LINDSAY CORP
Form 10-Q
April 04, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended February 29, 2012

OR

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

Commission File Number 1-13419

Lindsay Corporation

(Exact name of registrant as specified in its charter)

Delaware	**47-0554096**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
2222 N. 111th Street, Omaha, Nebraska	**68164**
(Address of principal executive offices)	**(Zip Code)**

402-829-6800

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if 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 ¨ No x

As of March 30, 2012, 12,710,538 shares of the registrant s common stock were outstanding.

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Lindsay Corporation

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Part I FINANCIAL INFORMATION

ITEM 1 *Financial Statements*

Lindsay Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

($ in thousands, except per share amounts)	Three months ended		Six months ended	
	September 30, February 29, 2012	September 30, February 28, 2011	September 30, February 29, 2012	September 30, February 28, 2011
Operating revenues	$ 132,134	$ 120,168	$ 251,339	$ 209,334
Cost of operating revenues	95,640	86,159	184,597	151,102
Gross profit	36,494	34,009	66,742	58,232
Operating expenses:				
Selling expense	6,868	6,911	13,812	13,929
General and administrative expense	8,434	7,265	17,374	14,583
Engineering and research expense	2,244	2,772	4,300	5,336
Environmental remediation expense			7,225	713
Total operating expenses	17,546	16,948	42,711	34,561
Operating income	18,948	17,061	24,031	23,671
Other income (expense):				
Interest expense	(130)	(213)	(273)	(399)
Interest income	94	37	190	79
Other income (expense), net	515	116	(80)	227
Earnings before income taxes	19,427	17,001	23,868	23,578
Income tax provision	6,653	5,676	8,173	7,967
Net earnings	$ 12,774	$ 11,325	$ 15,695	$ 15,611
Basic net earnings per share	$ 1.01	$ 0.90	$ 1.24	$ 1.24
Diluted net earnings per share	$ 1.00	$ 0.89	$ 1.23	$ 1.23
Weighted average shares outstanding	12,703	12,548	12,692	12,525
Diluted effect of stock equivalents	118	137	100	139
Weighted average shares outstanding assuming dilution	12,821	12,685	12,792	12,664
Cash dividends per share	$ 0.090	$ 0.085	$ 0.180	$ 0.170

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Lindsay Corporation and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

($ and shares in thousands, except par values)	September 30, (Unaudited) February 29, 2012	September 30, (Unaudited) February 28, 2011	September 30, August 31, 2011
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 104,953	$ 78,448	$ 108,167
Receivables, net of allowances of $2,002, $2,331 and $2,340, respectively	77,536	75,096	79,006
Inventories, net	68,578	54,876	49,524
Deferred income taxes	8,336	5,457	8,598
Other current assets	14,193	10,035	12,398
Total current assets	273,596	223,912	257,693
Property, plant and equipment, net	57,236	58,141	58,465
Other intangible assets, net	26,839	27,807	28,639
Goodwill	30,443	28,528	30,943
Other noncurrent assets	5,486	4,869	5,404
Total assets	$ 393,600	$ 343,257	$ 381,144
LIABILITIES AND SHAREHOLDERS EQUITY			
Current Liabilities:			
Accounts payable	$ 39,417	$ 38,261	$ 32,153
Current portion of long-term debt	4,286	4,286	4,286
Other current liabilities	33,428	27,049	42,880
Total current liabilities	77,131	69,596	79,319
Pension benefits liabilities	6,115	6,289	6,231
Long-term debt	2,143	6,428	4,285
Deferred income taxes	11,678	10,746	12,550
Other noncurrent liabilities	8,362	1,798	3,094
Total liabilities	105,429	94,857	105,479
Shareholders equity:			
Preferred stock, ($1 par value, 2,000 shares authorized, no shares issued and outstanding)			
Common stock, ($1 par value, 25,000 shares authorized, 18,409, 18,257 and 18,374 shares issued at February 29, 2012, February 28, 2011 and August 31, 2011, respectively)	18,409	18,257	18,374
Capital in excess of stated value	40,736	32,954	39,058
Retained earnings	316,141	283,751	302,732
Less treasury stock (at cost, 5,698 shares)	(90,961)	(90,961)	(90,961)
Accumulated other comprehensive income, net	3,846	4,399	6,462
Total shareholders equity	288,171	248,400	275,665
Total liabilities and shareholders equity	$ 393,600	$ 343,257	$ 381,144

