LINDSAY CORP
Form 10-K
October 20, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

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

For the fiscal year ended August 31, 2015

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 incorporation or organization)	(I.R.S. Employer Identification No.)

2222 North 111th Street, Omaha, Nebraska	**68164**
(Address of principal executive offices)	(Zip Code)

402-829-6800

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange, Inc. (Symbol LNN)

Indicate by check mark if the registrant is a well-known seasoned issuer, (as defined in Rule 405 of the Securities Act). Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K x

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 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 ¨ No x

The aggregate market value of Common Stock of the registrant, all of which is voting, held by non-affiliates based on the closing sales price on the New York Stock Exchange, Inc. on February 28, 2015 was $1,006,419,747.

As of October 13, 2015, 11,289,393 shares of the registrant s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement pertaining to the Registrant s 2016 annual stockholders meeting are incorporated herein by reference into Part III.

TABLE OF CONTENTS

PART I

ITEM 1 *Business*

INTRODUCTION

Lindsay Corporation, along with its subsidiaries (collectively called Lindsay or the Company), is a global leader in providing a variety of proprietary water management and road infrastructure products and services. The Company has been involved in the manufacture and distribution of agricultural irrigation equipment since 1955 and has grown from a regional company to an international water efficiency solutions and highway infrastructure firm with worldwide sales and distribution. Lindsay, a Delaware corporation, maintains its corporate offices in Omaha, Nebraska. The Company has operations which are categorized into two major reporting segments. Industry segment financial information and geographic area financial information about Lindsay is included in Note Q to the consolidated financial statements.

Irrigation Segment The Company s irrigation segment includes the manufacture and marketing of center pivot, lateral move, and hose reel irrigation systems which are used principally in the agricultural industry to increase or stabilize crop production while conserving water, energy and labor. The irrigation segment also manufactures and markets repair and replacement parts for its irrigation systems and controls. In addition, the irrigation segment also designs and manufactures water pumping stations and controls for the agriculture, golf, landscape and municipal markets and filtration solutions for groundwater, agriculture, industrial and heat transfer markets. The Company continues to strengthen irrigation product offerings through innovative technology such as GPS positioning and guidance, variable rate irrigation, wireless irrigation management, machine-to-machine (M2M) communication technology solutions and smartphone applications. The Company s primary domestic irrigation manufacturing facilities are located in Lindsay, Nebraska; Hartland, Wisconsin; Olathe, Kansas and Fresno, California. Internationally, the Company has production operations in Brazil, France, China, Turkey and South Africa as well as distribution and sales operations in the Netherlands, Australia and New Zealand. The Company also exports equipment from the U.S. to other international markets.

Infrastructure Segment The Company s infrastructure segment includes the manufacture and marketing of moveable barriers, specialty barriers, crash cushions and end terminals, road marking and road safety equipment, large diameter steel tubing, and railroad signals and structures. The infrastructure segment also provides outsourced manufacturing and production services. The principal infrastructure manufacturing facilities are located in Rio Vista, California; Milan, Italy and Omaha, Nebraska.

PRODUCTS BY SEGMENT

IRRIGATION SEGMENT

Products - The Company manufactures and markets its center pivot, lateral move irrigation systems, and irrigation controls in the U.S. and internationally under its *Zimmatic*® brand. The Company also manufactures and markets hose reel travelers under the *Perrot* and *Greenfield*® brands in Europe and South Africa. The Company also produces or markets chemical injection systems, variable rate irrigation systems, flow meters, weather stations, soil moisture sensors and remote monitoring and control systems which it sells under its *GrowSmart*® brand. In addition to whole systems, the Company manufactures and markets repair and replacement parts for its irrigation systems and controls. The Company also designs and manufactures water pumping stations and controls for the agriculture, golf, landscape and municipal markets under its *Watertronics*® brand and filtration solutions for groundwater, agriculture, industrial and heat transfer markets, worldwide, under its *LAKOS*® brand. Furthermore, the Company designs and manufactures innovative M2M communication technology solutions, data acquisition and management systems and custom electronic equipment for critical applications under its *Elecsys* brand.

The Company s irrigation systems are primarily of the standard sized center pivot type, with a small portion of its products consisting of the lateral move type. Both are automatic move systems consisting of sprinklers mounted on a water carrying pipeline which is supported approximately 11 feet off the ground by a truss system suspended between moving towers.

A typical center pivot in the U.S. is approximately 1,300 feet long and is designed to circle within a quarter-section of land, which comprises 160 acres, wherein it irrigates approximately 125 to 130 acres. A center pivot or lateral move system can also be custom designed and can irrigate from 25 to 600+ acres.

A center pivot system represents a significant investment to a farmer. In a dry land conversion to center pivot irrigation, approximately one-half of the investment is for the pivot itself, and the remainder is attributable to installation of additional equipment such as wells, pumps, underground water pipes, electrical supply and a concrete pad upon which the pivot is anchored. The Company s center pivot and lateral move irrigation systems can be enhanced with a family of integrated proprietary products such as water pumping stations, GPS monitoring and other automated controls.

The Company also manufactures and distributes hose reel travelers. Hose reel travelers are typically deployed in smaller or irregular fields and usually are easy to operate, easy to move from field to field, and a lower investment than a typical standard center pivot.

The Company also markets proprietary remote monitoring and automation technology for pivot and drip irrigation systems that is sold on a subscription basis under the *FieldNET®* product name. *FieldNET®* technology allows growers to remotely monitor and operate irrigation equipment, saving time and reducing water and energy consumption. The technology uses cellular or radio frequency communication systems to remotely acquire data relating to various conditions in an irrigated field, including operational status of the irrigation system, position of the irrigation system, water flow rates, weather and soil conditions and similar data. The system can remotely control the irrigation system, including changing position, varying water flow rates, and controlling pump station and diesel generator operation. Data management and control is achieved using applications running on either a personal computer-based internet browser or various mobile devices connected to the internet.

Other Types of Irrigation Center pivot and lateral move irrigation systems compete with three other types of irrigation: flood, drip, and other mechanical devices such as hose reel travelers and solid set sprinklers. The bulk of the worldwide irrigation is accomplished by the traditional method of flood irrigation. Flood irrigation is accomplished by either flooding an entire field, or by providing a water source (ditches or a pipe) along the side of a field, which is planed and slopes slightly away from the water source. The water is released to the crop rows through gates in the ditch or pipe, or through siphon tubes arching over the ditch wall into some of the crop rows. It runs down through the crop row until it reaches the far end of the row, at which time the water source is moved and another set of rows are flooded. Disadvantages or limitations of flood irrigation include that it cannot be used to irrigate uneven, hilly, or rolling terrain, it can be wasteful or inefficient and coverage can become inconsistently applied. In drip or low flow irrigation, perforated plastic pipe or tape is installed on the ground or buried underground at the root level. Several other types of mechanical devices, such as hose reel travelers, irrigate the remaining irrigated acres.

Center pivot, lateral move, and hose reel traveler irrigation offers significant advantages when compared with other types of irrigation. It requires less labor and monitoring; can be used on sandy ground, which, due to poor water retention ability, must have water applied frequently; can be used on uneven ground, thereby allowing previously unsuitable land to be brought into production; can also be used for the application of fertilizers, insecticides, herbicides, or other chemicals (termed fertigation or chemigation); and conserves water and chemicals through precise control of the amount and timing of the application.

Markets - Water is an essential and critical requirement for crop production, and the extent, regularity, and frequency of water application can be a critical factor in crop quality and yield. The fundamental factors which govern the demand for center pivot and lateral move systems are essentially the same in both the U.S. and international markets.

Demand for center pivot and lateral move systems is determined by whether the value of the increased crop production and cost savings attributable to center pivot or lateral move irrigation exceeds any increased costs associated with purchasing, installing, and operating the equipment. Thus, the decision to purchase a center pivot or lateral move system, in part, reflects the profitability of agricultural production, which is determined primarily by the prices of agricultural commodities and other farming inputs.

The current demand for center pivot systems has three sources: conversion to center pivot systems from less water efficient, more labor intensive types of irrigation; replacement of older center pivot systems, which are beyond their useful lives or are technologically obsolete; and conversion of dry land farming to irrigated farming. Demand for center pivots and lateral move irrigation equipment also depends upon the need for the particular operational characteristics and advantages of such systems in relation to alternative types of irrigation, primarily flood. More efficient use of the basic natural resources of land, water, and energy helps drive demand for center pivot and lateral move irrigation equipment. Increasing global population not only increases demand for agricultural output, but also places additional and competing demands on land, water, and energy. The Company expects demand for center pivots and lateral move systems to continue to increase relative to other irrigation methods because center pivot and lateral move systems are preferred where the soil is sandy, the terrain is not flat, the land area to be irrigated is sizeable; there is a shortage of reliable labor; water supply is restricted and conservation is preferred or critical; and/or fertigation or chemigation will be utilized.

United States Market In the United States, the Company sells its branded irrigation systems, including *Zimmatic*®, to over 200 independent dealer locations, who resell to their customer, the farmer. Dealers assess their customer s requirements, design the most efficient solution, assemble and erect the system in the field, and provide additional system components, primarily relating to water supply (wells, pumps, pipes) and electrical supply (on-site generation or hook-up to power lines). Lindsay dealers generally are established local agribusinesses, many of which also deal in related products, such as well drilling and water pump equipment, farm implements, grain handling and storage systems, and farm structures.

International Market The Company sells center pivot and lateral move irrigation systems throughout the world. International sales accounted for approximately 39 percent of the Company s total irrigation segment revenues in both fiscal 2015 and 2014. The Company sells direct to consumers as well as through an international dealer network and has production and sales operations in Brazil, France, China, Turkey and South Africa as well as distribution and sales operations in the Netherlands, Australia and New Zealand serving the key South American, European, Chinese, African, Russian/Ukrainian, Middle East, Australian, and New Zealand markets. The Company also exports irrigation equipment from the U.S. to international markets.

The Company s international markets differ with respect to the need for irrigation, the ability to pay, demand, customer type, government support of agriculture, marketing and sales methods, equipment requirements, and the difficulty of on-site erection. The Company s industry position is such that it believes that it will likely be considered as a potential supplier for most major international agricultural development projects utilizing center pivot or lateral move irrigation systems.

Competition Four primary manufacturers control a substantial majority of the U.S. center pivot irrigation system industry. The international irrigation market includes participation and competition by the leading U.S. manufacturers as well as various regional manufacturers. The Company competes in certain product lines with several manufacturers, some of whom may have greater financial resources than the Company. The Company competes by continuously improving its products through ongoing research and development activities. The Company continues to strengthen irrigation product offerings through innovative technology such as GPS positioning and guidance, variable rate irrigation, wireless irrigation management, and smartphone applications as well as through the acquisition of products and services that allow the Company to provide a more comprehensive solution to growers needs. The Company s engineering and research expenses related to irrigation totaled approximately \$9.6 million, \$7.8 million, and \$8.1 million for fiscal years 2015, 2014, and 2013, respectively. Competition also occurs in areas of price and seasonal programs, product quality, durability, controls, product characteristics, retention and reputation of local dealers, customer service, and, at certain times of the year, the availability of systems and their delivery time. On balance, the Company believes it competes favorably with respect to these factors.

INFRASTRUCTURE SEGMENT

Products Quickchange® Moveable Barrier The Company s Quickchange® Moveable Barrier system, commonly known as the Road Zipper System , is composed of three parts: 1) T-shaped concrete barriers that are connected to form a continuous wall, 2) a Barrier Transfer Machine (BTM) capable of moving the barrier laterally across the pavement, and 3) the variable length barriers necessary for accommodating curves. A barrier element is approximately 32 inches high, 12-24 inches wide, 3 feet long and weighs 1,500 pounds. The barrier elements are interconnected by very heavy duty steel hinges to form a continuous barrier. The BTM employs an inverted S-shaped conveyor mechanism that lifts the barrier, moving it laterally before setting it back on the roadway surface.

In permanent applications, the Road Zipper System increases capacity and reduces congestion by varying the number of traffic lanes to match the traffic demand, and promotes safety by maintaining the physical separation of opposing lanes of traffic. Roadways with fixed medians have a set number of lanes in each direction and cannot adjust to traffic demands that may change over the course of a day, or to capacity reductions caused by traffic incidents or road repair and maintenance. Applications include high volume highways where expansion may not be feasible due to lack of additional right-of-way, environmental concerns, or insufficient funding. The Road Zipper System is particularly useful in busy commuter corridors and at choke points such as bridges and tunnels. Road Zipper Systems can also be deployed at roadway or roadside construction sites to accelerate construction, improve traffic flow and safeguard work crews and motorists by positively separating the work area and traffic. Examples of types of work completed with the help of a Road Zipper System include highway reconstruction, paving and resurfacing, road widening, median and shoulder construction, and repairs to tunnels and bridges.

The Company offers a variety of equipment lease options for Road Zipper Systems and BTM equipment used in construction applications. The leases extend for periods of one month or more for equipment already existing in the Company s lease fleet. Longer lease periods may be required for specialty equipment that must be built for specific projects. These systems have been in use since 1987. Typical sales for a highway safety or road improvement project range from $2.0 - $20.0 million, making them significant capital investments.

Crash Cushions and End Terminals The Company offers a complete line of redirective and non-redirective crash cushions which are used to enhance highway safety at locations such as toll booths, freeway off-ramps, medians and roadside barrier ends, bridge supports, utility poles and other fixed roadway hazards. The Company s primary crash cushion products cover a full range of lengths, widths, speed capacities and application accessories and include the following brand names: TAU®, Universal TAU-II®, TAU-II-R , TAU-B_NR , ABSORB 350® and Walt . In addition to these products the Company also offers guardrail end terminal products such as the X-Tension® and X-Lite® systems. The crash cushions and end terminal products compete with other vendors in the world market. These systems are generally sold through a distribution channel that is domiciled in particular geographic areas.

Specialty Barriers The Company also offers specialty barrier products such as the SAB , ArmorGuard , PaveGuard and DR46 portable barrier and/or barrier gate systems. These products offer portability and flexibility in setting up and modifying barriers in work areas and provide quick opening, high containment gates for use in median or roadside barriers. The gates are generally used to create openings in barrier walls of various types for both construction and incident management purposes. The DR46 is an energy absorbing barrier to shield motorcyclists from impacting guardrail posts which is an area of focus by departments of transportation and government regulators for reducing the amount and severity of injuries.

Road Marking and Road Safety Equipment The Company also offers preformed tape and a line of road safety accessory products. The preformed tape is used primarily in temporary applications such as markings for work zones, street crossings, and road center lines or boundaries. The road safety equipment consists of mostly plastic and rubber products used for delineation, slowing traffic, and signaling. The Company also manages an ISO 17025 certified testing laboratory that performs full-scale impact testing of highway safety products in

accordance with the National Cooperative Highway Research Program (NCHRP) Report 350, the Manual for Assessing Safety Hardware (MASH), and the European Norms (EN1317 Norms) for these types of products. The NCHRP Report 350 and MASH guidelines are procedures required by the U.S. Department of Transportation Federal Highway Administration (FHWA) for the safety performance evaluation of highway features. The EN1317 Norms are being used to qualify roadway safety products for the European markets.

Other Products The Company s Diversified Manufacturing, Rail and Tubing business unit manufactures and markets railroad signals and structures and large diameter steel tubing, and provides outsourced manufacturing and production services for other companies. The Company continues to develop new relationships for infrastructure manufacturing in industries outside of agriculture and irrigation. The Company s customer base includes certain large industrial companies and railroads. Each customer benefits from the Company s design and engineering capabilities as well as the Company s ability to provide a wide spectrum of manufacturing services, including welding, machining, painting, forming, galvanizing and assembling hydraulic, electrical, and mechanical components.

Markets The Company s primary infrastructure market includes moveable concrete barriers, delineation systems, crash cushions and similar protective equipment. The U.S. roadway infrastructure market includes projects such as new roadway construction, bridges, tunnels, maintenance and resurfacing, the purchase of rights-of-way for roadway expansion and development of technologies for relief of roadway congestion. Much of the U.S. highway infrastructure market is driven by government (state and federal) spending programs. For example, the U.S. government funds highway and road improvements through the Federal Highway Trust Fund Program. This program provides funding to improve the nation s roadway system. Matching funding from the various states may be required as a condition of federal funding. In the long term, the Company believes that the federal program provides a solid platform for growth in the U.S. market, as it is generally acknowledged that additional funding will be required for infrastructure development and maintenance in the future.

The global market for the Company s infrastructure products continues to be driven by population growth and the need for improved road safety. International sales accounted for approximately 30 percent and 41 percent of the Company s total infrastructure segment revenues in fiscal 2015 and 2014, respectively. The international market is presently very different from country to country. The standardization in performance requirements and acceptance criteria for highway safety devices adopted by the European Committee for Standardization is expected to lead to greater uniformity and a larger installation program. Prevention programs put in place in various countries to lower highway traffic fatalities may also lead to greater demand. The Company has recently started distributing infrastructure products in South America, the Middle East and Asia. The Company expects to continue expanding in international markets as populations grow and markets become more established.

Competition The Company competes in certain product lines with several manufacturers, some of whom may have greater financial resources than the Company. The Company competes by continuously improving its products through ongoing research and development activities. The Company s engineering and research expenses related to infrastructure products totaled approximately $3.3 million for each of the fiscal years ended 2015, 2014 and 2013. The Company competes with certain products and companies in its crash cushion business, but has limited competition in its moveable barrier line, as there is not another moveable barrier product today comparable to the Road Zipper System . However, the Company s barrier product does compete with traditional safety shaped concrete barriers and other safety barriers.

Distribution methods and channels The Company has dedicated production and sales operations in the United States and Italy. Sales efforts consist of both direct sales and sales programs managed by its network of distributors and third-party representatives. The sales teams have responsibility for new business development and assisting distributors and dealers in soliciting large projects and new customers. The distributor and dealer networks have exclusive territories and are responsible for developing sales and providing service, including product maintenance, repair and installation. The typical dealer sells an array of safety supplies, road signs, crash cushions, delineation equipment and other highway products. Customers include Departments of Transportation, municipal transportation road agencies, roadway contractors, subcontractors, distributors and dealers. Due to the

7

project nature of the roadway construction and congestion management markets, the Company s customer base changes from year-to-year. Due to the limited life of projects, it is rare that a single customer will account for a significant amount of revenues in consecutive years. The customer base also varies depending on the type of product sold. The Company s moveable barrier products are typically sold to transportation agencies or the contractors or suppliers serving those agencies. In contrast, distributors account for a majority of crash cushion sales since those products have lower price points and tend to have shorter lead times.

GENERAL

Certain information generally applicable to both of the Company s reportable segments is set forth below.

The following table describes the Company s total revenues for the past three fiscal years. United States export revenue is included in International based on the region of destination.

	For the years ended August 31,					
$ in millions	**2015**		**2014**		**2013**	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues	Revenues	% of Total Revenues
United States	$ 350.3	63	$ 377.7	61	$ 428.9	62
International	$ 209.9	37	$ 240.2	39	$ 261.9	38
Total Revenues	$ 560.2	100	$ 617.9	100	$ 690.8	100

SEASONALITY

Irrigation equipment sales are seasonal by nature. Farmers generally order systems to be delivered and installed before the growing season. Shipments to customers located in Northern Hemisphere countries usually peak during the Company s second and third fiscal quarters for the spring planting period. Sales of infrastructure products are traditionally higher during prime road construction seasons and lower in the winter. The primary construction season for Northern Hemisphere countries is from March until late September which corresponds to the Company s third and fourth fiscal quarters.

CUSTOMERS

The Company is not dependent for a material part of either segment s business upon a single customer or upon a limited number of customers. The loss of any one customer would not have a material adverse effect on the Company s financial condition, results of operations or cash flow.

ORDER BACKLOG

As of August 31, 2015, the Company had an order backlog of $48.0 million compared with $79.6 million at August 31, 2014. The order backlog at August 31, 2014 included a $12.7 million Road Zipper System order from the Golden Gate Bridge Highway & Transportation District that was recognized as revenue in fiscal 2015. The current period includes $9.5 million of backlog from Elecsys Corporation. The Company s backlog can fluctuate from period to period due to the seasonality, cyclicality, timing and execution of contracts. Backlog typically represents long-term projects as well as short lead-time orders, therefore it is generally not a good indication of the next quarter s revenues.

RAW MATERIALS AND COMPONENTS

Raw materials used by the Company include coil steel, angle steel, plate steel, zinc, tires, gearboxes, concrete, rebar, fasteners, and electrical and hydraulic components (motors, switches, cable, valves, hose and stators). The Company has, on occasion, faced shortages of certain such materials. The Company believes it currently has ready access from assorted domestic and foreign suppliers to adequate supplies of raw materials and components.

CAPITAL EXPENDITURES

Capital expenditures for fiscal 2015, 2014, and 2013 were $15.2 million, $17.7 million and $11.1 million, respectively. Capital expenditures for fiscal 2016 are estimated to be approximately $15.0 million to $20.0

million, largely focused on manufacturing capacity expansion and productivity improvements. The Company s management does maintain flexibility to modify the amount and timing of some of the planned expenditures in response to economic conditions.

