benefit from capital loss carryforwards that previously had a full valuation allowance against them. For more information about this cash management and liquidity initiative and its effect on interest expense, unrealized trading gains, and tax benefits, see "—Cash Management and Liquidity Initiative."

Net Income and Core Earnings

Farmer Mac's net income attributable to common stockholders for second quarter 2014 was $20.2 million, compared to $27.7 million for second quarter 2013. The decrease compared to the previous year quarter was mostly attributable to the effects of unrealized fair value changes on financial derivatives and hedged assets, which was a $3.1 million after-tax loss in second quarter 2014, compared to a $11.0 million after-tax gain in second quarter 2013. Also contributing to the decrease were smaller gains on sales of investment securities of $2.9 million (offset by capital loss carryforwards), an increase in preferred stock dividend payments of $1.4 million, increases in operating expenses of $0.6 million after-tax, and smaller gains on sales of REO of $0.6 million after-tax. The higher preferred stock dividend payments primarily related to the issuance of Series B preferred stock during first quarter 2014. The decrease was offset in part by federal income tax benefits of $11.6 million (related to the cash management and liquidity initiative established in second quarter 2014) and $1.2 million after-tax in releases from the allowance for losses. Farmer Mac's non-GAAP core earnings for second quarter 2014 were $23.2 million, compared to $16.5 million in second quarter 2013 and $11.0 million in first quarter 2014. The increase in core earnings compared to second quarter 2013 was primarily attributable to the aforementioned tax benefits and releases from the allowance for losses, as well as an increase in net effective spread of $0.2 million after-tax. The increase was offset in part by the aforementioned smaller gains on sales of investment securities, an increase in preferred stock dividend payments, increases in operating expenses, and smaller gains on sales of REO. The increase in core earnings compared to first quarter 2014 was primarily attributable to the same tax benefits mentioned above (net increase of $10.7 million), releases from the allowance for losses of $2.1 million after-tax, and an increase in net effective spread of $1.7 million after-tax. The

increase in core earnings was partially offset by the increase in preferred stock dividend payments of $1.4 million and increases in operating expenses of $0.6 million after-tax. For more information about Farmer Mac's use of core earnings, a non-GAAP measure, see "—Results of Operations."

Farmer Mac's net effective spread was $26.3 million (84 basis points) in second quarter 2014, compared to $26.1 million (87 basis points) in second quarter 2013 and $23.7 million (75 basis points) in first quarter 2014. The decrease in net effective spread in basis points compared to second quarter 2013 was primarily attributable to repayments during the second half of 2013 and the first half of 2014 of Farm & Ranch loans that had higher historical spreads than the remaining loans in the portfolio. The increase in net effective spread compared to first quarter 2014 was due to the expiration of legacy funding related to early refinancing of AgVantage securities and the recasting of certain Rural Utilities loans in first quarter 2014, an increase in spreads on recently refinanced assets, seasonally lower loan repayments typical for the second quarter of the year, and net growth in Farm & Ranch loans.

Business Volume

Farmer Mac added $590.2 million of new business volume during second quarter 2014. The new business volume included purchases of AgVantage securities in an aggregate amount of $300.8 million and Farm & Ranch loan purchases of $159.1 million. Taking into account maturities and paydowns on existing assets, Farmer Mac's outstanding business volume was $14.1 billion as of June 30, 2014, a decrease of $35.7 million from March 31, 2014 (attributable to maturities of AgVantage securities during second quarter 2014 in excess of AgVantage new business and refinancings), an increase of $122.2 million from December 31, 2013, and an increase of $477.0 million compared to June 30, 2013.

Capital

Farmer Mac strengthened its capital position through the issuance of $75.0 million of fixed-to-floating rate, non-cumulative perpetual preferred stock (the "Series C Preferred Stock") during second quarter 2014, adding to the issuance of $75.0 million of fixed-rate, non-cumulative perpetual preferred stock (the "Series B Preferred Stock") during first quarter 2014. In second quarter 2014, Farmer Mac purchased $6.0 million of FALConS from certain holders. As of June 30, 2014, Farmer Mac's core capital level was $750.3 million, $317.7 million above the minimum capital requirement. As of December 31, 2013, Farmer Mac's core capital level was $590.7 million, which was $192.2 million above the minimum capital requirement. As a result of the enhancement of Farmer Mac's Tier 1 capital position through issuances of the Series B Preferred Stock and the Series C Preferred Stock, Farmer Mac II LLC intends to redeem all $250.0 million of the outstanding Farmer Mac II LLC Preferred Stock, which does not constitute a Tier 1 capital-eligible security, on March 30, 2015, the initial redemption date, with the proceeds of the recent preferred stock offerings and cash on hand. Farmer Mac does not currently anticipate that any further issuance of preferred stock will be needed to fund the planned redemption of the Farmer Mac II LLC Preferred Stock.

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Credit Quality

Farmer Mac continues to maintain very favorable credit metrics. During second quarter 2014, Farmer Mac reduced its allowance for losses by $2.6 million, primarily related to a significant decrease in the balance of its ethanol portfolio due to loan maturities and prepayments. As of June 30, 2014, Farmer Mac's 90-day delinquencies were $25.9 million (0.49 percent of the Farm & Ranch portfolio), down from $28.3 million (0.55 percent of the Farm & Ranch portfolio) as of December 31, 2013, and $33.9 million (0.69 percent of the Farm & Ranch portfolio) as of June 30, 2013.

Cash Management and Liquidity Initiative

Farmer Mac introduced a cash management and liquidity initiative in second quarter 2014 to diversify its short term investment alternatives and potentially position itself for eligibility to participate in the Federal Reserve's reverse repurchase facility. This initiative involved establishing a significant term repurchase agreement ("repo") investment, as well as an associated financing liability. As of June 30, 2014, this resulted in $1.6 billion of term repo assets, presented as “securities purchased under agreements to resell,” and $1.7 billion of related liabilities, presented as “securities sold, not yet purchased” in Farmer Mac’s balance sheet. The initiative also produced an $11.6 million tax benefit (from capital loss carryforwards that previously had a full valuation allowance against them), recorded as a reduction to income tax expense, as well as interest expense and fair value gains associated with the securities sold, not yet purchased financing in Farmer Mac's income statement.

Farmer Mac is authorized to hold certain types of investments for the purposes of complying with liquidity requirements, risk management, and managing surplus short-term funds, among other things. Farmer Mac must maintain at all times a liquidity reserve sufficient to fund at least 90 days of the principal portion of maturing obligations and other borrowings. The first 15 days of liquidity of those 90 days must be covered by “Level 1” instruments that may consist of cash, overnight money market instruments (including repurchase agreements secured exclusively by other Level 1 instruments), and other high-quality short term investments. Accordingly, Farmer Mac typically maintains significant balances of cash and cash equivalents and historically has invested in government and prime money market funds as a way to hold portions of its cash equivalents in a cost-effective manner that would reduce the financing expense of its short-term investments.

Over the past several years, the SEC has been considering the reform of the regulations that govern money market mutual funds. Some of these proposed reforms caused Farmer Mac to evaluate whether money market funds should remain one of Farmer Mac's preferred alternatives for short-term investments. Specifically, in June 2013 the SEC proposed amendments to money market fund regulations to require institutional prime money market funds to mark their shares to fair value each day and operate with a floating net asset value (NAV) and to require non-government money market funds to adopt liquidity fees and temporary suspensions of redemptions, known as “gates,” to reduce redemptions in times of stress in the financial markets. At that time, Farmer Mac determined that if those amendments were adopted as proposed, Farmer Mac's decision to continue to invest in institutional prime money market funds and non-government money market funds would likely change because such funds would no longer serve as one of its best short-term investment alternatives. Farmer Mac therefore sought to diversify its short-term investment alternatives, recognizing that a floating NAV could raise significant operational implications and the potential daily fluctuation in value and that the imposition of the proposed liquidity fees and gates could adversely affect liquidity at the time it was most needed. In July 2014, the SEC approved amendments to money market fund regulations that were substantially similar to the money market

regulations proposed in June 2013, and money market funds will be required to comply with these new rules within two years after the effective date of the rules. Consequently, Farmer Mac has concluded that institutional prime money market funds and certain non-government money market funds will no longer be one of its best short-term investment alternatives and, as a result, is continuing to seek to diversify its short-term investment alternatives. In particular, Farmer Mac expects that direct investments in repurchase agreements, a form of collateralized lending, will be a central and growing component of its short-term investment strategy.

In a repo, an entity sells a high quality asset such as a U.S. Treasury security from its portfolio to a counterparty such as Farmer Mac and simultaneously makes a commitment to repurchase that same asset at a specified price at a specific time in the future. The effective result of this is that the counterparty, Farmer Mac in this case, is lending money to the first entity and is secured by the asset that is sold. Repos are generally considered one of the safest and most liquid investment products, which is why they are categorized as a “Level 1” instrument for purposes of Farmer Mac’s liquidity regulations.

If short-term interest rates increase as many expect, cost-effective alternative short-term investments to certain government and prime money market funds, such as repos, will become even more important to Farmer Mac. In consideration of the expected future importance to Farmer Mac of repo transactions, Farmer Mac enhanced its repo investment capabilities during late 2013 and early 2014 and built the necessary operational and process control infrastructure to support these capabilities. Once this was accomplished, starting in second quarter 2014, Farmer Mac decided to significantly increase the size of its repo investment activity as part of a strategy to better position itself to apply for acceptance to participate in the fixed-rate, full-allotment overnight reverse repurchase facility (the “RRP Facility”) of the Federal Reserve Bank of New York, if and when the Federal Reserve invites new applicants. Approved participants in the RRP Facility are eligible to make short-term loans to the Federal Reserve on a secured basis by entering into repo transactions with the Federal Reserve’s trading desk secured by U.S. Treasury securities. Farmer Mac believes that participation in the RRP Facility would provide Farmer Mac with key benefits including:

- diversifying Farmer Mac’s short-term investment alternatives by providing a cost-effective alternative to other sources of short-term investments that can be utilized in significant size and that is likely to be available even in times of stress in the financial markets; and
- reducing Farmer Mac’s counterparty risk compared to the typical commercial counterparty risk inherent in similar transactions with non-governmental entities.

Although the Federal Reserve is not currently accepting applications for the RRP Facility, government-sponsored enterprises (GSEs) like Farmer Mac are eligible participants for the RRP Facility, and the Federal Reserve has previously accepted other GSEs to participate. However, the Federal Reserve limits the total number of participants in the RRP Facility, so the application process for eligibility to participate in the facility has been competitive. The Federal Reserve’s prior eligibility criteria for GSE applicants to the RRP Facility included requirements for maintaining a minimum amount of outstanding repo agreements of $1 billion or more for the three months preceding the application date. Farmer Mac believes that the eligibility requirements could become more stringent with the next round of applications given the competition for the limited amount of remaining counterparty positions available for the RRP Facility, and there is no assurance that the Federal Reserve will approve an applicant that has satisfied any stated minimum eligibility requirements.

To increase the likelihood that Farmer Mac would be in a position to meet or exceed all of the eligibility requirements if the Federal Reserve decides to accept new applications for the RRP facility, Farmer Mac determined that it needed to significantly expand the amount of its repo agreements outstanding. Farmer Mac concluded that it would be advisable to have significantly more than $1 billion of repo agreements outstanding to be competitive in the expected future RRP Facility application process, which will require Farmer Mac to distinguish itself as a significant participant in the repo market and satisfy any other minimum eligibility requirements prescribed by the Federal Reserve.

In furtherance of this strategy, Farmer Mac increased the size of its repo investment activity to $1.6 billion during second quarter 2014. The increased repo investments were executed in a series of smaller transactions with terms ranging from overnight to up to 90 days and primarily financed by immediately selling the securities delivered as collateral under the terms of the repo investments. Those securities, which are effectively “borrowed” and must be returned to the counterparty on the maturity date of the repo transaction upon payment of the negotiated repurchase amount, are high-coupon, premium-priced U.S. Treasury securities with approximately twelve to twenty-four months remaining to maturity. The cash proceeds from the sale of those securities effectively funds Farmer Mac’s investment in the related repo investment. Funding of the repo investments through the sale of the borrowed collateral provides a flexible financing source that can be unwound at any time by covering the position, as opposed to debt financing that would remain outstanding for its full term. Farmer Mac intends to reinvest these term repos as they mature throughout 2014 and maintain the related financing position for most of 2014 to further enhance its position to apply to the RRP Facility. To maximize cash liquidity across the end of fourth quarter 2014, Farmer Mac expects to close these term repo positions as they mature throughout fourth quarter 2014 by purchasing the U.S. Treasury securities sold, not yet purchased in the open market and delivering them to the repo counterparties, which will also liquidate the related liability. Farmer Mac will then evaluate the amount of repo investment activity it believes is appropriate going forward in 2015.

During the term of the repo investments, Farmer Mac is obligated to remit substitute interest payments in connection with the borrowed U.S. Treasury securities to the counterparties of the repo transactions. Before closing out these positions, Farmer Mac will carry its liability for the securities sold, not yet purchased at fair value, with changes in fair value being included in earnings. As Farmer Mac closes out the positions of the securities sold, not yet purchased in fourth quarter 2014, it expects to recognize capital gains for federal income tax purposes based on the difference between the sales and purchase prices of the U.S. Treasury securities. Farmer Mac expects to recognize capital gains on these positions because all of the Treasury securities that are being sold are currently trading at a premium to their face amount as they bear an above-market coupon. This premium price is expected to decrease closer to par by the time Farmer Mac purchases and closes the securities sold, not yet purchased position, as interest coupons are paid on the securities and the maturity dates get closer. Consequently, Farmer Mac expects to cover its positions for less than the proceeds that it received when it sold the original securities to finance the transaction. On a pre-tax basis, Farmer Mac expects that the financing cost of this strategy will exceed the capital gains recognized for income tax purposes. However, on an after-tax basis, Farmer Mac expects to realize a significant net tax benefit associated with this strategy in 2014 because Farmer Mac has capital loss carryforwards that can be applied to offset the expected capital gains.

For both the three and six months ended June 30, 2014, Farmer Mac incurred a total of $7.8 million in interest expense related to the financing costs of this strategy. For both the three and six months ended June 30, 2014, Farmer Mac recognized unrealized gains of $7.8 million from the securities sold, not yet purchased. As of June 30, 2014, Farmer Mac recognized an $11.6 million tax benefit by reducing its valuation allowance against its deferred tax asset related to capital loss carryforwards.

Farmer Mac estimates that the full-year, net economic benefit of the cash management and liquidity strategy described above will be approximately $8 million to $9 million in 2014, after netting the related incremental after-tax net financing costs over the term of this transaction with the tax benefit recognized in second quarter 2014. Farmer Mac estimates that the incremental after-tax financing expenses that will be incurred in the second half of 2014 related to this strategy will be $2 million. All of the estimates related to this strategy assume that interest rates remain constant. The interest expense, unrealized fair value changes, and the tax benefits of this strategy are included as part of core earnings, just as the investment portfolio losses that generated the related capital loss carryforwards were included in core earnings when the losses occurred in 2008 and 2009. The interest expense is excluded from net effective spread because the associated benefit is not similarly recorded in net effective spread, but rather through tax benefits.

Segment Reporting

After an evaluation of Farmer Mac's overall portfolio of product offerings and reportable segments, Farmer Mac's management determined that Farmer Mac's operations consist of four reportable operating segments effective January 1, 2014 – Farm & Ranch, USDA Guarantees, Rural Utilities, and Institutional Credit.

The Institutional Credit segment comprises Farmer Mac's guarantees of AgVantage securities related to general obligations of lenders that are secured by pools of eligible loans. Prior to January 1, 2014, AgVantage securities were included under either the Farm & Ranch or Rural Utilities line of business, as applicable, depending on the type of loans pledged to secure the AgVantage securities. Because the AgVantage product is priced differently and has different credit characteristics than the loans that Farmer Mac purchases or that underlie LTSPCs or non-AgVantage Farmer Mac Guaranteed Securities, Farmer Mac's management determined that AgVantage securities should be reported in a separate business segment. All prior period information has been recast to reflect the breakout of the Institutional Credit segment from both the Farm & Ranch and Rural Utilities segments. For more information on the change in Farmer Mac's reportable business segments, see Note 9 to the consolidated financial statements.

Results of Operations

Farmer Mac's net income attributable to common stockholders for second quarter 2014 was $20.2 million, or $1.78 per diluted common share, compared to $27.7 million, or $2.48 per diluted common share for second quarter 2013. For the six months ended June 30, 2014, Farmer Mac's net income attributable to common stockholders was $21.0 million, or $1.85 per diluted common share, compared to $43.9 million, or $3.93 per diluted common share, for the six months ended June 30, 2013. Farmer Mac's non-GAAP core earnings were $23.2 million, or $2.05 per diluted share, for the three months ended June 30, 2014, compared to $16.5 million, or $1.48 per diluted share, for the same period in 2013. Farmer Mac's non-GAAP core earnings were $34.2 million, or $3.02 per diluted share, for the six months ended June 30, 2014, compared to $27.8 million, or $2.49 per diluted share, for the same period in 2013.

Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings is a useful alternative measure in understanding Farmer Mac's economic performance, transaction economics, and business trends. Core earnings principally differs from net income attributable to common stockholders by excluding the effects of fair value accounting guidance, which are not expected to have a cumulative net impact on financial condition or results of operations reported in accordance with GAAP if the related financial instruments are held to

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maturity, as is generally expected. Core earnings also differs from net income attributable to common stockholders by excluding specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of Farmer Mac's core business. This non-GAAP financial measure may not be comparable to similarly labeled non-GAAP financial measures disclosed by other companies. Farmer Mac's disclosure of this non-GAAP measure is intended to be supplemental in nature, and is not meant to be considered in isolation from, as a substitute for, or as more important than, the related financial information prepared in accordance with GAAP.
A reconciliation of Farmer Mac's net income attributable to common stockholders to core earnings is presented in the following table:

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Table 1
Reconciliation of Net Income Attributable to Common Stockholders to Core Earnings

	For the Three Months Ended	
	June 30, 2014	June 30, 2013
	(in thousands, except per share amounts)	
Net income attributable to common stockholders	$ 20,205	$ 27,745
Less the after-tax effects of:		
Unrealized (losses)/gains on financial derivatives and hedging activities	(3,053)	11,021
Unrealized trading losses (1)	(46)	(212)
Amortization of premiums/discounts and deferred gains on assets consolidated at fair value	(179)	(564)
Net effects of settlements on agency forward contracts	236	955
Sub-total	(3,042)	11,200
Core earnings	$ 23,247	$ 16,545
Composition of Core Earnings:		
Revenues:		
Net effective spread	$ 26,349	$ 26,063
Guarantee and commitment fees	6,916	6,954
Other (2)	(520)	3,274
Total revenues	32,745	36,291
Credit related expenses:		
Release of losses	(2,557)	(704)
REO operating expenses	59	259
Gains on sale of REO	(168)	(1,124)
Total credit related income	(2,666)	(1,569)
Operating expenses:		
Compensation and employee benefits	4,889	4,571
General and administrative	3,288	2,715
Regulatory fees	594	594
Total operating expenses	8,771	7,880
Net earnings	26,640	29,980
Income tax (benefit)/expense (3)	(4,734)	7,007
Non-controlling interest	5,819	5,547
Preferred stock dividends	2,308	881
Core earnings	$ 23,247	$ 16,545
Core earnings per share:		
Basic	$ 2.13	$ 1.53
Diluted	2.05	1.48
Weighted-average shares:		
Basic	10,924	10,815
Diluted	11,361	11,198

(1) Excludes unrealized gains related to securities sold, not yet purchased of $7.8 million during the three months ended June 30, 2014.

(2)

Includes $7.8 million of interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased and $7.8 million of unrealized gains on securities sold, not yet purchased during the three months ended June 30, 2014. Includes $3.1 million of realized gains from the sale of an available-for-sale investment security during the three months ended June 30, 2013.

(3) Includes the reduction of $11.6 million of tax valuation allowance against capital loss carryforwards related to expected capital gains on securities sold, not yet purchased during the three months ended June 30, 2014. Includes the reduction of $1.1 million of tax valuation allowance against capital loss carryforwards related to realized gains from the sale of an available-for-sale investment security during the three months ended June 30, 2013.

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Reconciliation of Net Income Attributable to Common Stockholders to Core Earnings

	For the Six Months Ended	
	June 30, 2014	June 30, 2013
	(in thousands, except per share amounts)	
Net income attributable to common stockholders	$ 21,018	$ 43,935
Less the after-tax effects of:		
Unrealized (losses)/gains on financial derivatives and hedging activities	(5,448)	16,733
Unrealized trading gains/(losses) (1)	380	(76)
Amortization of premiums/discounts and deferred gains on assets consolidated at fair value (2)	(8,206)	(1,182)
Net effects of settlements on agency forward contracts	60	617
Sub-total	(13,214)	16,092
Core earnings	$ 34,232	$ 27,843
Composition of Core Earnings:		
Revenues:		
Net effective spread	$ 50,051	$ 52,326
Guarantee and commitment fees	13,965	13,746
Other (3)	(930)	3,460
Total revenues	63,086	69,532
Credit related expenses:		
(Release of)/provision for losses	(1,883)	472
REO operating expenses	61	385
Gains on sale of REO	(165)	(1,171)
Total credit related income	(1,987)	(314)
Operating expenses:		
Compensation and employee benefits	9,345	9,269
General and administrative	6,082	5,632
Regulatory fees	1,188	1,188
Total operating expenses	16,615	16,089
Net earnings	48,458	53,757
Income tax (benefit)/expense (4)	(400)	13,088
Non-controlling interest	11,366	11,094
Preferred stock dividends	3,260	1,732
Core earnings	$ 34,232	$ 27,843
Core earnings per share:		
Basic	$ 3.14	$ 2.58
Diluted	3.02	2.49
Weighted-average shares:		
Basic	10,906	10,776
Diluted	11,354	11,179

(1) Excludes unrealized gains related to securities sold, not yet purchased of $7.8 million during the six months ended June 30, 2014.

(2) Includes $7.5 million related to the acceleration of premium amortization in first quarter 2014 due to significant refinancing activity in the Rural Utilities line of business.

(3) Includes $7.8 million of interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased and $7.8 million of unrealized gains on securities sold, not yet purchased during the six months ended June 30, 2014. Includes $3.1 million of realized gains from the sale of an available-for-sale investment security during the six months ended June 30, 2013.

(4) Includes the reduction of $11.6 million of tax valuation allowance against capital loss carryforwards related to expected capital gains on securities sold, not yet purchased during the six months ended June 30, 2014. Includes the reduction of $1.1 million of tax valuation allowance against capital loss carryforwards related to realized gains from the sale of an available-for-sale investment security during the six months ended June 30, 2013.

The following sections provide more detail regarding specific components of Farmer Mac's results of operations.

Net Interest Income. Net interest income for the three and six months ended June 30, 2014 was $19.3 million and $34.3 million, respectively, compared to $28.2 million and $56.5 million, respectively, for the same periods during 2013. The decrease in net interest income in the first six months of 2014 compared to the first six months of 2013 was primarily attributable to the acceleration of amortization of $11.6 million in premiums associated with the recasting of certain Rural Utilities loans and $1.3 million of legacy financing costs associated with both the early refinancing of AgVantage securities and the recasting of certain Rural Utilities loans in first quarter 2014, interest expense of $7.8 million associated with securities purchased under agreements to resell and securities sold, not yet purchased (related to Farmer Mac's cash management and liquidity initiative as described under "—Cash Management and Liquidity Initiative"), as well as compression of asset spreads as compared to the first half of 2013. The legacy financing that was in place for the assets mentioned above expired at the end of first quarter 2014 and therefore the impact on net interest income from this extra financing cost and the premium amortization acceleration will not affect periods beyond first quarter 2014. The overall net interest yield was 52 basis points (81 basis points excluding the acceleration of amortization of premiums associated with refinanced AgVantage securities and the recast of certain Rural Utilities loans, and the interest expense associated with securities purchased under agreements to resell and securities sold, not yet purchased) for the six months ended June 30, 2014, compared to 94 basis points for the six months ended June 30, 2013.

The following table provides information regarding interest-earning assets and funding for the six months ended June 30, 2014 and 2013. The average balance of non-accruing loans is included in the average balance of loans, Farmer Mac Guaranteed Securities, and USDA Securities presented, though the related income is accounted for on a cash basis. Therefore, as the average balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly. The average balance of loans in consolidated trusts with beneficial interests owned by third parties is disclosed in the net effect of consolidated trusts and is not included in the average balances of interest-earning assets and interest-bearing liabilities. The interest income and expense associated with these trusts are shown in the net effect of consolidated trusts. The lower average rate earned on cash and investments reflects a higher average balance due to positions in securities purchased under agreements to resell entered into in second quarter 2014 as part of Farmer Mac's recently established cash management and liquidity initiative and lower short-term market rates during the first six months of 2014 compared to the first six months of 2013. The lower average rate on loans, Farmer Mac Guaranteed Securities, and USDA Securities during the first half of 2014 is due to the decline in market rates reflected in the rates on loans acquired or reset during the past year and the acceleration of amortization in premiums associated with certain Rural Utilities loans. The lower average rate on notes payable within one year is consistent with general trends in average short-term rates during the period presented. The downward trend in the average rate on notes payable due after one year reflects the retirement of older debt and the issuance of new debt at lower market rates. The upward trend in other-interest bearing liabilities represents positions in securities sold, not yet purchased entered into in second quarter 2014. For further information about Farmer Mac's cash management and liquidity initiative and securities purchased under agreements to resell and securities sold not yet purchased, see "—Cash Management and Liquidity Initiative."

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Table 2

	For the Six Months Ended							
	June 30, 2014				June 30, 2013			
	Average Balance	Income/ Expense	Average Rate		Average Balance	Income/ Expense	Average Rate	
	(dollars in thousands)							
Interest-earning assets:								
Cash and investments (1)	$3,290,497	$10,338	0.63	%	$2,810,275	$11,205	0.80	%
Loans, Farmer Mac Guaranteed Securities and USDA Securities (2)	9,693,192	94,854	1.96	%	9,036,250	108,229	2.40	%
Total interest-earning assets	12,983,689	105,192	1.62	%	11,846,525	119,434	2.02	%
Funding:								
Notes payable due within one year	4,727,444	3,697	0.16	%	4,478,091	4,182	0.19	%
Notes payable due after one year (3)	7,285,762	60,531	1.66	%	6,875,011	59,096	1.72	%
Other interest-bearing liabilities (4)	368,034	7,743	4.21	%	—	—	—	%
Total interest-bearing liabilities (5)	12,381,240	71,971	1.16	%	11,353,102	63,278	1.11	%
Net non-interest-bearing funding	602,449	—			493,423	—		
Total funding	12,983,689	71,971	1.11	%	11,846,525	63,278	1.07	%
Net interest income/yield prior to consolidation of certain trusts	12,983,689	33,221	0.51	%	11,846,525	56,156	0.95	%
Net effect of consolidated trusts (6)	318,883	1,044	0.66	%	163,131	375	0.46	%
Adjusted net interest income/yield	$13,302,572	$34,265	0.52	%	$12,009,656	$56,531	0.94	%

(1) Average balance includes $371.7 million of securities purchased under agreements to resell in 2014. Includes $0.1 million of interest expense related to securities purchased under agreements to resell in 2014.

(2) Included $11.6 million related to the acceleration of premium amortization in first quarter 2014 due to significant refinancing activity in the Rural Utilities line of business. Excludes interest income of $6.3 million and $3.8 million in 2014 and 2013, respectively, related to consolidated trusts with beneficial interests owned by third parties.

(3) Includes current portion of long-term notes.

(4) Represents securities sold, not yet purchased.

(5) Excludes interest expense of $5.3 million and $3.4 million in 2014 and 2013, respectively, related to consolidated trusts with beneficial interests owned by third parties.

(6) Includes the effect of consolidated trusts with beneficial interests owned by third parties.

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The following table sets forth information regarding changes in the components of Farmer Mac's net interest income for the periods indicated. For each category, information is provided on changes attributable to changes in volume (change in volume multiplied by old rate) and changes in rate (change in rate multiplied by old volume). Combined rate/volume variances, the third element of the calculation, are allocated based on their relative size. The decreases in income due to changes in rate reflect the reset of variable rate investments and adjustable rate mortgages to lower rates, positions in securities purchased under agreements to resell with a slightly negative rate of return, the acceleration of premium amortization in first quarter 2014 due to significant refinancing activity in the Rural Utilities line of business, and the acquisition of new lower-yielding investments, loans, Farmer Mac Guaranteed Securities, and USDA Securities, as described above. The increase in expense due to changes in rate reflects the interest expense associated with high coupon U.S. Treasury securities sold, but not yet purchased, partially offset by decreased cost of funding due to lower interest rates in the debt markets. The increases due to changes in volume reflect the increase in on-balance sheet assets during the first six months of 2014 compared to the first six months of 2013.

Table 3

	For the Six Months Ended June 30, 2014 Compared to Same Period 2013 Increase/(Decrease) Due to		
	Rate	Volume	Total
	(in thousands)		
Income from interest-earning assets:			
Cash and investments (1)	$(2,601)	$1,734	$(867)
Loans, Farmer Mac Guaranteed Securities and USDA Securities (2)	(20,834)	7,459	(13,375)
Total	(23,435)	9,193	(14,242)
Expense from other interest-bearing liabilities (3)	2,796	5,897	8,693
Change in net interest income prior to consolidation of certain trusts (4)	$(26,231)	$3,296	$(22,935)

(1) Includes $0.1 million of interest expense and an average balance of $371.7 million related to securities purchased under agreements to resell in 2014.
(2) Includes $11.6 million related to the acceleration of premium amortization in first quarter 2014 due to significant refinancing activity in the Rural Utilities line of business.
(3) Includes $7.7 million of interest expense and an average balance of $368.0 million related to securities sold, not yet purchased in 2014.
(4) Excludes the effect of debt in consolidated trusts with beneficial interests owned by third parties.

The net interest yield includes the amortization of premiums and discounts on assets consolidated at fair value and interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased. The net interest yield excludes the accrual of income and expense related to the contractual amounts due on financial derivatives that are not designated in hedging relationships. The following paragraphs describe the effects of these items on the net interest yield and the table below presents them as adjustments to reconcile to the net effective spread Farmer Mac earns on the difference between its interest-earning assets and its net funding costs, including payments for income and expense related to derivative financial instruments that are not designated as hedging instruments in a hedge accounting relationship ("undesignated financial derivatives").

Farmer Mac uses interest rate swaps to manage its interest rate risk exposure by synthetically modifying the interest rate reset or maturity characteristics of certain assets and liabilities. The accrual of the contractual amounts due on interest rate swaps designated in fair value hedge accounting relationships is included as an adjustment to the yield of the hedged item and is included in interest income. For interest rate swaps not designated in hedge accounting

relationships, Farmer Mac records the income or expense related to the accrual of the contractual amounts due in "(Losses)/gains on financial derivatives and

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hedging activities" on the consolidated statements of operations. Farmer Mac includes the accrual of the contractual amounts due for undesignated financial derivatives in its calculation of net effective spread.

Farmer Mac's net interest income and net interest yield include net expenses related to the amortization of premiums and discounts on assets consolidated at fair value. These premiums and discounts are amortized as adjustments to yield in interest income over the contractual or estimated remaining lives of the underlying assets. Farmer Mac excludes these amounts from net effective spread because they either do not reflect actual cash premiums paid for the assets at acquisition or are not expected to have an economic effect on Farmer Mac's financial performance if the assets are held to maturity, as is generally expected. Farmer Mac's net interest income also includes interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased. Farmer Mac excludes these amounts from net effective spread because their associated benefits are not similarly recorded in net effective spread, but rather through tax benefits.

The following table presents the net effective spread between Farmer Mac's interest-earning assets and its net funding costs. This spread is measured by including income or expense related to undesignated financial derivatives (the income or expense related to financial derivatives designated in hedging relationships is already included in net interest income) and excluding the amortization of premiums and discounts on assets consolidated at fair value and the interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased. Farmer Mac's net effective spread was $26.3 million and $50.1 million for the three and six months ended June 30, 2014, respectively, compared to $26.1 million and $52.3 million for the same periods in 2013. In percentage terms, net effective spread for the three and six months ended June 30, 2014 was 0.84 percent and 0.79 percent, respectively, compared to 0.87 percent and 0.88 percent, respectively, for the same periods in 2013. The contraction in net effective spread is primarily attributable to general contraction of asset spreads combined with the effect of early refinancing of AgVantage securities at lower market spreads and the recasting of certain Rural Utilities loans in first quarter 2014, as the original funding on the refinanced and recast assets remained in place through the end of first quarter 2014. See Note 9 to the consolidated financial statements for more information regarding net effective spread from Farmer Mac's individual business segments.

Table 4

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2014		June 30, 2013		June 30, 2014		June 30, 2013	
	Dollars	Yield	Dollars	Yield	Dollars	Yield	Dollars	Yield
	(dollars in thousands)							
Net interest income/yield prior to consolidation of certain trusts (1) (2)	$18,760	0.60 %	$27,965	0.93 %	$33,221	0.53 %	$56,156	0.95 %
Expense related to undesignated financial derivatives	(624)	(0.02)%	(3,142)	(0.10)%	(3,589)	(0.06)%	(6,349)	(0.11)%
Amortization of premiums on assets consolidated at fair value (2)	386	0.01 %	1,240	0.04 %	12,592	0.20 %	2,519	0.04 %
Interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased (3)	7,827	0.25 %	—	— %	7,827	0.12 %	—	— %
Net effective spread	$26,349	0.84 %	$26,063	0.87 %	$50,051	0.79 %	$52,326	0.88 %

(1) For the three and six months ended June 30, 2014, net interest yield is adjusted to remove the average balance of $743.5 million and $371.7 million, respectively, related to securities purchased under agreements to resell.

(2) Includes $11.6 million related to the acceleration of premium amortization in first quarter 2014 due to significant refinancing activity in the Rural Utilities line of business.

(3) Includes $7.8 million of interest expense related to securities purchased under agreements to resell and securities sold, not yet purchased in 2014.

Release of and Provision for Allowance for Loan Losses. During the three and six months ended June 30, 2014, Farmer Mac recorded net releases to its allowance for loan losses of $1.6 million and $1.0 million, respectively, and charge-offs of $0.1 million for the same periods. This is compared to net releases to its allowance for loan losses of $0.5 million and $0.1 million, respectively, and charge-offs of $0.1 million and $3.9 million, respectively, for the same periods in 2013. The releases recorded during the three and six months ended June 30, 2014 were primarily related to a decrease in the general allowance for loan losses due to substantial paydowns of on-balance sheet ethanol-related Agricultural Storage and Processing loans, partially offset by an increase in the general allowance due to overall net volume growth. The releases recorded during second quarter 2013 were driven primarily by reductions in specific allowances as two loans previously reserved for were repaid. The charge-offs recorded in 2013 included a $3.6 million charge-off related to one ethanol loan that was foreclosed during first quarter 2013 and for which Farmer Mac recorded a partial recovery of $1.1 million upon sale of the REO property in second quarter 2013. As of June 30, 2014, Farmer Mac's total allowance for loan losses was $5.8 million, compared to $6.9 million as of December 31, 2013. See "—Risk Management—Credit Risk – Loans and Guarantees."