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Lindsay Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	September 30,	September 30,
	Six Months Ended	
($ in thousands)	**February 29, 2012**	**February 28, 2011**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 15,695	$ 15,611
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,235	5,880
Provision for uncollectible accounts receivable	129	188
Deferred income taxes	(1,299)	(575)
Share-based compensation expense	1,829	1,586
Other, net	587	(373)
Changes in assets and liabilities:		
Receivables	150	(10,137)
Inventories	(20,221)	(8,003)
Other current assets	(1,798)	(762)
Accounts payable	7,796	11,245
Other current liabilities	(8,670)	(7,877)
Current taxes payable	(1,260)	(1,525)
Other noncurrent assets and liabilities	5,692	(1,343)
Net cash provided by operating activities	4,865	3,915
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(4,723)	(4,402)
Proceeds from sale of property, plant and equipment	107	53
Acquisition of business, net of cash acquired		(1,279)
Proceeds (payment) for settlement of net investment hedge	1,548	(734)
Net cash used in investing activities	(3,068)	(6,362)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under share-based compensation plans	276	809
Common stock withheld from share-based compensation for payroll tax withholdings	(577)	(843)
Principal payments on long-term debt	(2,142)	(2,143)
Net borrowing on revolving line of credit		389
Excess tax benefits from share-based compensation	273	877
Dividends paid	(2,286)	(2,133)
Net cash used in financing activities	(4,456)	(3,044)
Effect of exchange rate changes on cash	(555)	521
Net decrease in cash and cash equivalents	(3,214)	(4,970)
Cash and cash equivalents, beginning of period	108,167	83,418
Cash and cash equivalents, end of period	$ 104,953	$ 78,448

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Lindsay Corporation and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Condensed Consolidated Financial Statements

The condensed consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) and do not include all of the disclosures normally required by U.S. generally accepted accounting principles as contained in Lindsay Corporation s (the Company) Annual Report on Form 10-K. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s latest Annual Report on Form 10-K for the fiscal year ended August 31, 2011.

In the opinion of management, the condensed consolidated financial statements of the Company reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the periods presented. The results for interim periods are not necessarily indicative of trends or results expected by the Company for a full year.

The condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States. These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates. Certain reclassifications have been made to prior financial statements and notes to conform to the current year presentation. These reclassifications were not material to the Company s condensed consolidated financial statements.

(2) Net Earnings per Share

Basic net earnings per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net earnings per share is computed using the weighted-average number of common shares outstanding plus dilutive potential common shares outstanding during the period.

Employee stock options, nonvested shares and similar equity instruments granted by the Company are treated as potential common share equivalents outstanding in computing diluted net earnings per share. The Company s diluted common shares outstanding reported in each period includes the dilutive effect of restricted stock units, in-the-money options, and performance stock units for which threshold performance conditions have been satisfied and is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized on share based awards, and the amount of excess tax benefits that would be recorded in additional paid-in capital when shares are issued and assumed to be used to repurchase shares.

The following table shows the securities excluded from the computation of earnings per share since their inclusion would have been anti-dilutive:

	September 30, Three months ended February 29, 2012	September 30, February 28, 2011	September 30, Six months ended February 29, 2012	September 30, February 28, 2011
Restricted stock units	2,119		6,483	4,125
Stock options	36,079		24,222	

Performance stock units are excluded from the calculation of dilutive potential common shares until the threshold performance conditions have been satisfied. At February 29, 2012, the threshold performance conditions for the November 12, 2009 grants had been satisfied resulting in the inclusion of 40,754 performance stock units in the calculation of diluted net earnings per share. At February 29, 2012 and February 28, 2011, there were 47,318 and 98,625, respectively, of performance stock units excluded from the calculation of diluted net earnings per share because the threshold performance conditions had not been satisfied.