PATENTS, TRADEMARKS, AND LICENSES

Lindsay s *Zimmatic®, Greenfield®, GrowSmart®, Perrot , Road Zipper System , Quickchange® Moveable Barrier , ABSORB 350®, FieldNET®, TAU®, Universal TAU-II®, TAU-II-R , TAU-B_NR , X-Tension®, X-Lite® CableGuard , TESI , SAB , ArmourGuard , PaveGuard , DR46 , U-MAD , Watertronics®, LAKOS®* and other trademarks are registered or applied for in the major markets in which the Company sells its products. In addition, the Company owns multiple patents dealing with cellular communication techniques, cathodic protection measurement methods and data compression and transmission. Lindsay follows a policy of applying for patents on all significant patentable inventions in markets deemed appropriate. Although the Company believes it is important to follow a patent protection policy, Lindsay s business is not dependent, to any material extent, on any single patent or group of patents.

EMPLOYEES

The number of persons employed by the Company and its wholly-owned subsidiaries at fiscal year ends 2015, 2014, and 2013 were 1,324, 1,202 and 1,262, respectively. None of the Company s U.S. employees are represented by a union. Certain of the Company s non-U.S. employees are unionized due to local governmental regulations.

ENVIRONMENTAL AND HEALTH AND SAFETY MATTERS

Like other manufacturing concerns, the Company is subject to numerous laws and regulations that govern environmental and occupational health and safety matters. The Company believes that its operations are substantially in compliance with all such applicable laws and regulations and that it holds all necessary permits in each jurisdiction in which its facilities are located. Environmental and health and safety regulations are subject to change and interpretation. In some cases, compliance with applicable regulations or standards may require the Company to make additional capital and operational expenditures. The Company, however, is not currently aware of any material expenditures required to comply with such regulations, other than information related to the environmental remediation activities described in Note N, Commitments and Contingencies, to the Company s consolidated financial statements. The Company accrues for the anticipated cost of investigation and remediation when the obligation is probable and can be reasonably estimated. Any revisions to these estimates could be material to the operating results of any fiscal quarter or fiscal year, however the Company does not expect such additional expenses would have a material adverse effect on its liquidity or financial condition.

FINANCIAL INFORMATION ABOUT FOREIGN AND U.S. OPERATIONS

The Company s primary production facilities are located in the United States. The Company has smaller production and sales operations in Brazil, France, Italy, China, Turkey and South Africa as well as distribution and sales operations in the Netherlands, Australia and New Zealand. Where the Company exports products from the United States to international markets, the Company generally ships against prepayment, an irrevocable letter of credit confirmed by a U.S. bank or another secured means of payment or with credit insurance from a third party. For sales within both U.S. and foreign jurisdictions, prepayments or other forms of security may be required before credit is granted, however most local sales are made based on payment terms after a full credit review has been performed. Most of the Company s financial transactions are in U.S. dollars, although some export sales and sales from the Company s foreign subsidiaries are conducted in other currencies. Approximately 20 percent and 23 percent of total consolidated Company sales were conducted in currencies other than the U.S. dollar in fiscal 2015 and 2014. To reduce the uncertainty of foreign currency exchange rate movements on these sales and purchase commitments conducted in local currencies, the Company monitors its risk of foreign currency fluctuations and, at times, may enter into forward exchange or option contracts for transactions denominated in a currency other than U.S. dollars.

In addition to the transactional foreign currency exposures mentioned above, the Company also has translation exposure resulting from translating the financial statements of its international subsidiaries into U.S. dollars. In order to reduce this translation exposure, the Company, at times, utilizes foreign currency forward contracts to hedge its net investment exposure in its foreign operations. For information on the Company s foreign currency risks, see Item 7A of Part II of this report.

INFORMATION AVAILABLE ON THE LINDSAY WEBSITE

The Company makes available free of charge on its website homepage, under the tab Investor Relations SEC Filings , its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The Company s internet address is http://www.lindsay.com; however, information posted on its website is not part of this Annual Report on Form 10-K. The following documents are also posted on the Company s website homepage, under the tabs Investor Relations Governance Committees and Investor Relations Governance Ethics :

Audit Committee Charter

Compensation Committee Charter

Corporate Governance and Nominating Committee Charter

Code of Business Conduct and Ethics

Corporate Governance Principles

Code of Ethical Conduct

Employee Complaint Procedures for Accounting and Auditing Matters

Special Toll-Free Hotline Number and E-mail Address for Making Confidential or Anonymous Complaints

These documents are also available in print to any stockholder upon request, by sending a letter addressed to the Secretary of the Company.

ITEM 1A - *Risk Factors*

The following are certain of the more significant risks that may affect the Company s business, financial condition and results of operations.

The Company s irrigation revenues are highly dependent on the agricultural industry and weather conditions. The Company s irrigation revenues are cyclical and highly dependent upon the need for irrigated agricultural crop production which, in turn, depends upon many factors, including total worldwide crop production, the profitability of agricultural crop production, agricultural commodity prices, net farm income, availability of financing for farmers, governmental policies regarding the agricultural sector, water and energy conservation policies, the regularity of rainfall and regional climate change. As farm income decreases, farmers may postpone capital expenditures or seek less expensive irrigation alternatives.

Weather conditions, particularly leading up to the planting and early growing season, can significantly affect the purchasing decisions of consumers of irrigation equipment. Natural calamities such as regional floods, hurricanes or other storms, and droughts can have significant effects on seasonal irrigation demand. Drought conditions, which generally impact irrigation equipment demand positively over the long term, can adversely affect demand if water sources become unavailable or if governments impose water restriction policies to reduce overall water availability.

Volatility in global markets with respect to currency exchange rates, commodity prices including market prices for grain and oil, and potential changes in interest rates can adversely affect the Company s worldwide sales, operating margins and the competitiveness of the Company s products.

The Company conducts operations in a variety of locations around the world, which means that market fluctuations in currencies, commodities and interest rates can affect demand for the Company s products and the cost of production. These factors all impact end customers purchase decisions and are therefore interconnected, making it difficult to predict how any single factor might impact customers decisions to purchase the Company s products.

Foreign Currency Exchange Rates. For the fiscal year ended August 31, 2015, approximately 37 percent of the Company s consolidated revenues were generated from international sales and United States export revenue to international regions. Most of the Company s international sales involve some level of export from the U.S., either of components or completed products. The strengthening of the U.S. dollar and/or the weakening of local currencies can increase the cost of the Company s products in those foreign markets. The impact of these changes can make these products less competitive relative to local producing competitors and, in extreme cases, can result in the Company s products not being cost-effective for customers. As a result, the Company s international sales and profit margins could decline.

Grain Pricing. Changes in grain prices can impact the return on investment of the Company s products. Grain prices are influenced by both global and local markets. The primary benefit of many of the Company s irrigation products is to increase grain yields and the resulting revenue for farmers. As grain prices decline, the breakeven point of incremental production is more difficult to achieve, reducing or eliminating the profit and return on investment from the purchase of the Company s products. As a result, changes in grain prices can significantly impact the Company s sales levels in the U.S. and international markets.

Manufacturing Input Costs. Certain of the Company s input costs, such as the cost of steel, zinc, and other raw materials, may increase rapidly from time to time. Due to price competition in the market for irrigation equipment and certain infrastructure products, the Company may not be able to recoup increases in these costs through price increases for its products, which would result in reduced profitability. Whether increased operating costs can be passed through to the customer depends on a number of factors, including farm income and the price of competing products. The cost of raw materials can be volatile and is dependent on a number of factors, including availability, demand, and freight costs.

Oil Pricing. The decline in oil prices could impact the Company s irrigation markets, either by negatively affecting the biofuels market or by reducing government revenues of oil producing countries that purchase or subsidize the purchase of irrigation equipment. Biofuels production is a significant source of grain demand in the U.S. and certain international markets. While ethanol production levels are currently mandated within the U.S., potential mandate changes or price declines for ethanol producing companies could reduce the demand for grains. In addition, a number of ethanol producers in the U.S. are cooperatives partially owned by farmers. Reduced profit of ethanol production could reduce income for farmers which could, in turn, reduce the demand for irrigation equipment.

Interest Rates. Interest rates globally have been at historically low levels. In some international markets we have begun to see these rates rise and it is expected that global rates will continue to increase, potentially very quickly in the U.S., as the economy improves. An increase in interest rates will make it more difficult for end customers to cost-effectively fund the purchase of new equipment, which could reduce the Company s sales.

The Company s infrastructure revenues are highly dependent on government funding of transportation projects and subject to compliance with government regulations. The demand for the Company s infrastructure products depends to a large degree on the amount of government spending authorized to improve road and highway systems. For example, the U.S. government funds highway and road improvements through the Federal Highway Trust Fund Program and matching funding from states may be required as a condition of federal funding. Currently funding is provided primarily through a series of temporary highway funding bills that have been passed over the previous several years. Until and unless a long-term U.S. highway bill is passed, uncertainties and limitations on growth could impact the infrastructure business. If highway funding is reduced or delayed, it may reduce demand for the Company s infrastructure products.

In addition, the Company s road safety products are required to meet certain standards as outlined by the various governments worldwide. The Federal Highway Administration (FHWA) has recently indicated the intention to mandate the Manual for Assessing Safety Hardware (MASH) standards subject to approval by states for use in each respective jurisdiction. In addition, state Departments of Transportation (DOT) have the ability to require compliance with MASH standards prior to the FHWA mandating such practices. MASH was previously optional and most road safety products in the market have not been approved under this standard. The Company will likely incur R&D and testing expense to comply with these standards. In addition, the adoption of the new standards could impact the Company s competitive position in the market which could have a significant impact on the sales and profitability from its road safety product line. The timeline for adoption of the MASH standard has not been determined.

The Company s profitability may be negatively affected by the disruption or termination of the supply of parts, materials, and components from third-party suppliers. The Company uses a limited number of suppliers for certain parts, materials, and components in the manufacturing process. Disruptions or delays in supply or significant price increases from these suppliers could adversely affect the Company s operations and profitability. Such disruptions, terminations or cost increases could result in cost inefficiencies, delayed sales or reduced sales.

The Company s international equipment sales are highly dependent on foreign market conditions and are subject to additional risk and restrictions. For the fiscal year ended August 31, 2015, approximately 37 percent of the Company s consolidated revenues were generated from international sales and United States export revenue to international regions. International revenues are primarily generated from Australia, New Zealand, Canada, Central and Western Europe, Mexico, the Middle East, Africa, China, Russia/Ukraine, and Central and South America. In addition to risks relating to general economic and political stability in these countries, the Company s international sales are affected by international trade barriers, including governmental policies on tariffs, taxes, import or export licensing requirements, trade sanctions, and foreign currency exchange rates. In addition, the collectability of receivables can be difficult to estimate, particularly in areas of political instability or with governments with which the Company has limited experience or where there is a lack of transparency as to the current credit condition. The Company does business in a number of countries that are particularly susceptible to disruption from changing social economic conditions as well as terrorism, political hostilities, sanctions, war and similar incidents.

Compliance with applicable environmental and health and safety regulations or standards may require additional capital and operational expenditures. Like other manufacturing concerns, the Company is subject to numerous laws and regulations which govern environmental and occupational health and safety matters. The Company believes that its operations are substantially in compliance with all such applicable laws and regulations and that it holds all necessary permits in each jurisdiction in which its facilities are located. Environmental and health and safety regulations are subject to change and interpretation. Compliance with applicable regulations or standards may require the Company to make additional capital and operational expenditures.

The Company s Lindsay, Nebraska site was added to the list of priority superfund sites of the U.S. Environmental Protection Agency (the EPA) in 1989. The Company and its environmental consultants have developed a remedial alternative work plan, under which the Company continues to work with the EPA to define and implement steps to better contain and remediate the remaining contamination. 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 could 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. In addition, the current investigation has not yet been completed and does not include all potentially affected areas on the site. Due to the current stage of discussions with the EPA and the uncertainty of the remediation actions that may be required with respect to these affected areas, the Company believes that meaningful estimates of costs or range of costs cannot currently be made and accordingly have not been accrued. The Company s ongoing remediation activities at its Lindsay, Nebraska facility are described in Note N, Commitments and Contingencies, to the Company s consolidated financial statements.

12

The Company s consolidated financial results are reported in U.S. dollars while certain assets and other reported items are denominated in the currencies of other countries, creating currency translation risk. The reporting currency for the Company s consolidated financial statements is the U.S. dollar. Certain of the Company s assets, liabilities, expenses and revenues are denominated in other countries currencies. Those assets, liabilities, expenses and revenues are translated into U.S. dollars at the applicable exchange rates to prepare the Company s consolidated financial statements. Therefore, increases or decreases in exchange rates between the U.S. dollar and those other currencies affect the value of those items as reflected in the Company s consolidated financial statements. Substantial fluctuations in the value of the U.S. dollar compared to those other currencies could have a significant impact on the Company s results.

Expansion of the Company s business may result in unanticipated adverse consequences. The Company routinely considers possible expansions of the business, both domestically and in foreign locations. Acquisitions, partnerships, joint ventures or other similar major investments require significant managerial resources, which may be diverted from the Company s other business activities. The risks of any expansion of the business through investments, acquisitions, partnerships or joint ventures are increased due to the significant capital and other resources that the Company may have to commit to any such expansion, which may not be recoverable if the expansion initiative to which they were devoted is not fully implemented or is ultimately unsuccessful. As a result of these risks and other factors, including general economic risk, the Company may not be able to realize projected returns from any recent or future acquisitions, partnerships, joint ventures or other investments.

Security breaches and other disruptions to the Company s information technology infrastructure could interfere with its operations and could compromise the Company s and its customers and suppliers information, exposing the Company to liability that could cause its business and reputation to suffer. In the ordinary course of business, the Company relies upon information technology networks and systems to process, transmit and store electronic information, and to manage or support a variety of business functions, including supply chain, manufacturing, distribution, invoicing and collection of payments. The Company uses information technology systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. Additionally, the Company collects and stores sensitive data, including intellectual property, proprietary business information and the proprietary business information of customers and suppliers, as well as personally identifiable information of customers and employees, in data centers and on information technology networks. The secure operation of these networks and the processing and maintenance of this information is critical to the Company s business operations and strategy. Despite security measures and business continuity plans, the Company s information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers or breaches due to employee error or malfeasance or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. The occurrence of any of these events could compromise the Company s networks, and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations, and damage the Company s reputation, which could adversely affect the Company s business.

ITEM 1B ***Unresolved Staff Comments***

None.

ITEM 2 - ***Properties***

The Company s facilities are well maintained, in good operating condition and are suitable for present purposes. These facilities, together with both short-term and long-term planned capital expenditures, are expected to meet the Company s manufacturing needs in the foreseeable future. The Company does not anticipate any difficulty in retaining occupancy of any leased facilities, either by renewing leases prior to expiration or by replacing them with equivalent leased facilities. The following are the Company s significant properties.

Segment	**Geographic Location (s)**	**Own/ Lease**	**Lease Expiration**	**Square Feet**	**Property Description**
Corporate	Omaha, Nebraska	Lease	2019	30,000	Corporate headquarters
Irrigation	Lindsay, Nebraska	Own	N/A	300,000	Principal U.S. manufacturing plant consists of eight separate buildings located on 122 acres
Irrigation	Corlu, Turkey	Lease	2024	280,000	Manufacturing plant for irrigation products
Irrigation	Fresno, California	Own	N/A	94,000	Manufacturing plant for filtration products
Infrastructure	Omaha, Nebraska	Own	N/A	83,000	Manufacturing plant for infrastructure products
Irrigation	Hartland, Wisconsin	Own	N/A	73,000	Manufacturing plant for water pumping stations and controls
Irrigation	La Chapelle, France	Own	N/A	72,000	Manufacturing plant for irrigation products
Irrigation	Bellville, South Africa	Lease	2019	71,000	Manufacturing plant for irrigation products
Irrigation	Mogi Mirim, Sao Paulo, Brazil	Own	N/A	67,000	Manufacturing plant for irrigation products
Irrigation	Olathe, Kansas	Own	N/A	60,000	Manufacturing plant for machine to machine products
Irrigation		Lease	2017	58,000	Manufacturing plant for irrigation products

	Tianjin, China and Beijing, China				
Infrastructure	Milan, Italy	Own	N/A	45,000	Manufacturing plant for infrastructure products
Infrastructure	Rio Vista, California	Own	N/A	30,000	Manufacturing plant for infrastructure products

ITEM 3 - ***Legal Proceedings***

In the ordinary course of its business operations, the Company is involved, from time to time, in commercial litigation, employment disputes, administrative proceedings, business disputes and other legal proceedings. No such current proceedings, individually or in the aggregate, are expected to have a material effect on the business or financial condition of the Company. Note N, Commitments and Contingencies, sets forth information about capital and other operating expenditures relating to environmental remediation activities at the Company s Lindsay, Nebraska facility.

ITEM 4 ***Mine Safety Disclosures***

Not applicable

PART II

ITEM 5 - ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Holders

Lindsay Common Stock trades on the New York Stock Exchange, Inc. (NYSE) under the ticker symbol LNN. As of October 13, 2015, there were approximately 162 stockholders of record.

Price Range of Common Stock

The following table sets forth for the periods indicated the range of the high and low stock prices and dividends paid per share:

	Fiscal 2015 Stock Price			Fiscal 2014 Stock Price		
	High	Low	Dividends	High	Low	Dividends
First Quarter	$ 89.50	$ 73.01	$ 0.270	$ 90.00	$ 71.13	$ 0.130
Second Quarter	$ 90.30	$ 80.02	$ 0.270	$ 92.93	$ 75.76	$ 0.260
Third Quarter	$ 89.33	$ 74.20	$ 0.270	$ 91.60	$ 77.50	$ 0.260
Fourth Quarter	$ 91.93	$ 72.25	$ 0.280	$ 89.82	$ 76.02	$ 0.270
Year	$ 91.93	$ 72.25	$ 1.090	$ 92.93	$ 71.13	$ 0.920

Purchases of Equity Securities by the Issuer and Affiliated Purchases

The table below sets forth information with respect to purchases of the Company s common stock made by or on behalf of the Company during the three months ended August 31, 2015:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1) ($ in thousands)
June 1, 2015 to June 30, 2015	88,596	$ 81.51	88,596	$ 23,256
July 1, 2015 to July 31, 2015	82,284	$ 85.54	82,284	$ 116,216
August 1, 2015 to August 31, 2015	49,397	$ 84.21	49,397	$ 112,057
Total	220,277	$ 83.62	220,277	$ 112,057

[1] On January 3, 2014, the Company announced that its Board of Directors authorized a share repurchase program of up to $150.0 million of common stock, effective as of January 2, 2014, through January 2, 2016. On July 22, 2015, the Company announced that its Board of Directors increased its outstanding share repurchase authorization by $100.0 million. Under the program, shares may be repurchased in privately negotiated and/or open market transactions as well as under formalized trading plans in accordance with the guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended.

Dividends

The Company paid a total of $12.8 million and $11.7 million in dividends during fiscal 2015 and fiscal 2014, respectively. The Company currently expects that cash dividends comparable to those paid historically will continue to be paid in the future, although there can be no assurance as to future dividends as they depend on future earnings, capital requirements and financial condition.

Company Stock Performance

The following graph compares the cumulative 5-year total return attained by stockholders on the Company s Common Stock relative to the cumulative total returns of the S&P Small Cap 600 Index and the S&P Small Cap 600 Construction, Farm Machinery and Heavy Truck index for the five-year period ended August 31, 2015. An investment of $100 (with the reinvestment of all dividends) is assumed to have been made in the Company s Common Stock and in each of the indexes on August 31, 2010 and the graph shows its relative performance through August 31, 2015.

	8/10	8/11	8/12	8/13	8/14	8/15
Lindsay Corporation	**100.00**	**169.63**	**179.33**	**209.82**	**217.06**	**215.53**
S&P Smallcap 600	**100.00**	**124.44**	**145.47**	**184.30**	**218.76**	**222.70**
S&P SmallCap 600 Construction, Farm Machinery and Heavy Truck Index	**100.00**	**124.13**	**114.48**	**170.50**	**211.34**	**204.51**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6 ***Selected Financial Data***

	For the Years Ended August 31,				
$ in millions, except per share amounts	**2015[1]**	**2014[2]**	**2013**	**2012[3]**	**2011**
Operating revenues	$ 560.2	$ 617.9	$ 690.8	$ 551.3	$ 478.9
Gross profit	$ 156.3	$ 171.0	$ 194.8	$ 148.5	$ 129.8
Gross margin	27.9%	27.7%	28.2%	26.9%	27.1%
Operating expenses	$ 105.6	$ 92.6	$ 87.8	$ 83.0	$ 73.2
Operating income	$ 50.7	$ 78.4	$ 107.0	$ 65.5	$ 56.6
Operating margin	9.0%	12.7%	15.5%	11.9%	11.8%
Net earnings	$ 26.3	$ 51.5	$ 70.6	$ 43.3	$ 36.8
Net margin	4.7%	8.3%	10.2%	7.9%	7.7%
Diluted net earnings per share	$ 2.22	$ 4.00	$ 5.47	$ 3.38	$ 2.90
Cash dividends per share	$ 1.090	$ 0.920	$ 0.475	$ 0.385	$ 0.345
Property, plant and equipment, net	$ 78.7	$ 72.5	$ 65.1	$ 56.2	$ 58.5
Total assets	$ 536.5	$ 526.6	$ 512.3	$ 415.5	$ 381.1
Long-term obligations	$ 117.2	$ -	$ -	$ -	$ 4.3
Return on beginning assets [4]	5.0%	10.1%	17.0%	11.4%	11.3%
Diluted weighted average shares	11,855	12,882	12,901	12,810	12,692

(1) Fiscal 2015 includes operating results of Elecsys Corporation acquired in the second quarter of fiscal 2015 and SPF Water Engineering, LLC acquired in the fourth quarter of fiscal 2015

(2) Fiscal 2014 includes operating results of Claude Laval Corporation acquired in fourth quarter of fiscal 2013.