Release of and Provision for Reserve for Losses. During the three and six months ended June 30, 2014, Farmer Mac recorded releases to its reserve for losses of $1.0 million and $0.9 million, respectively, compared to a release of $0.2 million and a provision of $0.6 million, respectively, for the same periods in 2013. The releases recorded during the three and six months ended June 30, 2014 were primarily attributable to paydowns of ethanol-related Agricultural Storage and Processing loans underlying LTSPCs. The provision recorded during the first six months of 2013 was attributable to increased estimated probable losses inherent in Farmer Mac's non-ethanol related Agricultural Storage and Processing loans due to a change in the loss assumptions for this commodity type. As of June 30, 2014, Farmer Mac's reserve for losses was $5.6 million, compared to $6.5 million as of December 31, 2013. See "—Risk Management—Credit Risk – Loans and Guarantees."

Guarantee and Commitment Fees. Guarantee and commitment fees, which compensate Farmer Mac for assuming the credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs, were $6.4 million and $12.9 million and for the three and six months ended June 30, 2014, respectively, compared to $6.8 million and $13.4 million for the same periods in 2013, respectively. The decrease in guarantee and commitment fees was primarily attributable to decreased guarantee fees on AgVantage securities and Farm & Ranch Guaranteed Securities.

Losses and Gains on Financial Derivatives and Hedging Activities. The effect of unrealized and realized gains and losses on Farmer Mac's financial derivatives and hedging activities was net losses of $5.7 million and $13.3 million, respectively, for the three and six months ended June 30, 2014, compared to net gains of $15.0 million and $19.5 million, respectively, for the three and six months ended June 30, 2013. Farmer Mac has designated certain interest rate swaps in fair value hedge relationships.

The components of gains and losses on financial derivatives and hedging activities for the three and six months ended June 30, 2014 and 2013 are summarized in the following table:

Table 5

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(in thousands)			
Fair value hedges:				
Unrealized gains/(losses) due to fair value changes:				
Financial derivatives (1)	$(799)	$17,535	$(599)	$23,326
Hedged items	3,818	(14,729)	6,568	(17,867)
Gains on hedging activities	3,019	2,806	5,969	5,459
No hedge designation:				
Unrealized (losses)/gains due to fair value changes	(7,715)	14,149	(14,349)	20,284
Realized:				
Expense related to financial derivatives	(624)	(3,142)	(3,589)	(6,349)
Losses due to terminations or net settlements	(378)	1,170	(1,307)	83
(Losses)/gains on financial derivatives not designated in hedging relationships	(8,717)	12,177	(19,245)	14,018
(Losses)/gains on financial derivatives and hedging activities	$(5,698)	$14,983	$(13,276)	$19,477

(1) Included in the assessment of hedge effectiveness at June 30, 2014, but excluded from the amounts in the table, were losses of $2.9 million and $5.9 million for the three and six months ended June 30, 2014, respectively, attributable to the fair value of the swaps at the inception of the hedging relationship. Accordingly, the amounts recognized as hedge ineffectiveness for the three and six months ended June 30, 2014 were gains of $0.1 million. The comparable amounts at June 30, 2013 were losses of and $3.0 million and $6.0 million for the three and six months ended June 30, 2013, respectively, attributable to the fair value of the swaps at the inception of the hedging relationship and, accordingly, losses of $0.2 million and $0.5 million for the three and six months ended June 30, 2013, respectively, attributable to hedge ineffectiveness.

Changes in the fair values of Farmer Mac's open derivative positions for both designated and undesignated hedges are captured in the table above in unrealized (losses)/gains due to fair value changes and are primarily the result of fluctuations in long-term interest rates. For financial derivatives designated in fair value hedges, changes in the fair values of the hedged items attributable to the hedged risk are also included in the table above in unrealized (losses)/gains due to fair value changes. The accrual of periodic cash settlements for interest paid or received from Farmer Mac's interest rate swaps that are not designated in hedging relationships is shown as expense related to financial derivatives. Payments or receipts to terminate derivative positions or net cash settled forward sales contracts on the debt of other GSEs and U.S. Treasury futures that are not designated in hedging relationships are included in losses due to terminations or net settlements.

Gains and Losses on Trading Securities. During the three and six months ended June 30, 2014, Farmer Mac recorded unrealized gains on trading securities of $7.7 million and $8.4 million, respectively, compared to unrealized losses of $0.3 million and $0.1 million during the same periods in 2013, respectively. Of the total unrealized gains recognized during the three and six months ended June 30, 2014, $7.8 million related to securities sold, not yet purchased as part of Farmer Mac's recently established cash management and liquidity initiative and $0.2 million of losses and $0.2 million of gains, respectively related to financial assets selected to be carried at fair value with changes in fair value included in earnings (the fair value option). During both the three and six months ended June 30, 2013, Farmer Mac recorded losses of $0.4 million related to assets accounted for under the fair value option. Farmer Mac has not elected

to account for any financial assets under the fair value option since 2008.

Gains on Sale of Available-for-Sale Investment Securities. During the three and six months ended June 30, 2014, Farmer Mac realized gains of $0.1 million and $0.2 million, respectively, compared to gains of $3.1 million in the three and six months ended June 30, 2013. The gains in 2013 primarily were the result of a sale of a mortgage-backed security from the available-for-sale investment portfolio.

Gains on Sale of Real Estate Owned. During the three and six months ended June 30, 2014, Farmer Mac realized gains of $0.2 million from the sale of real estate owned properties, compared to realized gains of $1.1 million and $1.2 million, respectively, for the three and six months ended June 30, 2013.

Other Income. Other income totaled $0.2 million and $0.3 million, respectively, for the three and six months ended June 30, 2014, compared to $0.9 million and $2.0 million for the same periods in 2013. The decrease in other income in the first half of 2014 was primarily attributable to the collection, in 2013, of $0.4 million in late fees upon final payoff of a defaulted loan and the recognition in 2013 of $0.7 million of gains previously deferred in accumulated other comprehensive income related to fair value changes of certain available-for-sale securities contributed to Farmer Mac II LLC in 2010, and other miscellaneous items.

Compensation and Employee Benefits. Compensation and employee benefits were $4.9 million and $9.3 million, respectively, for the three and six months ended June 30, 2014, compared to $4.6 million and $9.3 million, respectively, during the same periods in 2013. The increase in compensation and employee benefits in second quarter 2014 was due primarily to increased headcount and annual salary adjustments.

General and Administrative Expenses. General and administrative expenses, including legal, audit, and consulting fees, were $3.3 million and $6.1 million, respectively, for the three and six months ended June 30, 2014, compared to $2.7 million and $5.6 million, respectively, for three and six months ended June 30, 2013. The increase in general and administrative expenses in the first half of 2014 compared to the first half of 2013 was primarily attributable to consulting fees associated with Farmer Mac's cash management and liquidity initiative and other miscellaneous consulting fees.

Regulatory Fees. Regulatory fees (which consist of the fees paid to FCA) for both the three and six months ended June 30, 2014 and 2013 were $0.6 million and $1.2 million, respectively. FCA has advised Farmer Mac that its estimated fees for the federal fiscal year ending September 30, 2014 will be $2.4 million ($0.6 million per federal fiscal quarter), which will not be a material increase from the prior federal fiscal year. After the end of a federal government fiscal year, FCA may revise its prior year estimated assessments to reflect actual costs incurred, and has issued both additional assessments and refunds in the past.

Income Tax Benefit/Expense. Income tax benefit totaled $6.4 million and $7.5 million, respectively, for the three and six months ended June 30, 2014, compared to income tax expense of $13.0 million and $21.8 million, respectively, for the same periods in 2013. The income tax benefit recorded in second quarter 2014 was primarily due to the reduction of $11.6 million in the valuation allowance against deferred tax assets resulting from expected capital gains on securities sold, not yet purchased. This tax benefit and lower pre-tax income accounted for the change in tax benefit/expense in the three and six month periods ended June 30, 2014 as compared to 2013. The consolidated tax benefit of the dividends declared on Farmer Mac II LLC Preferred Stock, which is presented as "Net income attributable to non-controlling interest – preferred stock dividends" on the consolidated statements of operations on a pre-tax basis and the reduction of $11.6 million of valuation allowance against deferred tax assets resulting from expected capital gains on securities sold, not yet purchased, were the primary reasons Farmer Mac's

effective tax rate was lower than the statutory federal rate of 35 percent. For further information about the impact on income taxes related to securities sold, not yet purchased, see "—Cash Management and Liquidity Initiative."

Farmer Mac carried a valuation allowance of $25.6 million as of June 30, 2014 and $37.9 million as of December 31, 2013 against the deferred tax assets arising primarily from capital loss carryforwards related to capital losses incurred during 2009 on Farmer Mac's investments in Fannie Mae preferred stock, Lehman Brothers Holdings Inc. senior debt securities, and other GSE preferred stock. Because these losses were capital in nature, tax benefits can only be realized to the extent Farmer Mac would have offsetting capital gains. For more information about income taxes see "Note 10 Income Taxes" in the consolidated financial statements in the Segment Recast 8-K.

Business Volume. During second quarter 2014, Farmer Mac added $590.2 million of new business volume. Specifically, Farmer Mac:

- purchased $159.1 million of newly originated Farm & Ranch loans;
- added $34.9 million of Farm & Ranch loans under LTSPCs;
- purchased $90.8 million of USDA Securities;
- purchased $4.7 million of Rural Utilities loans; and
- purchased $300.8 million of AgVantage securities.

Farmer Mac's outstanding business volume was $14.1 billion as of June 30, 2014, a decrease of $35.7 million from March 31, 2014 and an increase of $122.2 million from December 31, 2013. The new business volume in second quarter 2014 included $295.8 million of AgVantage securities purchased from the National Rural Utilities Cooperative Finance Corporation ("CFC").

The following table sets forth purchases of non-delinquent eligible loans, new LTSPCs, and new guarantees during the periods indicated in the Farm & Ranch, USDA Guarantees, and Rural Utilities lines of business, as well as purchases of AgVantage securities in the Institutional Credit line of business:

Table 6

Farmer Mac New Purchases, Guarantees, and LTSPCs

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(in thousands)			
Farm & Ranch:				
Loans	$159,116	$226,135	$351,523	$386,022
LTSPCs	34,850	99,504	220,444	266,284
USDA Guarantees:				
USDA Securities	90,785	110,897	158,769	233,084
Rural Utilities:				
Loans	4,689	10,222	58,592	40,484
Institutional Credit:				
AgVantage	300,775	200,000	529,465	625,000
Total purchases, guarantees, and LTSPCs	$590,215	$646,758	$1,318,793	$1,550,874

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The decrease in Farm & Ranch volume for the six months ended June 30, 2014 as compared to the same period in 2013 reflects a return to volume levels more consistent with historical trends, contrasted by higher demand in the first half of 2013 from borrowers seeking longer-term financing at fixed rates in a low interest rate environment. The decrease in USDA Securities volume was the result of more lenders retaining these guaranteed assets in their portfolio in the first half of 2014, which is also more consistent with historical trends, as compared with the higher purchases experienced in the first half of 2013. Rural Utilities loan volume remains low, with modest variances from period to period, due to reduced demand associated with slow historical economic growth and greater energy efficiency in recent years. The uneven distribution in quarterly AgVantage securities volume is primarily driven by the generally larger transaction sizes for that product and the fluctuating funding and liquidity needs of Farmer Mac's customer network.

The purchase price of non-delinquent eligible loans and portfolios is their respective fair value based on current market interest rates and Farmer Mac's target net yield. The purchase price includes an amount to compensate Farmer Mac for credit risk that is similar to the guarantee or commitment fees it receives for assuming credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs. Based on market conditions, Farmer Mac either retains the loans it purchases or securitizes them and retains or sells Farmer Mac Guaranteed Securities backed by those loans. Historically, Farmer Mac has retained the vast majority of loans it has purchased. The weighted-average age of the Farm & Ranch non-delinquent eligible loans purchased and retained (excluding the purchases of defaulted loans) during both second quarter 2014 and 2013 was less than one year. Of those loans, 39 percent and 52 percent had principal amortization periods longer than the maturity date, resulting in balloon payments at maturity, with a weighted-average remaining term to maturity of 15.8 years and 14.9 years, respectively.

During second quarter 2014 and 2013, Farmer Mac securitized loans it had purchased and sold the resulting Farmer Mac Guaranteed Securities in the amount of $66.6 million and $10.8 million, respectively. Farmer Mac consolidates these loans and presents them as "Loans held for investment in consolidated trusts, at amortized cost" on the consolidated balance sheets. For the three and six months ended June 30, 2014, $52.2 million and $107.6 million, respectively, of Farmer Mac Guaranteed Securities were sold to Zions First National Bank ("Zions"), which is a related party to Farmer Mac, compared to no sales and $17.1 million of sales for the three and six months ended June 30, 2013, respectively.

The following table sets forth information regarding the Farmer Mac Guaranteed Securities issued during the periods indicated:

Table 7

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(in thousands)			
Loans securitized and sold as Farm & Ranch Guaranteed Securities	$66,554	$10,849	$129,305	$35,891
AgVantage Securities	300,775	200,000	529,465	625,000
Total Farmer Mac Guaranteed Securities Issuances	$367,329	$210,849	$658,770	$660,891

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The following table sets forth information regarding outstanding volume in each of Farmer Mac's four lines of business as of the dates indicated:

Table 8

Outstanding Balances of Loans Held, Loans Underlying Off-Balance Sheet Farmer Mac Guaranteed Securities and LTSPCs, AgVantage Securities, USDA Securities, and Farmer Mac Guaranteed USDA Securities

	As of June 30, 2014	As of December 31, 2013
	(in thousands)	
On-balance sheet:		
Farm & Ranch:		
Loans	$1,955,207	$1,875,958
Loans held in trusts:		
Beneficial interests owned by third party investors	371,960	259,509
USDA Guarantees:		
USDA Securities	1,672,998	1,645,806
Farmer Mac Guaranteed USDA Securities	20,675	21,089
Rural Utilities:		
Loans	719,784	698,010
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	292,529	354,241
Institutional Credit:		
AgVantage Securities	5,051,043	5,066,855
Total on-balance sheet	$10,084,196	$9,921,468
Off-balance sheet:		
Farm & Ranch:		
LTSPCs	$2,279,121	$2,261,862
Guaranteed Securities	704,376	765,751
USDA Guarantees:		
Farmer Mac Guaranteed USDA Securities	16,662	20,222
Institutional Credit:		
AgVantage Securities	988,187	981,009
Total off-balance sheet	$3,988,346	$4,028,844
Total	$14,072,542	$13,950,312

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The following table summarizes by maturity date the scheduled principal amortization of loans held, loans underlying off-balance sheet Farmer Mac Guaranteed Securities (excluding AgVantage securities) and LTSPCs, USDA Securities, and Farmer Mac Guaranteed USDA Securities as of June 30, 2014:

Table 9
Schedule of Principal Amortization

	Loans Held	Loans Underlying Off-Balance Sheet Farmer Mac Guaranteed Securities and LTSPCs	USDA Securities and Farmer Mac Guaranteed USDA Securities	Total
	(in thousands)			
2014	$120,097	$134,344	$128,701	$383,142
2015	172,424	254,323	121,758	548,505
2016	166,444	227,803	141,155	535,402
2017	167,896	219,744	115,290	502,930
2018	169,524	202,562	126,438	498,524
Thereafter	2,543,095	1,944,721	1,076,993	5,564,809
Total	$3,339,480	$2,983,497	$1,710,335	$8,033,312

Of the $14.1 billion outstanding principal balance of volume included in Farmer Mac's four lines of business as of June 30, 2014, $6.0 billion were AgVantage securities included in the Institutional Credit line of business. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Unlike business volume in the form of purchased loans, USDA Securities, and loans underlying LTSPCs and non-AgVantage Farmer Mac Guaranteed Securities, most AgVantage securities do not require periodic payments of principal based on amortization schedules and instead have fixed maturity dates when the secured general obligation is due.

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The following table summarizes by maturity date the outstanding principal amount of both on- and off-balance sheet AgVantage securities as of June 30, 2014:

Table 10

AgVantage Balances by Year of Maturity

	As of June 30, 2014 (in thousands)
2014	$390,820
2015	681,638
2016	1,334,415
2017	1,385,478
2018	790,478
Thereafter (1)	1,456,401
Total	$6,039,230

(1) Includes various maturities ranging from 2019 to 2024.

The weighted-average remaining maturity of the outstanding $6.0 billion of AgVantage securities shown in the table above was 3.5 years as of June 30, 2014. As a general matter, if maturing AgVantage securities are not replaced by new AgVantage securities, either from the same issuer or from new business, or if the spread earned by Farmer Mac on new AgVantage securities that replace maturing AgVantage securities is lower than the spread earned on the maturing securities, Farmer Mac's income could be adversely affected.

