GLOBAL POWER EQUIPMENT GROUP INC.
Form 10-Q
November 09, 2012
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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 OF 1934**

For the quarterly period ended September 30, 2012

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 No. 001-16501

Global Power Equipment Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**73-1541378**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

400 E. Las Colinas Blvd., Suite 400

Irving, TX 75039

(Address of principal executive offices) (Zip code)

(214) 574-2700

(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 (§232.405 of this chapter) 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	¨	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 Rule12b-2 of the Exchange Act). Yes ¨ No x

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No ¨

As of November 5, 2012, there were 16,995,322 shares of common stock of Global Power Equipment Group Inc. outstanding.

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

Form 10-Q

For the quarter ended September 30, 2012

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Part I - FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,731	$ 99,491
Restricted cash	3,100	3,100
Accounts receivable, net of allowance of $1,015 and $1,135	62,747	52,573
Inventories	8,927	5,354
Costs and estimated earnings in excess of billings	55,002	30,680
Deferred tax assets	3,433	3,424
Other current assets	8,457	5,920
Total current assets	175,397	200,542
Property, plant and equipment, net	13,138	9,492
Goodwill	89,510	74,018
Intangible assets, net	37,611	12,500
Deferred tax assets	12,423	14,448
Other assets	5,170	5,150
Total assets	$ 333,249	$ 316,150
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 18,420	$ 10,377
Accrued compensation and benefits	20,181	16,485
Billings in excess of costs and estimated earnings	11,935	12,859
Accrued warranties	6,437	4,719
Other current liabilities	9,383	7,153
Total current liabilities	66,356	51,593
Other long-term liabilities	6,969	5,903
Total liabilities	73,325	57,496
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value, 170,000,000 shares authorized and 17,935,745 and 16,771,388 shares issued, respectively, and 17,185,475 and 16,381,533 shares outstanding, respectively	179	168
Paid-in capital	70,334	69,495
Accumulated other comprehensive income	831	508
Retained earnings	188,588	188,487
Treasury stock, at par (750,270 and 389,855 common shares, respectively)	(8)	(4)

Total stockholders equity		259,924		258,654
Total liabilities and stockholders equity	$	333,249	$	316,150

See accompanying notes to condensed consolidated financial statements (unaudited).

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Unaudited)		(Unaudited)	
Products revenue	$ 47,995	$ 36,700	$ 113,681	$ 111,641
Services revenue	63,501	62,526	196,955	230,196
Total revenue	111,496	99,226	310,636	341,837
Cost of products revenue	39,196	27,472	90,642	87,650
Cost of services revenue	54,171	52,549	168,381	199,862
Cost of revenue	93,367	80,021	259,023	287,512
Gross profit	18,129	19,205	51,613	54,325
Selling and administrative expenses	15,604	11,493	44,340	36,063
Reorganization expense		20		15
Operating income	2,525	7,692	7,273	18,247
Interest expense, net	94	270	1,365	844
Other expense (income), net	169	(121)	162	(183)
Income from continuing operations before income tax	2,262	7,543	5,746	17,586
Income tax expense (benefit)	954	887	2,583	(38,098)
Income from continuing operations	1,308	6,656	3,163	55,684
Discontinued operations:				
Income from discontinued operations, net of tax	238	485	111	1,980
Gain on disposals, net of tax		11,326		11,326
Income from discontinued operations	238	11,811	111	13,306
Net income	$ 1,546	$ 18,467	$ 3,274	$ 68,990
Basic earnings per weighted average common share:				
Income from continuing operations	$ 0.08	$ 0.41	$ 0.19	$ 3.51
Income from discontinued operations	0.01	0.73		0.84
Income per common share - basic	$ 0.09	$ 1.14	$ 0.19	$ 4.35
Weighted average number of shares of common stock outstanding - basic	17,166,293	16,138,319	16,885,205	15,876,312
Diluted earnings per weighted average common share:				
Income from continuing operations	$ 0.08	$ 0.39	$ 0.18	$ 3.29
Income from discontinued operations	0.01	0.70	0.01	0.79
Income per common share - diluted	$ 0.09	$ 1.09	$ 0.19	$ 4.08

Weighted average number of shares of common stock outstanding - diluted	17,258,659	16,984,447	17,251,142	16,928,419
Cash dividends per share	$ 0.09		$ 0.18	

See accompanying notes to condensed consolidated financial statements (unaudited).