(3) Fiscal 2012 includes the operating results of IRZ Consulting, LLC acquired in the fourth quarter of fiscal 2011.

(4) Defined as net earnings divided by beginning of period total assets.

ITEM 7 - ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Concerning Forward-Looking Statements - This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations, contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical are forward-looking and reflect expectations for future Company performance. In addition, forward-looking statements may be made orally or in press releases, conferences, reports, on the Company s worldwide web site, or otherwise, in the future by or on behalf of the Company. When used by or on behalf of the Company, the words expect, anticipate, estimate, believe, intend similar expressions generally identify forward-looking statements. For these statements throughout the Annual Report on Form 10-K, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The entire sections entitled Financial Overview and Outlook and Risk Factors should be considered forward-looking statements.

Forward-looking statements involve a number of risks and uncertainties, including but not limited to those discussed in the Risk Factors section contained in Item 1A. Readers should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described herein, as well as others not now anticipated. The risks and uncertainties described herein are not exclusive and further information concerning the Company and its businesses, including factors that potentially could materially affect the Company s financial results, may emerge from time to time. Except as required by law, the Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Company Overview

The Company manufactures and markets center pivot, lateral move, and hose reel irrigation systems. The Company also produces and markets irrigation controls, chemical injection systems and remote monitoring and control systems. These products are used by farmers to increase or stabilize crop production while conserving water, energy, and labor. Through its acquisitions, the Company has been able to enhance its capabilities in providing innovative, turn-key solutions to customers through the integration of its proprietary pump stations, controls and designs. The Company sells its irrigation products primarily to a world-wide independent dealer network, who resell to their customers, the farmers. The Company s primary production facilities are located in the United States. The Company has smaller production and sales operations in Brazil, France, China, Turkey and South Africa as well as distribution and sales operations in the Netherlands, Australia and New Zealand. The Company also manufactures and markets, through distributors and direct sales to customers, various infrastructure products, including moveable barriers for traffic lane management, crash cushions, preformed reflective pavement tapes and other road safety devices, through its production facilities in the United States and Italy and has produced road safety products in irrigation manufacturing facilities in China and Brazil. In addition, the Company s infrastructure segment produces large diameter steel tubing and railroad signals and structures, and provides outsourced manufacturing and production services for other companies.

For the business overall, the global, long-term drivers of water conservation, population growth, increasing importance of biofuels, and the need for safer, more efficient transportation solutions remain positive. Key factors which impact demand for the Company s irrigation products include agricultural commodity prices, net farm income, worldwide agricultural crop production, the profitability of agricultural crop production, availability of financing, governmental policies regarding the agricultural sector, water and energy conservation policies, the regularity of rainfall, regional climate change, and foreign currency exchange rates. A key factor which impacts demand for the Company s infrastructure products is the amount of spending authorized by governments to improve road and highway systems. Much of the U.S. highway infrastructure market is driven by government spending programs. For example, the U.S. government funds highway and road improvements through the Federal Highway Trust Fund Program. This program provides funding to improve the nation s roadway system. In July 2015, the U.S. government enacted an $8 billion temporary highway-funding bill to fund highway and bridge projects, the latest in a series of short term funding bills over the last several years. Matching funding from the various states may be required as a condition of federal funding.

The Company continues to have an ongoing, structured, acquisition process that it expects to generate additional growth opportunities throughout the world in irrigation/water solutions. Lindsay is committed to achieving earnings growth by global market expansion, improvements in margins, and strategic acquisitions. Since 2001, the Company has utilized acquisitions and greenfield efforts to expand its product lines and add to its operations in Europe, South America, South Africa, the Netherlands, Australia, New Zealand, China and Turkey. The addition of those operations has allowed the Company to strengthen its market position in those regions.

New Accounting Standards Issued But Not Yet Adopted

See Note B, New Accounting Pronouncements, to the Company s consolidated financial statements for information regarding recently issued accounting pronouncements.

Critical Accounting Policies and Estimates

In preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP), management must make a variety of decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, management applies judgment based on its understanding and analysis of the relevant facts and circumstances. Certain of the Company s accounting policies are critical, as these policies are most important to the presentation of the Company s consolidated results of operations and financial condition. They require the greatest use of judgments and estimates by management based on the Company s historical experience and management s knowledge and understanding of current facts and circumstances. Management periodically re-evaluates and adjusts the estimates that are used as circumstances change. Following are the accounting policies management considers critical to the Company s consolidated results of operations and financial condition:

Revenue Recognition

The Company s revenue recognition accounting policy is critical because it can significantly impact the Company s consolidated results of operations and financial condition. The Company s basic criteria necessary for revenue recognition are: 1) evidence of a sales arrangement exists, 2) delivery of goods has occurred, 3) the sales price to the buyer is fixed or determinable, and 4) collectability is reasonably assured. The Company recognizes revenue when these criteria have been met and when title and risk of loss transfers to the customer. The Company generally has no post-delivery obligations to its independent dealers other than standard warranties. Revenues and gross profits on intercompany sales are eliminated in consolidation. Revenues from the sale of the Company s products are recognized based on the delivery terms in the sales contract. If an arrangement involves multiple deliverables, revenues from the arrangement are allocated to the separate units of accounting based on their relative selling price.

The Company offers a subscription-based service for wireless management and recognizes subscription revenue on a straight-line basis over the contract term. The Company leases certain infrastructure property held for lease to customers such as moveable concrete barriers and Road Zipper Systems™. Revenues for the lease of infrastructure property held for lease are recognized on a straight-line basis over the lease term.

The costs related to revenues are recognized in the same period in which the specific revenues are recorded. Shipping and handling fees billed to customers are reported in revenue. Shipping and handling costs incurred by the Company are included in cost of sales. Customer rebates, cash discounts and other sales incentives are recorded as a reduction of revenues at the time of the original sale. Estimates used in the recognition of operating revenues and cost of operating revenues include, but are not limited to, estimates for product warranties, product rebates, cash discounts and fair value of separate units of accounting on multiple deliverables.

Inventories

The Company s accounting policy on inventories is critical because the valuation and costing of inventory is essential to the presentation of the Company s consolidated results of operations and financial condition. 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 three warehouses in Idaho, Georgia and Texas. Cost is determined by the first-in, first-out (FIFO) method for inventory at operating locations in Nebraska, California, Wisconsin, China, Turkey and Australia. Cost is determined by the weighted average cost method for inventory at the Company s other operating locations in Kansas, Washington, Brazil, France, 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.

Environmental Remediation Liabilities

The Company s accounting policy on environmental remediation is critical because it requires significant judgments and estimates by management, involves changing regulations and approaches to remediation plans, and any revisions could be material to the operating results of any fiscal quarter or fiscal year. The Company is subject to an array of environmental laws and regulations relating to the protection of the environment. In particular, the Company committed to remediate environmental contamination of the groundwater at and land adjacent to its Lindsay, Nebraska facility (the site) with the EPA. The Company and its environmental consultants have developed a remedial alternative work plan, under which the Company continues to work with the EPA to define and implement steps to better contain and remediate the remaining contamination.

Environmental remediation liabilities include costs directly associated with site investigation and clean up, such as materials, external contractor costs and incremental internal costs directly related to the remedy. Estimates used to record environmental remediation liabilities are based on the Company s best estimate of probable future costs based on site-specific facts and circumstances. Estimates of the cost for the likely remedy are developed using internal resources or by third-party environmental engineers or other service providers. The Company records the undiscounted environmental remediation liabilities that represent the points in the range of estimates that are most probable or the minimum amount when no amount within the range is a better estimate than any other amount.

In fiscal 2013, the Company and the EPA conducted a periodic five-year review of the status of the remediation of the contamination of the site. The Company intends to complete additional investigation of the soil and groundwater on the site during the first half of calendar 2016. Based on this investigation, the Company will then assess revisions to its remediation plan and expects to meet with the EPA toward the end of calendar 2016 to determine how to proceed. While any revisions could be material to the operating results of any fiscal quarter or fiscal year, the Company does not expect such additional expenses would have a material adverse effect on its liquidity or financial condition.

The Company accrues the anticipated cost of environmental remediation when the obligation is probable and can be reasonably estimated. Although the Company has accrued all reasonably estimable costs associated with remediation of the site, additional testing and environmental monitoring and remediation could 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. In addition, the current investigation has not yet been completed and does not include all potentially affected areas on the site. Due to the current stage of discussions with the EPA and the uncertainty of the remediation actions that may be required with respect to these potentially affected areas, the Company believes that meaningful estimates of costs or range of costs cannot currently be made and accordingly have not been accrued.

Trade Receivables and Allowances

Trade receivables are reported on the balance sheet net of any doubtful accounts. Losses are recognized when it is probable that an asset has been impaired and the amount of the loss can be reasonably estimated. In estimating probable losses, the Company reviews specific accounts that are significant and past due, in bankruptcy or otherwise identified at risk for potential credit loss. Collectability of these specific accounts are assessed based on facts and circumstances of that customer, and an allowance for credit losses is established based on the probability of default. In assessing the likelihood of collection of receivable, the Company considers, for example, the Company s history of collections, the current status of discussions and repayment plans, collateral received, and other evidence and information regarding collection or default risk that is available in the market place. The allowance for credit losses attributable to the remaining accounts is established using probabilities of default and an estimate of associated losses based upon the aging of receivable balances, collection experience, economic condition and credit risk quality. In evaluating the allowance expense as a percentage of sales, if the prior three year average rate were to double, the result on the fiscal 2015 consolidated statement of operations would be additional expense of approximately $2.8 million.

As the Company s international business has grown, the exposure to potential losses in international markets has also increased. These exposures can be difficult to estimate, particularly in areas of political instability or with governments with which the Company has limited experience or where there is a lack of transparency as to the current credit condition of governmental units. As of August 31, 2015 the Company had $6.9 million in delinquent accounts receivable related to our business unit in China, and $2.7 million of accounts receivable and $2.0 million in performance bonds related to its contract in Iraq. The Company s allowance for all doubtful accounts related to both current and long-term receivables increased to $9.7 million at August 31, 2015 from $4.8 million at August 31, 2014. The Company s evaluation of the adequacy of the allowance for credit losses is based on facts and circumstances available to the Company at the date the consolidated financial statements are issued and considers any significant changes in circumstances occurring through the date that the financial statements are issued.

Valuation of Goodwill and Identifiable Intangible Assets

The Company s accounting policy on valuation of goodwill and identifiable intangible assets is critical because it requires significant judgments and estimates by management and can significantly affect the Company s consolidated results of operations and financial condition. Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Acquired intangible assets are recognized separately from goodwill. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually at August 31 and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable. Assessment of the potential impairment of goodwill and identifiable intangible assets is an integral part of the Company s normal ongoing review of operations. Testing for potential impairment of these assets is significantly dependent on numerous assumptions and reflects management s best estimates at a particular point in time. The dynamic economic environments in which the Company s businesses operate and key economic and business assumptions related to projected selling prices, market growth, inflation rates and operating expense ratios, can significantly affect the outcome of impairment tests. Estimates based on these assumptions may differ significantly from actual results. Changes in factors and assumptions used in assessing potential impairments can have a significant impact on the existence and magnitude of impairments, as well as the time in which such impairments are recognized.

In testing goodwill for impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50 percent) that the estimated fair value of a reporting unit is less than its carrying amount. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators include deterioration in general economic conditions, adverse changes in the markets in which an entity operates, increases in input costs that have negative effects on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. If the Company elects to perform a qualitative assessment and determines that an impairment is more likely than not, the Company is then required to perform a quantitative impairment test, otherwise no further analysis is required. The Company also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test. In fiscal 2015, in conjunction with the Company s annual review for impairment, the Company performed a qualitative analysis of goodwill for each of the Company s reporting units, which are the same as its operating segments, and did not identify any potential impairment.

In assessing other intangible assets not subject to amortization for impairment, the Company has the option to perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of such an intangible asset is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of such an intangible asset is less than its carrying amount, then the Company is not required to perform any additional tests for assessing intangible assets for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, the Company is then required to perform a quantitative impairment test that involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. In fiscal 2015, the Company performed a qualitative analysis of other intangible assets not subject to amortization and concluded there were no indicators of impairment.

Financial Overview and Outlook

Net earnings for fiscal 2015 were $26.3 million or $2.22 per diluted share compared with $51.5 million or $4.00 per diluted share in the prior year. The decrease in earnings was primarily attributable to lower revenues, which declined 9 percent to $560.2 million from $617.9 million. Other factors contributing to the current year decrease in net earnings included a $5.0 million bad debt reserve on an international receivable, a $2.9 million reserve against foreign income tax assets, $1.8 million of acquisition and integration costs and $1.5 million of environmental expenses. The primary driver of lower revenue was the irrigation segment, where sales decreased 16 percent to $451.2 million. Infrastructure revenues increased 40 percent to $109.0 million, partially offsetting the decline in irrigation revenue. Gross margins increased by 0.2 percentage points and operating expenses increased by $13.0 million, primarily due to the acquisition of Elecsys Corporation and additional bad debt expense. Operating margin for fiscal 2015 declined to 9.0 percent as compared to 12.7 percent for fiscal 2014 as a result of the items noted above as well as cost deleveraging from lower sales.

The Company s irrigation revenues are highly dependent upon the need for irrigated agricultural crop production, which, in turn, depends upon many factors, including the following primary drivers:

Agricultural commodity prices - As of August 2015, corn prices have increased approximately 20 percent and soybean prices have decreased approximately 5 percent from August 2014. Although there has been an increase in corn prices from the previous year, both corn and soybean prices remain approximately 50 percent below peak levels reached in 2012.

Net farm income - As of August 2015, the U.S. Department of Agriculture (USDA) estimated U.S. 2015 net farm income to be $58.3 billion, down 36 percent from USDA s estimate of U.S. 2014 net farm income of $91.1 billion. The U.S. 2015 net farm income forecast would be the lowest since 2006.

Weather conditions Optimal growing conditions for 2015 have led to projections of record harvests and contributed to sustaining lower crop prices. During the third and fourth quarters of fiscal 2014, storms across the Midwest created additional demand for replacement units, which was significantly decreased in fiscal 2015.

Governmental policies - A number of government laws and regulations can impact the Company s business, including:

The Agricultural Act of 2014 provides certainty to growers by adopting a five-year farm bill. This law continues many of its existing programs, including funding for the Environmental Quality Incentives Program (EQIP), which provides financial assistance to farmers to implement conservation practices and is frequently used to assist in the purchase of center pivot irrigation systems.

In December 2014, certain tax incentives such as the Section 179 income tax deduction and bonus depreciation that encourage equipment purchases were retroactively reinstated for the 2014 calendar year. These incentives subsequently expired for calendar year 2015. Due to the timing of the reinstatement and subsequent expiration, these incentives did not benefit fiscal 2015 Company sales.

The U.S. government has imposed trade sanctions that that have and will continue to impact irrigation equipment sales to Russia and the Ukraine.

The ethanol mandate that increases corn demand continues to be debated with the EPA. In May, 2015, the EPA issued proposed blending standard and biofuel levels for 2015, 2016 and 2017 requirements. The proposed requirements, while decreased from the original mandate, still provide for continued growth in demand for the current and future calendar years. The EPA has agreed in principle to finalize at least the 2015 levels by the end of November, 2015.

Many international markets are affected by government policies such as subsidies and other agriculturally related incentives. While these policies can have a significant impact on an individual market, they typically do not have a material impact on consolidated results.

Currency The U.S. dollar has strengthened against most currencies including the Brazilian Real, the Euro, the South African Rand and the Australian dollar in comparison to the prior fiscal year.

U.S. irrigation revenues have contracted due to lower commodity prices and lower farm income, the reduction in the Central Plains drought conditions, the lack of significant demand driven by storm damage and the reduction in accelerated tax benefits. International markets remain active, but with some projects delayed due to lower commodity prices, the weakening of international currency and various regional conflicts. The current political environment in Russia, the Ukraine and Iraq may have a negative effect on international irrigation equipment revenues. The factors outlined throughout this section do not indicate a significant change in macro demand for irrigation segment revenues in fiscal 2016, although these factors could change before the Company reaches its primary selling season in calendar 2016.

The infrastructure business has improved its profit profile and generated growth in an environment of constrained government spending. In July 2015, the U.S. government enacted an $8 billion temporary highway-funding bill to fund highway and bridge projects, the latest in a series of short term funding bills over the last several years. Until and unless a long-term U.S. highway bill is passed, uncertainties and limitations on infrastructure growth will continue. In addition, FHWA has proposed a mandated change to highway safety product certification requirements. The change would require additional R&D spending and could have an impact on the competitive positioning of the Company s products. In spite of government spending uncertainty, opportunities exist for market share gains in each of the infrastructure product lines. Demand for the Company s transportation safety products continues to be driven by population growth and the need for improved road safety. These factors are unlikely to result in a significant change in demand in fiscal 2016.

As of August 31, 2015, the Company had an order backlog of $48.0 million compared with $79.6 million at August 31, 2014. The order backlog at August 31, 2014 included a $12.7 million Road Zipper System order from the Golden Gate Bridge Highway & Transportation District that was recognized as revenue in fiscal 2015. The current period backlog included $9.5 million of backlog from Elecsys Corporation. The Company s backlog can fluctuate from period to period due to the seasonality, cyclicality, timing and execution of contracts. Backlog typically represents long-term projects as well as short lead-time orders and therefore, is generally not a good indication of the next quarter s revenues.

The global drivers for the Company s markets of population growth, expanded food production and efficient water use and infrastructure expansion support the Company s long-term growth goals. The most significant opportunities for growth over the next several years are in international markets, where irrigation use is significantly less developed and demand is driven primarily by food security, water scarcity and population growth.

Results of Operations

The following Fiscal 2015 Compared to Fiscal 2014 and the Fiscal 2014 Compared to Fiscal 2013 sections present an analysis of the Company s consolidated operating results displayed in the Consolidated Statements of Operations and should be read together with the information in Note Q, Industry Segment Information, to the consolidated financial statements.

Fiscal 2015 Compared to Fiscal 2014

The following table provides highlights for fiscal 2015 compared with fiscal 2014:

$ in thousands	**For the Years Ended August 31, 2015**	**2014**	**Percent Increase (Decrease)**
Consolidated			
Operating revenues	$ 560,181	$ 617,933	(9%)
Cost of operating revenues	$ 403,860	$ 446,938	(10%)
Gross profit	$ 156,321	$ 170,995	(9%)
Gross margin	27.9%	27.7%	
Operating expenses (1)	$ 105,626	$ 92,637	14%
Operating income	$ 50,695	$ 78,358	(35%)
Operating margin	9.0%	12.7%	
Other (expense) income, net	$ (3,944)	$ 297	(1428%)
Income tax expense	$ 20,442	$ 27,143	(25%)
Effective income tax rate	43.7%	34.5%	
Net earnings	$ 26,309	$ 51,512	(49%)
Irrigation Equipment Segment (See Note Q)			
Operating revenues	$ 451,205	$ 539,943	(16%)
Operating income (2)	$ 50,765	$ 91,697	(45%)
Operating margin (2)	11.3%	17.0%	
Infrastructure Products Segment (See Note Q)			
Operating revenues	$ 108,976	$ 77,990	40%
Operating income (2)	$ 20,049	$ 3,511	471%
Operating margin (2)	18.4%	4.5%	

(1) Includes $20.1 million and $16.9 million of unallocated general and administrative expenses for fiscal 2015 and fiscal 2014, respectively.

(2) Excludes unallocated corporate general and administrative expenses.

Revenues

Operating revenues in fiscal 2015 decreased by 9 percent to $560.2 million compared with $617.9 million in fiscal 2014. The decrease is attributable to an $88.7 million decrease in irrigation revenues offset in part by a $31.0 million increase in infrastructure revenues. The irrigation segment provided 81 percent of Company revenue in fiscal 2015 as compared to 87 percent of the same prior year period.

U.S. irrigation revenues in fiscal 2015 of $273.7 million, which include $17.7 million from the newly acquired Elecsys Corporation, decreased $57.8 million or 17 percent from $331.5 million in fiscal 2014. The decrease in U.S. irrigation revenues is primarily due to a decline in the number of irrigation systems sold as compared to the prior year. Sustained low agricultural commodity prices, lower net farm income in 2015 and a lack of incremental storm damage compared to 2014 contributed to lower demand for U.S. irrigation equipment.

International irrigation revenues in fiscal 2015 of $177.5 million decreased $30.9 million or 15 percent from $208.4 million in fiscal 2014. Foreign currency translation compared to the prior year reduced international irrigation revenues by $18.0 million for the fiscal year ended August 31, 2015. Excluding the impact of foreign currency, revenues decreased most notably in the Middle East, Europe, Latin America and China, partially offset by increases in Brazil, Australia and Africa.

Infrastructure products segment revenues in fiscal 2015 of $109.0 million increased by $31.0 million or 40 percent from $78.0 million in fiscal 2014. The increase in sales is primarily due to increases in Road Zipper System and road safety products.

Gross Margin

Gross profit was $156.3 million for fiscal 2015, a decrease of $14.7 million compared to fiscal 2014. The decrease in gross profit was primarily due to the decline in sales partially offset by an increase in gross margin to 27.9 percent for fiscal 2015 from 27.7 percent for fiscal 2014. Gross margin in irrigation declined by slightly more than 1 percentage point due primarily to pricing pressure and cost deleverage on lower volumes. Infrastructure gross margin increased by approximately 8 percentage points due to a mix shift to higher margin products and cost leverage on higher sales.