As part of fulfilling its guarantee obligations for Farm & Ranch Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90-days delinquent or in material non-monetary default at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet. The purchase price for a defaulted loan purchased out of a pool of loans backing Farm & Ranch Guaranteed Securities is the current outstanding principal balance of the loan plus accrued and unpaid interest. The purchase price for a defaulted loan purchased under an LTSPC is the then-current outstanding principal balance of the loan, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds as received. The purchase price of a defaulted loan is not an indicator of the expected loss on that loan; many other factors affect expected loss, if any, on any loan so purchased. Farmer Mac did not purchase any delinquent loans during second quarter 2014. The weighted-average age of delinquent loans purchased during second quarter 2013 out of securitized pools and LTSPCs was 11.5 years during second quarter 2013. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans and Guarantees."

The following table presents Farmer Mac's purchases of defaulted loans underlying Farm & Ranch Guaranteed Securities and LTSPCs for the periods indicated:

Table 11

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(in thousands)			
Defaulted loans purchased underlying Farm & Ranch Guaranteed Securities owned by third party investors	$—	$5,935	$—	$6,038
Defaulted loans purchased underlying LTSPCs	—	—	440	37
Total loan purchases	$—	$5,935	$440	$6,075

Farmer Mac II LLC. In January 2010, Farmer Mac contributed substantially all of the assets comprising the USDA Guarantees line of business (in excess of $1.1 billion) to Farmer Mac's subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA Securities that had not been securitized by Farmer Mac but also included $35.0 million of Farmer Mac Guaranteed Securities. Farmer Mac did not and will not guarantee the timely payment of principal and interest on the $1.1 billion of contributed USDA Securities. The financial information presented in this report reflects the accounts of Farmer Mac and its subsidiaries on a consolidated basis. Accordingly, Farmer Mac's reportable operating segments presented in this report will differ from the stand-alone financial statements of Farmer Mac II LLC. Those separate financial statements are available on the website of Farmer Mac II LLC and are not incorporated by reference into this report.

The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. As of June 30, 2014, Farmer Mac II LLC held assets with a fair value of $1.7 billion, had debt outstanding to Farmer Mac of $383.0 million, had preferred stock outstanding with a liquidation preference of $250.0 million, and had $1.0 billion of common stock outstanding held by Farmer Mac. During second quarter 2014, Farmer Mac purchased $6.0 million of the outstanding trust securities, called Farm Asset-Linked Capital Securities or "FALConS," representing undivided beneficial ownership interests in shares of Farmer Mac II LLC Preferred Stock, from certain holders. For more information about the formation and operations of Farmer Mac II LLC and the features of the preferred stock issued by Farmer Mac II LLC in January 2010, see Notes 7 and 9 to the consolidated financial statements.

Outlook

Farmer Mac continues to provide a stable source of liquidity, capital, and risk management tools to help rural lenders meet the financing needs of their customers. While the pace of Farmer Mac's growth will depend on the capital and liquidity needs of lenders and the financing needs of their customers, Farmer Mac foresees opportunities for continued growth. More specifically, Farmer Mac believes that its Farm & Ranch, USDA Guarantees, Rural Utilities, and Institutional Credit lines of business all have opportunities for growth, driven by several key factors:

- As agricultural lenders face increased equity capital requirements under new regulatory frameworks, or seek to reduce exposure due to lending limits or concentration limits, Farmer Mac can provide relief for those institutions through loan purchases, guarantees, or LTSPCs.
- As the overall economy recovers, rural utilities generally may experience an increase in demand for power, which can lead to more investment and borrowing needs in that industry.
- As a result of targeted marketing efforts, Farmer Mac's lender network and customer base continues to expand, which may generate additional demand for Farmer Mac's products from new sources.

Farmer Mac believes that these growth opportunities will be important in replacing income earned on the loans and other assets as they mature, pay down, or are reinvested at lower spreads. Farmer Mac also currently owns in its liquidity investment portfolio $78.5 million par amount of preferred stock issued by CoBank that currently pays an 11 percent annual dividend, from which Farmer Mac earns approximately $7.7 million ($0.69 per diluted share in 2013 and $0.34 per diluted share for the six months ended June 30, 2014) annually in after-tax income. CoBank has the option to call these securities beginning in October 2014, and Farmer Mac believes that CoBank will do so. Farmer Mac expects to hold these securities until they are called.

Agricultural Sector. The agricultural sector includes many diverse industries that respond in different ways to changes in economic conditions. Those individual industries often are affected differently, sometimes positively and sometimes negatively, by prevailing domestic and global economic factors and regional weather conditions. This results in cycles where one or more industries may be under stress at the same time that others are not. In addition, borrowers that rely on non-farm sources of income as a significant percentage of overall income may experience stress associated with weakness in the general economy. The profitability of agricultural industries is also affected by commodity inventories and their associated market prices, which can vary largely as a result of weather patterns, access to water supply, and harvest conditions that may affect supply.

While agricultural land values have increased over the past several years, recent market activity suggests that land values may have moderated slightly and the volume of farmland sales has begun to decline. Decreasing commodity prices experienced in certain commodity sectors in recent months may not correlate with an equivalent decline in producers' operating expenses. Combined with potential increases in interest rates, these factors could put downward pressure on the discounted cash flow values of farmland, which could negatively affect farmland values. Farmer Mac believes that its portfolio remains sufficiently diversified, both geographically and by commodity, and has generally demonstrated historically high credit quality and low delinquency rates for the portfolio to endure reasonably foreseeable volatility in farmland values. Farmer Mac continues to closely monitor sector profitability, economic conditions, and agricultural land value and geographic trends to tailor underwriting practices to changing conditions. For Farm & Ranch loan purchases made in second quarter 2014, the weighted average original loan-to-value ratio was 45 percent. For a detailed discussion of the average unpaid loan balance for loans outstanding, weighted average original loan-to-value ratios, and weighted average current loan-to-value ratios for Farm & Ranch loans in Farmer Mac's portfolio as of June 30, 2014, see "—Risk Management—Credit Risk – Loans and Guarantees."

The western part of the United States, including California, continues to experience drought conditions, with the water level in many California reservoirs at substantially less than their average year-to-date water storage levels. Though many farm irrigation districts received little or no water from the governing water authorities, the impact on individual farmers will vary due to alternative water sources the farmer

may have in place. These alternative water sources include underground sources (well water) and any water that may have been "banked" by the farmer in years where water was more plentiful. Farmer Mac has not observed any material effect on its portfolio due to these drought conditions as of June 30, 2014, as borrower profitability continues to remain stable. However, any continuation of extreme or exceptional drought conditions beyond the 2014 water year could have an adverse effect on Farmer Mac's delinquency rates or loss experience. This is particularly true in the permanent plantings sector, where the value of the related collateral is closely tied to the production value and capability of the permanent plantings, and in the dairy sector, which may experience increased feed costs as water is diverted away from hay acreage commonly relied upon by dairy producers and toward land supporting other agricultural commodities. Farmer Mac believes that it remains well-collateralized on loans in its Farm & Ranch line of business, including its permanent planting and dairy portfolios.

Farmer Mac also continues to monitor the establishment and evolution of legislation and regulations that affect farmers, ranchers, and rural lenders. Many federal agricultural policies previously in effect have been altered with the recent enactment of the Agricultural Act of 2014, including those affecting crop subsidies, crop insurance, and other aspects of agricultural production. Farmer Mac will continue to monitor the effects of these altered federal agricultural policies as the USDA engages in the process of promulgating regulations intended to implement the Agricultural Act of 2014.

Farmer Mac's marketing efforts directed towards the Farm & Ranch line of business focus on lenders that have demonstrated a commitment to agricultural lending based on their lending history. Farmer Mac directs its outreach efforts to these lenders through direct personal contact, which is facilitated through Farmer Mac's frequent participation in state and national banking conferences, its alliances with the American Bankers Association and the Independent Community Bankers of America, and its business relationships with members of the Farm Credit System. In connection with lenders' evolving financing needs in the Farm & Ranch line of business, Farmer Mac has experienced continuing stable demand for its longer-term fixed rate loan products, as well as recent demand for certain of its shorter-term floating rate loan products driven by a rise in interest rates. Demand for Farmer Mac's secondary market tools could also increase as rural lenders adapt to new and changing regulations, which may require lenders to obtain more liquidity and capital to continue their lending practices.

Farmer Mac continues to monitor developments in the ethanol industry and evaluate their potential impact on the overall performance of Farmer Mac's portfolio. The amount of ethanol loans in Farmer Mac's portfolio has significantly decreased in recent years both in dollar amount (declining to $34.8 million as of June 30, 2014) and as a percentage of portfolio volume (declining to 0.7 percent of the Farm & Ranch portfolio as of June 30, 2014) due to sizable paydowns on the unpaid principal balance of loans due to a recent upward trend in the profitability of the ethanol industry. As of December 31, 2013 and June 30, 2013, the dollar amount of Farmer Mac's ethanol portfolio was $88.4 million (1.7 percent) and $113.7 million (2.3 percent), respectively. Farmer Mac had $27.2 million of undisbursed commitments on existing ethanol loans as of June 30, 2014.

Rural Utilities Industry. Lower demand within the rural utilities industry has increased competition for Farmer Mac's customer base from lenders that are not eligible to, or for other reasons, do not participate in Farmer Mac's Rural Utilities line of business. The rural utilities industry may experience needs for financing over the next several years to make improvements in response to environmental and clean energy policies, and for refinancing USDA Rural Utilities Service loans. Domestic economic indicators also continue to show modest growth, and as the economy strengthens, Farmer Mac believes that demand for rural utilities loans may increase. Farmer Mac foresees opportunities for growth as industry demand

increases, both in its Institutional Credit line of business (as rural electric cooperative lenders seek lower-cost financing alternatives), as well as its Rural Utilities line of business.

Balance Sheet Review

Assets. Farmer Mac's total assets as of June 30, 2014 were $14.7 billion, compared to $13.4 billion as of December 31, 2013. The increase in total assets was primarily attributable to an increase in securities purchased under agreements to resell and net new purchases of Farm & Ranch loans and USDA Securities.

As of June 30, 2014, Farmer Mac had $384.1 million of cash and cash equivalents, $1.6 billion of securities purchased under agreements to resell, and $2.3 billion of investment securities, compared to $749.3 million of cash and cash equivalents and $2.5 billion of investment securities as of December 31, 2013. As of June 30, 2014, Farmer Mac had $5.1 billion of Farmer Mac Guaranteed Securities, $1.7 billion of USDA Securities, and $3.3 billion of loans, net of allowance. This compares to $5.1 billion of Farmer Mac Guaranteed Securities, $1.6 billion of USDA Securities, and $3.2 billion of loans, net of allowance, as of December 31, 2013.

Liabilities. Farmer Mac's total liabilities increased to $13.9 billion as of June 30, 2014 from $12.8 billion as of December 31, 2013. The increase in liabilities was primarily attributable to an increase in securities sold, not yet purchased in connection with Farmer Mac's cash management and liquidity initiative. For further information about securities sold, not yet purchased, see "—Cash Management and Liquidity Initiative."

Equity. As of June 30, 2014, Farmer Mac had total equity of $772.3 million, comprised of stockholders' equity of $536.4 million and non-controlling interest – preferred stock of $235.9 million. As of December 31, 2013, Farmer Mac had total equity of $574.5 million, comprised of stockholders' equity of $332.6 million and non-controlling interest – preferred stock of $241.9 million. The increase in total equity during the first half of 2014 was the result of the issuances of $75.0 million of Series B Preferred Stock in March 2014 and $75.0 million of Series C Preferred Stock in June 2014, and an increase in accumulated other comprehensive income due to increases in the fair value of available-for-sale securities. These increases in the fair value of available-for-sale securities were driven primarily by lower U.S. Treasury rates.

Off-Balance Sheet Arrangements

Farmer Mac offers approved lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through each of the Farm & Ranch, USDA Guarantees, Rural Utilities, and Institutional Credit lines of business; and (2) LTSPCs, which are available through the Farm & Ranch and Rural Utilities lines of business. For securitization trusts where Farmer Mac is the primary beneficiary, the trust assets and liabilities are included on Farmer Mac's consolidated balance sheet. For the remainder of these transactions, and in the event of deconsolidation, both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac. See Note 6 to the consolidated financial statements for further information regarding consolidation and Farmer Mac's off-balance sheet business activities.

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Risk Management

Credit Risk – Loans and Guarantees. Farmer Mac is exposed to credit risk resulting from the inability of borrowers to repay their loans in conjunction with a deficiency in the value of the collateral relative to the outstanding balance of the loan and the costs of liquidation. Farmer Mac is exposed to credit risk on:

- loans held;
- loans underlying Farmer Mac Guaranteed Securities; and
- loans underlying LTSPCs.

Farmer Mac generally assumes 100 percent of the credit risk on loans held and loans underlying Farm & Ranch Guaranteed Securities, LTSPCs, and Rural Utilities Guaranteed Securities. Farmer Mac has direct credit exposure to loans in non-AgVantage transactions and indirect credit exposure to loans that secure AgVantage transactions, since they represent a general obligation of a lender secured by qualified loans. The credit exposure of Farmer Mac and Farmer Mac II LLC on USDA Securities, including those underlying Farmer Mac Guaranteed USDA Securities, is covered by the full faith and credit of the United States. Farmer Mac believes that Farmer Mac and Farmer Mac II LLC have little or no credit risk exposure in the USDA Guarantees line of business because of the USDA guarantee. As of June 30, 2014, neither Farmer Mac nor Farmer Mac II LLC had experienced any credit losses on any business under the USDA Guarantees line of business and does not expect that Farmer Mac or Farmer Mac II LLC will incur any such losses in the future.

Farmer Mac has established underwriting, collateral valuation, and documentation standards for agricultural real estate mortgage loans and rural utilities loans. Farmer Mac believes that these standards mitigate the risk of loss from borrower defaults and provide guidance about the management, administration, and conduct of underwriting and appraisals to all participating and potential lenders. These standards were developed on the basis of industry norms for agricultural real estate mortgage loans and rural utilities loans and are designed to assess the creditworthiness of the borrower, as well as the value of the collateral securing the loan. Farmer Mac evaluates and adjusts these standards on an ongoing basis based on current and anticipated market conditions. For more information about Farmer Mac's underwriting and collateral valuation standards, see "Business—Farmer Mac Lines of Business—Farm & Ranch—Underwriting and Collateral Valuation (Appraisal) Standards" and "Business—Farmer Mac Lines of Business—Rural Utilities—Underwriting" in the Segment Recast 8-K.

Farmer Mac requires approved lenders to make representations and warranties regarding the conformity of eligible agricultural mortgage and rural utilities loans to Farmer Mac's standards, the accuracy of loan data provided to Farmer Mac, and other requirements related to the loans. Sellers are responsible to Farmer Mac for breaches of those representations and warranties, and Farmer Mac has the ability to require a seller to cure, replace, or repurchase a loan sold or transferred to Farmer Mac if any breach of a representation or warranty is discovered that was material to Farmer Mac's decision to purchase the loan or that directly or indirectly causes a default or potential loss on a loan sold or transferred by the seller to Farmer Mac. Farmer Mac has not required a seller to cure or repurchase a loan purchased by Farmer Mac for breach of a representation or warranty in the last three years. In addition to relying on the representations and warranties of lenders, Farmer Mac also underwrites all of the agricultural mortgage loans (other than rural housing and part-time farm mortgage loans) and rural utilities loans that it holds in its portfolio. For rural housing and part-time farm mortgage loans, Farmer Mac relies on representations and warranties from the seller that those loans conform to Farmer Mac's specified underwriting criteria without exception. For more information about Farmer Mac's loan eligibility requirements, see

"Business—Farmer Mac Lines of Business—Farm & Ranch—Loan Eligibility" and "Business—Farmer Mac Lines of Business—Rural Utilities—Loan Eligibility" in the Segment Recast 8-K.

Under contracts with Farmer Mac and in consideration for servicing fees, Farmer Mac-approved central servicers service loans in accordance with Farmer Mac's requirements. Central servicers are responsible to Farmer Mac for serious errors in the servicing of those loans. If a central servicer materially breaches the terms of its servicing agreement with Farmer Mac, such as failing to forward payments received or releasing collateral without Farmer Mac's consent, or experiences insolvency or bankruptcy, Farmer Mac has the right to terminate the servicing relationship for a particular loan or the entire portfolio serviced by the central servicer. In addition, Farmer Mac can proceed against the central servicer in arbitration or exercise any remedies available to it under law. In the last three years, Farmer Mac has not exercised any remedies or taken any formal action against any central servicers. For more information about Farmer Mac's servicing requirements, see "Business—Farmer Mac Lines of Business—Farm & Ranch—Servicing" and "Business—Farmer Mac Lines of Business—Rural Utilities—Servicing" in the Segment Recast 8-K.

Farmer Mac's AgVantage securities are general obligations of institutions approved by Farmer Mac and are secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions and the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. As such, all AgVantage securities are secured by current loans representing at least 100 percent of the outstanding amount of these securities. As of June 30, 2014, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future. See "—Credit Risk – Institutional" for more information about Farmer Mac's credit risk on AgVantage securities.

Farmer Mac has developed different underwriting standards for rural utilities loans that depend on whether direct or indirect credit exposure is assumed on a loan and whether the borrower is an electric distribution cooperative or a G&T cooperative. As of June 30, 2014, there were no delinquencies in Farmer Mac's portfolio of rural utilities loans, which includes rural utilities loans held and rural utilities loans underlying or securing Rural Utilities Guaranteed Securities. Farmer Mac's direct credit exposure to rural utilities loans as of June 30, 2014 was $1.01 billion, of which $991.5 million were loans to electric distribution cooperatives and $20.8 million were loans to G&T cooperatives. Farmer Mac also had indirect credit exposure to the rural utilities loans securing AgVantage securities and included in the Institutional Credit line of business, some of which are loans to G&T cooperatives. For more information, see "—Credit Risk – Institutional."