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(3) Comprehensive Income

The accumulated other comprehensive income, net, shown in the Company s condensed consolidated balance sheets includes the unrealized gain (loss) on cash flow hedges, net actuarial losses from the defined benefit pension plan, and the accumulated foreign currency translation adjustment, net of hedging activities. The following table shows the difference between the Company s reported net earnings and its comprehensive income:

$ in thousands	September 30, Three months ended February 29, 2012	September 30, February 28, 2011	September 30, Six months ended February 29, 2012	September 30, February 28, 2011
Comprehensive income:				
Net earnings	$ 12,774	$ 11,325	$ 15,695	$ 15,611
Other comprehensive income[1] :				
Defined benefit pension plan, net of tax	25	25	51	50
Unrealized gain on cash flow hedges, net of tax	48	79	120	181
Foreign currency translation, net of hedging activities	1,344	2,069	(2,787)	2,813
Total comprehensive income	$ 14,191	$ 13,498	$ 13,079	$ 18,655

(1) Net of tax expense of $216 and $355 for the three months and six months ended February 29, 2012, respectively. Net of tax expense of $256 and $179 for the three months and six months ended February 28, 2011, respectively.

(4) Income Taxes

It is the Company s policy to report income tax expense for interim periods using an estimated annual effective income tax rate. However, the tax effects of significant or unusual items are not considered in the estimated annual effective tax rate. The tax effects of such discrete events are recognized in the interim period in which the events occur. For the six months ended February 29, 2012 and February 28, 2011, the Company recorded no material discrete items.

The Company recorded income tax expense of $6.7 million and $8.2 million for the three and six months ended February 29, 2012, respectively. The Company recorded income tax expense of $5.7 million and $8.0 million for the three and six months ended February 28, 2011, respectively. The calculated effective tax rate (defined as income tax provision divided by earnings before income taxes) was 34.2 percent and 33.8 percent for the year-to-date periods ended February 29, 2012 and February 28, 2011, respectively.

(5) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for the Company s Lindsay, Nebraska inventory and its two warehouses in Idaho and Texas. Cost is determined by the first-in, first-out (FIFO) method for inventory at the Company s Omaha, Nebraska warehouse, and at operating locations in California, Wisconsin, China and Australia. Cost is determined by the weighted average cost method for inventory at the Company s other operating locations in Washington State, France, Brazil, Italy, and South Africa. At all locations, the Company reserves for obsolete, slow moving, and excess inventory by estimating the net realizable value based on the potential future use of such inventory.

$ in thousands	September 30, February 29, 2012	September 30, February 28, 2011	September 30, August 31, 2011
Inventory:			
FIFO inventory	$ 33,868	$ 25,626	$ 22,614
LIFO reserves	(7,026)	(6,305)	(7,178)

LIFO inventory	26,842	19,321	15,436
Weighted average inventory	26,087	21,977	20,848
Other FIFO inventory	17,966	15,806	15,407
Obsolescence reserve	(2,317)	(2,228)	(2,167)
Total inventories	$ 68,578	$ 54,876	$ 49,524

The estimated percentage distribution between major classes of inventory before reserves is as follows:

	September 30, February 29, 2012	September 30, February 28, 2011	September 30, August 31, 2011
Raw materials	14%	14%	14%
Work in process	7%	10%	8%
Finished goods and purchased parts	79%	76%	78%

(6) Property, Plant and Equipment
Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization, as follows:

$ in thousands	September 30, February 29, 2012	September 30, February 28, 2011	September 30, August 31, 2011
Operating property, plant and equipment:			
Land	$ 2,596	$ 2,830	$ 2,859
Buildings	28,951	28,962	29,372
Equipment	74,006	68,305	71,942
Other	7,094	6,573	5,521
Total operating property, plant and equipment	112,647	106,670	109,694
Accumulated depreciation	(68,085)	(62,363)	(65,083)
Total operating property, plant and equipment, net	$ 44,562	$ 44,307	$ 44,611
Property held for lease:			
Machines	3,962	3,890	3,907
Barriers	17,804	17,123	18,198
Total property held for lease	$ 21,766	$ 21,013	$ 22,105
Accumulated depreciation	(9,092)	(7,179)	(8,251)
Total property held for lease, net	$ 12,674	$ 13,834	$ 13,854
Property, plant and equipment, net	$ 57,236	$ 58,141	$ 58,465

Depreciation expense was $2.4 million and $2.3 million for the three months ended February 29, 2012 and February 28, 2011, respectively, and $4.8 million and $4.5 million for the six months ended February 29, 2012 and February 28, 2011, respectively.