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
	(Unaudited)		(Unaudited)	
Net income	$ 1,546	$ 18,467	$ 3,274	$ 68,990
Foreign currency translation adjustment	934	(1,356)	323	705
Comprehensive income	$ 2,480	$ 17,111	$ 3,597	$ 69,695

See accompanying notes to condensed consolidated financial statements (unaudited).

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

($ in thousands, except share amounts)

(Unaudited)

	Common Shares $0.01 Per Share			Accumulated Other		Treasury Shares		
	Shares	Amount	Paid-in Capital	Comprehensive Income	Retained Earnings	Shares	Amount	Total
Balance, December 31, 2011	16,771,388	$ 168	$ 69,495	$ 508	$ 188,487	(389,855)	$ (4)	$ 258,654
Stock-based compensation	434,075	4	1,527			(115,163)	(1)	1,530
Warrants exercised	730,282	7	(5)			(209,451)	(2)	
Dividends declared					(3,173)			(3,173)
Stock repurchases			(683)			(35,801)	(1)	(684)
Net income					3,274			3,274
Foreign currency translation adjustment				323				323
Balance, September 30, 2012	17,935,745	$ 179	$ 70,334	$ 831	$ 188,588	(750,270)	$ (8)	$ 259,924

See accompanying notes to condensed consolidated financial statements (unaudited).

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)

	Nine Months Ended September 30, 2012	2011
	(Unaudited)	
Operating activities:		
Net income	$ 3,274	$ 68,990
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Deferred income tax benefit	(712)	(33,056)
Depreciation and amortization on plant, property and equipment and intangible assets	1,871	1,915
Amortization on deferred financing costs	1,198	392
Loss on disposals of equipment		4
Gain on disposal of discontinued operations		(17,321)
Stock-based compensation	4,554	4,693
Changes in operating assets and liabilities, net of businesses acquired and sold	(20,829)	(8,438)
Net cash (used in) provided by operating activities	(10,644)	17,179
Investing activities:		
Acquisitions, net of cash acquired	(44,107)	
Proceeds from sale of Deltak, net of restricted cash and transaction costs		19,359
Net transfers of restricted cash		1,019
Proceeds from sale of equipment	15	6
Purchase of property, plant and equipment	(3,269)	(2,751)
Net cash (used in) provided by investing activities	(47,361)	17,633
Financing activities:		
Repurchase of stock-based awards for payment of statutory taxes due on stock-based compensation	(3,024)	(2,982)
Proceeds from warrants exercised		7
Stock repurchases	(684)	
Dividends paid	(3,093)	
Debt issuance costs	(924)	
Net cash used in financing activities	(7,725)	(2,975)
Effect of exchange rate changes on cash	(30)	902
Net change in cash and cash equivalents	(65,760)	32,739
Cash and cash equivalents, beginning of period	99,491	55,474
Cash and cash equivalents, end of period	$ 33,731	$ 88,213

See accompanying notes to condensed consolidated financial statements (unaudited).

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GLOBAL POWER EQUIPMENT GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 BUSINESS AND ORGANIZATION

Global Power Equipment Group Inc. and its wholly owned subsidiaries (unless the context requires otherwise, Global Power , the Company , we , us or our) is a leading provider of power generation equipment and industrial maintenance services. Through our Products Division, we design, engineer and manufacture gas turbine auxiliary equipment and control houses for customers throughout the world. Through our Services Division, we provide on-site modification and maintenance, outage management and facility upgrade services for nuclear power plants and specialty maintenance and other industrial services to hydrocarbon power plants and other industrial operations in the United States. Our corporate headquarters are located in Irving, Texas, with various facilities around the United States and internationally in The Netherlands, Mexico and China.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These unaudited condensed consolidated financial statements have been prepared by us in accordance with accounting principles generally accepted in the United States of America (U.S.). The information in the condensed consolidated financial statements, in the opinion of management, includes normal recurring adjustments and reflects all adjustments that are necessary for a fair statement of such financial statements. We believe that the disclosures presented are adequate to represent materially correct interim financial statements. These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2011 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2012.

Discontinued Operations Presentation: In August 2011, we completed the sale of substantially all of the operating assets of our Deltak LLC (Deltak) business unit. The results of Deltak operations for all periods presented have been reclassified to discontinued operations except where noted. The following notes relate to our continuing operations only unless otherwise noted (See Note 4 *Discontinued Operations and Sale of Deltak Assets*).

