YALE INDUSTRIAL PRODUCTS INC
Form 10-Q
February 05, 2009

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

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

For the quarterly period ended December 28, 2008

or

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

For the transition period from to

Commission File Number: 0-27618

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

| | |
|---|---|
| New York | 16-0547600 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 140 John James Audubon Parkway, Amherst, NY | 14228-1197 |
| (Address of principal executive offices) | (Zip code) |

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

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

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

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

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

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

The number of shares of common stock outstanding as of January 31, 2009 was: 19,041,930 shares.

FORM 10-Q INDEX
COLUMBUS McKINNON CORPORATION
December 28, 2008

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements (Unaudited)

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | December 28, 2008 (unaudited) | March 31, 2008 |
|---|---|---|
| ASSETS: | (In thousands) | |
| Current assets: | | |
| Cash and cash equivalents | $ 21,973 | $ 75,994 |
| Trade accounts receivable | 93,997 | 93,833 |
| Inventories | 106,850 | 84,286 |
| Prepaid expenses | 24,814 | 17,320 |
| Current assets of discontinued operations | - | 17,334 |
| Total current assets | 247,634 | 288,767 |
| Property, plant, and equipment, net | 61,404 | 53,420 |
| Goodwill and other intangibles, net | 235,044 | 187,376 |
| Marketable securities | 28,039 | 29,807 |
| Deferred taxes on income | 12,452 | 17,570 |
| Other assets | 6,635 | 8,094 |
| Assets of discontinued operations | - | 5,001 |
| Total assets | $ 591,208 | $ 590,035 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Notes payable to banks | $ 1,858 | $ 36 |
| Trade accounts payable | 37,870 | 35,149 |
| Accrued liabilities | 56,962 | 52,265 |
| Restructuring reserve | 933 | 58 |
| Current portion of long-term debt | 331 | 326 |
| Current liabilities of discontinued operations | - | 24,955 |
| Total current liabilities | 97,954 | 112,789 |
| Senior debt, less current portion | 8,045 | 3,066 |
| Subordinated debt | 124,855 | 129,855 |
| Other non-current liabilities | 50,633 | 48,844 |
| Total liabilities | 281,487 | 294,554 |
| Shareholders' equity | | |
| Common stock | 190 | 189 |
| Additional paid-in capital | 180,249 | 178,457 |
| Retained earnings | 145,746 | 122,400 |
| ESOP debt guarantee | (2,444) | (2,824) |
| Accumulated other comprehensive loss | (14,020) | (2,741) |
| Total shareholders' equity | 309,721 | 295,481 |
| Total liabilities and shareholders' equity | $ 591,208 | $ 590,035 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | December 28, 2008 | December 30, 2007 | December 28, 2008 | December 30, 2007 |
| | (In thousands, except per share data) | | | |
| Net sales | $ 165,076 | $ 146,176 | $ 470,920 | $ 432,603 |
| Cost of products sold | 120,285 | 100,698 | 332,032 | 298,497 |
| Gross profit | 44,791 | 45,478 | 138,888 | 134,106 |
| | | | | |
| Selling expenses | 19,861 | 17,310 | 55,227 | 49,736 |
| General and administrative expenses | 8,630 | 8,593 | 27,977 | 25,181 |
| Restructuring charges | 990 | 149 | 1,145 | 551 |
| Amortization of intangibles | 421 | 29 | 477 | 82 |
| | 29,902 | 26,081 | 84,826 | 75,550 |
| | | | | |
| Income from operations | 14,889 | 19,397 | 54,062 | 58,556 |
| Interest and debt expense | 3,604 | 3,147 | 9,929 | 10,476 |
| (Gain) loss on bond redemptions | (244) | 177 | (244) | 1,620 |
| Investment loss (income) | 3,335 | (261) | 3,158 | (812) |
| Foreign currency exchange loss | 1,759 | 153 | 2,548 | 301 |
| Other (income) and expense, net | (517) | (815) | (2,950) | (2,341) |
| Income from continuing operations before income tax expense | 6,952 | 16,996 | 41,621 | 49,312 |
| Income tax expense | 2,454 | 6,849 | 14,850 | 18,841 |
| Income from continuing operations | 4,498 | 10,147 | 26,771 | 30,471 |
| Loss from discontinued operations (net of tax benefit) | (685) | (153) | (2,651) | (1,504) |
| Net income | 3,813 | 9,994 | 24,120 | 28,967 |
| Retained earnings - beginning of period | 141,933 | 104,024 | 122,400 | 85,237 |
| Change in accounting principle (note 15) | - | - | (774) | (186) |
| Retained earnings - end of period | $ 145,746 | $ 114,018 | $ 145,746 | $ 114,018 |
| | | | | |
| Basic income per share: | | | | |
| Income from continuing operations | $ 0.24 | $ 0.54 | $ 1.42 | $ 1.63 |
| Loss from discontinued operations | (0.04) | (0.01) | (0.14) | (0.08) |
| Net income | $ 0.20 | $ 0.53 | $ 1.28 | $ 1.55 |
| | | | | |
| Diluted income per share: | | | | |
| Income from continuing operations | $ 0.24 | $ 0.53 | $ 1.40 | $ 1.59 |
| Loss from discontinued operations | (0.04) | (0.01) | (0.14) | (0.08) |
| Net income | $ 0.20 | $ 0.52 | $ 1.26 | $ 1.51 |

