KATY INDUSTRIES INC
Form 10-Q
November 15, 2010

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: October 1, 2010

Or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_______________ to________________

Commission File Number 001-05558

Katy Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware	75-1277589
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

305 Rock Industrial Park Drive, Bridgeton, Missouri 63044
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (314) 656-4321

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 o

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

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at October 31, 2010
Common Stock, $1 Par Value	7,951,176 Shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF OCTOBER 1, 2010 (UNAUDITED) AND DECEMBER 31, 2009
(Amounts in Thousands)

ASSETS

	October 1, 2010	December 31, 2009
CURRENT ASSETS:		
Cash	$608	$747
Accounts receivable, net	15,868	12,831
Inventories, net	16,683	16,195
Other current assets	1,720	1,144
Total current assets	34,879	30,917
OTHER ASSETS:		
Goodwill	665	665
Intangibles, net	3,632	4,010
Other	3,087	2,830
Total other assets	7,384	7,505
PROPERTY AND EQUIPMENT		
Land and improvements	336	336
Buildings and improvements	9,753	9,514
Machinery and equipment	91,494	91,585
	101,583	101,435
Less - Accumulated depreciation	(77,594)	(73,417)
Property and equipment, net	23,989	28,018
Total assets	$66,252	$66,440

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF OCTOBER 1, 2010 (UNAUDITED) AND DECEMBER 31, 2009
(Amounts in Thousands, Except Share Data)

LIABILITIES AND STOCKHOLDERS’ EQUITY

	October 1, 2010	December 31, 2009
CURRENT LIABILITIES:		
Accounts payable	$11,701	$10,476
Book overdraft	367	1,285
Accrued compensation	2,348	2,614
Accrued expenses	11,724	14,252
Current maturities of long-term debt	1,138	6,899
Revolving credit agreement	14,993	8,856
Total current liabilities	42,271	44,382
LONG-TERM DEBT, less current maturities	6,644	-
OTHER LIABILITIES	6,030	8,739
Total liabilities	54,945	53,121
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS’ EQUITY		
15% Convertible preferred stock, $100 par value; authorized 1,200,000 shares; issued and outstanding 1,131,551 shares; liquidation value $113,155	108,256	108,256
Common stock, $1 par value; authorized 35,000,000 shares; issued 9,822,304 shares	9,822	9,822
Additional paid-in capital	27,419	27,246
Accumulated other comprehensive loss	(2,000)	(2,053)
Accumulated deficit	(110,753)	(108,515)
Treasury stock, at cost, 1,871,128 shares	(21,437)	(21,437)
Total stockholders' equity	11,307	13,319
Total liabilities and stockholders' equity	$66,252	$66,440

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 1, 2010 AND OCTOBER 2, 2009
(Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2010	October 2, 2009	October 1, 2010	October 2, 2009
Net sales	$37,584	$37,612	$110,057	$110,380
Cost of goods sold	33,864	32,501	96,768	93,944
Gross profit	3,720	5,111	13,289	16,436
Selling, general and administrative expenses	4,453	5,695	16,427	19,818
Severance, restructuring and related charges	747	-	1,002	-
(Gain) loss on sale or disposal of assets	(189)	49	(189)	61
Operating loss	(1,291)	(633)	(3,951)	(3,443)
Interest expense	(389)	(281)	(1,254)	(873)
Other, net	106	118	2,466	123
Loss before income tax (provision) benefit	(1,574)	(796)	(2,739)	(4,193)
Income tax (provision) benefit	(11)	(14)	501	421
Net loss	$(1,585)	$(810)	$(2,238)	$(3,772)
Net loss per share of common stock - Basic and diluted:	$(0.20)	$(0.10)	$(0.28)	$(0.47)
Weighted average common shares outstanding:				
Basic and diluted	7,951	7,951	7,951	7,951

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED OCTOBER 1, 2010 AND OCTOBER 2, 2009
(Amounts in Thousands)
(Unaudited)