Farmer Mac maintains an allowance for loan losses to cover estimated probable losses on loans held and a reserve for losses to cover estimated probable losses on loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities. The methodology that Farmer Mac uses to determine the level of its allowance for losses is described in Note 2(j) to the consolidated financial statements included in the Segment Recast 8-K. Management believes that this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for all loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs.

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The following table summarizes the components of Farmer Mac's total allowance for losses for the three and six months ended June 30, 2014 and 2013:

Table 12

	June 30, 2014			June 30, 2013		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)					
For the Three Months Ended:						
Beginning Balance	$7,410	$6,569	$13,979	$7,967	$6,285	$14,252
Provision for losses	(1,583)	(974)	(2,557)	(529)	(175)	(704)
Charge-offs	(57)	—	(57)	(70)	—	(70)
Ending Balance	$5,770	$5,595	$11,365	$7,368	$6,110	$13,478
For the Six Months Ended:						
Beginning Balance	$6,866	$6,468	$13,334	$11,351	$5,539	$16,890
Provision for losses	(1,010)	(873)	(1,883)	(99)	571	472
Charge-offs	(86)	—	(86)	(3,884)	—	(3,884)
Ending Balance	$5,770	$5,595	$11,365	$7,368	$6,110	$13,478

Activity affecting the allowance for loan losses and reserve for losses is discussed in "—Results of Operations—Release of and Provision for Allowance for Loan Losses" and "—Results of Operations—Release of and Provision for Reserve for Losses." As of June 30, 2014, Farmer Mac's allowances for losses totaled $11.4 million, or 21 basis points, of the outstanding principal balance of loans held for investment and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities, compared to $13.3 million, or 26 basis points, as of December 31, 2013, and $13.5 million, or 27 basis points as of June 30, 2013.

As of June 30, 2014, Farmer Mac's 90-day delinquencies were $25.9 million (0.49 percent of the Farm & Ranch portfolio), compared to $28.3 million (0.55 percent of the Farm & Ranch portfolio) as of December 31, 2013, and $33.9 million (0.69 percent of the Farm & Ranch portfolio) as of June 30, 2013. When analyzing the overall risk profile of its program business, Farmer Mac takes into account more than the Farm & Ranch loan delinquency percentages provided above. The total program business includes AgVantage securities and rural utilities loans, neither of which have any delinquencies, and USDA Securities, which are backed by the full faith and credit of the United States. Across all of Farmer Mac's lines of business, 90-day delinquencies represented 0.18 percent of total program business as of June 30, 2014, compared to 0.20 percent of total program business as of December 31, 2013, and 0.25 percent as of June 30, 2013.

As of June 30, 2014, Farmer Mac's ethanol exposure, which includes loans held and loans subject to LTSPCs, was $34.8 million (0.7 percent of the Farm & Ranch portfolio) on 13 different plants, with an additional $27.2 million of undisbursed commitments. As of June 30, 2014, Farmer Mac had no ethanol loans that were 90-days delinquent.

The following table presents historical information regarding Farmer Mac's 90-day delinquencies in the Farm & Ranch line of business compared to the principal balance of all Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs:

Table 13

	Outstanding Loans, Guarantees, and LTSPCs (1)	90-Day Delinquencies	Percentage	
	(dollars in thousands)			
As of:				
June 30, 2014	$5,310,664	$25,911	0.49	%
March 31, 2014	5,293,975	29,437	0.56	%
December 31, 2013	5,163,080	28,296	0.55	%
September 30, 2013	5,035,748	33,042	0.66	%
June 30, 2013	4,917,489	33,922	0.69	%
March 31, 2013	4,782,609	39,663	0.83	%
December 31, 2012	4,747,289	33,263	0.70	%
September 30, 2012	4,402,957	40,797	0.93	%
June 30, 2012	4,403,212	47,026	1.07	%

(1) Excludes loans pledged to secure AgVantage securities.

The 90-day delinquency measure includes loans 90 days or more past due as well as loans in foreclosure, loans restructured after delinquency, and non-performing loans where the borrower is in bankruptcy.

As of June 30, 2014, Farmer Mac individually analyzed $32.1 million of the $89.2 million of recorded investment in impaired loans for collateral shortfalls against updated appraised values, other updated collateral valuations, or discounted values. For the remaining $57.1 million of impaired assets for which updated valuations were not available, Farmer Mac evaluated them in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac recorded specific allowances of $2.6 million for undercollateralized assets as of June 30, 2014. Farmer Mac's non-specific or general allowances were $8.8 million as of June 30, 2014.

Loans in the Farm & Ranch line of business are all secured by first liens on agricultural real estate. Accordingly, Farmer Mac's exposure on a loan is limited to the difference between (1) the total of the accrued interest, advances, and the principal balance of a loan and (2) the value of the property less the cost to sell. Measurement of that excess or shortfall is the best predictor and determinant of loss, compared to other measures that evaluate the efficiency of a particular farm operator. Debt service ratios depend upon farm operator efficiency and leverage, which can vary widely within a geographic region, commodity type, or an operator's business and farming skills. A loan's original loan-to-value ratio is one of many factors Farmer Mac considers in evaluating loss severity and is calculated by dividing the loan principal balance at the time of guarantee, purchase, or commitment by the appraised value at the date of loan origination or, when available, updated appraised value at the time of guarantee, purchase, or commitment. Other factors include, but are not limited to, other underwriting standards, commodity and farming forecasts, and regional economic and agricultural conditions.

Loan-to-value ratios depend upon the market value of a property, as determined in accordance with Farmer Mac's collateral valuation standards. As of June 30, 2014 and December 31, 2013, the average unpaid loan balance for loans outstanding in the Farm & Ranch line of business (excluding loans that

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secured AgVantage securities) was $452,000 and $426,000, respectively. For Farm & Ranch loan purchases made in second quarter 2014, the weighted average original loan-to-value ratio was 45 percent, compared to 44 percent in second quarter 2013. The weighted average original loan-to-value ratio (based on original appraised value that has not been indexed to provide a current market value or reflect amortization of loans) for Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs was approximately 48 percent as of June 30, 2014 and 49 percent as of December 31, 2013. The weighted average current loan-to-value ratio (based on original appraised value but which reflects loan amortization since purchase) for Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs was approximately 43 percent as of June 30, 2014, and 38 percent as of December 31, 2013. The weighted-average original loan-to-value ratio for all 90-day delinquencies was 46 percent as of June 30, 2014, and 45 percent as of December 31, 2013.

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The following table presents outstanding Farm & Ranch loans held and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities and 90-day delinquencies as of June 30, 2014 by year of origination, geographic region, commodity/collateral type, and original loan-to-value ratio:

Table 14
Farm & Ranch 90-Day Delinquencies as of June 30, 2014

	Distribution of Outstanding Loans, Guarantees, and LTSPCs		Outstanding Loans, Guarantees, and LTSPCs	90-Day Delinquencies (1)	Percentage	
	(dollars in thousands)					
By year of origination:						
Before 2001	6	%	$292,601	$2,004	0.68	%
2001	2	%	114,468	1,125	0.98	%
2002	2	%	139,165	525	0.38	%
2003	3	%	163,831	3,422	2.09	%
2004	4	%	187,826	—	—	%
2005	5	%	257,968	916	0.36	%
2006	5	%	256,788	4,758	1.85	%
2007	4	%	237,324	10,420	4.39	%
2008	6	%	304,255	1,350	0.44	%
2009	4	%	213,048	642	0.30	%
2010	6	%	323,889	749	0.23	%
2011	8	%	436,680	—	—	%
2012	16	%	835,275	—	—	%
2013	22	%	1,177,898	—	—	%
2014	7	%	369,648	—	—	%
Total	100	%	$5,310,664	$25,911	0.49	%
By geographic region (2):						
Northwest	10	%	$551,254	$1,353	0.25	%
Southwest	32	%	1,716,331	8,485	0.49	%
Mid-North	35	%	1,834,187	800	0.04	%
Mid-South	12	%	622,183	2,644	0.42	%
Northeast	4	%	224,830	1,608	0.72	%
Southeast	7	%	361,879	11,021	3.05	%
Total	100	%	$5,310,664	$25,911	0.49	%
By commodity/collateral type:						
Crops	53	%	$2,832,785	$6,289	0.22	%
Permanent plantings	17	%	906,802	11,339	1.25	%
Livestock	24	%	1,256,829	5,511	0.44	%
Part-time farm	3	%	158,226	2,772	1.75	%
Ag. Storage and processing (including ethanol facilities)	3	%	147,840	—	—	%
Other	—		8,182	—	—	%
Total	100	%	$5,310,664	$25,911	0.49	%
By original loan-to-value ratio:						
0.00% to 40.00%	27	%	$1,439,917	$7,186	0.50	%
40.01% to 50.00%	22	%	1,160,478	13,451	1.16	%

50.01% to 60.00%	28	%	1,462,113	1,401	0.10	%
60.01% to 70.00%	20	%	1,107,922	2,762	0.25	%
70.01% to 80.00% (3)	2	%	106,556	1,111	1.04	%
80.01% to 90.00% (3)	1	%	33,678	—	—	%
Total	100	%	$5,310,664	$25,911	0.49	%

(1) Includes loans and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs that are 90 days or more past due, in foreclosure, restructured after delinquency, and in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.

(2) Geographic regions: Northwest (AK, ID, MT, OR, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, NE, ND, SD, WI); Mid-South (AR, KS, LA, MO, OK, TX); Northeast (CT, DE, KY, MA, MD, ME, NH, NJ, NY, OH, PA, RI, VA, VT, WV); Southeast (AL, FL, GA, MS, NC, SC, TN).

(3) Primarily part-time farm loans.

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The following table presents Farmer Mac's cumulative net credit losses relative to the cumulative original balance for all Farm & Ranch loans purchased and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities as of June 30, 2014 by year of origination, geographic region, and commodity/collateral type. The purpose of this information is to present information regarding losses relative to original Farm & Ranch purchases, guarantees, and commitments.

Table 15

Farm & Ranch Credit Losses Relative to Cumulative
Original Loans, Guarantees, and LTSPCs as of June 30, 2014

	Cumulative Original Loans, Guarantees and LTSPCs (dollars in thousands)	Cumulative Net Credit Losses	Cumulative Loss Rate
By year of origination:			
Before 2001	$7,342,279	$11,032	0.15 %
2001	1,151,764	178	0.02 %
2002	1,174,025	89	0.01 %
2003	1,013,854	350	0.03 %
2004	745,854	281	0.04 %
2005	899,437	(184)	(0.02)%
2006	928,825	9,545	1.03 %
2007	716,894	4,498	0.63 %
2008	802,162	3,247	0.40 %
2009	531,770	1,508	0.28 %
2010	625,786	—	— %
2011	712,075	—	— %
2012	1,031,389	—	— %
2013	1,283,676	—	— %
2014	418,566	—	— %
Total	$19,378,356	$30,544	0.16 %
By geographic region (1):			
Northwest	$2,631,896	$7,402	0.28 %
Southwest	6,842,631	9,051	0.13 %
Mid-North	4,693,400	12,830	0.27 %
Mid-South	2,117,463	(240)	(0.01)%
Northeast	1,517,021	169	0.01 %
Southeast	1,575,945	1,332	0.08 %
Total	$19,378,356	$30,544	0.16 %
By commodity/collateral type:			
Crops	$8,614,949	$4,281	0.05 %
Permanent plantings	3,953,860	9,377	0.24 %
Livestock	4,882,067	3,859	0.08 %
Part-time farm	1,078,310	1,015	0.09 %
Ag. Storage and processing (including ethanol facilities) (2)	701,380	12,012	1.71 %
Other	147,790	—	— %
Total	$19,378,356	$30,544	0.16 %

(1)

Geographic regions: Northwest (AK, ID, MT, OR, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, NE, ND, SD, WI); Mid-South (AR, KS, LA, MO, OK, TX); Northeast (CT, DE, KY, MA, MD, ME, NH, NJ, NY, OH, PA, RI, VA, VT, WV); Southeast (AL, FL, GA, MS, NC, SC, TN).

(2) Several of the loans underlying agricultural storage and processing LTSPCs are for facilities under construction and, as of June 30, 2014, approximately $27.2 million of the loans were not yet disbursed by the lender.

Analysis of portfolio performance indicates that commodity type is the primary determinant of Farmer Mac's exposure to loss on a given loan. Within most commodity groups, certain geographic areas allow greater economies of scale or proximity to markets than others and, consequently, may result in more

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successful operations within the commodity group. Certain geographic areas also offer better growing conditions and agricultural infrastructure than others and, consequently, may result in more versatile and more successful operators within a given commodity group. Farmer Mac's board of directors has established policies regarding geographic and commodity concentration to maintain adequate diversification and measure concentration risk.

The following tables present concentrations of Farm & Ranch loans held and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities by commodity type within geographic region and cumulative credit losses by origination year and commodity type:

Table 16

As of June 30, 2014
Farm & Ranch Concentrations by Commodity Type within Geographic Region

	Crops		Permanent Plantings		Livestock		Part-time Farm		Ag. Storage and Processing (including ethanol facilities)		Other		Total	
	(dollars in thousands)													
By geographic region (1):														
Northwest	$276,850		$84,721		$162,079		$12,979		$14,625		$—		$551,254	
	5.2	%	1.6	%	3.1	%	0.2	%	0.3	%	—	%	10.4	%
Southwest	513,160		650,348		501,592		34,463		15,881		887		1,716,331	
	9.7	%	12.1	%	9.5	%	0.7	%	0.3	%	—	%	32.3	%
Mid-North	1,518,747		28,317		186,563		12,092		82,800		5,668		1,834,187	
	28.5	%	0.6	%	3.5	%	0.2	%	1.6	%	0.1	%	34.5	%
Mid-South	372,226		11,368		199,039		24,263		14,755		532		622,183	
	7.0	%	0.3	%	3.7	%	0.5	%	0.2	%	—	%	11.7	%
Northeast	66,480		24,578		69,568		53,093		10,939		172		224,830	
	1.3	%	0.5	%	1.3	%	1.0	%	0.2	%	—	%	4.3	%
Southeast	85,322		107,470		137,988		21,336		8,840		923		361,879	
	1.6	%	2.0	%	2.6	%	0.4	%	0.2	%	—	%	6.8	%
Total	$2,832,785		$906,802		$1,256,829		$158,226		$147,840		$8,182		$5,310,664	
	53.3	%	17.1	%	23.7	%	3.0	%	2.8	%	0.1	%	100.0	%

(1) Geographic regions: Northwest (AK, ID, MT, OR, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, NE, ND, SD, WI); Mid-South (AR, KS, LA, MO, OK, TX); Northeast (CT, DE, KY, MA, MD, ME, NH, NJ, NY, OH, PA, RI, VA, VT, WV); Southeast (AL, FL, GA, MS, NC, SC, TN).

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Table 17

	As of June 30, 2014 Cumulative Credit Losses/(Recoveries) by Origination Year and Commodity Type					
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Total
	(in thousands)					
By year of origination:						
1995 and Prior	$277	$(79)	$(107)	$—	$ —	$91
1996	(721)	2,296	(73)	—	—	1,502
1997	(397)	2,785	(131)	—	—	2,257
1998	(438)	1,848	1,781	—	—	3,191
1999	(108)	723	158	296	—	1,069
2000	7	1,907	1,049	(41)	—	2,922
2001	45	1	132	—	—	178
2002	—	—	—	89	—	89
2003	309	—	—	41	—	350
2004	—	—	162	119	—	281
2005	(87)	(263)	—	166	—	(184)
2006	1,616	—	40	201	7,688	9,545
2007	1,054	11	779	144	2,510	4,498
2008	2,626	—	—	—	621	3,247
2009	98	148	69	—	1,193	1,508
2010	—	—	—	—	—	—
2011	—	—	—	—	—	—
2012	—	—	—	—	—	—
2013	—	—	—	—	—	—
2014	—	—	—	—	—	—
Total	$4,281	$9,377	$3,859	$1,015	$ 12,012	$30,544

In Farmer Mac's experience, the degree to which the collateral is specialized or highly improved, such as permanent plantings and storage and processing facilities, is a more significant determinant of the probability of ultimate losses on a given loan than geographic location. The versatility of a borrower's operation (and in the case of persisting adverse economic conditions, the borrower's ability to switch commodity groups) will more likely result in profitability for the borrower and, consequently, a lower risk of decreased value for the underlying collateral. However, producers of agricultural commodities that require specialized or highly improved property are less able to adapt their operations when faced with adverse economic conditions. If adverse economic conditions persist for these commodities, not only might the borrower face a higher risk of default, but also the prospective sale value of the collateral is more likely to decrease and the related loan may become undercollateralized. This analysis is consistent with corresponding commodity analyses, which indicate that Farmer Mac has experienced higher loss and collateral deficiency rates in permanent planting loans and Ag. Storage and Processing loans (including Farmer Mac's exposure to loans on ethanol plants) for which the collateral is typically highly improved and specialized. See "—Outlook."

Farmer Mac's methodologies for pricing its guarantee and commitment fees, managing credit risk, and providing adequate allowances for losses consider all of the foregoing factors and information.

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Credit Risk – Institutional. Farmer Mac is exposed to credit risk arising from its business relationships with other institutions including:

- issuers of AgVantage securities;
- approved lenders and servicers; and
- interest rate swap counterparties.