See accompanying notes to condensed consolidated financial statements.

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

| | Nine Months Ended | |
|---|---|---|
| | December 28, 2008 | December 30, 2007 |
| | (In thousands) | |
| OPERATING ACTIVITIES: | | |
| Net income | $ 24,120 | $ 28,967 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss from discontinued operations | 2,651 | 1,504 |
| Depreciation and amortization | 7,521 | 6,003 |
| Deferred income taxes | 8,684 | 14,502 |
| Loss (gain) on sale of real estate/investments | 2,943 | (433) |
| (Gain) loss on early retirement of bonds | (300) | 1,244 |
| Stock-based compensation | 1,001 | 944 |
| Amortization/write-off of deferred financing costs | 449 | 814 |
| Changes in operating assets and liabilities net of effects of business acquisitions and divestitures: | | |
| Trade accounts receivable | 10,577 | 2,453 |
| Inventories | (4,372) | (13,122) |
| Prepaid expenses | (775) | 293 |
| Other assets | 997 | (1,045) |
| Trade accounts payable | (2,581) | 3,043 |
| Accrued and non-current liabilities | (6,532) | (6,932) |
| Net cash provided by operating activities from continuing operations | 44,383 | 38,235 |
| Net cash used by operating activities from discontinued operations | (3,082) | (250) |
| Net cash provided by operating activities | 41,301 | 37,985 |
| | | |
| INVESTING ACTIVITIES: | | |
| Proceeds from sale of marketable securities | 338 | 12,876 |
| Purchases of marketable securities | (2,277) | (14,273) |
| Capital expenditures | (8,504) | (7,390) |
| Purchase of businesses, net of cash acquired | (53,261) | - |
| Proceeds from sale of assets | 1,269 | 5,504 |
| Net cash used by investing activities from continuing operations | (62,435) | (3,283) |
| Net cash provided by investing activities from discontinued operations | 448 | 386 |
| Net cash used by investing activities | (61,987) | (2,897) |
| | | |
| FINANCING ACTIVITIES: | | |
| Proceeds from exercise of stock options | 391 | 1,309 |
| Net payments under revolving line-of-credit agreements | (5,067) | (842) |
| Repayment of debt | (6,871) | (26,465) |
| Other | 567 | 420 |
| Net cash used by financing activities from continuing operations | (10,980) | (25,578) |
| Net cash used by financing activities from discontinued operations | (14,612) | (603) |
| Net cash used by financing activities | (25,592) | (26,181) |

| | | |
|---|---|---|
| Effect of exchange rate changes on cash | (7,743) | 3,511 |
| Net change in cash and cash equivalents | (54,021) | 12,418 |
| Cash and cash equivalents at beginning of year | 75,994 | 48,655 |
| Cash and cash equivalents at end of year | $ 21,973 | $ 61,073 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | December 28, 2008 | December 30, 2007 | December 28, 2008 | December 30, 2007 |
| | (In thousands) | | | |
| Net income | $ 3,813 | $ 9,994 | $ 24,120 | $ 28,967 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Foreign currency translation adjustments | (4,900) | 1,262 | (11,591) | 6,637 |
| Unrealized loss on investments: | | | | |
| Unrealized holding loss arising during the period | (2,344) | (211) | (3,707) | (104) |
| Reclassification adjustment for loss (gain) included in net income | 3,629 | - | 4,019 | (45) |
| | 1,285 | (211) | 312 | (149) |
| Total other comprehensive (loss) income | (3,615) | 1,051 | (11,279) | 6,488 |
| Comprehensive income | $ 198 | $ 11,045 | $ 12,841 | $ 35,455 |

See accompanying notes to condensed consolidated financial statements.