	October 1, 2010	October 2, 2009
Cash flows from operating activities:		
Net loss	$(2,238)	$(3,772)
Depreciation	4,636	4,691
Amortization of intangible assets	406	372
Write-off and amortization of debt issuance costs	411	287
Stock-based compensation	(110)	372
(Gain) loss on sale or disposal of assets	(189)	61
Gain on settlement of existing obligation	(2,100)	-
	816	2,011
Changes in operating assets and liabilities:		
Accounts receivable	(3,022)	(1,626)
Inventories	(455)	3,745
Other assets	(440)	1,103
Accounts payable	1,213	(731)
Accrued expenses	(506)	670
Other	(2,625)	(1,635)
	(5,835)	1,526
Net cash (used in) provided by operating activities	(5,019)	3,537
Cash flows from investing activities:		
Capital expenditures	(773)	(1,537)
Proceeds from sale of assets	128	2
Net cash used in investing activities	(645)	(1,535)
Cash flows from financing activities:		
Net borrowings on revolving loans	6,114	659
Decrease in book overdraft	(918)	(1,200)
Proceeds from term loans	8,182	-
Repayments of term loans	(7,299)	(1,131)
Direct costs associated with debt facilities	(597)	-
Net cash provided by (used in) financing activities	5,482	(1,672)
Effect of exchange rate changes on cash	43	(118)
Net (decrease) increase in cash	(139)	212
Cash, beginning of period	747	683
Cash, end of period	$608	$895

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy and Basis of Presentation – The condensed consolidated financial statements include the accounts of Katy Industries, Inc. and subsidiaries in which it has a greater than 50% voting interest or significant influence, collectively "Katy" or the "Company". All significant intercompany accounts, profits and transactions have been eliminated in consolidation. The Condensed Consolidated Balance Sheet at October 1, 2010 and the related Condensed Consolidated Statements of Operations for the three and nine months ended October 1, 2010 and October 2, 2009 and Cash Flows for the nine months ended October 1, 2010 and October 2, 2009 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations and cash flows of the Company for the interim periods. Interim results may not be indicative of results to be realized for the entire year. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The Condensed Consolidated Balance Sheet as of December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP").

Fiscal Year – The Company operates and reports using a 4-4-5 fiscal year which always ends on December 31. As a result, December and January do not typically consist of five and four weeks, respectively. The three and nine months ended October 1, 2010 consisted of 63 shipping days and 191 shipping days, respectively, and the three and nine months ended October 2, 2009 consisted of 64 shipping days and 192 shipping days, respectively.

Use of Estimates – The preparation of financial statements in conformity with GAAP 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.

Inventories – The components of inventories are as follows (amounts in thousands):

	October 1, 2010	December 31, 2009
Raw materials	$ 9,145	$ 10,240
Finished goods	13,117	10,744
Inventory reserves	(1,391)	(1,315)
LIFO reserve	(4,188)	(3,474)
	$ 16,683	$ 16,195

At October 1, 2010 and December 31, 2009, approximately 63% and 56%, respectively, of Katy's inventories were accounted for using the last-in, first-out ("LIFO") method of costing, while the remaining inventories were accounted for using the first-in, first-out ("FIFO") method. Current cost, as determined using the FIFO method, exceeded LIFO cost by $4.2 million and $3.5 million at October 1, 2010 and December 31, 2009, respectively.

Share-Based Payment – Compensation cost recognized during the three and nine months ended October 1, 2010 and October 2, 2009 includes: a) compensation cost for all stock options granted subsequent to January 1, 2006, based on the grant date fair value amortized over the options' vesting period and b) compensation cost for outstanding stock appreciation rights ("SARs") as of October 1, 2010 and October 2, 2009 based on the October 1, 2010 and October 2, 2009 fair value, respectively.

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Compensation expense (income) is included in selling, general and administrative expense in the Condensed Consolidated Statements of Operations. The components of compensation expense (income) are as follows (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	October 1, 2010	October 2, 2009	October 1, 2010	October 2, 2009
Stock option expense	$ 42	$ 98	$ 173	$ 372
Stock appreciation right (income) expense	(177)	8	(283)	-
	$ (135)	$ 106	$ (110)	$ 372

The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model. As the Company does not have sufficient historical exercise data to provide a basis for estimating the expected term, the Company uses the simplified method for estimating the expected term by averaging the minimum and maximum lives expected for each award. In addition, the Company estimated volatility by considering its historical stock volatility over a term comparable to the remaining expected life of each award. The risk-free interest rate is the current yield available on U.S. treasury issues with a remaining term equal to each award. The Company estimates forfeitures using historical results. Its estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. There were no stock options granted during the three months ended October 1, 2010 and October 2, 2009.