(7) Credit Arrangements
At February 29, 2012, February 28, 2011 and August 31, 2011, the Company was in compliance with all loan covenants. Changes to credit arrangements since August 31, 2011 consist of the following:

Euro Line of Credit

The Company s wholly-owned European subsidiary, Lindsay Europe, has an unsecured revolving line of credit with Societe Generale, a European commercial bank, under which it could borrow for working capital purposes up to 2.3 million Euros (the Euro Line of Credit). On January 23, 2012, the Company extended the Euro Line of Credit with Societe Generale through January 31, 2013. There were no borrowings outstanding on this credit agreement at February 29, 2012 or August 31, 2011. There was $0.4 million outstanding on this credit agreement at

February 28, 2011. Under the terms of the Euro Line of Credit, borrowings, if any, bear interest at a floating rate in effect from time to time designated by the commercial bank as the Euro Interbank Offered Rate plus 110 basis points, (2.08 percent at February 29, 2012). Unpaid principal and interest is due by January 31, 2013.

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Outstanding long-term debt consists of the following:

$ in thousands	September 30, February 29, 2012	September 30, February 28, 2011	September 30, August 31, 2011
BSI Term Note	$ 6,429	$ 10,714	$ 8,571
Less current portion	(4,286)	(4,286)	(4,286)
Total long-term debt	$ 2,143	$ 6,428	$ 4,285

Principal payments due on long-term debt are as follows:

Due within:	September 30,
1 year	$ 4,286
2 years	2,143
	$ 6,429

(8) Financial Derivatives

The Company uses certain financial derivatives to mitigate its exposure to volatility in interest rates and foreign currency exchange rates. The Company uses these derivative instruments to hedge exposures in the ordinary course of business and does not invest in derivative instruments for speculative purposes. Each derivative is designated as a cash flow hedge, a hedge of a net investment, or remains undesignated. The Company records the fair value of these derivative instruments on the balance sheet. For the instruments that are designated as a cash flow hedge and meet certain documentary and analytical requirements to qualify for hedge accounting treatment, changes in the fair value for the effective portion are reported in other comprehensive income (OCI), net of related income tax effects, and are reclassified to the income statement when the effects of the item being hedged are recognized in the income statement. Changes in fair value of derivative instruments that qualify as hedges of a net investment in foreign operations are recorded as a component of accumulated currency translation adjustment in accumulated other comprehensive income (AOCI), net of related income tax effects. Changes in the fair value of undesignated hedges are recognized currently in the income statement as other income (expense). All changes in derivative fair values due to ineffectiveness are recognized in earnings.

The Company manages market and credit risks associated with its derivative instruments by establishing and monitoring limits as to the types and degree of risk that may be undertaken, and by entering into transactions with high-quality counterparties. As of February 29, 2012, the Company s derivative counterparty had investment grade credit ratings.

Financial derivatives consist of the following:

		Fair Values of Derivative Instruments Asset (Liability) Derivatives		
$ in thousands	Balance Sheet Location	February 29, 2012	February 28, 2011	August 31, 2011
Derivatives designated as hedging instruments:				
Foreign currency forward contracts	Other current assets	$ 4	$	$
Foreign currency forward contracts	Other current liabilities	(641)	(388)	(218)
Interest rate swap	Other current liabilities	(180)	(354)	(267)
Interest rate swap	Other noncurrent liabilities	(43)	(271)	(149)

Total derivatives designated as hedging instruments		$	(860)	$	(1,013)	$	(634)
Derivatives not designated as hedging instruments:							
Foreign currency forward contracts	Other current liabilities	$	(34)	$		$	
Total derivatives not designated as hedging instruments		$	(34)	$		$	

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In addition, accumulated other comprehensive income included realized and unrealized gains, net of related income tax effects, of $1.3 million, $0.5 million and $0.5 million at February 29, 2012, February 28, 2011 and August 31, 2011, respectively, related to derivative contracts designated as hedging instruments.