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COLUMBUS McKINNON CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(Dollar amounts in thousands, except share data)
December 28, 2008

1. Description of Business

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of Columbus McKinnon Corporation (the Company) at December 28, 2008 and the results of its operations and its cash flows for the three and nine-month periods ended December 28, 2008 and December 30, 2007, have been included. Results for the period ended December 28, 2008 are not necessarily indicative of the results that may be expected for the year ended March 31, 2009. The balance sheet at March 31, 2008 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Columbus McKinnon Corporation annual report on Form 10-K for the year ended March 31, 2008.

The Company is a leading manufacturer and marketer of material handling products, systems and services which lift, secure, position and move material ergonomically, safely, precisely and efficiently. Key products include hoists, cranes, actuators, chain and forged attachments. The Company’s products are sold, domestically and internationally, principally to third party distributors through diverse distribution channels, and to a lesser extent directly to manufacturers and other end-users.

2. Acquisitions

On October 1, 2008, the Company acquired the Kissing, Germany based Pfaff Beteiligungs GmbH (“Pfaff-silberblau”), a leading European supplier of lifting, material handling and actuator products with revenue of approximately $90 million USD, in 2007. Pfaff-silberblau is a leading European hoist and material handling equipment brand which complements the Company’s existing business in the region. Its actuator business provides the Company with technical engineering expertise, access to the growing European market and diversifies the Company’s existing North American business. The Pfaff-silberblau acquisition will strengthen the Company’s global sales to help level geographic economic cycles and meet its strategic objectives. The results of Pfaff-silberblau are included in the Company’s condensed consolidated financial statements from the date of acquisition. The acquisition of Pfaff-silberblau is not considered significant to the Company’s consolidated results of operations.

This transaction was accounted for under the purchase method of accounting in accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 141 “Business Combinations.” The aggregate purchase consideration for the acquisition of Pfaff-silberblau was $53,261 USD in cash and acquisition costs. The acquisition was funded with existing cash. The purchase price was allocated to the assets acquired and liabilities assumed based upon a preliminary valuation of respective fair values. The identifiable intangible assets consisted of a trademark with a value of $4,571 (18 year estimated useful life), a trademark with a value of $1,530 (18 year estimated useful life), customer relationships with a value of $15,097 (11 year estimated useful life), and technology with a value of $635 (15 year estimated useful life). A final valuation is expected to be completed during the fourth quarter of fiscal 2009. The excess consideration over fair value was recorded as goodwill and approximated $27,428, none of which is deductible for tax purposes. The preliminary allocation of purchase consideration to the assets acquired and liabilities assumed is as follows:

| | |
|---|---|
| Working capital | $ 13,382 |
| Property, plan and equipment | 7,875 |
| Other long term liabilities, net | (17,659) |
| Identifiable intangible assts | 22,235 |
| Goodwill | 27,428 |
| Total | $ 53,261 |

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3. Discontinued Operations

As part of its continuing evaluation of its businesses, the Company determined that its integrated material handling conveyor systems business (Univeyor A/S) no longer provided a strategic fit with its long-term growth and operational objectives. On July 25, 2008, the Company completed the sale of Univeyor A/S, which business represented the majority of the Solutions segment. In accordance with the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” the results of operations of the Univeyor business have been classified as discontinued operations in the condensed consolidated balance sheets, statements of operations and statements of cash flows presented herein. Income from discontinued operations presented herein also includes payments received on a note receivable related to our fiscal 2002 disposal of Automatic Systems, Inc. Due to the uncertainty surrounding the financial viability of the debtor, the note has been recorded at the estimated net realizable value of $0.

In connection with the sale of Univeyor A/S on July 25, 2008, the Company used cash on hand to repay $15,191 in amounts outstanding on Univeyor’s lines of credit and fixed term bank debt.