Operating Expenses

The Company s operating expenses of $105.6 million for fiscal 2015 increased $13.0 million compared to fiscal 2014 operating expenses of $92.6 million. The current year includes $6.4 million of Elecsys Corporation operating expenses, $5.0 million of bad debt expense, $2.0 million in incremental health benefit costs, $1.8 million of acquisition and integration expenses and a $1.5 million increase in estimated environmental expenses, partially offset by reductions in discretionary spending and personnel related expenses of $2.9 million. Operating expenses were 18.9 percent of sales for fiscal 2015 compared to 15.0 percent of sales for fiscal 2014. Operating margin was 9.0 percent for fiscal 2015 as compared to 12.7 percent for fiscal 2014. The Company s operating income decreased to $50.7 million in fiscal 2015 compared to $78.4 million during the prior fiscal year.

Income Taxes

The Company recorded income tax expense of $20.4 million and $27.1 million for fiscal 2015 and fiscal 2014, respectively. The effective income tax rate increased to 43.7 percent in fiscal 2015 compared to 34.5 percent in fiscal 2014. The increase in the annual effective income tax rate primarily relates to a $2.9 million deferred income tax asset valuation allowance as well as the earnings mix among jurisdictions.

Net Earnings

Net earnings for fiscal 2015 were $26.3 million or $2.22 per diluted share compared to $51.5 million, or $4.00 per diluted share for the prior fiscal year.

Fiscal 2014 Compared to Fiscal 2013

The following table provides highlights for fiscal 2014 compared with fiscal 2013:

$ in thousands	For the Years Ended August 31, 2014	2013	Percent Increase (Decrease)
Consolidated			
Operating revenues	$ 617,933	$ 690,848	(11%)
Cost of operating revenues	$ 446,938	$ 496,014	(10%)
Gross profit	$ 170,995	$ 194,834	(12%)
Gross margin	27.7%	28.2%	
Operating expenses (1)	$ 92,637	$ 87,773	6%
Operating income	$ 78,358	$ 107,061	(27%)
Operating margin	12.7%	15.5%	
Other income, net	$ 297	$ 246	21%
Income tax expense	$ 27,143	$ 36,737	(26%)
Effective income tax rate	34.5%	34.2%	
Net earnings	$ 51,512	$ 70,570	(27%)
Irrigation Equipment Segment (See Note Q)			
Operating revenues	$ 539,943	$ 625,996	(14%)
Operating income (2)	$ 91,697	$ 125,395	(27%)
Operating margin (2)	17.0%	20.0%	
Infrastructure Products Segment (See Note Q)			
Operating revenues	$ 77,990	$ 64,852	20%
Operating income (loss) (2)	$ 3,511	$ (811)	533%
Operating margin (2)	4.5%	(1.3%)	

(1) Includes $16.9 million and $17.5 million of unallocated general and administrative expenses for fiscal 2014 and fiscal 2013, respectively.

(2) Excludes unallocated corporate general and administrative expenses.

Revenues

Operating revenues in fiscal 2014 decreased by 11 percent to $617.9 million compared with $690.8 million in fiscal 2013. The decrease is attributable to an $86.1 million decrease in irrigation revenues offset in part by a $13.1 million increase in infrastructure revenues. The irrigation segment provided 87 percent of Company revenue in fiscal 2014 as compared to 91 percent of the same prior year period.

U.S. irrigation revenues in fiscal 2014 of $331.5 million decreased $54.2 million or 14 percent from $385.7 million in fiscal 2013. The decrease in U.S. irrigation revenues is primarily due to a decline in the number of irrigation systems sold as compared to the prior year. Lower agricultural commodity prices contributed to lower demand for U.S. irrigation equipment. An incremental increase in sales resulting from storms in the U.S. irrigation market contributed an estimated $27.0 million of revenues partially offsetting the market decline. The revenues of $20.8 million generated from the LAKOS® separators and filtration solution business that was acquired in August 2013 partially offset the decrease in sales of irrigation systems as well.

International irrigation revenues in fiscal 2014 of $208.4 million decreased $31.9 million or 13 percent from $240.3 million in fiscal 2013. The decrease in international irrigation revenues is primarily due to a decline in the number of irrigation systems sold as compared to the prior year. Operating revenues decreased most significantly in the Middle East due to the near completion of the Iraq contract in fiscal 2013. Revenues from the Iraq contract during fiscal 2014 were $2.4 million compared to $33.4 million during fiscal 2013. In other international markets, revenue declined in Russia/Ukraine, Canada and China partially offset by increases in Australia and water filtration system export sales of $7.2 million from the LAKOS® business.

Infrastructure products segment revenues in fiscal 2014 of $78.0 million increased by $13.1 million or 20 percent from $64.9 million in fiscal 2013. The increase in sales is primarily due to increases in road safety products and railroad signals and structures.

Gross Margin

Gross profit was $171.0 million for fiscal 2014, a decrease of $23.8 million compared to fiscal 2013. The decrease in gross profit was primarily due to the decline in sales and a decrease in gross margin to 27.7 percent for fiscal 2014 from 28.2 percent for fiscal 2013. Gross margins in irrigation declined by less than one percentage point due primarily to fixed cost deleverage on lower sales volume. Infrastructure gross margins improved by approximately two percentage points primarily due to a combination of mix shift to higher margin products and fixed cost leverage on higher sales volume.

Operating Expenses

The Company s operating expenses of $92.6 million for fiscal 2014 increased $4.9 million compared to fiscal 2013 operating expenses of $87.8 million. Excluding the acquired LAKOS® business, operating expenses decreased $3.6 million primarily due to a reduction of $1.7 million in personnel related expenses including incentive compensation, $1.0 million decrease in research and development expenses and $0.9 million in lower advertising expenses. Operating expenses were 15.0 percent of sales for fiscal 2014 compared to 12.7 percent of sales for fiscal 2013

Operating margin was 12.7 percent for fiscal 2014 as compared to 15.5 percent for fiscal 2013. The Company s operating income decreased to $78.4 million in fiscal 2014 compared to $107.1 million during the prior fiscal year primarily due to a decrease in revenues.

Income Taxes

The Company recorded income tax expense of $27.1 million and $36.7 million for fiscal 2014 and fiscal 2013, respectively. The effective income tax rate increased to 34.5 percent in fiscal 2014 compared to 34.2 percent in fiscal 2013. The increase in the annual effective income tax rate primarily relates to the earnings mix among jurisdictions.

Net Earnings

Net earnings for fiscal 2014 were $51.5 million or $4.00 per diluted share compared to $70.6 million, or $5.47 per diluted share for the prior fiscal year.

Liquidity and Capital Resources

The Company s cash and cash equivalents totaled $139.1 million at August 31, 2015 compared with $171.8 million at August 31, 2014. The Company requires cash for financing its receivables and inventories, paying operating expenses and capital expenditures, and for dividends and share repurchases. The Company meets its liquidity needs and finances its capital expenditures from its available cash and funds provided by operations along with borrowings under the credit arrangements that are described below. The Company believes its current cash resources, projected operating cash flow, and remaining capacity under its continuing bank lines of credit are sufficient to cover all of its expected working capital needs, planned capital expenditures and dividends. The Company s Capital Allocation Plan outlined below could require the Company to incur additional debt depending on the size and timing of share repurchases and potential acquisitions.

The Company s total cash and cash equivalents held by foreign subsidiaries was approximately $23.5 million and $33.1 million as of August 31, 2015 and 2014, respectively. The Company considers earnings of foreign subsidiaries to be permanently reinvested, and would need to accrue and pay taxes if these funds were repatriated. The Company does not intend to repatriate the funds, and does not expect these funds to have a significant impact on the Company s overall liquidity.

Net working capital was $227.1 million at August 31, 2015, as compared with $257.7 million at August 31, 2014. Cash flows provided by operations totaled $48.7 million during the year ended August 31, 2015 compared to $91.8 million provided by operations during the same prior year period. Cash provided by operations decreased by $43.1 million compared to the prior year period primarily as a result of a $25.2 million decrease in net earnings and normal fluctuations in the changes between accounts receivable, other current liabilities and current taxes payable.

Cash flows used in investing activities totaled $79.6 million during the year ended August 31, 2015 compared to $18.5 million during the same prior year period. Net cash used in investing activities was higher in fiscal 2015 primarily due to the $67.2 million acquisition of Elecsys Corporation that occurred in the second quarter of fiscal 2015. Capital spending of $15.2 million in fiscal 2015 decreased compared to the prior year capital spending of $17.7 million.

Cash flows provided by financing activities totaled $3.9 million during the year ended August 31, 2015 compared to cash flows used of $53.6 million during the same prior year period. The $57.5 million increase in cash provided by financing activities was primarily due to $115.0 million proceeds from the issuance of long-term debt, partially offset by an increase in share repurchases of $55.8 million.

Capital Allocation Plan

The Company s capital allocation plan is to continue investing in revenue and earnings growth, combined with a defined process for enhancing returns to stockholders. Under the Company s announced capital allocation plan in January 2014, the priorities for uses of cash include:

- Investment in organic growth including capital expenditures and expansion of international markets,
- Dividends to stockholders, along with expectations to increase dividends on an annual basis,
- Synergistic water related acquisitions that provide attractive returns to stockholders, and
- Opportunistic share repurchases taking into account cyclical and seasonal fluctuations.

Capital Expenditures and Expansion of International Markets

In fiscal 2016, the Company expects capital expenditures of approximately $15.0 million to $20.0 million, largely focused on manufacturing capacity expansion and productivity improvements. The Company s management does maintain flexibility to modify the amount and timing of some of the planned expenditures in response to economic conditions.

Dividends

In fiscal 2015, the Company paid cash dividends of $1.09 per common share or $12.8 million to stockholders as compared to $0.92 per common share or $11.7 million in fiscal 2014.

Share Repurchases

On January 3, 2014, the Company announced that its Board of Directors authorized a share repurchase program of up to $150.0 million of common stock, effective as of January 2, 2014, through January 2, 2016. On July 22, 2015, the Company announced that its Board of Directors increased its outstanding share repurchase authorization by $100.0 million. Under the program, shares may be repurchased in privately negotiated and/or open market transactions as well as under formalized trading plans in accordance with the guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. During the twelve months ended August 31, 2015, the Company repurchased 1,198,089 shares for an aggregate purchase price of $96.9 million. During the twelve months ended August 31, 2014, the Company repurchased 497,899 shares of common stock for an aggregate purchase price of $41.0 million. The remaining amount available under the repurchase program was $112.1 million as of August 31, 2015.

Senior Notes

On February 19, 2015, the Company issued $115.0 million in aggregate principal amount of its Senior Notes, Series A, entirely due and payable on February 19, 2030 (the Senior Notes). Borrowings under the Senior

Notes are unsecured and have equal priority with borrowings under the Company s other senior unsecured indebtedness. Interest is payable semi-annually at an annual rate of 3.82 percent.

Amended Credit Agreement

On February 18, 2015, the Company entered into a $50 million unsecured Amended and Restated Revolving Credit Agreement (the Amended Credit Agreement), with Wells Fargo Bank, National Association (the Bank). The Amended Credit Agreement amends and restates the Revolving Credit Agreement, dated January 24, 2008, and last amended on January 22, 2014. The Company intends to use borrowings under the Amended Credit Agreement for working capital purposes and to fund acquisitions. At August 31, 2015 and 2014, the Company had no outstanding borrowings under the Amended Credit Agreement or the Revolving Credit Facility, respectively. The amount of borrowings available at any time under the Amended Credit Agreement is reduced by the amount of standby letters of credit then outstanding. At August 31, 2015, the Company had the ability to borrow up to $44.4 million under this facility, after consideration of outstanding standby letters of credit of $5.6 million. Borrowings under the Amended Credit Agreement bear interest at a variable rate equal to LIBOR plus 90 basis points (1.10 percent at August 31, 2015), subject to adjustment as set forth in the Amended Credit Agreement. Interest is paid on a monthly to quarterly basis depending on loan type. The Company also pays an annual commitment fee of 0.25 percent on the unused portion of the Amended Credit Agreement. Borrowings under the Amended Credit Agreement will be unsecured and have equal priority with borrowings under the Company s other senior unsecured indebtedness. Unpaid principal and interest is due by February 18, 2018.

Each of the agreements above contains certain covenants relating primarily to the Company s financial condition. These financial covenants include a funded debt to EBITDA leverage ratio and an interest coverage ratio. Upon the occurrence of any event of default of these covenants, including a change in control of the Company, all amounts outstanding thereunder may be declared to be immediately due and payable. At August 31, 2015 and 2014, the Company was in compliance with all financial loan covenants contained in its credit agreements in place as of each of those dates.

Elecsys Series 2006A Bonds

The Company s wholly-owned subsidiary, Elecsys Corporation, has outstanding $2.4 million in principal amount of industrial revenue bonds that were issued in 2006 (the Series 2006A Bonds). Principal and interest on the Series 2006A Bonds are payable monthly through maturity on September 1, 2026. The interest rate is adjustable based on the yield of the 5-year United States Treasury Notes, plus 0.45 percent (1.99 percent as of August 31, 2015). The obligations under the Series 2006A Bonds are secured by a first priority security interest in certain real estate.

Inflation

The Company is subject to the effects of changing prices. During fiscal 2015, the Company realized pricing volatility for purchases of certain commodities, in particular steel and zinc products, used in the production of its products. While the cost outlook for commodities used in the production of the Company s products is not certain, management believes it can manage these inflationary pressures by introducing appropriate sales price adjustments and by actively pursuing internal cost reduction efforts, while further refining the Company s inventory and raw materials risk management system. However, competitive market pressures may affect the Company s ability to pass price adjustments along to its customers.

Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into contracts and commitments which obligate the Company to make future payments. The Company uses off-balance sheet arrangements, such as leases accounted for as operating leases, standby letters of credit and performance bonds, where sound business principles warrant their use. The table below sets forth the Company s significant future obligations by time period.

$ in thousands Contractual Obligations [1]	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Operating lease obligations	$ 17,675	$ 3,683	$ 5,523	$ 3,471	$ 4,998
Pension benefit obligations	7,126	557	1,082	1,036	4,451
Long-term debt	117,366	193	398	414	116,361
Interest	64,002	4,437	8,862	8,846	41,857
Total	$ 206,169	$ 8,870	$ 15,865	$ 13,767	$ 167,667

[1] Total liabilities for unrecognized tax benefits as of August 31, 2015 were $3.8 million and are excluded from the table above. Unrecognized tax benefits are classified on the Company s consolidated balance sheets within other current liabilities ($2.5 million) and within other noncurrent liabilities ($1.3 million).

In fiscal 2013, the Company entered into a $39 million contract with the government of Iraq for the delivery and installation of irrigation equipment, of which $35.8 million has been fulfilled. The Company has suspended installation services indefinitely until the political environment improves in Iraq. The Company has a $2.0 million performance bond securing its obligations under the contract. No amounts have been accrued for potential losses in the consolidated financial statements as of August 31, 2015 as the Company continues to evaluate its exposure to claims for uncompleted services.

The Company does not have any additional off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on the Company s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 7A *Quantitative and Qualitative Disclosures about Market Risk*

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. The credit risk under these interest rate and foreign currency agreements is not considered to be significant. The Company attempts to manage 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 counterparties that have investment grade credit ratings. As of August 31, 2015, the Company s derivative counterparty had investment grade credit ratings.

The Company has manufacturing operations in the United States, Brazil, France, Italy, South Africa, Turkey and China. The Company has sold products throughout the world and purchases certain of its components from third-party international suppliers. Export sales made from the United States are principally U.S. dollar denominated. At times, export sales may be denominated in a currency other than the U.S. dollar. A majority of the Company s revenue generated from operations outside the United States is denominated in local currency. Accordingly, these sales are not typically subject to significant foreign currency transaction risk. The Company s most significant transactional foreign currency exposures are the Euro, the Brazilian real, the South African rand and the Chinese renminbi in relation to the U.S. dollar. Fluctuations in the value of foreign currencies create exposures, which can adversely affect the Company s results of operations. Based on the consolidated statement of operations for the year ended August 31, 2015, the Company estimates the potential decrease in operating income from a 10 percent adverse change in the underlying exchange rates, in U.S. dollar terms, would be approximately $1.0 million.

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, intercompany transactions and future settlement of foreign denominated assets and liabilities. The Company had $9.5 million of U.S. dollar equivalent cash flow forward exchange contracts and option contracts outstanding as of August 31, 2015.

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. At August 31, 2015, the Company had outstanding Euro foreign currency forward contracts to sell 29.1 million Euro at fixed prices expected to settle during the first quarter of fiscal 2016. At August 31, 2015, the Company also had an outstanding foreign currency forward contract to sell 43.0 million South African Rand at fixed prices to settle during the first quarter of fiscal 2016. Based on the net investments contracts outstanding at August 31, 2015, the Company estimates the potential decrease in fair value from a 10 percent adverse change in the underlying exchange rates would be approximately $3.2 million. This decrease in fair value would be reflected as a reduction to other comprehensive income offsetting the translation exposure or adjustment of the international subsidiaries.

ITEM 8 ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Lindsay Corporation:

We have audited the accompanying consolidated balance sheets of Lindsay Corporation and subsidiaries as of August 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, shareholders equity, and cash flows for each of the years in the three-year period ended August 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule Item 15(a)(2) of this Form 10-K. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lindsay Corporation and subsidiaries as of August 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lindsay Corporation s internal control over financial reporting as of August 31, 2015, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated October 20, 2015 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Omaha, Nebraska

October 20, 2015

Lindsay Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended August 31,		
(in thousands, except per share amounts)	**2015**	**2014**	**2013**
Operating revenues	$ 560,181	$ 617,933	$ 690,848
Cost of operating revenues	403,860	446,938	496,014
Gross profit	156,321	170,995	194,834
Operating expenses:			
Selling expense	40,516	38,284	32,937
General and administrative expense	52,261	43,228	43,441
Engineering and research expense	12,849	11,125	11,395
Total operating expenses	105,626	92,637	87,773
Operating income	50,695	78,358	107,061
Interest expense	(2,626)	(187)	(304)
Interest income	631	729	496
Other (expense) income, net	(1,949)	(245)	54
Earnings before income taxes	46,751	78,655	107,307
Income tax expense	20,442	27,143	36,737
Net earnings	$ 26,309	$ 51,512	$ 70,570
Earnings per share:			
Basic	$ 2.23	$ 4.01	$ 5.50
Diluted	$ 2.22	$ 4.00	$ 5.47
Shares used in computing earnings per share:			
Basic	11,818	12,832	12,830
Diluted	11,855	12,882	12,901
Cash dividends declared per share	$ 1.090	$ 0.920	$ 0.475

See accompanying notes to consolidated financial statements.

Lindsay Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended August 31,		
($ in thousands)	**2015**	**2014**	**2013**
Net earnings	$ 26,309	$ 51,512	$ 70,570
Other comprehensive income (loss):			
Defined benefit pension plan adjustment, net of tax	(26)	(210)	260
Unrealized gain on cash flow hedges, net of tax	-	-	53
Foreign currency translation adjustment, net of hedging activities and tax	(13,081)	325	(1,752)
Total other comprehensive income (loss), net of tax expense (benefit) of $1,450, ($27) and ($330)	(13,107)	115	(1,439)
Total comprehensive income	$ 13,202	$ 51,627	$ 69,131

See accompanying notes to consolidated financial statements.

Lindsay Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

($ and shares in thousands, except par values)	**August 31, 2015**	**August 31, 2014**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 139,093	$ 171,842
Receivables, net of allowance of $9,706 and $2,857, respectively	74,063	94,135
Inventories, net	74,930	71,696
Deferred income taxes	15,807	17,714
Prepaid expenses	5,197	3,732
Other current assets	13,077	14,939
Total current assets	322,167	374,058
Property, plant and equipment, net	78,656	72,457
Intangible assets, net	51,920	31,980
Goodwill	76,801	37,021
Other noncurrent assets, net of allowance of $0 and $2,000, respectively	6,924	11,035
Total assets	$ 536,468	$ 526,551
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 38,814	$ 42,424
Current portion of long-term debt	193	-
Other current liabilities	56,105	73,943
Total current liabilities	95,112	116,367
Pension benefits liabilities	6,569	6,600
Long-term debt	117,173	-
Deferred income taxes	18,971	12,992
Other noncurrent liabilities	10,083	7,945
Total liabilities	247,908	143,904
Shareholders equity:		
Preferred stock of $1 par value - authorized 2,000 shares; no shares issued and outstanding	-	-
Common stock at $1 par value - authorized 25,000 shares; 18,684 and 18,636 shares issued at August 31, 2015 and 2014, respectively	18,684	18,636
Capital in excess of stated value	55,184	52,866
Retained earnings	458,903	445,366
Less treasury stock - at cost, 7,394 and 6,196 shares at August 31, 2015 and 2014, respectively	(228,903)	(132,020)
Accumulated other comprehensive loss, net	(15,308)	(2,201)

Total shareholders equity		288,560		382,647
Total liabilities and shareholders equity	$	536,468	$	526,551

See accompanying notes to consolidated financial statements.