Cash Flow Hedging Relationships

In order to reduce interest rate risk on the BSI Term Note, the Company entered into an interest rate swap agreement with Wells Fargo Bank, N.A. that is designed to convert the variable interest rate on the entire amount of the borrowing to a fixed rate of 6.05 percent per annum. Under the terms of the interest rate swap, the Company receives variable interest rate payments and makes fixed interest rate payments on an amount equal to the outstanding balance of the BSI Term Note. Changes in the fair value of the interest rate swap designated as a hedging instrument that effectively offset the variability of cash flows associated with variable-rate, long-term debt obligations are reported in AOCI, net of related income tax effects.

In order to reduce exposures related to changes in foreign currency exchange rates, the Company, at times, may enter into forward exchange or option contracts for transactions denominated in a currency other than the functional currency for certain of its operations. This activity primarily relates to economically hedging against foreign currency risk in purchasing inventory, sales of finished goods, and future settlement of foreign denominated assets and liabilities. Changes in the fair value of the forward exchange contracts or option contracts designated as hedging instruments that effectively offset the hedged risks are reported in AOCI, net of related income tax effects. The Company had no material forward exchange contracts and option contracts with cash flow hedging relationships at February 29, 2012, February 28, 2011 and August 31, 2011. In addition, the amount of gain or loss recognized in OCI, the amount of gain or loss reclassified from AOCI into income and the amount of gain or loss recognized in income related to the outstanding cash flow hedging relationships were immaterial.

Net Investment Hedging Relationships

In order to reduce translation exposure resulting from translating the financial statements of its international subsidiaries into U.S. dollars, the Company, at times, utilizes Euro foreign currency forward contracts to hedge a portion of its Euro net investment exposure in its foreign operations. These foreign currency forward contracts qualify as a hedge of net investments in foreign operations. Changes in fair value of the net investment hedge contracts are reported in OCI as part of the currency translation adjustment, net of tax.

	September 30,	September 30,	September 30,	September 30,
	Amount of Gain/(Loss) Recognized in OCI on Derivatives			
	Three months ended		Six months ended	
$ in thousands	**February 29, 2012**	**February 28, 2011**	**February 29, 2012**	**February 28, 2011**
Foreign currency forward contracts[1]	$ 104	$ (219)	$ 695	$ (649)

(1) Net of tax expense of $63 and $423 for the three and six months ended February 29, 2012. Net of tax benefit of $134 and $397 for the three and six months ended February 28, 2011.

For the three and six months ended February 29, 2012, the Company settled Euro foreign currency forward contracts resulting in after-tax net gains of $0.7 million and $1.0 million, respectively, which were included in OCI as part of a currency translation adjustment. There were no after-tax gains or losses from Euro foreign currency forward contracts for the three months ended February 28, 2011. For the six months ended February 28, 2011, the Company settled Euro foreign currency forward contracts resulting in after-tax net losses of $0.4 million which were included in OCI as part of a currency translation adjustment.

There were no amounts recorded in the condensed consolidated statement of operations related to ineffectiveness of Euro foreign currency forward contracts for the three and six months ended February 29, 2012 and February 28, 2011, respectively. Accumulated currency translation adjustments in AOCI at February 29, 2012, February 28, 2011 and August 31, 2011 reflected realized after-tax gains of $1.8 million, $1.1 million and $0.9 million, respectively.

At February 29, 2012, February 28, 2011 and August 31, 2011, the Company had outstanding Euro foreign currency forward contracts to sell 17.0 million Euro, 5.0 million Euro and 10.0 million Euro, respectively, at fixed prices to settle during the next fiscal quarter. The Company s foreign currency forward contracts qualify as hedges of a net investment in foreign operations.

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(9) Fair Value Measurements

The following table presents the Company s financial assets and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall, as of February 29, 2012, February 28, 2011 and August 31, 2011, respectively.

	September 30,	September 30, February 29, 2012	September 30,	September 30,
$ in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 104,953	$	$	$ 104,953
Derivative assets		4		4
Derivative liabilities		(898)		(898)

	September 30,	September 30, February 28, 2011	September 30,	September 30,
$ in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 78,448	$	$	$ 78,448
Derivative liabilities		(1,013)		(1,013)

	September 30,	September 30, August 31, 2011	September 30,	September 30,
$ in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 108,167	$	$	$ 108,167
Derivative liabilities		(634)		(634)

The carrying amount of long-term debt (including current portion) was $6.4 million, $10.7 million and $8.6 million as of February 29, 2012, February 28, 2011 and August 31, 2011, respectively. The fair value of this debt was estimated at $6.4 million, $10.5 million, and $8.5 million as of February 29, 2012, February 28, 2011 and August 31, 2011, respectively. Fair value of long-term debt (including current portion) is estimated by discounting the future estimated cash flows of each instrument at current market interest rates for similar debt instruments of comparable maturities and credit quality.