Prior to the divestiture of Univeyor A/S, during the past year as part of Univeyor’s ongoing business, the Company had provided performance guarantees to certain customers and a third party for the satisfactory completion of contracts to design, manufacture and install its integrated material handling conveyor systems. Pursuant to the terms of the share purchase agreement, the Company agreed to continue to maintain performance guarantees on certain pre-existing contracts. As of the end of the second quarter, the Company had agreed to maintain performance guarantees on certain pre-existing contracts totaling $9,200 as of September 28, 2008 based on exchange rates at that time. Any potential loss under these guarantees, if any, could not be reasonably estimated at that time, and therefore no liability was recorded in the condensed consolidated balance sheets relating to those guarantees as of September 28, 2008. During the third quarter of fiscal 2009, the acquirer of Univeyor A/S became financially distressed as a result of a bankruptcy filing by one of its other owned businesses. In reaction to this development, the Company paid $1,400 ($868, net of tax) to a third party by which the Company was released from approximately $4.5 million of guarantees. The arrangement also required that the Company retain liability for any claims and liabilities under four remaining guarantees with an indemnification against those guarantees from a third party. As of January 31, 2009, the Company has two remaining guarantees outstanding totaling approximately $1,300. These guarantees are expected to expire in February of 2009. The Company has an indemnification agreement with a third party amounting to approximately $900 for any claims and liabilities arising out of these two remaining guarantees. No liability has been recorded in the accompanying condensed consolidated balance sheets relating to these guarantees as the Company believes that the third party indemnification is sufficient to cover any exposure to loss.

Summarized statements of operations for discontinued operations:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | December 28, 2008 | December 30, 2007 | December 28, 2008 | December 30, 2007 |
| Net sales | $ - | $ 9,020 | $ 8,982 | $ 22,113 |
| Loss before income tax | (1,136) | (146) | (2,359) | (1,839) |
| Income tax (benefit) expense | (451) | 7 | (288) | (335) |
| Loss from operations, net of tax | (685) | (153) | (2,071) | (1,504) |
| Loss on sale of discontinued operations | - | - | (14,627) | - |
| Loss from discontinued operations | (685) | (153) | (16,698) | (1,504) |
| Tax benefit from sale | - | - | 14,047 | - |

| | | | | |
|---|---|---|---|---|
| Loss from discontinued operations, net of tax | $ (685) | $ (153) | $ (2,651) | $ (1,504) |

4. Fair Value Measurements

Beginning in fiscal year 2009, the Company adopted the provisions of SFAS No. 157, “Fair Value Measurements,” (“SFAS 157”) for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial position or results of operations.

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SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the valuation techniques that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is separated into three levels based on the reliability of inputs as follows:

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

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

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

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

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

When valuing our derivative portfolio, the Company uses readily observable market data in conjunction with commonly used valuation models. Consequently, the Company designates our derivatives as Level 2.

The following table provides information regarding financial assets and liabilities measured at fair value on a recurring basis:

| | | Fair value measurements at reporting date using | | |
|---|---|---|---|---|
| Description | At December 28, 2008 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets/(Liabilities): | | | | |
| Marketable securities | $ 28,039 | $ 28,039 | $ - | $ - |
| Derivative liabilities | (1,942) | - | (1,942) | - |

As of December 28, 2008, the Company did not have any nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis.

Interest and dividend income on marketable securities, and changes in the fair value of derivatives, are recorded in investment income and foreign currency exchange loss, respectively. Interest and dividend income on marketable securities are measured based upon amounts earned on their respective declaration dates. During the quarter ended December 28, 2008, the Company reduced the cost bases of certain marketable securities since it was determined that the unrealized losses on those securities were other than temporary in nature. This determination resulted in the recognition of a pre-tax charge to earnings of $3,628 for the quarter ended December 28, 2008, classified within investment (loss) income.

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In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect to implement the fair value options allowed under this standard.

5. Inventories

Inventories consisted of the following:

| | December 28, 2008 | March 31, 2008 |
|---|---|---|
| At cost - FIFO basis: | | |
| Raw materials | $ 52,156 | $ 44,594 |
| Work-in-process | 14,858 | 10,454 |
| Finished goods | 59,167 | 44,102 |
| | 126,181 | 99,150 |
| LIFO cost less than FIFO cost | (19,331) | (14,864) |
| Net inventories | $ 106,850 | $ 84,286 |

Inventory at Pfaff-silberblau, which was acquired October 1, 2008, was $14,880 at December 28, 2008.