Lindsay Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands, except per share amounts)

	Shares of Common stock	Shares of Treasury stock	Common stock	Capital in excess of stated value	Retained earnings	Treasury stock	Accumulated other comprehensive (loss) income, net	Total Shareholders equity
Balance at August 31, 2012	18,421	5,698	$ 18,421	$ 43,140	$ 341,115	$ (90,961)	$ (877)	$ 310,838
Comprehensive income:								
Net earnings					70,570			70,570
Other comprehensive loss							(1,439)	(1,439)
Total comprehensive income								69,131
Cash dividends ($0.475) per share					(6,105)			(6,105)
Issuance of common shares under share compensation plans	150		150	(555)				(405)
Excess tax benefits from share-based compensation				2,800				2,800
Share-based compensation expense				4,379				4,379
Balance at August 31, 2013	18,571	5,698	$ 18,571	$ 49,764	$ 405,580	$ (90,961)	$ (2,316)	$ 380,638
Comprehensive income:								
Net earnings					51,512			51,512
Other comprehensive income							115	115
								51,627

Total comprehensive income								
Cash dividends ($0.920) per share					(11,726)			(11,726)
Repurchase of common stock		498				(41,059)		(41,059)
Issuance of common shares under share compensation plans	65		65	(1,639)				(1,574)
Excess tax benefits from share-based compensation				722				722
Share-based compensation expense				4,019				4,019
Balance at August 31, 2014	18,636	6,196	$ 18,636	$ 52,866	$ 445,366	$ (132,020)	$ (2,201)	$ 382,647
Comprehensive income:								
Net earnings					26,309			26,309
Other comprehensive income							(13,107)	(13,107)
Total comprehensive income								13,202
Cash dividends ($1.090) per share					(12,772)			(12,772)
Repurchase of common stock		1,198				(96,883)		(96,883)
Issuance of common shares under share compensation plans	48		48	(1,360)				(1,312)
Excess tax benefits from share-based compensation				576				576
Share-based compensation expense				3,102				3,102
Balance at August 31, 2015	18,684	7,394	$ 18,684	$ 55,184	$ 458,903	$ (228,903)	$ (15,308)	$ 288,560

See accompanying notes to consolidated financial statements.

Lindsay Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)	**Years Ended August 31, 2015**	**2014**	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 26,309	$ 51,512	$ 70,570
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	16,412	14,793	12,600
Asset write-down	270	-	-
Provision for uncollectible accounts receivable	5,840	2,225	1,543
Deferred income taxes	278	(8,195)	(3,237)
Share-based compensation expense	3,332	4,207	4,573
Other, net	4,665	(465)	(1,014)
Changes in assets and liabilities:			
Receivables	10,902	24,751	(36,557)
Inventories	915	(2,724)	(10,020)
Other current assets	(3,984)	(3,092)	(4,054)
Accounts payable	(337)	(623)	9,188
Other current liabilities	(9,467)	8,954	14,578
Current taxes payable	(8,011)	5,706	(892)
Other noncurrent assets and liabilities	1,558	(5,251)	227
Net cash provided by operating activities	48,682	91,798	57,505
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(15,244)	(17,715)	(11,136)
Acquisition of business, net of cash acquired	(69,521)	-	(29,007)
Proceeds from settlement of net investment hedges	7,473	1,245	1,944
Payments for settlement of net investment hedges	(1,202)	(2,040)	(2,904)
Other investing activities, net	(1,091)	34	22
Net cash used in investing activities	(79,585)	(18,476)	(41,081)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	394	455	2,036
Common stock withheld for payroll tax withholdings	(1,706)	(2,027)	(2,441)
Proceeds from issuance of long-term debt	115,000	-	-
Principal payments on long-term debt	(112)	-	(4,285)
Issuance costs related to debt	(620)	-	-
Excess tax benefits from share-based compensation	611	762	2,800
Repurchase of common shares	(96,883)	(41,059)	-
Dividends paid	(12,772)	(11,726)	(6,105)
Net cash provided by (used) in financing activities	3,912	(53,595)	(7,995)

Effect of exchange rate changes on cash and cash equivalents		(5,758)		188		54
Net change in cash and cash equivalents		(32,749)		19,915		8,483
Cash and cash equivalents, beginning of period		171,842		151,927		143,444
Cash and cash equivalents, end of period	$	139,093	$	171,842	$	151,927
SUPPLEMENTAL CASH FLOW INFORMATION						
Income taxes paid	$	26,917	$	26,261	$	38,328
Interest paid	$	2,448	$	234	$	369

See accompanying notes to consolidated financial statements.

Lindsay Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Lindsay Corporation, along with its subsidiaries (collectively called Lindsay or the Company), is a global leader in providing a variety of proprietary water management and road infrastructure products and services. The Company has been involved in the manufacture and distribution of agricultural irrigation equipment since 1955 and has grown from a regional company to an international water efficiency solutions and highway infrastructure firm with worldwide sales and distribution. Lindsay, a Delaware corporation, maintains its corporate offices in Omaha, Nebraska. The Company has operations which are categorized into two major reporting segments.

Irrigation Segment The Company s irrigation segment includes the manufacture and marketing of center pivot, lateral move, and hose reel irrigation systems which are used principally in the agricultural industry to increase or stabilize crop production while conserving water, energy and labor. The irrigation segment also manufactures and markets repair and replacement parts for its irrigation systems and controls. In addition, the irrigation segment also designs and manufactures water pumping stations and controls for the agriculture, golf, landscape and municipal markets and filtration solutions for groundwater, agriculture, industrial and heat transfer markets. The Company continues to strengthen irrigation product offerings through innovative technology such as GPS positioning and guidance, variable rate irrigation, wireless irrigation management, machine-to-machine (M2M) communication technology solutions and smartphone applications. The Company s domestic irrigation manufacturing facilities are located in Lindsay, Nebraska; Hartland, Wisconsin; Olathe, Kansas and Fresno, California. Internationally, the Company has production operations in Brazil, France, China, Turkey and South Africa as well as distribution and sales operations in the Netherlands, Australia and New Zealand. The Company also exports equipment from the U.S. to other international markets.

Infrastructure Segment The Company s infrastructure segment includes the manufacture and marketing of moveable barriers, specialty barriers, crash cushions and end terminals, road marking and road safety equipment, large diameter steel tubing, and railroad signals and structures. The infrastructure segment also provides outsourced manufacturing and production services. The principal infrastructure manufacturing facilities are located in Rio Vista, California; Milan, Italy and Omaha, Nebraska.

Notes to the consolidated financial statements describe various elements of the financial statements and the accounting policies, estimates, and assumptions applied by management. While actual results could differ from those estimated at the time of preparation of the consolidated financial statements, management believes that the accounting policies, assumptions, and estimates applied promote the representational faithfulness, verifiability, neutrality, and transparency of the accounting information included in the consolidated financial statements. The significant accounting policies of the Company are as follows:

(1) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

(2) Reclassifications

Certain reclassifications have been made to prior financial statements to conform to the current-year presentation.

(3) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(4) Revenue Recognition

The Company s basic criteria necessary for revenue recognition are: 1) evidence of a sales arrangement exists, 2) delivery of goods has occurred, 3) the sales price to the buyer is fixed or determinable, and 4) collectability is reasonably assured. The Company recognizes revenue when these criteria have been met and when title and risk of loss transfers to the customer. The Company generally has no post-delivery obligations to its independent dealers other than standard warranties. Revenues and gross profits on intercompany sales are eliminated in consolidation. Revenues from the sale of the Company s products are recognized based on the delivery terms in the sales contract. If an arrangement involves multiple deliverables, revenues from the arrangement are allocated to the separate units of accounting based on their relative selling price.

The Company offers a subscription-based service for wireless management and recognizes subscription revenue on a straight-line basis over the contract term. The Company leases certain infrastructure property held for lease to customers such as moveable concrete barriers and Road Zipper Systems™. Revenues for the lease of infrastructure property held for lease are recognized on a straight-line basis over the lease term.

The costs related to revenues are recognized in the same period in which the specific revenues are recorded. Shipping and handling fees billed to customers are reported in revenue. Shipping and handling costs incurred by the Company are included in cost of sales. Customer rebates, cash discounts and other sales incentives are recorded as a reduction of revenues at the time of the original sale. Estimates used in the recognition of operating revenues and cost of operating revenues include, but are not limited to, estimates for product warranties, product rebates, cash discounts and fair value of separate units of accounting on multiple deliverables.

(5) Stock Based Compensation

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values on the date of grant. The Company uses the straight-line amortization method over the vesting period of the awards. The Company has historically issued shares upon exercise of stock options or vesting of restricted stock units or performance stock units from new stock issuances.

The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company s Consolidated Statement of Operations over the periods during which the employee or director is required to perform a service in exchange for the award.

The Company uses the Black-Scholes option-pricing model (Black-Scholes model) as its valuation method for stock option awards. Under the Black-Scholes model, the fair value of stock option awards on the date of grant is estimated using an option-pricing model that is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. Restricted stock, restricted stock units, performance shares and performance stock units issued under the 2015 Long-Term Incentive Plan will have a grant date fair value equal to the fair market value of the underlying stock on the grant date less present value of expected dividends.

(6) Warranty Costs

The Company s provision for product warranty reflects management s best estimate of probable liability under its product warranties. At the time a sale is recognized, the company records the estimated future warranty costs. The Company generally determines its total future warranty liability by applying historical claims rate experience to the amount of equipment that has been sold and is still within the warranty period. In addition, the Company records provisions for known warranty claims. This provision is periodically adjusted to reflect actual experience.

(7) Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

(8) Receivables and Allowances

Trade receivables are reported on the balance sheet net of any doubtful accounts. Losses are recognized when it is probable that an asset has been impaired and the amount of the loss can be reasonably estimated. In estimating probable losses, the Company reviews specific accounts that are significant and past due, in bankruptcy or otherwise identified as at risk for potential credit loss. Collectability of these specific accounts are assessed based on facts and circumstances of that customer, and an allowance for credit losses is established based on the probability of default. In assessing the likelihood of collection of receivable, the Company considers (for example) the Company s history of collections, the current status of discussions and repayment plans, collateral received, and other evidence and information regarding collection or default risk that is available in the market place. The allowance for credit losses attributable to the remaining accounts is established using probabilities of default and an estimate of associated losses based upon the aging of receivable balances, collection experience, economic condition and credit risk quality.

As the Company s international business has grown, the exposure to potential losses in international markets has also increased. These exposures can be difficult to estimate, particularly in areas of political instability or with governments with which the Company has limited experience or where there is a lack of transparency as to the current credit condition of governmental units. As of August 31, 2015 the Company had $6.9 million in delinquent accounts receivable related to our business unit in China, and $2.7 million of accounts receivable and $2.0 million in performance bonds related to its contract in Iraq. The Company s allowance for all doubtful accounts related to both current and long-term receivables increased to $9.7 million at August 31, 2015 from $4.8 million at August 31, 2014. The Company s evaluation of the adequacy of the allowance for credit losses is based on facts and circumstances available to the Company at the date the consolidated financial statements are issued and considers any significant changes in circumstances occurring through the date that the financial statements are issued.

(9) 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 three warehouses in Idaho, Georgia and Texas. Cost is determined by the first-in, first-out (FIFO) method for inventory at operating locations in Nebraska, California, Wisconsin, China, Turkey and Australia. Cost is determined by the weighted average cost method for inventory at the Company s other operating locations in Kansas, Washington, Brazil, France, 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.

(10) Property, Plant and Equipment

Property, plant, equipment, and capitalized assets held for lease are stated at cost. The Company capitalizes major expenditures and charges to operating expenses the cost of current maintenance and repairs. Provisions for depreciation and amortization have been computed principally on the straight-line method for buildings and equipment. Rates used for depreciation are based principally on the following expected lives: buildings -- 15 to 30 years; equipment -- 3 to 7 years; leased barrier transfer machines 8 to 10 years; leased barriers 12 years; other -- 2 to 20 years and leasehold improvements shorter of the economic life or term of the lease. All of the Company s long-lived asset groups are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the asset group, an impairment loss is recognized based upon the difference between the fair value of the asset and its carrying value. No impairments were recorded during the fiscal years ended August 31, 2015, 2014, and 2013. The cost and accumulated depreciation relating to assets retired or otherwise disposed of are eliminated from the respective accounts at the time of disposition. The resulting gain or loss is included in operating income in the consolidated statements of operations.

(11) Valuation of Goodwill and Identifiable Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Acquired intangible assets are recognized separately from goodwill. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually at August 31 and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable. Assessment of the potential impairment of goodwill and identifiable intangible assets is an integral part of the Company s normal ongoing review of operations. Testing for potential impairment of these assets is significantly dependent on numerous assumptions and reflects management s best estimates at a particular point in time. The dynamic economic environments in which the Company s businesses operate and key economic and business assumptions related to projected selling prices, market growth, inflation rates and operating expense ratios, can significantly affect the outcome of impairment tests. Estimates based on these assumptions may differ significantly from actual results. Changes in factors and assumptions used in assessing potential impairments can have a significant impact on the existence and magnitude of impairments, as well as the time in which such impairments are recognized.

In testing goodwill for impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50 percent) that the estimated fair value of a reporting unit is less than its carrying amount. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators include deterioration in general economic conditions, adverse changes in the markets in which an entity operates, increases in input costs that have negative effects on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. If the Company elects to perform a qualitative assessment and determines that an impairment is more likely than not, the Company is then required to perform a quantitative impairment test, otherwise no further analysis is required. The Company also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test. In fiscal 2015, in conjunction with the Company s annual review for impairment, the Company performed a qualitative analysis of goodwill for each of the Company s reporting units, which are the same as its operating segments, and did not identify any potential impairment.

In assessing other intangible assets not subject to amortization for impairment, the Company has the option to perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of such an intangible asset is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of such an intangible asset is less than its carrying amount, then the Company is not required to perform any additional tests for assessing intangible assets for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, the Company is then required to perform a quantitative impairment test that involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. In fiscal 2015, the Company performed a qualitative analysis of other intangible assets not subject to amortization and concluded there were no indicators of impairment.

(12) Income Taxes

Income taxes are accounted for utilizing the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. These expected future tax consequences are measured based on currently enacted tax rates. The effect of tax rate changes on deferred tax assets and liabilities is recognized in income during the period that includes the enactment date. In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company s evaluation of the adequacy of any potential allowance is based on facts and circumstances available to the Company at the date the consolidated financial statements are issued and considers any significant changes in circumstances occurring through the date that the financial statements are issued.

(13) 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, non-vested 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, and the amount of excess tax benefits that would be recorded in additional paid-in-capital when exercised are assumed to be used to repurchase shares.

(14) Derivative Instruments and Hedging Activities

The Company uses certain financial derivatives to mitigate its exposure to volatility in interest rates and foreign currency exchange rates. All derivative instruments are recorded on the balance sheet at their respective fair values. The Company uses these derivative instruments only to hedge exposures in the ordinary course of business and does not invest in derivative instruments for speculative purposes. On the date a derivative contract is entered into, the Company may elect to designate the derivative as a fair value hedge, a cash flow hedge, or the hedge of a net investment in a foreign operation.

The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivative that is used in the hedging transaction is effective. For those 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 earnings. All changes in derivative fair values due to ineffectiveness are recognized currently in income.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. In situations in which the Company does not elect hedge accounting or hedge accounting is discontinued and the derivative is retained, the Company carries or continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value through 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 August 31, 2015, the Company s derivative counterparty had investment grade credit ratings.

(15) Fair Value Measurements

The Company s disclosure of the fair value of assets and liabilities is based on a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 inputs to valuation techniques are quoted prices in active markets for identical assets or liabilities

Level 2 inputs to the valuation techniques are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly

Level 3 inputs to the valuation techniques are unobservable for the assets or liabilities

(16) Treasury Stock

When the Company repurchases its outstanding stock, it records the repurchased shares at cost as a reduction to shareholders equity. The weighted average cost method is utilized for share re-issuances. The difference between the cost and the re-issuance price is charged or credited to a capital in excess of stated value treasury stock account to the extent that there is a sufficient balance to absorb the charge. If the treasury stock is sold for an amount less than its cost and there is not a sufficient balance in the capital in excess of stated value treasury stock account, the excess is charged to retained earnings.

(17) Contingencies

The Company s accounting for contingencies covers a variety of business activities including contingencies for legal exposures and environmental exposures. The Company accrues these contingencies when its assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. The Company s estimates are based on currently available facts and its estimates of the ultimate outcome or resolution. Actual results may differ from the Company s estimates resulting in an impact, positive or negative, on earnings.

(18) Environmental Remediation Liabilities

Environmental remediation liabilities include costs directly associated with site investigation and clean up, such as materials, external contractor costs and incremental internal costs directly related to the remedy. The Company accrues the anticipated cost of environmental remediation when the obligation is probable and can be reasonably estimated. Estimates used to record environmental remediation liabilities are based on the Company s best estimate of probable future costs based on site-specific facts and circumstances. Estimates of the cost for the likely remedy are developed using internal resources or by third-party environmental engineers or other service providers. The Company records the undiscounted environmental remediation liabilities that represent the points in the range of estimates that are most probable or the minimum amount when no amount within the range is a better estimate than any other amount.

(19) Translation of Foreign Currency

The Company s portion of the assets and liabilities related to foreign investments are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the average rates of exchange prevailing during the year. Unrealized gains or losses are reflected within common shareholders equity as accumulated other comprehensive income or loss.

B. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers.* The standard provides a single model for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services. The ASU will replace existing revenue recognition guidance in U.S.

GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date.* This update deferred the effective date of ASU No. 2014-09 to the first quarter of fiscal year 2019. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is currently evaluating the impact the adoption will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations*. The standard requires an entity to recognize adjustments to provisional amounts resulting from business combinations to be recognized in the period in which they are determined. The standard requires the acquirer to record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, result from the change to provisional amounts, calculated as if the accounting had been completed at the acquisition date. The effective date of ASU No. 2015-16 will be the first quarter of fiscal 2017 with early adoption permitted for financial statements that have not been issued. The guidance requires companies to apply the update prospectively for amounts that occur after the effective date. The Company is currently evaluating the effect this update will have on the consolidated financial statements.

C. ACQUISITIONS

In connection with business acquisitions, the Company records the estimated fair value of the identifiable assets acquired, liabilities assumed, goodwill, and any non-controlling interest in the acquired, all determined as of the date of acquisition. The Company incurred $1.8 million of acquisition and integration expenses in fiscal 2015, which were included in general and administrative expenses on the consolidated statement of operations.

Elecsys Corporation

On January 22, 2015, the Company completed a merger in which Elecsys Corporation, a provider of machine-to-machine (M2M) technology solutions and custom electronic systems (formerly NASDAQ: ESYS) (Elecsys), was merged with a wholly-owned subsidiary of the Company. The Company paid $17.50 per share of Elecsys common stock outstanding (including cashing out of Elecsys equity compensation awards) for total merger cash consideration of $67.2 million, net of cash acquired of $3.4 million.

The Elecsys business capabilities will facilitate the Company s development of efficient solutions for irrigation and other water uses as well as adjacent product lines and technologies. As part of the integration of Elecsys with the Company s irrigation business, the Company closed the Digitec manufacturing facility in Milford, Nebraska and consolidated the electronics manufacturing operations with Elecsys.

The following table summarizes the merger consideration paid for Elecsys and the final allocation of fair value of the assets acquired and liabilities assumed at the acquisition date.

$ in thousands		**Amount**
Cash and cash equivalents	$	3,401
Receivables		2,006
Inventories		8,467
Other current assets		1,527
Property and equipment		6,457
Intangible assets		24,490
Goodwill		39,986
Other long-term assets		41
Accounts payable and accrued liabilities		(2,862)
Current and long-term debt		(2,478)
Other long-term liabilities		(10,458)
Total cash consideration		70,577
Less cash acquired		(3,401)
Total cash consideration, net of cash acquired		67,176
Add current and long-term debt assumed		2,478
Total purchase price	$	69,654

The acquired intangible assets include amortizable intangible assets of $17.1 million and indefinite-lived intangible assets of $7.4 million related to tradenames. The amortizable intangible assets have a weighted-average useful life of approximately 11.5 years. The following table summarizes the identifiable intangible assets at fair value.

$ in thousands	**Weighted Average Useful Life in Years**		**Fair Value of Identifiable Asset**
Intangible assets:			
Customer relationships	10.9	$	11,820
Tradenames	N/A		7,430
Developed technology (proprietary)	14.7		4,420
Non-compete agreements	4.5		430
Backlog	0.4		390
Total intangible assets	11.5	$	24,490

Goodwill related to the acquisition of Elecsys primarily relates to intangible assets that do not qualify for separate recognition, including the experience and knowledge of Elecsys management, its assembled workforce, and its intellectual capital and specialization with M2M communication technology solutions, data acquisition and management systems, and custom electronic equipment. Goodwill recorded in connection with this acquisition is included in the irrigation reporting segment and is non-deductible for income tax purposes. Pro forma information related to this acquisition was not included because the impact on the Company s consolidated financial statements was not considered to be material.

SPF Water Engineering, LLC

On July 20, 2015, the Company completed the acquisition of SPF Water Engineering, LLC (SPF) based in Boise, Idaho. SPF is a full-service water resource consulting firm offering water supply studies, well design and construction, water and wastewater system design, water rights consulting and more. The Company paid $2.5 million, which was financed with cash on hand, for total purchase consideration of $2.4 million net of cash acquired of $0.1 million. The allocation of purchase price for SPF is considered preliminary, largely with respect to the valuation of certain acquired intangible assets.