The Company also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include fixed assets, goodwill, and other intangible assets. There were no required fair value adjustments for assets and liabilities measured at fair value on a non-recurring basis for the three and six months ended February 29, 2012 and February 28, 2011.

(10) Commitments and Contingencies

In 1992, the Company entered into a consent decree with the Environmental Protection Agency of the United States Government (the EPA) in which the Company committed to remediate environmental contamination of the groundwater that was discovered in 1982 through 1990 at and adjacent to its Lindsay, Nebraska facility (the site). The site was added to the EPA s list of priority superfund sites in 1989. Between 1993 and 1995, remediation plans for the site were approved by the EPA and fully implemented by the Company. Since 1998, the primary remaining contamination at the site has been the presence of volatile organic chemicals in the groundwater. The remediation process consists of drilling wells into the aquifer and pumping water to the surface to allow these contaminants to be removed by aeration. The Company accrues the anticipated cost of remediation when the obligation is probable and can be reasonably estimated.

In 2008, the Company and the EPA conducted their periodic five-year review of the status of the remediation of the contamination of the site. In response to the review, the Company and its environmental consultants have developed a remedial action work plan. In addition, the Company is scheduled to meet with the EPA in the third quarter of fiscal 2012 to discuss options that could result in more permanent or more clearly defined remediation of the source areas of contamination at the site. In the first quarter of fiscal 2012, the Company undertook an investigation to assess further potential site remediation and containment actions. In connection with the receipt of preliminary results of this investigation and other evaluations, the Company estimated that it would incur $7.2 million in remediation and operating costs over the next 5 to 10 years and has accrued that undiscounted amount as an operating expense in the first quarter of fiscal 2012. The Company did not accrue additional incremental costs for environmental monitoring and remediation in the second quarter of fiscal 2012.

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Although the Company has accrued all reasonably estimable costs associated with remediation of the site, it is expected that additional testing and environmental monitoring and remediation will be required in the future as part of the Company s ongoing discussions with the EPA regarding the development and implementation of the remedial action plans, which could result in changes to its estimates. In addition, the current investigation has not yet been completed and does not include all affected areas on the site. Estimates continue to be refined and evaluated on a number of remediation alternatives and the EPA has not provided approval of possible action plans. While additional estimated expenses could significantly exceed the amount accrued as of February 29, 2012 and could be material to the operating results of any fiscal quarter or fiscal year, the Company does not expect that such additional expenses would have a material adverse effect on the liquidity or financial condition of the Company.

The following table summarizes the undiscounted environmental remediation liability classifications included in the balance sheet as of February 29, 2012, February 28, 2011 and August 31, 2011:

	September 30,	September 30,	September 30,
	Environmental Remediation Liabilities		
$ in thousands **Balance Sheet Location**	**February 29, 2012**	**February 28, 2011**	**August 31, 2011**
Other current liabilities	$ 2,737	$ 1,206	$ 1,540
Other noncurrent liabilities	5,200		
Total environmental remediation liabilities	$ 7,937	$ 1,206	$ 1,540

(11) Retirement Plan

The Company has a supplemental non-qualified, unfunded retirement plan for six former employees. Plan benefits are based on the participant s average total compensation during the three highest compensation years of employment during the ten years immediately preceding the participant s retirement or termination. This unfunded supplemental retirement plan is not subject to the minimum funding requirements of ERISA. The Company has purchased life insurance policies on four of the participants named in this supplemental retirement plan to provide partial funding for this liability. Components of net periodic benefit cost for the Company s supplemental retirement plan are classified as general and administrative expenses and include:

	September 30,	September 30,	September 30,	September 30,
	Three months ended		Six months ended	
$ in thousands	**February 29, 2012**	**February 28, 2011**	**February 29, 2012**	**February 28, 2011**
Net periodic benefit cost:				
Interest cost	$ 81	$ 84	$ 162	$ 167
Net amortization and deferral	42	41	84	82
Total net periodic benefit cost	$ 123	$ 125	$ 246	$ 249