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

6. Goodwill and Intangible Assets

Goodwill is not amortized but is periodically tested for impairment, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." No impairment charges related to goodwill were recorded during fiscal 2009 or 2008.

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

A summary of changes in goodwill during fiscal 2009 is as follows:

| | |
|---|---|
| Balance at March 31, 2008 | $ 187,055 |
| Acquisitions | 27,428 |
| Currency translation | (1,313) |
| Balance at December 28, 2008 | $ 213,170 |

Intangible assets at March 31, 2008 were $321, consisting of patents and other intangibles, net. Intangible assets at December 28, 2008 are as follows:

| | Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| Trademark | $ 6,101 | $ 126 | $ 5,975 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Customer relationships | | 15,499 | | 559 | | 14,940 |
| Other | | 1,060 | | 101 | | 959 |
| Balance at December 28, 2008 | $ | 22,660 | $ | 786 | $ | 21,874 |

Based on the current amount of intangible assets, the estimated amortization expense for the fourth quarter of fiscal 2009 and for each of the succeeding four years is expected to be $467, $1,846, $1,828, $1,807, and 1,778, respectively.

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7. Derivative Instruments

The Company uses derivative instruments to manage selected foreign currency exposures. The Company does not use derivative instruments for speculative trading purposes. All derivative instruments must be recorded on the balance sheet at fair value. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded to accumulated other comprehensive income, or AOCI, and is reclassified to earnings when the underlying transaction has an impact on earnings. The ineffective portion of changes in the fair value of the derivative is reported in cost of products sold. For derivatives not classified as cash flow hedges, all changes in market value are recorded to earnings.

One of the Company's wholly-owned foreign subsidiaries has cross-currency swaps and foreign exchange forward agreements in place and executed during the third quarter of fiscal 2009, to offset changes in the value of intercompany loans to certain foreign subsidiaries due to changes in foreign exchange rates. The notional amount of these derivatives is $26,807, and all contracts mature by September 30, 2013. As of December 28, 2008, the fair value of these derivatives was a $1,942 pretax loss that was recorded to earnings and is included in foreign currency exchange loss.

Effective October 6, 2008, the Company issued a guarantee to a third party lender which secures any obligations of one of the Company's wholly-owned foreign subsidiaries under the subsidiary's agreement with the third party lender, in relation to derivative transactions.  The obligations of the foreign subsidiary at December 28, 2008 were $1,942 which represents the fair value of the derivatives as of that date.

The Company is exposed to credit losses in the event of nonperformance by the counterparties on its financial instruments. All counterparties have investment grade credit ratings; accordingly, the Company anticipates that these counterparties will be able to fully satisfy their obligations under the contracts.

8. Restructuring Charges

During the first nine-months of fiscal 2009, the Company recorded restructuring charges of $1,145 for severance related to workforce reductions in response to the current economic climate and facility rationalization. The third quarter restructuring charges of $990 included $960 for salaried workforce reductions.  The number of employees terminated during the third quarter as a result of these reductions was approximately 30. The liability as of December 28, 2008 was $933, consisting of accrued severance costs.

During the first nine-months of fiscal 2008, the Company recorded restructuring charges of $551 for the partial demolition of an older and underutilized U.S. facility. Of this amount, $149 was recorded in the third quarter.

9. Net Periodic Benefit Cost

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | December 28, 2008 | December 30, 2007 | December 28, 2008 | December 30, 2007 |
| Service costs | $ 1,113 | $ 1,094 | $ 3,324 | $ 3,282 |
| Interest cost | 2,270 | 2,019 | 6,682 | 6,057 |

| | | | | |
|---|---|---|---|---|
| Expected return on plan assets | (2,299) | (2,043) | (6,897) | (6,129) |
| Net amortization | 294 | 450 | 883 | 1,350 |
| Net periodic pension cost | $ 1,378 | $ 1,520 | $ 3,992 | $ 4,560 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | December 28, 2008 | December 30, 2007 | December 28, 2008 | December 30, 2007 |
| Service costs | $ - | $ - | $ 2 | $ 2 |
| Interest cost | 168 | 147 | 502 | 439 |
| Amortization of plan net losses | 115 | 96 | 346 | 288 |
| Net periodic postretirement cost | $ 283 | $ 243 | $ 850 | $ 729 |

We currently plan to contribute approximately $8.5 million to our pension plans in fiscal 2009.