The total purchase price for SPF has been allocated to the tangible and intangible assets acquired and liabilities assumed based on fair value assessments. The Company s allocation of purchase price for this acquisition consisted of current assets of $0.7 million, fixed assets of $0.1 million, finite-lived intangible assets of $1.0 million, goodwill of $0.9 million and current liabilities of $0.2 million. Goodwill resulting from this acquisition is largely attributable to the existing workforce and historical and projected profitability of the acquired business. The goodwill associated with SPF is included in the goodwill of the Company s irrigation segment. Pro forma information related to this acquisition was not included because the impact on the Company s consolidated financial statements was not considered to be material.

D. NET EARNINGS PER SHARE

The following table shows the computation of basic and diluted net earnings per share for the years ended August 31, 2015, 2014 and 2013:

	For the years ended August 31,		
($ and shares in thousands, except per share amounts)	**2015**	**2014**	**2013**
Numerator:			
Net earnings	$ 26,309	$ 51,512	$ 70,570
Denominator:			
Weighted average shares outstanding	11,818	12,832	12,830
Diluted effect of stock equivalents	37	50	71
Weighted average shares outstanding assuming dilution	11,855	12,882	12,901
Basic net earnings per share	$ 2.23	$ 4.01	$ 5.50
Diluted net earnings per share	$ 2.22	$ 4.00	$ 5.47

Certain stock options and restricted stock units were excluded from the computation of diluted net earnings per share because their effect would have been anti-dilutive. Performance stock units are excluded from the calculation of dilutive potential common shares until the threshold performance conditions have been satisfied. The following table shows the securities excluded from the computation of earnings per share because their effect would have been anti-dilutive:

	For the years ended August 31,		
Units and options in thousands	**2015**	**2014**	**2013**
Restricted stock units	3	3	3
Stock options	50	44	29

E. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is included in the accompanying Consolidated Balance Sheets in the shareholders equity section, and consists of the following components:

	August 31,	
$ in thousands	**2015**	**2014**

Accumulated other comprehensive loss:				
Defined benefit pension plan, net of tax benefit of $1,540 and $1,524	$	(2,523)	$	(2,497)
Foreign currency translation, net of hedging activities, net of tax expense of $3,154 and $1,688		(12,785)		296
Total accumulated other comprehensive loss	$	(15,308)	$	(2,201)

The following is a rollforward of the balances in accumulated other comprehensive income (loss), net of tax.

sands	Defined benefit pension plan adjustment	Foreign currency translation adjustment	Accumulated other comprehensive loss
t ,	$ (2,287)	(29)	(2,316)
eriod	(210)	325	115
t ,	(2,497)	296	(2,201)
eriod	(26)	(13,081)	(13,107)
t , **Cash flows from financing activities:**			

of ons	193	193	838	838	1,008	1,008	1,023
it of ons							
nt of debt	(643)	(643)	(1,286)	(1,286)	(1,929)	(1,929)	(2,571)
by	(450)	(450)	(448)	(448)	(921)	(921)	(1,548)
ase in cash ts	(18,400)	(18,400)	(26,199)	(26,199)	(32,727)	(32,727)	9,320
cash ts at of	48,428	48,428	48,428	48,428	48,428	48,428	48,428
cash ts at iod	$ 30,028 $	$ 30,028	$ 22,229 $	$ 22,229	$ 15,701 $	$ 15,701	$57,748 $ $

Table of Contents

(2) Basis of Presentation

The consolidated financial statements included herein include the accounts of A.C. Moore Arts & Crafts, Inc. and its wholly owned subsidiaries. As of September 30, 2007, the Company was a chain of 127 retail stores selling arts and crafts merchandise. The stores are located throughout the Eastern United States from Maine to Florida.

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reported period and related disclosures. Significant estimates made as of and for the three and nine month periods ended September 30, 2007 and 2006, include provisions for shrinkage, capitalized buying, warehousing and distribution costs related to inventory, and markdowns of merchandise inventories. Actual results could differ materially from those estimates.

These financial statements have been prepared by management without audit and should be read in conjunction with the consolidated financial statements and notes thereto to be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Due to the seasonality of the Company s business, the results for the interim periods are not necessarily indicative of the results for the year. The Company has included its balance sheet as of September 30, 2006 to assist in viewing the Company on a full-year basis. The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair statement of the interim financial statements. In the opinion of management, all such adjustments are of a normal and recurring nature.

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. For further discussion on the adoption of FIN 48, see Note 12, Income Taxes.

(3) New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* which provides companies with an option to report selected financial assets and liabilities at fair value in an attempt to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. This Statement is effective for the Company beginning January 1, 2008. We are currently assessing the impact of this Statement on our Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. It does not expand the use of fair value measurement. We will be required to adopt SFAS No. 157 for financial assets and liabilities on January 1, 2008. In February 2008, the FASB deferred adoption of SFAS No. 157 for non-financial assets and liabilities until the fiscal year beginning after December 15, 2008. We believe the impact will not require material modification of our fair value measurements and will be substantially limited to expanded disclosures in the notes to our Consolidated Financial Statements relating to those notes that currently have components measured at fair value.

Table of Contents

(4) Stock-based Compensation

At the Annual Meeting of Shareholders held on June 7, 2007, the Company s shareholders approved the A.C. Moore Arts & Crafts, Inc. 2007 Stock Incentive Plan (the 2007 Stock Incentive Plan). Awards issued under the 2007 Stock Incentive Plan may take the form of stock options, stock appreciation rights, restricted stock awards, performance awards or stock units.

The 2007 Stock Incentive Plan effectively replaced the Company s existing stock option plans, which include the 1997 Employee, Director and Consultant Stock Option Plan and the 2002 Stock Option Plan, and no further grants or awards will be made under those existing plans. The aggregate number of the shares of common stock subject to award under the 2007 Stock Incentive Plan is 1,000,000 shares. This share reserve will be increased as of December 31, 2007, up to 1,232,406 shares of common stock relating to options outstanding under the existing plans that are not exercised due to expiration, termination, cancellation or forfeiture. The following table summarizes awards issued under the 2007 Stock Incentive Plan since its approval by the shareholders:

	Shares	Weighted Average Market Price
Restricted stock awards	67,845	$ 21.58
Stock options and stock appreciation rights	21,700	$ 16.40

On January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment* requiring the recognition of compensation expense in the Consolidated Statement of Operations related to the fair value of its employee share-based options and stock appreciation rights. The Company determines fair value of such awards using the Black-Scholes options pricing model with the following weighted-average assumptions:

	2007	**2006**
Average fair value of options and stock appreciation rights granted	$7.75	$8.90
Risk free interest rate	4.6%	5.0%
Dividend yield		
Average expected life	4.5 yrs	6.0 yrs
Expected stock price volatility	38.0%	44.4%

Expected volatilities were based on a blend of historical and implied volatilities of the Company s common stock; the expected life represents the weighted average period of time that stock awards granted are expected to be outstanding using the simplified method as prescribed in Staff Accounting Bulletin No. 110; and the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

The following tables summarize information about the stock award and stock option activity for the nine month periods ended September 30, 2007 and 2006, and awards outstanding as of September 30, 2007 and 2006. The $2.1 million of stock-based compensation expense recorded in the nine months ended September 30, 2007 includes a $209,000 benefit from forfeited options that was included as a reduction in cost related to a change in management. The $2.5 million of expense for the nine months ended September 30, 2006 includes $300,000 of expense that was included in costs related to a change in management.

Table of Contents

(In thousands except per share data and # of months)	Nine Months Ended September 30, 2007	2006
Stock-based compensation expense	$2,083	$2,528
Effect on net income	1,467	1,516
Effect on earnings per share	0.07	0.08
Market value in excess of grant price for options exercised	1,071	2,300
Intrinsic value of options outstanding	1,201	4,531
Unrecognized compensation cost	$4,706	$4,134
Months over which compensation costs will be recognized	48	35
Shares available for future grant	1,184	394

Summarized in the following tables are the stock options and restricted stock activity for awards under the 1997 Employee, Director and Consultant Plan, the 2002 Stock Options Plan, and the 2007 Stock Incentive Plan:

Stock Options and Stock Appreciation Rights

Activity in the Company s stock options and stock appreciation rights plans for the first nine months of 2007 and 2006, respectively, was as follows:

	2007		2006	
	Stock Options and Stock Appreciation Rights	Weighted Average Exercise Price	Stock Options and Stock Appreciation Rights	Weighted Average Exercise Price
Outstanding at beginning of period	1,367,678	$ 19.50	1,485,067	$ 16.87
Activity:				
Granted	308,200	20.50	297,000	17.57
Forfeited	309,969	23.13	53,580	22.79
Exercised	131,503	13.16	182,172	4.79
Expired	2,000	4.50		
Outstanding at end of period	1,232,406	$ 19.82	1,546,315	$ 18.32

The following table summarizes information about stock options and stock appreciation rights outstanding at September 30, 2007:

	Stock Options and Stock Appreciation Rights Outstanding			Stock Options and Stock Appreciation Rights Exercisable		
Range of Exercise Prices	Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
2.88 4.50	65,204	2.4	$ 3.47	65,204	2.1	$ 3.47

4.51	8.50	53,186	3.4	8.25	53,186	3.2	8.25
8.51	18.50	298,800	8.6	17.57	145,667	8.6	17.35
18.51	22.00	497,558	6.3	20.54	213,758	5.7	20.54
22.01	27.15	317,658	6.8	24.93	250,175	6.6	25.45
		1,232,406	6.9	$ 19.50	727,990	6.1	$ 19.16

19

Table of Contents

Restricted Stock

Certain of the restricted stock awards carry a performance-based vesting feature which allows for accelerating vesting if the targets are met. If the targets are not met, the awards vest after four years.

The following table summarizes activity for restricted stock awards for 2007:

	2007	
	Number of Shares	**Weighted Average Grant Date Fair Value**
Outstanding at beginning of period	$	$
Activity:		
Granted	67,845	21.58
Vested		
Cancelled		
Outstanding at end of period	$ 67,845	$ 21.58

(5) Shareholders Equity

During the first nine months of 2007, shareholders equity changed as follows:

	Shares	Common Stock	Accumulated Other Comprehensive (Loss)	Retained Earnings	Total Shareholders Equity	Other Comprehensive (Loss)
Balance, December 31, 2006 (as restated)	20,167,098	$ 118,218		$ 73,987	$ 192,205	
Net (loss)				(868)	(868)	$ (868)
Exercise of stock options	131,503	1,626			1,626	
Tax benefit from exercise of stock options		428			428	
Stock-based compensation expense		2,083			2,083	
Change in accounting principle (Note 12)				(608)	(608)	
Unrealized loss, net of taxes of $73, (Note 10)			$ (126)		(126)	$ (126)
Other comprehensive loss						$ (994)
Balance, September 30, 2007	20,298,601	$ 122,355	$ (126)	$ 72,512	$ 194,741	

(6) Costs Related to Change in Management

On June 1, 2006, the Company appointed a new Chief Executive Officer to replace the previous Chief Executive Officer who retired effective that same date. Since that time there have been various other management changes. For the three and nine month periods ended September 30, 2007, the Company incurred management change costs of $0 and $435,000, respectively. For the three and nine month periods ended September 30, 2006, management change costs were $888,000 and $2.9 million, respectively. These costs related to severance for departing officers and employees as well as recruiting costs for new officers. There were no costs charged to this classification since the second quarter 2007.

Table of Contents

(7) Inventories

Merchandise Inventories. We value our inventories at the lower of cost or market. For warehouse inventories, cost is determined using a weighted average cost (WAC) method. We value inventory in our stores under the retail inventory method (RIM). Under RIM, store inventories are initially valued at their current retail selling price multiplied by a cost complement to arrive at an inventory value at cost. The cost complement is a ratio of merchandise available for sale at cost to merchandise available for sale at its original selling price. On a quarterly basis, management uses a specific cost method to determine the value of its store inventories. Through its point of sale system, the Company is able to assign a stock-keeping unit (SKU) specific cost to every item sold. Using this information, along with estimates for inventory shrinkage and transportation costs, management estimated cost of sales and inventory during the first three quarters of each year.

Management includes the cost of purchasing, warehousing, and transportation in the cost of inventory. Vendor allowances, which primarily represent volume discounts and cooperative advertising funds, are recorded as a reduction in the cost of merchandise inventories. For merchandise where we are the direct importer, ocean freight, duty and internal transfer costs are included as inventory costs.

The estimates for inventory shrinkage used to value inventory on a quarterly basis are adjusted to actual shrinkage amounts at year-end when a full physical inventory in each of our stores and warehouse facility are taken.

Our inventory valuation methodology also requires other management estimates and judgment, such as the net realizable value of merchandise designated for clearance or on overstock or slow-moving merchandise. The accuracy of these estimates can be impacted by many factors, some of which are outside of management s control, including changes in economic conditions and consumer buying trends. We believe that the process we use results in an appropriate inventory value.

Effective January 1, 2008, the Company intends to change its method of accounting for store inventories from the retail method to WAC. The Company believes WAC is a preferable method as it results in an inventory valuation which more closely reflects the acquisition cost of inventory and provides for a better matching of cost of sales with the related sales.

As stated in SFAS 154, *Accounting Changes and Error Corrections*, when it is impracticable to determine the cumulative effect of applying a change of accounting principle to any prior period, the new accounting principle is applied as if the changes were made prospectively as of the earliest date practicable. Therefore, the Company expects to adopt WAC effective January 1, 2008. We anticipate that the adoption will result in a reduction in inventory of approximately $2.1 million, which net of tax will be recorded as a reduction in retained earnings as of the beginning of 2008.

(8) Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Buildings are depreciated over 40 years and building improvements are depreciated principally over 20 years. Furniture, fixtures, software and equipment are depreciated over periods of five to 10 years and leasehold improvements are depreciated over the shorter of their estimated useful lives or the original term of the related lease. Maintenance and repairs are charged to operations as incurred and major improvements are capitalized.

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. These capitalized software costs are included in Property and equipment, net in the Company s Consolidated Balance Sheets, and are being amortized over the estimated useful life of the software, not to exceed five years.

(9) Insurance Liabilities

The Company uses a combination of third party and self-insurance to cover certain risks, including workers compensation, general liability, property, ocean marine and medical claims. Insurance liabilities are a component of Accrued expenses in the Company s Consolidated Balance Sheets and represent an estimate of the ultimate cost of uninsured liability as of the balance sheet date, less claims that have been paid. These liabilities are actuarially estimated based on historical data and industry trends.

(10) Financing Agreement

The Company maintains two mortgage agreements with Wachovia Bank on its corporate office and main distribution center which are collateralized by land, buildings and equipment. Of the original $30.0 million in mortgages, $22.5 million ($18.0 million as of September 30, 2007) is repayable over 15 years and $7.5 million ($4.3 million as of September 30, 2007) is repayable over seven years. Fixed monthly payments are $214,000. In November 2006, the Company effectively converted these mortgages from a variable rate to fixed interest rates of 5.77% on the 15-year mortgage and 5.72% on the seven-year mortgage through the use of an interest rate swap.

In March 2007, the Company amended these two mortgages to modify certain covenants. The mortgages, as amended, contain covenants that, among other things, restrict the Company s ability to incur additional indebtedness or guarantee obligations in excess of $18.0 million, engage in mergers or consolidations, dispose of assets, make acquisitions requiring a cash outlay in excess of $20.0 million, make loans or advances in excess of $1.0 million, permit liens relating to capitalized lease obligations or purchase money financing in excess of $2.0 million, or change the nature of the Company s business. The Company is restricted in capital expenditures unless certain financial covenants are maintained including those relating to tangible net worth and funded debt. The mortgages also define various events of default, including cross default provisions, defaults for any material judgments or a change in control.

In January 2008, the Company amended the two mortgages and entered into a promissory note. Pursuant to the loan modification, Wachovia has agreed to waive non-compliance with certain provisions of the loan documents as a result of the Company s failure to deliver the financial statements for the quarter ended September 30, 2007. The loan modification also amended the loan documents to (i) increase the interest rate for the two mortgages and borrowing under the line of credit from a LIBOR-based rate plus 65 basis points to a LIBOR-based rate plus 90 basis points, and (ii) require the Company to maintain a deposit account with the bank with a minimum balance of $500,000. These two provisions terminate when the Company files this Form 10-Q and the required restatements.

At December 31, 2007, we had a $35.0 million line of credit agreement with Wachovia, which is scheduled to expire on May 31, 2008. We intend to negotiate to extend the line of credit once the required restatements are filed. At December 31, 2007, the Company had no outstanding principal balance under the line of credit; however, a $6.45 million letter of credit has been issued under the line. The letter of credit replaced a workers compensation insurance cash escrow account that has been redeployed in other investments.

Table of Contents

(11) Revenue Recognition

The Company recognizes revenue at the time of sale of merchandise to its customers, with the exception of the sale of custom frames, which are recognized at the time of delivery. If the purchase is from our e-commerce channel, revenue is recognized at the time of shipment. The value of point of sale coupons, which have a very limited life, and other discounts that result in a reduction of the price paid by the customer are recorded as a reduction of sales. Sales returns, which are reserved for based on historical experience, are provided for in the period that the related sales are recorded. Proceeds from the sale of gift cards are recorded as gift card liabilities and recognized as revenue when redeemed by the holder. Unredeemed gift cards are evaluated to determine whether the likelihood for redemption is remote (gift card breakage). We recognize gift card breakage as income based on historical redemption patterns.

(12) Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. As a result of adoption, the Company recognized an increase of $608,000 in a reserve for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings. Including the cumulative effect increase on January 1, 2007, the Company has $1,061,000 of unrecognized tax benefits, all of which would affect the effective tax rate if recognized. The Company s reserve for uncertain tax positions is included as a long term liability under the caption Deferred tax and other liabilities on the Consolidated Balance Sheet. Included in these unrecognized benefits are approximately $188,000 of accrued interest and $164,000 of penalties. Effective with the adoption of FIN 48, the Company will record interest as a component of interest expense and penalties as a component of income tax expense. Prior to the adoption of FIN 48, interest accrued on unrecognized tax benefits was recorded as a component of income tax expense. Changes in the reserves for taxes, interest and penalties during the first nine months of 2007 were not significant.

The Company is subject to U.S. Federal income tax as well as income tax of multiple state jurisdictions. The Company has substantially concluded all material tax matters in jurisdictions where it files returns for years through 2003.

In February 2008, the Company finalized an audit with the Internal Revenue Service that covered the 2004 through 2006 tax years. This audit resulted in a payment of total tax and interest of $2.1 million.

The Company s effective tax rate for the first nine months of 2007 was 36.9% as compared to 40.5% in the first nine months of 2006. This decrease was primarily attributable to an increase in tax free interest income and a reduction in compensation expense from incentive stock options.

(13) Earnings per Share

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

23

Table of Contents

(In thousands, except per share data)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006 (as restated)	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006 (as restated)
Net (loss)	$ (654)	$ (3,020)	$ (868)	$ (5,333)
Weighted average shares:				
Basic	20,275	19,916	20,230	19,873
Incremental shares from assumed exercise of stock options and stock appreciation rights				
Diluted	20,275	19,916	20,230	19,873
Basic net (loss) per share	$ (0.03)	$ (0.15)	$ (0.04)	$ (0.27)
Diluted net (loss) per share	$ (0.03)	$ (0.15)	$ (0.04)	$ (0.27)
Stock options and stock appreciation rights excluded from calculation because exercise price was greater than average market price	857	680	701	680
Potentially dilutive shares excluded from the calculation as the result would be anti-dilutive	451	866	606	866

(14) Commitments and Contingencies

On July 23, 2007, the Company entered into a Confidential Settlement Agreement with a former employee to resolve claims made against the Company pursuant to a civil action.

As previously disclosed, on April 4, 2003, a civil action was filed against the Company in the Superior Court of New Jersey, Burlington County Law Division by Kathleen Stahl, a former store merchandiser for the Company, for alleged retaliatory harassment and constructive discharge under the New Jersey Conscientious Employee Protection Act. On October 30, 2006, a jury returned a verdict in the favor of the plaintiff for $19,600 in lost wages, $1.8 million for emotional distress and $1.5 million in punitive damages. The Confidential Settlement Agreement absolutely released the Company, its successors, and related parties for any matter arising out of the subject matter of the civil action in exchange for a total settlement amount of $850,000, which had a net after tax cost of $530,000. The settlement was recorded in the second quarter. The settlement amount is inclusive of all of the plaintiff s attorney s fees and all interest owing to and taxes owing by the plaintiff and concludes nearly five years of dispute and litigation. The civil action was dismissed with prejudice and without costs pursuant to a stipulation of dismissal.

The Company is not a party to any other material legal proceedings other than routine litigation incidental to its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position, operating results or cash flows of the Company.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Relating to Forward-looking Statements

The following discussion contains statements that are forward-looking within the meaning of applicable federal securities laws and are based on our current expectations and assumptions as of this date. We undertake no obligation to update or revise any forward-looking statement whether as the result of new developments or otherwise. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Factors that could cause actual results to differ from those anticipated include, but are not limited to, our ability to implement our business and operating initiatives to improve profitability, customer demand and trends in the arts and crafts industry, inventory risks, the effect of economic conditions and gasoline prices, the impact of unfavorable weather conditions, the impact of competitors locations or pricing, the availability of acceptable real estate locations for new stores, difficulties with respect to new system technologies, difficulties in implementing measures to reduce costs and expenses and improve margins, supply constraints or difficulties, the effectiveness of and changes to advertising strategies, difficulties in determining the outcome and impact of litigation, the impact of the threat of terrorist attacks and war, our ability to maintain an effective system of internal control over financial reporting, the results of our review of our inventory accounting practices, our ability to regain compliance with The NASDAQ Stock Market listing standards and other risks detailed in the Company s Securities and Exchange Commission (SEC) filings. For additional information concerning factors that could cause actual results to differ materially from the information contained herein, reference is made to the information under Part II, Item 1A. Risk Factors as set forth below and in our Annual Report on Form 10-K for the year ended December 31, 2007 to be filed with the SEC.