(12) Warranties

The Company generally warrants its products against certain manufacturing and other defects. These product warranties are provided for specific periods and/or usage of the product. The accrued product warranty costs are for a combination of specifically identified items and other incurred, but not identified items based primarily on historical experience of actual warranty claims. This reserve is classified within other current liabilities. The following tables provide the changes in the Company s product warranties:

$ in thousands	September 30, Three months ended February 29, 2012	September 30, February 28, 2011
Warranties:		
Product warranty accrual balance, beginning of period	$ 3,745	$ 1,796
Liabilities accrued for warranties during the period	836	843
Warranty claims paid during the period	(752)	(723)
Product warranty accrual balance, end of period	$ 3,829	$ 1,916

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$ in thousands	September 30, Six months ended February 29, 2012	September 30, February 28, 2011
Warranties:		
Product warranty accrual balance, beginning of period	$ 3,651	$ 1,862
Liabilities accrued for warranties during the period	1,735	1,685
Warranty claims paid during the period	(1,557)	(1,631)
Product warranty accrual balance, end of period	$ 3,829	$ 1,916

(13) Industry Segment Information

The Company manages its business activities in two reportable segments:

Irrigation: This reporting segment includes the manufacture and marketing of center pivot, lateral move, and hose reel irrigation systems as well as various water pumping stations and controls. The irrigation reporting segment consists of twelve operating segments that have similar economic characteristics and meet the aggregation criteria, including similar products, production processes, type or class of customer and methods for distribution.

Infrastructure: This reporting segment includes the manufacture and marketing of moveable barriers, specialty barriers and crash cushions; providing outsource manufacturing services and the manufacturing and selling of large diameter steel tubing and railroad signals and structures. The infrastructure reporting segment consists of three operating segments that have similar economic characteristics and meet the aggregation criteria.

The Company evaluates the performance of its reportable segments based on segment sales, gross profit, and operating income, with operating income for segment purposes excluding unallocated corporate general and administrative expenses, interest income, interest expense, other income and expenses, and income taxes. Operating income for segment purposes does include general and administrative expenses, selling expenses, engineering and research expenses, environmental remediation expenses and other overhead charges directly attributable to the segment. There are no inter-reporting segment sales.

The Company had no single customer representing 10 percent or more of its total revenues during the three and six months ended February 29, 2012 and February 28, 2011. Summarized financial information concerning the Company s reportable segments is shown in the following table:

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$ in thousands	September 30, Three months ended February 29, 2012	September 30, February 28, 2011	September 30, Six months ended February 29, 2012	September 30, February 28, 2011
Operating revenues:				
Irrigation	$ 116,988	$ 91,658	$ 217,764	$ 151,667
Infrastructure	15,146	28,510	33,575	57,667
Total operating revenues	$ 132,134	$ 120,168	$ 251,339	$ 209,334
Operating income (loss):				
Irrigation[1]	$ 23,019	$ 16,005	$ 32,804	$ 21,906
Infrastructure[1]	(955)	4,261	(2,132)	8,286
Segment operating income[1]	22,064	20,266	30,672	30,192
Unallocated general and administrative expenses	(3,116)	(3,205)	(6,641)	(6,521)
Interest and other income (expense), net	479	(60)	(163)	(93)
Earnings before income taxes	$ 19,427	$ 17,001	$ 23,868	$ 23,578
Total Capital Expenditures:				
Irrigation	$ 1,795	$ 1,182	$ 3,831	$ 2,038
Infrastructure	296	1,736	892	2,364
	$ 2,091	$ 2,918	$ 4,723	$ 4,402
Total Depreciation and Amortization:				
Irrigation	$ 1,675	$ 1,388	$ 3,345	$ 2,740
Infrastructure	1,435	1,566	2,890	3,140
	$ 3,110	$ 2,954	$ 6,235	$ 5,880

(1) There were no environmental remediation expenses allocated to the irrigation segment and the infrastructure segment, respectively, for the three months ended February 29, 2012 and February 28, 2011. Environmental remediation expenses of $6.1 million and $1.1 million were allocated to the irrigation segment and the infrastructure segment, respectively, for the six months ended February 29, 2012 and February 28, 2011.

September 30,