The fair value of SARs, a liability award, was estimated at October 1, 2010 and October 2, 2009 using a Black-Scholes option pricing model. The Company estimated the expected term by averaging the minimum and maximum lives expected for each award. In addition, the Company estimated volatility by considering its historical stock volatility over a term comparable to the remaining expected life of each award. The risk-free interest rate is the current yield available on U.S. treasury issues with a remaining term equal to each award. The Company estimates forfeitures using historical results. Its estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. The assumptions for expected term, volatility and risk-free rate are presented in the table below:

	October 1, 2010	October 2, 2009
Expected term (years)	0.1 - 6.0	0.1 - 4.8
Volatility	139.5% - 207.8%	131.7% - 206.6%
Risk-free interest rate	0.2% - 1.6%	0.1% - 2.1%

Comprehensive Loss – The components of comprehensive loss are as follows (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	October 1,		October 1,	October 2,

	2010	October 2, 2009	2010	2009
Net loss	$ (1,585)	$ (810)	$ (2,238)	$ (3,772)
Foreign currency translation (losses) gains	(7)	20	53	68
Comprehensive loss	$ (1,592)	$ (790)	$ (2,185)	$ (3,704)

The components of accumulated other comprehensive loss are foreign currency translation adjustments and pension and other postretirement benefits adjustments. The balance of foreign currency translation adjustments was $0.7 million and $0.8 million at October 1, 2010 and December 31, 2009, respectively. The balance of pension and other postretirement benefits adjustments was $1.3 million at each of October 1, 2010 and December 31, 2009.

Segment Reporting – Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker or group in deciding how to allocate resources and in assessing performance. The Company’s chief decision maker reviews the results of operations and requests for capital expenditures based on one industry segment: manufacturing, importing and distributing commercial cleaning and storage products. The Company’s entire revenue is generated through this segment.

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Note 2. NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Not Yet Adopted – In October 2009, the Financial Accounting Standards Board ("FASB") issued guidance concerning multiple-deliverable arrangements which would enable vendors to account for products or services separately rather than as a combined unit. This guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In January 2010, the FASB issued guidance which revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The guidance about Level 1 and 2 transfers was effective immediately, and the guidance about gross presentation of Level 3 activity is effective for fiscal years beginning after December 15, 2010. The adoption of this guidance had no effect on the Company's financial position or results of operations.

Note 3. INTANGIBLE ASSETS

Following is detailed information regarding Katy's intangible assets (amounts in thousands):

	October 1, 2010			December 31, 2009		
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Patents	$ 1,230	$ (1,028)	$ 202	$ 1,202	$ (952)	$ 250
Customer lists	10,231	(8,725)	1,506	10,231	(8,582)	1,649
Tradenames	5,054	(3,130)	1,924	5,054	(2,943)	2,111
Total	$ 16,515	$ (12,883)	$ 3,632	$ 16,487	$ (12,477)	$ 4,010

All of Katy's intangible assets are definite long-lived intangibles. Estimated aggregate future amortization expense related to intangible assets is as follows (amounts in thousands):

2010 (remainder)	$135
2011	517
2012	492
2013	471
2014	454
Thereafter	1,563
	$3,632

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Note 4. INDEBTEDNESS

Long-term debt consists of the following (amounts in thousands):

	October 1, 2010	December 31, 2009
Term loan payable under the PNC Credit Agreement and the Bank of America Credit Agreement, respectively, interest based on Eurodollar and Base Rates (6.51% - 8.50%)	$ 7,782	$ 6,899
Revolving loans payable under the PNC Credit Agreement and the Bank of America Credit Agreement, respectively, interest based on Eurodollar and Base Rates (3.51% - 5.50%)	14,993	8,856
Total debt	22,775	15,755
Less revolving loans, classified as current	(14,993)	(8,856)
Less current maturities	(1,138)	(6,899)
Long-term debt	$ 6,644	$ -

Aggregate remaining scheduled maturities of the Term Loan (as defined below) as of October 1, 2010 are as follows (amounts in thousands):

2010 (remainder)	$200
2011	1,275
2012	1,425
2013	4,882
	$7,782

On May 26, 2010, Continental Commercial Products, LLC (“CCP”) and Glit/Gemtex, Ltd. (collectively, the “Borrowers”), wholly owned subsidiaries of the Company, entered into a Revolving Credit, Term Loan and Security Agreement with PNC Bank, National Association (“PNC Bank”) (the “PNC Credit Agreement”).