For additional information on the Company's defined benefit pension and postretirement benefit plans, refer to Note 11 in the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 2008.

10. Income Taxes

Income tax expense as a percentage of income from continuing operations before income tax expense was 35.3%, 40.3%, 35.7%, and 38.2% in the fiscal 2009 and 2008 quarters and the nine-month periods then ended, respectively. The percentages vary from the U.S. statutory rate due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income forecasted for these subsidiaries.

11. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | December 28, 2008 | December 30, 2007 | December 28, 2008 | December 30, 2007 |
| Numerator for basic and diluted earnings per share: | | | | |
| Net income | $ 3,813 | $ 9,994 | $ 24,120 | $ 28,967 |
| | | | | |
| Denominators: | | | | |
| Weighted-average common stock outstanding -denominator for basic EPS | 18,876 | 18,753 | 18,851 | 18,702 |
| | | | | |
| Effect of dilutive employee stock options and awards | 188 | 447 | 310 | 442 |
| | | | | |
| Adjusted weighted-average common stock outstanding and assumed conversions – denominator for diluted EPS | 19,064 | 19,200 | 19,161 | 19,144 |

During the first nine-months of fiscal 2009, a total of 40,750 shares of stock were issued upon the exercising of stock options related to the Company's stock option plans, and 13,863 shares of stock were issued under the Company's Long Term Incentive Plan to the Company's non-executive directors as part of their annual compensation. Options, RSUs, and performance shares with respect to approximately 463,000 shares were not included in the computation of diluted earnings per share for the third quarter and first nine months of fiscal 2009 because they were anti-dilutive.

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12. Business Segment Information

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes the standards for reporting information about operating segments in financial statements. Historically the Company had two operating and reportable segments, Products and Solutions. The Solutions segment engaged primarily in the design, fabrication and installation of integrated material handling conveyor systems and service and in the design and manufacture of tire shredders, lift tables and light-rail systems. In the first quarter of fiscal 2009, the Company re-evaluated its operating and reportable segments in connection with the discontinuation of its integrated material handling conveyor systems and service business. With this divestiture, and in consideration of the quantitative contribution of the remaining portions of the Solutions segment to the Company as a whole and our products-orientated strategic growth initiatives, the Company determined that it now has only one operating and reportable segment for both internal and external reporting purposes. Prior period financial information included herein has been restated to reflect the financial position and results of operations as one segment. As part of the organizational restructuring announced in December of 2008, we have reevaluated our reportable segments and we continue to believe that we have only one reportable operating segment.

13. Summary Financial Information

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

| | Parent | Guarantors | Non Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| As of December 28, 2008 | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 5,108 | $ 42 | $ 16,823 | $ — | $ 21,973 |
| Trade accounts receivable | 57,522 | — | 36,475 | — | 93,997 |
| Inventories | 38,591 | 20,864 | 49,760 | (2,365) | 106,850 |
| Other current assets | 9,994 | 796 | 14,024 | — | 24,814 |
| Total current assets | 111,215 | 21,702 | 117,082 | (2,365) | 247,634 |
| Property, plant, and equipment, net | 27,409 | 11,659 | 22,336 | — | 61,404 |
| Goodwill and other intangibles, net | 89,028 | 57,032 | 88,984 | — | 235,044 |
| Intercompany | 62,237 | (51,405) | (82,265) | 71,433 | — |
| Other assets | 61,729 | 194,928 | 25,091 | (234,622) | 47,126 |
| Total assets | $ 351,618 | $ 233,916 | $ 171,228 | $ (165,554) | $ 591,208 |
| | | | | | |
| Current liabilities | 36,986 | 17,718 | 47,071 | (3,821) | 97,954 |
| Long-term debt, less current portion | 124,855 | 2,654 | 5,391 | — | 132,900 |
| Other non-current liabilities | 4,223 | 10,558 | 35,852 | — | 50,633 |
| Total liabilities | 166,064 | 30,930 | 88,314 | (3,821) | 281,487 |
| Shareholders' equity | 185,554 | 202,986 | 82,914 | (161,733) | 309,721 |
| Total liabilities and shareholders' equity | $ 351,618 | $ 233,916 | $ 171,228 | $ (165,554) | $ 591,208 |