Restatement of Consolidated Financial Statements

On October 24, 2007, the Audit Committee of our Board of Directors, in consultation with management, determined that the financial statements for the years ended December 31, 2004, 2005 and 2006 contained in our annual report on Form 10-K for the year ended December 31, 2006 and our quarterly reports on Form 10-Q for the first, second and third quarters of 2006 and the first and second quarters of 2007 should be restated due to an error in the formula used to value the Company s store inventories under the retail inventory method (RIM).

Correction of our inventory valuation resulted in a restatement of our financial statements for the periods including and prior to the six months ended June 30, 2007 as contained in this quarterly report on Form 10-Q. The total adjustment through June 30, 2007 relating to the correction of the RIM error was a reduction in net income of $13.2 million, net of an income tax benefit of $7.4 million. In addition, the restated financial statements also reflect an adjustment to amounts previously reported related to the timing of recognition of internal transfer costs on imported merchandise. The total adjustment through June 30, 2007 relating to the internal transfer costs was a reduction to net income of $2.8 million, net of an income tax benefit of $1.6 million.

Effects of Restatement

The following table provides a summary of selected line items from our Consolidated Statements of Operations for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005 affected by this restatement. See Note 1 in our Notes to Consolidated Financial Statements for tables that reconcile our previously reported amounts to the restated amounts and for a more detailed description of the adjustments underlying the restatement. The impact on gross margin from this restatement in any quarter was less than 1% of sales. There is no impact on total operating cash flows resulting from our restatement.

Table of Contents

	Summary Statement of Operations (In thousands except per share data)		
	Six Months Ended June 30,	Years Ended December 31,	
	2007	2006	2005
As previously reported:			
Cost of sales	$151,727	$358,725	$326,581
Income before taxes	363	4,543	16,068
Net income	229	2,434	10,042
Earnings per share	0.01	0.12	0.50
As restated:			
Cost of sales	$152,429	$362,678	$328,565
Income (loss) before taxes	(339)	590	14,084
Net income (loss)	(214)	(406)	8,901
Earnings (loss) per share	(0.01)	(0.02)	0.44
Correction of inventory valuation adjustments:			
Cost of sales	$ 702	$ 3,953	$ 1,984
(Loss) before taxes	(702)	(3,953)	(1,984)
Net (loss)	(443)	(2,840)	(1,141)
(Loss) per share	(0.02)	(0.14)	(0.06)

Table of Contents

Overview

General

We are a specialty retailer of arts, crafts and floral merchandise for a wide range of customers. Our first store opened in Moorestown, New Jersey in 1985. As of September 30, 2007, we operated 127 stores in the Eastern United States from Maine to Florida. As of March 16, 2008, we operated 136 stores. Our stores typically range from 20,000 to 25,000 square feet. We also serve customers nationally through our e-commerce site, *www.acmoore.com*.

Due to the importance of our peak selling season, which includes the Fall and Winter holiday seasons, the fourth quarter has historically contributed, and is expected to continue to contribute, a significant portion of our profitability for the entire year. As a result, any factors negatively affecting us during the fourth quarter of any year, including adverse weather and unfavorable economic conditions, would have a material adverse effect on our results of operations for the entire year.

Our quarterly results of operations also may fluctuate based upon such factors as the length of holiday seasons, the date on which holidays fall, the number and timing of new store openings, the amount of store pre-opening expenses, the amount of net sales contributed by new and existing stores, the mix of products sold, the amount of sales returns, the timing and level of markdowns and other competitive factors.

For the full year 2007, the Company s comparable store sales decreased by 10.3% while gross margins improved by 2.4% compared to last year. For the nine months ended September 30, 2007, comparable store sales decreased by 8.3%, while gross margin improved by 1.8%. The decline in comparable store sales was an expected result of the implementation of management s primary business and operating initiatives that are discussed in more detail below. We believe that the Company had reached a point of diminishing returns for many of the costs being incurred to increase sales, which included advertising and store payroll. Changes made to our store staffing and advertising programs coupled with major product resets which took longer to execute than we anticipated, all had an adverse effect on comparable store sales. In addition, lower inventory levels and changes in sourcing caused an increase in out-of stock merchandise which also had a negative impact on sales.

While we may experience cannibalization of sales in our existing stores and an increased selling, general and administrative expense rate as we continue to refine our real estate site location strategy, we expect improvements in the execution of our operating initiatives that we believe will lessen the impact on comparable store sales in the second half of 2008. The increase in gross margin was achieved through a combination of a shift in product mix, vendor cost leveraging and retail price adjustments. We expect these factors to continue to have a positive impact on gross margin in 2008. However, competitive pressure or weakness in the retail environment could result in additional downward pressure on comparable store sales or cause us to be more promotional than we currently expect, which would have a negative impact on margins.

Business and Operating Strategy

The year 2007, including the three and nine months ended September 30, 2007, involved substantial transition as our new management team focused on reviewing and adjusting various aspects of our business and operations to position us for improved performance. Management s primary business and operating initiatives are discussed below.

Improve Store Profitability. We continue to strive to improve store profitability by reducing expenses through a focus on the following areas: store payroll, real estate site location strategy, advertising spending, centrally directed operations and our new store prototype.

Table of Contents

Decreasing store payroll costs. We introduced a new general manager compensation plan based on pay-for-performance beginning in January 2007. Bonuses earned in one year are no longer rolled into base salary for the coming year. New store staffing models, including a mix of full- and part-time associates based on sales patterns, were implemented in the second quarter of 2007. While we believe that our new store staffing model is appropriate for our store operations, we will continue in 2008 to refine staffing to address freight, ordering, recovery, merchandising and customer service more effectively.

Real estate site location strategy. Our objective is to achieve an appropriate balance between increasing store openings in existing markets, which could adversely affect comparable store sales, and opening a single store in multi-store markets which are new to us, which may contribute to an increase in our selling, general and administrative expense rate. When we enter new markets in the future that we deem to be multi-store markets, we intend to open more than one store. Previously, including certain of our stores to be opened in 2008, we entered new markets opening only a single store. Management periodically reviews store performance and future prospects to identify underperforming locations and assess closure of those stores that are no longer strategically or economically viable. We are about to begin such a detailed analysis subsequent to the filing of this quarterly report on Form 10-Q.

Advertising spending. In 2007, we utilized the services of a newspaper placement agency to negotiate our insertion rates and distribution costs. We implemented those recommendations by the end of the third quarter. We will continue this initiative in 2008 by analyzing our distribution methods to enhance productivity of the advertising vehicles.

Centrally directed operations and our store prototype. We believe that increasing the level of standardization in operations and centrally directed management practices will improve our operating efficiencies. This initiative includes, without limitation, standardizing the presentation in our stores, reengineering our store processes and implementing and refining our new store prototype which we refer to as our Nevada model. As of March 16, 2008, we opened 14 Nevada class stores. We believe the Nevada model will help us achieve efficiencies through increased ease of operation and reduced labor costs. While we believe the Nevada model is a desirable design, we are currently refining the design based on the results of this initial phase of implementation and expect to continue to do so in the future.

Increase Gross Margins. We are focused on increasing gross margins through implementation of category management of our merchandise, increasing globally sourced and private label products, and improving supply chain efficiencies.

Category management. We are currently working on a category management process designed to optimize sales, expand gross margin and better control our inventory investment. Category management involves the use of a merchandise planning calendar that defines the timeline for each action required to achieve a store set date on plan-o-grams and seasonal programs. We anticipate that this process will reduce out-of-stock conditions. Also included in this initiative is implementation of a category management structure and processes. Examples of these processes are an open-to-buy program for review of purchases of seasonal and large buys and a comprehensive clearance program.

Globally sourced and private label products. Beginning in the second half of 2007, we sold products in our stores that were imported directly through an arrangement with a global sourcing supplier. We expect that the number of products globally sourced will increase in the

Table of Contents

future. During the same time, we also introduced in our stores private-label products bearing the A.C. Moore name and logo. We believe that increased global sourcing and sale of private label products will result in gross margin improvement.

Supply chain efficiencies. We recently implemented a performance management program in our main distribution center. Each job function was reviewed to improve the method of performance and maximize efficiencies. Quantifiable engineered standards were developed to measure building, area and individual associate performance. In addition, with the assistance of an outside consultant, we anticipate completion of a logistics network strategy review by the end of the second quarter of 2008. This project will identify the distribution network configuration to service A.C. Moore stores over the next five years and will provide an implementation roadmap for the expansion of our distribution network. We believe these initiatives will help reduce costs associated with product distribution.

Improve Information Technology. We are committed to enhancing our information technology to increase operating efficiencies, improve merchandise selection and better serve our customers. During 2007, we made infrastructure improvements, implemented a fully featured ecommerce site with over 50,000 SKUs, and captured physical inventories at the SKU-level. The SKU-level inventory enabled us to implement a perpetual inventory beginning in January 2008 which will be the precursor for additional merchandising systems, including automated replenishment. A project team consisting of consultants and A.C. Moore associates is working on the implementation of a packaged comprehensive retail merchandising system, which will begin with merchandising management and reporting and a pilot of replenishment in 2008 followed by full replenishment and allocation in the second half of 2009. We do not anticipate realizing benefits from the automated replenishment system until 2010 due to a period of adjustment in operations following implementation.

Results of Operations

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of net sales and the number of stores open at the end of each such period:

29

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006 (as restated)	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006 (as restated)
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	57.0	59.4	58.1	59.9
Gross margin	43.0	40.6	41.9	40.1
Selling, general and administrative expenses	43.1	42.9	41.9	40.9
Costs related to change in management	0.0	0.7	0.1	0.7
Store pre-opening expenses	0.8	0.7	0.4	0.6
Loss from operations	(0.9)	(3.8)	(0.5)	(2.2)
Net interest (income) expense	(0.1)	0.2	(0.1)	0.1
Loss before income taxes	(0.8)	(3.9)	(0.4)	(2.3)
Benefit for income taxes	(0.3)	(1.6)	(0.1)	(0.9)
Net (loss)	(0.5)%	(2.3)%	(0.2)%	(1.4)%
Number of stores open at end of period	127	117		

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Net Sales. Net sales decreased $6.3 million, or 4.9%, to $122.6 million in the three months ended September 30, 2007 from $128.9 million in the comparable 2006 period. This decrease is comprised of (i) an increase in net sales of $6.8 million from stores not included in the comparable store base, (ii) a comparable store sales decrease of $12.6 million, or 10.0%, and (iii) net sales of $0.5 million from stores closed since the comparable period last year. As previously stated, our focus on store profitability has negatively impacted comparable store sales. Specifically, the process of evaluating the reach, frequency and timing of our advertisements, and adjusting store inventory and payroll to align with sales volume had an impact on comparable store sales.

Merchandise categories that performed below the Company average on a comparable store basis included candles, picture frames, yarn, jewelry, kids crafts and seasonal. Categories that performed better than average included memories, custom framing, cake and candy making, wood and floral.

Gross Margin. Gross margin is net sales minus the cost of merchandise which includes purchasing and receiving costs, inbound freight, duties related to import purchases, internal transfer costs and warehousing costs. Gross margin as a percent of net sales was 43.0% for the three months ended September 30, 2007, and 40.6% for the three months ended September 30, 2006. This 2.4% improvement in gross margin is attributable to lower merchandise costs from an increase in direct sourcing, reduced couponing as a percent of sales and retail price adjustments as a result of ongoing price elasticity studies.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include (a) direct store level expenses, including rent and related operating costs, payroll, advertising, depreciation and other direct costs, and (b) corporate level costs not directly associated with or allocable to cost of sales, including executive salaries, accounting and finance, corporate information systems, office facilities, stock-based compensation and other corporate expenses.

Table of Contents

Selling, general and administrative expenses, as a percent of sales, increased 0.2% in the three months ended September 30, 2007 to 43.1% from 42.9% in the three months ended September 30, 2006. This increase is the result of deleveraging of store occupancy costs against a decline in same store sales, principally offset by a reduction in store payroll as a percent of sales.

Costs Related to Change in Management. On June 1, 2006, the Company appointed a new Chief Executive Officer to replace the previous Chief Executive Officer who retired on that same date. Since that time there have been various other management changes. For the three months ended September 30, 2007 and 2006, respectively, the Company incurred costs of $0 and $888,000 related to severance costs for departing officers and employees as well as recruiting costs for new officers. There were no costs charged to this classification since the second quarter 2007.

Store Pre-Opening Expenses. We expense store pre-opening expenses as they are incurred which includes lease costs prior to a store opening. Pre-opening expenses for the three stores opened in the third quarter of 2007 amounted to $962,000. In the third quarter of 2006, we incurred store pre-opening expenses of $930,000, related to the three stores opened in that quarter and lease costs related to stores opened later in 2006.

Interest Income and Expense. In the third quarter of 2007, we had interest income of $430,000 compared with interest income of $187,000 for the same period in 2006. This increase is attributable to our increase in cash.

Income Taxes. Our effective tax rate for the third quarter of 2007 was 36.9%, as compared to 40.5% for the three months ended September 30, 2006. This decrease is primarily attributable to an increase in tax free interest income and a reduction in compensation expense from non-deductible incentive stock options.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Net Sales. Net sales decreased $9.3 million, or 2.4%, to $382.4 million in the nine months ended September 30, 2007 from $391.7 million in the comparable 2006 period. This decrease is comprised of (i) net sales of $23.8 million not included in the comparable store base, (ii) a comparable store sales decrease of $31.8 million, or 8.3%, and (iii) net sales of $1.3 million from stores closed since the comparable period last year. As stated above, our focus on store profitability, among other things, has negatively impacted comparable store sales. Specifically, the process of evaluating the reach, frequency and timing of our advertisements, adjusting store inventory and payroll to align with sales volume and the execution of major resets in memories and picture frames all had an impact on comparable store sales.

Merchandise categories that performed below the Company average on a comparable store basis included yarn, floral arrangements, books and kids crafts. Categories that performed better than average included memories, custom framing, cake and candy making and wood.

Gross Margin. Gross margin as a percent of net sales was 41.9% for the nine months ended September 30, 2007, and 40.1% for the nine months ended September 30, 2006. This 1.8% improvement in gross margin is attributable to lower merchandise costs from an increase in direct sourcing, reduced couponing as a percent of sales and retail price adjustments as a result of ongoing price elasticity studies.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percent of sales, increased 1.0% in the nine months ended September 30, 2007 to 41.9% from 40.9% in the nine months ended September 30, 2006. Costs related to a one time legal settlement represent 0.2% of this increase and the balance of the increase is the result of deleveraging of store occupancy costs against a decline in comparable store sales partially offset by a reduction in store payroll as a percent of sales.

Costs Related to Change in Management. On June 1, 2006, we appointed a new Chief Executive Officer to replace the previous Chief Executive Officer who retired on that same date. In connection with these and other management changes we incurred expenses of $435,000 in the nine months ended September 30, 2007 and $2.9 million in the comparable period of 2006. These costs include severance for departing executives as well as recruitment costs for new executives. There were no costs charged to this classification since the second quarter 2007.

Store Pre-Opening Expenses. Pre-opening expenses for the five stores we opened in the first nine months of 2007 amounted to $1.5 million. In the first nine months of 2006, we opened nine stores and incurred store pre-opening expenses of $2.2 million related to the stores opened and lease costs related to stores opened later in 2006.

Interest Income and Expense. In the first nine months of 2007, we had interest income of $1.6 million compared to $819,000 in 2006. This increase is attributable to our increase in cash.

Income Taxes. Our effective tax rate for the first nine months of 2007 was 36.9% as compared to 40.5% for the comparable period in 2006. This decrease is primarily attributable to an increase in tax free interest income and a decrease in compensation expense from non-deductible incentive stock options.

Liquidity and Capital Resources

Our cash is used primarily for working capital to support our inventory requirements and fixtures and equipment, pre-opening expenses and beginning inventory for new stores. In recent years, we have financed our operations and new store openings primarily with cash from operations. In 2004, we borrowed $30.0 million under two mortgage agreements we have with Wachovia Bank N.A. (Wachovia) to finance our new distribution center and corporate offices.

At September 30, 2007 and December 31, 2006, our working capital was $139.8 million and $143.2 million, respectively. Cash used in operations was $20.1 million for the nine months ended September 30, 2007. This was principally the result of a $19.6 million increase in seasonal inventory and an $8.5 million reduction in accounts payable, accrued expenses and income taxes payable, partially offset by $10.4 million of depreciation and amortization. For the nine months ended September 30, 2006, cash used in operations was $25.7 million, principally as a result of an increase in inventories of $19.1 million, due to expected seasonal increases and to support new store openings.

Net cash used in investing activities during the nine months ended September 30, 2007 was $13.0 million, all of which related to capital expenditures. In 2007, we expect to spend approximately $19.0 million on capital expenditures, which includes $10.0 million for new store openings, and the remainder for remodeling existing stores, upgrading systems in existing stores, warehouse equipment and corporate systems development. For the nine months ended September 30, 2006, we invested $14.6 million in capital assets and received $5.2 million from the maturity of marketable securities.

We maintain two mortgage agreements with Wachovia related to our main distribution center and corporate offices, of which $22.3 million was outstanding at September 30, 2007. The mortgages are secured by land, building, and equipment. Of the original $30.0 million in mortgages, $22.5 million ($18.0 million at September 30, 2007) is repayable over 15 years and $7.5 million ($4.3 million at September 30, 2007) is repayable over seven years. Fixed monthly payments totaling $214,000 started in October 2004. In November 2006, we effectively converted these mortgages from a variable interest rate to fixed interest rates of 5.77% on the 15-year mortgage and 5.72% on the seven-year mortgage through the use of an interest rate swap.

In March 2007, we amended these two mortgages to modify certain covenants. The mortgages, as amended, contain covenants that, among other things, restrict our ability to incur additional indebtedness or guarantee obligations in excess of $18.0 million, engage in mergers or consolidations, dispose of assets, make acquisitions requiring a cash outlay in excess of $20.0 million, make loans or advances in excess of $1.0 million, permit liens relating to capitalized lease obligations or purchase money financing in excess of $2.0 million, or change the nature of our business. We are restricted in capital expenditures unless certain financial covenants are maintained including those relating to tangible net worth and funded debt. The mortgages also define various events of default, including cross default provisions, defaults for any material judgments or a change in control.

In January 2008, we amended the two mortgages and entered into a promissory note. Pursuant to the loan modification, Wachovia has agreed to waive non-compliance with certain provisions of the loan documents as a result of the Company s failure to deliver the financial statements for the quarter ended September 30, 2007. The loan modification also amended the loan documents to (i) increase the interest rate for the two mortgages and borrowing under the line of credit from a LIBOR-based rate plus 65 basis points to a LIBOR-based rate plus 90 basis points, and (ii) require the Company to maintain a deposit account with a minimum balance of $500,000 with Wachovia. These two provisions terminate when the Company files this Form 10-Q and the required restatements.

At September 30, 2007, we had a $35.0 million line of credit agreement with Wachovia, which is scheduled to expire on May 31, 2008. We intend to negotiate to extend the line of credit once this Form 10-Q and the required restatements are filed. At September 30, 2007, the Company had no outstanding principal balance under the line of credit. However, in January 2008, a $6.45 million letter of credit was issued under the line. The letter of credit replaced a workers compensation insurance cash escrow account that has been redeployed in other investments.

In December 2007, the Company filed a request with the Internal Revenue Service to change its tax method of accounting for inventory. If this request is granted, and management believes that it will be, the Company will receive a tax deduction on its 2007 Federal income tax return of approximately $19.9 million, which will result in a tax refund of approximately $7.0 million. The Company expects to receive this refund sometime during the second half of 2008.

In February 2008, the Company finalized an audit with the Internal Revenue Service that covered the 2004, 2005 and 2006 tax years and resulted in a payment of tax and interest totaling $2.1 million.

We believe the cash generated from operations during the year and available borrowings under the line of credit agreement will be sufficient to finance our working capital and capital expenditure requirements for at least the next 12 months.

Critical Accounting Estimates

Except as described below, our accounting policies are fully described in Note 2 of our notes to consolidated financial statements to be included in our Annual Report on Form 10-K for the year ended December 31, 2007. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, actual results may differ from those estimates. Management makes adjustments to its assumptions and judgments when facts and circumstances dictate. The amounts currently estimated by us are subject to change if different assumptions as to the outcome of future events were made. We evaluate our estimates and judgments on an ongoing basis and predicate those estimates and judgments on historical experience and on various other factors that management believes to be reasonable under the circumstances. Management believes the following critical accounting estimates encompass the more significant judgments and estimates used in preparation of our consolidated financial statements:

- merchandise inventories;
- impairment of long-lived assets;
- reserve for store closures;
- stock-based compensation under SFAS No. 123(R);
- income taxes and accounting for uncertain tax positions under FIN 48, as defined below;
- legal contingencies; and
- other estimates.

Other than accounting for uncertain tax positions under FIN 48, which is described below, the foregoing critical accounting estimates will be more fully described in our Annual Report on Form 10-K for the year ended December 31, 2007.