Principles of Consolidation: The accompanying condensed consolidated financial statements include the accounts of Global Power Equipment Group Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could vary materially from those estimates.

Reclassifications: Certain reclassifications have been made to the prior years consolidated financial statements to conform with the current year presentation.

Dollar Amounts: All dollar amounts (except per share amounts) presented in the tabulations within the notes to our condensed consolidated financial statements are stated in thousands of dollars, unless otherwise noted.

Revenue Recognition: We are organized in two major segments: the Products Division and the Services Division. Substantially all of our revenues within the Products Division are derived from fixed-priced contracts. Within the Services Division, we enter into a variety of contract structures including cost plus reimbursements, time and material contracts and fixed-price contracts. The determination of the contract structure within the Services Division is based on the scope of work, complexity and project length and customer preference. We expense pre-contract costs as incurred. Change orders are included in total estimated contract revenue when they can be reliably estimated and it is probable that the adjustment will be approved by the customer or realized. Costs related to change orders are recognized when they are incurred. Revenue for gas turbine auxiliary and control house equipment is recognized on the completed contract method typically when the unit is delivered and title and risk of loss have transferred to the customer. Revenues for the Selective Catalytic Emission Reduction (SCR) product line in the Products Division and the fixed-price contracts in the Services Division are recognized on the percentage-of-completion method.

The percentage-of-completion method generally results in the recognition of reasonably consistent profit margins over the life of a contract since management has the ability to produce reasonably dependable estimates of contract billings and contract costs. We use the level of profit margin that is most likely to occur on a contract. If the most likely profit margin cannot be precisely determined, the lowest probable level of profit in the range of estimates is used until the results can be estimated more precisely. Our estimate of the total hours or total contract costs to be incurred at any particular time has a significant impact on the revenue recognized for the respective period. Changes in job performance, job conditions, estimated profitability, final contract settlements and resolution of claims may result in revisions to costs and income, and the effects of such revisions are recognized in the period that the revisions are determined. Estimated losses on uncompleted contracts are recognized in the period in which they first become apparent. Under percentage-of-completion accounting, management must also make key judgments in areas such as the percentage-of-completion, estimates of project revenue, costs and margin, estimates of total and remaining project hours and liquidated damages assessments. Any deviations from estimates could have a significant positive or negative impact on our results of operations.

Products Division revenue for gas turbine auxiliary and control house equipment is recognized on the completed contract method typically when the unit is shipped. Certain of these contracts specify separate delivery dates of individual equipment units or require customer acceptance of a product. In circumstances where separate delivery dates of individual equipment units exist, we recognize revenue when the customer assumes the risk of loss and title for the equipment, which is generally the date the unit is shipped, and costs previously deferred are charged to expense. In circumstances where the contract requires customer acceptance of a product in addition to transfer of title and risk of loss to the customer, revenue is either recognized (i) upon shipment when we are able to demonstrate that the customer specific objective criteria have been met or (ii) upon customer acceptance. Once title and risk of loss have transferred and, where applicable, customer acceptance is complete, we have no further performance obligations. Our SCR product line follows percentage-of-completion method based on cost-to-cost input measures. Regardless of contract provisions, we require that the customer assumes risk of loss and title, and the installation is operating according to specifications or is an uninstalled unit that has been accepted by the customer for revenue to be recognized. Changes in job performance, job conditions, estimated profitability, final contract settlements and resolution of claims may result in revisions to job costs and income amounts that are different than amounts originally estimated.

Cost plus and time and material contracts represent the majority of the contracts in the Service Division. For these contract types, we recognize revenue when services are performed based upon an agreed-upon price for the completed services or based upon the hours incurred and agreed-upon hourly rates. Some of our contracts include provisions that adjust contract revenues for safety, schedule or other performance measures. On cost reimbursable contracts, revenue is recognized as costs are incurred and includes applicable mark up earned through the date services are provided. Fixed price contracts are recognized under the percentage-of-completion method using cost-to-cost measures. Occasionally, we may exclude certain costs from the cost-to-cost method such as significant costs for materials or subcontractors if the exclusion of such costs would result in a more meaningful measurement of actual progress towards completion of the contract.

Revenue and cost of revenue for the discontinued Deltak business unit in the Products Division were recognized on the percentage-of-completion method based on the percentage of actual hours incurred to date in relation to total estimated hours for each contract. This method was used because management considered expended labor hours to be the best available measure of progress on these contracts.