The PNC Credit Agreement is a $33.2 million credit facility with an $8.2 million term loan (the “Term Loan”) and a $25.0 million revolving loan (the “Revolving Credit Facility”), including a $3.5 million sub-limit for letters of credit. The proceeds of the Term Loan and Revolving Credit Facility were used to repay the Second Amended and Restated Credit Agreement with Bank of America (“Bank of America Credit Agreement”) and pay fees and expenses associated with the negotiation and consummation of the PNC Credit Agreement. All extensions of credit under the PNC Credit Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Company. The Company guarantees the obligations of the Borrowers under the PNC Credit Agreement.

The principal balance of the Term Loan is payable in monthly installments followed by a final installment on May 26, 2013 equal to the then outstanding and unpaid principal balance of the Term Loan. Mandatory prepayments of the Term Loan will be required upon the occurrence of certain events, including sales of certain assets, and the Company

must make annual prepayments of the Term Loan in an amount equal to 50% of excess cash flow (as defined in the PNC Credit Agreement), provided, that for the fiscal year ending December 31, 2010, the calculation will be based on the period commencing on June 1, 2010 and ending on December 31, 2010.

The Revolving Credit Facility has an expiration date of May 26, 2013 and its borrowing base is determined by eligible inventory and accounts receivable, amounting to $22.0 million at October 1, 2010. The Company's borrowing base under the PNC Credit Agreement is reduced by the outstanding amount of standby and commercial letters of credit. Currently, the Company's largest letters of credit relate to its casualty insurance programs. Upon extinguishment of the Bank of America Credit Agreement, the Company was required to advance cash to Bank of America as collateral for the outstanding letters of credit in the amount of $3.1 million. At October 1, 2010, $0.3 million was still outstanding. The cash advance is recorded within other current assets and the revolving credit agreement in the Condensed Consolidated Balance Sheets. At October 1, 2010, total outstanding letters of credit were $2.4 million, of which $2.1 million are issued by PNC Bank, and $0.3 million are issued by Bank of America under the Bank of America Credit Agreement until they are transferred to PNC Bank under the PNC Credit Agreement. The PNC Credit Agreement requires the Company to have a minimum level of availability such that its eligible collateral must exceed the sum of its outstanding borrowings and letters of credit by at least $1.5 million. This amount is reduced to zero upon the later to occur of (i) the satisfaction of certain financial covenants as set forth in the PNC Credit Agreement, supported by audited year-end financial statements of the Company on a consolidated basis for the fiscal year ending on December 31, 2010 and (ii) the reduction of the Term Loan by an aggregate sum of $1.5 million.

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The Term Loan bears interest at the Company's option at either (i) the Eurodollar Rate (as defined in the PNC Credit Agreement), plus 6.25% or (ii) the Base Rate (as defined in the PNC Credit Agreement), plus 5.25%. Borrowings under the Revolving Credit Facility bear interest at the Company's option at either (x) the Eurodollar Rate plus 3.25% or (y) the Base Rate plus 2.25%. For U.S. dollar borrowings, the Base Rate is the highest of (i) the Federal Funds Open Rate (as defined in the PNC Credit Agreement) plus one half of 1.0%, (ii) the interest rate announced by PNC Bank as its base commercial lending rate and (iii) the sum of the Daily LIBOR Rate (as defined in the PNC Credit Agreement) plus 1.0%. For Canadian dollar borrowings, the Base Rate is the higher of (x) the interest rate announced by the PNC Bank Canada Branch as its reference rate of interest for loans in Canadian dollars to Canadian borrowers and (y) the sum of the one month CDOR Rate (as defined in the PNC Credit Agreement) plus 1.75%. An unused commitment fee of 50 basis points per annum will be payable quarterly on the average unused amount of the Revolving Credit Facility.

The PNC Credit Agreement includes financial covenants regarding minimum earnings before interest, taxes, depreciation and amortization ("EBITDA," as defined in the PNC Credit Agreement) and fixed charge coverage ratio. The Company was not in compliance with the minimum EBITDA covenant at October 1, 2010 and on November 10, 2010, obtained a waiver from PNC Bank in regards to compliance with this covenant for the third quarter of 2010. The Company was in compliance with the fixed charge coverage ratio covenant at October 1, 2010.