| | | | | | |
|---|---|---|---|---|---|
| For the Nine Months Ended December 28, 2008 | | | | | |
| Net sales | $ 228,521 | $ 126,809 | $ 149,362 | $ (33,772) | $ 470,920 |
| Cost of products sold | 169,209 | 96,677 | 99,918 | (33,772) | 332,032 |
| Gross profit | 59,312 | 30,132 | 49,444 | — | 138,888 |

| | | | | | |
|---|---|---|---|---|---|
| Selling, general and administrative expenses | 36,295 | 14,957 | 31,952 | — | 83,204 |
| Restructuring charges | 1,145 | — | — | — | 1,145 |
| Amortization of intangibles | 83 | 2 | 392 | — | 477 |
| | 37,523 | 14,959 | 32,344 | — | 84,826 |
| Income from operations | 21,789 | 15,173 | 17,100 | — | 54,062 |
| Interest and debt expense | 8,136 | 1,203 | 590 | — | 9,929 |
| Other (income) and expense, net | (1,185) | (943) | 4,640 | — | 2,512 |
| Income before income tax expense | 14,838 | 14,913 | 11,870 | — | 41,621 |
| Income tax expense | 5,959 | 5,919 | 2,972 | — | 14,850 |
| Income from continuing operations | 8,879 | 8,994 | 8,898 | — | 26,771 |
| Loss from discontinued operations | (420) | — | (2,231) | — | (2,651) |
| Net income | $ 8,459 | $ 8,994 | $ 6,667 | $ — | $ 24,120 |

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| For the Nine Months Ended December 28, 2008 | Parent | Guarantors | Non Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Operating activities: | | | | | |
| Net cash provided by operating activities from continuing operations | $ 18,982 | $ 261 | $ 25,140 | $ — | $ 44,383 |
| Net cash used by operating activities from discontinued operations | (864) | — | (2,218) | — | (3,082) |
| Net cash provided by operating activities | 18,118 | 261 | 22,922 | — | 41,301 |
| | | | | | |
| Investing activities: | | | | | |
| Purchase of marketable securities, net | — | — | (1,939) | — | (1,939) |
| Capital expenditures | (4,351) | (1,176) | (2,977) | — | (8,504) |
| Purchase of businesses, net | — | — | (53,261) | — | (53,261) |
| Proceeds from sale of assets | — | 1,269 | — | — | 1,269 |
| Net cash (used) provided by investing activities from continuing operations | (4,351) | 93 | (58,177) | — | (62,435) |
| Net cash provided by investing activities from discontinued operations | 448 | — | — | — | 448 |
| Net cash (used) provided by investing activities | (3,903) | 93 | (58,177) | — | (61,987) |
| | | | | | |
| Financing activities: | | | | | |
| Proceeds from stock options exercised | 391 | — | — | — | 391 |
| Net (payments) borrowings under revolving line-of-credit agreements | (21,974) | — | 16,907 | — | (5,067) |
| Repayment of debt | (4,700) | (141) | (2,030) | — | (6,871) |
| Other | 567 | — | — | — | 567 |
| Net cash (used) provided by financing activities from continuing operations | (25,716) | (141) | 14,877 | — | (10,980) |
| Net cash (used) provided by financing activities from discontinued operations | (15,191) | — | 579 | — | (14,612) |
| Net cash (used) provided by financing activities | (40,907) | (141) | 15,456 | — | (25,592) |
| Effect of exchange rate changes on cash | — | 170 | (7,913) | — | (7,743) |
| Net change in cash and cash equivalents | (26,692) | 383 | (27,712) | — | (54,021) |
| Cash and cash equivalents at beginning of period | 31,800 | (341) | 44,535 | — | 75,994 |
| Cash and cash equivalents at end of period | $ 5,108 | $ 42 | $ 16,823 | $ — | $ 21,973 |

| | | | | | |
|---|---|---|---|---|---|
| As of March 31, 2008 | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 31,800 | $ (341) | $ 44,535 | $ — | $ 75,994 |
| Trade accounts receivable | 62,992 | — | 30,841 | — | 93,833 |
| Inventories | 35,375 | 18,797 | 32,479 | (2,365) | 84,286 |
| Other current assets | 8,264 | 1,025 | 8,031 | — | 17,320 |
| Current assets of discontinued operations | — | — | 17,334 | — | 17,334 |