Each AgVantage security is a general obligation of an issuing institution that is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollateralization also required for AgVantage securities secured by Farm & Ranch loans. Farmer Mac approves AgVantage counterparties and manages institutional credit risk related to those AgVantage counterparties by requiring them to meet Farmer Mac's standards for creditworthiness. The required collateralization level is established at the time of issuance and does not change during the life of the security. In AgVantage transactions, the corporate obligor is required to remove from the pool of pledged collateral any loan that becomes more than 30 days delinquent in the payment of principal or interest and to substitute an eligible loan that is current in payment to maintain the minimum required collateralization level. In the event of a default on the general obligation, Farmer Mac would have recourse to the pledged collateral and have rights to the ongoing borrower payments of principal and interest. For a more detailed description of AgVantage securities, see "Business—Farmer Mac Lines of Business—Institutional Credit" in the Segment Recast 8-K.

The unpaid principal balance of outstanding on-balance sheet AgVantage securities secured by Farm & Ranch loans totaled $3.5 billion as of June 30, 2014 and December 31, 2013. The unpaid principal balance of on-balance sheet AgVantage securities secured by Rural Utilities loans totaled $1.6 billion as of June 30, 2014 and $1.5 billion as of December 31, 2013. In addition, the unpaid principal balance of outstanding off-balance sheet AgVantage transactions totaled $1.0 billion as of June 30, 2014 and December 31, 2013.

The following table provides information about the issuers of AgVantage securities, as well as the required collateralization levels for those transactions as of June 30, 2014 and December 31, 2013:

Table 18

	As of June 30, 2014			As of December 31, 2013		
Counterparty	Balance	Credit Rating	Required Collateralization	Balance	Credit Rating	Required Collateralization
	(dollars in thousands)					
MetLife(1)	$2,750,000	AA-	103%	$2,750,000	AA-	103%
CFC	1,578,580	A	100%	1,538,214	A	100%
Rabo Agrifinance, Inc.	1,650,000	N/A	106%	1,700,000	N/A	106%
Rabobank N.A.	50,000	N/A	106%	50,000	N/A	106%
Other(2)	10,650	N/A	111% to 120%	9,650	N/A	111% to 120%
Total outstanding	$6,039,230			$6,047,864		

(1) Includes securities issued by Metropolitan Life Insurance Company and MetLife Insurance Company of Connecticut.
(2) Consists of AgVantage securities issued by 3 different issuers as of June 30, 2014 and December 31, 2013.

Farmer Mac manages institutional credit risk related to lenders and servicers by requiring those institutions to meet Farmer Mac's standards for creditworthiness. Farmer Mac monitors the financial

condition of those institutions by evaluating financial statements and bank credit rating agency reports. For more information about Farmer Mac's lender eligibility requirements, see "Business—Farmer Mac Lines of Business—Farm & Ranch—Approved Lenders" and "Business—Farmer Mac Lines of Business—Rural Utilities—Approved Lenders" in the Segment Recast 8-K.

Farmer Mac manages institutional credit risk related to its interest rate swap counterparties through collateralization provisions contained in each of its swap agreements that varies based on the market value of its swaps portfolio with each counterparty. In addition, Farmer Mac transacts interest rate swaps with multiple counterparties to ensure a more even distribution of institutional credit risk related to its swap transactions. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), mandatory clearing of certain interest rate derivative transactions became effective for Farmer Mac during second quarter 2013, and Farmer Mac has been able to use the clearing process for cleared swap transactions as another mechanism for managing its derivative counterparty risk. Credit risk related to interest rate swap contracts is discussed in "—Risk Management—Interest Rate Risk" and Note 4 to the consolidated financial statements.

Credit Risk – Other Investments. As of June 30, 2014, Farmer Mac had $384.1 million of cash and cash equivalents, $1.6 billion of securities purchased under agreements to resell related to Farmer Mac's recently established cash management and liquidity initiative, and $2.3 billion of investment securities. The management of the credit risk inherent in these investments is governed by Farmer Mac's internal policies as well as FCA regulations, which establish limitations on dollar amount, issuer concentration, and credit quality. Those regulations can be found at 12 C.F.R. §§ 652.1-652.45 (the "Liquidity and Investment Regulations"). In addition to establishing a portfolio of highly liquid investments as an available source of cash, the goals of Farmer Mac's investment policies are designed to minimize Farmer Mac's exposure to financial market volatility, preserve capital, and support Farmer Mac's access to the debt markets.

The Liquidity and Investment Regulations and Farmer Mac's policies generally require each investment or issuer of an investment to be highly rated by a nationally recognized statistical rating organization ("NRSRO"). Investments in mortgage securities and asset-backed securities are required to have a rating in the highest NRSRO category. Corporate debt securities with maturities of no more than five years but more than three years are required to be rated in one of the two highest categories; corporate debt securities with maturities of three years or less are required to be rated in one of the three highest categories. Some investments do not require a rating, such as U.S. Treasury securities and other obligations fully insured by the United States government or a government agency or diversified investment funds regulated under the Investment Company Act of 1940. Investments in diversified investment funds are further limited to those funds that are holding only instruments approved for direct investment by Farmer Mac.

The Liquidity and Investment Regulations and Farmer Mac's policies also establish concentration limits, which are intended to limit exposure to any one counterparty. The Liquidity and Investment Regulations and Farmer Mac's policy limit Farmer Mac's total credit exposure to any single issuer of securities and uncollateralized financial derivatives to 25 percent of Farmer Mac's regulatory capital (as of June 30, 2014, 25 percent of Farmer Mac's regulatory capital was $190.4 million). This limitation is not applied to the obligations of the United States or to qualified investment funds. The limitation applied to the obligations of any GSE is 100 percent of Farmer Mac's regulatory capital. Farmer Mac's policy applicable to new investments limits Farmer Mac's total exposure to any single issuer of securities (other than GSEs and government agencies) and uncollateralized financial derivatives to 5 percent of Farmer Mac's

regulatory capital. See "—Regulatory Matters" for more information on recent changes to the Liquidity and Investment Regulations.

Interest Rate Risk. Farmer Mac is subject to interest rate risk on all assets retained on its balance sheet because of possible timing differences in the cash flows of the assets and related liabilities. This risk is primarily related to loans held, Farmer Mac Guaranteed Securities, and USDA Securities due to the ability of borrowers to prepay their loans before the scheduled maturities, thereby increasing the risk of asset and liability cash flow mismatches. Cash flow mismatches in a changing interest rate environment can reduce the earnings of Farmer Mac if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments when Farmer Mac's funding costs cannot be correspondingly reduced, or if assets repay more slowly than expected and the associated debt must be replaced by higher-cost debt. As discussed below, Farmer Mac manages this interest rate risk by funding assets purchased with liabilities matching the duration and cash flow characteristics of the assets purchased.

The goal of interest rate risk management at Farmer Mac is to create and maintain a portfolio that generates stable earnings and value across a variety of interest rate environments. Farmer Mac's primary strategy for managing interest rate risk is to fund asset purchases with liabilities that have similar duration and cash flow characteristics so that they will perform similarly as interest rates change. To match these characteristics, Farmer Mac issues discount notes and both callable and non-callable medium-term notes across a spectrum of maturities. Farmer Mac issues callable debt to offset the prepayment risk associated with some loans. By using a blend of liabilities that includes callable debt, the interest rate sensitivities of the liabilities tend to increase or decrease as interest rates change in a manner similar to changes in the interest rate sensitivities of the assets. Farmer Mac also uses financial derivatives to better match the durations of Farmer Mac's assets and liabilities, thereby reducing overall interest rate sensitivity.

Taking into consideration the prepayment provisions and the default probabilities associated with its loan assets, Farmer Mac uses prepayment models to project and value cash flows associated with these assets. Because borrowers' behaviors in various interest rate environments may change over time, Farmer Mac periodically evaluates the effectiveness of these models compared to actual prepayment experience and adjusts and refines the models as necessary to improve the precision of subsequent prepayment forecasts.

In certain cases, yield maintenance provisions and other prepayment penalties contained in agricultural mortgage and rural utilities loans reduce, but do not eliminate, prepayment risk. Those provisions require borrowers to make an additional payment when they prepay their loans, thus compensating Farmer Mac for the shortened duration of the prepaid loan. As of June 30, 2014, 2 percent of the total outstanding balance of loans in the Farm & Ranch line of business where Farmer Mac either owned the loan or the beneficial interest in the underlying loan had yield maintenance provisions and 1 percent had other forms of prepayment protection (together covering 4 percent of all loans with fixed interest rates). Of the Farm & Ranch loans purchased in second quarter 2014, none had yield maintenance or another form of prepayment protection. As of June 30, 2014, none of the USDA Securities had yield maintenance provisions; however, 7 percent contained prepayment penalties. Of the USDA Securities purchased in second quarter 2014, 3 percent contained various forms of prepayment penalties. As of June 30, 2014, 62 percent of the rural utilities loans owned by Farmer Mac had yield maintenance provisions. Of the rural utilities loans purchased in second quarter 2014, 89 percent had yield maintenance provisions. As of June 30, 2014, substantially all of the rural utilities loans held in trusts where Farmer Mac owned the beneficial interest in the underlying loan had yield maintenance provisions.

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Farmer Mac's purchases of eligible loan assets expose Farmer Mac to interest rate risk arising primarily from uncertainty as to when the borrowers will repay the outstanding principal balance on the related loans. Generally, the values of Farmer Mac's eligible loan assets, and the debt issued to fund these assets, increase when interest rates decline, and their values decrease as interest rates rise. Furthermore, changes in interest rates may affect loan prepayment rates which may, in turn, affect durations and values of the loans. Declining interest rates generally increase prepayment rates, which shortens the duration of these assets, while rising interest rates tend to slow loan prepayments, thereby extending the duration of the loans.

Farmer Mac is also subject to interest rate risk on loans that Farmer Mac has committed to acquire (other than delinquent loans through LTSPCs) but has not yet purchased. When Farmer Mac commits to purchase those loans, it is exposed to interest rate risk between the time it commits to purchase the loans and the time it either:

- sells Farmer Mac Guaranteed Securities backed by the loans; or
- issues debt to retain the loans in its portfolio.

Farmer Mac manages the interest rate risk related to these loans, and any related Farmer Mac Guaranteed Securities or debt issuance, through the use of forward sale contracts on the debt of other GSEs and futures contracts involving U.S. Treasury securities. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both U.S. Treasury rates and spreads on Farmer Mac debt and certain Farmer Mac Guaranteed Securities. Issuing debt to fund the loans as investments does not fully eliminate interest rate risk due to the possible timing differences in the cash flows of the assets and related liabilities, as discussed above.

Farmer Mac's $384.1 million of cash and cash equivalents mature within three months and are funded with discount notes having similar maturities. As of June 30, 2014, $2.2 billion of the $2.3 billion of investment securities (95 percent) were floating rate securities with rates that adjust within one year or fixed rate securities with original maturities between three months and one year. Those securities are funded with effectively floating rate debt that closely matches the rate adjustment dates of the associated investments. As of June 30, 2014, Farmer Mac had outstanding discount notes of $3.9 billion, medium-term notes that mature within one year of $2.4 billion, and medium-term notes that mature after one year of $5.4 billion.

The cash management and liquidity initiative undertaken by Farmer Mac during second quarter 2014 did not have a material impact on Farmer Mac's interest rate risk profile. The repurchase agreements entered into during second quarter 2014 constitute assets with short-term maturities and, therefore, they exhibit minimal interest rate sensitivity. Additionally, Farmer Mac's repo investment activity is funded through the sale of borrowed collateral, and this collateral must be returned upon the maturity of the repurchase agreements. As a result, the maturities of the assets and liabilities associated with this initiative are effectively matched, and the inclusion of these repurchase agreements in Farmer Mac’s portfolio does not have a material impact on its interest rate risk.

Recognizing that interest rate sensitivity may change with the passage of time and as interest rates change, Farmer Mac assesses this exposure on a regular basis and, if necessary, readjusts its portfolio of assets and liabilities by:

- purchasing assets in the ordinary course of business;

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- refunding existing liabilities; or
- using financial derivatives to alter the characteristics of existing assets or liabilities.

Farmer Mac uses a variety of metrics to quantify and manage its interest rate risk. These metrics include sensitivity to interest rate movements of market value of equity ("MVE") and net interest income ("NII") as well as duration gap analysis. MVE represents management's estimate of the present value of all future cash flows from on- and off-balance sheet assets, liabilities, and financial derivatives, discounted at current interest rates and appropriate spreads. However, MVE is not indicative of the market value of Farmer Mac as a going concern because these market values are theoretical and do not reflect future business activities. MVE sensitivity analysis is used to measure the degree to which the market values of Farmer Mac's assets and liabilities change for a given change in interest rates. Because this analysis evaluates the impact of interest rate movements on the value of all future cash flows, this measure provides an evaluation of Farmer Mac's long-term interest rate risk.

Farmer Mac's NII is the difference between the yield on its interest-earning assets and its funding costs. Farmer Mac's NII may be affected by changes in market interest rates resulting from timing differences between maturities and re-pricing characteristics of assets and liabilities. The direction and magnitude of any such effect depends on the direction and magnitude of the change in interest rates as well as the composition of Farmer Mac's portfolio. The NII forecast represents an estimate of the net interest income that Farmer Mac's current portfolio is expected to produce over a twelve-month horizon. As a result, NII sensitivity statistics provide a shorter-term view of Farmer Mac's interest rate sensitivity.

Duration is a measure of a financial instrument's sensitivity to small changes in interest rates. Duration gap is the difference between the estimated durations of Farmer Mac's assets and liabilities. Because duration is a measure of market value sensitivity, duration gap summarizes the extent to which estimated market value sensitivities for assets and liabilities are matched. Duration gap provides a relatively concise measure of the interest rate risk inherent in Farmer Mac's outstanding book of business.

A positive duration gap denotes that the duration of Farmer Mac's assets is greater than the duration of its liabilities. A positive duration gap indicates that the market value of Farmer Mac's assets is more sensitive to small interest rate movements than is the market value of its liabilities. Conversely, a negative duration gap indicates that Farmer Mac's assets are less sensitive to small interest rate movements than are its liabilities.

Each of the metrics is produced using asset/liability models and is derived based on management's best estimates of such factors as projected interest rates, interest rate volatility, and prepayment speeds. Accordingly, these metrics should be understood as estimates rather than precise measurements. In addition, actual results may differ to the extent there are material changes to Farmer Mac's portfolio or changes in strategies undertaken to mitigate unfavorable sensitivities to interest rate changes.

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The following schedule summarizes the results of Farmer Mac's MVE and NII sensitivity analysis as of June 30, 2014 and December 31, 2013 to an immediate and instantaneous uniform or "parallel" shift in the yield curve:

Table 19

	Percentage Change in MVE from Base Case	
Interest Rate Scenario	June 30, 2014	December 31, 2013
+100 basis points	1.6 %	(2.2)%
-25 basis points	(1.2)%	0.1 %

	Percentage Change in NII from Base Case	
Interest Rate Scenario	June 30, 2014	December 31, 2013
+100 basis points	5.4 %	2.2 %
-25 basis points	(13.5)%	(8.1)%

Farmer Mac's board of directors has established policies and procedures regarding MVE and NII sensitivity. These policies include the measurement of MVE and NII sensitivity to more severe decreasing interest rate scenarios that are consistent in magnitude with the increasing interest rate scenarios. However, given the low interest rate environment, such rate scenarios produce negative interest rates, and, as a result, do not produce results that are meaningful. Consequently, Farmer Mac measures and reports MVE and NII sensitivity to a down 25 basis point interest rate shock.

As of June 30, 2014, Farmer Mac's effective duration gap was minus 1.5 months, compared to 0.3 months as of December 31, 2013. The preferred stock issued by Farmer Mac during the first and second quarters of 2014 lengthened the duration of Farmer Mac's liabilities, while the year-to-date decrease in longer-term interest rates decreased the duration of the Farmer Mac's assets. As a result, Farmer Mac's duration gap moved from being slightly positive to being slightly negative. Farmer Mac's overall interest rate sensitivity remains relatively low and at manageable levels.

The economic effects of financial derivatives are included in Farmer Mac's MVE, NII, and duration gap analyses. Farmer Mac enters into the following financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of assets, future cash flows, credit exposure, and debt issuance, not for trading or speculative purposes:

- "pay-fixed" interest rate swaps, in which Farmer Mac pays fixed rates of interest to, and receives floating rates of interest from, counterparties;
- "receive-fixed" interest rate swaps, in which Farmer Mac receives fixed rates of interest from, and pays floating rates of interest to, counterparties; and
- "basis swaps," in which Farmer Mac pays variable rates of interest based on one index to, and receives variable rates of interest based on another index from, counterparties.

As of June 30, 2014, Farmer Mac had $6.5 billion combined notional amount of interest rate swaps, with terms ranging from less than one year to twenty-five years, of which $1.4 billion were pay-fixed interest rate swaps, $4.2 billion were receive-fixed interest rate swaps, and $0.9 billion were basis swaps.

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Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its debt to match more closely the cash flow and duration characteristics of its loans and other assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Specifically, interest rate swaps synthetically convert the variable cash flows related to the forecasted issuance of short-term debt into effectively fixed rate medium-term notes that match the anticipated duration and interest rate characteristics of the corresponding assets. Farmer Mac evaluates the overall cost of using the swap market as a funding alternative and uses interest rate swaps to manage specific interest rate risks for specific transactions. Certain financial derivatives are designated as fair value hedges of fixed rate assets classified as available-for-sale to protect against fair value changes in the assets related to a benchmark interest rate (i.e., LIBOR).