Accounting for Uncertain Tax Positions Under FIN 48

Effective January 1, 2007 we began accounting for uncertain tax positions under the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize and measure the impact of uncertain tax positions on its financial statements. Determining whether an uncertain tax position should be recognized and how to measure the amount of the tax benefit requires significant judgment. As of January 1, 2007, our reserve for uncertain tax positions totaled $1.1 million and was classified as a long-term liability. In February 2008, the Company finalized an audit with the Internal Revenue Service that covered the 2004 through 2006 tax years. This audit resulted in a payment of total tax and interest of $2.1 million. For further discussion of accounting for uncertain tax positions under the provisions of FIN 48, see Note 12 in our notes to consolidated financial statements contained in this quarterly report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We invest cash balances in excess of operating requirements primarily in money market mutual funds. The fair value of our cash and equivalents at September 30, 2007 approximated carrying value. A hypothetical decrease in interest rates of 10% compared to the rates in effect at September 30, 2007 would reduce our interest income $149,000 annually.

We had no borrowing outstanding under our line of credit at September 30, 2007. The interest rates on our mortgages fluctuate with market rates and therefore the value of these financial instruments will not be impacted by a change in interest rates. In November 2006, we entered into an interest rate swap that had the effect of converting our variable mortgages to a fixed rate. As a result, a 10% increase or decrease in interest rates would have no impact on our interest expense as the increase/decrease in interest paid on our mortgages would be offset by a corresponding decrease/increase in the interest received from our swap. A 10% decrease in interest rates would cause the fair market value of the swap to decrease by $700,000.

ITEM 4. CONTROLS AND PROCEDURES

Background

On October 24, 2007, the Audit Committee of our Board of Directors concluded that the financial statements for the years ended December 31, 2004, 2005 and 2006 contained in our annual report on Form 10-K for the year ended December 31, 2006 and our quarterly reports on Form 10-Q for the first, second and third quarters of 2006 and for the first and second quarters of 2007 will be restated and the Form 10-K and 10-Q for these periods should no longer be relied upon due to an error in the formula used to value the Company s store inventories under the retail inventory method (RIM). Management believes that this error, which is discussed in Note 1 to the Consolidated Financial Statements and Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q, has occurred since at least 2002.

Correction of our inventory valuation resulted in a restatement of our financial statements for the periods including and prior to the six months ended June 30, 2007 as contained in this quarterly report on Form 10-Q and to be contained in our annual report on Form 10-K for the year ended December 31, 2007. The total adjustment through June 30, 2007 relating to the correction of the RIM error was a reduction in net income of $13.2 million, net of an income tax benefit of $7.4 million. In addition, the restated financial statements also reflect an adjustment to amounts previously reported related to the timing of recognition of internal transfer costs on imported merchandise. The total adjustment through June 30, 2007 relating to the internal transfer costs was a reduction to net income of $2.8 million, net of an income tax benefit of $1.6 million.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), are controls and procedures that are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of September 30, 2007. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2007 because of the material weakness described in Management s Report on Internal Control Over Financial Reporting below.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Table of Contents

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2007 based on the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis.

We did not maintain effective controls over the accuracy and valuation of the accounting for and disclosure of inventory and the related cost of revenue accounts. Specifically, our controls over the formulas used to calculate the cost complement to value the Company s inventories under RIM and the timing of recognition of internal transfer costs on imported merchandise were not effective. This control deficiency resulted in the misstatement of our inventory and the related cost of revenue accounts and disclosures, and in the restatement of the Company s consolidated financial statements for 2006 and 2005, each of the interim periods of 2006, the first and second quarters in 2007 and in adjustments to the consolidated financial statements for the third and fourth quarters of 2007. Additionally, this control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, we determined that this control deficiency constituted a material weakness at September 30, 2007.

As a result of the material weakness described above, management concluded that our internal control over financial reporting was not effective as of September 30, 2007 based on the criteria established in *Internal Control Integrated Framework* issued by the COSO.

Plan for Remediation of Material Weakness

We plan to change our method of accounting for store inventories from RIM to weighted average cost (WAC) effective as of January 1, 2008. Inventory held in the Company s distribution center has historically been and is currently valued using WAC. Management believes that the adoption of WAC for valuing our store inventories effective as of January 1, 2008, will remediate the identified control deficiency.

In addition, the implementation of a store perpetual inventory system in January 2008 will enable management to refine estimates relating to our deferred internal transfer costs because a perpetual inventory allows us to determine the value of import merchandise relating to on-hand quantities in our stores and at our distribution centers. Management believes that implementation of a store perpetual inventory system, and implementation of appropriate internal controls, will remediate the identified control deficiency.

Changes in Internal Control Over Financial Reporting

Other than as described above under Plan for Remediation of Material Weakness, there has been no change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the third quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II   OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 23, 2007, the Company entered into a Confidential Settlement Agreement with a former employee to resolve claims made against the Company pursuant to a civil action.

As previously disclosed, on April 4, 2003, a civil action was filed against the Company in the Superior Court of New Jersey, Burlington County   Law Division by Kathleen Stahl, a former store merchandiser for the Company, for alleged retaliatory harassment and constructive discharge under the New Jersey Conscientious Employee Protection Act. On October 30, 2006, a jury returned a verdict in the favor of the plaintiff for $19,600 in lost wages, $1.8 million for emotional distress and $1.5 million in punitive damages. The Confidential Settlement Agreement absolutely released the Company, its successors, and related parties for any matter arising out of the subject matter of the civil action in exchange for a total settlement amount of $850,000, which had a net after tax cost of $530,000. The settlement amount is inclusive of all of the plaintiff s attorney s fees and all interest owing to and taxes owing by the plaintiff and concludes nearly five years of dispute and litigation. The civil action was dismissed with prejudice and without costs pursuant to a stipulation of dismissal.

The Company is involved in legal proceedings from time to time in the ordinary course of business. Management believes that none of these legal proceedings will have a materially adverse effect on the Company s financial condition or results of operations. However, there can be no assurance that future costs of such litigation would not be material to our financial condition or results of operations.

ITEM 1A. RISK FACTORS

Unfavorable economic conditions could have a material adverse effect on our business, revenue and profitability.

In general, our sales depend on discretionary spending by our customers. Discretionary spending is affected by many factors, including, among other things, general business conditions, interest rates, the availability of consumer credit, taxation, unemployment rates, inflation, weather and consumer confidence in future economic conditions. Customers purchases of discretionary items, including our products, could decline during periods when disposable income is lower or during periods of actual or perceived unfavorable economic conditions. In such instances, our revenues and profitability will decline. A prolonged economic downturn could have a material adverse effect on our business, financial condition and results of operations.

An increase in our sales, profitability and cash flow will depend on our ability to increase the number of stores we operate and increase the productivity and profitability of our existing stores.

If we are unable to increase the number of stores we operate and increase the productivity and profitability of our existing stores, our ability to increase our sales, profitability and cash flow could be significantly impaired. To the extent we are unable to open new stores as planned, our sales growth would come only from increases in comparable store sales. There can be no assurance that we will be able to increase our comparable store sales, improve our margins or reduce costs as a percentage of sales. Growth in profitability in that case would depend significantly on our ability to increase margins or reduce our costs as a percentage of sales. Further, as we implement new initiatives to reduce the cost of operating our stores, our sales and profitability may be negatively impacted.

There are many factors, some of which are beyond our control, which could impact our ability to increase the number of stores we operate and increase store productivity and profitability. These factors include, but are not limited to:

- our ability to identify suitable markets in which to expand,
- the availability of suitable sites for additional stores,

our ability to negotiate acceptable lease terms for sites we identify,

the availability of acceptable financing to support our growth, and

our ability to hire, train and retain a sufficient number of qualified general managers and other store personnel.

Our success will depend on how well we manage our growth.

Even if we are able to expand our store base and increase the productivity and profitability of our existing stores, we may experience problems relating to our growth, which may prevent any significant increase in profitability or negatively impact our cash flow. For example:

The costs of opening and operating new stores, especially in new markets, may offset the increased sales generated by the additional stores.

The opening of additional stores in an existing market could reduce net sales from existing stores in that market.

The opening of stores in new markets may present competitive and merchandising challenges that are different than those we face in our existing markets.

The closing or relocation of under-performing stores may result in us retaining liability for outstanding lease obligations.

Our growth may outpace our ability to expand, upgrade and improve our administrative, operational and management systems, controls and resources.

Our suppliers may be unable to meet our increased demand for merchandise as a result of the additional stores and increased productivity of our existing stores.

We may be unable to expand our existing distribution capabilities, or employ third-party distribution services on a cost-effective basis, to provide sufficient merchandise for sale by our new stores.

A weak fourth quarter would have a material adverse effect on our operating results for the year.

Our business is highly seasonal. Due to the importance of our peak selling season, which includes the Fall and Winter holiday seasons, the fourth quarter has historically contributed, and is expected to continue to contribute, a significant portion of our net income for the entire year. In anticipation of increased sales activity during the fourth quarter, we incur significant additional expense both prior to and during the fourth quarter. These expenses may include acquisition of additional inventory, advertising, in-store promotions, seasonal staffing needs and other similar items. As a result, any factors negatively affecting us during the fourth quarter of any year, including adverse weather and unfavorable economic conditions, would have a material adverse effect on our results of operations for the entire year.

Our quarterly results fluctuate due to a variety of factors and are not a meaningful indicator of future performance.

Our quarterly results have fluctuated in the past and may fluctuate significantly in the future depending upon a variety of factors, including, among other things:

the mix of merchandise sold,

the timing and level of markdowns,

promotional events and changes in advertising,

adverse weather conditions (particularly on weekends), store openings, closings, remodels or relocations,

length and timing of the holiday seasons,

Table of Contents

- competitive factors, and
- general economic and political conditions.

We believe that period-to-period comparisons of past operating results cannot be relied upon as indicators of future performance. If our operating results fall below the expectations of securities analysts and investors, the market price of our securities would likely decline.

Our success depends on key personnel whom we may not be able to retain or hire.

We are dependent on the services, abilities and experience of our senior management team. The loss of the services of senior executives and any general instability in the composition of our senior management team could have a negative impact on our ability to execute on our business and operating strategy. In addition, our success in the future is dependent upon our ability to attract and retain other qualified personnel, including general managers. Any inability to do so may have a material adverse impact on our business and operating results.

We face an extremely competitive retail business market.

The arts and crafts industry is highly competitive. We currently compete against a diverse group of retailers, including multi-store arts and crafts retailers, mass merchandisers, small local specialty retailers, mail order vendors and a variety of other retailers. Almost all of our stores face aggressive competition in their market area from one or more of our major competitors. Some of our competitors have substantially greater financial resources and operate more stores than we do. We compete with these and other retailers for customers, suitable retail locations, suppliers and qualified associates. Moreover, alternative methods of selling crafts, such as through e-commerce or direct marketing, result in additional competitors and increased price competition because our customers can comparison shop more readily. In addition, we ultimately compete for our customers against alternative sources of entertainment and leisure independent of the arts and crafts industry.

We may not be able to successfully anticipate changes in merchandise trends and consumer demands and our failure to do so may lead to loss of sales.

Our success depends, in large part, on our ability to anticipate and respond in a timely manner to changing merchandise trends and consumer demand. Accordingly, any delay or failure by us in identifying and correctly responding to changing merchandise trends and consumer demand could adversely affect consumer acceptance of the merchandise in our stores. In addition, we make decisions regarding merchandise well in advance of each of the seasons in which such merchandise will be sold. Significant deviations from projected demand for merchandise would have a material adverse effect on our results of operations and financial condition, either from lost sales due to insufficient inventory or lower margins due to the need to mark down excess inventory.

We face risks relating to ordering and inventory management.

While our buyers place initial orders of our merchandise, we depend upon our in-store department managers to reorder the majority of our merchandise. The failure of our buyers or department managers to accurately respond to inventory requirements could adversely affect consumer acceptance of the merchandise in our stores and negatively impact sales, which could have a material adverse effect on our results of operations and financial condition. If we misjudge the market, we may significantly overstock unpopular products and be forced to take significant inventory markdowns, which would have a negative impact on our operating results and cash flow. Conversely, shortages of key items could have a material adverse impact on our operating results. In addition, we conduct a physical inventory in our stores once a year, and quarterly results are based on an estimated gross margin and accrual for estimated inventory shrinkage.

Table of Contents

Unfavorable consumer response to our promotional strategy could materially and adversely affect our sales, profitability and cash flow.

Advertising promotions, price, quality and value have a significant impact on consumers shopping decisions. If we misjudge consumer response to our promotional strategies, our financial condition and operating results could be materially and adversely impacted.

Adverse events could have a greater impact on us than if we had a larger store base in different geographical regions.

As of March 16, 2008, we operated a chain of 136 stores. Because our current and planned stores are located in the Eastern United States, the effect on us of adverse events in this region (such as weather or unfavorable regional economic conditions) may be greater than if our stores were more geographically dispersed. Because overhead costs are spread over a smaller store base, increases in our selling, general and administrative expenses could affect our profitability more negatively than if we had a larger store base. One or more unsuccessful new stores, or a decline in sales at an existing store, will have a more significant effect on our results of operations than if we had a larger store base.

A disruption in our operations could have a material adverse effect on our financial condition and results of operations.

We do not have a formal disaster recovery or business continuity plan, and could therefore experience a significant business interruption in the event of a natural disaster, catastrophic event or other similar event. The occurrence of such events or other unanticipated problems could cause interruptions or delays in our business, supply chain or infrastructure which would have a material adverse effect on our financial condition and results of operations. In 2007, approximately 35% of our merchandise units sold were fulfilled through our distribution centers. In addition, our vendors may also be subject to business interruptions from such events. Significant changes to our supply chain or other operations could have a material adverse impact on our results. Our back-up operations and business interruption insurance may not be adequate to cover or compensate us for losses that may occur.

We depend on a number of key vendors to supply our merchandise and services and the loss of any one of our key vendors may result in a loss of sales and significantly harm our operating results.

Our performance depends on our ability to purchase merchandise and services at sufficient levels at competitive prices. Our future success is dependent upon our ability to maintain a good relationship with our suppliers. Generally, we do not have any long-term purchase agreements or other contractual assurances of continued supply, pricing or access to new products, and any vendor could discontinue selling to us at any time. We may not be able to acquire desired merchandise in sufficient quantities or on terms acceptable to us in the future, or be able to develop relationships with new vendors to replace discontinued vendors. Our inability to acquire suitable merchandise or services in the future or the loss of one or more key vendors and our failure to replace any one or more of them may have a material adverse effect on our business, results of operations and financial condition. Our smaller vendors generally have limited resources, production capacities and operating histories, and some of our vendors have limited the distribution of their merchandise in the past. These vendors may be susceptible to cash flow problems, downturns in economic conditions, production difficulties, quality control issues and difficulty delivering agreed-upon quantities on schedule. We also cannot assure you that we would be able, if necessary, to return product to these vendors, obtain refunds of our purchase price or obtain reimbursement or indemnification from any of our vendors if their products prove defective.

We face risks associated with sourcing and obtaining imported merchandise.

We have in recent years placed increased emphasis on obtaining floral, seasonal and other items from overseas vendors. In addition, many of our domestic suppliers purchase their merchandise from foreign sources. China is the source of a substantial majority of our imported merchandise. Because a large percentage of our merchandise is manufactured or sourced abroad, we are required to order these products further in advance than would be the case if these products were manufactured domestically. Risks associated with our reliance on imported merchandise include, but are not limited to:

- Disruptions in the flow of imported goods because of factors such as:
  - o Raw material shortages, work stoppages, strikes and political unrest;
  - o Problems with trans-ocean shipping, including storage of shipping containers; and
  - o Global or international economic uncertainties, crises or disputes.
- Increases in the cost of purchasing or shipping imported merchandise that may result from:
  - o Increases in shipping rates imposed by trans-ocean carriers;
  - o Changes in currency exchange rates and local economic conditions, including inflation;
  - o Failure of the United States to maintain normal trade relations with China; and
  - o Import duties, quotas and other trade sanctions.

A disruption in supply of our imported merchandise, or the imposition of additional costs of purchasing or shipping imported merchandise, could have a material adverse effect on our business, financial condition and results of operations unless and until alternative supply arrangements are secured. Products from alternative sources may be of lesser quality or more expensive than those we currently purchase, resulting in a loss of sales or profit to us.

Our information technology may prove inadequate.

We depend on our information technology systems for many aspects of our business. Some of our key software has been developed by our own programmers and this software may not be easily integrated with other software and systems. We implemented our perpetual inventory system in January 2008 and anticipate full implementation of our automated replenishment system in the second half of 2009. We anticipate realizing some benefit from the automated replenishment system in the second half of 2009, with the majority of the benefits being realized in 2010 due to a period of adjustment in operations following implementation. Our business will be materially and adversely affected if our systems are disrupted or if we are unable to improve, upgrade, integrate or expand upon our systems. Moreover, we may not be able to implement automated replenishment in the anticipated timeframe. We may fail to properly optimize the effectiveness of these systems, or to adequately implement, support and maintain the systems, which could have a material adverse impact on our financial condition and operating results.

Table of Contents

An increase in the cost of fuel oil and oil-based products could impact our earnings and margins.

Prices for oil have fluctuated dramatically in the past and rose substantially in 2007. These fluctuations impact our distribution costs and the distribution costs of our vendors. If the price of fuel oil continues to increase, our distribution costs will increase, which could impact our earnings. In addition, many of the products we sell, such as paints, are oil-based. If the price of oil continues to increase, the price of the oil-based products we purchase and sell may increase, which could impact our margins.

Terrorist attacks and threats or actual war may impact all aspects of our operations, revenues, costs and stock price in unpredictable ways.

Terrorist attacks in the United States, as well as future events occurring in response to or in connection with them, including, without limitation, future terrorist attacks against U.S. targets, rumors or threats of war, actual conflicts involving the United States or its allies or military or trade disruptions impacting our domestic or foreign suppliers of merchandise, may impact our operations, including, among other things, causing delays or losses in the delivery of merchandise to us and decreased sales of the products we carry. More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and global financial markets and economy. They also could result in a deepening of any economic recession in the United States or abroad. These events could also temporarily increase demand for our products as consumers respond by traveling less and engaging in home-based leisure activities which could contribute to a temporary increase in our sales which may not be sustainable. Any of these occurrences could have a significant impact on our operating results, revenues and costs and may result in the volatility of the market price for our common stock.

In connection with the restatement of previously issued financial statements, management expects to conclude that, for all periods through December 31, 2007, our disclosure controls and procedures were not effective and we had a material weakness in our internal control over financial reporting.

Effective disclosure controls and procedures and internal controls are necessary for us to provide reliable financial reports and effectively prevent or detect fraud. In connection with the restatement of our previously issued financial statements and the related reassessment of our internal control over financial reporting with respect to our inventory valuation, management expects to conclude that as of December 31, 2007 our disclosure controls and procedures were not effective and that we had a material weakness in our internal control over financial reporting. Should we identify any other material weakness, such weakness could have a material adverse effect on our business, results of operations and financial condition, as well as impair our ability to meet the reporting requirements under the securities laws in a timely manner. These effects could in turn adversely affect the trading price of our common stock and could result in a material misstatement of our financial position or results of operations and require a further restatement of our financial statements.

We face risks related to the restatement of our previously issued financial statements.

We have restated previously issued financial statements as more fully described in Note 1 in our Notes to Consolidated Financial Statements contained herein. Our restated financial statements and related filings will be subject to review by the SEC. Such review could result in a further restatement of our financial statements and amendments to this report, our annual report on Form 10-K for the year ended December 31, 2007 or prior annual reports and quarterly reports. Further restatement could result in an event of default under our mortgages or line of credit. Upon the occurrence of an event of default, our lender could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If our lender accelerates repayment, we may not have sufficient assets to repay our mortgages. Also, should there be an event of default, we may be subject to higher borrowing costs and more restrictive loan covenants in future periods. In addition, further restatement could cause us to not qualify for continued listing on The NASDAQ Stock Market.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
Not Applicable.
ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not Applicable.
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
Not Applicable.
ITEM 5. OTHER INFORMATION
Not Applicable.
ITEM 6. EXHIBITS

+10.1 (1)	Letter Agreement, dated July 3, 2007, between the Company and Craig R. Davis.
+10.2 (2)	Separation Agreement, dated July 17, 2007, between the Company and Lawrence H. Fine.
31.1	Certification pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act).
31.2	Certification pursuant to Rule 13a-14(a) promulgated under the Exchange Act.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the Company s Form 10-Q for the quarter ended June 30, 2007.

(2) Incorporated by reference to the Company s Form 8-K filed on July 8, 2007.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	A.C. MOORE ARTS & CRAFTS, INC.
Date: March 26, 2008	By: /s/ Rick A. Lepley Rick A. Lepley President and Chief Executive Officer (duly authorized officer and principal executive officer)
Date: March 26, 2008	By: /s/ Marc Katz Marc Katz Executive Vice President and Chief Financial Officer (duly authorized officer and principal financial officer)

Table of Contents

Exhibit Index

Exhibit No.	Description
+10.1 [1]	Letter Agreement, dated July 3, 2007, between the Company and Craig R. Davis.
+10.2 [2]	Separation Agreement, dated July 17, 2007, between the Company and Lawrence H. Fine.
31.1	Certification pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act).
31.2	Certification pursuant to Rule 13a-14(a) promulgated under the Exchange Act.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the Company s Form 10-Q for the quarter ended June 30, 2007.

(2) Incorporated by reference to the Company s Form 8-K filed on July 8, 2007.

45