All of the debt under the PNC Credit Agreement is re-priced to current rates at frequent intervals. Therefore, its fair value approximates its carrying value at October 1, 2010. For the three and nine months ended October 1, 2010 and October 2, 2009, the Company had amortization of debt issuance costs, included within interest expense, of $48,000 and $0.4 million, and $0.1 million and $0.3 million, respectively. Included in amortization of debt issuance costs for the nine months ended October 1, 2010 is approximately $0.2 million of debt issuance costs written off due to the extinguishment of the Bank of America Credit Agreement. The Company incurred $0.6 million of debt issuance costs during the nine months ended October 1, 2010 associated with entering into the PNC Credit Agreement.

The Revolving Credit Facility under the PNC Credit Agreement requires lockbox agreements which provide for all Company receipts to be swept daily to reduce borrowings outstanding. These agreements, combined with the existence of a material adverse effect ("MAE") clause in the PNC Credit Agreement, cause the Revolving Credit Facility to be classified as a current liability, per guidance in the Accounting Standards Codification established by the Financial Accounting Standards Board. The Company does not expect to repay, or be required to repay, within one year, the balance of the Revolving Credit Facility, which is classified as a current liability. The Revolving Credit Facility does not expire or have a maturity date within one year, but rather has a final expiration date of May 26, 2013. The MAE clause, which is a fairly typical requirement in commercial credit agreements, allows the lender to require the loan to become due if it determines there has been a material adverse effect on the Company's operations, business, properties, assets, liabilities, condition, or prospects.

In addition, the Borrowers and the Company entered into an Export-Import Revolving Credit and Security Agreement with PNC Bank, which provides for up to a $1.5 million revolving advance amount on certain foreign accounts receivable as part of the Revolving Credit Facility.

Note 5. RETIREMENT BENEFIT PLANS

Certain subsidiaries have pension plans covering substantially all of their employees. These plans are noncontributory, defined benefit pension plans. The benefits to be paid under these plans are generally based on employees' retirement age and years of service. The Company's funding policies, subject to the minimum funding requirements of employee benefit and tax laws, are to contribute such amounts as determined on an actuarial basis to provide the plans with assets sufficient to meet the benefit obligations. Plan assets consist primarily of fixed income

investments, corporate equities and government securities. The Company also provides certain health care and life insurance benefits for some of its retired employees. The postretirement health plans are unfunded.

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Information regarding the Company's net periodic benefit cost for pension and other postretirement benefit plans for the three and nine months ended October 1, 2010 and October 2, 2009 is as follows (amounts in thousands):

	Pension Benefits			
	Three Months Ended		Nine Months Ended	
	October 1, 2010	October 2, 2009	October 1, 2010	October 2, 2009
Components of net periodic benefit cost:				
Interest cost	$ 18	$ 19	$ 55	$ 57
Expected return on plan assets	(16)	(14)	(47)	(40)
Amortization of net loss	11	12	33	34
Net periodic benefit cost	$ 13	$ 17	$ 41	$ 51

	Other Benefits			
	Three Months Ended		Nine Months Ended	
	October 1, 2010	October 2, 2009	October 1, 2010	October 2, 2009
Components of net periodic benefit cost:				
Interest cost	$ 12	$ 33	$ 77	$ 104
Reversal of amortization of net loss	(16)	-	-	-
Net periodic benefit (income) cost	$ (4)	$ 33	$ 77	$ 104

During the three and nine months ended October 1, 2010, the Company made contributions to the pension plans of $10,000 and $31,000, respectively. The Company expects to contribute an additional $10,000 to the pension plans throughout the remainder of 2010. The Company uses a December 31 measurement date for its pension and other postretirement benefit plans. The fair value of plan assets was determined by using quoted prices in active markets for identical assets (Level 1 inputs per the fair value hierarchy).

Note 6. STOCK INCENTIVE PLANS

The Company has various stock incentive plans that provide for the granting of stock options, nonqualified stock options, SARs, restricted stock, performance units or shares and other incentive awards to certain employees and directors. Options have been granted at or above the market price of the Company's stock at the date of grant, typically vest over a three-year period, and are exercisable not less than twelve months or more than ten years after the date of grant. SARs have been granted at or above the market price of the Company's stock at the date of grant, typically vest over periods up to three years, and expire ten years from the date of issue. No more than 50% of the cumulative number of vested SARs held by an employee can be exercised in any one calendar year.

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The following table summarizes stock option activity under the Company's applicable plans:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2009	1,501,000	$ 1.97		
Granted	-	$ -		
Exercised	-	$ -		
Expired	(14,000)	$ 9.93		
Cancelled	-	$ -		
Outstanding at October 1, 2010	1,487,000	$ 1.90	6.12 years	$ 1