| | | | | | |
|---|---|---|---|---|---|
| Total current assets | 138,431 | 19,481 | 133,220 | (2,365) | 288,767 |
| Property, plant, and equipment, net | 26,834 | 11,916 | 14,670 | — | 53,420 |
| Goodwill and other intangibles, net | 89,008 | 57,034 | 41,334 | — | 187,376 |
| Intercompany | 50,555 | (59,869) | (64,821) | 74,135 | — |
| Other assets | 79,909 | 194,783 | 30,636 | (249,857) | 55,471 |
| Assets of discontinued operations | — | — | 5,001 | — | 5,001 |
| Total assets | $ 384,737 | $ 223,345 | $ 160,040 | $ (178,087) | $ 590,035 |
| | | | | | |
| Current liabilities of continuous operations | $ 42,714 | $ 15,951 | $ 30,288 | $ (1,119) | $ 87,834 |
| Current liabilities of discontinued operations | — | — | 24,955 | — | 24,955 |
| Current liabilities | 42,714 | 15,951 | 55,243 | (1,119) | 112,789 |
| Long-term debt, less current portion | 129,855 | 2,815 | 251 | — | 132,921 |
| Other non-current liabilities | 12,312 | 10,757 | 25,775 | — | 48,844 |
| Total liabilities | 184,881 | 29,523 | 81,269 | (1,119) | 294,554 |
| Shareholders' equity | 199,856 | 193,822 | 78,771 | (176,968) | 295,481 |
| Total liabilities and shareholders' equity | $ 384,737 | $ 223,345 | $ 160,040 | $ (178,087) | $ 590,035 |

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| For the Nine Months Ended December 30, 2007 | Parent | Guarantors | Non Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 218,182 | $ 130,388 | $ 113,830 | $ (29,797) | $ 432,603 |
| Cost of products sold | 159,021 | 96,563 | 72,710 | (29,797) | 298,497 |
| Gross profit | 59,161 | 33,825 | 41,120 | — | 134,106 |
| Selling, general and administrative expenses | 35,096 | 13,293 | 26,528 | — | 74,917 |
| Restructuring charges | 551 | — | — | — | 551 |
| Amortization of intangibles | 80 | 2 | — | — | 82 |
| | 35,727 | 13,295 | 26,528 | — | 75,550 |
| Income from operations | 23,434 | 20,530 | 14,592 | — | 58,556 |
| Interest and debt expense | 7,432 | 2,994 | 50 | — | 10,476 |
| Other (income) and expense, net | 678 | (298) | (1,612) | — | (1,232) |
| Income before income tax expense | 15,324 | 17,834 | 16,154 | — | 49,312 |
| Income tax expense | 6,818 | 7,209 | 4,814 | — | 18,841 |
| Income from continuing operations | 8,506 | 10,625 | 11,340 | — | 30,471 |
| Income (loss) from discontinued operations | 417 | — | (1,921) | — | (1,504) |
| Net income | $ 8,923 | $ 10,625 | $ 9,419 | $ — | $ 28,967 |

| For the Nine Months Ended December 30, 2007 | | | | | |
|---|---|---|---|---|---|
| Operating activities: | | | | | |
| Net cash provided (used) by operating activities from continuing operations | $ 30,010 | $ (3,697) | $ 11,922 | $ — | $ 38,235 |
| Net cash used by operating activities from discontinued operations | — | — | (250) | — | (250) |
| Net cash provided (used) by operating activities | 30,010 | (3,697) | 11,672 | — | 37,985 |
| | | | | | |
| Investing activities: | | | | | |
| Purchases of marketable securities, net | — | — | (1,397) | — | (1,397) |
| Capital expenditures | (4,495) | (1,664) | (1,231) | — | (7,390) |
| Proceeds from sale of assets | — | 5,504 | — | — | 5,504 |
| Net cash (used) provided by investing activities from continuing operations | (4,495) | 3,840 | (2,628) | — | (3,283) |
| Net cash provided (used) by investing activities from discontinued operations | 417 | — | (31) | — | 386 |
| Net cash (used) provided by investing activities | (4,078) | 3,840 | (2,659) | — | |