Farmer Mac has used callable interest rate swaps (in conjunction with the issuance of short-term debt) as an alternative to callable medium-term notes with equivalently structured maturities and call options. The call options on the swaps are designed to match the prepayment options on those assets without prepayment protection. The blended durations of the swaps are also designed to match the duration of the related assets over their estimated lives. If the assets prepay, the swaps can be called and the short-term debt repaid; if the assets do not prepay, the swaps remain outstanding and the short-term debt is rolled over, effectively providing fixed rate callable funding over the lives of the related assets. Thus, the economics of the assets are closely matched to the economics of the interest rate swap and funding combination.

As discussed in Note 4 to the consolidated financial statements, all financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability. Changes in the fair values of financial derivatives are reported in "(Losses)/gains on financial derivatives and hedging activities" in the consolidated statements of operations. For financial derivatives designated in fair value hedging relationships, changes in the fair values of the hedged items related to the risk being hedged are also reported in "(Losses)/gains on financial derivatives and hedging activities" in the consolidated statements of operations. For financial derivatives designated in cash flow hedging relationships, changes in fair value of the hedged items related to the risk being hedged are reported in "Accumulated other comprehensive income/(loss), net of tax" in the consolidated balance sheets. All of Farmer Mac's financial derivative transactions are conducted under standard collateralized agreements that limit Farmer Mac's potential credit exposure to any counterparty. As of June 30, 2014, Farmer Mac had uncollateralized net exposures of $1.8 million to three counterparties. As of December 31, 2013, Farmer Mac had uncollateralized net exposures of $3.0 million to three counterparties.

Liquidity and Capital Resources

Farmer Mac regularly accesses the capital markets for liquidity, and Farmer Mac has maintained access to the capital markets at favorable rates throughout 2013 and during the first half of 2014. Assuming continued access to the capital markets, Farmer Mac believes it has sufficient liquidity and capital resources to support its operations for the next 12 months and for the foreseeable future. Farmer Mac also has a liquidity contingency plan to manage unanticipated disruptions in its access to the capital markets. That plan involves borrowing through repurchase agreement arrangements and the sale of liquid assets. In accordance with the new calculation prescribed by the final rule recently adopted by FCA revising the Liquidity and Investment Regulations, which became effective on April 30, 2014, Farmer Mac is required to maintain a minimum of 90 days of liquidity and use a different methodology for calculating the available days of liquidity. In accordance with the methodology prescribed by those regulations, Farmer Mac maintained an average of 165 days of liquidity during second quarter 2014 and had 168 days of liquidity as of June 30, 2014. Farmer Mac does not expect that this change in regulation requiring a minimum of 90 days of liquidity, instead of 60 days, will have a material effect on its operations or financial condition. For more information about this final rule, see "—Regulatory Matters."

Debt Issuance. Farmer Mac funds its purchases of eligible loan assets and investment assets primarily by issuing debt obligations of various maturities through a network of dealers in the public capital markets. Farmer Mac works to enhance its funding operations by undertaking extensive debt investor relations initiatives, including conducting non-deal roadshows with institutional investors, making periodic dealer sales force presentations, and speaking at fixed income investor conferences throughout the United States. Debt obligations issued by Farmer Mac include discount notes and fixed and floating rate medium-term notes, including callable notes. Farmer Mac also issues discount notes and medium-term notes to obtain funds to finance investment activities, transaction costs, guarantee payments, and LTSPC purchase obligations.

Farmer Mac's board of directors has authorized the issuance of up to $15.0 billion of discount notes and medium-term notes (of which $11.7 billion was outstanding as of June 30, 2014), subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing requirements. Farmer Mac invests the proceeds of its debt issuances in purchases of loans, Farmer Mac Guaranteed Securities, and investment assets in accordance with policies established by its board of directors and subject to regulations established by FCA.

Liquidity. The funding and liquidity needs of Farmer Mac's lines of business are driven by the purchase and retention of eligible loans, USDA Securities, and Farmer Mac Guaranteed Securities (including AgVantage securities); the maturities of Farmer Mac's discount notes and medium-term notes; and payment of principal and interest on Farmer Mac Guaranteed Securities. Farmer Mac's primary sources of funds to meet these needs are the proceeds of its debt issuances, fees for its guarantees and commitments, net effective spread, loan repayments, and maturities of AgVantage securities.

Farmer Mac may use a combination of pay-fixed interest rate swaps and receive-fixed interest rate swaps to mitigate its exposure to interest rate risk and monitors the effects of actual and potential fair value changes on its regulatory capital surplus. From time to time, Farmer Mac uses pay-fixed interest rate swaps, combined with a planned series of discount note or short-term floating rate medium-term note issuances, as an alternative source of effectively fixed rate funding. While the swap market may provide favorable effectively fixed rates, interest rate swap transactions expose Farmer Mac to the risk of future variability of its own issuance spreads versus corresponding LIBOR rates. If the spreads on the Farmer

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Mac discount notes or short-term floating rate medium-term notes were to deteriorate relative to LIBOR, Farmer Mac would be exposed to a commensurate reduction on its net interest yield on the notional amount of its pay-fixed interest rate swaps and its LIBOR-based floating rate assets. Conversely, if the rates on the Farmer Mac discount notes or short-term floating rate medium-term notes were to improve relative to LIBOR, Farmer Mac would benefit from a commensurate increase on its net interest yield on the notional amount of its pay-fixed interest rate swaps and its LIBOR-based floating rate assets.

Farmer Mac maintains cash, cash equivalents (including U.S. Treasury securities and other short-term money market instruments), and other investment securities that can be drawn upon for liquidity needs. The following table presents these assets as of June 30, 2014 and December 31, 2013:

Table 20

	June 30, 2014	December 31, 2013
	(in thousands)	
Cash and cash equivalents	$384,123	$749,313
Investment securities:		
Guaranteed by U.S. Government and its agencies	1,388,315	1,084,187
Guaranteed by GSEs	627,705	946,737
Preferred stock issued by GSEs	82,425	83,161
Corporate debt securities	93,835	195,591
Asset-backed securities	124,563	174,399
Total	$2,700,966	$3,233,388

Farmer Mac's asset-backed investment securities include callable, highly rated auction-rate certificates ("ARCs"), the interest rates on which are reset through an auction process, most commonly at intervals of 28 days, or at formula-based floating rates as set forth in the related transaction documents in the event of a failed auction. These formula-based floating rates, which may at times reset to zero, are intended to preserve the underlying principal balance of the securities and avoid overall cash shortfalls. Accordingly, payments of accrued interest may be delayed and are ultimately subject to cash availability. Beginning in mid-February 2008, there were widespread failures of the auction mechanism designed to provide regular liquidity to these types of securities. Consequently, Farmer Mac has not sold any of its ARCs into the auctions since that time. All ARCs held by Farmer Mac are collateralized entirely by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States. Farmer Mac continues to believe that the credit quality of these securities is high, based on the underlying collateralization and the securities' ratings. To date, Farmer Mac has received all interest due on ARCs it holds and expects to continue to do so. Farmer Mac does not believe that the auction failures will affect Farmer Mac's liquidity or its ability to fund its operations or make dividend payments. All ARCs held by Farmer Mac are callable by the issuers at par at any time.

The carrying value of Farmer Mac's ARCs investments was $55.0 million as of June 30, 2014, compared to $65.3 million as of December 31, 2013. During second quarter 2014, Farmer Mac received proceeds of $12.1 million upon the sale of an ARC security resulting in a realized loss of $0.4 million, reflecting a price of 97 percent of par. As of June 30, 2014, Farmer Mac's carrying value of its ARCs was 89 percent of par. The discounted carrying value reflects uncertainty regarding the ability to obtain par in the absence of any active market trading. See Note 8 to the consolidated financial statements for more information on the carrying value of ARCs.

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Capital. Farmer Mac is subject to the following statutory and regulatory capital requirements – minimum, critical, and risk-based. Farmer Mac is required to comply with the higher of the minimum capital requirement and the risk-based capital requirement. The minimum capital requirement is expressed as a percentage of on-balance sheet assets and off-balance sheet obligations. The critical capital requirement is equal to one-half of the minimum capital amount. Farmer Mac's statutory charter does not specify the required level of risk-based capital but directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters. Certain enforcement powers are given to FCA depending on Farmer Mac's compliance with these capital standards. As of June 30, 2014, Farmer Mac was in compliance with its statutory and regulatory capital requirements. See Note 7 to the consolidated financial statements for more information about Farmer Mac's capital position and see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards" in the Segment Recast 8-K for more information on the statutory and regulatory capital requirements applicable to Farmer Mac.

In accordance with FCA's rule on capital planning that became effective on January 3, 2014 and as part of its capital plan submitted in compliance with this rule, Farmer Mac has adopted a policy for maintaining a sufficient level of "Tier 1" capital (consisting of retained earnings, paid-in-capital, common stock, qualifying preferred stock, and accumulated other comprehensive income allocable to investments not included in one of the four operating lines of business) and imposing restrictions on Tier 1-eligible dividends and employee (including officer) bonus payments in the event that Tier 1 capital falls below specified thresholds. For more information on Farmer Mac's capital adequacy policy and on FCA's rule on capital planning, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards" in the Segment Recast 8-K. As of June 30, 2014, Farmer Mac was in compliance with its capital adequacy policy.

Farmer Mac II LLC Preferred Stock is permanent equity of Farmer Mac II LLC, though it does not constitute a Tier 1 capital-eligible security. In an effort to increase Farmer Mac's Tier 1 capital, as defined under Farmer Mac's capital plan, Farmer Mac issued the Series B Preferred Stock and Series C Preferred Stock in first and second quarter 2014, respectively. As a result, Farmer Mac II LLC intends to redeem all of the outstanding Farmer Mac II LLC Preferred Stock on March 30, 2015, the initial redemption date, at a cash redemption price equal to the liquidation preference with the proceeds of the recent preferred stock offerings and cash on hand. Farmer Mac does not currently anticipate that any further issuance of preferred stock will be needed to fund the planned redemption of the Farmer Mac II LLC Preferred Stock. In addition, prior to the initial redemption date on March 30, 2015, Farmer Mac or an affiliated third party may purchase the FALConS, representing undivided beneficial ownership interests in 250,000 shares of Farmer Mac II LLC Preferred Stock, from time to time in the open market, in privately negotiated transactions or through a public tender offer, and, subject to favorable market conditions, may seek to do so. In May 2014, Farmer Mac purchased $6.0 million of FALConS from certain holders. For more information on the Farmer Mac II LLC Preferred Stock, see "Business—Financing—Equity Issuance—Non-Controlling Interest in Farmer Mac II LLC" in the Segment Recast 8-K. For more information on Farmer Mac's capital plan, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards" in the Segment Recast 8-K.

Regulatory Matters

The Dodd-Frank Act contains a variety of provisions designed to regulate financial markets. Certain provisions of the Dodd-Frank Act, including those regarding derivatives, corporate governance, and executive compensation, apply to Farmer Mac. Farmer Mac does not expect that any of the final rules that have been passed or that are anticipated to be passed under the Dodd-Frank Act will have a material effect on Farmer Mac's business activities and operations or financial condition. Farmer Mac will continue to monitor all applicable developments in the implementation of the Dodd-Frank Act and expects to be able to adapt successfully to any new applicable legislative and regulatory requirements.

On October 10, 2013, FCA adopted a final rule to revise the Liquidity and Investment Regulations governing the management of liquidity risk at Farmer Mac. The final rule adopted by FCA increases the minimum days-of-liquidity requirement for Farmer Mac's liquidity reserve from 60 to 90 days of maturing obligations, and also requires progressively higher-quality liquid assets to meet progressively shorter time intervals of obligations within the new 90-day minimum period. This rule was published in the Federal Register on November 1, 2013 and became effective on April 30, 2014. Farmer Mac does not expect its compliance with the final rule on liquidity management to materially affect Farmer Mac's operations or financial condition. The final rule adopted on October 10, 2013 complements the final rule published by FCA on November 5, 2012 amending the Liquidity and Investment Regulations to address investment eligibility and management. FCA also has sought public comment regarding the use of credit ratings in the Liquidity and Investment Regulations, in accordance with the Dodd-Frank Act, for purposes of a final rule to be published at a later date.

On February 25, 2014, FCA published in the Federal Register an advance notice of proposed rulemaking (the "ANPRM") seeking public comment on Farmer Mac's board governance and standards of conduct, including director election procedures, director fiduciary duties, conflicts of interest, and risk governance. Farmer Mac submitted comments on the ANPRM to FCA on April 28, 2014.

Other Matters

Common Stock Dividends. For each of first and second quarter in 2014, Farmer Mac paid a quarterly dividend of $0.14 per share on all classes of its common stock. For each quarter in 2013, Farmer Mac paid a quarterly dividend of $0.12 per share on all classes of its common stock. Farmer Mac's ability to declare and pay dividends on common stock could be restricted if it fails to comply with applicable capital requirements. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement Levels" in the Segment Recast 8-K.

Preferred Stock Dividends. For each of first and second quarter 2014 and the last three quarters of 2013, Farmer Mac paid a quarterly dividend of $0.3672 per share on its Series A Preferred Stock. Farmer Mac's Series B Preferred Stock was issued on March 25, 2014, and the initial dividend of $0.105 per share (for the period from, but not including, the issuance date through and including April 17, 2014) was paid on the regularly scheduled payment date of April 17, 2014, and a quarterly dividend of $0.4297 was paid on the regularly scheduled payment date of July 17, 2014. No dividends have been paid on Farmer Mac's currently outstanding Series C Preferred Stock, which was issued on June 20, 2014. For first quarter 2013, Farmer Mac paid a quarterly dividend of $2.36 per share on its retired Series C Preferred Stock issued in 2008 and 2009. The retired Series C Preferred Stock was retired and redeemed on January 17,

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2013 with the proceeds from the issuance of the Series A Preferred Stock. Farmer Mac's ability to declare and pay dividends on preferred stock could be restricted if it fails to comply with applicable capital requirements. See Note 7 to the consolidated financial statements for more information on the terms of the Farmer Mac's currently outstanding preferred stock and the retired Series C Preferred Stock.

Non-controlling Interest-Preferred Stock Dividends. For each of first and second quarter 2014 and for each quarter during 2013, Farmer Mac II LLC paid a quarterly dividend of $22.1875 per share on the Farmer Mac II Preferred Stock. Farmer Mac's net income attributable to non-controlling interest totaled $5.8 million and $11.4 million, respectively, for the three and six months ended June 30, 2014 compared to $5.5 million and $11.1 million, respectively, for the three and six months ended June 30, 2013. These amounts represent the dividends paid on the Farmer Mac II LLC Preferred Stock held by third parties. Farmer Mac's income tax expense is determined based on income before income taxes less the amount of these dividends.

Supplemental Information

The following tables present quarterly and annual information regarding purchases and repayments of loans, guarantees, and LTSPCs and outstanding loans, guarantees, and LTSPCs:

Table 21
Farmer Mac New Purchases, Guarantees, and LTSPCs

	Farm & Ranch		USDA Guarantees	Rural Utilities	Institutional Credit	
	Loans	LTSPCs	USDA Securities	Loans	AgVantage	Total
	(in thousands)					
For the quarter ended:						
June 30, 2014	$159,116	$34,850	$90,785	$4,689	$300,775	$590,215
March 31, 2014	192,407	185,594	67,984	53,903	228,690	728,578
December 31, 2013	245,770	75,731	58,438	41,374	295,000	716,313
September 30, 2013	193,089	198,783	70,372	5,107	353,500	820,851
June 30, 2013	226,135	99,504	110,897	10,222	200,000	646,758
March 31, 2013	159,887	166,780	122,187	30,262	425,000	904,116
December 31, 2012	181,555	378,258	102,339	56,638	133,406	852,196
September 30, 2012	132,882	115,757	114,974	26,843	451,000	841,456
June 30, 2012	145,423	70,458	165,613	58,286	200,000	639,780
For the year ended:						
December 31, 2013	824,881	540,798	361,894	86,965	1,273,500	3,088,038
December 31, 2012	570,346	744,110	484,651	166,117	984,406	2,949,630

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Table 22
Farmer Mac Repayments of Loans, Guarantees and LTSPCs, and USDA Guarantees