Adoption of New Accounting Pronouncements:

Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220) (ASU 2011-05) changes the options when presenting comprehensive income. The update gives companies the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in separate but consecutive statements. The amendments in the update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This amendment also required an entity to present on the face of the financial statements adjustments for items that are reclassified from accumulated other comprehensive income to net income; however, this portion of the guidance has been deferred. The provisions of ASU 2011-05 will be applied retrospectively for interim and annual periods beginning after December 15, 2011. We now present condensed consolidated statements of comprehensive income as a result of adopting the update.

Recently Issued Accounting Pronouncements:

In July 2012, the Financial Accounting Standards Board (FASB) issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard). Under this new standard, entities testing indefinite-lived intangible assets for impairment now have an option of performing a qualitative assessment before having to calculate the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that there is a more likely than not chance that the fair value of the reporting unit is less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. This standard is effective for us beginning January 1, 2013, with early adoption permitted under certain conditions. We do not expect the adoption of this standard will have any material effect on our financial statements or results of operations.

In August 2012, the FASB issued ASU No. 2012-03, Technical Amendments and Corrections to Securities and Exchange Commission (SEC) Paragraphs, amends SEC paragraphs in the FASB Accounting Standards Codification (ASC) to make it more consistent with accounting principles generally accepted in the U.S. issued by the FASB and included in the ASC. Most of the changes were considered minor. The provisions are effective upon issuance. The provisions of ASU No. 2012-03 are not expected to have a material impact on our consolidated financial statements.

In October 2012, the FASB issued ASU No. 2012-04, Technical Corrections and Improvements (ASU No. 2012-04) which makes certain technical corrections and conforming fair value amendments to the FASB ASC. The amendments affect various ASC topics and apply to all reporting entities within the scope of those topics. The technical corrections (Section A) are divided into three main categories: (1) Source literature amendments amendments to carry forward the original intent of certain pre-ASC authoritative literature that was inadvertently altered during the ASC process, (2) Guidance clarification and reference corrections changes in wording and references to avoid misapplication or misinterpretation of guidance, and (3) Relocated guidance moving guidance from one part of the ASC to another to correct instances in which the scope of pre-ASC guidance may have been unintentionally narrowed or broadened during the ASC process. The purpose of Section B of ASU No. 2012-04 is to conform the use of the term fair value throughout the ASC to fully reflect the fair value measurement and disclosure requirements of ASC Topic 820 Fair Value Measurement . These provisions are effective upon issuance, except for amendments that are subject to transition guidance, which will be effective for fiscal periods beginning after December 15, 2012. The provisions of ASU No. 2012-04 are not expected to have a material impact on our consolidated financial statements.

NOTE 3 ACQUISITIONS

On July 30, 2012, we acquired Koontz-Wagner Custom Controls Holdings LLC (Koontz-Wagner), a leading manufacturer and integrator of engineered packaged control house solutions for the energy, oil & gas, and electrical industries. The aggregate acquisition price consisted of $32.4 million in cash.

On September 5, 2012, we acquired the equity of TOG Holdings, Inc., together with its subsidiary, TOG Manufacturing Corporation (TOG). TOG provides precision machined metal and alloy parts to original equipment manufacturers for the steam and natural gas turbine power generation market. The aggregate acquisition price is expected to be $12.3 million after working capital adjustments.

We funded the purchase price of the Koontz-Wagner acquisition and the TOG acquisition (together, the 2012 Acquisitions) with cash on hand, excluding non-cash accruals of $0.5 million for unpaid purchase price adjustments included in the accompanying condensed consolidated balance sheets as of September 30, 2012. The financial results of the 2012 Acquisitions have been included in our Products Division as of their respective acquisition dates.

The following table summarizes the consideration paid for the 2012 Acquisitions and presents the allocation of these amounts to the net tangible and identifiable intangible assets based on their estimated fair values as of the respective acquisition dates. This allocation requires the significant use of estimates and is based on the information that was available to management at the time these condensed consolidated financial statements were prepared.