	Farm & Ranch			USDA Guarantees	Rural Utilities	Institutional Credit	
	Loans	Guaranteed Securities	LTSPCs	USDA Securities	Loans	AgVantage	Total
	(in thousands)						
For the quarter ended:							
Scheduled	$9,813	$13,623	$52,622	$28,681	$—	$361,831	$466,570
Unscheduled	45,094	13,575	42,550	38,465	19,622	—	159,306
June 30, 2014	$54,907	$27,198	$95,172	$67,146	$19,622	$361,831	$625,876
Scheduled	$41,587	$24,430	$48,157	$29,319	$23,744	$176,268	$343,505
Unscheduled	63,329	9,747	59,856	39,086	55,164	—	227,182
March 31, 2014	$104,916	$34,177	$108,013	$68,405	$78,908	$176,268	$570,687
Scheduled	$6,729	$24,367	$36,063	$17,463	$6,897	$303,087	$394,606
Unscheduled	54,277	11,586	61,147	30,651	—	—	157,661
December 31, 2013	$61,006	$35,953	$97,210	$48,114	$6,897	$303,087	$552,267
Scheduled	$34,455	$13,133	$47,143	$21,235	$31,994	$258,488	$406,448
Unscheduled	84,889	12,232	81,761	39,514	5,259	—	223,655
September 30, 2013	$119,344	$25,365	$128,904	$60,749	$37,253	$258,488	$630,103
Scheduled	$7,242	$11,749	$50,222	$26,056	$—	$206,511	$301,780
Unscheduled	46,479	17,682	57,385	65,776	—	—	187,322
June 30, 2013	$53,721	$29,431	$107,607	$91,832	$—	$206,511	$489,102
Scheduled	$34,014	$28,453	$37,262	$29,918	$22,509	$77,925	$230,081
Unscheduled	101,180	26,417	64,021	59,743	—	—	251,361
March 31, 2013	$135,194	$54,870	$101,283	$89,661	$22,509	$77,925	$481,442
Scheduled	$3,691	$28,695	$12,347	$17,299	$—	$3,600	$65,632
Unscheduled	43,414	35,655	91,679	68,687	—	—	239,435
December 31, 2012	$47,105	$64,350	$104,026	$85,986	$—	$3,600	$305,067
Scheduled	$25,076	$13,918	$22,173	$21,357	$24,260	$251,801	$358,585
Unscheduled	97,030	20,869	69,828	73,578	3,927	—	265,232
September 30, 2012	$122,106	$34,787	$92,001	$94,935	$28,187	$251,801	$623,817
Scheduled	$10,252	$13,624	$18,501	$23,587	$3,564	$151,001	$220,529
Unscheduled	85,241	13,295	44,239	92,481	—	—	235,256
June 30, 2012	$95,493	$26,919	$62,740	$116,068	$3,564	$151,001	$455,785
For the year ended:							
Scheduled	$82,440	$77,702	$170,690	$94,672	$61,400	$846,011	$1,332,915
Unscheduled	286,825	67,917	264,314	195,684	5,259	—	819,999
December 31, 2013	$369,265	$145,619	$435,004	$290,356	$66,659	$846,011	$2,152,914

Scheduled	$75,975	$76,997	$92,649	$88,804	$46,272	$502,102	$882,799
Unscheduled	302,364	93,765	271,444	293,445	3,927	—	964,945
December 31, 2012	$378,339	$170,762	$364,093	$382,249	$50,199	$502,102	$1,847,744

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Table 23

Outstanding Balance of Farmer Mac Loans, Guarantees and LTSPCs, and USDA Guarantees

	Farm & Ranch			USDA Guarantees	Rural Utilities	Institutional Credit	
	Loans	Guaranteed Securities	LTSPCs	USDA Securities	Loans	AgVantage	Total
	(in thousands)						
As of:							
June 30, 2014	$2,327,167	$704,376	$2,279,121	$1,710,335	$1,012,313	$6,039,230	$14,072,542
March 31, 2014	2,222,958	731,574	2,339,443	1,686,696	1,027,246	6,100,286	14,108,203
December 31, 2013	2,135,467	765,751	2,261,862	1,687,117	1,052,251	6,047,864	13,950,312
September 30, 2013	1,950,704	801,703	2,283,341	1,676,793	1,017,774	6,055,951	13,786,266
June 30, 2013	1,876,958	827,069	2,213,462	1,667,170	1,049,920	5,960,939	13,595,518
March 31, 2013	1,704,544	856,500	2,221,565	1,648,105	1,039,698	5,967,450	13,437,862
December 31, 2012	1,679,851	911,370	2,156,068	1,615,579	1,031,945	5,620,375	13,015,188
September 30, 2012	1,545,401	975,720	1,881,836	1,599,226	975,307	5,490,569	12,468,059
June 30, 2012	1,534,625	1,010,507	1,858,080	1,579,187	976,651	5,291,370	12,250,420

Table 24

Outstanding Balance of Loans Held,
On-Balance Sheet AgVantage Securities, and USDA Securities

	Fixed Rate	5- to 10-Year ARMs & Resets	1-Month to 3-Year ARMs	Total Held in Portfolio
	(in thousands)			
As of:				
June 30, 2014	$4,955,560	$1,881,625	$3,247,011	$10,084,196
March 31, 2014	4,890,979	1,834,352	3,304,094	10,029,425
December 31, 2013	4,980,500	1,827,744	3,113,224	9,921,468
September 30, 2013	4,970,420	1,802,255	2,924,785	9,697,460
June 30, 2013	4,714,119	1,871,225	2,964,004	9,549,348
March 31, 2013	4,670,617	1,797,456	2,883,474	9,351,547
December 31, 2012	4,483,454	1,803,866	2,648,103	8,935,423
September 30, 2012	4,904,265	1,213,588	2,473,086	8,590,939
June 30, 2012	5,035,743	1,259,568	2,063,490	8,358,801

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The following table presents the quarterly net effective spread by business segment:

Table 25

	Net Effective Spread by Business Segment											
	Farm & Ranch		USDA Guarantees		Rural Utilities		Institutional Credit		Corporate		Net Effective Spread	
	Dollars	Yield	Dollars	Yield	Dollars	Yield	Dollars	Yield	Dollars	Yield	Dollars	Yield
	(dollars in thousands)											
For the quarter ended:												
June 30, 2014	$7,820	1.64 %	$4,159	0.99 %	$2,953	1.16 %	$7,257	0.57 %	$4,160	0.57 %	$26,349	0.84 %
March 31, 2014 (1)	7,114	1.53 %	3,784	0.91 %	1,990	0.73 %	6,672	0.53 %	4,142	0.56 %	23,702	0.75 %
December 31, 2013 (1)	10,113	2.20 %	4,022	0.97 %	2,379	0.89 %	6,210	0.49 %	4,420	0.58 %	27,144	0.85 %
September 30, 2013	7,980	1.86 %	4,505	1.09 %	2,974	1.12 %	6,205	0.49 %	4,117	0.57 %	25,781	0.83 %
June 30, 2013	8,228	2.08 %	4,508	1.12 %	3,056	1.14 %	5,977	0.48 %	4,294	0.63 %	26,063	0.87 %
March 31, 2013	8,083	2.20 %	4,694	1.17 %	3,183	1.20 %	5,863	0.50 %	4,440	0.61 %	26,263	0.90 %
December 31, 2012	7,936	2.24 %	4,718	1.21 %	3,154	1.22 %	5,970	0.52 %	4,682	0.61 %	26,460	0.91 %
September 30, 2012	8,317	2.49 %	4,375	1.13 %	3,260	1.29 %	6,096	0.55 %	5,208	0.66 %	27,256	0.95 %
June 30, 2012	8,980	2.78 %	4,398	1.16 %	2,995	1.22 %	5,954	0.56 %	4,881	0.67 %	27,208	0.99 %

(1) First quarter 2014 includes the impact of spread compression in the Rural Utilities line of business from the early refinancing of loans (41 basis points). Fourth quarter 2013 includes the impact in net effective spread in the Farm & Ranch line of business of one-time adjustments for recovered buyout interest and yield maintenance (40 basis points in aggregate) and the impact of spread compression in the Rural Utilities line of business from the early refinancing of loans (26 basis points).

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The following table presents quarterly core earnings reconciled to net income attributable to common stockholders:
Table 26
Core Earnings by Quarter Ended

	June 2014	March 2014	December 2013	September 2013	June 2013	March 2013	December 2012	September 2012	June 2012
	(in thousands)								
Revenues:									
Net effective spread (1)	$26,349	$23,702	$27,144	$25,781	$26,063	$26,263	$26,460	$27,256	$27,209
Guarantee and commitment fees	6,916	7,049	7,130	7,046	6,954	6,792	6,764	6,591	6,607
Other (2)	(520)	(410)	427	(466)	3,274	186	393	384	(294)
Total revenues	32,745	30,341	34,701	32,361	36,291	33,241	33,617	34,231	33,522
Credit related (income)/expense:									
(Release of)/provision for losses	(2,557)	674	12	(36)	(704)	1,176	1,157	94	174
REO operating expenses	59	2	3	35	259	126	47	66	15
(Gains)/losses on sale of REO	(168)	3	(26)	(39)	(1,124)	(47)	(629)	13	(262)
Total credit related (income)/expense	(2,666)	679	(11)	(40)	(1,569)	1,255	575	173	(73)
Operating expenses:									
Compensation and employee benefits	4,889	4,456	4,025	4,523	4,571	4,698	5,752	4,375	4,574
General and administrative	3,288	2,794	3,104	2,827	2,715	2,917	2,913	2,788	2,664
Regulatory fees	594	594	594	593	594	594	594	562	562
Total operating expenses	8,771	7,844	7,723	7,943	7,880	8,209	9,259	7,725	7,800
Net earnings	26,640	21,818	26,989	24,458	29,980	23,777	23,783	26,333	25,795
Income tax (benefit)/expense (3)	(4,734)	4,334	5,279	6,263	7,007	6,081	5,914	6,682	6,627
Non-controlling interest	5,819	5,547	5,546	5,547	5,547	5,547	5,546	5,547	5,547
Preferred stock dividends	2,308	952	882	881	881	851	720	719	720
Core earnings	$23,247	$10,985	$15,282	$11,767	$16,545	$11,298	$11,603	$13,385	$12,901
Reconciling items (after-tax effects):									
Unrealized (losses)/gains on financial derivatives and hedging activities	(3,053)	(2,395)	8,003	4,632	11,021	5,712	4,719	3,456	(14,035)

Unrealized (losses)/gains on trading assets	(46)	426	(50)	(407)	(212)	136	1,778	(286)	(2,006)
Amortization of premiums/discounts and deferred gains on assets consolidated at fair value	(179)	(8,027)	(10,864)	(421)	(564)	(618)	(4,534)	(873)	(901)
Net effects of settlements on agency forwards	236	(176)	114	(158)	955	(338)	(102)	699	(250)
Lower of cost or fair value adjustments on loans held for sale	—	—	—	—	—	—	(3,863)	—	—
Net income/(loss) attributable to common stockholders	$20,205	$813	$12,485	$15,413	$27,745	$16,190	$9,601	$16,381	$(4,291)

(1) The difference between first quarter 2014 and fourth quarter 2013 net effective spread was due to the impact of one-time adjustments for recovered buyout interest and yield maintenance of $1.8 million in fourth quarter 2013, $0.4 million associated with the early refinancing of AgVantage securities and the recasting of certain Rural Utilities loans, and a lower day count in first quarter 2014.

(2) First quarter 2014 includes additional hedging costs of $0.6 million. Fourth quarter 2013 includes gains on the repurchase of debt of $1.5 million,

partially offset by realized losses on the sale of available-for-sale securities of $0.9 million and additional hedging costs of $0.2 million. Second quarter 2013 includes $3.1 million of realized gains from the sale of an available-for-sale investment security.

(3) Second quarter 2014 reflects a reduction of $11.6 million of tax valuation allowance against capital loss carryforwards related to expected capital gains on securities sold, not yet purchased. First quarter 2014 and fourth quarter 2013 reflect a reduction in tax valuation allowance of $0.9 million and $2.1 million, respectively, associated with certain gains on investment portfolio assets. Second quarter 2013 includes the reduction of $1.1 million of tax valuation allowance against capital loss carryforwards related to realized gains from the sale of an available-for-sale investment security.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Farmer Mac is exposed to market risk from changes in interest rates. Farmer Mac manages this market risk by entering into various financial transactions, including financial derivatives, and by monitoring and measuring its exposure to changes in interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk" for more information about Farmer Mac's exposure to interest rate risk and its strategies to manage such risk. For information regarding Farmer Mac's use of financial derivatives and related accounting policies, see Note 4 to the consolidated financial statements.

Item 4. Controls and Procedures

(a) Management's Evaluation of Disclosure Controls and Procedures. Farmer Mac maintains disclosure controls and procedures designed to ensure that information required to be disclosed in its periodic filings under the Securities Exchange Act of 1934 (the “Exchange Act”), including this report, is recorded, processed, summarized, and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to Farmer Mac's management on a timely basis to allow decisions regarding required disclosure. Management, including Farmer Mac's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of Farmer Mac's disclosure controls and procedures (as defined under Rules 13a 15(e) and 15d 15(e) of the Exchange Act) as of June 30, 2014.

Farmer Mac carried out the evaluation of the effectiveness of its disclosure controls and procedures, required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Farmer Mac's disclosure controls and procedures were effective as of June 30, 2014.

(b) Changes in Internal Control Over Financial Reporting. There were no changes in Farmer Mac's internal control over financial reporting during the three months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, Farmer Mac's internal control over financial reporting.

PART II

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 13, 2014, and in Farmer Mac's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the SEC on May 12, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a)Farmer Mac is a federally chartered instrumentality of the United States and its debt and equity securities are exempt from registration pursuant to Section 3(a)(2) of the Securities Act of 1933.

During second quarter 2014, the following transactions related to Farmer Mac's equity securities that were not registered under the Securities Act of 1933 and not otherwise reported on a Current Report on Form 8-K occurred:

Class C non-voting common stock. Under Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued an aggregate of 176 shares of its Class C non-voting common stock on April 11, 2014 to the five directors who elected to receive stock in lieu of their cash retainers. Farmer Mac calculated the number of shares issued to the directors based on a price of $33.25 per share, which was the closing price of the Class C non-voting common stock on March 31, 2014 as reported by the New York Stock Exchange.

On April 21, 2014, Farmer Mac granted stock appreciation rights under its 2008 Omnibus Incentive Plan with respect to an aggregate of 58,000 shares of Class C non-voting common stock, at an exercise price of $35.60 per share, to seventeen employees as incentive compensation. On that same day, Farmer Mac also granted 1,549 shares of restricted stock to one employee under its 2008 Omnibus Incentive Plan. All of those shares of restricted stock will "cliff" vest three years after the grant date if the employee remains employed by Farmer Mac at that time.

Series C Preferred Stock. On June 20, 2014, Farmer Mac issued $75.0 million (3,000,000 shares) of its Series C Preferred Stock. The Series C Preferred Stock has a liquidation preference of $25.00 per share, for net cash proceeds to Farmer Mac of $73,520,250 ($75.0 million in gross proceeds less underwriting discount). BofA Merrill Lynch served as sole book-running manager for this transaction, and Compass Point Research & Trading, LLC, Sidoti & Company, LLC, and Sterne, Agee & Leach, Inc. served as co-managers. The Series C Preferred Stock was offered in reliance on an exemption from registration under Section 3(a)(2) of the Securities Act of 1933. The Series C Preferred Stock is not convertible or exchangeable into any other class or series of equity of Farmer Mac.

(b) Not applicable.

(c) None.

Item 3. Defaults Upon senior Securities

(a) None.

(b) None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) None.

(b) None.

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Item 6. Exhibits

*	3.1	—	Title VIII of the Farm Credit Act of 1971, as most recently amended by the Food, Conservation and Energy Act of 2008 (Previously filed as Exhibit to Form 10-Q filed August 12, 2008).
*	3.2	—	Amended and Restated By-Laws of the Registrant (Previously filed as Exhibit 3.1 to Form 8-K filed June 9, 2014).
*	4.1	—	Specimen Certificate for Farmer Mac Class A Voting Common Stock (Previously filed as Exhibit 4.1 to Form 10-Q filed May 15, 2003).
*	4.2	—	Specimen Certificate for Farmer Mac Class B Voting Common Stock (Previously filed as Exhibit 4.2 to Form 10-Q filed May 15, 2003).
*	4.3	—	Specimen Certificate for Farmer Mac Class C Non-Voting Common Stock (Previously filed as Exhibit 4.3 to Form 10-Q filed May 15, 2003).
*	4.4	—	Specimen Certificate for 5.875% Non-Cumulative Preferred Stock, Series A (Previously filed as Exhibit 4.4.1 to Form 10-Q filed May 9, 2013).
*	4.4.1	—	Certificate of Designation of Terms and Conditions of 5.875% Non-Cumulative Preferred Stock, Series A (Previously filed as Exhibit 4.1 to Form 8-A filed January 17, 2013).
*	4.5	—	Specimen Certificate for 6.875% Non-Cumulative Preferred Stock, Series B (Previously filed as Exhibit 4.5 to Form 10-Q filed May 12, 2014).
*	4.5.1	—	Certificate of Designation of Terms and Conditions of 6.875% Non-Cumulative Preferred Stock, Series B (Previously filed as Exhibit 4.1 to Form 8-A filed March 25, 2014).
**	4.6	—	Specimen Certificate for 6.000% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series C.
*	4.6.1	—	Certificate of Designation of Terms and Conditions of 6.000% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series C (Previously filed as Exhibit 4.1 to Form 8-A filed June 20, 2014).
*†	10.1	—	Description of compensation arrangement between Farmer Mac and its directors (Previously filed as Exhibit 10.1 to Form 10-Q filed May 12, 2014).
*	21	—	List of the Registrant's subsidiaries (Previously filed as Exhibit 21 to Form 10-K filed March 16, 2010).
**	31.1	—	Certification of Registrant's principal executive officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	31.2	—	Certification of Registrant's principal financial officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	32	—	Certification of Registrant's principal executive officer and principal financial officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**	101.INS	—	XBRL Instance Document.
**	101.SCH	—	XBRL Taxonomy Extension Schema Document.
**	101.CAL	—	XBRL Taxonomy Calculation Linkbase Document.
**	101.DEF	—	XBRL Taxonomy Definition Linkbase Document.
**	101.LAB	—	XBRL Taxonomy Label Linkbase Document.
**	101.PRE	—	XBRL Taxonomy Presentation Linkbase Document.

* Incorporated by reference to the indicated prior filing.
** Filed with this report.

† Management contract or compensatory plan

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

	/s/ Timothy L. Buzby	August 11, 2014
By:	Timothy L. Buzby President and Chief Executive Officer (Principal Executive Officer)	Date
	/s/ R. Dale Lynch	August 11, 2014
By:	R. Dale Lynch Senior Vice President – Chief Financial Officer (Principal Financial Officer)	Date

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