Current assets, including cash and cash equivalents of $0.1 million	$ 10,954
Property, plant and equipment.	1,552
Identifiable intangible assets	25,470
Goodwill	15,492
Total assets acquired	53,468
Current liabilities	(8,828)
Net assets acquired	$ 44,640

Management determined the purchase price allocations for the 2012 Acquisitions based on estimates of the fair values of the tangible and intangible assets acquired and liabilities assumed. We utilized recognized valuation techniques, including the income approach and cost approach for the net assets acquired. The fair value of the assets acquired and liabilities assumed in the 2012 Acquisitions remain subject to potential adjustments. The acquisition accounting for the TOG acquisition is subject to working capital adjustments, which is not expected to be materially different from our September 30, 2012 estimate.

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Acquired intangible assets of $25.5 million consisted of customer relationships, trade names and noncompete agreements. The amortization period for these intangible assets ranges from 5 to 9 years. We recorded $0.4 million of amortization expense related to these intangible assets during the three months ended September 30, 2012 covering the period of July 31, 2012 through September 30, 2012. The major classes of intangible assets are as follows:

	Weighted Average Amortization Years	Amount
Customer Relations	8.5	$ 19,300
Trade Names	Indefinite	5,100
Noncompetes	5	1,070
		$ 25,470

The goodwill arising from the 2012 Acquisitions consists largely of expectations that the 2012 Acquisitions extend our ability to deliver a broader portfolio of products to our Products Division customers including original equipment manufacturers, engineering, procurement and construction contractors and operators of power generation facilities. The goodwill associated with the Koontz-Wagner acquisition is deductible for tax purposes whereas the goodwill associated with the TOG acquisition is not deductible.

The following unaudited pro forma information have been provided for illustrative purposes only and are not necessarily indicative of results that would have occurred had the 2012 Acquisitions been in effect for the periods presented, nor are they necessarily indicative of future results.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2012	**2011**	**2012**	**2011**
Revenue	$ 115,021	$ 111,252	$ 332,014	$ 372,360
Income from continuing operations	1,840	7,105	4,180	55,561
Earnings per share from continuing operations:				
Basic	$ 0.11	$ 0.44	$ 0.25	$ 3.50
Diluted	$ 0.11	$ 0.42	$ 0.24	$ 3.28

The pro forma combined results for the three and nine months ended September 30, 2012 and 2011 have been prepared by adjusting our historical results to include the 2012 Acquisitions as if they occurred on January 1, 2011. These pro forma combined historical results were then adjusted for the following: a reduction in interest expense as we had no outstanding debt during the nine months ended September 30, 2012 and 2011, an increase in amortization expense due to the incremental intangible assets recorded related to the 2012 Acquisitions and an increase or decrease in depreciation expenses relating to the net impact of adjusting acquired property and equipment to the acquisition date fair value. The pro forma results of operations also include adjustments to reflect the impact of $1.9 million of acquisition related costs as of January 1, 2011. The pro forma results do not include any adjustments to eliminate the impact of cost savings or other synergies that may result from the 2012 Acquisitions. As noted above, the pro forma results of operations do not purport to be indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined company in the future.

Revenue of approximately $5.0 million and loss before income taxes of approximately $1.8 million are included in our condensed consolidated results of operations for the three and nine months ended September 30, 2012 related to the 2012 Acquisitions following their respective dates of acquisitions.

We recognized $1.9 million of acquisition related costs that were expensed during the three and nine months ended September 30, 2012, respectively. These acquisitions costs are included in selling and administrative expenses in our condensed consolidated statements of income for the three and nine months ended September 30, 2012.

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NOTE 4 DISCONTINUED OPERATIONS AND SALE OF DELTAK ASSETS

During the third quarter of 2011, we completed the sale of the operating net assets of our Deltak business unit, which was part of the Products Division. We have reported the disposition of the Deltak business unit as discontinued operations in accordance with the guidance of ASC 205-20 *Discontinued Operations.* The following table presents selected information regarding the results of our discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$ 13	$ 8,975	$ 206	$ 27,460
Income before income taxes	336	1,666	142	3,208
Income tax expense	98	1,181	31	1,228
Gain on disposal of assets		11,326		11,326
Income from discontinued operations	$ 238	$ 11,811	$ 111	$ 13,306

NOTE 5 EARNINGS PER SHARE

Basic earnings per common share is net income divided by the weighted average common shares outstanding during the period. Diluted earnings per common share is based on the weighted average common shares outstanding during the period, adjusted to include the incremental effect of common shares that would be issued upon the conversion of warrants and the vesting and release of restricted stock awards.

Basic and diluted earnings per common share are calculated as follows:

	Three Months Ended September 30,